

~~THE~~ ECONOMIC ASPECTS OF THE  
UNEMPLOYMENT POLICY OF THE GOVERNMENT

1929 - 1931

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Thesis submitted for Ph.D. degree  
in the University of London

The London School of Economics  
and Political Science

June 1977

## ABSTRACT

This thesis is concerned with the formulation of unemployment policy by the Government from 1929 to 1931: the MacDonald administration. The study is based upon unpublished official records of the Government, in particular the minutes and memoranda of the Cabinet and Cabinet Committees, Government Departments and advisory bodies associated with unemployment policy. This material is supplemented by published material relating to the problem of unemployment and policy development; and historical, biographical and autobiographical accounts relating to the activities of Government.

Unemployment was high throughout the twenties and rose dramatically in the early thirties. The Government was pledged to solve the problem but had little success. The thesis concentrates upon the relationship between economic theory and policy, and political decision-making attempting to explain the failure of policy. The failure is associated with the adoption by the Government of incompatible policy objectives and administrative incapacity as well as the inadequacies in economic theory and policy which are often the focus of existing interpretations of the period.

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## ACKNOWLEDGEMENTS

I should like to thank my supervisors Mr. Dudley Baines, Professor A.C.L. Day and Professor L. Pressnell for their help during the preparation of this thesis - special thanks and apologies to Dudley for encroaching so much upon his time during his precious sabbatical terms. I am grateful to Lord Robbins for reading the script and giving me valuable insights into the period; and to Professor B. A. Corry who has given much help and advice throughout the preparation of the thesis.

I am grateful to the Public Record Office for permission to quote from the official records and to the staff for their help during the research period. Robert Boyce, W. H. Janeway and T. Thomas have been most generous in allowing me to quote from their unpublished theses.

My colleagues at the London School of Hygiene and Tropical Medicine have been most helpful and without the encouragement and chiding of Professor R. M. Acheson I doubt if I would ever have completed the venture. The help of Mrs Lesley Aird in the daunting task of proof reading has been much appreciated.

I am indebted to Mrs Barbara McGogg for typing the thesis and to Miss Joan Singh for typing help throughout its preparation.

My apologies to Sarah who never believed it would be finished.

## INTRODUCTION

### Aim

The failure of unemployment policy during the period is the central issue examined in this thesis. The unemployment problem dominated the election of 1929. It was seen as the major problem by all political parties and by propagandists of the period<sup>(1)</sup>. All parties promised remedies. High unemployment persisted throughout the twenties: the percentage of insured workers unemployed fell below 10% only once in the decade<sup>(2)</sup>. Recent examinations of the statistical information of the period draw attention to the stability of gross domestic product and the existence of growth sectors in the economy<sup>(3)</sup>. These more optimistic aspects did little at the time to alleviate the gloom of the situation. The regional and industrial dispersion of unemployment accentuated the problem and was a matter of deep concern to the Labour Party whose sympathy and support lay with the workers in the depressed industries and regions of the country. Yet despite the deep concern and involvement of the Government with the problem, unemployment policy failed to have any impact during the MacDonald administration 1929-31.

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- (1) F.W.S. Craig, British General Election Manifestos, 1918-74. London, 1975. New Statesman, The Economist, The Times, Daily Herald, March-June 1929.
  - (2) The British Economy, Key Statistics, 1900-1970. London and Cambridge Economic Service, Times Newspapers, London 1973.
  - (3) Derek H. Aldcroft, The Inter-War Economy: Britain 1919-39, Batsford, London. 1970; H.W. Richardson, 'The Economic Significance of the Depression in Britain'. Journal of Contemporary History, Vol. 4. 1969.

Why did the MacDonald administration of committed and sympathetic men and women fail to get to grips with the problem of unemployment? An attempt will be made to answer this question from an analysis of the policies proposed and implemented during these years.

This thesis examines the development of unemployment policy during the MacDonald administration. An attempt will be made to establish:-

- a) the policy options considered by the politicians and their economic advisors;
- b) how the development of economic theory affected the choice of policy options;
- c) the factors influencing the choice and implementation of the policies;
- d) the reasons for policy failure.

By concentrating upon the interaction between economic policy and political decision making, which is probably as important as economic theory in influencing the success of economic policies, this thesis provides a different perspective of policy failure from that given in the existing literature. The objective is not to accuse or excuse the Government for the management of unemployment policy but to attempt to unravel the reasons for the lack of success. These reasons appear to be much more complex than a generation of economists, bred in the 'Keynes v Classics' debate, have been led to believe<sup>(1)</sup>.

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(1) Keynesian: is used to describe the economic model, as it subsequently became known in the literature: the model which was derived from the 'General Theory' but which lost many important attributes in the formalization. In this model the real and money parts of the system are related and rigidities in the money market as well as the labour market can, in the absence of a powerful real balance effect, cause unemployment. The policy predictions tend to suggest direct government intervention to remove unemployment during a depression when it is thought monetary policy is likely to be ineffective. It stands in juxtaposition in the literature to the equally formalized

### Sources

The examination of the unemployment policy is based primarily upon the official records of the Government which are now available in the Public Record Office. These records contain the minutes and memoranda of the Cabinet and Cabinet Committees; Government Departments and advisory bodies associated with policy making. This material has not been used to explain the failure of unemployment policy although extensive documentation of the problem from other sources already exists.

The work of Skidelsky, based on the original papers, autobiographies and biographies of the politicians and public figures of the period, considers the same problem<sup>(1)</sup>. Skidelsky did not have access to the official records of the Government which became available after his study was completed. These documents clarify many issues and offer a different perspective of the events of the period. Winch also considers the period within the framework of a study of economic policy<sup>(2)</sup>. Winch's work relates the policy issues to the development

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'Classical' model in which real and monetary sectors are separated and in which unemployment exists because of rigidities in the labour market.

- (1) R. Skidelsky, Politicians and the Slump: The Labour Government 1929-31. Macmillan, London 1967.
- (2) D. Winch, Economics and Policy. A historical study. Hodder and Stoughton, London, 1969.

of economic theory but does not make use of official government records. McKibbon<sup>(1)</sup> surveys the policy issues of the period reconsidering Government policy achievements; and attempting to explain policy failure in terms of the Government's inability to assume control of the economy - a view supported by Taylor<sup>(2)</sup>.

Other studies do make use of the official material and are complementary to this study: Howson's study of monetary management in Britain in the inter-war period<sup>(3)</sup>; Boyce concentrates upon international trade policy<sup>(4)</sup>; Janeway surveys economic policy generally paying special attention to the departmental papers<sup>(5)</sup>; Drummond considers Imperial aspects of Britain's economic policy<sup>(6)</sup>. During the final preparation of this thesis, Howson and Winch made available some of the documents referred to in the thesis (i.e. the Report of the Economic Outlook and the Economists' Report) in their review of the work of the

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- (1) R. McKibbon, 'The Second Labour Government 1929-31'. Past and Present, 1975.
- (2) A.J.P. Taylor, English History 1914-1945. Clarendon Press, Oxford, 1965.
- (3) S. Howson, Domestic Monetary Management in Britain, 1919-38, Cambridge University Press, 1975.
- (4) R. Boyce, Search for Recovery; unpublished Ph.D., London University, 1975.
- (5) W.H. Janeway, The Economic Policy of the Second Labour Government 1929-31. unpublished Ph.D. Cambridge University, 1971.
- (6) I.M. Drummond, Imperial Economic Policy, 1917-39. Allen and Unwin, London, 1974.

Economic Advisory Council<sup>(1)</sup>. These studies will be referred to in the text if they illuminate or conflict with the interpretation of unemployment policy offered.

Relevant statistical material is to be found in the work of Feinstein<sup>(2)</sup> Brown and Browne<sup>(3)</sup>; Maizels<sup>(4)</sup>; and the official statistical publications of the Government Departments.

Thomas has estimated a macro-economic model which includes simulation studies of policy proposals<sup>(5)</sup>. This fills a considerable gap in the analysis of unemployment policy and challenges the view that public works could have substantially reduced unemployment.

Economic historians have contributed much to the understanding of the inter-war years. The work of Aldcroft<sup>(6)</sup>; Richardson<sup>(7)</sup>; Youngson<sup>(8)</sup>;

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- (1) S. Howson and D. Winch, The Economic Advisory Council 1930-38. Cambridge University Press, 1977.
- (2) C. H. Feinstein, Domestic Capital Formation in the U.K. 1920-38. Cambridge University Press, 1965. National Income Expenditure and Output of the U.K., 1855-1965. Cambridge University Press, 1972.
- (3) E.H. Phelps Brown and Margaret Browne, A Century of Pay. Macmillan, London, 1968.
- (4) A. Maizels, Industrial Growth and World Trade. Cambridge University Press, 1963.
- (5) T.J. Thomas, Aspects of U.K. Macro-economic Policy during the Inter-war Period. Unpublished Ph.D., Cambridge University, 1975.
- (6) D.H. Aldcroft, (1970) op. cit.
- (7) H.W. Richardson, (1969) op. cit.
- (8) A.J. Youngson, Britains Economic Growth 1920-1960. Allen and Unwin, London, 1968.

K. Hancock<sup>(1)</sup>; D. Williams<sup>(2)</sup> provide an interpretive background to the study.

The biographical and autobiographical accounts of the period were invaluable sources providing a wealth of information about events and personalities.

### The Problem

The problem facing the Labour administration was one of international maladjustment. The maladjustment had arisen during the war-time dislocation of trade when new trading patterns emerged as countries developed self-supporting industries and technological changes brought large economies in the use of fuels. New competition, especially from Japan, made in-roads into the textile market. These changes caused Britain's share in world trade to fall sharply<sup>(3)</sup>. The return to gold at the pre-war parity intensified the problem and is thought by some economists to be one of the biggest mistakes in

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(1) K.J. Hancock, 'The Reduction of Unemployment as a problem of Public Policy, 1920-29'. Economic History Review, 1962-63.

(2) D. Williams, 'London and the 1931 Financial Crisis' Economic History Review, 1963.

(3) See Chapters One and Two below, pp. 33-190.

British policy of the century<sup>(1)</sup>.

Associated with this maladjustment were the high levels of unemployment. Unemployment had fallen below 10% only once (1927, 9.7%) in the decade and the problem was intensified by the industrial and regional distribution of the unemployed. The problems were acute in the heavy industries which had lost export markets and these industries were concentrated geographically causing regional imbalances.

There has been extensive debates about the nature of the unemployment problem: was it structural or cyclical? Structural unemployment can be defined as that form of unemployment which is specific to a certain industry or trade and the result of exogenous technological or market changes. It exhibits the 'mis-match' problem, i.e. it persists in spite of vacancies being available elsewhere. On the other hand, cyclical unemployment is likely to affect all industries to some, but by no means equal, extent; it is likely to be responsive to changes in aggregate demand and is readily absorbed during the upturn. The technological and geographical specific attributes of the labour force which is associated with structural unemployment is also likely

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(1) L. Robbins, personal communication. 1976. L. Robbins, Political Economy Past and Present, Macmillan, London 1976. H.G. Johnson, 'Keynes and British Economists' in Milo Keynes, Ed., Essays on John Maynard Keynes, Cambridge University Press 1975. Johnson distinguishes two aspects of the maladjustment problem: (a) the problem of the late twenties which required a devaluation by one country, Britain, to align its domestic price level with world market prices; (b) the problem of the thirties which required a devaluation of all currencies against gold as a means of increasing world liquidity.

to respond to changes in demand and so definitions which attempt to distinguish the types of unemployment according to this criteria involve difficulties if estimation is attempted<sup>(1)</sup>.

It would appear that both types of unemployment persisted throughout the period but that the cyclical component became more important from the winter of 1930. For our purposes it is what the politicians believed to be the problem that is of prime importance. Policy choices depended upon the form which unemployment was thought to take by the administration. The effect of the policy might well have been different from that intended.

Policies to reduce unemployment could only be successful if they dealt with the problem of international adjustment adequately. There are many interesting aspects of the process of international adjustment during this period and the failure of automatic feedbacks in the international economy to work<sup>(2)</sup>. The problem of international maladjustment called for international co-operation and expert economic management for which there was neither the inclination nor the expertise.

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(1) For attempts to determine criteria for estimating 'structural' and 'cyclical' components of unemployment, R.J. Dixon and A.P.Thirlwall, Regional Growth and Unemployment in the United Kingdom, London, 1975.

(2) C.P. Kindleberger, The World in Depression 1929-39. Allan Lane, Penguin Press, London, 1973.

## Policy Options

The policy options available to the Government and which were discussed during the period were of two types: those associated with a reduction in the supply price of the domestic product; and those concerned with attempts to change internal demand. Policies associated with a reduction in the supply price of the domestic product attempted to change the relationship between home produced and foreign produced goods so as to lower the relative prices in favour of domestic goods. These policies are derived from the 'classical' model of the economy. To be effective such policies must first of all have an impact, over a fairly short period of time, on internal prices. This could be achieved by changing the external rates directly<sup>(1)</sup>; by increasing efficiency; by changing the character of the production function or by reducing the cost of the factors of production - which usually implied a reduction in wages. If such a reduction in costs was possible, then the success of the policy depended upon the responsiveness of the demand to changes in relative prices, i.e. the elasticity of the demand for imports and exports in respect to price. Thus in considering the potentials of such a policy, one must look for the possibility of a reduction in prices; the likely response to the changes in price; and the time scale over which the policy could be expected to achieve its impact. In addition, the compatibility of the policy with other policy objectives has to be considered, e.g. the stability of society and the distribution of incomes.

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(1) Some economists see this as the central policy and all other policies as an attempt to achieve the same results as exchange rate readjustment and, so to an extent, avoiding the main issue. H.G. Johnson in M. Keynes, (1975) op. cit.

The alternative set of policies attempt to absorb the excess labour force by trying to raise the internal demand, either by monetary, fiscal<sup>(1)</sup> or direct intervention by the Government. The choice amongst these policies would depend upon the theoretical structure assumed.

Internal demand could be raised by increasing domestic investment either by reducing interest rates or by direct intervention in the form of public works; by expansionary monetary or budgeting policy; or by a reduction in leakages from the system in the form of protection or a reduction in foreign investment by the introduction of exchange controls. The success of these policies depended, in the first place, upon the ability of the Government to affect the necessary changes in internal demand, in a relatively short period of time, without contravening other policy objectives: exchange stability, budgeting balance, parliamentary democracy and equity norms. Success also depended upon the responsiveness of the economy to the changes which were achieved.

There was also the possibility that international co-operation on international monetary matters might contribute to pulling the world economies out of the depression. This policy is referred to by H.G. Johnson as the solution to the maladjustment problem of the thirties<sup>(2)</sup>. It was probably just as relevant to the late twenties.

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(1) Fiscal policies were not used to stabilize the economy until later when the theory of direct government intervention in the form of public works, a cumbersome policy subject to excessive time lags, was supplanted by the more sophisticated control of government expenditure generally. See Robbins (1976) op. cit., p.90. The Conservative administration had, in the late twenties, attempted to reduce the tax burden on industries but this was within the context of the balanced budget and not connected with attempts at expansionary financing.

(2) See H.G. Johnson in M. Keynes ed. (1975) op. cit.

Political factors proved too difficult for an individual government to have much impact in this direction and in spite of Bretton Woods, the International Monetary Fund, the Group of Ten and the like, it remains a central policy issue unresolved.

Other strategies involved the redefining of the problem of unemployment in the labour market. These took the form of redistributing the excess supply amongst the age groups and then removing it by some other desirable social policy, such as raising the school leaving age or lowering the retirement age. This policy had the effect of reducing the proportion of the population available for work, i.e. reducing the activity rates. There were also policies to reduce the excess supply of labour by creating incentives and facilities for migration internally and externally<sup>(1)</sup>. These policies implied that much of the unemployment was structural in nature.

There was thus a wide range of policies which could have had an effect on the economy and on unemployment. All policies had something to offer in terms of reducing unemployment. They were not mutually exclusive. The problem was to choose the appropriate policy to achieve the various goals of society<sup>(2)</sup>. Policy strategy could have

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- (1) I. Drummond, (1974) op. cit.; British Economic Policy and the Empire 1919-39, George Allan and Unwin, London 1972. Drummond discusses the progress and problems of migration during the inter-war years.
- (2) Forty-five years later a committee has been set up using optimal control techniques to identify the best macro-economic policy by comparing the community's preferences for different economic targets such as inflation and unemployment. Hansard, June 1976.

been arranged to allow 'trade-offs' amongst the various policies. Policies which affect unemployment have different effects on real wages and Keynes suggested to the Economists' Committee<sup>(1)</sup> that those having least effect on real wages and most effect on unemployment should be chosen.

There were two aspects of the unemployment problem which gave cause for concern. One was social distress which was all too apparent and the accompanying fear, felt by some parties, of the possible upheaval of society. The other was the vast waste of resources of the economy resulting from the enforced idleness of large portions of the work-force. The policy measures designed to solve the unemployment problem had two related, but in the short term, separate objectives: the removal of unemployment and the alleviation of social distress. The Government had little success in meeting either of these objectives.

#### Reasons for Policy Failure

By far the greatest obstacle to effective policy formulation was associated with the prevailing economic dogma of the period which affected all parties. Because of their adherence to certain economic philosophies, political parties imposed upon themselves constraints which were bound to result in failure of the unemployment policy. The constraints which were most damaging to the possibility of an acceptable measure of success in dealing with the unemployment problem were:-

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(1) The Economists' Committee was a sub-committee of the Economic Advisory Committee set up by MacDonalld in 1930 to advise on policy. See Chapter Four, pp. 282-289.

- a) the rigid acceptance of the gold standard maintained at the pre-war parity;
- b) the doctrinaire adherence to the policy of free trade;
- c) the puritanical belief in the doctrine of balanced budgets.

The Labour Party were further handicapped by their views on wages and profits - refusing to consider any policies which might reduce the former or raise the latter. They were committed to a redistribution policy and whilst it could not be operated positively in this period, they defended the existing position as far as they were able. The General Strike was still a very recent event and to embark upon a policy of wage cuts or even to suggest wage cuts was more than any administration in 1929 was willing to contemplate.

Added to the equity arguments and fears of unrest there was a general uneasiness about the possible repercussions of reductions in incomes upon the level of activity which the under-consumptionists' theories suggested. These writers highlighted the 'purchasing power' as of crucial significance to the level of activity in the economy and although they did not have a fully developed model of the aggregate inter-relationships in the economy their propositions were sufficiently in accordance with a common sense approach to the problems of the economy to raise doubts about the remedies which relied upon deflationary policies to restore equilibrium<sup>(1)</sup>.

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(1) The prominent under-consumptionists of the period were, J.A. Hobson, see e.g. The Economics of Unemployment, Macmillan, London 1923, who linked his concepts to income distribution; W.T. Foster and W. Catchings, Business without a Buyer, Houghton Muffin Boston, 1927 who based their argument on the dilemma of thrift seeing savings as providing via a growing stock of capital further potential production which would not be purchased unless all profits were distributed and all incomes spent on consumption; Major Douglas, see Credit-Power and Democracy, Palmer, London, 1920, was the great polemist in the debate advocating social credit. For discussions of the relevance of these theories to The Keynesian model, see L.R. Klein, The Keynesian Revolution, Macmillan, London 1950.

Other obstacles to the successful implementation of policy were associated with the inadequacies of economic theory. There was little confidence in the policy suggested by either the classical economic model or the developing Keynesian economic model. On the one hand, it was feared that policies which attempted to reduce the supply price could have adverse effects on unemployment because of the likely effects of the reduction of incomes on demand, especially consumption, and on the other hand, it was feared that any attempts to raise internal demand would have an adverse effect on prices and so fail to make an impact on the problem. These major problems arose in connection with the debate about the validity of "Say's Law" and attitudes which became embodied in the "Treasury View"<sup>(1)</sup> as to the possibility of the Government being able to raise real aggregate demand<sup>(2)</sup>.

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- (1) Say's Law asserts that supply creates its own demand. According to the 'Treasury View', which is derived from Say's Law, Government expenditure however financed cannot raise aggregate demand and is merely diversionary. See T. Stowell, Say's Law, Princeton University Press, 1972.
- (2) This debate is well developed in the literature in terms of 'Keynes v the Classics'. It grew up out of the formalization and interpretation of the 'General Theory'. The discussions on the subject are to be found in, J.M. Keynes, The General Theory of Employment, Interest and Money, Macmillan 1936; G. Haberler, Prosperity and Depression, League of Nations 1941; J.R. Hicks, 'Mr Keynes and the 'Classics'' Econometrica, 1937; L.R. Klein, The Keynesian Revolution, Macmillan 1947; O. Lange, Prices, Flexibility and Employment, Principia Press, 1944. F. Modigliani, 'Liquidity Preference and the Theory of Interest and Money' Econometrica 1954; A.C. Pigou, Employment and Equilibrium, Macmillan 1941. The debate is now summarised in most modern macro-economic textbooks. For later discussion, see, D. Patinkin, Money, Interest, Prices, 2nd ed. Harper Row, New York 1965. J.R. Hicks, Critical Essays in Monetary Theory, Clarendon Press, Oxford 1972; H.G. Johnson, 'The General Theory After Twenty Five Years', American Economic Review 1961 and, "The Keynesian Revolution and the Monetarist Counter Revolution", American Economic Review, 1971; D. Winch (1969), op. cit.

The explanation of policy failure in terms of the development of economic thought is extremely attractive to economists. The idea of two powerful economic models competing for dominance and leaving a policy vacuum and economic chaos is a colourful interpretation of events which many economists have found difficult to relinquish.

### Keynes v Classics

In the optimistic atmosphere of the post-Keynesian era, it was easy to attribute the lack of success of the British Government in the depression to their failure to adopt 'Keynesian'<sup>(1)</sup> or 'radical'<sup>(2)</sup> economic policies by which is meant some measure of reflation, usually in the form of an increase in domestic investment, crudely dubbed 'Keynesian', but often protection, cheap money and the abandonment of the gold standard were added. The literature abounds with examples of this approach for instance, Winch, when discussing Mosley's proposals,

"It offered a chance to deal with unemployment on a scale and along the only lines likely to have any impact on the problem"<sup>(3)</sup>

or Skidelsky,

"The real story of domestic policies of the inter-war period is the defeat of the economic radicals by the economic conservatives".<sup>(4)</sup>

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(1) 'Keynesian', see above page 1.

(2) 'Radical' economic policies referred to a number of different policies involving intervention usually to expand the economy. They included monetary policy, consumer credit, public works programmes and protection. They were advocated by members from all parties, usually those inclined, towards 'radical' or 'scientific' planning solutions. See Chapter 1.

(3) Donald Winch (1969) op. cit.

(4) Robert Skidelsky (1967) op. cit. p.11.

or Robbins,

"I opposed means of reflation which I now think might have eased the situation".(1)

Or Kindleberger,

"The failure of economic policy is relatively easy. Throughout the chronological account of the depression which follows we shall cite instance after instance of what, with hindsight, appears as economic illiteracy ... There were many economists and a few public figures ..... who had domestic remedies which made sense in modern terms".(2)

A detailed examination of the documents relating to policy formulation indicates the need to re-examine this conventional, uncausal explanation for failures in policy. Although much energy has been directed to attributing policy failure to the failure to adopt these strategies little attention has been given to the factors determining the choice of policy during the period. In his discussion of economic policy, Winch refers to the importance of considering the context in which policies are made which he says are such that even if advice from economists were 'unanimous and relevant' it might not be adopted. He continues:

"In the light of these difficulties it might be said that even to pose the existence of a relationship between thought and policy entails both an over optimistic conception of the technocratic status of economics and a naive view of the process of political decision-making"(3)

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- (1) Lionel Robbins: House of Lords, Official Report 28 July 1966. Robbins' statement refers to the latter period when the National Government was in office and he along with other economists wrote condemning the growth of public expenditure. Personal Communication.
- (2) Kindleberger (1973), op. cit.
- (3) Winch (1969) op. cit. ..

In spite of his awareness of the problem, even Winch's scholarly analysis of the period is very much in the technocratic style of which he warns us: e.g. he searches for Classical and Keynesian models. The other study of the period which concentrates on the formulation and application of policy is that of Skidelsky<sup>(1)</sup> who again uses the conflict model as an explanation for policy failure, referring to the 'defeat of the economic radicals by the economic conservatives'.

In connection with this explanation for the failure of policy we can consider how far we are justified in attributing failure to the Government when the policy measures were themselves largely undeveloped? The usual reply to this is that there was sufficient specification of the radical policy by politicians and economists to justify government action. This might be so, but how sound did the ideas appear to the decision-makers? Would they have been justified in accepting the various cranky views considering the plight in which they found themselves, except perhaps as part of an iterative policy procedure such as that used by Roosevelt? One needs to evaluate the advice given and to consider whether in prevailing circumstances it was sound enough to be used with confidence as a basis of policy.

It is clear that the difference amongst economists were not as deep during this period as we have been led to believe; often by writers considering a longer time span<sup>(2)</sup>. This is the period during which the academic economists were assimilating Robertson's<sup>(3)</sup> work,

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(1) Skidelsky, (1967) op. cit. p.11.

(2) See Winch, (1969) op. cit. on the debate between London and Cambridge.

(3) D.H. Robertson Banking Policy and the Price Level. (1926).

Banking Policy and the Price Level. The central issue of the relationship between the real and money sectors was a matter for debate and not dogma. Even at the London School of Economics, which is castigated as a force of reaction, academics were demonstrating considerable open-mindedness and were searching for new developments<sup>(1)</sup>. This aspect of the academic climate can be seen from the inaugural lectures of Allyn Young and Lionel Robbins<sup>(2)</sup>. Young refers to the oppressive sense of inadequacy of his knowledge, in the light of the questions being asked of economists, and Robbins refers to gaps in existing knowledge:

"such as the relationship between savings discount rates and prices in a modern credit economy. Here is a field in which apart from isolated efforts by WickSELL and one or two others, little or nothing was being done before the war. The theory of money and the theory of savings were kept in watertight compartments. Yet no one, I think, can examine the path-breaking work of D.H. Robertson in this country without the conviction that perhaps here, in the future are to be forged some of the most powerful instruments of policy. Again, we may notice the surprising gap which exists between the theories of fluctuations. I know no work of any importance in which any attempt is made to

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- (1) D. Winch (1969) op. cit. This matter appears to be overstated by Winch who is dealing with a longer period. Winch refers to Robbins's book on methodology which he sees as indicating a different approach from the interventionism of Keynes. L. Robbins, The Nature and Significance of Economic Science, Macmillan 1932. The break for Robbins came with the publicity of the Times letter advocating expenditure cuts after devaluation, The Times, Oct. 1932. Robbins, who recalls this episode with regret, had begun to revise his views by 1937 when evidence from U.S.A. became available; being convinced that the deficiency of demand had completely overtaken structural rigidities as a cause of the problem. He now agrees with Petty (Sir William Petty, Treatise of Taxes and Contributions, 1662) that in the depths of depression any government expenditure would be expansionary. Personal Communication 1976. See also L. Robbins, Political Economy Past and Present; Macmillan, 1976.
- (2) Allyn Young, English Political Economy; Inaugural Lecture, Oct. 1927. Economica, March 1928.

correlate the theory of the short period price equilibrium with the theory of periodic fluctuations. Yet surely this is a problem of quite first class importance"(1).

The fact that many academic economists were opposed to the Treasury View is mentioned in the debate on the Liberal Party policies (2). Pigou is specifically quoted as denying the rigid doctrine which was emerging from the Treasury and had held the view as early as 1913 when he published his first book on Unemployment (3).

This is not meant to imply that differences did not exist within the academic fraternity, but that the polarization was not as acute during this period, as popular mythology would suggest.

would radical policies have worked?

How far would "radical" policies have been capable of solving the British problem of unemployment? Even with the benefit of hindsight, it is difficult to answer this question. The current acute problems of international maladjustment leave us less confident about accepting the view that radical policies could have cured unemployment.

We need to examine the matter much more deeply before dismissing MacDonald and his colleagues as 'economic illiterates'. It seems

- (1) L. Robbins 'The Present Position of Economic Science', Economica March 1930.
- (2) J.M. Keynes and H.D. Henderson 'Can Lloyd George Do It'. London, 1929.
- (3) A.C. Pigou, Unemployment, London 1913. See Winch (1969) op. cit. for discussion of Pigou's position. See J.M. Keynes, 'The General Theory of Employment'. The Quarterly Journal of Economics. 1937, in which he replies to criticisms of the General Theory.

likely that some improvement in unemployment could have been obtained by the adoption of a mixture of the radical policies. But the quantitative changes are difficult to assess. Apart from the lack of quantitative evidence, there are areas in the theoretical macro-model which are still relatively undeveloped: as recent debates on inflation and employment theory<sup>(1)</sup> indicate, in which it is difficult to make predictions to test the effects of the policy. The whole dynamic underpinnings of the model are not well specified, as is indicated in the monetarist debates. Nor are the relationships between the various sectors of the economy and between countries fully understood. It is often assumed that countries are in competitive relationships one with another but in fact the predominant patterns were monopolistic or oligopolistic. The effects of the economic policies of powerful countries in determining the level of world activity is not well understood but crucial to past and present difficulties. Britain in the thirties was in a rather awkward relationship with the rest of the world being highly sensitive to changes in the world economy; too dependent to be fully insulated; and not powerful enough to make significant impact on international economic affairs alone. In spite of these problems it would be interesting to see some simulation studies of the period undertaken which estimate the likely effects of different policy measures given a number of different assumptions. The models used would need to be highly complex. The work of Thomas<sup>(2)</sup> in this field fills a great gap. His estimated model suggests that the values of the multiplier and the price elasticities of imports and exports

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(1) See for example, E. Phelps, et. al. Micro-economic Foundations of Employment and Inflation Theory. Macmillan, London 1970; H. Grossman, 'A general disequilibrium model of income and employment'. American Economic Review, 1971.

(2) Thomas, (1975) op. cit.

were less than has been generally assumed and this throws great doubt upon the impact of the public works programme and devaluation upon unemployment. The model used does not take into account the structural changes in confidence and expectation which might have accompanied such policies; and no doubt others will attempt different specifications of the model which will throw light upon the robustness of the model as estimated.

In addition the lack of the multiplier concept made it impossible to estimate or set a limit to the effects of changes in investment or exports on income and employment and without this possibility of quantification, the policy lacked credence<sup>(1)</sup>.

#### Weakness of Economic Theory

International implications of these problems were not fully developed until much later<sup>(2)</sup>. Inadequacies in the theory of international

- (1) R.F. Kahn "The Relationship of Home Investment to Unemployment" Economic Journal, 1931. For discussion of the development of the multiplier concept see A. Llewellyn Wright, "The Genesis of the Multiplier" Oxford Economic Papers New Series, 1956; and G.L.S. Shackle, The Years of High Theory; Cambridge University Press, 1967.
- (2) The extension of the debate to an open trading economy had to await the development of the import multiplier approach suggested by Keynes and developed in F. Machlup International Trade and the National Income Multiplier, Blakiston, Philadelphia, 1943; L.A. Metzler, "Underemployment Equilibrium in International Trade" Econometrica 1942; A.L. Harberger, "Currency Depreciation, Income and the Balance of Trade", Journal of Political Economy, 1950; S. Laursen and L.A. Metzler, 'Flexible Exchange Rates and the Theory of Employment' Review of Economics and Statistics, 1950; W.F. Stolper, "The Multiplier, Flexible Exchange Rates and International Equilibrium" Quarterly Journal of Economics, 1950.

trade in particular the interrelationship between income and price effects<sup>(1)</sup>; the effects of changes in productivity on incomes, prices and the balance of trade<sup>(2)</sup>; the lack of the theory of the 'second best'<sup>(3)</sup>; or any concept of the optimum tariff<sup>(4)</sup>; and the effects of retaliation<sup>(5)</sup>; or the effects on factor prices<sup>(6)</sup>, were important deficiencies preventing economic theory from clarifying matters of international trade.

In addition, the evaluation system for public utility services was based upon private returns to the companies. Concepts of wider social benefits of the kind which would now be included in an ordinary cost-benefit analysis were lacking<sup>(7)</sup>, although elaborate

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- (1) Harberger (1950) op. cit. and Stopler (1950) op. cit.
- (2) H.G. Johnson "Increasing Productivity Income-Price Trends and the Trade Balance" Economic Journal, 1954.
- (3) This concept is discussed by J.E. Meade in Trade and Welfare, Oxford University Press 1955, whose ideas were generalised by R.G.D. Lipsey and K. Lancaster, "The General Theory of the Second Best" Review of Economic Studies 1956/7. J. Viner, The Customs Union Issue, New York 1950.
- (4) T. Scitovsky, "Reconsideration of the theory of tariffs" Review of Economic Studies 1941/2; J. de Graaf "On Optimum Tariff Structures" Review of Economic Studies 1949/50. N. Kaldor, "A note on Tariffs and the Terms of Trade, Economica N.S. 1940.
- (5) H.G. Johnson "Optimum Tariffs and Retaliation" Review of Economic Studies, 1953/4; and International Trade and Economic Growth, Allen and Unwin, 1958.  
S.A. Ozga, "An Essay in the theory of Tariffs" Journal of Political Economy, 1955.
- (6) W.F. Stopler and P. Samuelson, 'Protection and Real Wages', American Economic Review Readings No. 15. L.A. Metzler, "Tariffs, the Terms of Trade and the Distribution of National Income". Journal of Political Economy, 1949.
- (7) A.C. Pigou, Wealth and Welfare. London 1912. The concepts had been discussed but were not used.

cost-effectiveness studies were constructed on the Channel Tunnel; the Scottish bridges and the Inner London Roadway<sup>(1)</sup>.

As far as a quantification was concerned, the statistical information available, the specification of the model, and the appropriate techniques, were insufficient to enable tests to be made of the various hypotheses. There was often disagreement about the extent of the effects of changes in the key variables, such as wages or trade and the estimates were in many cases not much more than guesses<sup>(2)</sup>. There was no information about the time scale and, of course, no estimation of the likely time lags in the system<sup>(3)</sup>. The advantages of concepts of economic policy making as formulated by Tinbergen, to the dilemma of policy making in the 1930s, is obvious.

- (1) Studies such as those undertaken in recent years for railways and roads would have been useful. T.M. Coburn, M.E. Beesley, D.J. Reynolds, London-Birmingham Motorway; Traffic and Economics. Road Research Laboratory Technical Paper No. 46. HMSO 1960. C.D. Foster and M.E. Beesley, 'Estimating the Social Benefits of Constructing an Underground Railway in London'. Journal of Royal Statistical Society. Series A. Vol. 126, Part I. 1963.
- (2) K. Hancock. "Unemployment and the Economists in the 1920s". Economica 1960. Hancock disagrees with this view citing the setting up of the London and Cambridge Economic Service and several quantitative articles. There is a difference between the amassing of statistical evidence, necessary as this is, and setting up and testing functional relationships in the economy and estimating the size of the various coefficients. The former statistical work is interesting and often illuminating but it is not sufficient to discriminate between the finer points of economic theories. But on this point it is interesting to recall Keynes' argument with Tinbergen about econometrics, see Economic Journal, 1938.
- (3) J. Tinbergen, Economic Policy Principles and Design. 1956.

### Decision Taking

The administrative system was not very effective in providing speedy action. Too many departments at too many levels were involved in implementing policy. The existing channels for international co-operation were not exploited fully<sup>(1)</sup>. In international trade policy, international or empire policies were preferred to regional blocks which might well have been advantageous<sup>(2)</sup>. The bargaining strength of Britain, as a substantial importer was not exploited during this period; indeed the stance was defensive, leading to over-estimation of the retaliatory potential of other countries. Drummond explains this failure by the fact that the acceptance of free-trade meant that there was nothing to offer<sup>(3)</sup>. This appears to be a naive stance from which to enter negotiations.

Added to these problems there were also failures in imagination in the formulation of policy; failures to make choices or to consider policy trade-offs; lack of confidence and expertise; and an acute failure in decision taking which possibly reflects the weakness of consensus decision-taking in Cabinet and devolution of power to smaller authorities. There was a complete lack of the facilitating ability which is found in great administrations.

### Effect on Policy

These difficulties are examined in detail in the narrative chapters

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(1) See Chapter 2, p.112 and Chapter 5, p.360.

(2) Boyce (1975) op. cit.

(3) Drummond (1974) op. cit.

which follow, but it might be useful here to indicate the ways in which the development of some policies which would appear a priori to have been capable of reducing unemployment were affected by the problems outlined above. Let us consider budgetary policy, protective policy and public works.

### Balancing the Budget

The use of the balance of the budget as an instrument for policy was precluded for all parties by their belief that sound finance depended upon a balanced budget. Modern analysis indicates that expansion can take place, with a balanced budget. This is the essence of the well-known balanced budget theorem<sup>(1)</sup>. The choice between deficit financing and a balanced budget is a very complex issue but by regarding budgetary balance as a policy objective rather than a policy instrument, the Government denied themselves the use of a very powerful tool and also impeded the progress of other aspects of their policy. Throughout the two years which are the focus of this study, the balancing of the budget was a dominant factor influencing the progress of the Government's actions. Yet by adopting a more flexible attitude towards budgetary management, the dual objectives of the unemployment policy - the reduction of unemployment and the alleviation of distress - could have been achieved in the early days without unduly jeopardising the position of sterling. The distinctions between capital and revenue items in the budget were largely arbitrary as were the annual accounts procedures and yet they were

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(1) Origins of Balanced Budget, Multiplier Theorem. History of Political Economy, Vol. 7, No. 1., 1975.

regarded as sacrosanct<sup>(1)</sup>. In spite of the great potential of this instrument, the concept of the balanced budget as a policy objective emerged unscathed from the economic crisis and was explicitly stated as an objective by all parties in the Manifestos issued before the 1931 election<sup>(2)</sup> and was not used as part of government strategy until the forties. Even the 1944 White Paper on Employment<sup>(3)</sup> did not advocate an unbalanced budget merely suggesting contra-cyclical investment programmes and compensatory adjustments to national insurance contributions. A more taxonomic approach to compensatory finance was provided by Beveridge's Full Employment in a Free Society<sup>(4)</sup>. The budget was seen to be the main instrument of full employment policy and the use of the budget, balanced and unbalanced, as a compensatory instrument was explored. This information was not available during MacDonald's administration and it would be otiose to have expected them to have broken through this policy barrier until the issues had been made clear. Fiscal policies were developed in the context of the managed economy of war-time when Keynes's ideas as set out in the General Theory were generally accepted. This was quite a different atmosphere from the one in which MacDonald's administration was working.

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- (1) Ursula K. Hicks, British Public Finances 1880-1952, London 1959 Chapter V. See Robbins (1976) op. cit. on the gradual erosion of some of these attitudes. pp. 90.
- (2) FWS Craig (1975) op. cit. In spite of avowals of budgetary orthodoxy, a modest deficit was allowed to develop in 1929/31.
- (3) Cmd. 6527
- (4) W. H. Beveridge (1944) Full Employment in a Free Society, Allen and Unwin, London. Nicholas Kaldor and Joan Robinson were amongst the economists contributing to the Beveridge Report. See also Winch (1969) op. cit. pp. 269/277.

Debt management was a further constraint upon budgetary policy during the period. Paying off the war debt was regarded as a patriotic measure and to this end large payments were made each year to the sinking fund. The payments to the sinking fund were contractual payments and the decision taken in 1923 by Baldwin - to ensure the redemption of the national debt in 150 years - to make the payment a fixed charge of £50m per year increased the rigidity. Niemeyer had specifically opposed 'elasticity' with respect to the sinking fund payments as he considered that would mean that decisions with regard to payments would be made on 'political grounds'. The situation was made even more rigid with the inclusion of the accumulator in 1928. This had the effect of ensuring that Chancellors had to legislate if they did not want to make increased debt payments made possible as interest rate charges were reduced as the outstanding debt diminished. In 1929 Snowden was persuaded to increase the sinking fund provision by £5m to make up for Churchill's laxity with regard to the budget deficit of £14½m in 1928/29. (1)

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(1) Janeway (1971) op. cit. p. 70; Howson (1975) op. cit. pp. 42-3, 69  
Niemeyer's evidence to the Colwyn Committee on National Debt and Taxation 3rd November 1925 QQ 8797, 8799.

## Protection

Protective policies, carefully designed, could probably have had considerable effects on employment in agriculture, iron and steel and cotton. A revenue tariff could have provided general measures of protection for the home market as well as providing the revenue needed to meet the budgetary objective. Free trade, however, was the objective of the Labour Party which was pledged to remove existing tariffs<sup>(1)</sup>. The reason for the commitment to free trade did not appear to be based on any concept of optimal resource allocation but was regarded as a way of keeping down the cost of living for the working classes and of exposing the industries of the country to competition from abroad, so guarding against monopolistic tendencies. The theory of international trade is related to a fully employed economy in a world free from trading restrictions. In such conditions, free trade was bound to lead to the optimal use of resources and the maximization of welfare. Those conditions did not exist in the thirties when there were real constraints to the attainment of international equilibrium in the form of protective policies and bounties and chaotically unstable monetary movements. Yet the significance of these difficulties for the policy of free trade were not well understood. Keynes attempted to explain the significance in an early statement of what was later to emerge as the theory of the 'second best' but he did not succeed in persuading policy makers or even his fellow economists of the justification for protection<sup>(2)</sup>.

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(1) For a discussion of policies relating to free trade during the inter-war period see C.L. Mowat, Britain Between the Wars 1918-1940. Methuen, London 1955.

(2) See Chapter 4 below.

The objections to protection were not based on economic grounds alone. There were considerable political constraints upon the advocacy of a protectionist policy. These constraints can be appreciated in the context of trade policy in the early twenties. In 1923 the Conservatives had been defeated on a protectionist platform. Baldwin, succeeding Bonar Law as Prime Minister, had sought a mandate to change fiscal policy. He advocated protection as the only way out of the unemployment problem - the precise timing of the election was probably part of a power bid to oust Lloyd George who was thought to be moving towards protection. (1) Slogans such as the 'free breakfast table' still had a great electoral appeal and even the Conservatives had modified their position. (2) Snowden referred to the earlier defeat of the Conservatives and to his success in the first Labour Government in removing tariffs in one of his first speeches as Chancellor in 1929. (3)

Protectionist policies were a form of nationalism which many economists and politicians alike found abhorrent. The Government were hopelessly divided on the issue and again and again the matter was left unresolved because of the impossibility of arriving at a consensus decision on the matter. At some points in the debate the issue of protection was avoided because it was felt that once imposed, tariffs would be difficult to remove which appears the feeblest of reasons. Tariffs had been and could have been removed given political commitment. The Labour Government's foreign policy was aimed at opening up relationships between nations after the strife of the earlier decade; an aggressive trading position would have been very much out of tune with foreign policy.

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(1) R.W.Lyman (1957) The First Labour Government 1924 Chapman and Hall, London. pp 21/23. K. Middlemas and J. Barnes (1969) Baldwin: A Biography Weidenfeld and Nicolson. p.214.

(2) See Chapter One below p.49

(3) Hansard Vol. 229 cols. 747/50.

## Public Works

Public works, the other policy which would possibly have made some impact upon the unemployment problem was bedevilled in 1929 by the debate about the Treasury View which implied that government's investment would be merely diversionary. This argument did not have much impact on the policy of the Labour Government; the problem was to get a programme on public works under way. In spite of grants and encouragement, the projects emerging from local authorities and public utility companies were not sufficient to have much impact on the problem. The Government had no control over the proposals or the implementation of the schemes and so had little control over the pace or size of the programme. Yet direct action, it was thought, would undermine the democratic structure of local government. The criteria adopted for the approval of schemes were fairly conservative; social benefits were not admitted as a factor to be taken into account until the later months of the administration; and the multiplier analysis which would have indicated the expansionary effects of the policy was not understood or clearly specified. By the end of 1930, financial problems caused local and central government to be more wary of public works projects and concessions were removed for budgetary purposes.

Possibilities of Success

The political and economic philosophy of the Labour Government severely limited their ability to find a solution to the unemployment problem but even within the rigid constraints in which they were seeking a solution, it is highly probable that more effective policies could have been pursued. The projects put forward by local authorities and public utility companies were not very exciting but one wonders what they might have become in the hands of Lloyd George. By far the greatest failure was the lack of a decision-making capacity, the constant appeals to experts, the touching faith in the possibility that consensus solutions would emerge from informed debates amongst 'experts', all caused endless vacillation and delay.

The question arises as to whether the other parties could have done better. This, like the question of whether radical policies would have worked, cannot be answered unambiguously even with hindsight. Lloyd George<sup>(1)</sup> would have had less difficulty in taking decisions; but his public works programme would probably have caused a strain on the exchanges unless some controls on monetary movements and trade had been applied; and there is considerable doubt as to whether the Liberal Party would have accepted any interference with free trade. The Conservatives had the great advantage of being more pragmatic with regard to budgetary and trading policy. They would probably have improved the confidence of industrialists by their protectionist policies but they were more likely to have imposed cuts in insurance

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(1) The literature appears to over-emphasise the difference in the policies of Liberal and Labour parties. The public works schemes exist in both, but the Liberals relying upon the repercussions of the policy to restore equilibrium are the more enthusiastic about the results. See Chapter I, pp. 74-89.

benefits and possibly suggested wage cuts which might well have led to industrial and social dislocation.

It is possible that by accepting the role of maintaining some sort of stability in international monetary affairs, British policy contributed to the maintenance of the level of activity in the world economy. The game-theoretic approach of Kindleberger which attributes the length and depth of the depression to the inability of Britain to underwrite the international monetary system and the unwillingness of the United States to adopt the role seems to have much to offer as an explanation of the problem <sup>(1)</sup>. If it has any foundation, then the actions and inactions of the Labour administration may not have been as misguided as many interpreters have suggested. This raises large issues in international monetary management.

#### Structure of The Thesis

The thesis is divided into five chapters which discuss the development of policy over the period. The first chapter is concerned with a discussion of the problem of unemployment; the policies discussed during the last months of the Conservative administration; and the policy proposals which were offered during the pre-election period. The second chapter relates to the initial policy initiatives of the Labour Government. Chapter Three deals with the Mosley Memorandum, the setting up of the E.A.C. and the policy debates which preceded MacDonald's personal involvement in the policy initiatives. The advice proffered by experts in the E.A.C. and the sub-committee of economists is discussed in Chapter Four. The last narrative chapter

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(1) Kindleberger, (1973), op. cit.

is concerned with the remaining eight months of the administration ending with the crisis. The conclusion examines the failures of the Government's unemployment policy in the context of the framework discussed above.

Unlike most other interpretations of the period, this thesis does not rely upon the adoption of 'Keynesian' or 'Classical' policy measures to explain the failure of policies. This interpretation is not meant to detract from the Keynesian contribution. Indeed, Keynes, and Keynes alone, amongst economists of the period had the intellectual vitality to adapt the economic model to the context and constraints of the political situation <sup>(1)</sup>. It focuses instead upon the policy options considered; the process of policy formulation; and upon the policy dilemma in which the Government found itself. This dilemma was caused by the adoption of incompatible policy goals; failure to make policy trade-offs and the inability to take decisions. Weakness in economic theory, not only in macro-economics but in welfare economics and trade theory, which resulted in lack of clarification on policy issues is discussed in the context of policy formulation. This approach, more behavioural than technocratic, is less heroic than the conflict model but it offers considerable insight into the formulation of economic policy.

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(1) This facility is seen by some (Johnson (1975) op. cit.) as merely an avoidance of the main issue: exchange parity. The consideration of the political climate, which laid such stress on stability especially of the gold standard; and the empirical estimations of the price elasticities on imports and exports (Thomas (1975) op. cit.) cast doubt upon the feasibility and the effectiveness of changes in the parity to solve the problem. Kindleberger's (1973) op. cit. interpretation offers an alternative view of the period and the effects of British policy upon the stability of the world economy in general.

CHAPTER ONETHE ECONOMICS OF POLITICAL POLEMICIntroduction

The unemployment issue dominated the election of 1929<sup>(1)</sup>. In the period leading up to the election the electorate was innundated by books, reports, tracts and pamphlets in addition to the party manifestos; all purporting to offer solutions to the unemployment problem<sup>(2)</sup>. In this chapter we shall consider the policy measures advocated and discussed by the major political parties, the trades unions, industry and other pressure groups and individuals whose views were likely to influence policy. Before considering the policy proposals let us consider the extent of the unemployment problem in 1929.

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(1) e.g. New Statesman 30th March 1929.

"The single issue that will really count at the general election will be unemployment".

Unemployment is also the dominating theme in the election manifestos. See Craig (1975), op. cit. Lloyd George kept it in the forefront of the campaign although MacDonald and Baldwin attempted to concentrate on broader issues.

(2) New Statesman, 23rd March 1929. The changing mood towards unemployment was attributed to the almost simultaneous publication of the Liberal Party's policy document, We Can Conquer Unemployment, Cassell, London 1929; the final report of the Balfour Committee: Report on Trade and Industry (1929) Cmd 3282, and the Interim Joint Report of the Conference on Industrial Reorganization and Industrial Relations: Melchett-Turner Conference. 1928 and 1929.

The Problem

Unemployment was by now an intractable problem. The percentage of the insured workers unemployed had fallen below 10% only once in the decade as can be seen in Table 1. The regional and industrial distribution of the unemployment accentuated the problem.

Table 1

Percentage of insured workers  
unemployed in the United Kingdom

1921 - 1929

Year	% Unemployment
1921	16.9
1922	14.3
1923	11.7
1924	10.3
1925	11.3
1926	12.5
1927	9.7
1928	10.8
1929	10.4

Source: British Labour Statistics  
Historical Abstract 1886-1968  
Table 160  
HMSO 1971

These aspects are highlighted in Tables 2 and 3 below.

Table 2

## Regional Unemployment 1929

Number of persons (insured and uninsured) registered as unemployed in June each year, expressed as a percentage of insured employees at each mid-year.

Region	% Unemployment		
	1927	1928	1929
London	4.8	4.7	4.6
South East	3.6	4.0	3.8
South West	6.1	7.0	7.1
Midlands	7.7	10.7	9.1
North East	13.2	15.0	12.8
North West	9.3	12.0	13.0
Scotland	9.3	10.8	11.0
Wales	19.6	21.8	19.7
Great Britain	8.8	10.4	9.8

Source: British Labour Statistics (1971) op. cit.  
Computed from Tables 110 and 162 (1).

- (1) For further analysis of inter-war unemployment see D.C. Champernowne, 'The uneven distribution of unemployment in the United Kingdom 1929-36' Review of Economic Statistics 1936-7; W.H. Beveridge, 'An Analysis of Unemployment', Economica 1937; M.P. Fogarty, Aspects of the Industrial Areas of Great Britain London (1945); E.M. Burns, British Unemployment Programmes 1920-1938, London 1941.

Table 3

## Industrial Unemployment

Percentage of insured workers unemployed, by industry in the United Kingdom

Industry	% Unemployed		
	1927	1928	1929
Fishing	13.8	11.6	11.8
Coalmining	19.0	23.6	19.0
Brick, tile, pipe etc manufacture	6.9	12.4	11.5
Pottery, earthenware etc	16.6	18.6	17.0
Chemicals	7.2	6.1	6.5
Pig iron	16.4	18.7	14.4
Steel melting and iron puddling, and iron and steel rolling and forging	19.4	22.4	20.1
General engineering: engineers' iron and steel founding	11.8	9.8	9.9
Electrical engineering	5.9	4.8	4.6
Construction and repair of motors, cycles, and aircraft	8.1	8.1	7.1
Shipbuilding and repairing	29.7	24.5	25.3
Stove, grate, pipe etc and general ironfounding	10.0	12.0	10.9
Electric cable, apparatus, lamps, etc manufacture	7.7	5.6	5.3
Cotton textiles	15.4	12.5	12.9
Wool textiles	11.0	12.0	15.5
Linen textiles	12.2	19.8	15.7
Hosiery manufacture	7.6	5.8	7.1
Tailoring	9.2	9.2	10.0
Dressmaking and millinery	6.2	5.9	6.1
Boots, shoes etc manufacture	11.3	13.4	15.5
Bread, biscuits, cakes etc manufacture	7.2	6.6	7.2
Drink industries	6.3	6.2	6.8
Sawmilling and machined woodwork	8.4	9.2	10.0
Furniture manufacture and upholstery	6.5	5.9	6.5
Printing, publishing and bookbinding	5.2	4.6	4.6
Building	11.1	13.9	14.3
Gas, water and electricity supply	5.4	5.8	6.1
Railway service	6.1	6.5	6.5
Tramway and omnibus service	3.7	3.1	3.1
Other road transport	11.8	11.7	12.0
Docks, harbours, canals etc service	24.5	29.1	30.7
Distributive trades	5.5	5.5	6.2
National government service	6.2	6.2	6.9
Local government service	8.2	8.6	9.6
Hotel, public house, club etc service	7.9	7.6	8.7
Laundry and dry cleaning service	4.1	3.8	4.3

Source: British Labour Statistics (1971) op. cit. Table 163.

The high level of unemployment was a reflection of the problem of international maladjustment which Britain was facing. Competitive industries had developed in Japan and countries e.g. India, which had previously been importers of British goods. These developments severely affected the cotton industry. Technological advances had changed the demand for fuel imposing strain on the coal industry. The iron and steel industry, and the shipbuilding industry had been expanded during the war and were not able to adjust to the changed situation<sup>(1)</sup>. The geographical and industrial distribution of the protracted unemployment gave support to the structuralist interpretation of the problem. The committee, set up by the first Labour Government to study industry and trade under the Chairmanship of Balfour, supported this interpretation of the evidence when it reported in the Spring of 1929<sup>(2)</sup>:

"the first step towards putting British industries in a position to compete successfully in overseas markets is to subject their organization and equipment to a thorough reconditioning process."

Others stressed the deflationary impact of the return to the pre-war parity.

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- (1) Some comentators have referred to the over optimistic expectations of industrialists who expected the wartime activity to be maintained in the post-war period. See the forthcoming history of Beardmores by J. Hume and Michael Moss to be published in 1978.
- (2) Report on Trade and Industry (1929) op. cit.

The general malaise in the economy can be seen from the indices of prices, wages and profits during the twenties. Except for profits there had been little movement in the indices since the large changes of the early twenties. Prices were gradually falling, wages were stationary and profits had recovered, though fluctuating somewhat.

Table 4

Prices, Wages and Profits in United Kingdom: 1920-1929

Year	Retail Prices	Wholesale Prices	Average Weekly Wages	Gross Trading Company Profits
	INDEX NUMBERS 1963=100			£M
1920	52	79	41	520
1921	47	50	40	267
1922	38	41	31	442
1923	37	41	28	478
1924	37	43	28	475
1925	37	41	28	450
1926	36	38	28	404
1927	35	36	28	461
1928	35	36	28	475
1929	35	35	28	499

Source: The British Economy Key Statistics 1900-1970  
London and Cambridge Economic Service  
Times Newspapers. London 1973.

Re-examination of the statistics has drawn attention to other dimensions of the economy which were more encouraging than unemployment: the growth of the labour force, the gross domestic product and output per man year all showed modest growth. (1)

(1) Aldcroft and Richardson (1969) op. cit.

Table 5United Kingdom

Employment, Gross Domestic Product and Output per man year 1920-29

Year	Gross Domestic Product	Output per man year	Number in Civil Employment
	INDEX 1963 = 100		
1920	46	59	19.01
1921	40	59	16.73
1922	43	63	16.95
1923	44	63	17.32
1924	47	66	17.56
1925	49	68	17.74
1926	47	67	17.32
1927	51	69	18.32
1928	51	69	18.41
1929	52	69	18.71

Source: The British Economy Key Statistics 1900-1970 (1973)  
op. cit.

Comparisons have also been made in the relative growth rates of the British economy and other industrialised countries. <sup>(1)</sup>

Aldcroft uses average growth rates to indicate that in the twenties the British growth rate was very low but compared favourably with other countries during the thirties. These comparisons are difficult to evaluate because the cyclical patterns in the various countries did not coincide and the averages are highly sensitive to cyclical changes. There is, however, little doubt that the British economy was far from its full employment growth path during the twenties and the thirties.

(1) For the re-interpretation of the slump in Britain, see D.H. Aldcroft, a 'Economic Growth in Britain in the Inter-War Years. A Reassessment', Economic History Review 1963; H.W. Richardson, 'The New Industries Between the Wars' Oxford Economic Papers 1961.

Table 6

Average annual rates of growth of industrialised production

Country	1920-29	1929-37	1920-37
France	7.9	- 2.8	3.4
Germany	7.6	3.0	5.4
Belgium	6.6	0.5	3.7
Canada	6.5	1.6	4.2
Italy	6.0	1.7	4.0
Sweden	5.0	5.4	5.2
U.S.A.	4.0	0.4	2.3
Denmark	3.2	4.0	3.6
Norway	2.4	3.3	2.8
U.K.	2.3	3.4	2.8

Source: Aldcroft (1970) op. cit. p.21Policy Options

The policy options available to deal with the problems of international maladjustment and the accompanying unemployment, given the acceptance of the gold standard, were to reduce the supply price of production, to stimulate demand or to impose controls to protect the domestic market.

Policies operating on the supply side were concerned with attempts to speed up the adjustment process which, given the acceptance of fixed exchange rates and in the absence of protection, occurs in the internal economy affecting wages and prices. As relative prices fall domestically produced goods become more attractive and economic activity increases in response to the increased demand. The success of such policies depends firstly, upon the ability to change domestic wages and prices; secondly upon the relative responsiveness or

elasticities of home and foreign demand with regard to changes in prices; and thirdly upon the way in which the changes in the level of activity internally and externally affect the trading patterns.

Policies attempting to stimulate expansion by affecting the aggregate demand in the economy were of three kinds. One, based on the quantity theory of money, relied upon the stimulatory effect of changes in the supply of money on prices and output. The second type of expansionary policy was based upon the under-consumptionist theories relying upon changes in the distribution of income or consumer credit to raise internal demand and industrial expansion. The third policy attempted to generate increased demand by government participation in investment on public works programmes.

Public works have a long history but became the focus of contra-cyclical unemployment policies at the turn of the century when they were recommended in the Minority Report of the Royal Commission on the Poor Laws largely as a result of the works of the Webbs and Bowley, and were later advocated by Cole<sup>(1)</sup>. The policies recommended shifting the time profile of public works to take advantage of slack periods of trade and so maintain a higher level of employment. The concept had been developed

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(1) Skidelsky (1967) op. cit. Winch (1969) op. cit.

during the formulation of the Liberal party proposals into an expansion creating tool capable of initiating recovery. The method relied upon the generated stream of income causing an increased demand for labour. The extent of the impact would depend upon the size of the induced effect of the investment upon the income stream which became known as a multiplier effect. The other expansionary policy, deficit financing was not advocated during the period as the balance of the budget was an objective and not a policy instrument<sup>(1)</sup>.

Protection was aimed at insulating the internal economy from the effects of the international maladjustment by securing a domestic market for the products of industry: the protective effect; or raising revenue to ease the budgetary position: the revenue effect. The success of these policies depends upon the relative elasticity of demand and supply of the goods traded and the effects of the resulting trading patterns upon the level of activity on the economies concerned.

There was also the possibility of intervention in the internal labour market to affect the distribution of employment and deal with structural adjustment by retraining and internal and external migration.

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(1) See Robbins (1976) *op. cit.* and H. Dalton, Call Back Yesterday Memoirs 1887-1931. Frederick Muller, London (1953) for discussions of the development of deficit financing.

On the international scene there was the possibility that co-operative action of governments and central banks could have contributed to raising world prices and economic activity.

### Policy Portfolios

How did the political parties interpret the unemployment problem and what policies were suggested to solve the problem?

The Conservative and Labour Parties adopted a structuralist interpretation of the unemployment problem and thus concentrated on adjustment aspects of policy. But whereas the Conservative Party was to rely upon aids to industry and protection to provide the environment for adjustment; the Labour Party planned to reorganize the basic industries from "top to bottom". The Liberal Party and sections of the Independent Labour Party and the trades unionists and industrialists involved in the Melchett-Turner talks attributed at least part of the malaise to the lack of effective demand in the economy and supported expansionist policies.

Study of the policy documents indicate that the policy proposals included incompatible objectives which would place severe limitations on the unemployment policy of all parties. The dual constraints of the maintenance of the gold standard and the concept of the balanced budget were common to all parties. Free trade was a further constraint upon the policies of the Labour and Liberal parties whilst the Conservative Party the Independent Labour Party and the joint working party of

trades unionists and industrialists were less doctrinaire. In addition the Conservatives were enmeshed in the 'Treasury View' which emerged as a restraining factor in policy formulation. The Labour Party were also constrained by attitudes on income distribution.

The Conservatives, recognizing the basic problem as one of mal-adjustment, attempted to solve the problem by attacking wages and prices but the unpopularity of these measures and some uneasiness about their effectiveness led to the adoption of policies to aid industry by tax concessions and protection. They were to maintain a modest public works programme about which they were increasingly doubtful especially after the publication of the Balfour Report. Attempts were made to adapt the policy to facilitate adjustment by transfer of labour from the depressed areas. There were elements in the Conservative party who were advocating more radical policies but with the acceptance of the 'Treasury View' in the pre-election period it is doubtful whether these ministers could have influenced policy.

The Labour Party's policies were directed to the problems of the basic industries which were to be restored to their former status by reconstruction but until this was achieved a programme of public works would be developed to absorb the unemployed and refurbish the economy. In addition early retirement, raising of the school leaving age and migration were advocated to reduce the supply of labour.

The Liberal Party saw the problem as the failure of capitalism which was to be remedied by state intervention. This intervention was to involve the state in refurbishing the economy by national reconstruction which would improve the efficiency of industry as well as being a dynamic and self-sustaining mechanism which would cure structural and cyclical unemployment at the same time.

The fringe groups saw the problem as one of lack of effective demand and recommended compensatory monetary policy, consumer credit, public works and protection as the major strategies to remedy unemployment.

We can now consider the development of these policies in more detail.

### The Policy of the Conservative Party

#### Introduction

The Conservative Party had the advantage (or disadvantage) of being the government in office at the time of the 1929 election: thus the policies which they advocated were tempered by their experience of the previous four years. The Conservatives by now accepting the structuralist interpretation of unemployment had, in the months preceding the election, re-examined policies concerning unemployment including the proposals of their political opponents as put forward in the documents of the Liberal Party<sup>(1)</sup> and the

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(1) We Can Conquer Unemployment, (1929) op. cit.

## Melchett-Turner Reports (1).

Although the Conservative party was not united about the policies which they should pursue in order to deal with the unemployment problem, the prevailing philosophy of the party was such that their strategy depended upon the revival of trade, "the basis of all prosperity". The unemployment policies were derived primarily from the Conservatives policies to stimulate trading activity.

Adjustment

The first approach of the Conservative administration had been to adjust wages and prices. This is indicated by Baldwin's remark:

"All workers of this country have got to face a reduction of wages." (2)

The attempts to reduce the wages of the miners, after the return to the gold standard, culminated in the General Strike. The pressure on wages was felt particularly in the export industries, eg coal and cotton, which had suffered by the changes in the patterns of trade.

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(1) Interim Joint Report of the Conference on Industrial Reorganization and Industrial Relations (1929) op. cit.

(2) S. Baldwin, July 30th 1925. Quoted from Revolution by Reason. Oswald Mosley, I.L.P. London 1925.

Keynes had much to say about this topic during 1926/27. He took the view that a few industries were having to bear the brunt of the adjustment for society as a result of the return to the pre-war parity.

"On the grounds of social justice, no case can be made out for reducing the wages of the miners. ...."

"They are the victims of the economic Juggernaut. They represent in the flesh, the 'fundamental adjustments' engineered by the Treasury and the Bank of England to satisfy the impatience of the City Fathers to bridge the 'moderate gap' between £4.40 and £4.86. They (and others to follow) are the 'moderate sacrifice' still necessary to ensure the stability of the gold standard". (1)

By 1929, although wages continued to fall, policies involving wage reductions had lost much of their appeal, partly because of their doubtful political feasibility and partly because of the suspicion that there was a relationship between the purchasing power, a large portion of which was wages, and aggregate demand<sup>(2)</sup>. Instead, attention was paid to costs in general. Internal costs were seen to be the problem by the Government and the Treasury.

"The principal cause of the problem is to be found in the fact that in many branches, particularly of heavy industries, ..... costs of production (turning upon the organisation of both capital and labour) still tend to be

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(1) J.M. Keynes: The Economic Consequences of Mr Churchill, Hogarth Press, London (1925), quoted in Harrod R.F. The Life of John Maynard Keynes. Macmillan, London 1951. p 361 also The Times 4th Sept. 1925

(2) See Introduction above for discussion of under-consumptionists. p.14.

excessive and that these difficulties cannot be solved till these costs have been placed on a competitive level." (1)

A more general approach to costs is then advocated:

"There was a time when perhaps a reduction in the costs of production was looked upon as largely synonymous with the reduction of wages. In present conditions, it must be sought in the improved organisation and efficiency of all elements of industry, in the adjustments of businesses of the country to the changes that have taken place in world demand and in the supplies from different countries and in all that is implied in the term 'rationalization'. (2)

What then were the policies advocated for the reduction of costs and the increase in efficiency? Until 1927 the Conservatives had administered the Trade Facilities Act (3) which gave aid to industry to undertake reconstruction plans which could not be financed otherwise. In 1927, those policies changed somewhat. Attempts were now made to stimulate and encourage private industry by relief of burdens rather than aid. To this end, the rating system was revised in such a way that it was alleged that the whole of productive industry was relieved of three-quarters of the burden of rates and there was also a reduction in the costs of railway and dock freight (4).

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- (1) Memorandum on Certain Proposals Relating to Unemployment. H.M.S.O. London. Cmd. 3331, May 1929.
- (2) ibid., p. 361.
- (3) Trade Facilities Act under this scheme, cheap Government credits were given as an inducement for firms to accelerate capital developments.
- (4) Craig (1975), op. cit. p. 45. Hicks op. cit. pp. 57/58.

The success of this policy depended upon the ability of reconstruction to reduce prices and also upon the extent to which businessmen would in periods of uncertainty be responsive to changes in tax burdens.

### Protection

Attempts, in 1923, to introduce protectionist measures had been rebuffed by the electorate but a modified programme of protection was still proposed. Dogma on international trade did not constrain the Conservative Party. Though there was deep dissension within the party on this matter, the differing views were reconciled in the manifesto by the rejection of the idea of a general tariff or a protective duty on food and the advocacy of the use of safeguarding duties and imperial preference. They were prepared to cushion some of the adjustment problems by economic controls. The 'safeguarding duties' were regarded as a great success:

"not only has employment been improved in every one of the safeguarding industries but coal, steel and engineering and building, transport and other industries have profited by the orders and work created. The employment thus given directly or indirectly has put thousands of men at work, has increased their purchasing power, and has thus benefited the distributive trades. In many cases prices have been reduced because costs of production have fallen with increased output. (1) Exports over the whole range of dutiable articles have materially increased; efficiency has been encouraged; new capital has been introduced; new factories have been built and existing factories have been extended." (2)

Even so, the number of the industries protected by duties was small and the general tariff has been estimated as being

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(1) They did not even contemplate this as a possibility which might occur generally with increased demand.

(2) Craig (1975), op. cit. p. 45.

approximately 5%<sup>(1)</sup>. This policy would probably have been extended. The iron and steel industry had been promised permission to apply for a safeguarding tariff if the Conservatives were re-elected<sup>(2)</sup>.

There was great regard for the "Empire" and thus a general sympathy for policies to further links for mutual benefit. Policies in this sphere led to argument for Imperial Preference, the financing of colonial development and the encouragement of settlement in the colonies of British nationals:

"no question is so fateful for the destiny of the British Commonwealth of Nations as a proper distribution of the people of British stock throughout its territories." (3)

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- (1) Britain's Industrial Future being the Report of the Liberal Industrial Inquiry, Ernest Benn, London, 1928.
  - (2) CAB 23 60 CM 5(29) 7th February 1929. The request had been an embarrassment to the Government who were reluctant to submit the industry's application for safeguarding for consideration.
  - (3) Mr Baldwin's Election Address The Conservative Party (London) 1929.

Public Works

Whilst relying basically upon the stimulation of trade they were also at some pains to improve the industrial fabric. The road development programme was an important aspect of this policy. The Government was spending a considerable amount; £20M a year, on roads. They were proud of this record and boasted of having the greatest expenditure on roads of any trading nation. The approach to public works programmes had changed considerably over the period. The continuing problem of the 'intractable million' tended to cast doubt upon any cyclical explanation of the unemployment problem and thus any predominantly cyclical solution. Structural explanation gained ground especially after the publication of the Report on Trade and Industry<sup>(1)</sup> and public works programmes were questioned; previously they had been thought to be justified because they,

"filled the conception of the unemployment problem but this conception had been abandoned." (2)

The 'Treasury View' began to intrude on this issue and the emphasis of the public works programme was now directed at improvements which would give immediate assistance to trade and bring:

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(1) Report on Trade and Industry, Cmd 3282 (1929) op. cit.

(2) Hansard 15th April, 1929. Churchill's budget speech. vol 227 6/5

"a full return to the money expended, rather than to put in hand hasty and ill-considered schemes which could only lead to wasteful and unfruitful expenditure, and would be of no permanent benefit to the unemployed." (1)

### Monetary Policy

The Conservative policy on monetary matters was determined during this period by the Treasury ambition to reduce the floating debt, and Churchill's anxiety about the effect of bank rate on unemployment which reflected his growing sensitivity to the criticisms of his policy from Keynes and McKenna<sup>(2)</sup>.

### Alleviation of Distress

Conservative policy had little to offer regarding the alleviation of distress but support of the Lord Mayor's Distress Fund<sup>(3)</sup> and the postponement of the operation of the 1927 Act with regard to the 30 contributions rule<sup>(4)</sup> in spite of the financial problems facing the insurance fund. The policies were basically to facilitate the migration or transference of labour and to provide

(1) Craig (1975) op. cit.

(2) Howson (1975) op. cit.

(3) New Statesman, December 22nd 1928. The reaction to the Government's contribution to the Distress fund is:

"The Government has done precisely what we feared that it would do and has given to the beggarman from the coalfields sixpence to go away. Presumably Mr Baldwin and his colleagues will now eat their Christmas dinners in peace, sure in their minds that they have acted according to the best principles of Christmas charity!"

See Chapter Two for the Labour Administrators' handling of this problem.

(4) The rule that thirty contributions were a necessary qualification for unemployment benefit.

retraining opportunities. This policy was another facet of the acceptance by the late 20s that the problem of unemployment was structural, and to this end, schemes were set up to deal with the removal of labour from depressed areas (See Table Two on the Regional Distribution of Unemployment), where industries were thought unlikely to recover, to less 'disadvantageous' regions. This work was undertaken under the auspices of the Industrial Transference Board who were pleased with their results.

"In 8 months, the Ministry of Labour has transferred about 20,000 persons of all ages ... Perhaps another 8,000 have transferred themselves." (1)

But 30 or even 40 thousand transfers in a year could hardly make any improvement on the employment problem which they were facing. It became ineffective as the generalised nature of the unemployment problem led to the lack of jobs for trainees. The scheme was also criticised by the unions.

#### Conservative Dissension

The Conservative Party was far from satisfied with or united about its unemployment policy. On 10th October, 1928, the Prime Minister appointed an Inter-Departmental Committee with the

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(1) Memorandum on Certain Proposals relating to Unemployment, p.17  
HMSO Cmd 3331, 1929

following terms of reference:

"To examine and report to the Cabinet on:

- (a) the probable extent of the unemployment during the coming winter;
- (b) what special measures may be possible to supplement existing arrangements for dealing with the problem." (1)

The Committee was set up under the chairmanship of Sir Warren Fisher, Secretary to the Treasury and reported on 5th November<sup>(2)</sup>.

The Report differed from the previous schemes in that it contemplated the attraction of labour from the distressed districts to areas of better employment where the workers would have an opportunity for obtaining permanent employment. On the basis of this report, the report of the Cabinet Committee and the Memorandum of the Secretary of State for Dominion Affairs regarding overseas development the Government formulated its revised unemployment policy. This was to consist primarily of rating relief to come into effect on 1st April and the reduction of railway freights from 1st December<sup>(3)</sup>. In addition, they were to encourage the policy of land settlement and transference facilities by offering on more favourable terms grants to local authorities accepting transferred workers.

(1) CAB 27 378 DU 28(1).

(2) CAB 27 378 CP 325 (28); 23 59 49 (28).

(3) New Statesman, 17th November 1928:

"the gist of the Government's reply to its critics is that until the highly problematical chickens of derating come home to roost there is nothing more that can be done."

In the Cabinet meeting of 23rd January 1929,<sup>(1)</sup> a memorandum from the Minister of Labour, A. Steel-Maitland, was discussed. The Minister stated that he was not satisfied with the way the proposals were coming forward from local authorities under the scheme announced in November. He raised the question of the £8M road scheme which had been rejected by the Cabinet in November and asked that the position should be reconsidered. The Chancellor of the Exchequer, Churchill, was against the idea of reopening the road scheme already rejected by the Cabinet. Giving details of additional expenditure from relief of unemployment of nearly £7M over 15-16 months, he protested against additional expenditure at a time when the end of Winter was approaching. The increased grants to local authorities were announced as a compromise.

A few weeks later, 26 February<sup>(2)</sup>, the Cabinet had before them no less than four memoranda on employment, from the Home Secretary, the Minister of Labour, the Chancellor of the Exchequer and the President of the Board of Trade. The Home Secretary was most despondent about the way the Government was dealing with the unemployment problems and advocated imperial development and migration. The President of the Board of Trade recommended amalgamations within the coal, cotton and iron and steel industries to be aided by provision of capital by the Government.

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(1) CAB 23 60 2(29)

(2) CAB 23 60 9(29); CAB 24 201 CP 27, 37; CAB 24 202 CP 53 57 (29).

The Minister of Labour was less despondent than the Home Secretary but he too recognised that many persons were anxious to see the Government do something 'dramatic' and of 'national importance'. He considered that a prosperity or welfare index number would indicate that the average working man was better off than at any time in the country's history. Unemployment, he regarded as a deep seated problem which could only be overcome gradually. Most of it was unemployed miners, and it was partially

"due to the criminal lunacy of the coal strike with the consequent wastage of capital and decrease of purchasing power in other industries besides coal." (1)

He was prepared to advocate action if the proposals were business-like. Only the road programme appeared to fill the bill. He was prepared to question some fundamental aspects of government economic policy: including monetary expansion and consumer credit. Underconsumptionist views were causing some anxiety and uncertainty even amongst the Conservative Ministers, for he concluded by asking a number of questions related to monetary and fiscal policy which are paraphrased:

- (1) was it possible to give a fillip to trade or did orthodox theory of credit forbid?

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(1) CAB 24 201 CP 37(29).

- (2) was consumer credit feasible: people wanted work and goods?
- (3) although he supported the return to gold, he asked whether anyone foresaw that the workers would be so resistant to a reduction in the nominal wage rate?
- (4) was a rise in the Bank Rate inevitable? Could experts give advice?

He asked Cabinet to consider:

- (1) "Have we or our predecessors, the governments of 1921, 23, 24, left undone anything that might wisely have been done in relief of unemployment without doing violence to the settled financial policy of the country?"
- (2) "Has that policy dominated our actions unduly and prevented us from adopting ameliorative measures which would have reduced the numbers unemployed and if so is it expedient to continue to acquiesce in that domination?" (1)

If Steel-Maitland was willing to question the very basis of the Government's policy, Churchill was not:

"I do not advise my colleagues in the closing months of a Parliament and possibly an administration, to challenge the basic arguments upon which our monetary policy stands." (2)

Churchill felt that conditions had improved, in spite of the great strike period, but he felt that the country allowed itself to be demoralised by weekly figures of unemployment which were a 'special culture' developed from the extension of the unemployment

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(1) ibid.

(2) CAB 24 202 CP 53 (29).

insurance scheme and not a measure of national conditions. The unemployment figures should be the subject of quarterly reviews in which employment figures should play an equal part with unemployment and the cost of living and the population. In spite of these problems he noted that the indicator showed unemployment to be lower than when they were elected to office:

"over 200,000 of these are so-called miners - mainly surface or auxiliary labourers-who have been wisely shed from the purged and partially re-conditioned coal industry." (1)

Churchill also expressed the hope that the party would not be

"drawn by panic or electioneering into unsound schemes to cure unemployment and divert national credit and savings from the fertile channels of private enterprise to state undertakings mainly for political purposes." (2)

Accompanying Churchill's comments was a note, prepared by the Treasury on the Memoranda of the Home Secretary and the Minister of Labour in which the possibility of development loans facilitating employment was discussed:

"in all cases the question is whether £1000 spent by the Government will give more employment than if £1000 had been left for the public to spend. This will only occur if the Government is skilful enough to find ways of spending £1000 which give more employment than the spending by the public." (3)

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(1) ibid.

(2) ibid.

(3) ibid.

Such statements of the 'Treasury View' were to dominate the debate in the next few months.

The most that could be offered was an £8M programme over 3-4 years which had previously been rejected by the Cabinet in November. The results of such a programme were expected to be meagre compared to the results of the Government's policy of rate and tax reductions. The problem of the gold standard and the reasons for the adjustment being greater than expected are discussed in the memorandum. The adjustment problems were considered to be greater than had been anticipated by the Bradbury Committee because:

"the American price level instead of rising to meet us fell slowly but steadily throughout 1925-26 necessitating a much greater restructuring of our price level than had been expected, in order to maintain parity." (1)

It was considered that there would have been unemployment even if there had not been a return to the gold standard as depreciation was disguising the defects of management and equipment.

Such schemes as consumer credit were considered to be appropriate for a self-sufficient country such as U.S.A. but not for Britain,

"where both the level of prices and the volume of credit must be regulated with constant regard to international as well as national factors." (2)

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(1) ibid.

(2) ibid.

The Cabinet was too busy to consider the memorandum which was referred to a Cabinet committee and was subsequently overtaken by events.

Matters did not rest there, Later in March a new memorandum was before the Cabinet, 'An Employment Policy for the Election', a Memorandum by the Secretary of State for Dominion Affairs, L.S. Amery<sup>(1)</sup>,

He considered that the public was demanding a definite and effective employment policy even though no one expected them to compete with Lloyd George's extravagant schemes. The method of financing and the timing of the scheme was regarded as crucial. He suggested that there should be no more taxes or loans but a reduction of the normal provision for debt redemption. He thought that this would be no worse than a loan to financial purists but less expensive to the sinking fund than an ambitious loan programme.

"Mr Snowden will sneer, but the sneer will be on the wrong side of his mouth, for the public will be quite indifferent to anything but the actual positive measures we propose. As for the City, it knows quite well what the alternatives are and will control itself, outwardly, with a shake of its head, and with unfeigned inward relief, if we have produced a policy that will help trade and keep us in." (2)

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(1) CAB 24 202 CP 87(29).

(2) ibid. Debt redemption at this time had been placed on a contractual basis and very little of the sinking fund payments were adjustable without legislation to change the provision. Janeway (1971) op. cit. 70-74; see above p 27a

He considered that the derating scheme had relieved industry generally, and the older established industry in particular, of an unfair burden and that, safeguarding apart, there was little more to be done for them. What of the newer industries? The motor industry was a key industry though only an infant industry, producing only 1/18th of American output. The output could be quadrupled if cars were used as freely as in America. The tax, (horse power tax) stopped this.

"No artificial measure could give anything approaching the increased employment and largely skilled employment as the abolition of a tax which is almost as prejudicial to expansion on the modern scale as the old law compelling a man with a red flag to walk in front of any mechanically drawn vehicle." (1)

The Memorandum of the Secretary of State for Dominion Affairs was before the Cabinet on 26th March, 1929<sup>(2)</sup>, but there was no time to discuss it and it was to be raised after the Easter recess. It too was overtaken by events in the form of the publication of the Liberal Party's proposals and the Interim Report of the Melchett-Turner Conference.

In addition to these ministerial reservations there were a group of Conservative Members of Parliament, similarly disappointed with the progress of unemployment policy. This group included

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(1) ibid.

(2) CAB 23 60 13(29).

Harold Macmillan, Robert Boothby, Oliver Stanley, Duff Cooper and John Loder. Their views were published in a book, entitled Industry and State, 1927<sup>(1)</sup>. They advocated much greater intervention in industry and a more sympathetic approach towards the unemployed. Their attacks in Parliament had contributed to the postponement of the enforcement of the thirty contributions rule in the administration of the Unemployment Insurance Fund.

### The Policy of Political Opponents

On 14th March, the Inter-Departmental Committee was re-convened for the purpose of the examination of and the preparation of memoranda on the recommendations contained in the pamphlet, "We Can Conquer Unemployment"<sup>(2)</sup>, and the Melchett-Turner Reports<sup>(3)</sup>.

The Committee met and allocated the various recommendations suggested in these documents to the appropriate departments for examination and comment and asked that the memoranda should be sent for collation not later than 28th March to Mr. Fraser at the Treasury. There do not appear to have been any further meetings of the Inter-Departmental Committee to consider these reports or the memoranda which the departments produced. The

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- (1) Harold Macmillan et al Industry and Trade 1927, and also see Harold Macmillan op. cit.; R. Boothby I fight to live Gollancz 1942. L.S. Amery My Political Life, Hutchinson 1955. A. Marwick, "Middle Opinion in the Thirties: Planning, Progress and Political Agreement", English Historical Review; 79 (1964).
- (2) Liberal Party (1929) op. cit.
- (3) Conference on Industrial Reorganisation and Industrial Relations (1929) op. cit.

memoranda were sent to the Prime Minister on the 2nd April with an accompanying letter from Sir Warren Fisher<sup>(1)</sup>.

This letter no doubt had as great an impact on the Government as the memoranda:

"My Dear Prime Minister,

The notes which by your instructions have been prepared by the Departments concerned on the subject-matter of the pamphlet, "We can conquer Unemployment" and of the Melchett-Tillett, "Report on Unemployment" are now available, for your consideration. As was your wish, these notes represent the views and experience of the various officials who would have the actual business of giving effect to the proposals contained in the two documents; no sort of pressure, one way or another, has, of course, been put upon these gentlemen and where their views differ, there has been no attempt to slur or minimize such differences.

There is one point that I should like particularly to emphasize in connection with the pamphlet "We can conquer Unemployment", and that is that the timetable within which the programme it outlines is to effect its object necessitates the substitution of autocracy for Parliamentary Government.

The wartime D.O.R.A. would have to be restored at once; and the Government of the day would have to be entrusted by Parliament with absolute powers in a variety of matters. There must be powers for immediate compulsory acquisition and occupation of land: there must be power to over-ride local authorities: there must be such measures of industrial conscription as the enforced movement and engagement of some types of labour to the exclusion of other types desiring to volunteer; and, as a likely corollary of industrial conscription, control of the profits of the contractors and others benefitting directly or indirectly from the artificial diversion of the channels of normal trade.

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(1) CAB 24 203 CP 104 (29).

Even if a Mussolini regime could be proved to be desirable for the 'war' against unemployment, speaking as an ordinary British citizen, I do not believe for one moment that the country would stand it. The full rigour of D.O.R.A. was tolerated during the war because 100% of the population felt themselves to be in urgent danger of something infinitely worse; today 90% of the population have more material happiness and amenity than in all our previous history and sad though the plight of the other 10% is realized to be by those of us who know, the 90% would never, even on that account, acquiesce in full peace time in a bureaucracy invested with such wide and arbitrary powers.

Yours sincerely,

N.F. Warren Fisher" (1)

In his introduction to the report, Sir Warren Fisher drew attention to the differences of outlook between the reports. The Melchett-Turner report, he considered to be industrial based upon reorganisation of industry; whilst the Liberal Party pledge was seen as the generation of employment by state activity pending restoration of normal conditions.

The memoranda were exhaustive and generally critical on both practical and theoretical grounds. The section dealing with the Liberal pledge consisted of twelve chapters containing reports from the Ministry of Labour, the Ministry of Transport, the Department of Inland Revenue, the Ministry of Health, the Department of Health for Scotland, the Post Office, the Department of Agriculture, the Development Commission and the Forestry Commission and the Treasury. The practical difficulties of undertaking a programme on such a scale was severely criticised especially aspects of the road programme.

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(1) ibid.

The possibility that such schemes might affect the aggregate level of activity in the economy was spelt out in some detail in the memorandum from the Treasury. The reaction to the Melchett-Turner report was also rather negative. That which was seen to be of value was either already being done or was not the responsibility of the Government; e.g. placing of orders with government departments and rationalisation. Other schemes were thought not likely to make an effective contribution to unemployment policy, e.g. early retirement, development schemes and raising the school leaving age. The suggested monetary explanations for the cycle were discarded along with any form of control over the Bank of England. These reactions were perhaps to be expected from departments which had already been involved in endless exercises exploring possible unemployment policies and whose opinions had become firmly established.

On 17th April <sup>(1)</sup> the Minister of Labour proposed that a Cabinet committee should be appointed to prepare, on the basis of the Inter-Departmental Report, a memorandum for ultimate publication as a white paper but the Cabinet did not agree. Instead, it was decided that the use of the material in the reports should be the responsibility of the cabinet minister concerned who should not, in any case, refer to the document publicly. A few weeks later, on the 1st May, the Cabinet <sup>(2)</sup> was informed that reports had leaked out that the Inter-Departmental Committee had reported in

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(1) CAB 23 60 17(29)

(2) CAB 23 60 19(29)

favour of Lloyd George's schemes. At the next meeting<sup>(1)</sup> it was decided that large parts of the report could not be published without being detrimental to the civil service. It was decided that four sections under the names of the Ministers involved and the Postmaster General should be prepared. This was done and the Memoranda<sup>(2)</sup> were published and contributed to the pre-election debate. The publication of the report was criticised especially by the left wing press. The New Statesman dubbed it a 'propagandist pamphlet' and considered,

"This use of the resources of the Stationery Office for the purpose of party propaganda is quite unjustifiable and sets a highly dangerous precedent . . . . Not only has it published its own partisan opinions of the Lloyd George's scheme at the State's expense it has also made the most important branch of the Civil Service - the Treasury - a party to its private electioneering strategy." (3)

The first point made in this memorandum by the Minister of Labour is that not all persons on the 'live register' would be willing or able to accept the employment offered by the scheme, after adjustment for those of the unemployed who were inappropriate for the suggested works, i.e. women, girls and boys under 18, the temporarily stopped and casual workers and the highly skilled workers. The Minister came to the rather extraordinary conclusion that there was not enough labour available for the schemes unless they were attracted from elsewhere by higher

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(1) CMD 3331 (1929) op. cit.

(2) New Statesman, 18th May 1929.

(3) CAB 23 60 20(29).

wages. A remarkable view given the evidence of disequilibrium in the labour market. Was there so little unemployed labour available at the going wage rate? Was the 'mis-match' problem so acute?

The Minister of Transport, Wilfred Ashley, thought that the plans were not practical in a democracy.

"The plan, it is true, postulates, emergency powers. But obstacles to any such concentration of work as it proposes are, short of dictatorship, insuperable whatever powers of overriding private interests and the autonomy of the local authority were obtained." (1)

The maximum employment provided was likely to be less than that estimated and was unlikely to be more than 5,000 per £LM spent because there was already under-employment in quarries, etc. The implication of this factor upon prices was not considered. Such development might have been crucial for if employment could be increased without changes in prices a major obstacle to the acceptance of the policy would have been removed. They also said that much of the work was not additional to work already being carried out.

The memorandum by the Minister of Health was very defensive about the achievements of his Ministry and critical of many aspects of the proposals, e.g. the estimates of housing needs, the provision of subsidies and the failure to provide a scheme of compensation

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(1) ibid.

for slum properties. He also questioned the increase in employment. The Memorandum contains the very odd assertion:

"In January 1929, the 19.9% unemployed in building compares favourably with 31.2% in the docks, etc." (1)

The Postmaster General examining the schemes for expansion of telecommunications, states that the failure of demand rather than any lack of plant and equipment was retarding the growth of the industry. He also criticised the estimates of expected indirect employment generated by the schemes because of the high import content of the equipment. The impact on imports was very much neglected in the early discussions of the potential of public works programmes to generate employment. When it was mentioned it usually referred to the import content in specific projects. The aggregative concept of the propensity to import was developed later.

The Memorandum concludes with a reiteration of the 'Treasury View!' The financial implications of raising £125M over two years are considered. The proposed diversion of investment funds from abroad is seen to be difficult.

"We, obviously, could not compete with the temptation offered by the capital appreciation of the American Share Market - or with the 8% time or 12% call rate which it offered for brokers loans!..... Mr Keynes in his article in the 'Evening Standard' frankly admits that "it will be

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(1) ibid.

necessary to offer a rate of interest which will compete with foreign borrowers" ..... "We can, in fact, only prevent funds going abroad by offering the inducements of higher rates at home, and the harm that such rates would inflict on trade and employment would certainly counter-balance any benefit they got from directing funds from foreign to home investment." ..... "To this prospect there is no alternative under the plan in the pamphlet, unless it is intended to impose a drastic control over the direction of investment." (1)

As to the utilisation of 'frozen savings' or 'idle balances', it concluded that owing to the requirements of the holders, they could not be used for long term investments.

"It is true enough that money lent to the banks on time deposit is used by the banks to grant short term advances or credits. It is a far cry from this proposition to the lighthearted assumption that the issue of full Government securities would suffice to attract this money from time deposits into long term investments." (2)

It is their opinion that:

"the additional £125M a year required for new state or local authority borrowing could not be found without impinging on the supply of capital for other home requirements." ..... "The large loans, if they are not to involve inflation, must draw on existing capital resources. These resources are, on the whole, utilized at present in varying degrees of active employment; and the great bulk is utilized for home investment and commercial purposes. The extent to which any additional employment could be given by altering the direction of investment is, therefore, at the best strictly limited. But the direction of investment can only be altered if we are prepared to offer sufficiently high money rates to counteract the attractions offered. If, however, we do so, the damage done to home trade and employment by the imposition of such high rates would undoubtedly be much greater than any benefit they could obtain from the

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(1) ibid.

(2) ibid.

funds that could thereby be diverted from foreign investment." (1)

The root of the problem is also examined:

"The principal cause of our problem is to be found in the fact that in many branches, particularly of our heavy industries, costs of production (turning upon the organisation of both capital and labour) still tend to be excessive and that these difficulties cannot be solved till these costs have been placed on a competitive level ..... If Mr McKenna is right that time deposits are growing extensively, the main reason is probably that our costs of production keep orders away, and in default of orders, our manufacturers are unable or unwilling to replace their plant or build up for fresh developments. But if this is the main source of our difficulties the loan programme of the pamphlet would do nothing to remove it and if it led to a rise in our internal price level it might in the long run make matters worse. At the very highest, any scheme of this kind is but a palliative, which would produce only a temporary improvement. The ultimate remedy for unemployment is not to be found in such measures. It must be solved by reducing the costs of production and the cost of living." (2)

Having made this assertion we get a guarded statement about how this is to be brought about.

"There was a time when perhaps a reduction in the costs of production was looked upon as largely synonymous with reduction in wages. In present conditions it must be sought in the improved organisation and efficiency of all elements of industry, in the adjustments of the business of the country to the changes that have taken place in world demands and in the supplies from different countries and in the improvement of our selling methods and in all that is implied in the term 'rationalisation'. In the

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(1) ibid. See note on present state of American capital market - where the 'Treasury View' now referred to as 'crowding out' is discussed. Times Feb 25 1976. For foreign investment during the period see Williams Economic History Review 1963. Aldcroft op. cit. Chapter 8. Appendix.

(2) ibid.

mean while, the procedure proposed in the pamphlet tends to encourage British industry and labour in false hopes and, thereby, prevent the steps from being taken which would lead to recovery." (1)

Thus in their view not only were the demand remedies likely to be ineffective in increasing aggregate activity they were likely to have bad effects in so far as they were likely to increase rather than decrease the supply price.

### The Campaign

The evidence compiled by the Inter-Departmental Committee added further support for the policies which the Conservative Party had already specified, i.e. safeguarding, de-rating and a modest public works programme. Certain modifications were made to Baldwin's address to ensure consistency. There were changes in the section headed 'Training and Public Works'.

"A further substantial contribution to the relief of unemployment has been the greatly increased programme of public works which has been carried out during these years, involving commitments in cash and credit to the amount of over £400M.

It was pointed out that the above paragraph was inconsistent with the Treasury contention that public works would only be carried out by taking money from the aggregate sum available for expenditure, and which would in any event have been used to give some form of employment".(2)

The paragraph was subsequently redrafted and appeared as:

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(1) ibid.

(2) CAB 23 60 CP 20(29)

"we shall steadily expand our training system as the need requires and we shall continue to provide money for public works with due regard to the needs of the industry when the use of public money is necessary." (1)

Thus, now firmly adhering to the 'Treasury View', the Conservative Party approached the electorate. There had been some slight improvement in the economy in which they took comfort as they entered the election under the slogan of 'safety first' and their record of the previous four years. During which time:

".... recovery has been achieved by the combined efforts of our people assisted by the government's policy of helping industry to help itself. The establishment of stable conditions has given industry confidence and opportunity." (2)

They were not alone in singing their praises: 'The Times' thought that the Conservative administration had been the best for 50 years<sup>(3)</sup>.

The New Statesman, did not share this view, considering that

"Seldom in history has a Government gone to the country with such a dull record and such a negative policy. Sanity, sobriety, tranquility safety these are the poppy

- (1) CAB 23 60. CP 20(29).
- (2) Craig (1975) op. cit.
- (3) The Times 5 June 1929. See also current interpretations of the period by economic historians and economists which have tended to endorse the view that the late 20s were prosperous years: Feinstein, Domestic Capital Formation in the United Kingdom 1920-38; Susan Howson (1975) op. cit. p.32, Aldcroft and Richardson The British Economy 1870-1939; Lomax, 'Production and Productivity Movements in U.K. since 1900' Journal of the Royal Statistical Society 1929. Aldcroft (1970) op. cit.

heads which Ministers offer the electorate day by day and which the electorate day by day spits out with disgust." (1)

The Conservative Party manifesto's first section is headed 'The Empire' and an important aspect of their policy was concerned with Imperial Preference and the formation of the Colonial Development Fund. The second section was called 'Trade and Employment' and here safeguarding was their major policy accompanied by rating relief and the now very tentative schemes for development.

Some modest proposals were offered for improvements in social welfare and the importance of the training schemes was stressed.

The Conservative Party policy on unemployment though meagre was fairly consistent with their policy priorities. Its greatest strength lay in the underlying pragmatism of the party on issues like trade and budgetary policy. Whether safeguarding, possibly a small budget deficit and aid to industry would have made a more significant contribution to the problem than the policies of their rivals is a matter of conjecture. It is also doubtful that they could have maintained these policies for long given the growing adherence to the Treasury View; the criticism of the Churchillian budgetary management and the party divisions on trade. The policies were extremely modest and the time scale was entirely inappropriate given the problems which they faced. They appeared to have no conception of the scale of adjustment necessary to regain internal and external equilibrium or the time which such adjustments would take or in the event did take. They also failed as did most others, to contemplate the dynamic

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(1) New Statesman, 18th May 1929.

reactions to the process of adjustment.

### The Policy of the Liberal Party

#### Introduction

It is the policy which the unsuccessful Liberal Party offered to the country in 1929 which has received most attention in subsequent years, being central to the whole Keynesian debate. Whatever the subsequent academic merits of the policy programmes offered they must have appeared to the electorate as a foray into cloud cuckoo land. After years of suffering and growing despair, there was to be a miraculous solution. The policy had all the aura of a quack medicine advertisement, rather than a serious attempt to solve the problem, in spite of the hard work and ingenuity which had gone into the formation of the policy documents for over two years<sup>(1)</sup>.

Lloyd George's presentation must have added to this impression. Mill girls idle for months and years were to hear the 'wheels whirring'.

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- (1) a. Britain's Industrial Future: being a report of the Liberal Industrial Enquiry. Benn 1928.
- b. We Can Conquer Unemployment: Mr Lloyd George's Pledge. Cassell 1928.
- c. Can Lloyd George Do It? op. cit. (1929).

"He asked his audience to go with him in imagination to a household ..... a few weeks after the Liberal Government had come to power and he described the worker coming home, not pottering dejectedly from the Labour Exchange, but with a wage twice or three times the amount he was previously getting. It was the wife who had had the worry of distributing the 25/-; she would have the joy of distributing £3." (1)

The electorate was in no mood for fairy stories. But what did the Liberals really offer?

The prevailing philosophy of the Liberal Party, as formulated in the Yellow Book, was that of interventionist capitalism. It was felt that the economic order, in which the doctrine of laissez faire had had its origin, had passed away, yet the industrial system had not attained an adequate standard either of justice or efficiency. State interference in these conditions was necessary but they wished to steer a middle course between the state ownership of socialism and the harsh individualistic regime of capitalism.

The policies for intervention which were suggested were radical and wide ranging, including organisational as well as social change. These were to include the appointment of an economic general staff to provide a continual survey of national problems, and improved industrial relations which would be based upon a 'wise wages policy', security against dismissal and employee and consumer share holdings. The mining industry was to be

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(1) The Times. 10th May 1929.

reorganised and the Bank of England reformed.

### Monetary Policy

On monetary policy they recognised that the extent to which action was possible was severely limited since the return to the gold standard. But it was felt that even within these limits it was possible for the Bank of England to

"regulate the volume of credit, so far as possible, with a view to the maintenance of steady trade conditions." (1)

They even went as far as to support reforms to the Bank of England, which, short of nationalisation, would ensure that it would act as a national institution and 'not a piece of private property'. As to the gold standard itself, whilst they were critical of the timing and manner of the return, they saw no possibility of a major change of policy to reverse the decision. On budgetary policy, a balanced budget was advocated and criticisms were made of the Conservatives 'raiding the road fund'. They were committed to a large amount of loan finance.

"The Nation lent for War; it will lend for Peace and Prosperity." (2)

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(1) We Can Conquer Unemployment: Mr Lloyd George's Pledge, p.57.

(2) Britain's Industrial Future, p. 412.

## Protection

Protection was violently opposed in any form.

"Protection diverts the resources of the nation into the the wrong directions, encourages unhealthy and precarious developments and poisons the springs of business enterprise and the probity of Government. Our policy must be to return as rapidly as possible to the system of free trade on which our industrial life and our world wide commercial activities have been built up ..... whilst, therefore, it is true that a particular trade may benefit by protection, a country cannot restrict imports without restricting exports or increasing its foreign investments. In other words, tariffs are not a device for increasing the employment and production of a country but rather a means of diverting it from one direction to another." (1)

They were clearly not willing to compromise in any obvious way with any interference with international price ratios. These ratios were sacrosanct in spite of the more general interventionist approach to the internal economy which would, of course, be reflected in the international price ratios ultimately. The Liberals maintained their position even in the light of their own data on tariffs which provided overwhelming evidence that Britain was in a 'second best' world of protection and that the British tariffs were amongst the lowest in the world<sup>(2)</sup>. In 1930, 83% of Britain's imports came in duty free.

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(1) ibid.

(2) Britain's Industrial Future op. cit. p. 55.  
Aldcroft (1970) op. cit. p292.

Public Works

The main thrust of Liberal policy was National Development which they saw in a completely different light from the Labour Party, though the proposals were similar. For them it was not merely a structural tool to increase efficiency or a way of using the unemployed temporarily but a mechanism which was itself capable of restoring prosperity on a permanent basis. As such it was a dynamic policy; a policy which would facilitate adjustment to higher levels of income and employment. It was to be a vigorous policy of national reconstruction and development, directed by a Committee on National Development which would increase Britain's capital resources while serving to reduce unemployment. This plan they saw as being derived from the pre-war proposals for curing cyclical unemployment which advocated that the state and local authorities should adjust expenditure and concentrate it in those periods when private orders were slack and so counteract the effects of cyclical unemployment.

"This proposal which has never seriously been put into practice is the counterpart on a small scale of the more comprehensive programme which we set out .... The setting up of new industries, the modernization of old ones, the revolution in modes of transport and in the forms of power and the need to house our increased population and to rebuild a great part of our towns in accordance with modern standards of health and decency, all call for a large expenditure of capital at home. Without it we cannot hope to equal the efficiency of our leading industrial competitors. Moreover, a greater employment of labour in home trades can only take place if there is a greater investment of savings at home." (1)

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(1) Britain's Industrial Future (1928) op. cit.

As supportive evidence of the success of such plans of national development, they quoted the examples to be found in Germany, France, Italy and Sweden.

The development plans they had in mind were examined in some detail and included plans for road construction, housing and slum clearance, electrical developments and improvements in the docks, harbours and canals. The schemes were to be financed by:

"organised savings through the Board of National Investment, by the restoration of the Road Fund to its legitimate purposes, by a betterment tax and a tax on improved site values, supplemented if necessary by a Road Reconstruction Loan raised on the revenues of the Road Fund." (1)

For the mechanics of this scheme we need to look at the supportive pamphlet written by Keynes and Henderson, "Can Lloyd George Do It?" The mechanics are based on the belief in the cumulative propensity of the development schemes to increase economic activity.

"We believe that the cumulative effect of renewed prosperity will surpass expectations. It may well turn out in practice that a smaller programme than that outlined in "We Can Conquer Unemployment" will be sufficient to set the ball rolling, and shift the whole outlook of the country from depression to prosperity. The patient looks sick. But once he turns the corner, the rapidity of his convalescence may astonish even the doctors who have cured him." (2)

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(1) We Can Conquer Unemployment (1929) op. cit.

(2) Can Lloyd George Do It? (1929) op. cit. p.8.

The scheme was a panacea; curing at one dose, cyclical and structural unemployment and restoring equilibrium levels of income and employment. Let us consider how this was to happen. The process is discussed in a chapter entitled, The Cumulative Force of Trade Activity.

"The fact that many workless people who are now unemployed would be receiving wages instead of unemployment pay would mean an increase in the effective purchasing power which would give a general stimulus to trade. Moreover, the greater trade activity would make for further trade activity; for the forces of prosperity, like those of trade depression, work with cumulative effect." (1)

This has some times been referred to as a multiplier process<sup>(2)</sup>.

It was, in fact, a crude description of spiralling effects.

There was no upper limit envisaged to the process and no numerical measure was possible of the extent of the effects of any injection of investment. In addition, to this cumulative process, a further fillip was envisaged from expectations.

"In the economic world ..... coming events cast their shadows before ..... and .... the knowledge that large schemes of work were being undertaken would give an immediate fillip to the whole trade and industry of the country." (3)

The increase in employment was to come from the employment initiated by the development plans directly; by the indirect

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(1) ibid.

(2) R. Skidelsky (1967) op. cit.

(3) Can Lloyd George Do It? (1929) op. cit.

employment which could be associated with these plans; by the stimulus to trade given by the increased purchasing power which would lead to further cumulative trading activity; by the changing expectations which these activities would bring about. These explanations were the nearest they approached to a dynamic sequence analysis or to the micro/macro relationship. But without any clearly specified analysis, much of which was to be provided by the development of the multiplier approach, the schemes lacked credence. Until the expansion could be seen to be finite the policy appeared unrealistic. Mere descriptions of spirals were seen as flights of fancy.

The multiplier concept was not fully developed until the Summer of 1930 (See Economists Committee, Chapter Four below) and was not generally available until the publication of Kahn's paper in 1931<sup>(1)</sup>. It was later developed in the form of the income multiplier in the General Theory.

The process described at this time, as well as hinting at the fundamental multiplier concept, which in Shackle's interpretation deals with the repercussions on consumption and income streams of initial injections of investment (which could of course be generalised to include the impact of other injections into the income stream) contained ideas which included shifts in schedules attributable to changes in expectations: mere descriptions of the interdependence in the economy referred to by

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(1) Kahn (1931) op. cit. Klein (1947) op. cit.

Shackle as the 'Leontief mechanism' and possibly a crude idea of an accelerator: the induced investment which arises because an increase in capital stock is necessary to facilitate increased output<sup>(1)</sup>.

### The Reception of the Policy

The Labour Party was critical but rather ambivalent about the policy of the Liberals. It was felt that the hesitant reception which the policy had received from some prominent Liberals was likely to ensure that,

"Britain's Industrial Future would bear a close resemblance to Britain's Industrial Past".<sup>(2)</sup>

The Labour Party and its supporting press were at a loss as to whether to claim the policies as their own and accuse the Liberals of plagiarism or to criticise the policies as lacking the scope of their own<sup>(3)</sup>.

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- (1) G.L.S. Shackle The Years of High Theory Cambridge University Press, 1967. pp. 196-202.
  - (2) Labour and the Nation 2nd Edition (1929).
  - (3) New Statesman, March 23rd, e.g.

"The Liberals, as a party which cannot be returned to power not unnaturally promises the most; but in essentials Mr Lloyd George is only saying more stridently and with characteristic gesture, what the leading spokesmen of the Labour Party are also saying in a more restrained fashion."

or, New Statesman, 30th March

"Now of the future Mr Lloyd George at present has told us

The main criticism was to be found in the Memoranda on certain proposals relating to Unemployment<sup>(1)</sup>. Criticism was directed at the feasibility of carrying out the plans democratically given the legal, administrative, institutional and technical constraints and on the possibility of influencing aggregate demand in the economy: the 'Treasury View'. Liberals in the pamphlet, We can Conquer Unemployment rejected the Treasury View:

"This view is hoary with antiquity and clothed in the utmost respectability but it is, nevertheless, completely fallacious." (2)

It was considered to be false because in the first place it proved too much: if it were true of state enterprise, it would be true of all enterprise and thus trade could never improve. It was pointed out that not all savings were utilised and

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nothing. He presumably believes that, if emergency employment is provided for those who are now out of work the mere effort of setting the wheels of production moving again at full speed will be to cause a lasting revival of industry, or at least that the further measures required to achieve this call for no present definition. But can this be so confidently anticipated? Will not any lasting restoration of British trade and industry call for constructive measures of quite a different order from those which Mr Lloyd George is basing his appeal? And will the Liberal Party, if it follows him to the full length of his emergency programme be induced to make the large departures from its traditional policy of individualism and laissez faire that a permanent policy of economic reconstruction requires?"

- (1) Memorandum on certain Proposals (1929) op. cit.  
 (2) We Can Conquer Unemployment (1929) op. cit.

Mckenna's figures, showing the high proportion of demand to time deposits, were quoted, indicating a source of funds for the investment programme.

The view was also attacked in the New Statesman:

"Surely it is clear enough today that these supposed laws do not exist, and that State policy can usefully exert a very great influence on both the volume and the character of employment in the community." (1)

### Can Lloyd George Do It?

Can Lloyd George do it?, the major supportive document to appear on behalf of the Liberal party, was the contribution of two of the architects of the original plan: Keynes and Henderson. They discussed the criticism which had been made, i.e. number employed, transfer problem, need for public works and the scheme's apparent socialism. Their most important attack was on the 'Treasury View' which they discuss in Chapter IX Will it Merely Divert Employment from other Enterprises? It is this chapter which contains the economic meat of the pamphlet. It begins with the argument used in the earlier pamphlet to refute the Treasury View: if the view is to be believed,

"then there is virtually no question of absorbing our unemployment by any means (other than inflation which is unthinkable) and that the obstacle which barred the path was no other than an insufficiency of capital. This, if you please, in Great Britain, who has surplus savings which she is accustomed to lend abroad on the scale of more than £100M a year. This argument is not only implausible, it

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(1) New Statesman, 13th April 1929.

is untrue. There are three sources available: savings from unemployment, savings run to waste and the reduction in foreign lending."

They go on to explain that:

"Savings ..... do not necessarily materialise in investments. The amount invested in capital improvements depends, on the one hand, on the amount of credit created by the Bank of England, and on the other hand, on the eagerness of entrepreneurs to invest, of whom the Government is the most important .... so far from the total investment, as determined by these factors, being necessarily equal to the total savings, disequilibrium between these two is at the root of our troubles." (1)

This repudiation of Say's Law is accompanied by an exercise in dynamics,

"when investment runs ahead of savings we have a boom, intense employment and a tendency to inflation; when investment lags behind, we have a slump and abnormal unemployment as at present." (2)

The reasons why the plans would not cause inflation are then given:

"not all credit-creation means inflation. Inflation only results when we endeavour, as we did in the war and afterwards, to expand our activities still further after everyone is employed and our savings are being used up to the hilt ... A large amount of deflationary slack has first

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(1) Keynes J.M. and Henderson H.D. Can Lloyd George do it? Nation and Athenaeum. 1929. p. 20. This is a statement of Keynes' view that savings did not automatically equal investment - the view expounded in the Treatise. See Klein, (1947) op. cit.

(2) ibid.

to be taken up before there is the slightest danger of a development policy leading to inflation." (1)

This is an interesting statement about the slope of the supply schedule during periods of unemployment which was developed as the basis of Keynesian inflation theory to explain the possibility of demand inflation in a fully employed economy. It has also been used to explain behaviour in the labour market. Its acceptance was crucial if policies to increase demand were not to be implicated in price changes which it was thought might have adverse effects on trade and so fail to increase aggregate employment.

The real difficulty in the way of easier credit policy by the Bank of England was the fear that an expansion of credit might lead to a loss of gold which the Bank could not afford. Keynes and Henderson agreed that it would not be safe for the Bank to expand credit unless it was certain beforehand that there were borrowers at home standing ready to absorb it at existing rates of interest. This concept implies that they were worried about an inelastic demand for funds for domestic investment rather than an insufficient supply of funds. This attitude may have arisen or been given credence by the attraction of speculative issues

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(1) ibid.  
The relationship is explored in the Living Wage, op. cit. Kahn (1931) op. cit.; and Bellerby who produced some tentative estimates of the relationship. Keynes later became ambivalent about the matter and a year later was convinced that if the expansion caused prices to rise then this might be an important step in raising profits and so sustaining the expansion. He also thought that the rise would similarly affect any other expansionary enterprise public or private. See Evidence to Macmillan Committee, Chapter Three below.

rather than industrial stocks in the late 20s<sup>(1)</sup>. Given these problems the Liberal plan was essential, for

"it provides the necessary condition for an expansion of credit to be safe,"

by creating safe outlets for funds in domestic ventures. The co-operation of the Bank of England was, however, essential.

"for unfortunately, it would lie within the power of the Bank, provided it were to pursue a deflationary policy aimed at preventing any expansion in bank credit to defeat the best-laid plans and to ensure that the expenditure financed by the Treasury was at the expense of other business enterprise." (2)

The precarious position of the exchange rate was mentioned and it was thought that this would be eased by a reduction of foreign investment. The Bank of England semi-official embargo on foreign issues was referred to as a crude instrument suitable only for temporary use and its renewal is not envisaged<sup>(3)</sup>. Instead, they would rely on the transference of savings from foreign to home investment as firms became more prosperous and also because of the attraction of Government stocks.

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(1) Howson (1975) op. cit.

(2) Keynes and Henderson (1929) op. cit.

(3) During the war controls were placed on foreign lending to ensure that the Government had access to sufficient funds to finance the war. In the post war-period the embargo was used to protect the Government's position in the capital market, to protect the exchanges during the restoration of the gold standard and to ensure that loans were not provided for countries which had not settled their war debts i.e. France, Greece, and Serbia. By late 1925 Serbia was obtaining loans from New York, and France from Holland and Switzerland. Much of this money was coming indirectly from London. In view of the evasion the embargo was lifted in November 1925. Sayers (1976) op. cit. vol III Appen. 30, 2 Macmillan Committee Evidence, QQ 3414-3422, 9246; J. Atkin, 'Official Regulation of British Overseas Investment 1914-3' Economic History Review 23, 1970.

The support of other economists is quoted (i.e. Pigou and Stamp) for the view that capital developments financed by the Government are capable of increasing employment and that the Treasury dogma was fallacious.

### The Campaign and Potentials of the Policy

In spite of Lloyd George's pledge that, before the end of twelve months, unemployment would reach normal proportions (presumably some pre-war average) the doubts of the electorate remained.

The success of the scheme was dubious given the practical difficulties and the rather scanty attention which was paid to the international monetary problem. Keynes believed that activity at home would divert money from abroad and provide the funds for development at home and relieve pressure on the exchanges.

They could probably have surmounted the fiscal implications of the policy by judicious separation of capital and revenue elements in the budget. He was criticised for this view by the Treasury who envisaged high interest rates as being necessary to attract these funds<sup>(1)</sup>. This problem and the problem of the unrealistic time horizon for a democratically, constituted economy causes one to be sceptical of the effectiveness of the policy in practice. The evidence from the work of Thomas<sup>(2)</sup> about the likely size of the multiplier also casts some doubts upon this.

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(1) Keynes eventually became convinced that the public investment could only be undertaken if some controls were introduced to protect the Balance of Payments. See Chapter 4.

(2) Thomas (1975) op. cit.

The ability of the Liberals to deal with the conflicting objectives of unemployment policy and the exchange rate policy might well have been much greater than that of the other two parties, for they did not revere the gold standard as did the Conservatives, nor were they as in awe of it as the Labour Party. They saw no advantage in returning to the gold standard of the pre-war parity but were now reticent about recommending any change in policy. In office, they may have been able to achieve a more successful unemployment policy.

### The Policy of the Labour Party

#### Introduction

The Labour Party's strategy was to go to the 'root of the problem'. This fundamentalist approach was to win favour with the electorate. Though the plans appeared dull and pedestrian compared to those of the Liberals they had the aura of being 'sound' and 'realistic'.

The Labour Party was a socialist party but socialism was a far off star to be approached stealthily and with caution. The policy was dependent upon the notion that unemployment was a continuing phenomenon in capitalist economies which could only be remedied by direct radical action. They had doubts about the ability of the capitalist economy even with Government intervention to generate full employment <sup>(1)</sup>. Whilst advocating

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(1) D. Winch. op. cit. for discussion of this point.

contra-cyclical policies, they were also attempting more than a restoration to normal conditions: they looked for a more permanent reduction in unemployment and, as such, looked for ways of reducing the supply of labour and reconstructing the economy. The regional and industrial composition of unemployment made it imperative that this should attempt to remove some of the problems confronting the basic industries. The possibility of their achieving this aim was hampered by their rigid acceptance of free trade doctrines:

"Safeguarded countries have unemployment, low wages and sweating, poverty, generally corrupt policies and high costs of living." (1)

and the adherence to the doctrine of balanced budgets. This is indicated in Snowden's attack upon Churchill.

"In each of his last four budgets, Mr. Churchill never had a genuine surplus. In two of them he admitted deficits which amounted to over £50M which had to be met by increasing the National Debt. He has raided every national reserve he could lay his hands on. Last year he took £20M from the sinking fund and put it into revenue and then he boasted of a surplus of £18M." (2)

The policy documents in which the Labour Party's proposals were laid out were: Labour and the Nation which appeared in two

- (1) Craig (1975) op. cit.; The Labour Manifesto 1929.
- (2) The Times, 4th May 1929. For comparison of Churchillian and Snowdenian budgetary management also See Harold Macmillan ( op. cit. ) p. 203/4.

editions in 1928 and 1929 respectively; and How to Conquer Unemployment, Labour's reply to Lloyd George<sup>(1)</sup>. These documents are often considered much inferior to the Liberal proposals<sup>(2)</sup>. The style is less dynamic but on specific matters such as public works the schemes were probably as well developed as those of the Liberal Party as can be seen from subsequent examination of the latter<sup>(3)</sup>. These documents contained a comprehensive survey of the prevailing situation, a critique of the policies of the Government and the Liberal Party and a statement of their proposed policy.

The Conservative government was severely criticised for its treatment of the unemployed and for its failure to make adequate provision for their maintenance or employment. Criticism was also directed against the policy which forced local authorities to bear, in the majority of cases, the costs of the public works programmes and the maintenance of large numbers of unemployed.

Of the Liberals: they were timid and their schemes were unlikely to gain the acceptance of a number of influential Liberals. However, faced with the Liberal schemes, they were at a loss to see by what mechanism the public works policy, which they had advocated for many years, could be elevated to a policy which

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(1) Labour Party 1929.

(2) Skidelsky (1967) op. cit.

(3) See Chapter Four Below.

could at once alleviate the distress and provide the mechanism for a long term solution to the unemployment problem. They were incredulous and quite incapable of understanding the metamorphosis which had overtaken their scheme. They could not believe that public works schemes could permanently remove unemployment unless associated with a reconstruction policy.

### Reconstruction

The major policy proposal was reconstruction of the basic industries to enable them to recover lost export markets. This fundamental policy was attractive and appeared rational given the industrial distribution of the unemployment problem, see Table 3 above. The implications of rationalisation for unemployment, in the short run, and the possibility of recapturing the former trading position in a period of contracting world trade was not adequately considered.

### Public Works

Given the constraints within which the Labour Party was to operate the policies advocated were comprehensive. In order to improve productivity, national development was to be undertaken to improve the fabric of society. The programme for national development was to include housing, and slum clearance; land drainage and reclamation, afforestation and the development of small holdings; the reorganisation of railways and other forms of transport and the coal industry; and a programme of electrification. Although they had no expansionary policy<sup>(1)</sup>

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(1) How to Conquer Unemployment 1929 op. cit. They mention the lack of demand.

"In this world of pitiable underconsumption, successive governments have allowed under-employment to exist without the smallest attempt to prevent it."

as such they had an anti-deflationary policy and did expect some stimulation to result from the general development plans;

"any attempt to compete by following the downward path of lower wages and longer hours was to take the first step down a slippery slope, at the bottom of which lies universal ruin. The course dictated by consideration both of common sense and humanity the Labour party holds, is precisely the opposite from this suicidal rivalry in mutual degradation.

It is not to curtail the purchasing power of the population of Great Britain, which offers to the British producers what is overwhelmingly their most important market. It is to maintain and increase it by every means in our power." (1)

Thus, they were aware of the problems associated with the downward spiral and showed (rather unrealistic) optimism with regard to the expansionary effects.

"There is a great market at home which can be developed by increasing the purchasing power of the working classes. There is a greater market overseas, especially in India and the Crown Colonies, where there are enormous populations with a very low standard of living and vast undeveloped resources. A Labour Government will set to work at once by using export credits and trade facility guarantees to stimulate the depressed export trades of iron and steel and engineering and textile manufactures, shipbuilding and shipping will immediately be benefitted by an increase of foreign trade and the improved employment in those industries will be a great addition to the purchasing power in the home market." (2)

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(1) Labour and the Nation (1929) op. cit.

(2) Craig (1975) op. cit.

Again the influence of the underconsumptionists is apparent. But in spite of this the policy makers failed to comprehend the possible impact upon internal demand of a large development programme.

They viewed these policies and those of the emergency schemes of work rather differently from the Liberals.

It was the intention of the Labour party if elected to establish an Employment and Development Board which would have at its disposal each year a Treasury grant to be drawn upon as required. It would be the duty of this board to bring development schemes to the point of execution in readiness for the time when they should be pushed ahead in the interests of employment and trade. There was, they thought, 'no lack of sound schemes', the urgent need for which was generally admitted. This was the 'plaster of relief works' which, whilst admitted as essential:

"emergency schemes of work must be set a foot on the largest possible scale in order to provide immediate employment." (1)

were, in the overall format of the policy, secondary to the establishment of that state of affairs which ensured,

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(1) How to Conquer Unemployment (1929) op. cit.

"a lasting restoration of industry, a general raising of the efficiency of labour," (1)

For the Labour Party, public works were temporary measures which could alleviate the worst periods of unemployment and which could with careful planning and foresight, be used to improve the social and economic fabric of the community rather than being mere relief works which were still accompanied in their minds by the horrors of the Poor Law.

#### Monetary and Fiscal Policy

They had little to offer on monetary policy except suspicion and a 'searching enquiry' and more stringent controls of banking and credit. The Bank of England was to become a public corporation. The gold standard was accepted and they were to do all in their power to implement the Genoa Proposals of 1922 (2).

The budget was to be conservatively, even puritanically managed. Lloyd George was upbraided for being 'ready to mortgage the future as gaily as ever'. Though they did admit a limited role for loan financing, as long as the capital and revenue implications were clearly separated, the revenue being paid off annually and an adequate sinking fund established to ensure redemption of the debt.

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(1) ibid.

(2) ibid.

### Supply of Labour

The other part of the strategy was to relieve the pressure of unemployment on the labour market directly by pension schemes for the old and the disabled, to ensure honourable retirement; the raising of the school leaving age to 15, with maintenance allowances; facilitating migration, internal and external; and by the implementation of the Washington Convention of 1919 for a 48 hour week.

### Alleviation of Distress

The aspect of policy to which they were more committed than the other parties was the insurance policy which was intended to provide adequate maintenance for the unemployed by state grants and ensure that costs fell neither on the workers' contribution nor on the costs of production. They gave:

"an assurance to every worker both of an opportunity to work while his powers were at their height and of honourable retirement when he has done his bit in the service of the country." (1)

### Potentials of Policy

Thus like the Conservatives they were relying upon reconstruction (though this would be undertaken in a different way) to reduce the costs of production, and public works to provide some relief for the unemployed. But there was in addition the

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(1) How to Conquer Unemployment (1929) op. cit.

advocacy of free trade which accompanied by the condition that budgets were to be balanced was bound to make the task of restoring business activity a difficult and lengthy process. This, then, was the official Labour Party policy but policy measures were being, and had been, debated by others associated with the Labour Party.

### Melchett-Turner Reports

The Melchett-Turner Reports have already been referred to above. After the years of strained industrial relations, of which the general strike was the outstanding conflagration, there was, towards the end of the decade, a growing atmosphere of conciliation. One aspect of this was the discussions which took place between the T.U.C. and a 'Representative Group of Employers' under the designation, "The Conference on Industrial Reorganisation and Industrial Relations" referred to as the Melchett-Turner talks<sup>(1)</sup>.

Citrine and Bevin were the trades unionists enthusiastic about the meetings which were disapproved of by Cook and Maxton. The origin of the meeting is well documented in Bullock's biography, 'The Life and Times of Ernest Bevin'<sup>(2)</sup>.

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- (1) The title is derived from the names of the joint Chairmen of the Conferences: Ben Turner and Sir Alfred Mond, later Lord Melchett. The name of Tillet, previous chairman is sometimes mentioned in this context.
- (2) Alan Bullock The Life and Times of Ernest Bevin, Heinemann, London, 1960. Chapter 15. See also Citrine, Men at Work Hutchinson, London 1964.

In response to growing interest in the activities of the group a statement was made on 4th July 1928 which included the objectives of the conference were to:

"discuss the whole field of industrial reorganisation and industrial relations and to assist in the solution of the greatest problem confronting the country at the present time, namely, the restoration of industrial prosperity and with it the standard of living of the population." (1)

The most interesting report is that published on 12th March 1929<sup>(2)</sup>. It is chiefly concerned with unemployment and begins with an analysis of the facts about and causes of unemployment. Unemployment is considered to be a cyclical phenomenon intensified by monetary policy, the changing patterns of world trade and rationalization. Palliative remedies are recommended. These include: the restitution of the trades facilities provisions; a development fund; reductions in the supply of labour including redundancy arrangements, retirements provisions, the raising of the school leaving age and emigration; and some special treatment for agriculture and mining. Long term measures included the reorganization of industry and an inquiry into the banking system which it was hoped would lead to better monetary management.

#### The Living Wage

The Independent Labour Party had produced separate policy proposals a few years earlier. These proposals were quite different in emphasis from those of the official Labour Party. The most interesting document is probably, "The Living Wage",

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(1) Interim Joint Report, 4th July 1928.

(2) Interim Joint Report, 12th March 1929.

which was produced by a study group consisting of H.N. Brailsford, J.A. Hobson, A. Creech-Jones and E.F. Wise. It is very much an economist's rather than a politician's appraisal<sup>(1)</sup>.

It is devoted to the concept of 'the living wage' and the process by which such a standard could be achieved and maintained. Under-consumption theories are expanded and reference is made to two works of Hobson, "The Evolution of Modern Capitalism" and "The Economics of Unemployment". It was thought that:

"we produce less wealth than our technical resources would enable us to create because the mass of wage-earners lack 'effective demand' ..... Too much proportionately, of the product of industry, has been accumulated and applied to the creation of fresh instruments of production: too little proportionately has gone in wages to make a market for the product of the new machines." (2)

To ensure that effective demand was forthcoming, at least in the home market, two matters should be attended to: expansion of credit and currency to keep pace with the growth of output; and a wider distribution of this expanded purchasing power. It was not considered sufficient to increase the nation's total purchasing power:

"care must be taken in distributing it to ensure that a due proportion shall be observed, in its probable destination,

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(1) Brailsford, H.N., Hobson, J.A., Creech-Jones, A., and Wise, E.F. 'The Living Wage', Independent Labour Party, 1926.

(2) ibid. p. 8.

between savings and spending, or, in other words, between expenditure on reproductive instruments and on consumable goods." (1)

There were two ways of increasing the purchasing power. The first method was seen to be redistributive taxation which it was thought ought not to risk inflation as it merely redistributed actual income. The second method was the raising of wages which though a powerful way of raising effective demand was likely to cause inflation. To avoid inflation the policy should be accompanied by credit control; elimination of dealers or middlemen by state organised importation of staple foods; and by increasing output by the reorganisation of industry.

The third chapter of this volume is entitled, "Credit and Banking". Barbara Wootton is thanked for her help in its preparation. The success of the policy was thought to depend upon bankers and the Treasury adopting an enlightened credit policy and deliberately controlling credit for the purpose of keeping price levels stable. Although there was much work to be done before the Quantity Theory of Money was fully understood, it was considered that the theory and practice were sufficiently established for the outlines of a rational stabilisation policy to be developed. Such policies would need close monitoring of prices, employment and output by the national bank.

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(1) ibid. p.10.

"At the first signs of a slump, it must be the duty of the bank slightly to expand the volume of credit and to lower its price; at the first signs of a boom, it will gently apply restrictive measures." (1)

Furthermore:

"It follows from the Quantity Theory, that as production expands, whether as the consequence of new inventions, better organisation or the normal growth of capital, credit and currency must expand to an equal extent." (2)

It is claimed that these policies are in accordance with the accepted authorities: Mr Keynes and Mr Hawtrey<sup>(3)</sup>. The innovation introduced is seen to be the welding on of 'distribution'.

It was pointed out that the benefits of stabilisation could not be fully enjoyed if it were adopted at the wrong point of the trade cycle.

"If one stabilises while prices are falling or in the dead period between slump and boom, the normal volume of credit will be fixed at a level which fails to give full employment to the existing and available labour and capital of a country." (4)

(1) Ibid. p.13.

(2) ibid. p.13.

(3) They also refer to the work of E.M.H. Lloyd, Stabilization (1923) and I.L.O. Unemployment in its National and International Aspects.

(4) The Living Wage (1926) op. cit. p.14.

This is one of the few statements which stresses the importance of the correct timing of policy measures. Although the policy they suggested had not been adopted by either the Bank of England or the Treasury, the country was considered to be suffering from the consequences of a de facto stabilisation carried out during a period of extensive unemployment. Thus it was their contention that some expansion of credit was an essential condition for recovery:

"It is doubtless true, that every such expansion of credit in advance of production must lead to some rise in the price level. . But, in our view, when as now, there is extensive unemployment both of labour and capital, the rise in the price level may be negligible and will only be temporary." (1)

This view of the supply schedule was shared by Keynes and Henderson.

The authors of the report felt that the policy was still feasible although it would have been easier to implement if Britain had not returned to the gold standard or had returned at a lower parity. They go on to suggest gaily:

"It would be sufficient to lower bank rate and when necessary export gold freely." (2)

This optimistic view is qualified in the later chapters where they say that complete success would be dependent upon international co-operation of the sort suggested at the Genoa

(1) ibid. p. 15. Keynes and Henderson (1921) op. cit.

(2) ibid. p. 17.

Conference. In addition, a reduction of the dependence on trade is recommended

"A great part of Europe, fettered by reparations and inter-allied debts, is obliged to limit imports and expand exports. It would be only prudent on our part, therefore, to lessen wherever it can be done on economic lines, our dependence on foreign trade. (1)

Control of the Bank of England would be necessary for this purpose and it was suggested that a nationalising charter should state that it was the duty of the Bank to ensure a stable price level and that national policy and social utility should govern the direction of the flow of credit as well as its volume.

Some of the proposals contain recommendations on similar lines to those proposed in Australia, i.e. for the introduction of family allowances and a minimum wage agreement in an effort to

"compel this anarchical market to honour a higher law than scarcity." (2)

If the community considered that cheapness of some essential service or commodity was vital and not compatible with a living wage, they should resort to a bounty or a subsidy<sup>(3)</sup>.

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(1) ibid. p. 51.

(2) ibid. p. 28.

(3) Keynes also advocated this view in his discussion with the Macmillan Committee, See Chapter 3.

The central concern of the document is the egalitarian concept of a living wage which was to be facilitated by compensatory monetary policy aimed at maintaining the economy at a high level of utilisation of labour and capital. Monetary policy was to be implemented by a nationalised Bank of England which would endeavour within its powers to insulate the home economy from external pressures on the currency. The strength of these pressures are recognised and hope was once again pinned on the Genoa recommendations for international co-operation. Compensatory monetary policy thus became the central aspect of the policy on to which Hobson's theories about under-consumption fit rather uneasily, for once stability is achieved, the arguments for greater equality of distribution as a means of avoiding fluctuations became rather irrelevant at least in the short run.

### Revolution by Reason

Oswald Mosley's tract, Revolution by Reason, also had its origins in the Independent Labour Party. It is based upon a speech which he made to the ILP Summer School in 1925. The proposals were dubbed the Birmingham Proposals for they had been adopted both by the Birmingham ILP Federation and the Birmingham Borough Labour Party<sup>(1)</sup>. The tract is directed primarily,

"to the immediate and pressing problem of the transition from capitalism to socialism." (2)

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(1) O. Mosley Revolution by Reason. Blackfriars Press, London, 1925.

(2) ibid.

It was an attack on gradualism and its visionary oratory foresees the imminent emergence of a socialist state out of decaying capitalism.

"Events move with ever-gathering momentum to conclusions of ever-darkening shadows. Crisis after crisis sends capitalist society staggering ever nearer to abysses of inconceivable catastrophe to the suffering millions." (1)

The mechanism by which socialism was to emerge was by the use of 'monetary' policy to a stage where it

"can be made an instrument of transferring economic power and effective demand to the workers." (2)

The central problem was seen to be the lack of effective demand.

"Capitalism searches the world feverishly for fresh markets whilst at our own door men, women and children are almost perishing for lack of the goods for which we are told no market exists." (3)

Mosley attacks policies of wage reductions as they are likely to reduce still further the purchasing power and he attempts to analyse the dynamics associated with attempts to reduce the price level.

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(1) ibid.

(2) ibid.

(3) ibid.

"Those who seek to solve the problem of purchasing power and markets through the medium of falling prices are faced with the unanswerable facts of post war experience. To give sufficient new purchasing power by this means to command the full productive resources of the country we should now require a fall in the price level so drastic and precipitate that an almost fatal shock would ensue to the enfeebled body of present industry." (1)

He quoted Keynes on this adjustment problem.

He suggested that credit should be expanded, and proposed to facilitate this by issuing money in the shape of consumer credits. The inflationary effects should be counteracted by socialist planning. This should ensure that a greater supply of goods were produced to match the increase in credit. Capitalists who responded to increasing demand by increasing prices instead of production would be 'socialized'.

Whilst Keynes and the authors of The Living Wage, debated the proposition whether and by how much prices would rise in response to changes in demand, Mosley was to introduce legislation to stop them rising.

His plans for socialization of industry differs from those of the ILP that he would socialize 'not the duds but the plums'. He would, however, adopt the ILP policy of taking over the purchase of imports and cutting out the middleman. Banks would be nationalized and luxury industries closed.

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(1) ibid. p. 10.

Mosley was in favour of managed currency which he saw as being in line with socialism which he defined as the conscious control and direction of human resources for human needs. This objective was seen to be incompatible with a system which made the vital medium of exchange dependent upon chance discoveries of gold fields.

"Is the employment of the British worker to be dependent upon a nigger digging up a lump of glittering metal in far away Africa?" (1)

Mosley's plans were examined and expanded in some detail by John Strachey in a book which was published a few months later under the same title<sup>(2)</sup>.

#### The Potentials of Policy

The left-wing of the political spectrum had formulated policies which were potentially much more refined and radical than the rather cumbersome public works policy of the Liberals. And whilst the Labour Party offered the electorate their rather pedestrian policies they could, once elected, have reconsidered the strategies suggested by these associated groups. Whatever the subsequent evaluation of the policies proposed by the parties in the election the electorate preferred the less extravagant promises of the Labour Party and the Conservatives to those of Lloyd George. The Labour party was returned as the majority party, having won a majority of seats though not votes in the election.

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(1) ibid.

(2) J. Strachey, Revolution by Reason, Leonard Parsons, London 1925.

The policies of the official Labour Party failed to consider the time scale which any policy, which was to operate for the most part through improvements in the general fabric of the economy, would need to be effective. These policies allied to denial of any form of protection either in the form of trade barriers or exchange control, accompanied by a policy of generous unemployment insurance were bound to flounder given the acceptance of the principle of balanced budgets and the gold standard.

Given the external constraints and the constraints which the party had willingly imposed upon themselves, the realm of possible action was very small and the possibility of finding a solution remote. Some aspects of their policy such as better maintenance of the unemployed, a public works programme or even a vigorous reconstruction policy for industry might have had side effects unpredicted by the advocates which could have eased the situation given a less puritanical and more pragmatic approach to budgetary policy and to free trade.

### Conclusion

Diagnosing the unemployment problem as a problem of cyclical depression, the Liberals, the ILP and the alliance of trades unions and industrialists recommended radical expansionary measures. The policies of the Liberals were likely to have run into trouble had they proved unwilling to compromise on free trade or the exchange rates. The policies of the other groups had no potential outlet except in the form of pressure upon the Labour Party.

The Labour Party and the Conservatives interpreted the unemployment problem to be structural and so biased their policies accordingly. The policies were different for the Conservatives relied upon aid to industry and protection; and the Labour Party attempted a more direct reconstruction policy, accompanied by a public works programme as a short run strategy to reduce unemployment. This policy had the same potential to reduce unemployment as that produced by the Liberals but fewer claims were made for it. Both the Conservatives and the Labour Party severely underestimated the time necessary to facilitate reconstruction on the necessary scale.

The policy documents presented at the election in 1929 and in the preceding years all included policies which were capable of reducing unemployment and in the hands of a lively administration, not bedevilled by constraints of its own making, no doubt would have done so. The differing diagnosis of the nature of the unemployment problem need not have led to policies having very different effects upon the unemployment problem. The public works programme of the Labour Party which was seen as a temporary measure would have been as capable of revitalizing the economy as those offered as an expansionary device by the Liberals.

The Conservatives policy which attempted to help industry by reducing taxes would have had some impact though less than that generated by an injection into the economy of government

expenditure<sup>(1)</sup>. The compensatory monetary policy suggested by the ILP and Mosley was also likely to have had some impact upon the problem although the empirical estimates of monetary policy during the depression are not too encouraging<sup>(2)</sup>.

A pragmatic trading policy was very likely to be useful in a period of serious trading disruption. Free trade optimality was not achievable and some 'second best' strategy should have been sought and might have been sought had it not been for the mythology and philosophy surrounding the 'free trade' slogan.

Policies to reduce the supply of labour could make only minor contributions to the unemployment problem. They would have had some cosmetic effect, reducing hysteria about the burden on the unemployment fund and at the same time furthering other worthwhile social goals.

A major impact on the problem could probably have been achieved by international agreement had the expertise and political will been available. Although lip service was paid to co-operation in all the documents considered no strategies were developed to ensure that the policy was operational.

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(1) Balanced Budget Theorem.

(2) See Walters (1969) op. cit.

None of the contributors to the policy debates saw the potential of deficit financing as a tool to regulate the level of activity in the economy. The use of fiscal policy in this way did not develop until the post-war era, although after the collapse of the Government in 1931, Dalton and others became interested in the 'unbalanced budgets' on the continent. In comparison with fiscal instruments public works policies are clumsy and insensitive regulators.

Even within the convention of the balanced budget there was scope to influence policy in such a way as to affect aggregate demand. But little was attempted in this direction and formal justification of such policies had to await the development of the balanced budget multiplier theorem in the early forties.

The ingredients of a policy to contain if not cure unemployment were available in 1929. What was needed was the administrative ability to select and implement an appropriate policy portfolio.

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(1) H. Dalton, Unbalanced Budgets (1932).

CHAPTER TWOTHE FIRST INSTALMENT

-3rd June to 31st December 1929-

Introduction

On the 3rd June, 1929, with a rather shaky majority of 27 seats more than the Conservatives and with no overall majority the Labour Party formed a government. Ramsay MacDonald's administration had no 'hundred days' but there was an atmosphere of purposeful activity in the early days. Cabinet met ten times before the Summer recess, nearly a hundred memoranda were produced and many committees were spawned. As was seen in Chapter 1, the party's policy had been outlined in the pre-election statements and election manifestos. Predictably, they had been severely critical of the policies of the previous administration which,

"by its inaction during four critical years it has multiplied our difficulties and increased our dangers .... this tory government sat supinely with folded arms without a policy, without a vision, waiting for providence or charity to do its work .... it has helped its friends by remission of taxation whilst it has robbed the funds of the workers." (1)

It was now Labour's turn to formulate the policies and initiate action. In this chapter we will chart their progress during the remaining months of 1929.

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(1) Craig (1975) op. cit.

### The Organisational Structure

It was announced in Labour and the Nation, that a National Economic Committee was to be instituted to create permanent machinery through which scientific knowledge and technical skill could be mobilised to increase efficiency and raise the standard of life. This organisation under the direction of the Prime Minister was to be

"his eyes and ears on economic questions to keep him and the country informed by undertaking a critical survey of economic conditions." (1)

In addition an Employment Development Board was to be created having at its disposal a Treasury Grant. Neither was in fact established.

### The Team

Some attempt was made to co-ordinate unemployment policy by using a ministerial team led by J.H. Thomas, supported by permanent heads of departments (2). This team met as the Inter-

- (1) Labour and the Nation (1929) op. cit.  
This concept had been considered by the previous Labour administration and had been developed in the form of the Committee for Civil Research by the Conservative Government. The Liberal Party had also suggested a central committee. See Britain's Industrial Future (1928) op. cit. Howson and Winch (1977) op. cit. PREM 1/70.
- (2) See P. Snowden An Autobiography Vol.11 Nicholson and Watson 1954; R. Bassett, 1931: Political Crisis Macmillan 1958. About the details of the struggle for the Foreign Office between Henderson and Thomas which caused much ill will in the Cabinet.

Departmental Committee on Unemployment (I.D.C.U.). It had the function of co-ordinating unemployment policy but had no executive power. The I.D.C.U. was to gather information and evaluate schemes. Its powers were limited to recommendations, discussions and general chiding and hastening of action. The executive power was divided amongst the various ministers who would often attend the meetings when matters concerning their departments were being discussed.

Thomas was hardly a darling of the left and, possibly to balance his influence, it was announced at the second Cabinet meeting<sup>(1)</sup>, that he was to be assisted by George Lansbury, First Commissioner for Works, Oswald Mosley, The Chancellor of the Duchy of Lancaster and Thomas Johnson, Parliamentary Under Secretary for Scotland. These ministers were rather to the left of Thomas but Lansbury was already seventy and Mosley's unstable brilliance was regarded with suspicion. Only Lansbury and Thomas were members of the Cabinet.

General unemployment policy involved the Minister of Labour, Margaret Bondfield; Arthur Greenwood, Minister of Health and William Graham, President of the Board of Trade. The Minister of Labour was responsible for the management of the unemployment fund, transfer policy and the provision and publication of information about unemployment. The Minister of Health dealt

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(1) CAB 23 60 2nd Meeting 21st June 1929.

with matters relating to the poor law provisions and the management of the relief fund. It was the President of the Board of Trade who heard the monthly reports on the economy from the 'captains' of industry and banking. Other ministers involved in unemployment policy in its various aspects were Philip Snowden, Chancellor of the Exchequer; Charles Trevelyan, President of the Board of Education; H. Morrison, Minister of Transport; J.R. Clynes, Minister of Home Affairs; Noel Buxton, Minister of Agriculture and W. Adamson, Secretary of State for Scotland.

The team was regarded favourably by the press especially the left wing press. The New Statesman considered the Government to be the best and strongest administration since the War<sup>(1)</sup>.

#### Administrative Structure

The civil servants appointed to assist these ministers were already steeped in the formulation of unemployment policies having recently reported on the policy proposals of the Liberals and the Melchett-Turner Report as well as surveying the policy instituted by the Conservatives.

Convinced of the soundness of the policies which they advocated the civil servants had lost the impetus to innovate and for the next two years continued to advise along the lines adopted in the Memoranda discussed above<sup>(2)</sup>. Their attempts to influence

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(1) New Statesman, 15th June 1929.

(2) See Chapter One above.

policyare discussed by Janeway who describes attempts to persuade Snowden to adopt even more stringent policies<sup>(1)</sup>.

In addition to this constraining influence the administrative structure was not conducive to the formation of lively policy measures having no executive power and having to depend on Government departments to implement policies.

In addition to the Government departments the I.D.C.U. was concerned with policies of the electricity commission, the forestry commission, and the railway companies with whom they communicated either through the ministry responsible or directly with the bodies concerned.

The executive chaos was so great that a memorandum<sup>(2)</sup> was produced for the I.D.C.U. for information and reference showing the departmental responsibility for items which might be included in a policy for the relief of unemployment.

(1) Janeway (1971) op. cit.

(1) CAB 27 389 DU 16 (29)

The responsibility of the various government departments was summarised as follows:

1. Ministry of Agriculture and the Scottish Board of Agriculture

- a. small holdings and allotments
- b. land drainage
- c. land reclamation
- d. rural handicrafts
- e. sugar beet industry
- f. flax cultivation
- g. coast erosion, with the Board of Trade
- h. stimulation of food production at home.

This then was the unwieldy administrative structure through which policies to relieve unemployment had to be channelled. It

- 
2. The Colonial Office  
Development in the Colonies and Protectorates, particularly of railway development and the development of natural products, with the help of loans.
  3. The Dominions Office
    - a. overseas migration programme
    - b. capital developments in the Dominions
  4. The Development Commission - various activities
  5. The Board of Education and the Scottish Education Department
    - a. school leaving age
    - b. building programme
  6. Forestry Commission
    - a. afforestation programme
    - b. creation of forest holdings
  7. The Ministry of Health and the Scottish Board of Health
    - a. housing
    - b. slum clearance
    - c. local authority works including, with the Ministry of Labour the Unemployment Grant Committee schemes
    - d. withdrawal of elderly workers from industry by increased pensions.
  8. The Ministry of Labour
    - a. activity of the employment exchanges
    - b. training of juveniles, young men and women for home and overseas
  9. The Post Office  
telephone developments
  10. The Board of Trade
    - a. mines department
    - b. development of overseas trade - export credits, trade commissioner service, stimulation of overseas trade
    - c. general industrial organisation

was bedevilled by built-in bottle-necks and delaying mechanisms and under pinned by a team of administrators whose capacity to innovate and produce a fresh approach to the problem had been eroded over the past decade during which unemployment policy had been a central feature of their work.

### The Policy Strategy

The problem facing the Government in June 1929 was the high level of unemployment unevenly distributed amongst industries and regions of the country. The strategy to deal with unemployment involved an attack on the disequilibrium in the labour market by operating on both the supply and the demand for labour.

### Reconstruction

The demand for labour was to be increased by making industry, especially export industry, more competitive by reducing the costs of production. This it was hoped would enable the

11. The Ministry of Transport

- a. roads
- b. railways including light railways and trams
- c. Severn barrage
- d. electricity supply and docks, harbours, canals

12. Treasury with other departments

trade facilities and guaranteed loans

13. Office of Works

building programme for government property.

recapture of old markets and the expansion of trade thus generating an increased demand for labour. Costs of production were to be reduced by the reorganization of the basic industries and by the improved infra-structure provided by the public works schemes. This preoccupation with the basic industries is understandable given the industrial and regional distribution of unemployment. See Chapter One, Tables 2 and 3. We can explore this problem more fully by considering the proportion of the aggregate unemployment in the basic industries. Mining and quarrying alone accounted for nearly 20% of the unemployment; and iron and steel and textiles contributed a further 28%.

The regional disparities were acute as was indicated in Table 2 in Chapter One above. Table 8 shows the regional position expressed as a ratio of unemployment in the country as a whole. The ratios do not give such a dramatic picture as the range of unemployment between the highest and lowest region. This was 15.9 per cent in 1929. Almost 60 per cent of the unemployment was concentrated in the North of England, Scotland and Wales.

Table 7

Unemployment in industry as a proportion  
of Total Unemployment (1927-1929)

INDUSTRY	Aged 16-64 in United Kingdom		
	1927*	1928	1929
Agriculture	-	-	-
Fishing	.3	.2	.2
Mining and quarrying	22.4	24.2	18.3
Manufacturing			
Non-metalliferous mining products	.4	.4	.4
Brick, tile, pipe, etc making	.4	.7	.6
Pottery, earthenware, etc.	.9	.9	.9
Glass	.5	.4	.4
Chemicals, paints, oils, etc.	1.3	.9	1.2
Metal manufacture	5.3	4.3	4.5
Engineering, etc.	6.7	5.4	5.4
Construction and repair of vehicles	1.6	2.0	1.8
Shipbuilding and ship repairing	4.8	4.3	3.9
Other metal industries and trades	4.3	3.7	3.5
Textiles	10.0	12.4	14.0
Leather and leather goods	.5	.4	.5
Clothing	2.2	3.1	3.1
Food, drink and tobacco	3.4	2.8	3.0
Woodworking, etc.	1.1	1.1	1.3
Paper, printing, etc.	1.7	1.1	1.3
Other manufacturing industries	.8	.7	.8
Total manufacturing	45.8	44.7	46.8
Building and contracting	7.3	8.6	8.6
Gas, water and electricity supply	.8	.7	.8
Transport and communications	8.8	8.4	9.3
Distributive trades	6.8	6.4	7.9
Commerce, banking, insurance and finance	.5	.4	.4
Miscellaneous service	5.5	4.4	4.9
Local government service	1.5	1.5	1.8
National government service	.7	.7	.6

Source: British Labour Statistics Historical Abstract 1886-1968  
(1971) op. cit.  
Computed from Table 163 Numbers of insured persons un-  
employed at each mid-year.

The problem was obvious but how could the Government change the prospects of the basic industries given the problems which they were facing?

Table 8

Regional Unemployment in Great Britain (1929)

	% U	Ur/UGB	% of Total Unemployment in Regions
London	4.6	.47	8.8
South East	3.8	.39	2.9
South West	7.1	.72	5.2
Midlands	9.1	.93	14.1
North East	12.8	1.31	22.4
North West	13.0	1.33	23.7
Scotland	11.0	1.12	12.3
Wales	19.7	2.01	10.0

Source: British Labour Statistics (1971) op. cit.  
Table 162.

The coal industry had grave problems: high unemployment, a shrinking labour force, falling prices and profits and a reduced share of world markets<sup>(1)</sup>. All leading exporting countries except Poland suffered losses in exports and it appeared that exports had shrunk because of the growth of self-sufficiency, technical improvements in consumption and the adoption of other fuels. Domestic consumption was also reduced by changes in technology which resulted in economies in the use of coal and because of the problems affecting coal consuming industries.

(1) Aldcroft (1970) op. cit.  
Since 1925 unemployment had not fallen below 9.5%; the labour force had fallen from 1.3M to .97M since 1923; profits per ton had fallen from 1s. 2d. per ton in 1924 to 1ld. per ton in 1928; sales had fallen by 10% and prices by 33% since 1924. W.H.B. Court 'Problems of the British Coal Industry between the Wars' Economic History Review 1945.

Much has been made of the relative inefficiency of the industry and the fact that output per man appeared to be up to a third higher in competing countries. Errors of measurement probably caused these figures to be overestimated as there were difficulties in measurement of output per man shift as the classification of colliery workers in different countries was not comparable.

The textile industry, apart from the rayon sectors, was in difficulties: production had fallen sharply, unemployment was high and export markets shrank with the growth of the domestically based industries, especially in India, and the competition from Japanese industry<sup>(1)</sup>. The boom in the industry in the early twenties had not led to the introduction of more

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(1) Aldcroft (1970) op. cit.  
Unemployment had been above 10% except for one year since 1923, production and exports had fallen 58% and 56% respectively, between 1924 and 1930. See also G.C. Allen (1935) British Industries and their Organisation, Longmans, London.

efficient plant and machinery. The machinery used was old fashioned and not very productive. But given the changes in the trading patterns which had occurred it is unlikely that even an efficient industry could have made much progress towards re-establishing the former position.

The iron and steel industry had also suffered severely especially the pig iron section in which unemployment had reached 43.4% in 1926<sup>(1)</sup>. There were a large number of firms and much of the difference in efficiency between Britain and its competitors appears to have been related to the failure of the industry to take advantage of the economies of scale. Seventy per cent of British production was produced by twenty firms but the combined output of these firms was one third of the United States Steel Corporation. In America 55% of the output was produced by two firms and in Germany five firms produced 70% of the output. Even after some reconstruction the average output in Britain was only 83,000 tons in 1937 compared with 210,000 tons in the United States and 125,000 tons in Germany.

Shipbuilding was another major industry which suffered severely as can be seen from the unemployment figures in Table 3, see Chapter One above<sup>(2)</sup>. The wartime economy had left the industry with vast spare capacity and it was estimated that less than 1/3rd of the capacity would have been sufficient to have provided all the work required. This was not a peculiarly British

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(1) Aldcroft, (1970) op. cit. Allen (1935) op. cit.

(2) L. Jones, Shipbuilding in Britain (1957).

problem for in fact world capacity had doubled. The Government's policy for the shipbuilding industry, apart from minor public works, depended upon the secondary effects of expansion of trade which it was hoped would arise with the revival of the basic industries.

### Public Works

The other policy advocated to increase the demand for labour was the public works programme. This was seen as an anti-cyclical device which could be used as a temporary measure to absorb unemployment. The use of public works as a method of creating a general stimulation of economic activity was not fully understood by the Labour Party. Nevertheless the policy was given considerable attention and after reconstruction was the major policy proposal to reduce unemployment.

The policy had a long history. It became the focus of attention in the twentieth century because of its advocacy as a contra-cyclical policy by the Webbs in the Minority Report on the Poor Laws.<sup>(1)</sup> It was taken up by the Labour Party as part of their policy portfolio and was advocated with some enthusiasm by Cole. After the war the Unemployment Grants Committee (U.G.C.) was set up under the management of Lord St. Davids by whose name it was often known. Initially it was to assist authorities to carry out useful work in areas suffering from severe unemployment.

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(1) Royal Commission on the Poor Laws: Minority Report Cmd. 4499, 1909; see Skidelsky, (1967) op. cit. pp45-51, for discussion of the acceptance of the policy.

This remained the case until 1925 when the Government policy was changed and work had to be an acceleration of existing programmes in areas of high unemployment. The scheme was reviewed once again in 1928 when the terms were improved and as a result after a period of comparative stagnation the committee had again entered an era of growth<sup>(1)</sup>. 347 schemes to the value of £5.148M had been sanctioned during the six months following the revised terms compared with 91 schemes valued at £1.11M between the years 1926 and 1928.

In addition schemes for road development by local authorities received grants from the road fund. Normal grants for roads were 33½%-50% for Class II roads and bridges and 50-60% for Class I roads plus 15% for schemes which used labour from depressed areas.

#### Supply of Labour

The supply of labour was to be affected by policies designed to reduce activity rates of the population by pension schemes,

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(1) CAB 27 391 DU 29(1)  
Schemes sanctioned by the U.G.C.:

2272 schemes	£20.639	1924-25
1240 "	£17.366	1925-26
63 "	.792	1926-27
28 "	.319	1927-28

raising the school leaving age and by encouraging and facilitating emigration from depressed regions in Britain to other parts of Britain and the British Empire and Colonies. Between 1922 and 1931 Drummond reports that 25% of the natural increase in population left the country,  $\frac{2}{3}$  going to Canada, Australia and New Zealand<sup>(1)</sup>. The implementation of the Washington Convention on the permitted hours of work would also contribute to the reduction in the supply of labour.

### Trade

The policies proposed were wide ranging but did not include the insulation of the domestic market in any way from foreign competition. The policy of free trade appeared to be related more to the desire to expose the British manufacture to the rigours of foreign competition, as a form of consumer protection, than to any belief that internationally, if not nationally, an unshackled competitive system had anything to offer.

Interference with the international price relationship was in fact implied in the schemes for import boards, the extension of export credits and other efforts to aid the export industries.

### Monetary Policy

The official policy of the party had little to offer in the way of monetary policy except the threat to nationalize the Bank of England and a general enquiry into money and credit.

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(1) Drummond (1971), op. cit. pp. 473-501.

Snowden was very anxious to reduce the burden of the national debt. He had been given his old job as Chancellor of the Exchequer which he accepted provided there was no deal with the Tories and that he had at least three years to do the job.

"Churchill had left the national finance in such a desperate state that it would require at least three budgets, even if trade were good, to get them into something like order, and before any reduction of taxation could be made." (1)

#### Alleviation of Distress

Policies suggested to aid the unemployed relied on the unemployment insurance fund although help was also expected to come from the emergency schemes, transference and migration policies and the other strategies designed to reduce unemployment. It was hoped that the burdens associated with the maintenance of the unemployed could be taken over from local authorities.

#### The Formulation of Policy

There were three phases in the formulation of unemployment policy during the remaining months of 1929: an initial phase of investigation which was energetic and purposeful; a report-back phase, during which progress was rather hesitant and many compromises were made; and a restive phase during which there was on the one hand the rumblings of discontent and on the other the

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(1) Snowden (1934) op. cit. p 75<sup>8</sup>

growing acceptance of constraints preventing the implementation of a progressive policy.

The I.D.C.U. was the central body concerned with unemployment policy. At the first Cabinet meeting<sup>(1)</sup> J.H. Thomas announced that the permanent heads of department would be at his disposal for the purpose of forming an Inter-departmental Committee in connection with unemployment. The I.D.C.U. met only nine times<sup>(2)</sup> between June 1929 and March 1930. Five of these meetings were held before the end of July 1929<sup>(3)</sup>.

It was also decided at this Cabinet meeting that Lansbury, Mosley and Johnson should assist Thomas. They subsequently attended the I.D.C.U. meetings<sup>(4)</sup> and undertook specific tasks relating to the formulation of policy.

Thomas began by asking for proposals for public works to be provided setting out the employment potentials and when they could be begun. Thomas cautioned the committee about the programmes pointing out that whilst financial and other objections should not stand in the way of practical proposals

(1) CAB 23 61 1st Meeting 10th June 1929, 22(29).

(2) CAB 27 389 DU (29).

(3) Mosley, O. My Life. Nelson, London, 1968. Mosley refers to weekly meetings held at the Treasury which Lansbury and Johnson, who had other duties and who were located elsewhere, were too busy to attend.

(4) Lansbury attended the third meeting and all subsequent meetings; Mosley attended the third meeting and subsequent meetings with the exception of the last meeting; Johnson attended the fourth, sixth, eighth and ninth meetings. CAB 27 389 DU (29).

it was not Government policy to 'undertake relief work pure and simple'.

Thomas Jones, who attended this meeting as secretary<sup>(1)</sup>, said that Thomas asked for schemes which could be put in hand immediately, that he had energy, and that his brain was full of plans. All seemed set for an attack on unemployment to begin.

The decisions reached at this meeting and the progress made was reported in the form of a Memorandum<sup>(2)</sup> by Thomas to the second Cabinet meeting 21st June 1929<sup>(3)</sup> at which he gave a full account of the decisions he had already taken. It was pointed out that £190M had been spent on public works but at no time had more than 75,000 men been employed. Schemes for £9½M to be spent upon trunk roads and £23M for reconstruction were sanctioned and the Ministry of Transport was asked, subject to the agreement of the Treasury, to open negotiations with the authorities concerned. Progress on transfer centres, export credits and the acquisition of land was reported. Much of his statement was incorporated in the King's Speech in which Government policy was restated. It was decided that the Lord Privy Seal should open the second day of the debate on the King's speech. On July 6th

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(1) Keith Middlemas Ed. Thomas Jones  
Whitehall Diaries Vol. II Oxford University Press  
London 1969.

(2) CAB 24 204 CP 59 (29).

(3) CAB 23 61 23(29).

The New Statesman reported that Thomas had lost no time in unveiling his plans for dealing with unemployment<sup>(1)</sup>. On 15 July the Home Development and Colonial Development Acts were introduced and passed before the recess. These made borrowing easier.

Sub-committees of the I.D.C.U. were appointed to consider the questions of colonial development, early retirement and the raising of the school leaving age. The latter scheme was subsequently referred to the President of the Board of Education<sup>(2)</sup> who later announced that the scheme could be implemented by April 1st 1931 or if necessary by August 1930.

Other aspects of unemployment policy were also keenly discussed in these early Cabinet meetings. The President of the Board of Trade presented a memorandum<sup>(3)</sup> containing a draft announcement of policy regarding the safeguarding duties. The Minister of Health asked for an order to repeal the decision of the previous government so that local authorities could proceed with their housing programme<sup>(4)</sup>. The Minister of Labour reported the difficulties which confronted the unemployment insurance fund and proposed as a short term remedy an increase in the borrowing powers and had some ideas about ensuring the long term viability

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- (1) New Statesman, 6 July 1928. Reporting on the debate on the King's speech.
- (2) CAB 27 391 4th Meeting 23rd July.
- (3) CAB 24 204 CP 154, 156(29) 172(29).
- (4) CAB 24 204 CP 157, 178(29).

of the fund<sup>(1)</sup>. She was also preparing a bill dealing with hours of work to enable the Government to ratify the Washington Convention<sup>(2)</sup>. A committee was appointed to consider Empire Trade<sup>(3)</sup> and the President of the Board of Trade reported that negotiations had reached a stage where the committee investigating the iron and steel industry could be set up and that discussions on the cotton industry were proceeding<sup>(4)</sup>. Thus in less than two months considerable inroads had been made into the many aspects of the proposed unemployment policy.

There was something of a hiatus in Government policy during August and the early Autumn because of the travels of various members of the administration. Snowden and Henderson were attending the reparations conference at The Hague during August; Thomas left for Canada in early September on his trade finding crusade and later MacDonald left for America<sup>(5)</sup>.

#### First Instalments

Cabinet met again early in September but there was no mention of unemployment policy. The Widows and Orphans Bill was

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- (1) CAB 24 204 CP 169 (29)
  - (2) CAB 24 205 CP 223 (29) The Washington Convention was an attempt by the International Labour Organization to secure international agreement for a 48 hour week.
  - (3) CAB 24 204 CP188 (29)
  - (4) CAB 24 204 184 (29)
  - (5) S. Roskill Hankey Man of Secrets, Vol 11 1919-1931 Collins London 1972. pp.473-501.

presented to the Cabinet. It was rather a disappointment being offered as a scheme which was thought to be as fair as could be devised within the limits of the money available. Cabinet was urged to state quite emphatically that it was merely a 'first instalment' (1). To give credence to this position a committee was set up to consider the whole question of national insurance and pension schemes. (2)

At a later Cabinet meeting the Minister of Labour submitted a report (3) of the committee appointed to examine the question of relieving the unemployment insurance scheme of the charges in respect of those persons who had not fulfilled the thirty contributions qualification. The committee thought that it was unnecessary and impossible to deprive these persons of any part of their rights but rejected any further extension of the transition period as this was likely to bring the Fund into disrepute. A temporary scheme to deal with the problem was rejected by the Cabinet. In the light of the Cabinet reaction to its proposals the committee merely reported 'accepting the status quo'. The unemployment insurance bill was presented and received a cool reception because of the limited improvements offered and was referred to the Minister for further considerations. But after further discussions with the Chancellor it was decided that little more could be offered.

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- (1) CAB 23 61 26th July 31 (29)  
 (2) CAB 27 408  
 (3) CAB 23 61 25th September 34(29) CP 253(29).

Cabinet were dissatisfied by the nature and extent of the policies they were able to implement but were already faced with the budget constraint which prevented them adopting more radical measures.

On the 25th September the Lord Privy Seal (1) reported on his visit to Canada. The results were meagre but he appeared pleased. He was hopeful about the implications for British trade of the St. Lawrence Seaway and the reconstruction of Canadian railways. There was also the possibility of an order for shipping and that a mixture of Welsh and Nova Scotia coal would 'oust' U.S. coal from Canadian markets.

Soon, the Lord Privy Seal was warning his colleagues of seasonal rises in unemployment. In the world economy matters of the utmost importance for the success of an unemployment policy were taking place; in America the stock market crashed and the fall in commodity prices accelerated.

Monetary policy for the past year had been dominated by the need to protect the £; whilst the drain of funds to New York continued, the American loans were greatly reduced. The bank rate was raised on 26th September to deal with the uneasiness in the exchanges, and although this was not welcomed, especially by the left wing, the change was generally accepted (2). When the

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(1) CAB 23 61 CM 35(29)

(2) New Statesman 12 October 1929.

crash eventually occurred conditions eased and it was possible to foresee a lowering of interest rates.

MacDonald left for the United States in the late September. In his absence Snowden took the chair at Cabinet meetings. On the 25th October, a special meeting was held on unemployment. Thomas outlined the position he intended to take at the Parliamentary debate and was supported by Cabinet<sup>(1)</sup>. He intended to emphasise that schemes likely to produce a permanent effect on unemployment would not show results immediately although as the 'weeks and months went by' the results would become more apparent. He was cautioned by his colleagues to be reserved in his comments on the live register test. Thomas believed that these figures did not indicate the true position on unemployment<sup>(2)</sup>. He was also urged to set up a committee on the transfer of workers from the depressed areas. This was done.

A committee, the members of which included Clynes, (Chairman), Thomson, Alexander and Greenwood met on two occasions at which they considered the policy of transfer and the modifications which had been made since the Government took office<sup>(3)</sup>. The

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(1) CAB 23 61 8 41(29)

(2) Thomas, like Churchill a few months before, was doubtful of the statistical evidence relating to unemployment and wanted to re-define the problem

(3) CAB 23 61 41 (29). See Public Works below.

committee reported the need for greater flexibility in the transfer policy and that the transferred workers should be involved in national schemes of works<sup>(1)</sup>. To enable them to consider national schemes they asked for a revision in their terms of reference and for the inclusion of the Lord Privy Seal in the committee<sup>(2)</sup>. The Committee eventually reported that national schemes were not appropriate as they would interfere with local autonomy.

Meanwhile, out of sight of Cabinet several committees were beavering away preparing reports. The retirement pensions committee was, despite growing and deepening divisions, preparing schemes and the I.D.C.U. was still holding meetings though less frequently than formerly.

The problems of organisation were becoming all too apparent. At the Conference of Ministers considering national schemes, Mosley pressed for the sort of organizational structure which had been advocated in the pre-election speeches of the Prime Minister. Greenwood appeared to agree and said he was preparing a note on the matter. He proposed to complete the note in consultation with Mosley, and to discuss it at the next meeting. No evidence could be found of any further meetings being held.

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(1) CAB 27 400

(2) CAB 27 397.

(3) CAB 27 389

In November, Macdonald was reported<sup>(1)</sup> to have received from Butler, an official at the Ministry of Labour, a memorandum suggesting organizational changes to deal with the unemployment problem. These changes involved the formulation of an economic general staff under the auspices of the Prime Minister which would include expert advice from outside the civil service. Macdonald; whilst apparently unruffled by the growing tensions within his Cabinet and within the House, reacted to the pressure in late November by calling together a group of 'distinguished industrialists and economists' to advise him about the economic problem. The group met during December and produced a working memorandum on the possible composition and form of this body<sup>(2)</sup>. From amongst this group he was to select the team for the Economic Advisory Committee which was set up in the new year.

#### Dissatisfaction

The growing feeling of dissatisfaction which had been rumbling within the administration and on all sides of the House found its expression in the last few weeks of 1929<sup>(3)</sup>. Thomas was asked to show the progress of unemployment policy compared with

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(1) Skidelsky op. cit. p. 155.

(2) CAB 58 15. See Howson and Winch (1977) op. cit. and below Chapters 3 and 4 on the Economic Advisory Council. Prem 1/70

(3) Hansard November 4th. Vol 231 cols 657-770; December 22nd, Vol 233 cols. 1793-1866.

the election promises. This he did in terse style<sup>(1)</sup>. In the House the Liberals asked for an all party conference and were gently side-stepped by Macdonald.

The New Statesman considered the first six months a success on the whole but they regarded Thomas's record as the weak spot. After Thomas's statement to the House the criticism went further: it was now believed by colleagues and the press that Thomas had become convinced that there was no solution to the unemployment problem<sup>(2)</sup>.

Unemployment had begun to rise but as yet little more than seasonal increase was apparent as can be seen from the monthly unemployment rates shown in Table 9.

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(1) CAB 27 397 NS 1/2.

(2) New Statesman 7th December 1929.

Table 9

% workers insured and uninsured  
registered as unemployed in  
United Kingdom

Month	% U
July	9.7
August	9.9
September	9.9
October	10.3
November	10.9
December	11.0

Source: British Labour Statistics (1971) op. cit. Table 160.

During December it was apparent that all the short term remedies for unemployment had been abandoned, delayed or rendered ineffective. The retirement pensions scheme was turned down after receiving a cool reception from Thomas. The raising of the school leaving age bill was postponed because of lack of Parliamentary time, the public works schemes were not being produced and the transfer policy was proving exceedingly difficult to operate given the growing and more generalised nature of the unemployment problem. All that remained were the long term schemes for reconstruction, which might initially cause an increase in unemployment; and the hope of trade revival.

In his memorandum issued shortly before the Christmas recess, Thomas reiterated his belief that,

"the only sound policy for dealing with the present situation is one which, ..... is aimed primarily at the restoration of the competitive efficiency of our export trades on which we should concentrate our efforts." (1)

This was the policy at a time when the indicators of world trading activity<sup>(2)</sup> were all showing signs of problems for the future which would be likely to preclude anything like an export generated expansion. But matters of general trading activity were considered separately from unemployment policy in the organizational structure which existed and it was Graham and not Thomas who listened each month to the depressing accounts of the trading performance and prospects. All hope was pinned upon the impact of a trade revival, the possibility of cheap money and the long term strategy of reconstruction.

On the question of alleviation of distress the maintenance of the status quo vis-a-vis the contributions requirement and some minor improvements in payments to juveniles was all that had been achieved and even these improvements were likely to burden the fund in the future. The terms of aid offered for public works were unfavourable to local authorities in the depressed regions in order to facilitate the workings of the cumbersome transfer policy.

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(1) CAB 23 62 51 (29); CAB 24 207, CP 345 (29).

(2) C.P. Kindleberger: The World in Depression Allan Lane Penguin Press 1973. P. 126.

The Minister of Health had been concerned about the conditions in the distressed areas for some time and after an unsuccessful attempt to persuade Cabinet to provide him with half a million pounds to ease the situation over the winter months he produced fresh evidence of the problems in these areas and tried once more to extract funds from the Chancellor. Nothing was forthcoming. At the Cabinet meeting immediately before Christmas his application was once again rejected.

Thus after six months in office the Labour administration 'sat supinely by waiting for God or providence to do its work'<sup>(1)</sup> and it could not even redeem itself by having been generous to its friends and supporters.

### Major Policy Strategies

#### Public Works

##### Introduction

The use of public works expenditure as an injection into the economy to set in motion a general stimulation of demand was at best not fully understood by the Labour Party; and one must look elsewhere for the rationalization of public works schemes. They were seen as anticyclical devices which could be used to refurbish the economy and absorb labour when trade was slack.

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(1) Craig (1975) op. cit.

The Government policy on public works was initially supervised by Thomas. He was not too impressed by their potential and warned against 'relief work pure and simple' pointing out the meagre employment which had been gained from the expenditure on public works during the previous decade. At the October meeting of the Board of Trade Advisory Council<sup>(1)</sup> the Lord Privy Seal made a statement which throws light on his attitude towards public works.

"At home, whatever might be said of road schemes and playing fields they were not remunerative. They gave work temporarily but at the end the same difficulties had to be faced. He had, therefore, resolved that if public money was to be spent it should only be spent in the direction of improving the general industrial efficiency of the country, that is to say by improving the railways, docks, harbours and power services, so that any improvement in trade that might come would find us better equipped to meet it. For that reason the expenditure of public money that had been sanctioned for development at home had been restricted to public utility concerns and local authorities and the conditions imposed that the work would be accelerated and that it would tend to help the general trade and prosperity of the country." (2)

### Terms and Conditions

The criteria thus seemed to involve:

- (a) a positive rate of return to the undertaking involved;
- (b) externalities which would aid other sectors of industry;
- (c) an acceleration of work which would otherwise be undertaken in the future.

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(1) CAB 24 206 CP 281 (29).

(2) CAB 24 206 CP 281 (29).

The benefits to society in general as opposed to benefits accruing specifically to industry thus appear to be discounted by Thomas though he mentions them with regard to colonial development.

The possibility of the Government underwriting some of the risk element of projects was considered when the railways managers referred to their reluctance to invest given the unsatisfactory condition of the industry and asked whether aid would be available. They were told that the Government would consider particular schemes which were 'economically justified' and would not otherwise be carried out. The companies were asked to consider schemes for development and indicate at which points in the scale of aid would the schemes be remunerative.

This more flexible approach did not apply to the schemes of the Electricity Commissioners. The Electricity Commissioners had suggested a host of schemes which would be highly productive in terms of employment and efficiency which they would undertake with Government support. They were summarily dismissed by Thomas who considered electricity to be a prosperous industry which should help the unemployment policy and not expect funds. Snowden was one of the few Ministers to draw attention to the potentials of these schemes in the next few months of the administration<sup>(1)</sup>.

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(1) CAB 27 438 UP 1(30).

Public works were also penalised in distressed areas. This was pointed out by Mosley in a memorandum produced on work plans at the end of September. He said that many local authorities in these areas were unable to undertake any work on the present terms and he speculated whether this was part of Government policy.

"To what extent does this result coincide with the definite intention of the D.U. Committee? That body has been considerably moved by the argument that these areas are dead, and that to encourage local work is uneconomic and militates against transfer. This view is, of course, strongly contested by local opinion and the MPs who represent these districts. Has not the view that these areas are dead carried too much weight with the committee? Is it not nearer to truth to say that most of these areas have considerable industrial future, but on a reduced scale incommensurate with their past activity?" (1)

The major obstacle was the policy of transfer which was inherited from the Conservatives as a possible remedy for structural unemployment. Under this scheme additional aid was given to authorities employing 50% workers from the depressed areas. Thus the idea of taking 'workers to the work' had become established as a central tenet of policy.

Some flexibility had been introduced here and there at the discretion of the minister concerned, e.g. the Minister of Transport said that he had given high rates to depressed areas

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(1) CAB 27 390 DU 56 (29).

providing that only married men with dependents should be employed (the least likely to move voluntarily), so there would be no infringement of the transfer policy. The Minister of Labour thought that the terms of grants were just one factor inhibiting the application for money from the depressed areas for these were already 'over committed' and 'national schemes' alone could provide work and these she could not support.

The terms and conditions of aid<sup>(1)</sup> to the various works programmes were rather different. Differential terms were offered for first and second class roads; for revenue and non-revenue producing schemes; and the transfer conditions and the poverty of many local authorities contributed to the differential between the more prosperous and the severely depressed areas; the railways were the only form of transport which was not eligible for grants from the Unemployment Grants Committee. In addition to the anomalies created by the differential terms, there was also some overlap between the bodies responsible for giving aid, e.g. grants for coastal erosion were obtainable from the road fund, the development fund, the Ministry of Agriculture and Fisheries and the Unemployment Grants Committee<sup>(2)</sup>. The operation of the Home Development Act led to the formation of yet another grant approving body: The Duckham Committee.

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(1) CAB 27 389 DU 1, 2 (29)

(2) CAB 27 389 DU 16 (29). See above, Administrative Structure.

Dissatisfaction about the terms upon which grants were given was expressed to the I.D.C.U. in the early memoranda produced by the Ministry of Transport<sup>(1)</sup> and the Ministry of Agriculture<sup>(2)</sup> and the Scottish Home Department<sup>(3)</sup>. It was also clear from a very early stage that the transfer conditions were not popular<sup>(4)</sup>; an increase of 15% in the grant was thought to be insufficient to overcome the reluctance of local authorities to employ transferred workers and a 75% grant (grant including transfer payments) was much more likely to encourage proposals for schemes of work if the transfer conditions were removed.

Modifications were made to the scheme and greater flexibility was achieved by the decision made in the early Autumn as a result of discussions between the Lord Privy Seal and Lord St Davids<sup>(5)</sup> of the Unemployment Grants Committee. It was also agreed at this meeting that the rate of grant should remain unchanged as the uncertainty about the terms and conditions of the schemes was already holding up some schemes: local authorities were delaying making proposals in the hope that the policy would be revised on more advantageous terms. It was however already

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- (1) CAB 27 389 DU 1 (29)
  - (2) CAB 27 389 DU 4 (29)
  - (3) CAB 27 389 DU 5(29)
  - (4) CAB 27 389 DU 1, 3 and 56 (29)
  - (5) CAB 27 390 DU 37 (29).

being noted that some areas would only be able to finance schemes on the basis of a 100% Government grant.

The Scottish Homes Department<sup>(1)</sup> asked for increased funds for slum clearance because Scotland was not receiving an appropriate share of the grants available because of the effect of the duration of unemployment in Scotland on the finances of the local authorities.

The most comprehensive review of the anomalies in the public works programme was produced by Oswald Mosley in his, Note by the Chancellor of the Duchy of Lancaster on Work Plans by Local Authorities through the U.G.C. and the Ministry of Transport<sup>(2)</sup>.

This was produced on the 27th September and was submitted by the Lord Privy Seal to the departments concerned with the request that they should give immediate consideration to the memorandum and produce observations at the meeting to be held during the following week. The note reviewed the revised procedures. It pointed out that amongst the revenue producing schemes two anomalies were apparent: those concerned with the lengthy construction periods involved in the implementation of such schemes as docks and water works and schemes for which the revenue was largely a token and was not expected to cover the entire costs of the operation, e.g. wash-houses and work-houses.

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(1) CAB 27 389 DU 5 (29).

(2) CAB 270 390 DU 56 (29).

"It is submitted that to cover these cases an intermediate category of partially revenue producing schemes should be created with a more generous measure of state assistance than ordinary revenue producing schemes. A municipal wash-house in a poor district has conceivably more economic utility than a Town Hall or many other projects which in the past have been considered by the committee." (1)

Thus Mosley was attempting to extend the externalities of public works schemes to include the value to society at large and indicate the anomaly which existed between the 'productive' and 'non productive' (in revenue terms) schemes. Mosley also discussed the effect of the transfer condition which created anomalies in depressed and prosperous areas. He suggested that recent modifications should be expressed more forcefully, to make it clear that the Government would consider a smaller percentage of transferred workers in certain circumstances. He concluded that some transfer was necessary but the best way of ensuring it was by developing national schemes in addition to the local authority schemes and public utility schemes. Mosley suggested this would accelerate works in two ways: a) from the state schemes, b) from the increased local authority schemes which would result from the relaxation of the transfer conditions.

In response to Mosley's suggestions memoranda from the Minister of Labour<sup>(2)</sup>, the Minister of Transport<sup>(3)</sup> and the Minister of Health<sup>(4)</sup> were produced. There was general agreement about the

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(1) ibid.

(2) CAB 27 390 DU 59 (29)

(3) CAB 27 390 DU 60 (29)

(4) CAB 27 390 DU 61 (29)

anomalies and sympathy for the depressed areas. They would not support changes in the terms of the grants because of the possibility that the uncertainty accompanying the changes would delay schemes and be unfair to authorities which had already begun to work. Some of the anomalies were removed and better terms were given for intermediate schemes though these did not have much employment potential. The I.D.C.U. set up a committee<sup>(1)</sup> consisting of Mosley, Johnston, and representatives of the Treasury, the Ministry of Health and the Ministry of Labour to examine the proposals. The Minister of Transport<sup>(2)</sup> produced a memorandum on the possibility and implications of a national trunk road scheme.

It was decided by the Cabinet<sup>(3)</sup> that a committee should be set up to elucidate the transfer question. This committee, presented an interim report<sup>(4)</sup> to the next Cabinet meeting stating that they were unanimous that the transfer policy was necessary but suggested that the terms should be more flexible and that the men involved should be employed as far as possible on national schemes of work. The committee asked for the Lord Privy Seal to join them and for changes in their terms of reference to enable them to consider national schemes. Thomas asked the committee to consider whether schemes would be generated if

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- (1) CAB 27 389 Sixth Meeting 8th October 1929.
  - (2) CAB 27 390 53 (29)
  - (3) CAB 23 62 29th Meeting 25th October 1929, 41 (29).
  - (4) CAB 23 62; CP 295(29).

central government were involved. The committee eventually rejected the idea of national schemes on the grounds of efficiency and local autonomy.

#### Administrative Problems

Quite apart from the problems associated with the terms and conditions of the aid there were delays inherent in the administrative structure.

The most obvious delay was in the presentation and formulation of schemes by local authorities and public utility companies concerned; the financial problems they were encountering because of the extent and duration of the depression; and the requirement that the schemes should represent an acceleration of work. This condition had somewhat denuded the portfolio of prospective schemes e.g. it was stated that the recent expenditure had reduced the scope for further productive expenditure on harbour schemes<sup>(1)</sup>.

A further delay occurred when the application for approval was made to the respective ministry, and then referred to the Treasury for financial sanction. Once approved there were further delays in the execution of the schemes. A serious delay was associated with the acquisition of land. The Chief Engineers Department reported on this matter in their first

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(1) CAB 27 389 DU 10 (29).

memorandum to the I.D.C.U. (1). After surveying the methods for acquiring land it was suggested that the Special Powers and Unemployment (Relief Works) Act of 1920 should be used to enable land to be acquired in about three months and possibly within six to eight weeks. In spite of this report the matter was still being discussed months later. In September the Ministry of Transport produced a further memorandum (2) suggesting procedures to speed up the process and these were discussed by the I.D.C.U. (3) when the heads of departments were asked to submit a memorandum to Cabinet giving the proposed headings for legislation and asking for authority to introduce a bill as soon as possible. At the end of November the Lord Privy Seal (4) told Cabinet that the Lord Chancellor had a short bill prepared and an emergency order had been approved to vary standing orders. Mosley (5) was given the task of the 29th November of gingering up authorities who having received sanction for schemes were slow in executing them, and those who had not made applications. The Ministry of Transport reported that through the divisional engineers steps had been taken to urge the local authorities to press on with schemes (6).

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- (1) CAB 27 389 DU 3 (29). This matter was not adequately dealt with until the following year.
- (2) CAB 27 289 6th Meeting 8th October 1929.
- (3) CAB 23 62 27th November, 50 (29).
- (4) CAB 27 389
- (5) ibid.
- (6) ibid.

### Submission of Schemes

In reply to Thomas's enquiry about possible schemes of work a large number of suggestions was submitted ranging from a mussel cleansing plant and a new whale house for the museum, to the channel tunnel, the Severn barrage and an inner-London goods railway. Let us consider these schemes in the broad categories under which they were proposed.

### Roads

The road programme was a central part of the public works programmes of all parties. The Conservatives had rejected an £8M road scheme in November 1928 but they had reconsidered the question on several occasions before the election and the road programme was of course, an important feature of the Liberal proposals.

The report on the road schemes was one of the first memoranda (1) submitted to the I.D.C.U. It was suggested in this memorandum that the road programme had been held back because of the uncertainty about the workings of the new local authority bill, expectation of increased grants and the bad winter. It was also suggested that few schemes of a substantial nature could be expected to be undertaken on the current terms. The schemes likely to produce the greatest advantage from the point of view

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(1) CAB 27 389 DU 3 (29).

of road policy were: an extension of the trunk road improvement programme, new by-passes, completion of ring-roads and sections of arterial roads already partially constructed, reconstruction of weak bridges and the removal of level crossings. The extensions to trunk roads were thought to be the most suitable for producing employment.

This memorandum was accompanied by the very energetic report by the divisional road engineers stressing the urgency if works were to begin before the Winter. It was suggested that local authorities should continue their affairs during the parliamentary recess; that staff should be recruited to undertake surveys and that additional engineers should be appointed to the Ministry. To deal with what was considered to be the major delay: the negotiation for land, a note was included specifying the ways in which land could be acquired in three months and possibly in as little as six to eight weeks. (1)

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- (1) This procedure involved the Ministry of Labour in issuing a certificate declaring:

"that having regard to the amount of unemployment existing in any area it is desirable that the provisions of this section should be put into operation with a view to speeding up provision of employment of unemployed persons from that area."  
CAB 27 389 DU 3 (29).

The highway authority could then make an order scheduling the property and submitting it to the ministry of Transport for confirmation. The order would be advertised and fourteen days allowed for objections. If objections were raised the minister of Transport would hold a public enquiry having given fourteen days notice after which period the order would become effective upon receiving ministerial confirmation. Disputed questions of compensation were submitted for arbitration.

They were perhaps optimistic about the time that would be needed for implementation. It was also suggested that the Minister of Labour could view the question of unemployment flexibly to take into account the areas from which labour would be drawn as well as the areas in which the works were to be constructed. This aspect of the transfer problem was discussed in subsequent reports and was not resolved until later in the session. This first report on the potential of works schemes was the most energetic and purposeful of any proposal. It appeared that there was every expectation that an active works policy would result.

The proposal for a trunk road system of £9½M was accepted along with a £23M programme of improvements to take place over a five year period. There was discussion on the possibility of a national works policy. On the 11th September the Minister of Transport<sup>(1)</sup> produced a memorandum on the nationalization of trunk roads weighing the advantages and the disadvantages which would be involved in the transfer to the ministry of control of all class one roads. Twenty four thousand miles of roads would be involved. The alternative forms of organization were for the ministry to execute responsibility for the programme or for the county councils to act as agents for the ministry. The former method was likely to be inefficient and the latter would amount to 100% Government grant. There was thought to be nothing inherently impracticable or impossible about such a project: grants of 100% had been given in the past for trunk roads in poor

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(1) CAB 27 390 DU 53 (29).

agricultural counties where the road was used almost entirely for through traffic and was a burden rather than a benefit to the local community. The advantages of a nationalised system organized in this way were thought to be the standardization, the power to decide priorities and control over difficult problems. The disadvantages were associated with the hundred per cent grant which would 'remove incentives to economical and careful administration'; infringe upon the autonomy of local authorities; upset the financial basis of the Local Government Act of 1929 and absorb all the money available from the road fund.

#### Railways

As a condition for the repeal of the railway passenger duty in the budget of 1929 it was agreed that the capitalised value of the duty less 10% should be spent by the railway companies upon works of development and modernization. The work was to amount to £6½M. The proposed works should be:

"such as would yield a substantial amount of additional employment ..... and should enable economies to be effected on additional facilities afforded to traders." (1)

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- (1) CAB 27 389 DU 9 (29)  
The duty was 5% of fares (2% in urban areas and for short journeys). The companies were to be relieved of £370,000 per year.

Churchill, the Chancellor who had introduced the scheme, had suggested that the works contemplated should include such items as port equipment, terminal facilities, marshalling yards and the adaptation of the railway system to deal with heavier rolling stock, and should contribute towards the revival of industry, particularly heavy industry. It was also hoped that the works would be of a capital nature which the companies would have been unable to finance but for Government aid.

When the Labour Party took office only the Great Western Railway Company had submitted any plans. They had proposed schemes involving the expenditure of £880,000 which was £170,000 more than they were required to spend. Two of the schemes were of a capital nature and three were revenue. On the 25th June, Thomas and Morrison met the railway managers and the policy on public works was explained. Thomas considered that the railways were important because they could give special stimulus to the iron and steel industry<sup>(1)</sup>. The railway managers referred to the prospects of the railways and said that they were not able to rely upon the expansion of trade and were cautious about embarking upon new works. The London and North Eastern Company expected a 10% return. The managers asked Thomas what aid the Government would be willing to give. Thomas intimated that works would be considered if they were 'economically justified' and would not otherwise be carried out. 'Economically justified' to Thomas appeared to mean something

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(1) ibid. Thomas was often accused of favouring the railways because of his previous union relationship.

between 10% and non-remunerative. The companies were asked to examine schemes of development to consider at which point in a scale of possible assistance they would be remunerative, bearing in mind the various forms of aid that might be given. The managers agreed to make this survey and report their findings. This they did, and the next day<sup>(1)</sup>. They considered they could undertake works; if grants from the U.G.C. were available and drew attention to their inability to take risks in the prevailing economic climate. As many of the projects would aid industry generally they felt that the Government would be justified in granting loans. Permission to buy land was requested so that some of the benefits attributable to the railway development could be recouped: the 'betterment'. Thus attention was drawn to two important externalities related to railway development. Complaints were made because they were required to maintain roads and approaches to bridges over railway lines but had no access to the road fund for maintenance grants.

In a report to the I.D.C.U.<sup>(2)</sup> the Minister of Transport pointed out that they were £9M short of their standard revenue; were not allowed to retain any part of the de-rating relief; and that the Government road programme contributed to their plight by making roads relatively more attractive. To some extent their position was eased by the Home Development Bill which improved their borrowing powers.

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(1) CAB 27 390 DU 25 (29)

(2) CAB 27 390 DU 34 (29)

The schemes mentioned as possibilities for a works programme by the railways included a London underground goods railway; electrification of the suburban section of the L. & N.E.R. and Southern Railways and the Tilbury-Southend section of the L.M.S.R.; the Channel Tunnel Railway<sup>(1)</sup> and the extension of the tube lines in London<sup>(2)</sup>.

Early in the Autumn it was agreed that the promoters of the proposed London underground goods railway should present their proposals to Parliament in the ordinary way. The only other schemes<sup>(3)</sup>, to get under way were those by the Great Western Railway for improvements at Temple Meads and Paddington stations.

### Harbours

Harbours were not expected to play a particularly important part in the public works programme. Their limitations were pointed out in the memorandum produced by the Ministry of Agriculture and Fisheries<sup>(4)</sup>. The work on harbours was likely to be suspended in winter months, located in small poor fishing communities which have to be maintained, and the works may reduce the employment potential in these areas. The Ministry of Transport<sup>(5)</sup>, also reporting on harbours, were not very

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(1) CAB 27 389 DU 10 (29)

(2) CAB 27 389 DU 14 (29)

(3) CAB 27 390 DU 57 (29)

(4) CAB 27 389 DU 11 (29)

(5) CAB 27 389 DU 10 (29)

optimistic about their potential contribution to a public works programme, it was felt that £10M had already been spent on harbours and that this expenditure had reduced the scope for further schemes. It was pointed out however, that since the change in terms of the U.G.C. grants there had been some applications. The Ministry of Agriculture mentioned schemes which could begin either immediately or after a short delay. These were concerned with improvements to four harbours and the erection of tanks to clean polluted mussels and were unlikely to involve more than 300 men.

### Canals

The only schemes recommended by the Ministry of Transport<sup>(1)</sup> involving canals were those in connection with the Caledonian and Crinian canals and these schemes were thought unlikely 'within themselves to be directly or indirectly worth their cost'. Reports on these projects were requested and are discussed in Chapter Four.

### Electricity schemes

The schemes of the electricity commissioners were introduced in a memorandum circulated by the Minister of Transport. These schemes are amongst the most ambitious of any submitted. The commissioners mention as possible ventures; the construction,

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(1) ibid.

extension and interconnection of generating stations; the utilisation of water power (the Severn Barrage was being considered); transmission to rural areas; low tension distribution; service facilities; industrial and railway use.

"The Commissioners suggest, therefore, that regarded as a business proposition the stimulation of electrical development ranks high among possible methods of increasing employment. The amount of skilled labour and manufacturing capacity available may operate as limiting factors against any immediate percentage increase in the present rate of development." (1)

In spite of large investment programmes already undertaken with the aid of U.G.C. grants,

"the Commissioners are satisfied that it would be possible to increase the rate of expansion and consequent employment by well considered grants. Although the previous grants were successful in their immediate object, the Commissioners would suggest that instead of repeating these grants a broader outlook is adopted and it should be made clear that the object of state assistance was to assist in the provision at an early date of a cheap electricity supply both for domestic and power purposes incidentally relieving unemployment and that instead of regarding the state assistance as given for the provision of anything in the nature of relief works, it should be regarded as given to enable undertakings to develop on the best lines ..... special assistance for the companies standardising the system and moving from DC to AC, and adopting standard voltages as these changes are essential for an efficient national system." (2)

It was also pointed out that railway electrification would assist the development of a national system and it was hoped that any

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(1) CAB 27 389 DU 12 (29)

(2) ibid.

negotiations with the railway companies would include electrification proposals.

The proposals would appear to be absolutely in line with Labour Party policy of public works designed to aid industry and to refurbish the economy and increase efficiency. They were, however, summarily rejected on the grounds that electricity was a prosperous industry.

At the third meeting of the I.D.C.U. Thomas said that whilst it was not his intention to hamper their work the Government regarded the industry as prosperous and as such it should help unemployment policy but not expect funds. This attitude was at odds with the transfer policy which attempted to speed up adjustment by giving preferential terms to prosperous regions. To prosperous industries which also had a part to play in the adjustment process the policy was punitive. A great opportunity for technological change and a substantial works policy was lost.

#### Land Drainage

The Minister of Agriculture and Fisheries<sup>(1)</sup> reported that schemes for land drainage which were likely to be begun soon would provide 200,000 man weeks of employment. Further schemes were under consideration including the Ouse scheme, and other

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(1) CAB 27 389 DU 4 (29)

schemes worth £20M likely to be 'beneficial to the community' could be undertaken on the lines suggested by the Royal Commission on Land Drainage. Few schemes involving transferred labour were considered likely to be proposed on the present terms of the grant.

Land settlement was a popular proposal with some sections of the Labour Party particularly Lansbury and Lloyd George and other Members of the Liberal Party. This would have involved legislation and was thought to be a costly venture not likely to make much impact on the unemployment problem.

#### Forestry schemes

The chairman of the Forestry Commission outlined to the I.D.C.U. the main features on a scheme involving 330 acres which they advised the Government to adopt instead of a 225 acre scheme sanctioned by the previous administration. Although Hopkins pointed out that the larger schemes would not give great employment results or have a high return rate, Thomas recommended that the larger scheme should be adopted subject to the agreement of the Treasury. This was one of the rare occasions when a more expensive scheme was approved than that proposed by the civil servants<sup>(1)</sup>.

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(1) CAB 27 390 DU 23 (29) 5th Meeting 29th July 1929.

Housing

The Minister of Health asked for permission to repeal the provisions of the previous administration relating to house-building so that the housing programme might go ahead. The Scottish Department<sup>(1)</sup> indicated that there had been a falling off in schemes because of the uncertainty about the terms to be offered and suggested increased grants for slum clearance to enable the work to proceed. The renewed buoyancy of the housing market from 1930-1932 was to make a significant contribution to economic activity during the recession<sup>(2)</sup>.

Works

The First Commissioner of Works, Lansbury, presented a memorandum<sup>(3)</sup> setting out the schemes which his department could initiate. These included work in the royal parks, the erection of the new whale room presumably for the Natural History Museum and the development of the Montague House site to provide departmental accommodation. The schemes were small and could not make much contribution to the unemployment problem.

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(1) CAB 27 390 DU 5 (29)

(2) H.W. Richardson, D.N. Aldcroft, Building in the British Economy Between the Wars, Allen and Unwin London 1968.

(3) CAB 27 390 DU 13 (29)

Reconstruction

"the first step towards putting British industry in a position to compete successfully in overseas markets is to subject their organisational equipment to a thorough reconditioning." (1)

The Labour Party saw industry as being in need of a purge and reconstruction. The idea of improving productive capacity underlay the public works programme. It was a popular policy lending an air of purpose and realism to the party's proposals. The extent of the problem facing the basic industries is indicated by the unemployment position in those industries in 1929, which has been discussed above. See Table 7. p.120.

Promises had been made to reorganise the coal industry from 'top to bottom' and to set up committees to inquire into the cotton and the iron and steel industries. The first steps towards the realisation of these objectives were made before the summer recess when committees were set up under the auspices of the Civil Research Committee to consider the problems of the industries. Preparations were also made for the drafting and presentation of the Coal Bill.

The poor performance of the industry had led to inquiries being instigated<sup>(2)</sup> and had prepared the way for Government intervention.

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- (1) Committee on Trade and Industry, Cmd 3897 HMSO (1931)  
 (2) Coal Industry Commission (Sankey Commission) 1919, Cmd. 210.  
Royal Commission on the Coal Industry (Samuel Report) 1926 cmd.2600.

The Coal Mines Bill introduced in the Autumn of 1929 was an attempt to deal with some of the problems. The Bill introduced improvements in the marketing structure and a reduction of the hours of work in the mines, but it was hardly a reorganization 'from top to bottom'. The proposals met strong opposition in Parliament where the Liberals were at pains to 'improve' them. The Liberals wished to see amalgamations and reorganization on the lines of the Samuel Report but the Bill as proposed tended, if anything, to prolong the life of inefficient units. The negotiated scheme was in fact a fairly modest affair.

The Bill was the result of some months of negotiation between the Government and two rather intransigent bodies: the Miners Federation and the Miners Association neither of whom wished to see any pits closed and neither of whom was prepared to discuss the matter with the other. The Miners Association, representing the owners, would not even take part in a joint conference <sup>(1)</sup>, held to discuss the proposed bill in November, claiming that they had no authority to enter into any joint conference. The real reason was felt by the Cabinet to be the Association's apprehension of being drawn into discussions on wages which they preferred to discuss in districts but which the Miners' representatives were anxious to put on a national basis. The owners also opposed the proposal to reduce hours. The Miners Conference recommended the acceptance of the Government plan but still pressed for better terms <sup>(2)</sup>. The Bill struggled through its second reading with a

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(1) CAB 23 61 25th Meeting 7th November 1929. 46(29).

(2) CAB 23 62 32nd Meeting 55(29)

scanty majority of eight on the 23rd December<sup>(1)</sup>.

Reconstruction is of course a long term measure aimed at reducing the costs of production in an attempt to ensure the competitiveness of goods on international markets. There are two problems associated with reconstruction as a policy to alleviate unemployment. One problem is connected with the financing of the necessary investment for reconstruction during a depressed period when the expectations of businessmen are unlikely to be sufficiently sanguine for them to undertake the risks of new investment, and the investing public might be unwilling to lend money at rates of interest low enough to encourage borrowing. The two Keynesian conditions stopping the establishment of a full employment equilibrium might well exist, i.e. a low and comparatively inelastic demand for investment and a highly elastic demand for money to hold in liquid form. The rate of interest may not provide the equilibrating mechanism necessary to equate the supply and demand for funds. The second problem arises because of the possibility that, at least temporarily, reconstruction schemes might be associated with an increase in unemployment. These problems both emerged in the early months of the administration and become more important as the months passed.

The problem of financing the necessary reconstruction emerged in connection with the railway investment programme when the railway managers asked for Government aid in financing the proposed

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(1) CAB 23 62 32nd Meeting, 55 (29).

investment where the risks involved precluded them from undertaking the schemes independently. The first attempt to deal with this problem was by legislation, the Home Development Act, which made it easier for public utility companies to borrow money. The schemes arising from this legislation were scrutinized by yet another committee, the Duckham Committee. The problem, however, continued to arise as schemes for reorganizing of the other major industries began to take shape.

The second problem; unemployment arising from the reorganization, was also considered. Horace Wilson<sup>(1)</sup> following in the steps of John Barton, was given the task of analysing the situation and he presented a memorandum to the I.D.C.U. which set out to consider:

"the probable effects upon the volume of employment of a process of accelerated rationalization regarding that term as covering both reorganization and modernization of plant. In particular it is intended to consider whether the process of accelerated rationalization would be likely, over a period of say five years, to result in the industries in question in redundancy of work people who would have to seek employment in other occupations" (2)

The conclusion reached was that some redundancy was inevitable. In the blast furnaces, for example, Britain was probably only  $\frac{1}{2}$  to  $\frac{2}{3}$  as efficient as the U.S. and Germany, and rationalization to improve efficiency might well involve at least 40% redundancy in that branch of industry. The Melchett-Turner reports<sup>(3)</sup> also

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(1) CAB 27 390 DU 58 (29)

(2) ibid.

(3) Melchett-Turner Reports (1928, 1929) op. cit.

foresaw the possibility of heavy redundancy associated with the reconstruction process and suggested that a redundancy payments scheme should be set up to deal with the hardship involved.

Wilson's report considered that prices were unlikely to fall by as much as costs because firms would wish to recoup their normal margin of profit and build up reserves. So far as expansion in demand, in response to reduced prices, was concerned it was thought that as a rule it would be sufficient in the course of time to cause as much labour to be employed as before though in different industries and possibly different kinds of labour. It was also thought that the restoration of competitive power would be accompanied by an increase in exports. How great such an expansion might be was thought to depend upon various circumstances, including those influencing the 'growth of the aggregate volume of world trade' and the 'ability of the British people to balance increased exports with increased imports.'

The inadequacy of the grasp of the theories of international trade was again handicapping policy. Only the crude slogan that exports were to be balanced by imports appears to have permeated the thinking of the policy makers and no attempts were made to estimate the likely responsiveness of exports to the hoped for changes in prices or the likely reaction, to the changing terms, by the other trading nations who were already embarked upon highly restrictive trade policies and busy developing their own industries.

At this juncture, however, reconstruction had assumed great importance in the unemployment policy portfolio as the short term measures were gradually being given up. It was the policy which Thomas advocated in his policy statements made shortly before the Christmas recess in 1929. See above p.138. The potential of the programme, in conditions of declining world trade, was not great. In addition the implementation of the programme was to prove a difficult and lengthy process.

#### International Trade

The Labour administration was committed to a policy of free-trade although there were members of the Party who were not so committed<sup>(1)</sup>. The first statement about trade policy was made with regard to safeguarding duties, the procedure for the safeguarding of industry which was set up under the Conservatives was still in force. Before the election the application of the woollen and worsted industries had been considered and a report had been presented upon which the President of the Board of Trade was committed to take some action. He raised the issue at the fourth Cabinet meeting and the problem was resolved at the

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(1) Attlee, Bevin, Dalton, Thomas amongst others were not adamant free traders. See p.28a above for the general political background to trading policies.

Cabinet meeting held two days later when the following statement was agreed:

"with regard to the existing Safeguarding Duties we have consistently opposed their imposition and made it abundantly clear that we should reserve the right to remove them when the practicable opportunity arose. Opposition to protective duties has just been overwhelmingly expressed by the electorate. It must, therefore, be understood that we should in no case renew these Duties should they remain in operation till the statutory periods expire and we reserve the right to repeal them at earlier dates if it appears practicable and desirable to do so. We realize the inconvenience which changes of tariff policy inflict upon the trades concerned and in coming to conclusions on this matter we must have regard to this consideration and also to the operation of the revenue." (1)

Thus the right to cancel the duties at a suitable moment in the future was reserved.

#### Import Substitution

One of the central tenets of policy was to help the depressed industries and the export industries. Thomas took this aspect of the policy very seriously and attempted to bolster up demand for the products of these industries by persuading managers of the public utility companies to use products of the depressed industries instead of imported products. He badgered the telephone, electricity and the railway companies about the use of

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(1) CAB 23 60 5th Meeting 28th June 1929, 26 (29); CAB 24 204 CP 172 (29).

iron, metal and concrete for equipment instead of imported wood.

These pleas resulted in some extensive cost-effectiveness exercises by these public utility companies demonstrating the superiority of wood. On the 2nd July a memorandum was issued by the Post Office commenting upon the relative advantages and disadvantages of steel poles and wooden poles<sup>(1)</sup>. This was followed by a memorandum from the electricity commissioners on merits of the different poles which stated that whereas a creosoted pole had a life of 30-50 years without repair the steel poles needed repainting every three years and were liable to corrosion underground<sup>(2)</sup>. The comparative costs of the equipment showed steel to be between 35-100% more expensive than wood. Further the Foreign Office said there was information about the use of reinforced concrete poles in other countries but could produce no reliable technical evidence<sup>(3)</sup>. A further memorandum from the Post Office on ferro-concrete poles stated that their introduction would mean the use of an inferior article at an additional cost of £10,000 plus freight and erection costs; that there would be a gain to the ferro-concrete industry of £44,000; and a loss of £12,000 to British

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(1) CAB 27 390 DU 20 (29)

(2) CAB 27 390 DU 27 (29)

(3) CAB 27 390 DU 46 (29).

shipping<sup>(1)</sup>. The matter was discussed at the October meeting of the I.D.C.U.<sup>(2)</sup> and a further spate of memoranda ensued on the use of steel/wooden poles and wooden telephone bell sets and on steel sleepers for the railway<sup>(3)</sup>. The only place where substitution appeared viable was in the construction of telephone boxes of steel instead of wood.

Thomas's preoccupation with this matter was in all probability extremely irritating to the civil servants and others involved. Years later Mosley recalls:

"much departmental time was occupied with the L.P.S.'s insistence that wooden telegraph poles should be replaced by concrete poles made in Britain. Reams of paper were circulated from the departments to prove what a disaster this would be and the chiefs of the whole civil service were regaled for long periods of our precious weekly meetings by the consequent debates." (4)

A related matter to import substitution was the use of British goods in Government contracts. This was raised by Roland Nugent, Director<sup>(5)</sup> of the Federation of British Industry (F.B.I.) on 31st July, 1929. As the schemes were designated for the maximum

- (1) CAB 27 390 DU 50 (29)
- (2) CAB 27 390 6th Meeting, 8th October 1929.
- (3) CAB 27 390 DU 64, 65, 66 (29)
- (4) O Mosley, My Life, Nelson, London 1968. p. 233.
- (5) CAB 27 390 DU 51 (29).

absorption of unemployed workers the F.B.I. urged that a condition of approval of any scheme should be that British plant and material should be used. Two memoranda were rapidly produced dealing with the conditions relating to the origin of materials used. One was from the Treasury which after studying Nugent's request interpreted it as covering both the workers and the contractors' plant. It was thought that only the first was covered, or could be covered, by the regulations but they were generally in agreement with Nugent's sentiments<sup>(1)</sup>. The other memorandum<sup>(2)</sup> which was produced by the Ministry of Transport specified in detail the regulations relating to schemes sanctioned by that department. Under the Development Acts, the Duckham Committee asked applicants to disclose the amount, if any of the expenditure outside Great Britain but it was reported that none had been specified so far. The U.G.C. required that all contracts for grant aided works should be placed in Britain and the road fund grants were subject to the regulation that if at all possible British made plant and machinery should be used. Similar assurances had been given by the railway companies.

An attempt was made to establish some guidelines to help those placing contracts. Mosley, Johnston and a representatives of the Ministries of Labour, Health, Transport were asked to consider the formula. They agreed the following formula with the Chancellor of the Exchequer for circulation to local authorities and public utility companies:

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(1) CAB 27 390 DU 51 (29)

(2) CAB 27 390 DU 55 (29).

"All materials which are required for assisted works shall so far as practicable be of U.K. origin and all manufactured articles shall be of U.K. manufacture subject, however, to such exceptions as the Government Department concerned may find to be necessary or desirable in any particular case having regard to all the circumstances including the comparative prices of British and foreign articles." (1)

### Unfair Competition

The sub-committee had conferred with the Deputy Director of I.L.O. who had suggested criteria for deciding whether British traders were suffering from unfair competition because of unduly low wages elsewhere<sup>(2)</sup>. The committee concluded that it was not practicable from the wages aspect to prescribe any rough and ready test which could be applied at short notice by a department or a local authority or other body considering the placing of the contract. Some suggestions were made about matters to be borne in mind when deciding the justification of an application. These included the considerations of the fairness of the prices, the comparability with regard to prices and quality; the causes of any disproportionate difference including evidence of any artificial 'inflation or deflation' of the prices and evidence as to the wages and conditions in the countries concerned. When price differentials were great and the industry in Britain prosperous there should be no ministerial intervention if contracts were placed elsewhere. They also expressed the view that amongst foreign goods, Empire goods were to be preferred.

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(1) CAB 27 390 DU 69 (29)

(2) ibid.

### Empire Trade

Although the Labour administration was less committed to Empire trade than the Conservatives had been they did make some attempts to strengthen Empire links by communications with Australia and by Thomas's trip to Canada.<sup>(1)</sup> Little progress was made. To strengthen the links they also considered the possibility of a Trade Commissioner Service.

### Export Credits

Another method of aiding the export industries was the export credit scheme. This was an arrangement for increasing the export trade by guaranteeing exports against risks of loss through selling goods on credit overseas. These guarantees were taken as security by banks and the trade was able to obtain not only protection against loss but the means of financing increased turnover. The scheme began in 1926. Each trade paid a premium which formed the income of the fund which was nearly self supporting. Unless further legislation was passed it would expire in 1931<sup>(2)</sup>. The scheme was thought at that time to be suffering from uncertainty as to its duration and the Lord Privy Seal decided at the second meeting of the I.D.C.U. to ask for legislation to extend the scheme to dispel the uncertainty. The Board of Trade was considering the extension of the system to include trade with Russia. This was eventually sanctioned and Russia was admitted to the scheme but asked for preferential credit terms involving lengthy credit facilities and much debate

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(1) An additional measure was the Colonial Development Act 1929. The Bill had been considered by the Conservatives in the pre-election period and J.H. Thomas, finding it in line with his interest in Colonial Affairs, introduced it in July 1929 as a modest attempt to link colonial development with employment policy. See David Meredith 'The British Government and Colonial Economic Policy 1919-35' Economic History Review 1975.

(2) CAB. 25 590 DU 7 (29).

took place on the feasibility of these proposals. For some members of the Labour Party trade with Russia became a potential solution to the depression.

### Protection

Early calls for protection came from the quarry industry which made an appeal to Lansbury on the subject of local authorities using foreign stone for road and kerbing materials. The committee were informed that it was sometimes necessary to use foreign materials and the Lord Privy Seal suggested that the Ministry of Transport should discuss the matter with the industry in the light of the discussions about the use of British materials.

### Monetary and Fiscal Policy

Although sections of the Labour Party, especially the I.L.P. (see Chapter One above), had advocated a compensatory monetary policy the official Labour Party offered little except the promise of an inquiry into finance and industry. Snowden taking over as Chancellor had an ambition to reduce the war loan, a task which, considering the mess he thought Churchill had left, he estimated would take three years<sup>(1)</sup>:

Monetary policy during 1928 and 1929 had been dominated by the need to protect the pound as the withdrawal of funds from Europe to the United States continued. After the middle of 1928 American loans had been greatly reduced placing further

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(1) Snowden (1934) op. cit. p.758. Churchill had not satisfactorily covered the deficit of £14½m in 1929. Snowden agreed to increase the sinking fund payments by £5m for three years to cover the deficit. Howson (1975) op.cit. p 69; above p.27.

pressure on the primary producing countries which were already in difficulties<sup>(1)</sup>. Conditions in America deteriorated causing strain on the London market which was met by a rise in the bank rate. This was hardly welcomed by the Labour Party and Snowden was forced to defend this action at the Party's annual conference.

"Nobody likes a high bank rate, but in this rather imperfect world we are sometimes compelled to submit to things we don't like, afraid that if we do not the consequence may be still more disagreeable. A rise in the bank rate is, under existing conditions the only means we have to restore unfavourable exchanges and to regulate the basis of credit." (2)

The press was fairly tolerant, and even the New Statesman whilst,

"unable to remain as unruffled as Mr Snowden in contemplating the probable consequences of financial orthodoxy." agreed "that in the circumstances it was difficult for the Bank to do anything else than raise the rate. It was difficult but not impossible. Any other action would have implied a fundamental revolution in financial policy. Such a revolution may be desirable indeed we think it is. But it can hardly be made save as a carefully considered act." (3)

The crash itself was welcomed as an opportunity to launch a cheap money policy. Bank rate fell from 6½% in September 1929 to 3% in May 1930 after which conditions again became difficult.

- (1) Williams (1963) op. cit.
- (2) P. Snowden, The Bank of England
- (3) New Statesman, 12th October 1929.

Snowden's other objective was to balance the budget and on taking up his job he found that the budget was already likely to be in deficit. He thus lost no time in clamping down on the claims of his colleagues as can be seen from the discussion of the unemployment insurance fund, the retirement scheme, the raising of the school leaving age and the payments to the poor in depressed areas<sup>(1)</sup>.

The Inquiry into Finance and Industry promised in the policy statements was set up in November<sup>(2)</sup>, under the chairmanship of Macmillan. This Committee was not yet in a position to advise the Government on policy and did not report until the summer of 1931. (See Chapter Three below for discussion of the deliberations of the committee.)

#### Reduction in the Supply of Labour

The reduction of the labour force was an important aspect of the policy advocated by the Labour Party in its pre-election publicity. It was thought that the scheme would further social goals and simultaneously help to solve the unemployment problem by removing from the active labour force the very young, by extending the school leaving age to 15; and by encouraging

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- (1) Janeway (1971) op. cit. refers to Snowden resistance to even more stringent economies demanded by the civil servants. pp 40-52.
- (2) Committee on Finance and Industry (1931) op. cit.

other workers to retire by providing better pension facilities. Some changes in activity rates amongst the older age groups had already occurred but it is difficult to interpret these changes as the decennial measurements are taken at different points in the cycle which will of course affect activity rates<sup>(1)</sup>. They are also affected by changes in pension facilities and insurance arrangements which had also taken place and to regulations affecting the age at which children may work.

A sub-committee of the I.D.C.U. was set up on 4th July and given the task of preparing a plan. The members of the committee<sup>(2)</sup> were Lansbury, Mosley, Johnston and representatives of the Treasury, Ministry of Labour, Ministry of Health, Board of Education, Scottish Office, and the Government Actuary. They were to enquire and report to the Lord Privy Seal upon retirement pensions to industrial workers and the raising of the school leaving age.

The committee met thirteen times between July and November 1929 when a report was produced. At the first meeting it was agreed that pensions should be considered first as a memorandum on the subject prepared by the Ministry of Health and the Government Actuary was already available<sup>(3)</sup>.

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- (1) Corry B.A., Roberts J.A. "Activity rates and unemployment: the experience of the United Kingdom 1951-66". Applied Economics, 2. 1970 pp 179-201
- (2) CAB 27 391 DU (P and E)
- (3) CAB 27 390 DU 24 (29)

They proceeded with the research by asking the Minister of Health and the Minister of Labour to examine the insurance cards of persons over 65 to see how many were employed and in which industries. A questionnaire was sent to some large organisations including local authorities and the railway companies asking about the compulsory retirement age and the pension facilities provided. The Ministry of Health was asked to find out how many persons between 65-70 were receiving outdoor relief. At the next meeting they took the matter a little further by assuming 10/- a week for life as the relevant pension and asking for estimates of the potential saving to the unemployment fund, if 250,000 vacancies could be achieved; and to the poor law funds if the pension proposals were implemented.

At their third meeting they considered a report on raising the school leaving age<sup>(1)</sup>. It was suggested that a bill should be introduced in the Autumn providing for the raising of the school leaving age in September 1930 and for a maintenance grant supported from the Exchequer. This scheme was overtaken by events, when it was decided by the Cabinet that the matter was primarily an educational one and was to be dealt with by the President of the Board of Education<sup>(2)</sup>.

The sub-committee continued their investigation into pension schemes by asking about their likely effect on industry<sup>(3)</sup>. The

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(1) CAB 27 391 DU (P & E) 2 & 3 (29)

(2) CAB 24 205 CP 204 (29)

(3) CAB 27 391 DU (P & E) 12 (29)

committee proceeded to ask the Government Actuary to prepare a statement of the cost of the proposed scheme including estimates of the savings to the unemployment fund and the poor law expenditure and also to show the cost of including women in the scheme. In the course of the discussion the suggestion was made that the sub-committee should consider a temporary scheme (for 5 years initially) of pensions at 60 to deal with the emergency in the depressed industries and industries in which conditions were especially arduous. The Ministry of Labour and the Government Actuary were asked for a list of heavy industries in which there was surplus labour; an estimate of the number of persons over 60 in the industries. In September having received the report they decided to abandon the plan because of insuperable difficulties in defining categories and the Government Actuaries estimates showing that only a small number of vacancies would result. (1)

It was at this point that they embarked upon the development of an emergency scheme of general application whereby persons over 60 who chose to retire should be eligible for a pension. A draft report was prepared setting out the pros and cons of the scheme. This was considered at the next meeting on 23rd October. Differences of opinion as to the interpretation of the findings arose.

The Committee were informed by Lansbury that he and his ministerial colleagues were unable to sign the report in the form in which it was presented and that separate reports by

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(1) Ibid. 7th Meeting 17th September.

Ministers and Officials might have to be submitted. The Ministers made a study of the draft to see if they could make amendments or additions which would lead to an agreed report. These were thrashed out at the next meeting. On 4th November they met to consider this draft;<sup>(1)</sup> ministerial members again found themselves unable to sign the report because of the nature of the general remarks. It was finally agreed to present a report consisting of three parts: a general introduction and classification of schemes to be signed by all; an addendum by the ministerial members; and an addendum by the civil servants.

The final report<sup>(2)</sup> was agreed by the committee at the thirteenth meeting on 13th November 1929. On the 22nd November Thomas Jones reported<sup>(3)</sup> that he had received an unusual Cabinet Paper<sup>(4)</sup>: it was the report on Retirement Pensions.

The report commented upon a number of schemes and combinations of schemes, their possible cost and the numbers of vacancies that were likely to arise which could be filled by the unemployed. The scheme recommended by the Ministers was 'C', a scheme by which workers subject to the unemployment insurance scheme who

(1) CAB 27 391 DU (P & E) 25 (29)

(2) CAB 24 207 CP 341 (29) DU 67 (29)

(3) K. Middlemas, Whitehall Diary Vol. II, 1926/1930 Ed. OUP London, 1969, p.218.

(4) CAB 24 207 CP 341 (29) DU 67 (29)

had reached 60 on an appointed day and who were willing to retire would get a pension for life of 20s. plus 10s. for a wife. It was assumed that some 390,000 persons would retire and they would create vacancies for rather more than a quarter of a million workers. The ministerial members of the committee saw the scheme as making an important contribution to the unemployment problem and as one which had already been recommended to the Government by Party Conference, by the T.U.C. and by the Melchett-Turner Conference. The Ministers attempted to answer possible criticisms of the scheme. The obvious objection was that such schemes would increase the costs of production. They replied:

"We anticipate the familiar argument that any scheme financed by the Exchequer which attempts to deal with unemployment or any subject of social reform will in fact increase the costs of production and will consequently reduce the competitive power of British industry and its capacity to provide employment. This argument has been rejected by the Labour Party and by the Colwyn Committee in both majority and minority reports." (1)

In any event they explained that the cost was so small that it could not be significant in raising the costs of production. Arguments that the scheme would lead to calls for extensions were countered by their saying that the acceptance of such arguments would lead to the paralysis of Government. It was accepted that the scheme would create anomalies and grievances but these would be no greater than those implied in the Widows'

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(1) ibid.

and Orphans' Act and the temporary nature of the proposed scheme would they thought make it easier to handle such criticism.

"For above and beyond any such considerations is the benefit to the national interest and the strong support from the whole nation which must be evoked by such a scheme that for the first time in nine years goes to the heart of the unemployment problem. At one stroke this plan reduces by about  $\frac{1}{3}$  the number wholly unemployed. It does so at a quarter or less of the cost per man employed of any other scheme for the provision of work considered by the present or any other government."

They estimated it would provide work for the cost of £60 instead of £200 implied by Public Works Schemes.

"No one can deny the gravity in terms, economic and human of the present unemployment situation. No one from any quarter can suggest a remedy which deals so rapidly and effectively with that situation. In submitting what we believe to be the most potent instrument yet devised for meeting the unemployment problem we desire to express our warmest thanks and appreciation of the work done by our Civil Service colleagues, whose unstinting labours and trained abilities have made possible the production of a practical measure to combat the greatest evil that afflicts the Nation."

On this ringing note of conviction which could only have been drafted by Mosley<sup>(1)</sup> the Ministerial members let their case rest. Lansbury had since September asked Thomas to support the scheme in Cabinet. It must have been a shock and a disappointment for him to read Thomas's memorandum which accompanied the report. He disdainfully set aside the ministerial recommendations

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(1) This is confirmed by Skidelsky (1967) op. cit.

referring to his earlier policy document <sup>(1)</sup> in which he had announced that the main employment policy was

"to ensure revival and expansion of industry at home and in the Empire, by improving organisation by re-equipping, by fresh capital, and by better transport facilities. This proposal does nothing to further this end. Moreover, revival and expansion of industry - no one has yet pointed to any other practicable way of permanently reducing unemployment - cannot come unless costs of production are covered. By whatever measures of taxation we meet the expenditure involved in this scheme, together with the increased expenditure on Widows Pensions and Unemployment Insurance ..... the cost must tend - even if it be indirectly - to hamper productive industry and by raising the costs of production to contract the volume of employment." (2)

Thomas thus scorned the advice of his ministerial colleagues and accepted the views of the civil servants.

This damning statement was accompanied by the report of the non-ministerial members which began by stating that there was ample scope for expansion of industry provided a suitable level of costs of production could be reached and maintained.

They considered that the scheme would not increase employment but it would merely substitute one set of workers for another: one group of state pensioners with a permanent right to their pensions and debarred from making any contribution to the national wealth would be substituted for another group whose rights in the form of unemployment benefit were conditional and temporary.

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(1) CAB 24 206 CP 287 (29)

(2) CAB 24 207 CP 341 (29)

To add further condemnation a memorandum was submitted by the Chancellor of the Exchequer who pointed out that the proposals would involve paying about 390,000 at a higher rate than 250,000 by whom they were to be displaced and out of a different fund: pensions instead of unemployment benefit<sup>(1)</sup>.

The main financial difference was that the whole cost would fall upon the Exchequer. Snowden was, of course, right for the scheme was as much a venture into social security as into unemployment policy. It could, however, have been developed under an imaginative and purposeful administration into a redundancy scheme which would have eased the process of reconstruction in a way which may have reduced the burden on the threatened Unemployment Insurance fund.

To cope with this difference of opinion the Cabinet referred the matter to yet another committee. This committee consisted of Alexander, Lawrence, and Smith who reported to the Cabinet in a memorandum<sup>(2)</sup> on the 19th December. Alexander and Lawrence were impressed by the case advanced in support of the adoption of scheme 'C' as an unemployment measure but after careful consideration had been forced to recognise the weight of the arguments against the proposals and rejected it. Smith reported in favour of the scheme:

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(1) CAB 24 207 CP 344 (29)

(2) CAB 24 207 CP 366 (29)

"The conclusion, I have reached after very careful consideration of the whole question is that this emergency scheme of retirement pensions would, if put into operation immediately, materially relieve the present unemployment situation and that its cost could be justified and its limitations maintained on this ground alone. Further, on balance, I consider that the benefits likely to result from its adoption would outweigh the political and administrative difficulties to which attention has been drawn. The consideration to which I attach the greatest weight is that the scheme will give opportunity of work to young persons who have at present no prospect of obtaining employment." (1)

The fate of the retirement scheme was decided when Cabinet settled for the majority view formally at a meeting held after the Christmas recess on 15th January, 1930<sup>(2)</sup>.

#### Raising of the School Leaving Age

Raising the school leaving age was mentioned in the King's speech as being considered both on grounds of alleviation of unemployment and of providing better educational results. As was mentioned above it was first considered by a sub-committee of the I.D.C.U. but later Cabinet decided it was purely an educational matter and referred it to the President of the Board of Education, Charles Trevelyan, who presented a plan to raise the school leaving age to 15 on 1st April 1931 and suggested that this date should be announced<sup>(3)</sup>. He offered to bring forward the date if it was urgently desired to use this means of reducing unemployment. The memorandum included estimates of the

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(1) ibid.

(2) CAB 23 62 15th January 1930, 2(30)

(3) CAB 24 205 CP 204 (29)

costs of the proposals; the implications in terms of vacancies to be expected, 100,000; and the estimated relief to the unemployment scheme which was believed to be £4½ million.

In November, Trevelyan was to answer a question in Parliament and wished to announce that he would be introducing a bill shortly, that various matters were still under consideration and that the maintenance grant was to be an integral part of the scheme (1). Cabinet agreed to this. Late in November, Trevelyan reported that he had met representatives of local authorities to discuss the maintenance grant and they were against a universal allowance and in favour of help to the needy cases. The Party he thought would be against this but those Tories who were in favour of raising the school leaving age would not support the Government if the maintenance grant were universal. He did not, therefore, propose a universal or a compulsory scheme for maintenance grants upon local authorities. He had got Snowden's agreement that a grant of 60% would be given to encourage local authorities to pay maintenance. It had also been agreed with the Chancellor that five shillings a week should be paid to parents who were earning less than £150 per annum. The Chancellor wanted the scheme to be for a fixed period of five years but Trevelyan would only agree to it being subject to a review after five years. The cost of the scheme was estimated to be £5 million.

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(1) CAB 24 207 CP 348 (29)

A memorandum <sup>(1)</sup> from Adamson, Secretary of State for Scotland, accompanied Trevelyan's memorandum. Adamson would have preferred to see the allowance a permanent feature of the educational system. He objected that 5s. was not sufficient and that the £150 per annum was too low a level at which to stop granting the allowance. He also complained that a Government grant of 60% was not enough to persuade the local authorities, many of them Tories, to make the grant. Snowden also submitted a memorandum <sup>(2)</sup> pointing out that the cost of raising the school leaving age was so large that he was hesitant on financial grounds about agreeing with the proposals but recognising the temporary hardship he agreed to make the payment for a definite period of five years.

The Cabinet <sup>(3)</sup> approved the proposals on the 13th November although the Prime Minister stated that there would not be time in the Parliamentary time-table for the early presentation of the bill which was shelved for several months. Nevertheless Trevelyan did appear to have been one of the few Ministers who were able to stand firm against Snowden's pressure for financial restraint.

### Migration

The transference schemes aimed to move surplus labour from depressed areas to prosperous districts.

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(1) CAB 24 207 CP 352 (29)

(2) CAB 24 207 CP 350 (29)

(3) CAB 23 62 47 (29)

As we saw above the transfer scheme was not proving very satisfactory and was unpopular both with the unemployed, the unions, and the local authorities. It was also too limited to have much impact on the unemployment problem and was bound to flounder as unemployment became more generalized. Land settlement was still being discussed although it had been demonstrated to be too expensive to be a practical solution.

Emigration overseas, the great hope, was running into difficulties in Australia as conditions there deteriorated and although there was still a possibility of increasing emigration to Canada, which had recently benefited from reduced transport fees, it too had limited impact on the problem. 39,000 left under this scheme in 1929 but only 12,000 in 1930<sup>(1)</sup>. Thomas had been able to ensure the minor concession that pension rights should be available to those migrating.

#### Hours of Work

The Washington Convention was proving to be rather difficult to implement given the numerous trades and condition to be considered but Margaret Bondfield struggled on over the Summer and Autumn in an attempt to be able to introduce legislation which would enable Britain to ratify the convention<sup>(2)</sup>.

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(1) See Drummond (1974) op. cit.

(2) CAB 24 205 CP 223 (29).

Alleviation of Distress

It was upon the unemployment insurance scheme that hopes lay of helping the unemployed. It was less than twenty years since Britain had taken the first tottering steps towards social insurance and the insurance principle was still sacrosanct to many in spite of the fact that it had been violated because of the pressure placed upon it during the twenties. Hopes had been raised during the election of more generous treatment for the unemployed as well as the introduction of a much more comprehensive system of social security. The Minister of Labour's first statement to the Cabinet on the state of the insurance fund indicated that these hopes were to flounder.

"The unemployment insurance scheme is in serious financial position and I regard it as one of my first duties to put it on a sound footing in this respect."

The intention not to borrow for the fund smacks of the puritanical ethos which surrounded the MacDonald administration.

"I am strongly opposed to any further increase of the borrowing power, whether by itself or as a supplement to other measures. The borrowing power is already high enough and we must put a stop to the indefensible plan of living on our overdrafts." (1)

What then did she plan to do? She proposed to increase the Exchequer contribution to the fund on the 'equal thirds'<sup>(2)</sup>.

(1) CAB 24 204 CP 169 (29)

(2) "Equal thirds" was a suggestion to increase the Exchequer contribution to half of the combined employer/employee contribution of 8d. and 7d. respectively i.e. to 7½d. instead of 6d.

basis from April 1st 1929, at a cost of the Exchequer of £3½ million per annum. This would be introduced in an emergency bill to be passed in the Summer session. She also wanted an inquiry into the problem of continuing the payment of benefit to those who did not qualify under the thirty contribution rule. These unemployed workers were at present drawing unemployment benefit under a temporary scheme due to expire in March 1930. This arrangement was thought by the Minister to be

"unfair to the insured workman and their employers that they should have to pay towards it as insurance contributors; and it is unfair and demoralizing to the unemployed workman who is drawing benefit by virtue of a contribution qualification that he should be lumped in with others who are drawing what is really a 'dole'." (1)

By removing these persons from dependence upon the scheme a saving of £6 million could be made and 1.2 million unemployed could be supported from the fund. This would help but would not give sufficient security for the fund. The Minister impressed upon her colleagues the 'stop gap' nature of the measures she suggested.

The Cabinet approved the Minister's suggestions and a committee was set up, the Unemployment Insurance Bill Committee<sup>(2)</sup>, to consider the problem and design a bill. The Committee met for the first time on 30th July, 1929. Its members included the

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(1) CAB 24 204 CP 169 (29)

(2) CAB 27 396.

Minister of Labour, the Minister of Health and the Secretary of State for Scotland, Secretary of State for Dominions and Colonies, and a representative of the Chancellor of the Exchequer, Mr Upcott, and representatives of other departments. The terms of reference specifically stated the desire of the Chancellor of the Exchequer that the Minister of Labour should keep in closest touch with the Treasury during the drafting of the Bill.

At the first meeting the Minister of Labour said that without a substantial increase in income which must come from the Exchequer since it was impossible to increase the contributions of the employers and workers, the insurance fund could not continue to be responsible for supporting those not fulfilling the contributions requirement. The thirty contributions requirement, proposed in the Insurance Act 1924, was supposed to be operative in 1925. Its enforcement was delayed pending the report of the Blanesburgh Committee which recommend that the rule should be introduced:

"persons with so poor a record of employment could scarcely claim still to be in the insured field; that there is grave doubt as to the genuineness of their search for work." (1)

It was subsequently introduced into the 1927 Insurance Act and the transition period had been extended annually since then.

The Minister of Health pointed out that there were 125,000 adults on outdoor relief in the country who were in no way different from those drawing benefit from the fund without the necessary qualification. However, he felt it to be difficult to deal with the situation without breaking pledges to make the able-bodied unemployed a national charge.

Various methods for dealing with the problem were discussed and it was agreed that a memorandum should be prepared outlining a scheme for persons whose benefit would cease during the next year. The assistance <sup>was</sup> considered to be of a 'transitory' nature to deal with abnormal circumstances and its 'curative' characteristics (it was to involve training) was to be emphasized. The question of the level of benefit was not decided at this juncture but the Ministry of Health thought that in some cases it ought to be more than unemployment insurance because of the chronic nature of the problem but this did not appear politically feasible.

At the second meeting of the committee Lord Passfield expressed the view that any payments made should be in the nature of 'a privilege and not a right' and should be subject to some form of industrial training and a 'needs test'.<sup>(1)</sup> The view that the unemployment reflected to some extent on the calibre and training of the unemployed was still a dominant theme in the debate. Wilson pointed out that the scheme was designed so as not to place further burden upon the local authorities and that training

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(1) CAB 27 396 2nd Meeting 17th September 1929

was an integral part of the scheme but that the problem was not financing the training but finding jobs for the trainees! The Minister of Health again pointed out the anomaly which the scheme would create with those on outdoor relief. But the Ministry of Labour said that there was no time to put forward a general scheme as the fund was urgently in need of the relief.

The scheme was produced<sup>(1)</sup> and presented to Cabinet on 25th September. It was estimated that about 150,000 persons would be affected if the transitional arrangements expired after April 1930; 47,000 of these were in mining areas. If no action was taken they would fall upon the Poor Law, exposing the Government to criticism of driving people onto the Poor Law and also breaking the electoral pledge of national support for the unemployed. The scheme proposed to give grants to those in need of them.

The Cabinet would have none of it. It was felt that the scheme would expose the Government to severe criticism in Parliament for exposing those disqualified to the investigations of the Poor Law. It was also felt undesirable to introduce an interim measure in regard to unemployment insurance as well as widows' pensions. The committee were asked to re-examine the question and reported very quickly to the effect that as Cabinet was unable to sanction the intermediate scheme there was no alternative but to maintain the status quo and extend the

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(1) CAB 24 206 253 (29)

transitional period for a time subject to the payment by the Exchequer of the extra cost. This report was approved by Cabinet and the committee were invited to undertake an immediate examination into the more general problem of the able-bodied unemployed. Margaret Bondfield had lost her battle to put the fund on a 'firmer footing' but thousands of unemployed had been spared the rigours of the means test. The problem remained leaving the fund vulnerable financially and politically. The dilemma about how to get rid of the 'transitional' category was not resolved until the crisis of 1931.

After this one could hardly expect much to be offered in the Insurance Fund Bill. Margaret Bondfield reported<sup>(1)</sup> her proposals in mid-October listing the reforms expected by the Government supporters as being: the abolition of the genuinely seeking work clause; the lowering of the age of entry to below 16; the insurance of agriculture workers; a general increase in the rates of benefit and a reduction of six days waiting period or its abolition. On the first issue she changed the responsibility of proving that suitable work was available from the claimant to the Court of Referees. This matter was not successfully resolved until the introduction of the <sup>a</sup>Hayday formula at a later stage in the progress of the Bill<sup>(2)</sup>. She agreed to reduce the age of entry to that of the proposed

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(1) CAB 24 206 CP 279 (29)

(2) Skidelsky (1967) op. cit.

higher school leaving age from April 1931. She agreed to increase benefits for persons of both sexes aged 17, 18 and 19 but to make no general increases though some changes were made in the classes of dependents eligible for allowances. She decided to make no change in the waiting period and introduced the agreed extension of the 'transitional' period for one year. Agriculture workers could not be included in the Bill in the time available.

The improvements made were all marginal and minor. In defence she said that the cost of the implementation of the T.U.C.'s proposals would be £12½ million; the cost of reducing the waiting period to three days would by itself cost £2 million. The Minister apologised for the limited nature of the proposals.

"Now the plain fact is that the unemployment fund has no money with which to meet new charges. It was practically bankrupt when we took office..... Apart from these proposals I felt compelled to advise against an increase of the rates of benefit or an alteration of the waiting period, although I should have been more than glad if money could have been found for reducing the waiting period to three days; but I want my colleagues therefore to consider the matter for it is certain that we shall be strongly criticised by our supporters." (1)

This then was the Bill which was to take the sting out of unemployment. One wonders why the Minister persisted with it in view of the derisory benefits she was offering.

The Cabinet's reservations about the Bill were severe. The matter of the agricultural workers' participation in the scheme

was referred to a sub-committee composed of the Chancellor of the Exchequer, the Secretary of State for Scotland, the Minister of Agriculture and Fisheries and the Minister of Labour. The Minister and the Chancellor were asked to confer once again on the matter especially regarding the rates of benefit and the possibility of reducing the waiting days. They reported to Cabinet upon their deliberations on the 30th October providing new estimates of the costs involved. It was estimated that the removal of the genuinely seeking work clause would be £2 million; the cost of the improved benefits of the younger members £400,000; and the cost of reducing the waiting period was £3 million. The Chancellor pointed out that he had already agreed to make transitional payments back dated to April 1929 at a cost of £3 million. It was agreed that they could increase the benefits for the young but he was unable to find the necessary £3 million for the waiting time.

The Cabinet was obviously disturbed by the failure to reduce the waiting period but Snowden reiterated the extent of the additional financial burden that the Exchequer had already undertaken and stated that he was unable to alter his decision. After four months of the Labour administration all that had been accomplished for the unemployed was maintenance of the status quo and that only after considerable struggle against the book-keeping of the Minister and the Chancellor<sup>(1)</sup>.

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(1) Parliamentary progress of the Bill and the Hayday formula - a compromise form of the 'not genuinely seeking work' clause to the effect that disqualification from benefit took place only if a claimant had refused an offer of suitable employment - are discussed in Skidelsky (1967) op. cit. p 134.

The Bill had a very stormy passage in the House <sup>(1)</sup> and the Minister had to agree to a modified form of the genuinely seeking work clause, which reduced the accountability of the unemployed workers substantially, by the acceptance of the Heyday formula. The bill was a great disappointment to the Parliamentary Labour Party and to the Trade Unions.

#### Grants to 'Necessitous Areas'

Another way in which the Government could have brought direct aid to the unemployed was via grants to Boards of Guardians to administer relief in cash or kind to the distressed communities. There was already a vehicle by which this aid could be directed to some at least of the areas: the Coalfields Distress Fund. This was a fund, to which the Government contributed, raised by a public appeal by the Lord Mayor.

Early in the session the Minister of Health, Greenwood, drew the attention of the Cabinet to his anxiety about the adequacy of the fund to meet the needs of the areas during the Winter months. In response to this the Chancellor instigated an inquiry into the operation of the fund from those administering it. The report <sup>(2)</sup> of this inquiry was produced in November.

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(1) Snowden (1934) op. cit. Snowden admired Margaret Bondfield and was respectful of the difficulties of her job; he says he always tried to sit next to her to give her support when she was introducing a bill.

(2) CAB 24 207 CP 326 (29)

The report stated that the fund had spent £900,000 mainly on boots and clothing in the first six months and had only £500,000 left for the Winter. The lack of funds was considered to be the result of mismanagement in the previous year when 'the feeling of illimitable resources was in the air'<sup>(1)</sup>. It would, the report suggested, be more prudently managed in the current year if there was no Treasury Grant. There was anxiety lest they raised the standard of the unemployed to a level approaching that of the working men.

"A relatively small sum will in fact put the families of unemployed men on the same footing as those of many employed men." (2)

Another problem was the limitation of the fund to mining areas any extension of it would further anger the areas not included.

"There is already a marked tendency in those areas to look upon the existence of the Lord Mayor's Fund or some equivalent as a permanent arrangement providing as a right assistance to persons who in other parts of the country are left to meet their responsibilities unaided." (3)

There is no doubt that they preferred the unemployed to be 'equal' in their poverty.

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(1) ibid.

(2) ibid.

(3) CAB 24 207 CP 326 (29)

In December the Minister of Health made yet another attempt to get help to the distressed, explaining his dissatisfaction with the efforts which were being made in the mining areas by the Coalfields Distress Fund and Boards of Guardians. Since his last attempt he had received a deputation from the Joint Standing Committee of Industrial Women Organisations about the distress prevailing in certain areas of the country. To support him in his application he had asked for evidence and a questionnaire was circulated to the areas concerned. So armed with evidence from Morpeth, Durham, Wigan, Sheffield, Pontypridd, Llanelly and Bridgend telling a sorry tale of misery, he presented the Cabinet on December 20th with his memorandum <sup>(1)</sup>.

The extent of the deprivation which for thousands had continued for years rather than months was acute. Apart from lack of footwear, which in many cases had reverted to bindings, there was a lack of clothing, blankets and other necessities. He proposed to issue a circular to the Boards of Guardians impressing upon them the need for humane administration during the present difficulties. Greenwood asked for £ $\frac{1}{2}$ M aid during the Winter for the mining areas and other areas where suffering was acute.

The report of the Minister of Health was supported by a memorandum <sup>(2)</sup> dated 2nd December prepared by the Secretary of State for Scotland. The distress in Scotland had been so acute that the fund had had to operate throughout the summer and had

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(1) CAB 24 206 CP 303 (29)

(2) CAB 24 207 CP 342 (29)

only £5,000 left.

"So far as distress in the Scottish coalfields is concerned I am of the opinion that it is likely to be at least as bad as that of last winter and that if it is to be met a sum of at least £100,000 will be necessary to tide the mining community over the next five months." (1)

The reply from the Chancellor was acid. He referred to his earlier memorandum which stated that the situation in the mining areas was not as bad as in the previous year and that the resources of the fund were adequate unless it was to be used to supplement wages. His view he said had been accepted by the Cabinet at the time. Now the Minister of Health,

"having received a deputation of women who complained that the Lord Mayor's Fund and the Boards of Guardians were too strict again produced his scheme adding, however, that it could not be confined to the mining areas but must be given to all necessitous areas. Yet he seems to think he would still keep it to a maximum of £ $\frac{1}{2}$  million. The next thing he will discover that this sum is quite inadequate and that we must raise the limit to several million. And having given these grants for two winters we shall have to go on repeating them next year and on an ever higher scale, and so we shall go on." (2)

He continued that there was growing evidence that proposed social legislation was already having a depressing effect on business enterprise. He believed that conditions would be improved from April when the reorganisation of public assistance came into effect and that temporary relief would not deal with the fundamental problems of "the necessitous" areas which required

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(1) ibid.

(2) ibid. my italics.

more constructive measures.

Thus Snowden held there was no need for the aid; that the request would be renewed year after year; that the distress would be remedied by the reorganization from April of the Public Assistance and that more constructive measures were necessary. Yet on this specious logic he asked Cabinet to support him in his 'emphatic opinion' that the Minister of Health's proposals should be rejected. The Cabinet concurred. Thus the £ $\frac{1}{2}$  million, which even in those days was little more than a rounding error in any Chancellor's budget, was denied to those in need and a socialist Minister of Health was sent, cap in hand, to the voluntary associations to minister to the distressed workers <sup>(1)</sup>.

Apologists might defend Snowden's orthodox financing, his strength and single mindedness but he stands condemned in this last meeting before the Christmas recess for his want of charity.

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(1) CAB 23 62 20th December 1929, 54 (29)

This is in sharp contrast to the Conservative administration desire twelve months previously to give generously to the fund!

## CHAPTER THREE

FULL CIRCLEUnemployment policy from January to May 1930Introduction

The New Year heralded some new developments in the unemployment policy of the Labour administration. MacDonald established his team of expert advisors which was set up as the Economic Advisory Council<sup>(1)</sup>. Thomas made some headway in the organization of the financial structure necessary to facilitate the reconstruction programme upon which the long term strategy of the unemployment policy depended<sup>(2)</sup>.

The progress of unemployment policy was increasingly a matter for concern. The public works policy was not proceeding very fast in spite of the advocacy of works schemes inside the Government by Mosley; by Keynes in the Macmillan Committee; and by Henderson, Cole and Keynes in the E.A.C. Mosley spent the Christmas vacation producing his memorandum which he saw as providing the organizational framework and policy necessary to deal with unemployment in the short and long term.

Unemployment mounted steadily throughout the period as can be seen in Table 1 below. Although there were some who attributed part of this increase to the changes in the unemployment insurance scheme, introduced by Margaret Bondfield in the

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(1) CAB 23 62 3(30)

(2) CAB 24 209 21(30)

Autumn, the phenomenon was accepted as being part of an international pattern about which Britain could do little.

Table 10  
% Unemployment - U.K.  
Monthly - 1930

	%
January	12.4
February	12.9
March	13.7
April	14.2
May	15.0
June	15.4

Source: British Labour Statistics Historical Abstract 1886-1968. Table 160.

There were signs of trouble in international markets as commodity prices fell rapidly<sup>(1)</sup>. Protests were made by the agricultural sector which asked for protection against the dismal world conditions. Stories of the plight of the colonial sugar producing states were reaching the Cabinet. In India and elsewhere tariff barriers<sup>(2)</sup> were being erected which foretold of harder times ahead for British exporters. The British response to this situation was to attempt to get international agreement for a tariff truce.

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(1) Kindleberger (1973) op. cit. p. 142.

(2) ibid. p. 131; CAB 23 63 9(30).

Roskill, refers to 1930 as the 'Year of Conferences'<sup>(1)</sup>. The year began with discussions on outstanding matters from the Hague Conference: reparations, the evacuation of the Rhineland and outstanding aspects of the Young Plan. These talks kept Arthur Henderson and Snowden busy until mid-January. On 21st January the Naval Conference began in London and continued until mid-April. It proved a difficult conference<sup>(2)</sup>, and took up much of MacDonald's time.

#### The Economic Advisory Council

The establishment of a general body to review economic policy was part of Labour Party strategy advocated in the policy documents published before the 1929 election<sup>(3)</sup>. Indeed the concept had been pursued by the first Labour administration using wartime organizations such as the Committee of Imperial Defence as examples. The Government fell before such ideas could be implemented but the Conservative Government adopted some of the suggestions and set up the Committee for Civil Research. MacDonald did little during the first months of the administration about constituting such a body; and the special reports on the cotton, and iron and steel industries were referred to the Committee of Civil Research. By the late Autumn the growing disenchantment with unemployment policy might have encouraged

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- (1) S. Roskill, Hankey, Man of Secrets, Collins, 1972. The British occupation force was withdrawn from the Rhineland in December 1929 and the Young Plan became operational on 17th May.
- (2) ibid. MacDonald wrote to the King describing the attitude of the Germans and the French as 'deplorable' and needing 'delicate handling'. He was pleased that relationships with the United States had improved.
- (3) Labour and the Nation, (1929) op. cit.

him to give the matter some attention; and in December he was consulting with academics, industrialists and civil servants about the form and composition of an economic advisory committee (1).

On 16th January, 1930, MacDonald presented to the Cabinet a memorandum on the establishment of the Economic Advisory Council.

The purpose of the council was:

"To advise His Majesty's Government in economic matters, to make continuous study of developments in trade and industry and in the use of national resources, of the effect of legislation at home and abroad; and of all aspects of national and international economy with a bearing on the prosperity of the country". (2)

The Council was to be subject to the general direction of the Prime Minister but was to keep in touch with departments affected by its activities to ensure a comprehensive study of the economic problems of common interest. It had no executive powers and was not to interfere in any way with the functions and responsibilities of ministers or of the departments over which they presided. The Prime Minister and four ministers: the Chancellor of the Exchequer, the Lord Privy Seal, the President of the Board of Trade and the Minister of Agriculture and Fisheries were to be members. The names of the outside experts who were to be members were submitted to the Cabinet on 3rd February (3) at the same meeting as the Mosley memorandum was presented.

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(1) Howson and Winch (1977) op. cit., discuss the setting up of the E.A.C.

(2) CAB 23 62 3(30); CAB 24 209 CP 7(30).

(3) CAB 23, 62. 6(30).

The Council's members included representatives from agriculture, distribution, industry, banking, academia and the trades unions. The membership included: Balfour, Bevin, Blair, Cadman, Citrine, Cole, Debenham, Duncan, Hall, Hardy, Keynes, Lewis, McLintock, Stamp and Tawney. The Council was to be served by a permanent staff of four: H.D. Henderson, A. Loveday, H.V. Hodson and Colin Clark.

The Council could, after receiving approval from the Prime Minister, initiate inquiries into and advise upon any subject falling within its scope. For this purpose it could consult with the departments and outside authorities and could collect any statistical or other information which was required. The Council was an experiment and its development was to be the subject of 'study and experience' <sup>(1)</sup>.

At the first meeting, held on 17th February, the Prime Minister introduced some topics which the Departments had suggested for discussion by the Council <sup>(2)</sup>. After discussing them it was agreed that sub-committees should consider: The Economic Outlook, 1930; Empire Trade, 1930; Unemployment Statistics; and Conditions of British Agriculture. Keynes, Cole, Cadman, Balfour and Citrine were, with the help of Henderson, to provide a report on the underlying economic situation; Balfour, Blair, Carnegie and Lewis were to deal with the nature of Empire Trade and the effect

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(1) CAB 24 209 CP 7(30).

(2) CAB 58 2 EAC 1.

of preference; Unemployment Statistics were to be considered by McIntock, Bevin and Wilson who, after examining the published returns, were to suggest methods of presentation which would avoid misunderstandings<sup>(1)</sup>. The Committee on the Condition of British Agriculture was to begin its enquiry after considering a report by Sir Daniel Hall on the nature of the problem. Later sub-committees were set up to consider the Channel Tunnel, Marketing and the Cost of Living Index.

MacDonald's personal involvement in unemployment policy was much greater after the setting up of the E.A.C. From then on there was a general forum for debate on the whole economic problem and he, as Chairman, was directly involved in the debate. The first opportunity for general discussion on the policy issues arose when the report on the Economic Outlook was considered<sup>(2)</sup>.

### Economic Outlook

It was the report on the Economic Outlook which indicated the problems caused by MacDonald's strategy of including representatives from all sectors of the economy to act as advisors. Their advice was highly variable and no consensus emerged. The Committee met three times: 21st March, 3rd April and 1st May. Its terms of reference were:

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- (1) Redefining the unemployment problem was a strategy suggested by Churchill (See Chapter One above p.57 ) and Bondfield and Thomas (See Chapter Two above p.195).
- (2) CAB 58 2. 3rd meeting, April 10th, 1930; E.A.C. H(81).

".... to supervise the preparation of a memorandum indicating the principal heads of the investigation which should be embraced in a diagnosis of the underlying economic situation." (1)

At the first meeting<sup>(2)</sup>, Keynes who was Chairman, said that there were broadly three ways in which the Government could increase employment:

- a. reducing efficiency wages in terms of money;
- b. protection;
- c. a programme of home investment.

External events which might contribute to a solution were:

- i. a general rise in world prices;
- ii. a reduction of tariffs;
- iii. a general revival of trade.

Henderson<sup>(3)</sup> prepared a report on the current situation referring to the lost export markets and the problem of rapidly falling prices: agricultural prices had fallen 15% between 1928-29 and commodity prices were falling sharply. A letter from Keynes, accompanied this report, specifying the three remedies for

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(1) CAB 58 145 E.A.C. (E.O.) 1.

(2) CAB 58 145 1st Meeting 21st March 1930.  
Keynes, Cadman, Cole and Henderson were present.

(3) CAB 58 145 E.A.C. (E.O.) 2.

unemployment. He was doubtful about reconstruction, the Government's only real policy at the time. Apart from this remedy there was only protection or home investment. As protection, in any form, was still an anathema to most of the Labour administration, the only remedy remaining was Keynes's favourite remedy: home investment.

At the next Council meeting, when this was discussed, Cadman complained of having been rushed and Snowden, who was unable to attend, sent a memorandum disagreeing with the views expressed<sup>(1)</sup>. Keynes agreed to take a further look at the matter. The disagreements remained and at the next Council meeting two reports; one from Cole and Keynes, and one from Balfour and Cadman, were discussed. These indicated a real cleavage of opinion. MacDonald saw the essential difference in the views taken on the question of home capital development and the part which the Government should play in it<sup>(2)</sup>.

Keynes opened the debate and skilfully attempted to pave the way for the acceptance of his policy. He first outlined the gloomy state of affairs both internal and external and predicted that unemployment might well rise to two million by the Autumn as the impact of the large falls in prices had not yet been felt.

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(1) CAB 58 2. 3rd meeting 10th April; E.A.C. H(83); E.O. (4).

(2) CAB 58 2. 4th meeting 8th May; E.A.C. H(81).

Having brought up the subject of home investment, Keynes persuaded Snowden to resolve some disagreements by asking the advice of the Macmillan Committee about the possibility of home investment producing additional employment. He was, no doubt, hoping to reap the benefits of his recent lectures to the Macmillan Committee, (see below p.218), on his theories. Snowden was to ask:

- "1. Does expenditure on capital development at home, stimulated in some way by Government, tend to increase the volume of employment? 2. Or is it offset by reason of its causing a diversion of employment from other capital development which would have taken place or from the production of exports or in some way? 3. Does it make a difference to the effect on employment whether the increased capital development at home is the result of private enterprise or Government enterprise?" (1)

Balfour and Cadman, whilst considering the situation serious, saw hopeful signs which would be 'spoilt by large scale state action'. More exports and migration were required. Lewis supported them, disagreeing with Keynes' and Cole's views that exports were unlikely to solve the problem. A debate followed on the extent to which exports generated employment and Keynes used this opportunity to suggest that the Board of Trade should prepare a statement showing:

- a. the increase in exports which could be expected in each of the main export trades;
- b. the estimated effects on employment.

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(1) CAB 58 2, 4th Meeting, 8th May.  
He was also to clarify the matter of overlap between the Committee and the Council.

Much was made of the potential price effects which might occur; but the possibility of achieving an export expansion when markets were contracting, or stagnant, received little attention. Later calculations, provided by the Board of Trade<sup>(1)</sup>, specifically excluded the expansionary effect of exports because it would lead to an infinite series of beneficial repercussions! The expansionary concept without a defined limit was not very convincing.

The difficulties associated with rationalisation were also considered. Bevin called for a committee to consider the impact of rationalisation and he later produced a memorandum on the problem<sup>(2)</sup>.

MacDonald was rather perturbed by the lack of hard evidence and by the differences of opinion which emerged amongst his experts. The failure of the committee to reach agreement, and the growing disenchantment with the work of the Council, led MacDonald, at the instigation of Keynes, to set up an Economists' Committee to deliberate upon the problems professionally<sup>(3)</sup>. MacDonald had expected much from his committee of experts. His zeal to have all groups represented in the Council was to cause him great problems when it came to recommendations of policies. Few agreed

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(1) CAB 58 10 H (91)

(2) CAB 58 10 H (92)

(3) CAB 58 2. 7th Meeting, 24th July 1930. Chapter Four below.

from other countries he would have achieved a great deal. He felt that much had been done and that a sort of stability had been established.

On internal matters Norman concentrated upon his new venture: the finance of reorganization. The Committee, recently instructed upon the working of the economy by Keynes, would not let him off lightly and wished to know more about the impact of the Bank on domestic activity in particular the role of Bank Rate. Bank Rate Norman saw "as primarily dominated by international considerations" and its internal effect.

"... was as a rule greatly exaggerated - that its actual ill effects are greatly exaggerated ... that they are much more psychological than real." (1)

He was asked how far finance was responsible for recent changes in the price level. Norman thought that it had little connection, appearing like Keynes to prefer real explanations for the changes which had occurred. Bevin pressed him on the matter of going back to the gold standard in 1925. Norman considered that,

"... change was inevitable, made at the right time but ... certain misfortunes of one kind and another have subsequently intervened and have made any effect which that change of 1925 might have had far more difficult and serious." (2)

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(1) ibid. p.212.

(2) ibid. p.214.

He appeared to have some difficulty in recollecting the precise circumstances of the change and sought help from Bradbury, (a member of the Macmillan Committee who had been chairman of a committee<sup>(1)</sup> which had advised on the currency operation in 1925) on the precise circumstances leading up to the decision to go back at the old parity. The main problem he saw as being associated with France, Belgium and Germany stabilizing at lower levels. He was asked about the possibility of separating the internal and external markets. He thought this was impossible and that his attempt to restrict foreign issues, which Bevin saw as an attempt to separate the markets, had been for external purposes and had not worked<sup>(2)</sup>. When asked about the effects of the quantity of money he replied,

"I am told, and believe it to be true, that recent monetary policy in this country, if not in other countries had little effect on recent movements in price levels".<sup>(3)</sup>

Norman demonstrated that his skill was an intuitive art rather than hard headed expertise and he sensed Bevin's criticism of this<sup>(4)</sup>.

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- (1) Committee on the Currency and Bank of England Note Issues, 1925.
- (2) ibid. 217. Embargo. See H. Clay, Lord Norman, Macmillan London 1957; R.S. Sayers 'The Return to Gold, 1925', S. Pollard, The Gold Standard and Employment. @.U.P. 1967. The policy had become largely ineffective as loans not allowed under the embargo were being floated in London by indirect means. Sayers vol 111 Append. 30 pp 290-295. See above p 27a.
- (3) ibid 219.
- (4) ibid. p. 221. "You may complain of me, Mr Bevin, or of those bankers you have seen that the evidence they have given you comes through their nose and is not sufficiently technical or expert. Of course, that may in some sense be true; I plead guilty to it myself to some extent, and it is a curious thing, the extent to which many of those who inhabit the City of London find difficulty in stating the reasons for the faith that is in them. Mr Keynes must know that well"

For the most part the evidence heard by the Committee during this time mostly from bankers, expressed support for the gold standard. Some academics were more ready to compromise, e.g. Bellerby, Fellow of Gonville and Caius College, was prepared to sacrifice exchange stability for price stability. Generally, the bankers' complaints were not directed against the gold standard as such but against its present workings. Sir Robert Kindersley, a Director of Lazards the merchant bankers, gave his reasons why the gold standard was not working well at this time. First, there was the position of Germany. Germany had a high demand for credit, largely because of reparations, and the lack of confidence which many countries had in Germany; as a result the German rate was  $2\frac{1}{2}\%$  higher than the London rate. This was just one example of the big variations in rates which, he thought, led to large movements of funds. France was unwilling to lend abroad and offered terms which were not attractive to borrowers. American policy was causing great difficulties: in an attempt to stabilize domestic conditions, America offered high rates which gave rise to enormous amounts of short-money being invested there. London was affected by loss of its own funds and by the requests for assistance from other countries similarly affected.

In Kindersley's view:

"... although New York professed to be on the gold standard she really never allowed the gold standard to work properly in accordance with the movement of gold in her direction ...

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cont.

"Chairman: "Of course I suppose even a Trade Union leader sometimes acts by faith." Mr Bevin: "And finds that it has been misplaced."

she had subjected the international situation to her domestic situation: and so far as the gold standard is concerned, if every country did that it could not possibly work. And in so much as America was such an important creditor nation and such a large holder of gold, her action in keeping up money rates compelled the whole of the rest of the world to keep their rates up ..... America went on bended knees, almost, to the rest of the world to adopt the gold standard .... but no sooner had she got them to adopt it than she refused to allow it to work." (1)

Everyone had to 'play the game' if the gold standard was adopted and to ensure this there should be an international conference. Sir Josiah Stamp also dwelt on the problem of co-operation in his evidence (2).

The Committee heard evidence at some length about the desirability of foreign investment and the effects of an embargo. The general feeling appeared to be that, though at some point it might have been necessary to reduce foreign lending, a closed economy would ultimately be a poorer one.

On Bank Rate and credit there was less consensus; Hawtrey felt the Bank of England had been too timid; bankers felt that business had not been hampered by lack of funds; and businessmen felt that although guaranteed stability of interest rates was desirable, competition from abroad was the most depressing factor on activity. Evidence was also submitted about the possible reduction in the quantity of money held by central banks.

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(1) ibid. p. 101.

(2) ibid. p. 252.

The failure of demand was discussed by Hawtrey, contemplating differences in savings and investment: Major Douglas on under-consumption; and Robertson on a 'Gluttability of Wants'; all probing the disequilibrium mechanism.

### Keynes

By far the most exciting evidence heard by the Committee was that of Keynes who expanded his views, to his fellow members of the Committee, on the current situation and the solutions available. Keynes addressed the committee on the 20th, 21st and 27th February and the 5th and 6th March<sup>(1)</sup>.

The fundamental problem, as he saw it, was the problem of mal-adjustment. The return of the gold standard had 'started others off' and all deflating at the same time had begun the spiral of falling prices. He discussed the role of bank rate as an instrument for achieving external and internal equilibrium.

"The great historic virtue of bank rate policy is, as we shall see, that it works on both factors in the situation and on both in the right direction. It brings down prices by causing entrepreneurs to sell at a loss, but it does not bring them down to equilibrium level except by operating through unemployment . . . . . For the only way we can bring down wages, which is by hypothesis required for the restoration of international equilibrium is by the pressure of unemployment. It used to be assumed that this happened

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(1) Committee on Finance and Industry. Notes of Discussions. op cit

pretty easily, but we were not then thinking of any very large reduction of wages; very often in the Nineteenth Century all that was needful was the avoidance of an increase." (1)

To deal with the adjustment problems associated with the return to gold standard, bank rate had had to achieve a 10% change in prices: a change for which it was not fitted to deal. Bank rate was unable to facilitate the necessary adjustment. It had not previously been expected to deal with adjustments of more than 1% or 2%. Bradbury said that the gold standard committee had not expected wages to be so sticky. Keynes felt that the stickiness was not likely to be the result of union pressure as there was no evidence of money wage rates having fallen in the past hundred years. A fairly intense debate ensued about whether or not wages had fallen. Bevin talked of the sliding scales which affected some workers and Bradbury referred to conditions in 1920-21. Keynes, whilst admitting some individual fluctuations, was struck by the constancy of wages. Keynes said that if the country wanted wages to be higher than those ground out by market forces it should put aside a fund for that purpose and not expect the market to facilitate a high wage policy.

He went on to discuss the preoccupation of economists with equilibrium situations; he wished to concentrate on the process of disequilibrium:

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(1) ibid. 20th February 1930.

"There is no reason in the world why these two things, the net amount of our export balance, plus the costs of production of bricks and mortar at home, should add up to the amount which individuals have saved". (1)

He then examined the consequences of inequality between savings and investments. When investment was in excess of savings the result was abnormally high business profits. When savings were in excess of investment there were abnormal business losses. He then went on to expound the 'banana paradox'<sup>(2)</sup>. Having set up his theoretical construct he went on to give a taxonomic account of the possible remedies:

"the remedies which are being suggested have nearly all of them something in them; that whilst the empirical method is not, by any means, successful for diagnosis, it is not by any means valueless in seeking the cure." (3)

The first four remedies he considered were concerned with ways of being able to produce at lower costs in terms of gold. The first remedy was the revaluation of gold in terms of sterling. The 10% devaluation (the amount which was considered necessary) was likely to cost £250m but this was better than the estimated loss of £200m a year in national income which was presently taking place. However, it was felt that the 'powers that be' were unlikely to accept it as a solution. Keynes was very reticent about suggesting it and was against Allen's idea of sending a secret minute to the Treasury suggesting devaluation.

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- (1) ibid. 21st February 1930, p. 8. He does not include the Government sector in this analysis.
  - (2) 'banana paradox': illustrates in a one commodity economy how savings in the absence of investment would result in a deflationary spiral. ibid. pp. 13-15.
  - (3) ibid. 28th February. pp. 7-10.

It was thought that the mere fact that the Committee had discussed the matter could cause the £ to drop 10 points!

The second remedy discussed was an agreed reduction of the level of money incomes. This is the remedy which Keynes had advocated in 1925, immediately after the return to gold. He did not think it was any longer practicable although he still believed it was in some respects the ideal remedy.

"It would consist of a great National Treaty among ourselves. I conceive of the Prime Minister calling together representatives of all the economic elements in the country and proposing to them a National re-settlement of the level of money incomes of every description whatsoever."(1)

This was Keynes's social contract. An amount of 10% was thought to be necessary. Bevin wanted to know how he proposed to deal with groups who had already suffered a 20% reduction and Frater-Taylor asked how he proposed to deal with profits. There were obviously large practical problems involved but Keynes preferred this method to the Bank Rate method.

He found the Bank Rate method of reducing wages, even if it worked, inequitable so far as wages were concerned because the pressure was unequal and placed an intolerable burden on the weaker industries.

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(1) ibid. pp. 10-15.

The third remedy was to give bounties to exporters. The derating policy of the Conservatives, and some aspects of the coal bill which was then proceeding through Parliament, he saw as examples of this.

"All these remedies would have the effect of bringing profits to the ordinary level. As long as you have a society in which profits are the driving force of enterprise you cannot drive profits below the level which will attract investment."(1)

The fourth remedy tackled the problem from another angle: increasing productive efficiency. Keynes was dubious of this as a practical remedy,

"The doubt in my mind is whether it is practicable to increase efficiency sufficiently to bring about equilibrium, except after the lapse of more time than we care to contemplate."(2)

The first four remedies were all ways of producing at lower costs in terms of gold. The fifth remedy was different: it was protection.

"Free-traders like myself have been accustomed to say that protection is a way of increasing the profits of a particular class of entrepreneurs at the expense of the rest of the community. That is precisely what we want, provided you choose the particular class of enterprise from amongst those who require to have their profits

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(1) ibid. pp. 15-18.

(2) ibid. pp. 18.

(3) ibid. pp. 22-26.

increased as any ordinary protectionist programme would." (1)

Protection was a remedy if free trade conditions had broken down. It was a short term solution - Keynes was afraid of its long term effects. Keynes suggested retaining existing tariffs and possibly adding one or two more - protection for iron and steel was one possibility<sup>(2)</sup>.

Keynes then went on to his 'favourite remedy'. The previous five remedies sought to restore equilibrium by increasing foreign investment so as to absorb the excess of domestic savings over domestic investment; the first four by increasing exports and the last by decreasing imports. His sixth remedy sought to restore equilibrium not by increasing foreign investment but by increasing home investment. He had no reason to suppose that an increase in home investment would not be additional to current investment providing the Bank of England was willing to facilitate it,

"If the Bank of England is determined that the new investment shall be a substitute for the existing investment and not a net addition, they can as long as they have a strangle hold on the money market make sure the Treasury View is right." (3)

Keynes was thus giving substantial ground to the Treasury View.

(1) ibid. p. 22-26.

(2) ibid. 6th March.

(3) ibid. p. 16.

The inter-relationship between the domestic and international loan market was seen as the main problem for the banking system. He thought, however, that there may 'be various gadgets' by which the two markets could be separated<sup>(1)</sup>. Norman, possibly disappointed with earlier attempts, during the war and in the post-war period, to separate the markets pronounced it inadvisable. Capital export control was disliked by Norman who preferred to use bank rate. Keynes considered that if his policy for increased home investment were adopted,

"... some abandonment of laissez-faire towards foreign investment will be necessary to this country as a permanency."<sup>(2)</sup>

It would have been interesting to see if the Liberals would have accepted this modification to their plan.

These six remedies were concerned with bringing about equilibrium with the outside world by making changes at home. His final remedy relied upon making changes abroad by the adoption of a policy, by the leading central banks of the world, to prevent further falls in world prices. Keynes came close to Norman's view of the international situation but presumably personal difficulties prevented their bringing any concerted pressure to bear on policy. Keynes saw French and American policy as the major obstacles to progress:

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- (1) The interest rates had been separated during the War by the special deposit schemes. See E.V. Morgan, Studies in British Financial Policy, Macmillan (1952). See also Clay (1957), op. cit., Sayers (1967), op. cit. Sayers (1976) op. ci vol. III. Append. 30. pp290-295. See above p. 272.
- (2) Committee on Finance and Industry, Notes on Discussions op. cit., p.23.

"Both in official and academic circles in France it is hardly an exaggeration to say that economic science is non-existent. French thought on these matters is two generations out of date. This is a very serious matter. I think if this Committee were to invite evidence from some people who have been in touch with the Bank of France - I have talked with some of them - they would find them shocked by the state of mind that they found prevailing there. That is one obstacle. The second obstacle lies in the tendency for the Federal Reserve system to be dominated by domestic rather than international considerations."(1)

The policy of co-operation was:

"not only a less controversial remedy than many that I have discussed, but it is of first rate importance, particularly if one is looking further forward. A great deal of what we have discussed is in the nature of a short period problem: sooner or later we shall get out of our present disequilibrium; for this is essentially a temporary problem, it is not a thing which is to be with us for ever and ever, but this international problem, unless it is solved by co-operation, will be with us for ever."(2)

On this prophetic note, Keynes concluded his lectures to his colleagues.

#### The Mosley Affair

Mosley's approach to unemployment policy was set out in his pamphlet, Revolution by Reason<sup>(3)</sup>. This was discussed in Chapter One above p.104. Mosley was still a very young man by political standards: having entered the House at 22, as the

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(1) ibid. 7th March, p. 7.

(2) ibid. p. 8.

(3) O. Mosley (1925), op. cit.

youngest successful candidate in 1918, he was now a Minister at 33<sup>(1)</sup>. As a Minister, Chancellor of the Duchy of Lancaster, he was given the task of helping with Thomas's unemployment committee<sup>(2)</sup>. Mosley had, during the first six months of the administration, presented some competent work on unemployment policy. As we saw in Chapter Two above, p.146, he had demonstrated anomalies in the regulations relating to public works schemes, which resulted in modifications being made and national schemes being considered<sup>(3)</sup>.

He was extremely frustrated by the pace and direction of the unemployment policy. His dis-satisfaction was increased by the rejection of the retirement pensions plan, upon which he had placed great hope; and by the lack of progress in the development of national schemes of work. He became increasingly aware of the inadequacies, not only of the policy measures, but of the organizational structure for the development and implementation of policies. Criticism of the organizational structure was also made by the Ministerial Committee on National Schemes<sup>(4)</sup> at which Greenwood mentioned his intention of completing a memorandum, possibly with the assistance of Mosley, on the organizational structure necessary to implement policy.

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(1) R. Skidelsky, Oswald Mosley, Macmillan, 1975.

(2) Chapter Two, pp.

(3) ibid. pp.

(4) CAB 27 597, 2nd Meeting, 28th November 1929.

Reacting to the continual frustration and the knowledge that MacDonalld was busy designing a new advisory body, which was to become the E.A.C., Mosley used the Christmas recess to draft a plan of campaign. This plan for dealing with the unemployment problem suggested an alternative organizational structure as well as long term and short term policies to reduce unemployment<sup>(1)</sup>.

The short term plans were a national road scheme, the retirement pension scheme, and the raising of the school leaving age. The schemes were already Labour Party policies which had been considered during the past months, see Chapter Two above p. 177

The national road scheme was dismissed because of the Government's unwillingness to become involved with the affairs of local authorities. The retirement plan had been dismissed on the acceptance of the advice of the civil servants rather than the advice of the Ministers. The school leaving proposal had been placed under the responsibility of Trevelyan and was making rather slow progress. Mosley's long term scheme was for scientific reconstruction, developed on expert advice from research teams. It was rather different from the Government's reconstruction plans which were based upon rationalization of the basic industries in the hope that exports markets were recoverable.

The romantic interpretation of this memorandum is that it was a revolutionary document providing a blue-print of a policy which if implemented could have prevented the ensuing misery

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(1) CAB 24 209, CP 31(30).

of the thirties<sup>(1)</sup>. The memorandum is rather a disappointment to anyone looking for a policy break-through and the furore it caused must be explained by the general dis-satisfaction with the existing policies and to the personality of Mosley rather than to the radical nature of his suggestions.

Skidelsky<sup>(2)</sup> provides ample evidence of the general disaffection with which Mosley was regarded by the majority of the members of the Parliamentary Labour Party including some Ministers: he was an ambitious outsider who mouthed popular sentiments but whose convictions might well be proved shallow. For his part he had little regard for his Labour Party colleagues.

(1) See Winch (1969), op. cit.; A.J.P. Taylor, (1965) op. cit. Skidelsky (1975), op. cit.

(2) R. Skidelsky, 1975, op. cit. Chapter 8. Skidelsky documents views of the Labour Party and the left wing press about Mosley and his life style. P. Snowden (1934), op. cit. Snowden doubted whether any one could have worked well with Mosley unless ...

"he were prepared to meekly follow him.....  
 ..I have never had any faith in the sincerity of Mosley's professions of Socialism. I was always suspicious of a rich man who came into the Socialist Movement and at once became more socialist than the Socialists. As soon as he joined the Labour Party his speeches were violent denunciations of capitalists and the idle rich and when addressing a Socialist gathering they were inter-larded with frequent references to "My dear comrades", I can understand the working class Socialist who knows something of the hardships of working class life sometimes expressing bitter feelings about a class which he regards as his exploiters but such things coming from a man like Oswald Mosley who enjoys all luxuries which his wealth and social position can command give me a feeling of nausea .....

It was always felt that he was a man on the make and was using the Labour Movement as an instrument for satisfying his ambition. Mosley had considerable ability .... If ever Oswald Mosley had the powers of a Hitler or a Mussolini he would be more ruthless and merciless because weaker and vainer than these two dictators ....."

Those of whom he approved, such as Cook, he regarded in the way one might appreciate an earthenware pot - a good example of a rougher kind of product. His regard for his colleagues lacked any feeling of common humanity<sup>(1)</sup>. He admired supposed intellectual brilliance and activity and had an insatiable hunger of the appreciation of these qualities in himself<sup>(2)</sup>.

The ideas in the memorandum were not new and they did nothing to untie the Gordian Knot of constraints which was strangling the unemployment policy of the Labour Administration. The proposals did not display a facilitating acumen necessary to surmount the problems of implementation. Many others in the Party had advocated, and would have supported, various aspects of the

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- (1) R. Skidelsky (1975) op. cit.  
Morrison complained "he spoke to me like a landlord addressing the peasantry".  
O. Mosley (1968) op. cit.  
He delighted in the dropped "h's" of Thomas whom he considered understood nothing. Morrison he thought "a narrow vain little bureaucrat devoid of vision and incapable of movement beyond his office stool". Attlee, "had a clear incisive and honest mind within the limits of his range". Dalton: "there are few things more disastrous than a third rate don".
- (2) O. Mosley (1968) op. cit. He claims not only to be a radical politician but an original thinker:

"Yet the long term programme in the second half of my speech went beyond anything which Lloyd George or even Keynes were suggesting. It was not until 1933 that Keynes began to approach this position .....". "Keynes wrote two articles on national self-sufficiency in the New Statesman on July 8th and 15th 1933; they jettisoned entirely the classic free trade position and in effect were a lucid exposition of the basic economic conclusions I had reached in Government".

This is not an accurate picture of the development of the Keynesian position on free trade. His views were made clear to the Macmillan Committee, 1930; the Economist's Committee of the Economic Advisory Council, 1930; to Snowden 1931, and made public in the New Statesman March 1931.

proposals which he suggested. Had he not been in such desperate need of personal adulation he may well have rallied support for many of the measures he suggested and thus increased the chance of their adoption. There is no apparent reason why the memorandum could not have been submitted jointly by the advisory ministers. It was often referred to by the press in the names of the three men or as the Lansbury-Mosley memorandum. (Rumours were also circulating that big changes were imminent and that Mosley was to lead a new department in charge of unemployment.) His character and possibly his relationships with other members of the Party, prevented him from co-operating and rallying support in this way. He went ahead alone supported very generously by his colleagues, Lansbury and Johnston.

On the 23rd January he submitted the memorandum to the Prime Minister with an accompanying letter<sup>(1)</sup>;

"23rd January, 1930"

"My Dear Prime Minister,

I venture to forward to you my paper on the unemployment and general economic problem, and the organization necessary to meet it which I told you in a previous letter was in the course of preparation.

I have already sent a copy to Thomas, whom I have assured that the criticism of the present situation is in no way intended as a reflection upon him and that, indeed, the present limitations of policy and machinery in my view make his task impossible. I have also shown the document to Lansbury and Johnston who I understand, are writing to you to say they agree with the substance of it.

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(1) CAB 24 209 CP 31(30).

I hope very much that you will be able to consider it before any announcement is made or white paper is issued relative to the proposed economic staff, as the organization materially affects that body. The policy suggested in the paper is not advanced in any dogmatic spirit and certainly not at any cast iron formula. I am more than open to any alternative suggestion which can be shown to be superior. I have reached, however, the very definite conclusion after mature consideration that it is impossible to continue as at present."

Yours very sincerely,

Oswald Mosley.

Lansbury and Johnston wrote to the Prime Minister the following day supporting Mosley in his endeavours to get some changes made in the unemployment policy. Lansbury took great pains to avoid upsetting Thomas whilst at the same time impressing upon MacDonald the need for more decisive action on unemployment.

"24th January 1930"

Memorandum by First Commissioner of Works

"Our colleague, Sir O. Mosley, after many discussions with us on the subject of unemployment and the Government's failure to reduce the figures, decided to spend a portion of the Christmas vacation summarizing our views and experiences and also putting on record in skeleton form the sort of organization and some of the steps which, in his judgement, are necessary if we are to deal effectively with this, the most vital of all domestic questions now before the country.

I have read his detailed examination of the present situation and his criticisms of our present schemes for dealing with the problem, and without pledging myself to everything contained in the memorandum, I must record the fact that I am in substantial agreement with him and do most earnestly beg the Prime Minister and the Lord Privy Seal to give their best and earliest attention to the memorandum prepared by our colleague.

In asking that this should be done I want to assure the Lord Privy Seal that our disagreement with him have no shape or shadow of personal feeling each of us, at public meetings and at deputations have done our utmost to strengthen his hands, to explain his policy and to ensure its success. I, however, believe that the limits within which he is working have set him an impossible task and am firmly convinced that the road we are now travelling affords no kind of immediate or even early amelioration of our country's economic plight. The Lord Privy Seal has worked day and night and done all that one man can do within the limits he and his advisors have decided to work, but I believe that these limitations of present policy forbid success.

In these circumstances I feel it is our duty holding the views we do, to ask that the memorandum of our colleague shall receive the consideration it deserves. I hope that time will be found for the Prime Minister and the Lord Privy Seal to discuss with Sir Oswald Mosley in as full a manner as possible the present position in regard to unemployment and the proposals in relation thereto put forward by the Chancellor of the Duchy.

Signed G. Lansbury

Office of Works" (1)

Johnston's supporting letter is less generous of Thomas's handling of the unemployment problem. He considers some other machinery for the organization of policy is necessary and suggests an alternative simple procedure:

Scottish Office, 24th January

"Dear Prime Minister,

The Chancellor of the Duchy has been good enough to let me have a copy of the memorandum on unemployment which he has forwarded to you and to the Lord Privy Seal.

I think it is my duty to say that I fully endorse the Chancellor of the Duchy's critical examination of the present method of dealing with relief works schemes.

The honorary advisory Committee of Ministers as the Chancellor of the Duchy describes the three of us, Lansbury, Mosley and myself, have only been summoned to a meeting, I think, on two occasions during the past six months. The belief that such a committee sits regularly with either deliberative or executive power is liable to give rise to misunderstanding among the members of the Government, the Party and the Public, and it is likely to place the three Ministers in undeserved difficulties in the future, as they may be held partly responsible for the decisions which are not theirs and about which they were in fact never consulted.

In my judgment, therefore, the advisory committee should be formally as it is in fact, dissolved, and some new and more effective machinery for dealing with unemployment relief schemes substituted.

Personally, I could never see any reason why we should not have an all Party Committee of the House of Commons sitting regularly examining specific relief projects. Whether a road or a bridge should be built here, or a canal cut there would seem to me as fitting subjects for an all party House of Commons consideration as are Public Accounts or the Bills submitted to the provisional orders committees. The execution of public works are, of course, for the responsible Ministers or Local Authorities and the fixation of the limit of expenditure is for the Chancellor of the Exchequer, the Cabinet and the House of Commons to determine. But the old administrative objections that an all party committee sitting and continuous sessions considering specific schemes and hearing evidence and making recommendations, would in any way hamper or embarrass the responsible Ministers would seem to have less validity than ever after our experience of the workings of the Unemployment Grants Committee.

From a hurried examination of Sir Oswald Mosley's proposals it would seem difficult to incorporate an all party standing committee on relief schemes.

And in any case the great political advantage to a Minority Government of engaging representatives of the opposition party in the day to day consideration of such schemes is so obvious that I need not stress it.

Yours very sincerely,

Thomas Johnston" (1)

What then did Mosley suggest? He stated that his objectives were to point out that:

- "1. from the point of view of immediate unemployment plans and of long term economic reconstruction a far larger and more comprehensive organisation is required than has yet been employed or is even now contemplated;
2. measures can be taken within the existing resources of the Government by which the unemployment problem can be materially reduced within a relatively short period of time;
3. the real problem of permanent economic reconstruction requires not only a greater co-ordination of the government activities, but a mobilisation of national resources on a larger scale than has yet been contemplated by measures I will attempt later to suggest." (1)

He expanded in some detail on the proposed organizational structure; on the short and long term proposals; and added a section on credit policy.

In spite of the casual way in which Mosley presented the memorandum to Thomas and in spite of the avowed absence of any personal criticism of Thomas by both Mosley and Lansbury; Thomas was greatly peeved by this revolt by his associate ministers; and about the publicity which the, supposedly secret, document had received. MacDonald had to cajole Mosley into placating Thomas who had gone so far as to offer his resignation (2). The memorandum created a great stir within the

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(1) CAB 24 209 CP 31 (31) op. cit.

(2) R. Skidelsky (1967), op cit, p. 193-4.

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terms of reference. At the first meeting Snowden presented a draft memorandum which had been prepared with a view to providing the Committee with a critique of Mosley's document<sup>(1)</sup>. It expressed sympathy with Mosley's dis-satisfaction with the effectiveness of unemployment policy and purports to have examined his suggestions in a sympathetic spirit.

The suggestion relating to the creation of a new department is considered first. The objection to this is that:

"A committee of 12 paid economists assisted by honorary committees of businessmen would lay down the entire economic policy of the Government". (2)

The Prime Minister as head of this body would endorse their conclusions and together with a Committee of Ministers would execute them. It was considered unlikely that the Prime Minister would be able to fulfil this function thus the decisions would become the decisions of experts and officials. This would be irreconcilable with the principle of Parliamentary Government unless the organization confined itself to policy and submitted its proposals to the Departmental Ministers for their consideration and submission if necessary, to the Cabinet. But if this was to be the function then the structure was unwieldy. There seemed to be general satisfaction with MacDonald's new advisory council, and Greenwood felt that there would be little

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(1) CAB 27 413. UPC (30) 2.

(2) CAB 27 413, CP 134 (30).

difficulty in persuading Mosley and his colleagues that the Economic Advisory Council did in fact provide the necessary machinery (1).

Mosley had attempted to separate short term relief measures from long term reconstruction proposals. This separation was thought to encourage the acceptance of unproductive schemes. Snowden considered the separation illogical; especially as road works were regarded as a short term relief measure when he felt they were central to any long term transport policy.

Mosley's schemes for short term policy were not very imaginative: there was to be a £200 million road scheme, the retirement pensions scheme, and the school leaving scheme. His suggestions were countered by the fact that £4.5 million remained unspent from the 1924 road programme. National schemes were thought likely to undermine local authority autonomy, which had been carefully nurtured over three hundred years, and <sup>to</sup> replace it with a 'bureaucratic system of continental style'. The retirement pensions scheme was still an attractive proposition to some members of the Committee although its relevance was in some doubt as it was the middle-aged group who were most vulnerable.

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(1) Mosley no doubt felt slighted at not being involved in the activities of the E.A.C. From the point of view of his political career the memorandum was badly timed and placed perhaps it would have been better to have produced it to a forum in which it would have received a more sympathetic hearing, e.g. the E.A.C. in which Bevin, Citrine, Cole, Keynes, Stamp and Henderson were likely to have been predisposed towards it so that the impact might have been greater.

The long term remedy, reconstruction was agreed to be necessary, but the Committee regarded it rather differently from Mosley.

Mosley was looking for permanent reconstruction for which:

"... government should arm itself with the strongest possible economic staff, should systematically consult with every branch of finance, industry and commerce and should then make up their minds upon the future of industrial developments of the country." (1)

To counteract unemployment accompanying reconstruction Mosley suggested credit expansion.

To most of the Cabinet Ministers, reconstruction was merely the reconditioning of depressed industries which, with Government help and guidance and finance from the banking sector, should be carried out by the owners of those industries.

The meeting of the Cabinet Committee, at which Lord Privy Seal and his Ministers were present on 25th March, is not fully reported in the minutes<sup>(2)</sup>. One outcome was a request to Mosley for a brief statement of his proposals for reconstruction of industry. This he produced<sup>(3)</sup>. He criticised Thomas's scheme on the ground that the Government assumed responsibility but had no control. He considered that for reasons of

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(1) CAB 24 209 CP 31 (31)

(2) CAB 27 413 UPC 2nd Meeting.

(3) CAB 27 413, UPC 3(30).

effectiveness, co-ordination and control the Government should play a more important role. He proposed an organization in which the Government would assume the role envisaged for the Bank of England in Thomas's scheme. Mosley also advocated a development loan and a cheap money policy which he felt would be possible after the American crash and the subsequent reduced attraction of America for British funds. The reaction to this was typical Treasury sentiment:

"If the money could be raised it .... would only be raised at high interest rates dislocating general investment values, and thereby causing a setback in new business enterprise, which the policy is intended to foster. Market conditions, left to themselves, should improve with lower bank rate and easier money conditions which recent government issues were themselves designed to foster." (1)

They saw the development loan as likely to interfere with the cheap money policy of which they had great hopes<sup>(2)</sup>. The argument was developed by referring to the problem of confidence and the slender resources upon which confidence in credit and currency was based. The memorandum concluded that:

"..... the only practicable course is to continue the policy of long term reconstruction which the Lord Privy Seal has adopted and to make definite and considered pronouncement that we reject retirement pension and a grandiose loan policy."(3)

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(1) CAB 24 211 CP 134(30).

(2) Interest rates were in fact falling sharply at this time.

(3) CAB 24 211 CP 134(30)

Mosley's proposals were rather pedestrian. They were neither original nor particularly well developed, failing even to mention the expansionary effect of the policies. Yet he and many others felt that he had the answer to the problem. What was the underlying schema which gave coherence to Mosley's proposals? He is sometimes thought of as a Keynesian but, although he advocated the stimulation of domestic demand, public works and cheap money, to see him as a precursor or even an interpreter of Keynes does justice to neither. Very different behavioural models and different policy objectives can give rise to similar policy proposals. Mosley was not interested in the failure of the aggregative economic system to bring about full employment although the removal of unemployment was at this time his central policy objective. Mosley was, as he himself says, more than a Keynesian<sup>(1)</sup>. He was not searching for policy instruments which would re-establish the economic prosperity of the nation. He was interested in ways of controlling the economy to ensure the policy objectives, such as the removal of unemployment, could be rationally implemented. He was first and foremost a planner and he had a touching faith in the ability of rational scientific reasoning to cope with the contemporary problems. The planning and organizations in which he was interested were those which would enable him to control the 'destiny of the nation'. This attitude towards planning found sympathy across a broad spectrum of political opinion. The Yellow Book<sup>(2)</sup> had

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(1) Mosley (1968) op. cit.

(2) Britain's Industrial Future, (1928); op. cit.

specifically rejected a laissez-faire approach to the economy and there were amongst the Conservatives a number of young men e.g. Macmillan and Boothby who were advocating greater state intervention and planning in the economy<sup>(1)</sup>. It was the supposed long term objective of the Labour Party but one which, in the existing dismal economic conditions, they did not have the confidence to pursue. Instead they dealt in piecemeal fashion with the reconstruction of specific industries and avoided the more difficult problems which Mosley wished them to consider, such as, the appropriate structure of industry and trading relationships; about which there was little information or technical expertise available to enable decisions to be taken; hence Mosley's emphasis on research.

Mosley's proposals were more a blue-print for a planning process than a contribution to the debate on the economic crisis. The proposals were cumbersome compared with Amery's scheme<sup>(2)</sup> to avoid the knot of the balanced budget by reducing payments to the Sinking Fund. In the memorandum<sup>(3)</sup>, apart from his advocacy of a cheap money policy and a development loan, he did not challenge orthodox financial management and he failed even to use the argument associated with the cumulative effects of public expenditure which was already spelt out in some detail by the Liberals.

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(1) Macmillan, (1966) op. cit.

(2) See Chapter One above. p. 60.

(3) CAB 24 209 CP 31(30).

Mosley wished to control the 'nation's destiny' and any constraints likely to interfere with this control he attempted to remove. He was interested in control not intervention and so politically he became involved with National Socialism and not the rather tentative Fabian socialism of the Labour Party. He was against the gold standard not because of its inadequacy as a system for facilitating international monetary relationships but because it left the nation vulnerable to a 'nigger in Africa digging up gold' (1). He wanted a protectionist policy not only because he realised the nation was trading in a second best world of protection, or because it would protect some industries from competition and dumping from abroad, but to foster national independence insulating the domestic economy and relying upon a buoyant home market rather than touting goods abroad on unwilling markets over which he had no control. His demands for national schemes of work became more strident as it became more apparent that local authorities were unlikely to respond in the desired way; and no doubt his break with the working class movements was inevitable once he saw them as a 'barrier to anyone trying to do anything' (2). Mosley was an activist whose sympathies for a short period seemed to coincide with those of the Labour Party but when they appeared unwilling to assume control of the economy he went on his way.

His departure began with his resignation from ministerial office after the discussion of the Report of Snowden's Committee.

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(1) O. Mosley, (1925) op. cit.

(2) R. Skidelsky (1975) op. cit.

MacDonald had been engrossed in the Naval Conference during the early part of 1930, but emerged to deal with the Mosley crisis. After the debate on the report on Mosley's memorandum a Conference of Ministers was convened under his chairmanship<sup>(1)</sup>. This Conference of Ministers met six times between 13th May and 4th June. They were gloomy meetings. The world slump was getting worse and there seemed little that could be done about it. Mosley argued that more money should be provided for public works but Thomas and others doubted whether the money would be spent. MacDonald was very doubtful of the effects of the policies which were being pursued on business activity:

".... we reduce hours, put on burdens, make the outlook even gloomier ... we are not sure how to handle the problem."

Mosley retorted,

"... you must make greater effort or throw up the sponge." (2)

At the third meeting of the Conference it was announced that Mosley had resigned<sup>(3)</sup>. He was called again to the Conference.

- (1) Conference of Ministers  
Members: MacDonald, Thomas, Greenwood, Morrison, Bondfield,  
Lansbury, Mosley, Johnston, Secretary: Tom Jones.  
CAB 27 437. C.M.U. 30.
- (2) K. Middlemas. Thomas Jones, Whitehall Diary, Vol. 11, 1926/  
1930. Oxford University Press 1969. p. 257.
- (3) CAB 27 437 CMU 30, 4th Meeting 20th May.

In spite of MacDonald's assurance that Snowden's Report had not been adopted by the Cabinet but referred to the Conference, Mosley saw the position as being himself versus Snowden and decided to go. The discussion was, according to Thomas Jones, a very melancholy affair. Thomas according to Jones said, "I am tired, I took a job with no kudos, a rotten job." The Prime Minister was also tired. Johnston wanted to 'rope in the Conservatives and Liberals' but MacDonald felt that their support could not be obtained during the crisis.

Mosley resigned in spite of MacDonald's attempt to persuade him to stay and Lansbury's impassioned defence. Lansbury reacted very strongly to the Snowden Memorandum. In a memorandum which he submitted in May, he refers to explicit policies of the party which had been 'contemptuously' rejected:

"... the workers who pinned their faith to us and our declarations in 'Labour and the Nation', in our Election Manifesto and the broadcast appeals of our Leaders, are now to be told we have no immediate measures for dealing with the evil other than an extension of those adopted by our predecessors and various proposals for development of private enterprise." (1)

He says that the land settlement proposals, to which he was so committed, were being treated with humorous indifference.

Settlement in the Colonies as a possible outlet for unemployed workers was now thought to be politically impracticable (2).

(1) CAB 24 211; CP 145(30).

(2) Drummond (1974) op. cit., migration was falling sharply at this time.

He was bitterly disappointed that the pension scheme had been dropped. He was particularly disturbed by the idea that it should be repudiated as suggested by the Snowden memorandum.

If the repudiation referred to the Party proposal, which was laid down at the 1928 Conference, then he considered that no decision of Cabinet could bind the Party, whose policy was laid down only by the annual conference.

All was to no avail. Mosley bowed out after a characteristically powerful speech; took his cause to the Party Conference in the Autumn; and thence out of the Labour Party<sup>(1)</sup>. He ceased to have any direct impact on the formation of unemployment policy, although he continued to press his views forcefully in Parliament and in the country. After presenting his proposals to the Labour Party Conference he went on to publish his manifesto and to form the New Party in 1931<sup>(2)</sup>.

### Full Circle

After this heartrending session, activity began. In the shadow of the dismal trade report for May which showed a decline in coal, iron and steel, cotton and wool, the whole policy for dealing with unemployment was re-examined. MacDonald launched

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(1) Oswald Mosley, (1968) op. cit. See also Snowden (1934) op. cit. for account of the speech.

(2) Mosley Memorandum Daily Telegraph, 8th December 1930.

new machinery for administering the policy which proceeded to re-examine the retirement policy; the raising of the school leaving age; public works policy; migration and land settlement. The re-examination was to involve not merely the newly constituted Panel of Ministers but the E.A.C.; a Committee of Economists; a Conference of Local Authorities; and the opposition parties<sup>(1)</sup>. The policy had come full circle and was as open as it had been when the administration had taken over the previous year. They were ready to begin again.

### Major Policy Strategies

#### Public Works Policy

##### Progress of the policy

The public works policy was floundering: schemes were not forthcoming and the employment potential was not very impressive.

The public works programme had by this time assumed a very unimportant role in the unemployment policy, although some Ministers including Lansbury, Mosley and Johnston were still hoping for a more active programme. Policies for the expansion of Government investment were also being advocated by Keynes in the Macmillan Committee, and by Henderson, Cole and Keynes in the E.A.C. During the discussions on the Mosley memorandum on 3rd February it was generally agreed by the Cabinet that additional 'unproductive' schemes of relief should not be encouraged.<sup>(2)</sup>

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(1) CAB 24 212 CP 176 (30).

(2) CAB 23 63 7/30.

In March the Lord Privy Seal reported the progress of the schemes (1). The total value of the schemes approved in the first ten months, was approaching £100M and was expanding.

Mosley's proposals involving the expenditure of £200 million might have employed 300,000 men for three years but he was taken to task very severely for his optimism and his failure to suggest suitable plans.

"You might as well have suggested £1,000m"

the Treasury Memorandum taunted him. Greenwood, Morrison and other ministers became convinced of the impossibility of additional schemes being brought forward. They saw the constraint as the lack of suitable schemes not money. Thus to raise a loan of £200M was useless for the works would not be forthcoming. They preferred to make the monetary arrangements when necessary. Mosley believed that psychologically the availability of a large grant would encourage local authorities to undertake more ambitious plans.

There appears to / have been a complete failure of imagination. The depressing advice from the civil servants in the earlier months appeared to have sapped most of the motivation to look for new avenues of development. The debate revolved around the road issue and whether local government could survive national schemes; and

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(1) CAB 24 211 CP 120 (30).

whether Thomas was prejudiced in favour of railways. There was little appreciation of the wider social benefits involved in some of the schemes although Mosley had indicated their existence in his reference to the benefits of municipal wash-houses etc., in the Autumn. It would be interesting to compare the evaluation of the proposals with modern cost benefit analysis<sup>(1)</sup>.

Snowden alone seemed to see the possibilities of development in the electricity industry whose requests for aid had been summarily dismissed by Thomas<sup>(2)</sup>. These schemes might well have gained Treasury approval as contributing to the reduction in costs of production. Snowden did not press the matter and no one else took it up. Mosley is reported to have said on one occasion that 'Napoleon could have spent £200M in three years'<sup>(3)</sup>, but Napoleon was not around and Mosley did not offer much.

### Criteria

The Treasury seem to have adopted an extremely narrow definition of 'productive': narrower than that held by the Interdepartmental

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- (1) The later study of the Victoria Line which in terms of mere revenue evaluation would not have been justifiable, is an interesting example. See C.D. Foster, M.E. Beesley, 'Estimating the Social Benefits of Constructing an Underground Railway in London', Journal of Royal Statistical Society, 1963.
- (2) CAB 27 413 UPC (30), 1st Meeting 14th March 1930.
- (3) Middlemas (1969) op. cit. p. 258.

Committee of Unemployment, whose criteria had been criticised and extended somewhat by Mosley in the Autumn. An indication of the Treasury attitude is to be found in the memorandum on Mosley's proposals:

"The Government must be prepared to direct itself to the application of schemes which will not only fulfil the condition that they provide immediate employment, but which also stand the test of reducing the cost of production and adding to the economic power of the country." (1)

The criteria applied appears to have become very rigid for in February, Lansbury (2) was complaining that the restrictions had become so tight with regard to development schemes that his plan for the redevelopment of the Montague House site was not thought to be justified. The scheme had been proposed because there was an urgent need for better accommodation for civil servants and the employment component of the project was only a secondary consideration.

### Incentives

Little consideration was given by either the proponents or the opponents of the public works programme to the conditions under which schemes might be forthcoming: to whether the criteria adopted were too narrow or the terms too low. This is indicated

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(1) CAB 24 211 CP 134(30).

(2) CAB 24 210 CP 67(30).

by the way in which the Charing Cross Road Bill was dealt with<sup>(1)</sup>. Cabinet refused to allow the London County Council and Westminster Councils a grant of 75% to enlarge St. Martin's Lane before the opening of a new bridge. The Councils rejected an offer of 50% and said that they were not prepared to accept less than 60%. In spite of the progress in the Autumn towards a more flexible approach to development works, the Minister of Transport and the Chancellor of the Exchequer were both agreed that it was important to resist such high grants in the London area - unemployment was rising generally at this time. Cabinet were advised to insist on a maximum of 50%: and to place the responsibility of refusing on to the Councils. A report from the committee studying the Channel Tunnel Scheme was available and it was reported that:

"If it appears that the required financial support will not be forthcoming to enable the tunnel to be built by private enterprise, we are of the opinion that the evidence in the report regarding the advantages of the channel tunnel to the country as a whole is not sufficient to justify His Majesty's Government either of itself constructing the tunnel or giving financial assistance to enable it to be constructed."<sup>(2)</sup>

Although the Government complained that schemes were not being put forward little was done to support schemes which were suggested<sup>(3)</sup>.

(1) CAB 24 209 42 (30)

(2) CAB 23 63 21(30)

(3) CAB 23 63 23(30); CP 72, 114(30).  
Roskill (1972), op. cit. p. 522 for Hankey's role in the rejection of this scheme, which he had always disliked, by persuading MacDonald of its 'lack of economic attractiveness'.

Problems and Commitment

During the process of reconsideration of the schemes, attention was drawn to matters which were impeding the progress of the current programme: plebiscites<sup>(1)</sup>, administrative and parliamentary failures<sup>(2)</sup>.

The debate about a Bill to speed up the compulsory acquisition of land by local authorities was deferred in February because of the pressure of work on the parliamentary draftsman<sup>(3)</sup>.

In addition to the problems associated with putting forward a public works programme, there was growing scepticism about the value of public works schemes as a way of alleviating unemployment. This is referred to in Snowden's Memorandum<sup>(4)</sup> and in Thomas' statement of 7th April.

"Practical experience of carrying out a policy of development works shows clearly how small a contribution even very large programmes of public works can make towards an appreciable reduction in the live register. A few weeks of depression in Lancashire are sufficient to throw on to the register numbers which completely obscure any contribution which a programme of development works may make".<sup>(5)</sup>

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- (1) These had to be held in areas where there was opposition to Councils' schemes.
- (2) Thomas was to ask for co-operation of the House of Commons on portions of bills from local authorities which involved employment schemes. CAB 23 63; 6(30).
- (3) CAB 23 63, 12(30); CP 66 (30).
- (4) CAB 24 211; CP 134 (30).
- (5) CAB 24 211; CP 120(30).

Reconstruction

Reconstruction was one of the few remaining policies at the beginning of 1930.

The Treasury remained committed to the policy appropriate to the unemployment problem, which they considered to be largely structural.

"The problem is to restore prosperity to the four staple industries of cotton and wool, iron and steel and engineering, coal, and shipbuilding and all these are more or less export trades. The revival of the first three would automatically solve the problem of the fourth." (1)

The policy was given a boost by Thomas's negotiations with Norman and some bankers about the financial arrangements for the policy. On 22nd January Thomas presented Cabinet with a memorandum outlining his plans to which he had already alluded in a speech a few days before in Manchester<sup>(2)</sup>. He said that the City was ready to consider sympathetically proposals that were put forward to assist the reorganisation of industry. Although he did not expect any immediate results from his scheme it,

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(1) CAB 24 211 CP 134(30).

(2) CAB 23 63 4(30); CP 21(30). This scheme developed into the Bankers' Industrial Development Company. Norman was enthusiastic about the plans when he gave evidence to the Macmillan Committee.

"... represented a determination to put before the leaders of industry both an offer to help and a measure of optimism designed to encourage them to continue their efforts to reduce the costs of production and so expand the export trade." (1)

Thomas still pinned his faith on the recovery of exports in spite of a rather dismal Trade Outlook<sup>(2)</sup> for January, when Graham reported that although coal and iron and steel seemed to be holding up, electrical goods, cotton and wool were all being adversely affected by the spreading depression abroad, increased competition and the erection of tariff barriers. Nevertheless, Thomas with the aid of several 'prominent' industrialists and the Governor of the Bank of England, was going ahead with plans to organize financial aid for reconstruction. He also attempted to involve the Trades Union Congress, for it was widely accepted that any reconstruction plans would swell the unemployment figures. This factor was not to "... deter us from encouraging healthy reconstruction however drastic." (3)

Apart from hints here and there of a need for a redundancy policy there was little attempt to deal with this problem except by Mosley who suggested in his memorandum that:

"Only one known factor may offset the tendencies of long term reconstruction ... to increase the unemployment figures. That factor resides in the sphere of monetary

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(1) CAB 24 209; CP 21(30).

(2) CAB 24 209; CP 24(30).

(3) CAB 24 209; CP 21(30).

policy ... cheaper money accompanied as required by an enlargement of the basis of credit would have an early and beneficial effect on the unemployment figures although it is doubtful whether it would very much more than counteract the rationalisation measures." (1)

### Mosley's Criticism

Mosley was very critical of Thomas's scheme for financial reconstruction. His first criticism was that the other advisory ministers had had no hand in the plans and knew little more than the general public. His second criticism was about the extent of control given to the banks. The Government should assume effective control and not abdicate its responsibility to the banks.

He did not consider that British banks had the industrial experience, unlike their German counterparts, to enable them to deal with industrial organisation. He challenged the obsession of the Government with the revival of the basic industries.

Mosley was critical of the focus of reconstruction on the basic industries because he wanted more attention paid to the appropriate industrial structure of the country and to this end advocated a strong research staff to consider the problem. Under the reconstruction programme advocated by the Government, investment was directed towards the depressed industries and as such

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(1) CAB 24 209; CP 31(30). Empirical evidence relating to the effect of money supply during this period indicates that the impact would have been on prices and not employment. See Walters (1969) op. cit.

might be regarded as defensive investment and thus likely to have delayed the transfer of capital to growth sectors of the economy.

He did not think the potential of exports to generate a revival in home demand had been 'scientifically examined'; although he quotes Clay's estimates that a £50m increase in exports was likely to increase employment by 225,000. On this aspect of macro-economic policy Mosley did not mention induced effects from the increase in exports which were implicit in Thomas's arguments.

He was being realistic, however, as exports were not holding up well and fell in value and volume by about 20% between 1929 and 1930.

Mosley was probably right to challenge the reconstruction concept as an instrument for the re-establishment of economic prosperity, but he failed to take the offensive and make suggestions for more profitable departures. The expansion of the electricity industry referred to by Snowden was an obvious possibility; Amery had recommended the expansion of automobiles; the railway managers were asking for aid to electrify the service; and the chemical industry might well have been expanded. Mosley left this matter to his prophetic experts.

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Keynes' Doubts

Keynes was also doubtful of the potential of reconstruction policy. His views on the issue were expressed in the E.A.C. report on the Economic Outlook.

"... to expect an increased efficiency in these trades sufficient to absorb, within a moderate period of time, the bulk of the men now unemployed, both in these industries or in other industries would be quite unreasonable." (1)

Specific plans

Coal: There was a considerable problem with Liberals over the Coal Bill<sup>(2)</sup>. The President of the Board of Trade said that it had been made plain that Lloyd George was strongly opposed to the quota provisions in their present form. He reminded the Cabinet that considerable concessions had already been made to secure Liberal support and that further concessions would strain the relationship with the miners and the coal owners. Thomas reported that there was some anxiety lest the proposals forced up the costs of production. The Bill continued on its tortuous progress on to the statute books.

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(1) CAB 58 143, EO 3.

(2) CAB 23 63 7(30) Feb 3rd, 1930.

Agriculture: Agriculture was in a sorry state. Early in the New Year, the Minister of Agriculture presented his Agricultural Marketing Bill<sup>(1)</sup>, which was to facilitate the organization of producers into associations or co-operatives for greater unity of effort in marketing. These attempts were dwarfed by the growing clamour for protection. Reorganisation seemed a puny effort compared to the immense problem of the agricultural sector. An Agricultural Policy Committee and a special sub-committee of the E.A.C. were set up to consider the problems<sup>(2)</sup>.

Iron and Steel: The Iron and Steel Report was ready in the late Spring. It suggested a rationalisation scheme of £15M and the merits of its publication were being considered in May. The Macmillan Committee discussed the idea of protection for the industry and were generally sympathetic<sup>(3)</sup>.

### Trade

#### Tariff Truce

Officially, the Labour Government was committed to free trade and to further this policy negotiations were begun to organise a tariff truce. On February 12th, Graham reported to the Cabinet that his proposal, providing for the organisation of a conference to arrange a tariff truce, had been carried at the

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(1) CAB 24 210, CP 79(30).

(2) CAB 23 63 13(30) 5 March; CAB 24 210, CP 76, 78, 79, 80, 81, 82, 85(30).  
A special Cabinet meeting was convened to discuss the problems.

(3) Committee on Finance and Industry (1931) op. cit.  
Notes on Discussions held on Friday, 28th February 1930, p24.

last meeting of the League of Nations<sup>(1)</sup>. On the 17th February, Graham left for Geneva to offer proposals to the international conference. Thirty countries, which did not include the U.S.A. and included twenty-six European countries, accepted the invitation to attend the conference. There was some sympathy at the early meetings, although the Italians were not enthusiastic, in favour of a truce. This was to be a preliminary stage in a programme of multinational negotiations to reduce obstacles to trade. Whilst the Conference was in session, the French Government fell and the new administration could not accept the proposals. After some rather stormy sessions, new proposals were presented which Graham felt lacked the 'binding and precise character' of the original proposals. He, nevertheless, recommended their acceptance<sup>(2)</sup>.

#### Pressure on Free Trade

Meanwhile, tariffs were sprouting up everywhere. France and Italy hardly left the Conference before announcing tariffs on cars. Australia introduced a general tariff in April; and in the United States the Smoot-Hawley Tariff Bill was being prepared which was to cause considerable retaliatory action when it became law in the Summer<sup>(3)</sup>.

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(1) CAB 23 63, 10(30); CP 43(30).

(2) CAB 24 211, CP 130(30).

(3) Kindleberger(1973) op. cit. on the introduction of protectionist measures and the tariff truce.

In February, the Cabinet were discussing the Indian Government's decision to raise tariffs on imported cloth. The Indian industry had suffered severely and was in a desperate position. In spite of the diffidence of the Secretary of State for India, Wedgwood-Benn, about any interference in Indian affairs, it was decided to approach the Viceroy of India to ask that consideration be given to Britain because of the plight of the Lancashire cotton industry<sup>(1)</sup>. India's response was sympathetic and some preference was given to United Kingdom goods by introducing a differentiation in the form of an additional charge on 'plain grey goods' from outside the Empire<sup>(2)</sup>.

The Colonial sugar producing states asked for support in the form of Imperial Preference. There were vast stocks of sugar and prices had fallen 60% in the past months. A free trade speech, by Snowden, had contributed to the problem having 'knocked the bottom out of the West Indian sugar market'<sup>(3)</sup>. It was pointed out that the West Indian producers were suffering losses even with the existing preferences. Mauritius, meanwhile, was asking for a grant-in-aid because of estimated losses. Barclay's Bank reported that they had already advanced up to the whole of the costs of production. A Committee consisting of the Chancellor of the Exchequer, Secretary of State for the Colonies and First Lord of the Admiralty, was set up to consider the problem of the colonial sugar industry and reported that the

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(1) CAB 23 63, 9(30); CP 39(30).

(2) CAB 23 63, 11(30); CP 49, 51(30).

(3) CAB 23 63 10 11(30); CP 40(30).

"... present world wide depression in sugar is due to over-production which is largely the result of encouragement by bounties, subsidies and protective tariffs". (1)

The problem was seen as a long term imbalance and thus adjustment was the solution not support.

The domestic sugar industry, an 'infant industry', which had grown up sheltered by protective tariffs was having problems. Noel Buxton said that if the industry was to survive and the country to recoup the benefit of its investment in it, the existing protection should be retained<sup>(2)</sup>.

By far the biggest challenge to the free traders came from the agricultural sector. The Scottish Office reported that 1929 had been a bad year for agriculture in Scotland after a series of bad years and that in their present mood, farmers would welcome any system of control of grain imports. Though the industry realized that there was no chance of a tariff they welcomed an import board which was a central facet of Labour Party policy. The situation became more urgent because the Conservatives suggested a policy of subsidised prices and the Liberals requested a debate on the matter. A special meeting of the Cabinet was called to discuss the problem on 11th March. Buxton and Adamson drew attention to protection and aid given to agricultural producers in other countries.

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(1) CAB 24 210, CP 90(30).

(2) CAB 23 63 12.30; CP 57(30).

"The present depression among cereal growers is practically world wide, but whereas wheat producers in nearly every other country in Europe ... are protected by tariffs or assisted by special legislation ... British agriculture is called upon to face unfair competition rather than that the national should run the risk of injury to our export trade ... There is no free market for wheat as the exporting countries control sales so the British consumer is subject to the vagaries of Governments, pools and combinations of firms". (1)

How useful the general theory of the second best would have been in this debate.

Buxton produced a memorandum setting out alternative ways in which assistance could be given to agriculture. Protection he considered to be impossible for political reasons, subsidies and bounties he considered too difficult to implement and so he suggested the adoption of a two tier price system for home and foreign wheat. If this was not possible, he considered the Party's import board policy should be implemented. He thought that whatever scheme was adopted the existing low level of wheat prices and the general lack of confidence among British farmers in the future prospects of wheat growing made it necessary for some state assistance to be given. He recommended that by organization and contingent financial assistance, the British producers ought to be able to secure '50/- a quarter for wheat of good milling quality'. The cost of this proposal to the Exchequer assuming that total production of wheat in Great Britain remained unaltered, would not exceed £4<sup>1</sup>/<sub>2</sub>M. (2).

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(1) CAB 24 210; CP 78(30), CP 91(30); CP 80(30).

(2) CAB 24 210; CP 78(30).

Adamson felt that,

"... grain growing for sale has reached its limit. No advance can be made on yield per acre and costs of production cannot be reduced to the scale of becoming competitive with other countries." (1)

As a way of coping with this situation, he considered that,

"An Import Board is a means of self-defence and a wheat purchasing board for home grown wheat is a way of giving a subsidy and is of doubtful utility. A policy which takes a long view with the object of encouraging those systems of agriculture which are capable of competing in the world market is the best interest for the country." (2)

The Lord Privy Seal pointed out the importance of imports in terms of facilitating the demand for exports. He nevertheless considered it vital that reasonable stability in agriculture was maintained for it was still the largest employer of labour and he felt the depression could not be allowed to spread to affect all towns and villages. He returned to his idea of import substitution by ensuring that home grown wheat should be 15% of all flour milled. He was against any direct subsidy from the state and considered import boards unwieldy<sup>(3)</sup>.

After considerable debate, the Cabinet referred the matter to a Cabinet Committee, who were to submit policies short of 'a crude subsidy or a protective tariff'<sup>(4)</sup>. The Committee met

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(1) CAB 24 210; CP 80(30)

(2) ibid.

(3) CAB 24 210; CP 85(30).

(4) CAB 23 63; 17(30); CP 104(30).

nine times during March but although they debated many issues, including import boards, a quota of British wheat in flour, etc, they remained fundamentally divided and were unable to put forward any proposals to the Cabinet<sup>(1)</sup>. During the course of the discussions, Henderson urged that there was a real need for special measures to safeguard farmers against abnormal prices for a year or two as,

"... there was a danger of another 'South Wales' in the Eastern Counties ... The remedy adopted must impose a burden on someone. In the present circumstances it was clearly right for the consumer to bear it. The price of a loaf is due to fall, it is bound to go up again, and it is while the price was in the dip that the burden could most easily be carried by the consumer." (2)

He suggested a levy on imported grain milled in Britain and on imported flour. His scheme was rejected because, even though it was far removed from the market for grain, it was thought to contravene existing agreements. The committee reported that it could not agree and Cabinet referred the matter to Buxton who subsequently produced a scheme for a quota of British wheat in flour. He was pleased with his scheme which he saw as ensuring the producer a definite share in the home market, thus stimulating the wheat growing areas. In addition, he felt it would not interfere with international obligations and would not impose any burden on state funds.

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(1) CAB 24 211 CP 104 (30)

(2) CAB 27 413 8th Meeting, 20th March 1930.

Dissensions: Polarisation of the views within the Party on trade issues were now explicitly formulated. On the one hand, there were those sympathetic to support for producers largely because of the implications for employment, e.g. the statements of Buxton, Thomas and H.D. Henderson. On the other hand, Adamson and Snowden felt that protection would merely prop up an industry which was in decline, and which should be allowed to decline further and subsequently be replaced by more profitable production. Snowden's argument however, went deeper than this and highlights Snowden's attitude to the whole unemployment problem and calls in question the standard view of Snowden as a force of reaction within the party. The policy of protection for Snowden carried the implication that to the

"extent to which it is successful in artificially rising the price of a loaf it must affect the cost of bread and so depress real wages. It is based on the same assumption which underlies the proposals made from other quarters for currency inflation or for fiscal protection namely that the remedy for our industrial troubles is not increased efficiency but reduced wages. To such conception I am unalterably opposed, and I am not prepared to commit myself to the proposition that because wheat growing may not be profitable in this country under present conditions it is our duty to make it profitable by raising its price artificially at the expense of the consumer." (1)

Snowden had thus cut through to the heart of all policies for readjustment of the economy and concluded that they all attacked real wages and attempted to increase profits. Conservative and puritanical he might have been in his financial management but in the central distributional issue of wages or profits

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(1) CAB 24 211; CP 139(30).

there was no doubt where his sympathies lay. What he was not clear about was whether there was any trade off between real wages and unemployment.

Whilst there was little movement towards the introduction of protection, there was similarly little movement towards the removal of the existing barriers to trade in the form of the safeguarding duties. Much fuss was generated about the possibility of the removal of existing tariffs in the pre-budget period but in his budget Snowden was able to do little. He found some money to compensate for some of the smaller safeguarding duties but he was unable to accommodate the loss of revenue which would have been associated with the more important ones,

"I cannot touch the McKenna or the silk duties this year."(1)

#### Monetary and Fiscal Policy

The easing of the external position during the early months of 1930 had allowed bank rate to be reduced steadily from the Autumn peak of 6.5%. The conversion policy had reduced the floating debt by £100M and the Government was able to borrow at 2½% in April. High hopes were held for a cheap money policy and were expressed in the Treasury memorandum which discussed Mosley's plans:

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(1) Middlemas, (1969) op. cit., p.253.

"Market conditions left to themselves should improve with the lower bank rate and easier money conditions which recent Government issues were themselves designed to foster". (1)

Some expression of the Government's financial policy at this time is apparent in Snowden's budget. It was a traditional budget which had taken great care to ensure that a balance was struck after adequate provisions had been made for the sinking fund. Pressure to influence the content of Snowden's budget had grown throughout the Winter. The right wing of the political spectrum came to the defence of profits and raised the old bogeys of confidence and the taxable capacity of industry on all possible occasions. The budget<sup>(2)</sup> itself must have been something of a relief being castigated by "The Times" as "A Socialist Budget" and by "The Daily Herald" as "A Conservative Budget"<sup>(3)</sup>. Snowden had found the £47<sup>1</sup>/<sub>4</sub>M needed to balance his budget by a neat series of tax changes. He chose to manipulate income tax because,

"this is always the simplest thing to do because it produces a large revenue, costs little extra to collect and involves no dislocation." (4)

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(1) CAB 24 211; CP 134

(2) The discussion of the budget by Cabinet is traditionally not minuted. This section relies heavily upon the Diaries of Thomas Jones who was secretary at the meeting.

(3) The Times<sup>15<sup>th</sup></sup> April 1930  
The Daily Herald,<sup>15<sup>th</sup></sup> April 1930.

(4) Middlemas, (1969) op. cit. p.253.

He raised the tax threshold from £225 to £250, lowered the lowest tax rate by three pence, and raised the standard rate by sixpence. He was apparently well pleased with the progressive nature of his proposals which ensured that  $\frac{3}{4}$ m taxpayers would pay no extra tax and some would pay less whilst Cabinet colleagues earning £5000 would have to pay £815 more tax. Surtax and death duties were also raised. Egalitarian though the budget undoubtedly was it had little to offer in terms of unemployment policy. The redistributive effects of the budget may have been slightly expansionary but it was balanced and offered little inducement to industry.

For an exposition of less orthodox advice on financial matters during this period one has the evidence to the Macmillan Committee, see above, p.213, which though not yet published and, as such did not have any influence on policy, does throw some light upon the advice which was likely to have been given to the Government by academics, financiers and businessmen during this period.

#### Supply of Labour

Retirement: The plans to reduce unemployment by introducing a scheme for early retirement was formally rejected by the Cabinet in January. In spite of this, there were attempts to revive the proposals. Mosley included the retirement scheme in his short term plans to reduce unemployment<sup>(1)</sup>.

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(1) CAB 24 209; CP 31(30).

Inquiries were made about the demise of the policy from many quarters. The advice to Ministers dealing with such questions was that they should either say that such schemes were unlikely to have much impact on unemployment or that the matter had been referred to the Cabinet Committee which was considering national insurance and pension schemes. The Snowden memorandum on the Mosley proposals was much harsher, suggesting that the Government should announce the rejection of the scheme. This statement made Lansbury very angry as he saw it as interference with accepted Party policy<sup>(1)</sup>. The matter was raised at the Conference of Ministers; by the Panel of Ministers; and in Thomas's last memorandum on unemployment<sup>(2)</sup>. L 5

School leaving: The policy for raising the school leaving age was also mentioned as a short term remedy by Mosley. This policy was not progressing very fast. It was decided that although the Government would do its best to provide time for the passage of the Bill this could not be assured because of the pressure on Parliamentary time<sup>(3)</sup>.

Migration: The migration issue was also raised again by Lansbury who felt that it had not been treated seriously. The debate on the issue was forestalled by submitting the matter for consideration by the Economic Advisory Council. The condition in the

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(1) CAB 24 211; CP 145(30).

(2) CAB 24 212; CP 178(30).

(3) CAB 23 63; 12(30).

receiving countries was also deteriorating and the migration flows were decreasing sharply<sup>(1)</sup>.

Transfer: The transfer policy was again under scrutiny and attempts were made to extend the policy of re-training by changing the terms of benefit for the single and able-bodied men in depressed areas and by making the duties of the new poor law authorities more constructive: providing training rather than giving useless tasks. Mosley once again drew attention to the anomalies created by the scheme which favoured 'Brighton' rather than 'South Wales',<sup>(2)</sup>.

Washington Convention: Meanwhile, the Minister of Labour was attempting to introduce a Bill concerned with hours of work so that she could announce some progress towards the ratification of the Washington Convention at the International Labour Office meeting which was to be held at the end of April. The Attorney General expressed the opinion that the Bill could be interpreted as complying with requirements for ratification. Later there were problems relating to salaried workers and it was agreed that Government representatives should take no active part in the negotiations until more information was provided<sup>(3)</sup>.

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(1) I. Drummond, (1974), op. cit.

(2) CAB 24 209; CP 31(30).

(3) CAB 23 63, 23, 29(30); HA 18/30.

The Alleviation of DistressUnemployment Insurance

The conditions relating to the unemployed under the insurance scheme changed little over this period, apart from the threat to remove the benefit from single, able-bodied men in depressed areas who 'refused to avail themselves of the offer of training' (1)

The fund itself was in difficulty because of the general worsening of the unemployment position and Margaret Bondfield had to ask for an extension of borrowing powers before the Easter recess. The new Act was now in force and was blamed for exacerbating the problem by opening up areas for abuse. In her request for funds, the Minister said that of the increase of  $\frac{1}{2}$ m in the number unemployed since Labour took office; 50,000 could be attributed to the new Act; 200,000 to seasonal factors and 250,000 to the trade depression. (2)

She was still extremely worried about the long term viability of the fund and suggested an all party committee on Unemployment Insurance though she wondered if this might be treated as a confession of failure. She pleaded for something to be done about the able-bodied unemployed who did not have the required subscription. 'Something must be done before the Autumn' she insisted.

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(1) CAB 24 209; CP 31(30).

(2) CAB 24 211; CP 105(30).

### Poor Law Authorities

The Minister of Health drew up orders for the new Poor Law Authorities and tried to make sure that the new regulations were less daunting than formerly, by relaxing the request for institutional relief; requiring the provisions of outdoor relief and encouraging the introduction of training and instructional classes. (1)

### National Insurance Schemes

The main hope for improved facilities to help the unemployed and other needy sections of the community was placed on the deliberations of a committee set up in late September 1929,

"to undertake, in accordance with the statement contained in the King's speech, a general survey of the various national insurance and pension schemes, and to consider the larger policy of the Government thereon ....." (2)

This committee met under the chairmanship of Clynes and began to collect information about insurance schemes. The third meeting was not held until June 1930, when Lord Arnold took the chair, and made a suggestion which ensured that the second instalment of social legislation would be as disappointing as the first. Because of the 'national finances' he proposed that the committee should postpone the discussion of expansion or otherwise of the social insurance schemes and concentrate on the 'gaps', 'overlapping' and 'amalgamations' of the existing schemes.

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(1) CAB 23 63, 8,30; CAB 24 209 CP 37(30).

(2) CAB 27 408; NIC 29(1).

CHAPTER FOURON EXPERT ADVICE

- June - December 1930 -

Introduction

MacDonald, the tired man of May, emerged in June as the man of action. Having taken command of unemployment policy he set to work to get things moving. He had to ensure the swifter implementation of existing policies, and explore all available strategies, which might be adopted, to ease the unemployment problem. To help him with these tasks, he sought advice and support from all quarters. The administrative machinery for dealing with unemployment was reorganized; an all party conference was held and all party advisory committees were set up; conferences of local authorities were called; and more experts were involved in policy in the form of an economists' sub-committee.

A complete policy review was undertaken which took into account, not only general policy issues, but the whole question of procedure and implementation, in order to identify bottlenecks in the application of the policy. Before the summer recess, legislation - the Public Works Facilities Act - was produced, aimed at removing some of the constraints and speeding up the administrative procedures which had bedevilled the public works programme. The Liberal Party programme was scrutinised by the new administrative body in an attempt to make sure that no feasible projects were left out.

Reports on the possibilities for reconstruction of the iron and steel and cotton industries were ready as were the reports on the large development projects involving the Channel Tunnel; the Tay, Forth, and Humber bridges; and the canal in central Scotland. The Bankers

Industrial Development Corporation was available to finance an active reconstruction programme.

### The Unemployment Position

In the early summer of 1930 it appeared that, once again in this policy saga, all was ready for action to be taken on unemployment; but the depression was deepening. Unemployment, which had been rising sharply since the beginning of the year, continued to rise and the expected seasonal fall did not occur as can be seen from the statistics in Table 11.

Table 11

#### % Unemployment in the United Kingdom

<u>1930</u>	<u>%U</u>
June	15.4
July	16.7
August	17.0
September	17.5
October	18.5
November	18.9
December	19.9

Source: British Labour Statistics

Historical Abstract 1886-1968

Table 160

These data provide a rather daunting picture. The problem appears even more dramatic as presented in the memorandum to the Panel of Ministers in the early summer of 1930.

Table 12% Unemployment by Industrial Composition (May 30th 1930)

<u>Industrial Composition</u>	<u>%U</u>
Coal	22.1
Iron & Steel	29.0
Other Metal	19.0
Engineering	13.9
Vehicles	10.0
Ship building	28.8
Metal Trades	14.2
Cotton	39.1
Wool	22.4
Other Textiles	22.7
Clothing	5.5
Boots and Shoes	13.8
Food, Drink and Tobacco	11.0
Building	12.5
Public Works Contracts	25.9
Transport	17.5
Distribution	8.5
Other industry	<u>11.0</u>
Total industries	<u>15.2</u>

Source: CAB 27 439 UP (30)

In addition, it was stated that coal mining and cotton represented 25% of total unemployment; 43% of the males unemployed were between 24-45 years old and 8% of them had been unemployed for a year or

more (1). This statement was supplemented by the June figures relating to the distribution of unemployment by region.

Table 13

% Unemployment by Region at 23rd June 1930

<u>Region</u>	<u>%U</u>
North	7.0
South-east	6.2
South-west	8.9
Midlands	14.9
North-east	19.2
North-west	24.2
Scotland	17.2
Wales	25.8
Great Britain	15.5

Source: CAB 27 439 UP 6/30

The structural and regional imbalance explains the preoccupation of the Government with reconstruction policies in spite of advice from the economists that this was unlikely to have any impact upon the problem in the short run.

World trade was contracting sharply. The monetary value of Britain's exports was only 55% of the 1929 value (2). This material was not presented as a matter of course, to either of the policy review bodies. The data were discussed each month at the Board of Trade and appear as a Cabinet memorandum.

(1) CAB 27 439 UP 30.

(2) Colin Clark, Statistical Studies of the Present Economic Position of Great Britain. Economic Journal 1931.

Policy

New problems of confidence in the pound were anticipated as the easier monetary conditions of the early months of the year became more difficult to maintain (1). These fears had a paralysing effect on policy which appeared to be bedevilled by 'heads you win tails I lose philosophy'. It was thought that appeals for international co-operation would be interpreted as signs of weakness (2); protection was thought likely to raise prices or lead to retaliation and was in any case morally distasteful to some economists and politicians (3); expansion of financial support for development would, it was thought, cause further problems of confidence and impose burdens in the form of national debt upon subsequent generations (4); reductions in wages were considered unfair and impracticable and so were any suggestions to reduce unemployment benefits (5). All the policy

- (1) S. Howson op.cit. p.67.
- (2) CAB 58 2. 9 (30). The consensus on this matter which is revealed in the discussion of the EAC leads one to suspect that fears were real but whether they were justified is a different matter. MacDonald said that although without international action Britain's plight would remain or become worse, the British Government as such, would be unwise to initiate any movement towards international action.
- (3) CAB 58 2, 12 (31); EAC H. 127. Although economists had pointed out that the free-trade theory was inappropriate for conditions in which tariffs were being erected and unemployment was high, the theoretical model had not been developed sufficiently to clarify the debate. There was no 'second best' theory at hand.
- (4) CAB 27. 439, UP 7 (30). See discussions on public works below p.319. This is one of the few discussions of the time profile of the National Debt.
- (5) CAB 58 2. CAB 24 211, CP 134 (30). See discussions on the Economists Report below p.310 and 'Alleviation of Distress' below p. 354.

strategies were in difficulty by the end of the year.

### Policy Failure

The reasons suggested in the introduction of the thesis for policy failure are all apparent during this period. The effect of the reverence for the gold standard and the constraints which this imposed upon policies became important. The associated need to 'balance the budget' was again a dominant issue, although improved terms were obtained for accelerated works programmes (1). The budgetary frugality contributed to the crisis in the management of the unemployment insurance fund in the Autumn (2). The free-trade commitment, unsupported by any solid theoretical economics in periods of high unemployment, blocked other policy strategies (3). The pre-occupation with distributional issues prevented the adoption of strategies which, by helping industry, might have reduced unemployment, e.g. by subsidies, financial support or protection. The administration had become reliant upon experts for advice yet was unable to use the advice given. This can be attributed to the nature of the advice given and to the lack of decision making capacity. Let us consider these developments more closely.

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(1) See below p.319 Public Works.

(2) See below p.354 Alleviation of Distress.

(3) See below p.340 Trade

The Panel of Ministers

Once again the structure of Government was adapted to deal with the unemployment problem. The new contrivance was the Panel of Ministers. MacDonald dissolved the Conference of Ministers <sup>(1)</sup> after discussing with them many policy issues and he started afresh with the new administrative structure. He outlined his proposals for this body to Cabinet on 23rd June. He proposed that a Panel of Ministers should be formed,

"with a view to developing the policy of the Government in regard to employment and unemployment and supervising, energising, criticising and making suggestions as to execution". (2)

The Panel of Ministers included the Prime Minister, the Chancellor of the Exchequer, Secretary of State for Foreign Affairs, the Secretary of State for Dominion Affairs, the President of the Board of Trade, the Minister of Labour, the Lord Privy Seal, Secretary of State for Scotland, the First Commissioner of Works and the Minister of Transport; joined later in the autumn by the Chancellor of the Duchy of Lancaster.

The task of co-ordinating unemployment policy was given to the Lord Privy Seal, Vernon Hartshorn, who had taken over this office from Thomas in May. He was to keep in touch with the Prime Minister and Ministers and civil servants involved with unemployment. Thomas, now the Secretary of State for the Dominions, was to continue to organise finance for reconstruction <sup>(3)</sup>.

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(1) Which had been set up to deal with the matters arising from the Mosley Memorandum. CAB 27 438, CUP 16th June 1930.

(2) CAB 23 64 31/30; CP 215, (30.)

(3) The task was gradually taken over by Graham, President of the Board of Trade. But at this time, MacDonald stressed the benefits of continuity - he was probably bowing to Thomas's desire to continue and attempting to take the sting out of his removal from office.

Work of Panel of Ministers

The Panel of Ministers was to meet as frequently as necessary 'to keep things going'. The first meeting was held on 20th June and seventeen more meetings were held before the end of the year. To assist the ministers a secretariate of specially selected civil servants of the 'highest experience', was appointed led by Sir John Anderson <sup>(1)</sup>. H.D. Henderson, from the staff of the E.A.C. was to help his secretariate.

The Panel of Ministers undertook a thorough examination of Government policy: arranged meetings with local authorities; conferred with the Liberals and their expert advisers about the Liberal Party's proposals; and drafted a Bill to facilitate public works. The reports, which were being submitted regarding the feasibility of major works, export credits to Russia and regional policy were also considered by this Committee <sup>(2)</sup>. During debates about the unemployment insurance fund the Committee, by excluding the civil servant members became, in effect, a Cabinet Committee advising the Minister on possible action which might be taken <sup>(3)</sup>.

An examination of the unemployment problem was undertaken during the early weeks of the functioning of the Panel of Ministers. In a memorandum entitled, The Significance of the Unemployment Statistics in their bearing on the practical application of Government Policy, an attempt was made to analyse the components of the unemployment problem <sup>(4)</sup>. Three distinct types of unemployment were identified:

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(1) Permanent Secretary, Home Office, subsequently to become Chancellor of the Exchequer 1943-45.. See John Anderson: The Organisation of Economic Studies in Relation to the Problems of Government. Stamp Memorial Lecture, London 1947.

(2) See Public Works below p. 319.

(3) CAB 27 438 12 (30). See 'Alleviation of Distress', below p. 354.

(4) CAB 27 439 UP 30 (11).

## A. Normal unemployment:

- (i) that associated with job changes;
- (ii) that arising from seasonal problems;
- (iii) that associated with other intermittent employment;
- (iv) the problem of unemployables.

## B. Unemployment attributable to the world depression;

## C. Unemployment associated with Britain's special difficulties.

Pre-war unemployment was : rarely under 2% and this included only the unionized unemployment and was thus likely to be an under-estimate , as unionized labour tended to be predominantly skilled labour which has lower than average unemployment. Since the war three factors had tended to increase unemployment:

1. The Unemployment Insurance Scheme had caused employers to be less reluctant to dispense with workers and had encouraged those who were not 'genuinely seeking work': married women, casual and seasonal workers to register as unemployed. These factors added 600,000 workers to the unemployment register.
2. The world depression was thought to be the cause of 750,000 workers being unemployed.
3. Britain's structural problem resulted in the unemployment of some 500,000 workers and involved widespread repercussions which were not estimated.

The world depression was, it was considered, the type of catastrophe for which the insurance fund had been designed; and for which the remedy was public works. Possibilities for works schemes were thought to have been

eroded during the past ten years on inappropriate schemes to deal with the structural problem. The solution to the structural problem was reorganization; stimulation of new industries; location policy and a transfer policy to deal with the difficulties of the depressed regions. Having formulated the problem in this way, the strategies were deceptively clear. No attempt was made to explore the possible interaction or compatibility of the policies.

Their views on finance were clear: recovery depended upon confidence and, although fiscal and monetary policy were outside their province, confidence was felt to be undermined by budget deficits.

#### Renewed criticism of the organizational structure

In the autumn, Attlee criticised the new structure in a memorandum on organization and policy (1). He found the structure cumbersome and bemoaned the fact that no executive action could be taken. He was subsequently asked to attend the meetings (2).

When considering the proof of the White Paper on unemployment in November, the Cabinet decided that as soon as the Cabinet Committee had examined the various reports before them, steps would have to be taken to see to what extent arrangements could be made with the Liberals to secure the speeding up of work generally (3). It was also decided to examine the extent to which recourse should be made to emergency powers, particularly with reference to reconstruction. Thus, once more the organizational structure was challenged.

"It was suggested that what was really needed was some centralized co-ordinating authority which could arrive at quick decisions". (4)

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(1) CAB 24 213, CP 283 (30) The Problems of British Industry.

(2) CAB 23 64; 61 (30).

(3) CAB 23 64; 70 (30).

(4) 32.2.3

The basic difficulty was, as MacDonald pointed out in the early summer, that the ministers did not have the time or were not able to assimilate the advice offered in order to make decisions. This difficulty was not remedied by the use of experts as the progress of the deliberations of the E.A.C. and the Economists' Committee indicate.

#### Economic Advisory Council

MacDonald's other policy review body was the Economic Advisory Council. MacDonald had hoped that a consensus view would emerge from the Council but the differences of opinion which resulted in two reports on the Economic Outlook being submitted to the Council indicated a real cleavage of opinion which was not clarified by debate <sup>(1)</sup>. To resolve some of the differences it was decided, on Keynes's advice, that the Chancellor of the Exchequer should ask the Macmillan Committee for an interim report setting out their opinions on whether capital development could increase the volume of employment or whether it merely offset other developments which were already taking place <sup>(2)</sup>. In other words, they were asking for an opinion about the 'Treasury View'. Keynes had recently *instructed* the Macmillan Committee on these matters and probably was hoping that his instructions had been digested and accepted by the Committee and would be reflected in any reply which they might make <sup>(3)</sup>.

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(1) CAB 58 2; EAC 4; CAB 58, 145. See Chapter Three above p. 205.

(2) He also sought their views on the EAC instituting an independent inquiry on the matter.

(3) See Chapter Three above for discussion of Keynes's analysis of the situation which he developed for his colleagues on the Committee. p 218-225.

At the next meeting of the Economic Advisory Council, it was announced that Macmillan had replied that it was quite impracticable to prepare an interim report, and that, as the matter did come within his terms of reference, he would 'deprecate' the institution of a separate inquiry;

"... such a course seemed to him to be deplorable for if two committees considered these questions and produced divergent conclusions the results would be deplorable". (1)

The Council 'took note' of Macmillan's reply, the effect of which would have made nonsense of any consideration of an effective unemployment policy prior to the publication of the Royal Commission Report which was not available for a further year.

General dissatisfaction was expressed at the meeting of the Council on 10th July. The Chancellor of the Exchequer complained that much valuable material had been amassed but insufficiently used: nothing had emerged to enable the Government to put forward new proposals for action. Keynes complained of the lack of thoroughness in the Council's work. MacDonald referred to a fundamental problem associated with democracy of that period, which was that ministers, with their heavy responsibility for action, tended to become divorced from ideas. The Council he saw as having three functions: to carry out research in committee; to criticise in Council and Committee and to guide ministers (2).

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(1) CAB 58 2; EAC 5.

(2) CAB 58 2; EAC 6.

MacDonald's Intervention

In an attempt to get a clear picture of the views of the various experts in the Council, MacDonald produced a questionnaire which members were to complete and return to Henderson who was to report on the views expressed. The questions were:-

- "(1) What, in your view, are the chief causes of our present industrial position?
- (2) What, in your view, should be the trade policy adopted by His Majesty's Government to restore trade?
- (3) How, in your view, can the home market be developed and thus put more people in a position to earn a living and to command effective power to consume?
- (4) How, in your view, can the volume of exports be increased?
- (5) What, in your opinion, would be the framework of a definite Imperial trade policy as regards markets, tariffs, organization for supply and purchase of bulk produce like wheat?" (1)

Henderson reported general agreement amongst the members of the Council that the worsening conditions were attributable to the world slump, a temporary phenomenon (2). There was only limited possibility of Britain's doing anything to hasten the recovery. Some members feared that the slump would be longer than had been expected. Keynes described it as amongst the most important that had ever occurred and argued that recovery was unlikely unless interest rates fell. Although he considered that the Bank of England understood the problem

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(1) ibid

(2) CAB 58 150; EAC (H) 113.

and was proceeding along the right lines, he felt it should go further: a cheap money policy should be adopted even if it meant the loss of gold, increasing the fiduciary issue, and arranging a loan from the Federal Reserve Bank. Cole suggested that the Government ought to attempt to secure the stabilization of world prices and should call a world economic conference. Stamp also advocated international action. There was an underlying acceptance that world prices were at the root of the problem. There was little evidence of the confusion of issues as suggested by Johnson (1). The difficulty was the implementation of policies which would have any impact upon the problem. Many of the memoranda concentrated upon the underlying structural imbalances emphasizing that the relative position of Great Britain had been unsatisfactory for many years. Costs of production were the basic problem. Although a reduction in the exchange rate was an obvious solution to this mal-adjustment problem few would even mention this strategy. There was no explicit consideration given to the responsiveness of exports to price reductions, but the tenor of the discussions implied that it was likely to be high (2). The possibility of any rapid or substantial increase in exports was thought doubtful given the current trends in world trade (3). Income effects were dominating any price effects that might have been achieved.

(1) Johnson (1975), op.cit.

(2) See Thomas (1975), op.cit. estimates rather low price elasticity of both imports and exports.

(3) C.G. Clark (1931), op.cit. Kindleberger (1973), op.cit., p. 126.

	Imports Value Million Dollars December		
	<u>1928</u>	<u>1929</u>	<u>1930</u>
U.S.A.	334	307	201
Germany	264	204	163

Protection was generally looked upon with favour - though some members were averse to any form of protection. These views apparently had quite an impact upon MacDonald and Thomas who became more favourably disposed to tariffs from the Summer 1930 as we shall see in the discussions of the tariff truce below p.<sup>(1)</sup>341. Keynes was impressed by the reluctance of the employers to declare that wages should be reduced; and suggested that trade unions should meet the employers by offering more efficiency at existing wage rates. Keynes had yet to specify his model in which even if wages were responsive unemployment could result. This condition was not spelt out until much later when the monetary and real sectors were integrated in the General Theory.

All felt that reconstruction should go ahead; if this did not proceed voluntarily, Duncan considered some element of compulsion should be introduced. Little attention was given to providing incentives to industrialists to embark upon the necessary investment involved in reconstruction. Lansbury had seen this as a way of controlling industry but the Government was reluctant to assume control (2). This failure to assume control of industry is cited by McKibbon as a reason for policy failure (3). Several members advocated some new form of state organization in order to stimulate and control the development of new home industries. Tawney proposed an Economic Planning Commission to take on the planning of transport, housing and slum

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(1) Snowden (1934), op.cit.

(2) CAB 58 (2)

(3) McKibbon (1975), op.cit.

clearance on a national basis <sup>(1)</sup>; and Cole advocated the provision of new agencies under national control to take charge of roads and housing.

The burdens of taxation and social insurance were mentioned. Balfour considered that the reduction of taxation could be the most effective step to help industry. Debenham stressed the importance of,

"a reduction of public expenditure and if necessary a limitation of public services until the country is able to afford them". (2)

Keynes considered that the avoidance of further direct taxation was essential to the promotion of confidence; and recommended that expenditure on new social services should be postponed until better times. He also said that a revenue tariff on manufactured goods was:

"... essential to a social budget in present circumstances" (3)

Stamp takes a similar position advocating public economy, expansion of indirect taxation and a modest revenue tariff.

These attitudes indicate the growing dominance of the confidence issue. The situation on the

(1) Tawney had been involved in the drafting of Labour and the Nation in which such schemes were advocated.

(2) CAB 58 150; EAC H (113).

(3) ibid

exchanges began to deteriorate in the middle of 1930 when the Bank did not revise its rates downwards with the change in New York rates. Foreign issues declined in Britain and America and the progress towards an easier money policy stopped (1).

#### The Economists' Committee

Before there was time to digest the expert advice, MacDonald announced another attempt to extract a consensus of economic opinions. He set up a committee of economists:-

"The Prime Minister said that there were a number of fundamental points of a purely economic character connected with the present economic situation on which it was desirable to obtain an authoritative expression of opinion. He accordingly appointed a Committee of the Economic Advisory Council". (2)

Keynes was appointed Chairman and Pigou, Robbins, Stamp and Henderson were invited to serve as members. (3). Each of these economists had been involved with matters concerning unemployment policy during the previous years. Keynes and Henderson had been involved in the policies of the Liberal Party (4). Pigou had advocated many short-term strategies and had had his name mentioned in connection with the invalidity of the 'Treasury View' (5). Both Stamp and Pigou had

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(1) S. Howson (1975), op.cit.

(2) CAB 58 2; EAC 7.

(3) Howson and Winch (1977) op.cit. for setting up Committee.

(4) J.M. Keynes and H.D. Henderson (1929) op.cit.

(5) Winch (1969), op.cit. for Pigou's position.

given evidence to the Macmillan Committee (1); Robbins had been involved in work with Beveridge on unemployment and had expressed considerable open-mindedness on policy issues in his inaugural *lecture* in January and he subsequently published his seminal article on the supply curve of Labour (2).

Meanwhile the Council continued its consideration of the unemployment problem - unemployment was approaching two million and although this figure was thought to include:

"... tens of thousands of persons who years ago would not have been part of the unemployment problem ... . The Government were giving the problem their closest possible attention but till now it had baffled them". (3)

This refers to the extension in the coverage of the unemployment scheme to include married women, seasonal and short-term workers. Thus increasing the apparent activity rate of the labour force and opening up areas of so-called 'abuse'. In September, MacDonald was again asking for solutions:

"... could a practicable scheme be devised for using part of the money now expended on unemployment benefit so as to stimulate industrial activity and employment?" (4)

The assumptions were that 'productive expenditure' would have a greater stimulative effect than mere transfer payments such as

(1) The Committee on Finance and Industry, Minutes of Evidence (1931), op.cit.

(2) Robbins (1930), op.cit.

(3) CAB 58 2; EAC 7.

(4) CAB 58 2; EAC 8.

unemployment benefits and would also have greater social value.

MacDonald had been sent a scheme from Scotland suggesting that some of the money spent on transitional benefits should be used to aid agriculture. He clutched at all such straws and was also anxious to do something for the agricultural labourers who had such low wages and were not covered by the unemployment insurance scheme.

Economic conditions were getting worse. At the September meeting Keynes said that the recession in the United States of America was now so great that he felt that prices must now be nearer 'bottom' though further falls in commodities might occur. It was pointed out, however, that whilst the British index of production showed a fall of 8% in the June quarter of 1930 compared with June 1929, the American index had fallen 18% and was below the 1924 level (1).

#### The Committee of Economists

The group of economists held their first official meeting on 10th September. Keynes, Henderson, Pigou, Robbins, Stamp and the secretaries, Hemming and Kahn were present. The minutes of the proceedings do not provide a very full account of what went on at the meetings as they are mainly minutes of decision. Copies of the memoranda submitted and discussed (over 70) are available and these throw considerable light on the matters discussed. The group met on thirteen occasions during September and October 1930. These meetings included two very energetic weekend meetings held at Shortlands, the home of Stamp, on 26th-28th September; and at Cambridge on 18th-20th October. Even so the report was rushed because of the attempt to meet

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(1) CAB 58 2; EAC 8, 11th September 1930.

MacDonald's request that the report should be available in time for it to be considered before Parliament reassembled on October 28th (1).

The terms of reference of the Committee were extremely wide, too wide perhaps. They were:

"To review the present economic conditions of Great Britain to examine the causes which are responsible for it and to indicate the conditions of recovery". (2)

The Report would have been more useful and the advice offered more unanimous (3) had the scope been constrained to the production of short-term remedies to contain unemployment. Instead, a general review of the problem, its causes and possible remedies were to be produced within six weeks! It is little wonder that Keynes was accused of trying to steamroll the committee: any chairman would have had to control the proceedings vigorously.

#### Framework for Discussions

The answers to the Prime Minister's questionnaire, with Henderson's memorandum reporting on the replies, were available to the Committee at the first meeting (4). In addition copies of the evidence given by Pigou, Stamp and Robertson, and the statistical reports of Bowley to the Macmillan Committee were requested. Robbins suggested that

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(1) CAB 58 150.

(2) CAB 58 2; EAC 7.

(3) Even Pigou had already tentatively advocated protection. See Howson and Winch (1977), op.cit. pp.65-66.

(4) CAB 58 2 (7); EAC H 113.

foreign economists should be involved but this matter was deferred. The group considered procedural matters and a memorandum, by Kahn, suggesting matters for discussion together with comments by Keynes; and Robbins' memorandum which suggested possible topics for discussion.

Robbins suggested a review of the position of Great Britain before the world slump; the extent and nature of the depression and the degree of disequilibrium, using for this purpose the most reliable statistics; the rigidities in wages and prices; monetary malaise; the return to gold and the gold policy of other countries; comparative conditions in the United States, France and Germany and the raw material producing countries; conditions for recovery including acceleration of recovery by gold policy, public works policy, tariffs and taxes, wages and prices.

In his consideration of Kahn's proposals, Keynes raised a mass of questions of a theoretical and practical nature <sup>(1)</sup>. What was the fall in wages necessary to restore equilibrium? What was the elasticity of the supply schedule? How would palliative measures affect ultimate efficiency? Was the feared rise in price level a phenomena which would accompany an ordinary trade revival? How would prices be affected by a tariff on iron and steel on the assumption that the supply schedule of British industry is elastic? How would a revenue tariff contribute to the Exchequer? Could employment to new industries alone be subsidised? Would policies be vitiated if the trade unions were to maintain real wages or the banking system was unwilling to co-operate?

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(1) CAB 58 150 E (7).

This amorphous approach would obviously not get the proceedings very far and at the next meeting Keynes attempted to achieve some more systematic statement of the views of his committee by producing, MacDonal style, a series of questions for their attention. These questions were an attempt to elicit the theoretical framework in which the members were working and also to get some estimates of the quantitative changes necessary in some of the key variables (1).

He asked in what way would British employment, prices and wages be affected by an increase in investment in the world and in Britain; by a tariff,<sup>or</sup> by a reduction in money wages. How much too high were real and money wages? What did they estimate had been the increase in real wages and productivity per head since 1910-1914? If the increase in real wages is higher than the increase in per unit of production, how do members explain it?

#### Individual Opinions

The replies were full and serious but the members found it difficult to leave their familiar conceptual framework and enter into the realm of international macro-economic models into which Keynes was attempting to lead them. Their replies, often defensive and critical, did not throw any new light on the problem.

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(1) CAB 58 150 E (8).

Henderson

Henderson, who was very critical of the questions which he found "unhelpful", considered that home investment would increase employment in the short-run but that its long term effect would depend upon the nature of the investment <sup>(1)</sup>. He found it difficult to say whether or not an increase in investment abroad would increase employment in Britain. Here again he thought it would depend upon the nature of the investment. It might raise world prices and so ultimately British prices but it might well result in increased competition for exports. A tariff would increase employment in Britain but its effect on real wages was indeterminate. Wages he considered were too high to permit a rapid rate of industrial expansion but he was not certain. Wages were probably 10% too high; it had been estimated that the increase in production since 1910-1914 was about 20%, production per head had probably fallen because productivity had not made good the reduction in hours worked. Unemployment was higher than necessary because of the insurance funds. <sup>(2)</sup> Henderson wanted an appraisal in the broadest way of the significance and the implications of the complex depression from which Britain was suffering. He considered it unwise to gamble on short-term policies which may have bad long term effects. Although he agreed that it was not the time for financial stringency, 'we should be on the right side of the line'. He advocated protection for purposes of revenue and for industry. His comments indicate the paucity of a descriptive analysis as a basis for policy. At the

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(1) op.cit., CAB 58 150 E (9).

(2) The existence of the fund was thought to encourage workers who might otherwise have merely become inactive to register as unemployed.

disaggregative level the policy predictions were not very clear: about all the crucial variables there is hardly even a prediction as to the direction of change. It also reflected how far Henderson had moved from the path he had adopted during the election campaign when he had defended Liberal Policies in the pamphlet which he had written with Keynes - Can Lloyd George do it? - and during the debate on the Economic Outlook in May. His exposure to the information and policy re-assessments had probably made a great impression on him but it might also imply an over-estimation of his original stance (1).

#### Pigou

Pigou considered adjustments to the real wage rate the only way of increasing employment. Investment or tariffs would only increase employment in so far as prices rose more than wages. Equilibrium level of wages he defined as:

"... that at which all work people are employed and are so distributed among occupations that the wage rate is everywhere the same for people of a given quality. No way of telling what it is ... possibly above the level in the depressed industry. No more possible except using useless weighted average". (2)

Pigou felt he had little to add to the evidence already submitted to the Macmillan Committee.

#### Robbins

Robbins was scornful about the possibilities of getting a better estimates of wages and productivity than Bowley and Stamp in ten days! (3)

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(1) Howson and Winch (1977), op.cit. discuss this change of position. pp 66/

(2) CAB 58 150 E (12).

(3) CAB 58 150 E (13).

He was a young man respectful of the difficulties of obtaining useful data quickly. Using Bowley and Stamp's work he estimated that between 1924-1928 real wages had risen between 5-6% and had since continued to rise. He quoted the London and Cambridge series of average wages and the cost of living for 1924-1930.

Table 14

<u>Year</u>	<u>Average Weekly Wage</u>	<u>Average Cost of Living</u>
1924	100.0	100.0
1925	105.0	100.6
1926	110.0	98.3
1927	100.5	95.7
1928	99.5	94.5
1929	99.0	94.0
1930	98.5	89.0

Source: CAB 58 150, E (13).

He also referred to the work done at LSE and by Rueff which indicated a high correlation between unemployment and the ratio of wages to wholesale prices. He found it impossible to give an answer on how far out of equilibrium real wages were. (Robbins had recently published his article on the supply of labour in which he had considered the relationship between wages and hours of work. The micro-aspects of the problem dominated his thinking. This combined with his structural approach to the problem, derived from the Austrian Capital Theory, made it unlikely that he could proceed far with Keynes on the

aggregative level. He was, however, also aware of the work of Wicksell and Robertson and sympathetic to their approach <sup>(1)</sup>. This was not merely because of the paucity of statistical material, but because he like Pigou does not find the average a meaningful concept.

"We know that the labour market is not cleared. To what extent are we justified in assuming as an axiom that rates are wrong? But we should only be justified in assuming that they are uniformly wrong if we could be certain that the labour force was "properly" distributed or that there was sufficient effective mobility in each short period to ensure proper reduction if changes in relative prices made it desirable. The average is not in any way causal ... It is not high wages but rigid wages which are the cause of the trouble". (2)

Robbins had obviously been taken to task for his attempt at theoretical purity in discussion for he says:

"It has been urged in our discussions that whatever the theoretical validity of this analysis, its practical value is small compared with that of a plain statement with regard to the height of the wage level. It is not clear that this is a convincing reason for blurring the theoretical issue. But it so happens that I believe that the practical argument is all in favour of theoretical purity. For once the interests of truth and the interests of expediency are identical". (3)

He thought that nobody in practical life was going to base policy on statistics as dubious as those upon which they had to rely.

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(1) Robbins (1930), op.cit.

(2) CAB 58 150 E (13)

(3) ibid.

The argument that wages were 5% too high could easily be countered by arguments to show that the estimates were too high or too low. On the other hand, it was known that wages were rigid and transfer was held up by the perfectly ridiculous restrictions and inflexibility which had crept into industry in the past ten years. Unemployment insurance was leading to further problems and abuses.

"Finally concentration on the rigidity of rates rather than on the absolute height of average earnings enables us to focus attention on the position of those whose interests the community pretends to be most anxious to safeguard - the unemployed - those who are precluded from selling their labour at prices which will command a buyer - not to mention those workers who are compelled to accept inferior wages because they are excluded from the better paid industries". (1)

He goes on to add a note of caution about the uncertainties existing within the discipline of economics. He mentioned that there were at least five theories of the cycle (2). He considered it:

"important when we are called upon to deliver the verdict of economic science that we should continually guard against the appearance of feeling greater certainty than we have. It is not only in 1930 that the world will have need for the advice of economic experts". (3)

He explores the analysis of Keynes, and because he has not yet finished the book (presumably the Treatise), (4) he uses the terminology of

(1) ibid.

(2) Robbins had recently completed a review of Trade Cycle Theory.

(3) CAB 58 150. E (13).

(4) Howson and Winch, (1977), op.cit. confirm this.

Wicksell and Hayek - according to which fluctuation is caused by disparity between natural and money rates of interest. When money rates are below natural rates prices rise and there is a disproportionate increase in the production of capital goods. When the money rate is above the natural rate, the rate of investment fall short of that which is desirable.

Keynes's view he said was that in recent years, in the world at large, the money rate had been above the natural rate, largely because of the financial operation of needy, nervous governments. If this view was correct then all that would be necessary to produce a speedy recovery was for America to undertake a sensible monetary policy. Only a simple change in the initial assumption with regard to the natural rate were necessary and the whole picture underwent a "Kaleidescopic transformation". If the natural rate had been above the money rate then disproportionate development<sup>(1)</sup> would have occurred and different policy measures would be indicated. He says that the matter rests on an assumption which is incapable of statistical verification. But in his view the natural rate of interest had probably been high since the war<sup>(2)</sup> as working capital has been destroyed and technical changes had been great. Since the last meeting he had held his own survey. He had asked five professional economists, all under 35, which was the most likely. They had all chosen the higher alternative! Because of the unfamiliarity with the notions involved, he again appealed to the committee to invite one of the continental theorists over for

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(1) This is an allusion to the Austrian Capital Theory.

(2) A view which current research work appears to be establishing. See Williams (1963), op.cit.

discussions.

"I am not suggesting that anything has yet been published elsewhere which approaches the complexity and the great aesthetic beauty of the theories proposed by Mr Keynes. But the broad notions are familiar to those who walk in the paths of Wicksell and Mises and the habit of judging events in those terms is much more widely diffused. I believe that we should find a day's conversation with let us say, Dr F.A. Hayek, whom I regard as being the foremost monetary expert now actively working on the continent, more helpful at this stage than many days spent in elucidating our private differences". . (1)

As expedients he suggested on the international front anything which would rationalize the utilization of the gold supply. He would oppose any artificial creation of cheap money. On the national front he saw no hope except for the introduction of greater flexibility in wage structure and the sweeping away of the great mass of obsolete restrictions which prevent labour from being sufficiently productive. To meet the budgetary problem he advocated a tax on drink and tobacco and if necessary a reduction of the austerity of the sinking fund policy. This policy was much neater and possibly, given the structure of the asset portfolio and the lags in the public works programme, as effective a policy as public works. A policy of inaction was deprecated,

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(1) CAB 58 150 E (13).

"... it may be asked, why not just sit tight avoid the horrors of an attack on wages and trust to increasing productivity eventually to do the trick. Such a view, I suggest, does less than justice to the position of the unemployed who are the people who will have to sit tight. What possible grounds of equity or economy can there be for the perpetuation of a state of affairs in which these unfortunates are prevented from obtaining employment because recovery is delayed by the fact that monopolistic observances of producers prevent them from selling their labour for what it is worth. We all think this is very contemptible when we see it practised by professional associations of men against women or by aristocratic white unions against coloured labour. We may think it is more misguided than contemptible in the case of the British Trade Union Policy but this is no reason for being less outspoken about it"...

... "We are confronted with an issue of principle of the first order of magnitude. It is not Liberalism versus Socialism at all. It is the issue of whether having organized our whole system of production on the price basis we are going to admit the principle that the prices of the various kinds of labour must never be fluctuated in a downward direction... But it will be urged it is unthinkable that any government least of all a Labour Government should institute an assault upon wages ... The question of expediency seems irrelevant. I take it that the business of the economist is to make a correct diagnosis regardless of whether the politician is prepared to act upon it. We may have improved on John Stuart Mill and his friends in many ways. In respect of willingness to say the unpopular thing they seem to remain our superiors". (1)

On public works he found it difficult to decide a priori but he mentioned four conditions which such a policy should fulfil: a clear opening for the work should exist; it should be speedy to operate, no demobilization problem should arise; and the timing should be right.

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(1) CAB 58 150 E 13.

He asks,

"How much better off would we have been if Lloyd George's scheme had been put into operation last September?" (1)

But he does not answer.

His principles were deeply affronted by the prospect of interference with the capital market and by the whole philosophy of economic nationalism. He made no pretence that his feelings on this matter were based solely upon economic criteria:

"I confess that I find it surprising that twelve years after the World War rational beings should find the prospect of a series of right little, tight little, national economies, busily engaged in reducing the volume of international exchange to a minimum, the sort of world they are willing to accept without a fight". (2)

He conceded that in a system where money wages were held rigid above equilibrium but in which there was mobility of labour and unions were willing to let real wages fall then a tariff could raise prices and lower real wages and so reduce unemployment. He refers to an article written by Keynes for Nation and Athen<sup>e</sup>um in November 1924, and quotes from it:

"If there is one thing that protection cannot do it is to cure unemployment". (3)

(1) ibid.

(2) ibid.

(3) J.M. Keynes, Nation and Athen<sup>e</sup>um, 1924.

This statement remained true, in his view, because Mr Bevin and his body of trade unionists were unlikely to be so self-sacrificing and docile as to allow real wages to fall. A policy of protection he thought was probablistically even less certain than a system at Monte Carlo and protection would tend to expand,

"How many slumps before we achieve self-sufficiency?" (1)

The answers which Keynes received were disappointing. The complexity of thinking was great but the framework in which they were working did not provide a suitable vehicle for making aggregative policy statements. Much of the advice about the effects were mere guesses about the size of the various co-efficients, - debates which are in principle amenable to statistical estimation but about which economists often prefer to wrangle.

Keynes

Keynes attempted to put his own thoughts into a more familiar form for the members of the Committee (2). He saw the problem as one of internal versus external equilibrium which had been made worse by the return to the gold standard and the erection of tariff barriers and the level of foreign investment. Because of the importance of these international factors he began his model by extending the theory of equilibrium wages to the open economy. He considered that unless the relationship between domestic money wages and money wages abroad was such that the amount of home investment, at the rate of interest set by world conditions, was at least equal to the amount of home savings, business losses would occur.

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(1) CAB 58, 150, E (13).

(2) CAB 58, 150, E (15).

Janeway refers to this model as Keynes's equilibrium terms of trade model.(2) Keynes is concerned with the external balance and explains the mal-adjustment problems in terms of adverse movements in the terms of trade. The equilibrium terms of trade are determined by factors affecting the magnitude of the foreign trade balance and the pressure to lend abroad. The foreign balance had deteriorated because of the introduction of tariffs and increases in efficiency abroad, by the decline in foreign markets and by changes in relative monetary standards. The pressure to lend had been affected by relative increases in the demand for funds abroad and by the change in the relative attractiveness of foreign investments. Given these problems the remedies are divided into those which attempt to meet the terms of trade, i.e. by a reduction in efficiency wages, and by those which attempt to change them by reducing tariffs abroad or imposing them at home, and by affecting changes in the willingness to borrow or lend for home investment. He <sup>re</sup> prefers the remedies which attempted to change the terms of trade.

He then explores the remedies available to solve the mal-adjustment problem. The remedies are an extension of those which he had previously discussed in the Macmillan Committee and in the Report on the Economic Outlook.(2) He now introduces the multiplier concept recently developed by Kahn and attempts to formulate a model in which even if wages are reduced unemployment can persist.

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(1) Janeway (1971) op.cit. p. 7. Append. 1.

(2) Moggridge (1973) The Collected Writings of John Maynard Keynes vol.xlII. The General Theory and After Part 1. Preparation. Macmillan.

He offered a 'little caricature' in which he examined the relationship between two countries, England and America. These countries had access to labour of equal efficiency; were both on the gold standard, with unrestricted foreign lending and immigration controls. He assumed that:

- a) in England savings grew faster than population;
- b) in America population increased faster than savings;
- c) America had a tariff based on the difference between the costs of production at home and abroad and raised it whenever the difference widened;
- d) the stock of gold which England was free to export was insignificant compared to that of America.

In these conditions, the rate of interest in England would have to rise to a level above the level at which savings were absorbed by investment. Unemployment and business losses would follow. Wages would be said to be too high and if they were reduced the American tariff would be raised and the same situation would recur:

"wages will always be too high, so long as there are any Englishmen alive; and when the last economist expires he will at least be able to claim with his dying breath that he has always had the courage of his convictions about wages being too high and he has always been right". (1)

This is an important development in Keynes's views on wage changes and the restoration of equilibrium. He had set up, in the international sector, conditions in which changes in wages would not

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(1) ibid.

restore equilibrium. He was still ambivalent about the position of wages internally and appeared to believe, at this time, that a fall in real wages was not only necessary but would accompany any expansionary activity, i.e. there would be an effect on prices.

He considered changes in real wages accompanying the expansionary process would be more equitable and lead to less resistance, than cutting money wages. Before he could extend his special case to the internal economy he needed to break with the quantity theory of money in so far as it determined the price level; integrate the real and money sectors and place constraints upon the demand for investment and the demand for money to hold with respect to the rate of interest. He considered attempts to reach equilibrium, by reducing costs, would be difficult given the elasticity of the demand for British exports and imports: a scepticism justified by Thomas's estimation of the relevant elasticities (1).

He then set out the solution he would have chosen if he had had only himself to please. His favourite remedy was to increase investment which he explained would create secondary employment, irrespective of the form of primary employment, though the induced effect would be less if the newly employed spent their money on foreign goods. This is one of the few references to leakages from the system. He thought that it would be possible to test the quantitative effect of an increase in investment on employment. He then uses Kahn's tentative estimation of the employment multiplier which suggested that a given amount of primary employment produced an equal amount of

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(1) Thomas (1975), op.cit.

secondary employment, i.e. the multiplier was in the region of 2.<sup>(1)</sup> If home investment were to be increased by £75m and the foreign balance was reduced by the same amount then he concluded that unemployment would be substantially cured. He was now confident that his policy was no more inflationary than any other policy which would increase employment: all expansion would affect prices. He suggested that a reduction in savings was likely to be as effective in reducing unemployment as an increase in investment.

"if government were always prepared to step in and borrow enough money and spend it on something however unproductive there would never be any unemployment". (2)

In this connection he pointed out that increasing the dole by borrowing or the suspension of the sinking fund would represent negative savings which would have an expansionary effect. He did not take up this point in the policies which he pursued nor carry the idea further to the concept of the balanced budget multiplier. He considered a tariff would help in many ways even if it had a negligible effect on the real wage for it would raise business confidence and ease the budgetary stress.

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(1) Thomas (1975), op.cit., estimates that the induced effects would be 1.44 after four years. pp 234/5.

(2) CAB 58 150; E (15).

He expanded the case for the tariff by indicating how his thinking had changed. He considered the case of specialization of manufactured goods was over-rated.

"Any manufacturing country is probably just about as well fitted as any other to manufacture the great majority of articles ... now that nearly all the manufacturing countries of the world have decided on a certain measure of self-sufficiency, a country which does not follow suit may pay a much greater price in instability than it gains through specialization ... If I were to believe that these industries would be crippled without a tariff I should regard that as a conclusive argument for giving the tariff ... There are, moreover, certain industries which I should wish to preserve, even though it was clear that we were in some measure relatively inefficient in them. I mean particularly agriculture". (1)

#### Preparation of the Report

These early memoranda brought a series of skirmishes. Keynes and Pigou differed on theoretical grounds. The difference arose, according to Keynes, because Pigou, having stated that international problems existed, argued as if the economy were a closed system. Keynes and Kahn also argued with Pigou about the possibility of secondary employment (2). Colin Clark's estimates of national income were made available to the committee at the time and provided some quantitative material for them to study.

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(1) CAB 58 150; E (15).

(2) Howson and Winch (1977) state that this argument was the reason for the exclusion from the report of the multiplier. p 49

In spite of the differences the drafting of the report began - contentious sections being redrafted many times in an attempt to achieve some agreement. The remedies to be preferred were those which, unless they were inadvisable on other grounds were likely to have a large effect on employment and a relatively small effect on real wages. There is little attempt in the final report to indicate which policies do this.

Keynes produced a proposal for a 'tariff-bounty' scheme giving a bounty to all exports and placing a tariff on all imports. This had the same effect as devaluation except that it left the sterling international obligations unchanged in terms of gold. It would also be equitable, and would produce revenue for the Exchequer. This scheme was not acceptable. Pigou had reservations of a theoretical and practical nature and Robbins dismissed it as of academic interest only (1). The development of economic theory, especially the theory of the 'second best' but also concepts of the optimum tariff and exploration into the possible effects of retaliation would have added clarity to this polemical and pedantic debate.

Henderson had reservations about the way the report was developing and felt that the main issue - reduction of costs - was being avoided.

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(1) Robbins still contends that the scheme was administratively impracticable and merely an attempt to affect a devaluation  
Personal Communication 1976.

He felt that Wellington's judgement would be an appropriate comment on their study.

"All the clever fellows were on one side and all the damned fools were on the other, and by God all the damned fools were right". (1)

It was on the tariff issue, however, that the major dissension arose! For Keynes the theoretical case for free trade remained sound but it was not relevant to the existing situation. He explained his position in what must be one of the early statements of the second best theory.

"Natural forces will not bring about the ideal distribution of production as between different uses, as predicted by Free Trade, unless they have free play. If there are obstacles to the transfer of labour and more particularly, if there were obstacles to money wages falling to those levels both on average and as between different industries, at which the whole of the labour force would be employed then free trade may fail to bring about the right distribution of resources. It is indeed conceivable, if we take for granted the rigidity of money wage rates that the distribution of resources under a tariff will approach more nearly those under Free Trade to what it would be under Free Trade given the fluidity of money wages. Free Trade is, in fact, part of a general system of bringing about an advantageous equilibrium by the free play of forces. We cannot therefore allow our economic system to be rigid in certain respects and yet expect the same result from Free Trade as in a fluid system. The case for Free Trade would be immensely strengthened if all the other numerous restrictions on mobility and fluidity were to be removed at the same time". (2)

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(1) CAB 58 150 E (9).

(2) CAB 58 150 E (39).

Safeguarding was considered and it was argued that a case existed for giving protection to iron and steel provided reorganization went ahead.

Pigou could not go along with the whole of this part of the report and eventually added many dissenting statements. Robbins who until shortly before the final version felt unclear as to what the committees' views were on certain salient matters, was not willing to sign the report. Keynes consulted Hankey, Secretary to the Cabinet, about the precedents involved in producing a minority report of one member of a committee. Robbins soon found many precedents and insisted on submitting a report giving his own views (1).

The majority report was finally agreed on 23rd October, hardly in time for consideration by the Government before the assembly of Parliament, but only three days later than the target date set by Keynes in September.

#### The Report

The report began with a discussion of the causes of the depression. These were considered to be international problems: the adjustment after the war; the changes in the demand for exports; the political problems in Europe; the restoration of the gold standard and tariff policies of other countries. As far as the internal problems were concerned, the report dwelt upon the rigidities and internal malpractices reflecting Robbins's strong views on these issues. Falling prices and the effects of large changes in the value of money were

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(1) Robbins, Personal Communication. 1976.

discussed. A critical phase in the world depression was thought to be approaching. If, during this phase, other manufacturing countries cut their costs of production drastically, Britain would be forced to follow suit:

"But it would be a far better way out for everyone if the route back towards equilibrium was not sought in this direction, but rather by raising the prices of staple commodities so as to make wage cuts less necessary. We think that the most strenuous effort should be made for international co-operation to this end, precisely because, failing such an effort, we fear that a wage cutting campaign amongst the leading industrial countries is a real possibility and may prove a serious menace to social stability". (1)

The possibility of wage cuts was examined but no evidence was produced to estimate the relationship between wage reductions and an increase in employment. Though it was thought that a cut in money wages of 10% would leave real wages somewhat higher than in 1924, the problems of equity involved in wage cuts was considered and a scheme which would include money incomes generally, including those of the rentier, was recommended. This involved a sort of social contract which Keynes had in fact been advocating since the resumption of the gold standard in 1926 and had reiterated in his discussions with the Macmillan Committee (2). As an alternative to wage cuts, wage subsidies were considered. The practical difficulties in implementation were thought to be great and whilst Pigou, Keynes and Stamp thought the problems could be overcome, Henderson did not.

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(1) CAB 24 216; CP 358 (30).

(2) See Chapter Three above p. 213.

Concerted action by the central banks of Britain and America was recommended to ease the terms for short-term credit and support loans to South America, Austria, China and other countries in difficulties, so as to avoid any further currency catastrophes.

Rings, monopolies, trade unions and the unemployment insurance fund were attacked for causing rigidities in the internal economy making adjustment more difficult. Ways of increasing efficiency were also considered but not much was expected from the reconstruction process which was regarded as being concerned more with orderly contraction than with efficiency.

A further section considered ways of increasing business confidence which it was thought could only be achieved in the long-run by increased profits. Ways of increasing home investment were mentioned, cheap credit was essential for this purpose and although the recent government manoeuvres had reduced short-term rates, action was needed to reduce the long-term rates. Regulation of foreign issues was discussed but thought to be ineffective and open to abuse. A public works policy was advocated though schemes were to satisfy certain criteria if they were to be acceptable. The criteria were those referred to above, set out by Robbins in his memorandum to the Committee.

The case for protection was examined in great detail and the case for free trade was demonstrated to be invalid in conditions of abnormal unemployment.

"In the present conditions the imposition of reasonably devised protective duties (though one of us, Professor Pigou, thinks they would be hard to devise) that should exclude a substantial portion of the imports that now compete with our home industries would, for some time to come, directly increase the aggregate volume of employment in this country and by so doing would set up repercussions through the savings on the unemployment benefit and so on would by indirect processes increase it still further. The gain would probably be associated with some increases in the cost of living and a corresponding reduction in real wages and in the value of money incomes generally; but since the main alternative remedy for unemployment - a reduction of money wages - must also involve an equal or greater reduction in real wages this consideration is not of great weight. The important question is to decide whether the effect would be great or small". (1)

Except for Professor Pigou who thought that the advantages were likely to be small the other members of the committee were hopeful about the effects of a tariff. The pros and the cons of protection and the different forms of protection were examined in great detail with the disagreements amongst the four signatories clearly stated.

Devaluation was also considered but not recommended because of the effect on international credit:

"... we should not put out of our minds the possibility that it may become necessary in the future for a number of countries to join together in making drastic changes in our international currency system which is serving us so ill". (2)

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(1) ibid.

(2) ibid.

Attached to this report was Robbins's statement. He agreed with the early parts of the report which discussed the diagnosis of the problem - he had in fact redrafted much of this section - but found the remainder of the report dwelt disproportionately upon measures which were neither practical nor desirable. His statement continues in a high moral tone on rings, monopolies, restrictions on foreign lending and wage subsidies all of which he deplored. Public works were given a conditional blessing being thought to cause waste and mal-distribution. On free trade he was adamant. Tariffs were an expedient for avoiding effects on money wages by reducing real wages and if this could not be done by 'calm straight forward reasoning', he did not feel it should be done by indirect means.

"A tariff is an affirmation of separatism, a refusal to co-operate, a declaration of rivalry...

If we tax Danish bacon, it is conceivable that for a time we may raise some little revenue not at the cost of the English consumer but at the cost of the standard of life of the Danish peasant producer. To some of my fellow countrymen this may appear desirable. To others it may appear mean and despicable". (1)

#### Reception of the Report

The report did not prove very helpful. The group were economists amongst economists holding firmly and even pedantically to the finer points of doctrine. Keynes, as always, was pragmatic about the policy issues, being able to manipulate all the policy variables and to suggest alternative strategies for achieving some recovery. He must have hoped to convince his colleagues of the soundness of his policies

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(1) ibid.

but instead he appeared to have been occupied for the most part with keeping the peace and ensuring that the discussions continued. The final report contained more of his colleagues' idiosyncracies than his own. The report, hedged with academic provisos, was the very last kind of report that MacDonald needed. The group failed to put forward any policy proposals which were capable of being carried out confidently by the bewildered executive.

On November 7th, the Economic Advisory Council considered the report (1). Bevin immediately reacted very strongly to the parts referring to trade unions and Lewis protested against the accusation that industry was behaving anti-socially. The politicians and the industrialists were not able to evaluate the relevance of the finer points of the academic debate and as nothing new was suggested, one by one, the possible remedies were examined and discussed in the familiar way. International co-operation was thought to have a bad effect on confidence if initiated by Britain. Devaluation was thought to be disastrous for international confidence. Cuts in money wages, even when part of a general reduction in money incomes were considered inequitable. Tariffs, too, were unfair and rationalization was thought unlikely to make much impact on the problem. MacDonald, however, said that if it did not proceed on a voluntary basis he would take compulsory powers to implement the programme. *Rationalization was the* remedy that the economists were agreed could do little to achieve reduction in unemployment but it was the policy upon which the Labour Government placed a great deal of faith; partly because its

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(1) CAB 58 2, 9th Meeting.

sympathy, and support lay largely amongst the (would be) workers in these industries. The experts had failed to provide a solution to the government's policy dilemma.

#### Policy Under Attack

Meanwhile the Government had to face a stormy House of Commons when presenting their programme for the session. There was a very grim reception for the proposals.

"In every quarter of the House the contents of the programme have been received with the contempt which belongs to such a cart load of political rags and bones". (1)

It had been hoped that following the discussions with the Liberal Party and Mosley's speech at the Party Conference, some new initiatives would have been made. MacDonald was also hoping for these to come from the deliberations of the economists. But there was nothing. Oliver Stanley thought,

"Government went through the whole 65 points in Labour and the Nation and left out the five which really mattered ..," there were, "many old friends trotted out which spent 364 days in pigeon holes of the Ministers and came out on one day to take a bow and receive few mellifluous compliments from the Prime Minister". (2)

(1) Hansard 4th November, 1930, Frank Owen, Vol. 244, col. 773.

(2) ibid., Oliver Stanley, Vol. 244 col. 81.

The Daily Herald was fairly pleased with the King's speech but The New Statesman was cool. The Tory press were preoccupied with the issue of 'protection' and 'abuse' of the insurance fund (1).

Problems in agriculture and trade in general led to strong industrial and political pressure for protection. This pressure had some support from Keynes, Stamp and Henderson but was confounded by the free traders in the Cabinet. The whole issue led to fierce debates in Cabinet which were brought to a head during the Imperial Conference in the autumn and not resolved. There were angry debates in the House of Commons where the Conservatives announced their plans for protection:

"We are ready to put into immediate operation a plan which I might describe in a sentence as immediate protection in one form or another; by some method or another of the home markets". (2)

In the midst of this growing body of discontent, Mosley produced his Manifesto which had been narrowly defeated at the Party Conference in October. A number of disgruntled M.P.'s signed it (3). The New

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(1) New Statesman 1st, 8th, 15th, November, Daily Herald 29th October, The Economist 1st November.

(2) Hansard, 4th November 1930. vol. 244. Col. 5508. Chamberlain.

(3) Skidelsky (1975) op.cit. p. 239.  
The signatories included: Oliver Baldwin, Joseph Batey, Aneurin Bevan, W.J. Brown, William Cove, Robert Forgan, James Horrabin, James Lovat Fraser, John McShane, John McGovern, Sydney Markham, Cynthia Mosley, Oswald Mosley, Henry Muggeridge, Morgan Philips Price, C.J. Simmonds and John Strachey.

Statesman commented:

"The Tories of course like the protectionism in it, but dislike the Socialism. The Liberals dislike both. I.L.P. think it smells too little of Socialism and too much of Imperialism, and Mr Maxton has found himself in the unusual position of having to administer a disciplinary talk to his members who put their signatures to the document. The Labour Party is divided on the issues of tariffs and Empire but it will be pretty well united in its opposition to the National Government of five Ministers without portfolio, and will have ample support for this from the other parties". (1)

This view was fairly typical of the left wing press who feared a coalition. Letters appeared in The Times in support of the Manifesto from Macmillan and Boothby and others, and the right wing press mildly applauded its spirit.

By December the predominant hopes for the unemployment policy lay in the development of a regional policy and the belief that the bad conditions in other countries, particularly in the U.S.A., during the winter would hasten the movement towards international cooperation. On matters of maintenance of the unemployed, the stalemate which had existed since the Labour Party took office was continued by the setting up of a Royal Commission to examine the Unemployment Insurance Fund. No action was possible until the Commission reported and so the problems of the 'transitional' benefits, the 'able-bodied' unemployed, supported by the poor law authorities and the question of 'abuses' remained.

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(1) New Statesman. 13th December 1930.

Major Policy StrategiesPublic Works

Public works, as we saw in Chapter One, were part of the Labour Party's strategy for dealing with unemployment but no powerful expansionary effects were anticipated. The scheme relied upon applications coming from local authorities and public utility companies. Scant progress had been made in spite of efforts by Mosley to 'ginger up' the local authorities in the autumn of 1929. (See Chapter Two above.) Attempts to formulate national schemes had been abandoned in November 1929 but were revived during the discussion of the Mosley Memorandum and the opening up of all options by MacDonalld in the summer of 1930.

With the deepening of the world depression the cyclical component of the unemployment problem was apparent once again. In the Summer of 1930 a great effort was made to accelerate and expand the public works programme which was seen as being essentially an anti-cyclical policy. (See discussion of Panel of Ministers above . p.278)

The inappropriate use of public works in the past to deal with structural problems was blamed for the failure to get a vigorous programme underway.

"It would seem that too much reliance has been placed on the provision of temporary work as a remedy for unemployment which it is now clear was not due to temporary depression of a cyclical character". (1)

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(1) CAB 27 439; UP 30 (11).

Economists and Public Works

The public works programme, as such, had the support of the economists' committee which stated in its report, discussed above, that in the prevailing conditions:

"the policy of public works is in principle a sound policy for the state to pursue". (1)

This approval was qualified by certain conditions: public works should be useful, productive, speedy to implement, lead to no demobilisation problems and be an acceleration of existing programmes. Little attention was given to the problems of carrying out the policy or to the lag structure involved. The idea that such activities might be merely diversionary was denied and stress was placed on the possible secondary employment which was likely to result from such activities. Kahn's multiplier with its numerical estimations of the repercussions, including the concept of the limit, was not included in the Report, probably because the concept at this stage of its development was far from being acceptable to or even understood by all members of the committee (2). The Committee was sceptical of the possibility of a public works programme being sufficient to outweigh the effects of the world slump. The scepticism was justified if Thomas's estimations are correct (3).

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(1) CAB 24 216; CP 363 (30).

(2) Howson and Winch (1977), op.cit., confirm this interpretation. p49

(3) Thomas (1975), op.cit.

Public Works as part of Industrial Strategy

Suggestions were made to direct the public works policy towards industrial investment as part of an attempt to get a more comprehensive industrial strategy adopted with more planning and control of industrial and geographical developments. It lays less emphasis upon the depressed industries and more on positive development.

After seeing the relevant documents of the Conference of Ministers in May, Henderson produced a memorandum challenging the policy and indicating a change of heart since his earlier support of the public works programme of the Liberals.

"I have formed a definite opinion that only the most meagre results can follow from the attempts to expedite schemes of work by Local Authorities and the proposed conference of Local Authorities is likely to prove disappointing ... the only promising field for schemes of capital expenditure which has not yet been fully explored or exhausted is industrial reconstruction". (1)

He suggested the establishment of a special Industrial Reorganization Fund, administered by the Lord Privy Seal, financed by the proceeds of a tariff. The scheme was to provide a grant from the government to any authority willing to accelerate a scheme which had been sanctioned by the Bankers Industrial Development Corporation.

Attlee also wanted a public works programme geared to industrial development.

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(1) CAB 24 212; CP 196 (30).

"The underlying economic principles on which we should be working would be the utilization of a period of slack trade to re-equip ourselves for more efficient production in future". (1)

He hoped that about 400,000 men could be employed on vital works of industrial re-equipment. His concept of public works was very much that traditionally held by the Labour Party; an anti-cyclical device.

#### Progress of the Schemes

The Conference of Ministers deliberating on unemployment policy after the Mosley debacle had suggested that a conference should be called of representatives from local authorities in an attempt to see what could be done to make the policy more effective (2). This recommendation was endorsed by the Cabinet and a conference was called on June 17th. On the agenda were: the speeding up of work in progress and work not yet begun; the examination of the possible expansion of the existing road programme and consideration of the ways in which the administrative process could be improved.

At the first meeting of the Panel of Ministers, a report on the Conference of Local Authorities was presented by the secretariate (3).

In this it was urged that powers for compulsory purchase of land should be extended to give local authorities powers similar to those which they had for housing land; removing their obligations to arrange local

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(1) CAB 24 214; CP 283 (30).

(2) CAB 23 64 31 (30); CP 193 (30).

(3) CAB 27 438; UP 30 (1).

plebiscites before presenting a local bill and suggesting procedural changes.

The conditions of transfer were still causing problems because of the unpopularity of introducing men from outside into an area where local men were unemployed as was increasingly the case as the depression deepened. These schemes were unpopular with the unions local authorities and the receiving communities. Yet the authorities were in need of the higher grant which accompanied the transfer conditions. The policy of transfer had some support from a few representatives of local authorities in depressed areas who felt that the more prosperous regions should make some contributions to the problem. The Minister of Labour, always a staunch supporter of the policy, now stressed its importance in securing jobs for persons leaving the Ministry's Training Centres.

The secretariate of the Panel of Ministers interpreted the objections to transfer as being largely an expression of a demand for improved grants and made some suggestions to improve the terms <sup>(1)</sup>. The Panel of Ministers, however, saw the transfer conditions as a major obstacle to the public works policy and asked the Cabinet to abandon the scheme. It also suggested that the improved terms associated with transfer schemes should be given, for a limited period, to authorities willing to accelerate their programme <sup>(2)</sup>.

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(1) CAB 27 439; UP 30 (1).

(2) CAB 27 438; UP 2nd meeting.

The problems of the depressed areas were also discussed and it was reported that local authorities were too financially constrained to provide relief works; rates were already high and councils had many debts owing to them and by them. The Lord Mayor's Fund had given some help in the past but was no longer in operation. The Prime Minister had had many appeals for help <sup>(1)</sup>. A modest grant of £.5 million was available for the provision of works in these areas, the sum for which Greenwood had pleaded the previous Christmas, (see Chapter Two above).

As soon as the Cabinet had agreed to the proposals work began on drafting the Public Work Facilities Bill to enable legislation to be passed before the recess. This was necessary if any progress was to be made before the Winter. Budgets of local authorities for the coming twelve months would be finalised in the next two months and any programme not included would be postponed for a year. The Prime Minister said that the House would have to remain in session until 9th August if necessary to facilitate the passage of the Bill.

The Bill removed the requirement for private bills to sanction works schemes and substituted a departmental order. Previously all works had to be submitted each year by 17th December. This deadline caused considerable delay in the programme. The Bill also gave local authorities the power to acquire land much more easily.

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(1) CAB 27 439; UP (30) 24.

A thorough examination of the progress of the various schemes was undertaken during the Summer and regular reports of schemes approved were made to the Panel of Ministers. The value of approved schemes in November 1930 was £147.3 million compared with £48.1 million in November 1929. So some progress was made.

Hartshorn had assumed his new office under the impression that the public works programme was not large enough but after

"fully examining the position I am satisfied that not much more is possible than is actually being done". (1)

#### The Liberals

Lloyd George as part of the co-operative effort had agreed to supply copies of the data upon which the Liberal Party policy was based. These documents were scrutinized by the civil servants and pronounced of doubtful value. The data were often wrong and there was a tendency to disregard matters of importance. Humphreys, who had been responsible for the estimates of the road programme, said that he had undertaken the survey in three weeks using data which were already substantially out of date. He appeared to agree with the officials that the survey was inadequate and that it was probably impossible to spend £145 million in two years (2). Hartshorn reported that Lloyd George had himself agreed that the Government's road programme encompassed

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(1) CAB 24 214; CP 293 (30).

(2) CAB 27 439; UP 25 (30).

his own (1). The differences revolved around the width of road; the amount of work done in the ordinary course of maintenance; the feasibility of reconstructing sections of roads and bridges without severely disrupting traffic flows; as well as administrative matters of implementation. This did not preclude the schemes being included in the Liberal Policy initiative in the Autumn (2).

Lloyd George was not impressed by the programme. In his memorandum to the Prime Minister in October, he commented:

"It early became clear that the main differences concerned not the principle of our proposals but the execution of them. The government machinery seemed to be jogging along at a normal pace and to be incapable of removing or surmounting the obstacles which invariably present themselves in the way of vigorous and progressive action ... Broadly speaking, it was our view that road development could be carried through in two years where the government allowed five years. The difference from the point of view of unemployment is enormous. While the Government programmes will provide work for not many more than 100,000 men a year during the next two years our proposals, including district roads and bridges provide work for 350,000 men a year ... Even the programme which now seems to be contemplated will only be carried through if there is far greater concentration of energy and resources than seems to have been hitherto applied and if there is clear recognition that the urgency of the problem require that machinery and personnel should be organized on an emergency basis". (3)

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(1) CAB 24 214; CP 293 (30).

(2) Liberal Policy, How to tackle unemployment (1930).

(3) CAB 27 439 UP 27(30)

His views on the function of the public works programme approximated more to the views of Attlee than Keynes in spite of his earlier conversion.

"The proper remedy for cyclical depression is an intensified and accelerated programme of national development and reconstruction so that those thrown out of work are given useful and healthy employment instead of being kept in idleness and opportunity is seized to improve the national equipment, so that the country may be better prepared to take advantage of trade recovery when it comes". (1)

The Liberals went ahead and published much of the material in this report in the form of a policy document on 'How to tackle unemployment?' and this document came under scrutiny of the Government (2). The speed with which the road programme could be implemented; the assumption that the regional plan provided a scheme of work and the advisability of raising a larger government loan was challenged. Bevan made a plea to the Government to finance to the full extent schemes in depressed areas. (This had also been advocated by Mosley). He thought such financing was unlikely to undermine local democracy providing the rate payers did not have to pay for national schemes (3).

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(1) ibid.

(2) Liberal Party (1930)

(3) Hansard, 4th November 1930, Vol. 244, Cols. 756-7.

Finance

Whilst there was general agreement that works of some kind should be undertaken, there was much less agreement about the financing of schemes. In July the Panel of Ministers produced a memorandum on the finance of public works specifying the conditions under which borrowing could legitimately be undertaken to facilitate public works schemes (1). It was considered that public works were justified when the works were capable of yielding a money return sufficient to pay the interest and sinking fund on the loan; were largely for the benefit of subsequent generations and which could not be carried out without great cost to present ratepayers. Other types of expenditure which gave little prospect of actual benefit to future taxpayers should not be financed by borrowing because the burden would simply be transferred from one generation to another.

It was thought that much of the new road works, the pre-war schemes of public building and naval reconstruction fell into this category. Lloyd George was still advocating a large loan programme in the Autumn in the same policy document that recommended strict economies for public expenditure (2).

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(1) CAB 27 439; UP 30 (2).

(2) Liberal Party (1930), op.cit.

Individual Schemes

Three large schemes concerning bridges over the Tay, Forth and Humber had been examined in cost-effectiveness studies <sup>(1)</sup>, constructed on the basis of statistics of traffic flows. The schemes for the Tay and Forth were thought not to be viable, especially as the local authorities concerned were unwilling to make more than a token contribution to the costs. In spite of a rather impassioned appeal from the Secretary of State of Scotland, Scotland waited another thirty years for its road bridges on the east-coast route. The Humber scheme was thought to be a more reasonable investment which had received very strong financial support from the local authority and it was agreed that it should go ahead <sup>(2)</sup>.

The major canal project proposed was for a canal across Scotland, roughly from the Clyde to the Forth. A study was undertaken to investigate its potential <sup>(3)</sup>. The scheme was thought not even to justify a physical survey without which the costs could not be estimated accurately. The Secretary of State for Scotland fought this decision but there were environmental issues at stake and a general lack of support for the scheme. The Minister of Transport said of the scheme:

"I am satisfied that we should not cut a chasm across Scotland which would remain for all time as a memorial of ill-considered panic legislation and expose the principles of public ownership to unanswerable criticism" <sup>(4)</sup>

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(1) CAB 27 439; UP 14 (30)

(2) Humber bridge is currently being constructed amid a certain amount of scepticism about its viability.

(3) CAB 27 439; UP 13 (30)

(4) ibid

A scheme for a London outer-circle goods railway was also examined. The general managers of the railway companies concluded that the commercial possibilities of the proposed railways were not sufficient to justify the expense involved <sup>(1)</sup>, the expected revenue only being a quarter of that needed if the investment was to break even. The Government were not satisfied with the existing provision for goods traffic in London and asked for improvements, but would not intervene to support the scheme.

On the criteria adopted by the Government the Victoria line would never have been built. One wonders what a more thorough cost-benefit analysis might have indicated. They did agree to extend the provisions of the Home Development Act to include transport and so give support for improvements in the terminal facilities at railways and collieries to enable larger wagons to be used <sup>(2)</sup>.

The Minister of Transport reported in December that in spite of the improvement in the terms offered to docks and harbour authorities, by bringing them within the terms of the 1929 Development Act, there were no applications for grants which would fulfil the conditions regarding the acceleration of works.

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(1) CAB 27 439; UP 30 (12).

(2) CAB 27 439; UP 30 (19).

Reconstruction

Reconstruction policy, as the economists' committee of the Economic Advisory Council had pointed out, by concentrating on the basic industries, had had more to do with the 'orderly contraction of industry' than with increasing productivity: its supposed aim being to restore British industry to a competitive basis. The relevance of such a strategy in view of the severe contraction which was taking place in world trade was not appreciated (1).

The possible contribution of the policy towards the removal of unemployment was by now extremely doubtful: it was much more likely to contribute to the problem than to remedy it in the short run. A more positive approach was needed and was advocated by Henderson, Hartshorn, Attlee, Stamp and Cole.

By the Summer of 1930 the Economic Advisory Council's committee reports on iron and steel and cotton were available and the Coal Bill was making some progress. Finance was being organized by the Bankers Industrial Development Corporation: a body of bankers and industrialists gathered together by Thomas and Norman. Thomas was left in charge of these arrangements even after the re-organisation of the administrative structure for dealing with unemployment policy and the replacement of Thomas by Hartshorn as the Lord Privy Seal. MacDonald had said that Thomas had inaugurated the scheme and should deal with the unfinished aspects of it.

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(1) The Panel of Ministers had been convinced that it was the only policy to deal with Britain's 'special problem'.

Later Thomas reported progress of the scheme and recommended that the work should be taken over by the President of the Board of Trade. When the report was considered by the Cabinet on 9th July, it was decided that the new Chancellor of the Duchy of Lancaster, Attlee, should be invited to make an 'immediate and intensive' study of what was wrong with British industry and suggest remedies. He was to be helped by a member of the secretariate of the Economic Advisory Council and was to have ministerial cooperation and access to the material of the Cabinet and the E.A.C.

### Regional Policy

One of Attlee's first tasks for the Panel of Ministers was to produce a paper on the situation. Attlee did not take long to produce his paper: The Problems of British Industry <sup>(1)</sup>. It was ready by the 24th July. In it he stressed the point that rationalization of industry could not solve the problem and that the repercussions of rationalization and the utilization of social capital should be considered. For the first time a positive regional policy emerged. This had become possible once the policy of transfer with emphasis on many workers had been abandoned. Attlee stressed the geographical counterpart of industrial transformation and complained that:

"... development is taking place without plan or control from any outside agency. We are attempting to patch up the appalling defects created by the unplanned career of the last industrial revolution ... yet we are letting similar things happen". (2)

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(1) CAB 24; CP 283 (30).

(2) ibid.

He suggested a Ministry of Industry, staffed by experts on labour, management, finance, transport, power, housing and town planning, to put 'ideas into action' and to 'control the nation's economic life'.

Attlee was asked to attend subsequent meetings of the Panel of Ministers and expanded his views at a meeting <sup>(1)</sup> on 30th October. He stressed the point that reorganization alone was not sufficient and that it was likely to leave large areas derelict <sup>(2)</sup>. Bevin was always worried by this problem and had produced a memorandum to the Economic Advisory Committee. He suggested that the Government should give financial assistance for reorganization to stimulate the establishment and control the location of new industry.

The Panel of Ministers considered the report in December. The Minister of Health discussed the problems of the maintenance of services; the Minister of Labour considered mobility in the labour markets and the President of the Board of Trade was concerned with the problems of directing industries to the regions. He rejected incentives as likely to be ineffective and uneconomic. The southern counties were preferred

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(1) CAB 27 438, 16th Meeting.

(2) Mosley had referred to regional problems but did not suggest a general policy; and Horace Wilson had made some desultory attempts to discover whether industry could be attracted to the depressed areas. (See Chapter Two above). The Liberals had also aspired to a regional policy which was scrutinized in the Winter 1930/31 but it was felt to have little to offer in the short run. Hansard, November 1930. Vol. 244. cols. 756-7.

by manufacturers because of the consumer market; the private capital market; flexible labour force and the amenities of life in the South East. It was not thought that the older areas had much potential.

"Any attempt completely to turn the stream of industrial development back into the older industrial areas is not only doomed to failure but is probably fundamentally uneconomic". (1)

The President of the Board of Trade was not the only one to have some doubts about the regional revitalisation. Thomas considered that the older areas were not suitable for new industries and Keynes was not able to go along with Attlee's plan for encouraging new industry for, whilst the depression continued, the problem, he said, was to raise demand. MacDonald raised the matter at the December meeting of the E.A.C. (2) when a section of the Committee of Economists' report entitled, 'Ways of Increasing Industrial Efficiency', was being discussed. The Committee, whilst advocating rationalization did not consider it had any immediate potential for reducing unemployment.

MacDonald, who was beginning to have doubts about the policy, said that rationalization was creating problems in many areas and that rationalization in future should be carried out from the point of view of the interests of the work people and the state, as well as the interests of the employing company (3). Thus the wider social costs and benefits of policies were at last being recognized. MacDonald also referred

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(1) CAB 27 439; UP 42 (30).

(2) CAB 58 2, 10th Meeting.

(3) ibid.

to the problems which would emerge as the coal industry reorganization proceeded:

"pit after pit would be closed and that whole villages would be thrown out of employment. Would it be possible to organise somebody representing employers and men for dealing with the situation so created?" (1)

Attlee did not appear to understand the macro-economic aspects of the policy to which Keynes (2) referred but there does not appear to be any reason why the regional policy could not have been encompassed within the public works programme except that it was still regarded as a long term policy. W.S.C.

Lloyd George had advocated garden cities and satellite towns in the pamphlet, 'How to tackle unemployment', but the Government's appraisal of the Liberal scheme stated that little could be done in the short run as a regional plan was not a scheme of work (3).

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(1) ibid.

(2) D. Winch, (1968), op.cit., refers to Keynes's reluctance to get immersed in the finer details of resource allocation and detailed industrial planning. Keynes had been very involved in the miners' dispute and in the problems of the cotton industry.

(3) Committees were appointed to examine the points raised by the Liberals in respect of garden cities and regional policy. See below Chapter Five.

### Industrial Policy

Henderson had recommended a scheme for the general reconstruction of industry <sup>(1)</sup>. This was to be an emergency measure financed from a tariff. It was in fact an acceleration of schemes approved by the Bankers Industrial Development Corporation. If these schemes were undertaken rapidly, it was suggested that they should be eligible for a government grant. A similar scheme for agriculture was suggested to be financed by a tariff on cereal imports.

Hartshorn <sup>(2)</sup> too recommended a more positive industrial policy making in which he included the development of new industry such as that designed to get 'oil from coal'. He also suggested that attention should be given to the constraints hampering industry such as fuel and transport problems and wanted consideration to be given to a hire purchase scheme for industrial equipment. This would have been an important policy departure, but he did not press for fiscal assistance for investment.

Attlee <sup>(3)</sup> was scathing <sup>about</sup> existing schemes which he saw as the product of crisis management and lacking conscious direction of industrial development. The coal-subsidy he considered was the worst instance of help being given to industry unconditionally in a way that was unlikely to correct what was wrong. Export credits and safeguarding were

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(1) CAB/212; CP 196 (30).

(2) CAB 24 214; CP 293 (30).

(3) CAB 24 214; CP 283 (30).

similarly derided as being 'essentially gifts to industrialists' without the extraction of conditions for reforms. He wanted much more planning in the industrial sphere and, if necessary, new machinery to deal with it. He complained of the administrative problems in implementing policy. One man should be in charge of developing export trades and the introduction of the reorganization of British industry including the planning of the 'nation's economic life'. For this purpose he suggested the Lord Privy Seal working under direction of the Cabinet. His main executive organ should be an Industrial Development Board consisting of an industrialist, a trade unionist, a finance expert, an expert on transport and an accountant. The first function of the Board should be to invite schemes of reorganization from the more progressive men in each industry and failing this to develop schemes on its own responsibility. He suggested the old Trade Facilities Act should be revised. The Board should, with Treasury's approval, be able to raise loans and issue stock. It should be given powers to demand amalgamations, organize selling agencies, direct the location of industry and employ transferred labour. Powers to investigate accounts should be given and the Board also should be able to direct the form of transport or power to be used.

Meanwhile the industrial policy for reconstruction of the major industries was getting under way on an ad hoc basis.

### Individual Schemes

#### Cotton

The report on the cotton industry, produced by a committee of the Civil Research Committee later under the auspices of the Economic

Advisory Council, was ready in the early Summer (1). Its recommendations for technical improvements and re-equipment, the formation of larger units and the extension of co-operative effort by the cotton traders organization, were discussed by the Cabinet. It was decided that the Government should take every step in their power to urge the employers and operatives in Lancashire of the importance of considering the possible means of reducing costs. Costs might be reduced by the introduction of short staple cotton and mixtures of cheaper cottons; the use of ring spindles and high draft spinning and high speed winding machinery, automatic and semi-automatic looms and the use of shift systems and amalgamations.

By September, the Home Secretary was reporting that there had been some progress towards cooperative effort but that progress on amalgamations and re-equipment was slower and that unless some progress was made the Government should take greater powers.

Further attempts were made in October by Graham and Clynes who reported on their Manchester meeting in early November. By this time unrest in India was making matters worse: conditions were deteriorating rapidly and further falls in cotton prices were reported. The next visit to Manchester was even more disappointing although it was hoped not useless! It was thought that the 'age old individualism' of Lancashire was not easily converted. The trade was overwhelmed by adverse world conditions so that it was far from easy to see that the economies derived from reorganization would do anything to overcome the difficulties in world markets associated with the boycott; the unrest in China and

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(1) CAB 24 213; CP 208 (30).

the cheap labour in Japan. The cotton industry, however, continued to decline throughout the next thirty years.

### Iron and Steel

The report of the E.A.C. committee on iron and steel indicated that no recovery could be expected until the costs of production were reduced to competitive levels (1). The first step was to be large regional amalgamations to secure the economies of mass production (for the units were very much smaller than those of Germany and the U.S.A.) and the allocation of orders to the plants best suited for them; to obtain finance to bring plants to the highest level of technical efficiency; and to evolve a national production and sales policy.

MacDonald convened a conference to discuss the proposals and on the 9th July it was reported to the Cabinet that a scheme was being prepared. This, however, soon ran into difficulties and the Cabinet was told that the representatives of the iron and steel industry were asking whether the Government would consider safeguarding. The report had ruled out protection.

"Protection at the present time would we believe actually delay reforms that are urgently required, as it would lead to the maintenance of a number of plants not designed for efficient production or suitable for amalgamations". (2)

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(1) CAB 24 212; CP 189 (30).

(2) ibid.  
The industry had been attempting to get this aid since the Conservative Government was in office. See Chapter One above.

Only if reorganization failed to make the industry competitive would safeguarding be imperative. The Cabinet saw the industry's requests as an ultimatum and threatened to replace the representatives of the industry at the conference if they strayed from their terms of reference.

Other advice to the Government was not so adamant about safeguarding for iron and steel. The majority of the Economists' Committee were in favour of protection and Balfour asked for it to be considered in his letter on the economy in the Autumn (1).

#### Coal Industry

The Coal Mines Bill was having great difficulties in its passage through the House of Lords where an amendment on the hours of work, held up the Bill for two months until the Government agreed to 'spread over' of the reduced hours over a period to allow some flexibility. The Bill became law in August and it was claimed in the Autumn that the Bill had put the industry on a basis which would enable it to promote marketing and sales policy and to organize to deal with international problems on a footing more equal to that of its competitors abroad.

#### Trade

The debate about free trade was fervent. In the Cabinet it occurred in connection with the tariff truce, the Imperial Conference, the agriculture policy and also in general discussions of unemployment

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(1) CAB 24 216; 330 (30).

policy and budgetary problems. It also took place in the Economists' Committee and in the meetings of the E.A.C. The debate was mostly emotional rather than rational. And in spite of much discussion on highly theoretical as well as practical matters, the disagreements remained. For many free trade was an article of political faith rather than a policy of instrument as the discussions during this period amply demonstrate. Free trade was part of an international stance which many felt it was immoral to abandon.

#### The Tariff Truce

On 6th August 1930, six Ministers met for a Cabinet meeting. They were MacDonalld, Graham, Greenwood, Benn, Addison and Bondfield. Graham was asking for guidance about his reply to a circular from the League of Nations. He was embarrassed by the possibility of having to present Britain's case for non-ratification of the convention.

"It would be very difficult at the Assembly of the League of Nations to have to admit that the Government of the United Kingdom did not intend to ratify a convention which they themselves had been instrumental in promoting. Moreover, such an admission would bring to a standstill the forthcoming important negotiations, for example, in regard to textiles and machinery and would destroy the whole policy". (1)

Other ministers pointed out that from the point of view of agriculture and industry in Britain or from the point of view of the Imperial Conference, it would be unwise to ratify the convention in September.

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(1) CAB 23 64, 49 (30); CP 284/5 (30).

Budgetary problems were also mentioned and it was thought that the ratification would preclude raising a tariff for revenue purposes and this might lead to further tax increases and have depressing effects on industry.

It was decided that Graham should point out that since the previous conference, the attitude of other countries towards Britain had not been in the spirit of the convention for:

"instances could be given to show that the trade of this country had been attacked by many means, not necessarily by increases in tariffs so much as by dumping, choosing this moment for taking advantage of ad valorem facilities". (1)

Graham was advised to ask for negotiations prior to ratification to ensure that other nations intended to act in the spirit of the convention and a reply was drafted subject to the approval of the Chancellor of the Exchequer:

On 2nd September, this time with Snowden in the Chair in MacDonald's absence, the matter was reopened (2). Graham said that since the last meeting his anxiety about the decision had increased. He had received inquiries from Germany, Italy and other powers about Britain's intentions. He considered that Britain's position in Geneva would be quite untenable if it was decided not to ratify the convention. Ratification, he argued, would in no way embarrass the Government and as a change in fiscal policy could only be affected by the Budget

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(1) ibid

(2) CAB 23 65 50 (30).

in April, it was still possible by giving notice by the first of February to be free from obligation in time for the Budget. He did not give much weight to the argument that ratification would prejudice the discussions at the Imperial Conference.

Of the members attending the meeting only three had also attended the August meeting. The Prime Minister and the Minister of Agriculture and Fisheries who had felt strongly on the issue were both absent but had sent messages supporting the earlier decision. Passfield who was at neither meeting had written in favour of ratification. Thomas was left to support the case for non-ratification at the meeting. He said that practically every section of British trade and commerce was hostile to ratification; since the signing of the convention, many European powers had increased tariffs and from the British point of view he considered the damage had been done before ratification. He also felt strongly that there was a possibility of obtaining benefit from the Imperial Conference which would be jeopardised by ratification within weeks of conference. Shaw would have liked to see the matter postponed but failing postponement, he thought that the Government should ratify. Henderson came out in favour of ratification and felt that the Government should announce that there was no change in the traditional 'Free Trade Policy of the Labour Party'.<sup>(1)</sup>

Snowden argued that once ratification had taken place, negotiations for reducing tariffs would begin. If on the other hand Britain did not ratify, then the action would be taken to indicate a change in fiscal policy and tariff wars would take place. He denied the relevance of the arguments against ratification on the basis of fiscal freedom for the Government to impose duties.

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(1) ibid.

Obviously, whilst he was Chancellor, he had no intention of imposing tariffs for revenue purposes. He concluded his remarks by stating that the 'national honour was at stake'. On this rallying note the Cabinet, by a majority, decided that the President of the Board of Trade should announce at Geneva that the British Government had decided to ratify before 1st November.

### The Imperial Conference

The Imperial Conference in the Autumn of 1930 provided few possibilities for improvements in the trading relationships given the Government's views on free trade. Thomas and Graham, however, had put in considerable effort to make it appear that the Government were interested in co-operation and had something to offer in exchange for the Dominions' (1) agreement not to impose further tariffs on British goods. There were three issues: the possibility of a wheat quota; existing preferences and improved machinery. Graham asked for Cabinet approval to make statements about these matters but was told to be non-committal when the matters were being discussed. After much soul searching, it was agreed that he should ask the Economic Committee to provide the pros and cons of a wheat quota. The matter of existing preferences remained and he had suggested that the Government should make a statement to the effect that they had no intention of removing tariffs on the goods on which preference was already granted. He considered such a statement could easily be made as it represented the position which the Government would have to accept for the next few years because of the financial problems associated with removing the tariffs. The Secretary of State for the Dominions attempted to get from Cabinet an agreed statement on Government policy which he could take to the conference. In the

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(1) CAB 23 65, 63, 64 and 65th Meetings October 1930.

framework of this statement he left the portion relating to existing preferences blank and the Chancellor agreed to complete a draft of this part. This he did. He gave the history of present tariffs, explained the present difficulties, but made it clear that the Government could not agree to abandon their policy for the remission of taxes on food if the financial situation changed; but explained that it was unlikely to be possible for some time. Thomas apparently said at the end of this Cabinet meeting that such remarks would make matters worse. Snowden reacted with a storm of petulant rage and a further Cabinet meeting was held in the evening to sort the matter out. The Prime Minister and Henderson were obviously disgruntled by the re-emergence of a matter which they considered solved. Snowden was defending a matter of principle: budgetary autonomy.

"it appeared that to get an agreement that would satisfy the Dominions we must give up something to people who have never given us anything, but, on the contrary, had put tariffs against us". (1)

Thomas protested that benefits had been obtained from existing arrangements and the Prime Minister said that Britain was offering no more than was necessary to enable 'them to say thank you'. Thomas and Graham asked Snowden to appreciate their difficulties. They had agreed with him about the wheat quota, all they wanted was a statement to say that he would not remove tariffs upon which preference was granted and in return an agreement could be obtained from the Conference not to raise tariffs against Britain. Graham then appealed to Snowden in terms that the agreement would be an advance upon the path to free trade. It was a sort of tariff truce he said - the 'Dominions wanted tariffs we wanted to avoid them ...' The revenue position he said was so clear

that Snowden could easily make such a statement. Henderson appealed to Snowden, couldn't he make a concession? No he couldn't make bargains about the power to deal with taxation - he had, of course, argued the opposite case in the discussions of ratification of the tariff truce! Eventually, with the Prime Minister absent, Henderson and the others were able to placate Snowden and he agreed to make a statement softened slightly by adding two instead of three years to the period during which the Government would agree not to remove the tariffs. Just as agreement appeared to have been reached, MacDonald returned and said he would prefer that the statement was not hedged by financial conditions. This threatened to reopen the whole issue but it was agreed to leave MacDonald and Snowden alone to arrive at a compromise. A crisis was avoided but the dissension on the matter of trade policy remained inside the Cabinet. In the House of Commons the Conservatives were meanwhile pressing for a protectionist policy and had stated their willingness to face the electorate on the issue.

"We have tried economic internationalism pretty thoroughly for several years and it has landed us in a pretty mess and there is no indication at the present time that it is going to lead us in any thing else but a mess in the visible future. ...The home market is about the only asset we have left and we might as well use it for our own benefit and not for the benefit of every country in the world except our own". (1)

protection in  
Boothby, Mosley and others supported/ the debate in the House of  
Commons in November. On the other hand there was also opposition to  
protection as a 'repugnance'. Frank Owen, for example, accused Mosley of

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<sup>Frank Owen,</sup>  
(1) Hansard November 4th, 1930. Vol. 244, cols. 780/1

"hiding behind the barbarity of economic isolation" adding "Birmingham was always distinguished for its extremism". (1)

### Agricultural Policy

The differences in opinion on trade policy were also brought out in the formulation of agricultural policy. Many memoranda were spawned causing the Secretary of State for Scotland to remark in yet another memorandum

"If the production of memoranda upon British agriculture could have saved agriculture it would have been a highly prosperous industry by this time". (2)

An Economic Advisory Council Committee was set up to consider agriculture and this committee reported that they saw no reason that agriculture should be singled out for protection. Dumping was not thought to be a problem except for oats. Tariffs were a much more important factor. The Minister of Agriculture was trying to make some progress on the quota scheme and Import Boards as these were measures which were likely to help agriculture but fell short of protection. He did not meet with much success and his later plans for bulk purchase bought a further stronger memorandum from Snowden who asked 'What is the objective? Low prices for consumers or higher prices for producers?' He considered these objectives to be mutually exclusive. The reply was to the effect that the schemes were Labour Party policy aimed at reasonable stability and a fair price for the producer and to arrest the decline in cultivation and employment in addition to safeguarding the consumer against unfair prices.

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(1) ibid. Vol, 244, col. 780/1.

(2) CAB 24 214 254 (30).

Keynes by this time was supporting a policy of protection for agriculture because the industry was of strategic importance and should not be left to go under during a period of cyclical disturbance. But many members of the Government like the many members of the Economic Advisory Council were too doctrinaire in their approach to free trade to allow any such short term expedients to influence them. Some saw the problem not as a short term cyclical problem but as a reflection of the mal-adjustment in the structure of British industry and as such any policy to ease the situation was likely to slow down the adjustment process by which it was felt that Britain would move towards those sectors of agriculture in which there was likely to be a comparative advantage - dairy farming was often quoted as an example of this.

### Monetary and Fiscal Policy

#### Lack of Fiscal Initiatives

Perhaps one of the outstanding puzzles of the period is the failure of the Government and its advisors to use fiscal policy to increase economic activity. This failure is partially explained by the dominance of the ideas of 'sound finance', implying a balanced budget, which became even more pronounced as the confidence problem emerged. There was scope for action even within the confines of a balanced budget, but the concepts of compensatory finance were yet to be developed and could not be regarded as viable policy alternatives available to the Government at this time. (1).

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(1) Robbins (1976) op. cit. pp 88/91. Winch(1969) op.cit. 268/277.

Fiscal policies were suggested by Robbins and Stamp who advocated increases in indirect taxes as a way of balancing the budget: Stamp, Keynes and Henderson advocated a revenue tariff and Robbins was bold enough to call for a less stringent sinking fund policy. Fiscal policies had been suggested by the Independent Labour Party as early as 1926. (1).

Keynes had pointed out that expansion could come as readily from a decrease in savings as an increase in investment and had even considered the use of unemployment benefits in this respect. He failed to pick up these ideas and apply them to budgetary policy even when his pet schemes had little chance of being accepted. Without firm direction in this respect Snowden was able to begin the progress towards implementing the cuts in public expenditure which led to the break up of the Government in the Summer of 1931.

#### Cheap Money

The Government, the civil servants and the bankers were anxious to implement a cheap money policy which had become possible after the collapse of the speculative boom in the United States. In July the Panel of Ministers stressed the importance of this policy in a memorandum relating to the feasibility of raising large government loans to promote public works.

"The country at present in common with other countries in the world enjoys cheap money. It is one of the few factors of hope and encouragement in the present situation". (2)

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(1) Independent Labour Policy (1926), op.cit.

(2) CAB 27 439; UP 30 (7).

For this reason they did not support large loans and tried to ensure that loans which were undertaken had a sound financial basis. Snowden reiterated this position in his review of the Liberal Party proposals which he obviously found financially illogical. The possibility of debt conversion operations he considered were good provided they were not impeded by the adoption of ill advised expenditure proposals. Support for this policy also came from the Economists' Committee <sup>(1)</sup>, though it was pointed out that although short term rates had fallen there had been little impact on long term rates which were considered to be more important for investment decisions.

#### Revenue Tariff

The use of a revenue tariff as a budgetary instrument was also advocated during this period. The matter was raised by Henderson as a way of financing an industrial programme (see above page <sup>(2)</sup> 336); and by some members of the Cabinet in August as a reason for not ratifying <sup>(3)</sup>. Keynes considered it essential if the social programme was to be maintained <sup>(4)</sup> and the Committee of Economists, albeit with some important provisos from Pigou and Robbins commented, favourably on the potential of a revenue tariff. Snowden rejected any notion that the budgetary problems <sup>(5)</sup> should be resolved by resorting to a revenue tariff. He felt so strongly

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(1) CAB 24 216; CP 363 (30).

(2) CAB 24 212; CP 196 (30).

(3) CAB 23 64; 49 (30).

(4) CAB 58 150; H (113).

(5) CAB 24 216; CP 363 (30).

on the issue that its adoption would only have been feasible if he had been replaced as Chancellor of the Exchequer. His objections were centred upon the real wage issue about which he felt strongly as can be seen from the debate <sup>(1)</sup> and the Treasury memorandum quoted by Janeway <sup>(2)</sup>.

### The Deficit

Budgetary problems he was prepared to admit. Budget deficits were already being predicted in July. The estimates for 1930 had indicated a small surplus <sup>of</sup> £2.3 million but the estimates of the costs of transitional benefits were wrong and a supplementary estimate of £7.5 million had to be added, in addition the conditions of trade were thought likely to affect receipts. Snowden fought to avoid further budgetary implications during the discussions on insurance benefits and in December, he was very averse to the Government's decisions to allow transitional arrangements to be extended to health benefits. The Liberals had, in their policy document, called for a review of public expenditure and severe reductions in it as well as 'reductions of taxation on enterprise'. Snowden said that he could not accept a 'Geddes Committee'

"If a reversal or modification of policy is also contemplated in directions such as these of social insurance, housing and education, then it is, in the Chancellor's submission inconceivable that the task of review should be entrusted to an outside body such as is proposed" (3).

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(1) CAB 23 65 50 (30).

(2) Janeway, (1971), op.cit. p. 89

(3) CAB 24 216; CP 392.

Thus Snowden was to balance his budget, as far as he was able, by methods of his own choosing and without resorting to the aid of tariffs. His view was to be modified dramatically over the next three months which culminated the setting up of the May Committee.

### The Supply of Labour

The Labour Party had been committed to reducing the supply of labour by operating on the activity rates of the population both as a social measure and as a way of reducing unemployment. This was to be done by reducing the number of persons entering employment, by postponing the school leaving age and by facilitating early retirement, by giving better pensions. It was also hoped to reduce the hours of work by implementing the recommendations of the Washington Convention. Migration both internal and external was to be encouraged.

These policies had not been very successful so far. Ironically the legislation relating to the terms upon which unemployment benefits were granted was at this time possibly increasing the number of registered unemployed by encouraging married women, short-time workers and seasonal workers to register and so receive benefit when they might otherwise merely have retired from the labour market.

The retirement scheme had been shelved and the bill for the raising of the school leaving age was still not on the statute books being delayed because of tactics of the Liberals. The implementation of the Washington Convention was proving more difficult than had been contemplated but in November, Margaret Bonfield asked Cabinet's permission to present her bill which it was hoped would enable Britain to ratify the convention.

The migration policy was badly hit by the depression. Internally the ending of the transfer conditions was a set back to those who hoped for greater mobility; although most persons appeared to go of their own accord and migration was contributing only to a very small extent in the unemployment problem. Externally conditions in Australia and later in Canada and the other Dominions were causing emigration to be dramatically reduced. This is indicated in the memoranda submitted to the Panel of Ministers in July 1930 <sup>(1)</sup>. Migration in the first half of 1930 appeared to be less than half of that of 1929 <sup>(2)</sup>.

In response to those in the party who believed so ardently in the policy, a sub-committee of the Economic Advisory Council was set up in the summer of 1930 to consider the question of migration from the United Kingdom to overseas parts of the Empire both in the short term and in the long term. This sub-committee which consisted of Carr-Saunders, Cole, Aston, Ellis and Turner concluded that,

"In the interests of all parts of the Empire, migration policy should be directed towards securing a redistribution of the white population within the Empire; and should be so framed as to encourage and develop the mobility of labour and indeed the free movement of population generally.

Economic difficulties of the present time are such as to render impracticable any immediate extension of migration. The most that can be done is to take advantage of such opportunities as offer for assisting the migration of persons following occupations for which even in the circumstances of the moment there are openings in the Dominions. When the present difficulties have passed a reasonable expenditure of public funds by His Majesty's Government in the United Kingdom on migration to the Empire is desirable". <sup>(3)</sup>

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(1) CAB 27 439 UP 8 (30)

(2) Drummond (1974) op. cit.

(3) CAB 24 216 CP 329 (30)

Lansbury (1) still had some hopes of migration policy and in one of his periodic memorandum on unemployment policy he referred to the Passmore scheme for colonizing Australia and 'reconditioning' of land was mentioned in the King's speech (2). But with the report of the committee any hopes of migration as a short term remedy for unemployment must have been dashed.

### Alleviation of Distress

#### Insurance Fund

The conflicting policy objectives of the Labour administration were apparent in their management of the unemployment insurance fund. There is no doubt that they were committed to the 'adequate' maintenance of the unemployed in spite of their puritanical obsession with the so-called 'abuses' but they also believed that the insurance scheme should be placed on a sound actuarial basis and accepted the view that the budget should be balanced; in a deep depression these policies were incompatible.

The possibility of reconciling these objectives was remote. At the end of May average unemployment had reached 15%; 43% of the unemployed were men between the ages of 25-45 i.e. the group who were most likely to have dependents; and 8% of this group had been unemployed for more than a year. By October the Minister was reporting that the debt of the fund was increasing at £36 million per annum; contributions from employers and employees were £30 million per annum; the cost of the ordinary

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(1) CAB 24 216; CP 390 (30).

(2) CAB 23 65; 62 (30).

benefit paid was £77 million per annum and in addition to this £21 million per annum was paid by the Exchequer under the transitional arrangements to persons who did not fulfil the contribution requirement. The real value of the rate of benefit was increasing as the cost of living fell. The comparative rate for a married man with two children was 27/- in 1924 and had risen to 30/- in 1930; meanwhile the cost of living index had fallen from 70 to 55 (1).

Snowden was getting restive. In a letter submitted to a meeting of the Panel of Ministers he said that anxiety to make adequate provision for the unemployed had led them to 'overshoot the mark' and had caused them to undermine the whole structure of the scheme. He complained that the transfer of the cost of transitional payments to the Exchequer had placed upon it an almost unbearable burden which in addition to the provision of the £3 million for the implementation of the raising of the school leaving age and for the agricultural policy, was likely to ensure an increase in tax in the next budget with adverse effects on psychology and confidence.

#### Abuses

The transitional payments continued to be the central problem confronting the fund but since the passing of the new act other 'abuses' were causing much anger and resentment. These were:

- a) the payments made to seasonal workers - persons who would normally be employed for part of the year only;

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(1) CAB 24; CP 318 (30).

- b) the payments made to persons on short-time work - firms were organising short-time working in such a way as to ensure that their employees could benefit from the unemployment insurance fund on the days on which they were not employed;
- c) the payments made to married women - many of whom it was thought were not genuinely seeking work.

These groups were what might be referred to as secondary workers who might have drifted from the labour market had it not been for the conditions associated with the granting of insurance benefits. There was no suggestion that anyone was obtaining benefits fraud<sup>ul</sup>ently but that the Act was being interpreted in such a way as to allow benefits to be paid in circumstances in which they were not intended. Some of the claimants were, quite reasonably, maximising their claims on the fund. But this was regarded in the sombre political climate of the day as an effrontery which could not be tolerated. The evidence was largely anecdotal but some attempts were made to establish hard evidence of abuse <sup>(1)</sup>. In July there was an inquiry into the number of married women seeking benefit; although the numbers had increased since the 1930 Act so had unemployment, especially in the cotton industry and so the evidence was difficult to interpret. On the problem of seasonal workers, evidence was even more difficult to obtain and they had to resort to the case of a 'Kipperer' in Northern Scotland. It was thought that employers and employees alike were taking full advantage of the benefit rules by so

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(1) Hansard 29th October 1930. Hartshorn said he had been in close touch with the Minister of Labour since the Summer and every case of alleged abuse had been checked. He had been amazed at the very small amount of evidence. The Press were mounting a campaign against abuses in November. Vol. 244. Col. 167.

adjusting their work as to maximise benefit. Garforth Collieries and the London Furnishing Trades were mentioned as operating such schemes to make up for loss of wages and also to avoid discharges (1).

### The Debate

Discussions about the problems of the unemployment insurance fund were endless. The matters were raised in the Cabinet, in the Panel of Ministers and in the Economic Advisory Council and they were also considered by three sub-committees. In July, when the Minister of Labour was requesting an increase in borrowing powers, Cabinet asked for details of transitional benefits and the benefits paid to married women. Some of this material was provided in memoranda and presented to the Cabinet meeting at which it was decided to refer the matter to a special sub-committee of the Panel of Ministers. The Panel of Ministers discussed the matter on the 17th July and considered the report of the sub-committee. The report said that two inquiries were necessary: one to consider transitional payments and another to consider the scheme as a whole. In deciding the form which the inquiries were to take, it was felt that speed and the avoidance of party political controversy were essential. Speed was thought to rule out a Royal Commission and also a select committee, which could not meet during the recess. The Prime Minister suggested a committee composed of ministerial representatives and two representatives from each of the opposition parties. On the wider issue, the Prime Minister thought that the only appropriate body was a Royal Commission.

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(1) CAB 27 439

All Party Conference

The three party conference was part of the general efforts to secure greater co-operation amongst the parties. The committee met for the first time on 28th July. The Government representatives were Bondfield, Greenwood and Hartshorn. Elliot and Betterton represented the Conservatives and Brown and Foot the Liberals (1). The Minister of Labour explained the terms of reference to the committee. It was to consider the situation of the fund and to come to agreement about the way the problems should be dealt with but it was not to get involved in matters of national policy of a controversial character. If the transitional scheme was not to be merely extended any changes recommended would need to be presented in a bill before Christmas. After discussion of the problem, the committee were inclined to the view that transitional benefits should not be continued; that merely ending them was not feasible and so an intermediate scheme appeared to be necessary.

In the Committee, the Conservatives had been pressing the view that the fund should be made to balance by relating benefits to the cost of living; reducing the abuses chargeable to the fund and to transfer the rest to the Exchequer. News of this suggestion reached Snowden:

"My Dear Margaret,

I am greatly perturbed about your three party committee on Unemployment. As far as I can understand from the minutes of the second meeting you seem to be moving in the direction of restoring the solvency of the fund by simply transferring to the Exchequer the margin by which its income fails to cover its expenditure.

My position is this there can be no question of the Exchequer assuming an increased liability for Unemployment Insurance". (2)

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(1) CAB 21 325.

(2) ibid.

The Minister replied quite forthrightly that the major cause of worry was not the abuses but the high unemployment and that their problem was what action was possible, given party policy, that no part of the cost could be thrown on the rates and that the contributions could not be raised?

On 10th October, Margaret Bondfield reported that, although she could not be precise about the suggestions the committee would ultimately make, she believed that there was an agreement about the need for a review of the able-bodied unemployed which probably should be by a Royal Commission<sup>(1)</sup>. On other problems, she reported there was no agreement. Progress was rather slower than was hoped for given the position of the fund. The borrowing powers would have to be increased beyond the existing limit of £60 million which would be exceeded in January. This was the only policy available unless contributions were increased or benefits reduced. At this point she examined tentatively, in a footnote, the possibilities involved in such changes and the justification for them. The reduction of benefit was the most direct and probably most effective way of reducing expenditure. Justification of the reduction could be made in terms of the financial position of the fund and the country as well as by reference to the increasing real value of benefits since 1924. A reduction of 2/- would result in a saving of £9 million per annum.

"Any reduction would, of course, be criticised as reactionary and the political difficulties are formidable unless there can be agreement between the three parties". (2)

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(1) CAB 24 216. CP 318 (30)

(2) ibid.

It could be argued, she continued, that when the revenue of the fund was so much smaller than the expenditure steps ought to be taken to increase the revenue of the fund i.e. increasing contributions. This had been done in Germany where it had been accepted as the natural policy to adopt. A 3d increase would increase the revenue by £16½ million. The argument against an increased contributions was based on the fear of imposing additional burden upon industry. Even a 3d increase in the employer's contribution would probably increase costs of production by only .25% and would be no more likely to cause disturbance to industry than the existing insolvency of the fund.

On the transitional benefits the advisory committee had started with a predisposition towards a compromise between the unemployment insurance scheme and the public authorities schemes upon which many able-bodied men, similar in many respects to those claiming transitional benefits, had to rely <sup>(1)</sup>. Such a scheme would have gone some way towards making unemployment a national charge, a policy measure which had been promised in 'Labour and the Nation' and in the 'Yellow Book' and which had been referred to in many speeches by the Liberals. Some problems associated with the formulation of such a scheme <sup>(2)</sup> had been reviewed and after consideration of the problems raised there had not been much support for an intermediate measure. Failing such a scheme the remaining alternative was to transfer to the Public Assistance Authority the burden of those

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(1) The Minister of Health had constantly referred to the injustice of this distinction.

(2) Similar proposals had been considered twelve months before. See Chapter 2, pp. 190-198.

unemployed who at present received payments under the transitional arrangements. The Public Assistance Authorities were unlikely to be able to take on such a commitment. She suggested that transitional short term and seasonal payments should be made discretionary and that married women's rights could be limited by legislation so that benefit should not be paid until the women had worked a certain minimum number of weeks after marriage: presumably showing their commitment to the labour force.

The Minister's proposals were discussed by the Cabinet <sup>(1)</sup>. The Chancellor of Exchequer pointed out that none of the recommendations made any appreciable reduction in the cost of the insurance fund and he stressed the need to avoid any increase in expenditure. The matter was referred to the Panel of Ministers. The Prime Minister expressed the hope that they would deal 'boldly' with the abuses as neither Parliament nor public opinion was likely to be satisfied merely with the appointment of a Royal Commission.

#### Panel of Ministers

The Panel of Ministers (excluding officials because it was a matter of policy) discussed ways of securing the financial position of the scheme <sup>(2)</sup>. They considered reducing benefits, increasing contribution and making transitional benefits discretionary. To remedy the 'abuses' seasonal workers were to be paid only if payment was sanctioned by a Court of Referees; payments to short time workers were to be made only if

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(1) CAB 23 65 61 (30).

(2) CAB 27 438; UP (11) 30.

there was hardship; and benefits to married women were to be paid only if such a woman was customarily employed. The possibility of voluntary work by those drawing transitional benefits was discussed but reports of earlier schemes in South Wales indicated that they were not very successful as they tended to cause union problems. After much debate it was thought neither desirable or practicable to transfer to the Minister discretionary powers. A Royal Commission was preferred to ministerial discretion and was set up to consider: the scope and the provision of the scheme; and the basis upon which it could be made self-supporting. They recommended that the Commission should be asked to produce interim reports on transitional benefits and abuses.

#### Royal Commission

At the Cabinet meeting which was concerned with the drafting of the King's Speech it was agreed that a Royal Commission should be set up. The announcement of the Royal Commission met with great anger from the opposition members of the all party advisory committee. At their fifth meeting, Betterton, Elliot and Foot protested against the action of the Government in announcing their decision to set up the Commission before the advisers had arrived at any conclusions. In their memorandum, Brown and Foot said,

"it is apparent that the policy of the Government had already been determined and therefore further consultation was made unnecessary ..... We have devoted three months to the anxious consideration of the duty committed to us, and we believe there would be serious resentment if we did nothing more than suggest another inquiry involving indefinite delay. We have considered the suggestions as to the appointment of a

Royal Commission and in our opinion this proposal is open to grave objection.  
 ..... Inter-departmental Committee would be a better way of sorting out these technical details" (1)

Betterton complained of the treatment in the House of Commons where a very acrimonious debate on the issue was taking place. Oliver Stanley took up the attack:

"The Rt. Hon. Lady thought all Summer but she did nothing. Then she got honorary members of this side of the house to think with her. They gave up their holidays, they sacrificed their health and they all sat down and thought with the Right Hon. Lady. Now more people are to be summoned from all over the country to give up their business in order to think again. I am all in favour of thinking about this matter but when is somebody going to do something?" (2)

Members of Parliament were not the only ones to be rather suspicious of the proposal of the Royal Commission: the Economic Advisory Council's Sub-committee considering unemployment insurance was just completing its report after Henderson's visit to Germany (3). They were not in favour of a Royal Commission because of the delays but welcomed with a certain academic relish the depth of the study which it would facilitate. Their own suggestions for changes in the insurance scheme included the separation of the finance of that part of the scheme which could be properly treated as insurance from that which could not. It was also

(1) CAB 21, 325; CP 374 (30).

(2) Hansard. November 1930. Vol. 244, col. 83.

(3) CAB 24 217; CP 426 (30).

recommended that the ratio of days benefit to contribution should be restored and that after the expiry of the insurance rights, benefits should be related to the applicant's ability to establish his claim on the basis of need and that where such a claim was granted it should be associated, where possible with work or training. The granting of benefits to workers working on a short-time basis and other matters open to abuse should be dealt with by the State Commission by means of orders and regulations applying to particular classes of workers.

The T.U.C. were not at all co-operative about the Royal Commission; they were unwilling to suggest members to sit on the Commission and said that if the Government wished to consult them 'they should do so in writing'!<sup>(1)</sup> Skidelsky reports fully on the row with the T.U.C. and MacDonald's attempt to smooth things over. His interpretation of the Royal commission as an instrument for stalling on insurance matters does not fit in too well with the anxious, if rather frenetic, attempts to find a solution in the period leading up to the decision to call a Royal Commission. The alternatives were means tests, higher contributions or lower benefits, or the acceptance that during periods of unusually high unemployment the fund was unlikely to be in balance. These were not palatable to Ministers. In spite of the criticism the terms of reference were set out in November and members were appointed. It is difficult to see what the Government can have expected the Commission to provide other than some higher sanction for unpleasant policies. The available

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(1) CAB 23 65, 67 (30)

(2) Skidelsky (1967) op.cit.

alternatives had been well spelt out for them and it was unlikely that the Royal Commission would offer much that was new.

### Regional Problems

The situation was now acute: unemployment was steadily rising and its regional and industrial distribution was such as to cause distress in many areas. In the summer of 1930, unemployment in the North West was 24.2%; in the North East it was 19.2%; in Scotland 17.2% and in Wales 25.8%. In the cotton industry it was about 39.1%; 29% in iron and steel; 28% in shipbuilding; 22.2% in mining and 22% in wool and other textiles. See Table 13 above.

The Prime Minister received a petition from the Pontypridd Trades Council and from the Taffeswell and District Miners' Lodge (unemployed) appealing for help and the reopening of the Lord Mayor's Fund in the coming winter <sup>(1)</sup>. The 'Necessitous Areas' were having great difficulty in even maintaining services. Rhondda was reported to have a 23/- in the £ rate; large uncollected rates; a heavy bank overdraft and no credit upon which to raise further loans. Far from such areas being able to provide relief works there was serious difficulty in their being able to provide essential services. Previously they had been helped by the Lord Mayor's Fund but there was little prospect of that continuing. The Government were reticent about giving state aid, for fear that other areas would exert pressure to be included, although they had made £.5 million available to the depressed areas in the Summer.

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(1) CAB 27 439; UP 30 (24).

(2) CAB 23 65 9 (31); CP 1 (31).

The Prime Minister raised the problem of the depressed areas at the Panel of Ministers' meeting and the secretariate produced a note on reported problems of the regions. The Minister of Health reported that the conditions were less acute than had been expected, were mainly financial and could be eased if certain services were transferred to the counties. The Minister of Labour found it difficult to estimate the size and distribution of the labour force which would eventually be absorbed in these areas and was still pressing for the 'recognition of the necessity of finding work elsewhere'. The President of the Board of Trade pointed out that the fate of the depressed areas was bound up with the future of the heavy industries and that although the development of economically sound smaller industry would be an advantage, he believed that manufacturers preferred to be nearer to a large market where they had access to a large private capital market and to a flexible labour force. Re-location he considered would be difficult: if incentives worked they were likely to be fundamentally uneconomic! (1)

The transfer policy had been abandoned in the early Summer. With the abandonment of this attempt to solve the regional problems by moving the workers the way was now clear to consider the alternative policy of moving industry to the depressed areas. Only very tentative steps had previously been made in this direction by Horace Wilson who under the auspices of the Interdepartmental Committee on Unemployment had consulted various business interests.

There were now several moves afoot to do something more constructive. Attlee in his memorandum, written soon after he took over the office of the Chancellor of the Duchy of Lancaster from Mosley, drew up a plan for reconstruction of industry. In a memorandum entitled,

The Problems of British Industry, Attlee said,

"The industrial transformation has its geographical counterpart, which is visible to the dullest observer. New industry is streaming into the South East to the big cities like Birmingham and Manchester, and away from the industrialised countryside of Lancashire and Durham but par excellence the tide is flowing to Greater London. We are allowing to go derelict some of the best-equipped industrial areas in the world from the point of view of fuel, power, transport and labour supply. At the same time London and many other areas are being allowed to grow at an unprecedented pace". (1)

The Prime Minister raised the matter of the regional effects of rationalisation at the last meeting of the Economic Advisory Council for 1930.

"If rationalisation was to proceed on purely economic lines the country would be faced with the problem of a water-logged population concentrated in particular areas. It was essential that rationalisation should be carried out not merely from the point of view of the employing company but with regard to the interests of the work people and to the general interests of the state ....." (2).

In spite of the gloomy prognosis of the President of the Board of Trade a fundamental issue had been raised and the way was clear for the change in regional policy towards the concept of taking 'work to the workers'

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(1) CAB 24 214; CP 283 (30).

(2) CAB 58 2 10th meeting, 11 December 1920.

which had originally motivated the policy of the unemployment Grants Committee which attempted to stimulate public works in depressed regions<sup>(1)</sup>. The Liberals laid great stress on regional policy in their policy document and a joint committee was set up to study the proposals<sup>(2)</sup>.

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(1) See St. Davids' Report, CAB 27 396; DU 29 (2). In the early twenties the committee had considered works which were accelerated in areas in which unemployment was over 10%. See Hancock (1972) op.cit.

(2) PREM 1 1/109

CHAPTER FIVESOME SACRED COWS

January to August 1931

Introduction

Snowden's statement on economic prospects set the scene for 1931:

"The budget prospect for 1931 is a grim one .... with no sign of lifting of the world economic crisis the financial prospect constantly and steadily deteriorates ...." (1)

Prospects were bleak. The report on the State of Trade for January showed exports and imports had fallen 22% and 14.4% respectively, in value terms, during the month (2). Gold continued to flow to France although it was hoped that the reduced rates there and in the United States would help. Clearly the cheap money policy was in jeopardy (3). To contribute to the gloom, the year began with strikes in the coal and cotton industries.

In December, the number unemployed had passed the two-and-a-half million level representing 19.9% of the insured population. It rose to 20% in the New Year and remained above 20% until June 1933. The unemployment rates during the remaining months of the Labour administration are shown in

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(1) CAB 24 218; CP 3(31)

(2) CAB 24 218; CP 12(31)

(3) ibid.  
Williams (1963) op.cit.; Howson (1975) op.cit. for discussion of the Bank of England's management of the flow of funds during this period.

Table 15, below:

Table 15

% Unemployment in the United Kingdom

	<u>1931</u>	
<u>Month</u>		<u>% U</u>
January		21.1
February		21.3
March		21.0
April		20.4
May		20.3
June		21.2
July		21.9
August		21.9

Source: British Labour Statistics  
Historical Abstract 1886-1968.

Table 160

The trade policy was still undecided and the debate continued until the Summer when the free traders prevented the inclusion of protection in the agricultural policy.

Pressure built up in Parliament and in the country for action. Lloyd George's speech in the debate on the vote of censure in February expressed the feeling of the period:-

"It is in order to get something done that we propose this motion. Why have we introduced it? Let me say at once that it is not in order to push a quarrel with the Government. I have said

so before and I say so now. It is in order to have the opportunity of securing a Parliamentary discussion which will encourage, stimulate and stir the Government and, above all, give them the assurance, that, if they proceed boldly, they have the support of the House of Commons behind them ..." (1).

Budgetary pressures caused a further crisis in the management of the unemployment insurance fund and threatened the public works programme. During the heated parliamentary debates of February, the Government capitulated to the Liberals' demands for an inquiry into public expenditure and so forged the weapon which was to be used against the Government and the country in the Summer. Even the modest measures, which had been taken to ease the employment situation and the lot of the unemployed, were gradually strangled in an attempt to maintain the more sacred objectives of a balanced budget, free trade and the gold standard. For the first half of 1931 the Government floundered in the logical impasse which they had forced upon themselves.

The frustration and stress of this unhappy situation probably contributed to the deaths and illness of members of the administration in the Spring. (2) ?  
 Meanwhile external events indicated that little help could be expected from a recovery in the wider world. The international monetary system ground on relentlessly towards the crisis. Let us trace the policies of the Government through the last painful months of the Labour administration.

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(1) Hansard, 12th February 1931. Vol. 248, col. 728.

(2) Skidelsky (1967) op cit.

Public Works

The public works policy was generally accepted by the Labour administration as a way of reducing unemployment during periods of depression by utilizing the excess capacity in the economy. It had been a central phalanx of their policy but had been unsuccessful. The Government had not initiated schemes, relying instead upon the incentive effect of grants to encourage the executive agencies to put forward schemes. This method had been chosen because of the belief in the importance of a strong, devolved administration. As we have seen in the previous chapters there were also technical and administrative obstacles to the implementation of the programmes. The budgetary constraints did not appear important in the first instance in spite of Mosley's argument that the provision of a larger sum would be psychologically important, see Chapter Three above p. 247.

The Government had made much of the fact that lack of funds was not impeding the programme of works but Lloyd George made a rather telling comment on the matter in the February debate:

"I am quite willing to accept what has been said by the Rt. Hon. Gentleman the Chancellor of the Exchequer that no undertaking which has been presented up to the present has been met by any refusal on his part to find the cash. But I cannot help thinking that, in spite of that, the knowledge that the Chancellor of the Exchequer is not very open to suggestions of this kind may have a restricting influence upon the energies of Ministers. He is a very formidable person to approach when he is in a particular mood, and if I were a young Minister I would think twice before I approached him to ask for £20m for a project

of mine. He would probably say nothing but his look would be enough!" (1)

The spirit to go ahead on a vast programme was lacking and this was not merely the fault of Snowden's budgetary policy. The crucial problem was initiating schemes. The Government were reluctant to intervene directly or to provide adequate incentives to ensure that schemes were undertaken. The criteria which included the demand that the schemes should be productive and represent an acceleration of schemes already planned, were unduly restrictive.

By 1931, Snowden was saying plenty. The financial problems of the Chancellor of the Exchequer were impinging upon the programme. Snowden was tightening up his budgetary policy and was trying to force Morrison to fix time limits on the preferential terms which had been offered in the acceleration drive in the Summer of 1930. (See Chapter Four above for the revised proposals for schemes which were begun immediately.) Snowden wanted to ensure that even schemes previously approved should only qualify for the improved terms if begun before May 31st 1931. In spite of Morrison's arguments, the Panel of Ministers did not countermand Snowden's requirement and in January, Morrison was asking for powers to use his discretion in interpreting the new rule (2). He also pointed out that the terms on which grants were given would be less favourable than those offered by the

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(1) Hansard, February 1931. vol. 256 col. 11243. Janeway op. cit pp 40-52 shows there was great pressure from the civil servants, especially Upcott, upon Snowden to resist schemes.

(2) CAB 27 439; UP 45 (30).

Conservative administration two years before <sup>(1)</sup>. See Chapter Two above. Some discretion was allowed. In May the Chancellor of Exchequer agreed that schemes worth £7½ million (of the £13½ million) should go through. Morrison asked for authority to allow further time to authorities, which had already incurred considerable expense either in surveys or in the purchase of land, to begin work. It was agreed that such schemes should be discussed with the Treasury on their merits <sup>(2)</sup>.

In addition to the Treasury's growing stringency other constraints were being imposed on the schemes by local authorities. Morrison cited a resolution of Somerset County Council which had been published in the Western Morning News to the effect.

"That this Council, in view of the urgent need for the strictest economy in national and local expenditure is of the opinion that all pending public schemes involving additional outlay be, whenever possible, held in abeyance until a new improved financial position warrants their being put into operation and definite instructions be given to the Accounts and Estimates sub-committee to scrutinize with the utmost vigilance all proposed expenditure of the council in every department so as to secure drastic and immediate reductions". (3)

By the Summer the programme was about £100 million above that of 1930 but reversals were about to occur as part of the Economy Bill presented in

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(1) CAB 27 438; UP 24th Meeting 6th March.

(2) CAB 27 438; UP 27th Meeting 20th May; CAB 27 439; UP 78 (30).

(3) CAB 27 439, UP 45 (30).

September. The largest increases had occurred in the approval of schemes sanctioned under the Development Act, Part II administered by the U.G.C.; though the trunk road scheme had doubled and the five-year programme had increased three-fold during the period. The progress of the approval of the schemes over the period can be seen in Table 15.

### Regional and Industrial Policy

As we saw in Chapter Four above, Attlee and Henderson had tried to move public works and reconstruction policies towards an integrated regional and industrial policy. Progress in this direction was being made. Graham updated his previous reports on the progress of local initiatives in the North West and North East <sup>(1)</sup>. The matter was also discussed by the Panel of Ministers <sup>(2)</sup> and the E.A.C. <sup>(3)</sup> and preparations were made for the setting up of a committee to advise on the development of policy.

At the Panel of Ministers' meeting early in the New Year, the railway managers were asked what contribution they could make to the revival of the regions. It was thought that although a 40% reduction for cotton and a 30% reduction for rail freight had been successful in getting traffic back from the roads, it had not had much impact on production in Lancashire.

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(1) CAB 27 439; UP 47 (30).

(2) CAB 27 438 24th Meeting, March 6th 1931.

(3) CAB 58 2, 11th Meeting, 12th February 1931.  
EAC 5 (5); EAC H136, 137, 138.

Table 16

Progress of Approval of Unemployment Relief Schemes

	£m										
	Nov.	Feb.	June	Nov.	Jan.	Feb.	March	April	May	June	July
	<u>1929</u>	<u>1930</u>	<u>1930</u>	<u>1930</u>	<u>1931</u>	<u>1931</u>	<u>1931</u>	<u>1931</u>	<u>1931</u>	<u>1931</u>	<u>1931</u>
Dev. Act P.I	7.6	13.1	26.1	32.2	34.2	34.7	34.7	34.8	35.3	35.3	35.4
Dev. Act Pt II (UGC)	12.5	26.2	38.5	49.6	52.8	56.1	60.3	69.0	70.4	72.9	75.4
Road Schemes											
Trunk	9.0	10.0	13.7	16.9	17.0	17.5	17.6	18.1	18.4	18.5	18.4
5-year programme	15.3	14.0	23.1	36.3	36.9	37.6	38.5	37.9	41.5	42.5	43.4
Colonial Dev.	3.7	5.6	6.6	8.7	8.8	8.9	9.0	9.2	8.9	8.9	9.0
P.O. Dev.		1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Misc.		.2	.6	2.1	2.1	2.2	2.2	2.3	2.5	2.5	2.5
<b>TOTAL</b>	<b>48.1</b>	<b>70.6</b>	<b>110.1</b>	<b>147.3</b>	<b>153.3</b>	<b>158.5</b>	<b>163.8</b>	<b>172.3</b>	<b>178.5</b>	<b>182.1</b>	<b>185.6</b>

Source: CAB 27 439; UP (30).

The Managers felt they could/<sup>do</sup>no more unless the Government could provide capital (1). This indicates that there was a certain responsiveness to incentives which could have been utilized to elicit more attractive proposals from the public utility companies.

The Prime Minister reported the results of this meeting to the E.A.C in February but offered no incentives to the railway companies (2). The Council discussed progress of the policy. Two local planning committees in Lancashire and Tyneside had been established and a regional survey had been initiated. A survey on the location of industry had indicated that industry was not moving out of the derelict areas but dying out. Attlee believed that location could be controlled given national assistance; others preferred to rely upon local initiatives.

Attlee wanted a much more drastic interventionist strategy (3). He proposed a public corporation to direct new industry into localities where it was needed and at the same time obtain a means of control and direction for the state. A start should be made by bringing under public control and ownership new and expanding industries. He protested against the idea of a further committee for the first step he considered should be a decision by Government on policy. He/<sup>also</sup>protested about the membership of the proposed committee,

"It was no use setting up a committee of persons whose attitude of mind was opposed to the principle of public control of industry and it was little use for the committee to consist partly of such people and partly of those who sympathised with the principle". (4)

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(1) CAB 27 438, 20th Meeting, 29th January 1931; CAB 27 439; UP 42 (30).

(2) CAB 58 2, 11th Meeting, 12th February 1931.

(3) CAB 27 439; UP 66 (30).

(4) ibid.

The matter was discussed in the Panel of Ministers (1). Both the Prime Minister and Thomas took the view that there was a need for the advice of businessmen, Attlee, whilst conceding that on practical details such advice might not be necessary, considered the issue a matter of policy and as such

"the Government is perfectly well able to come to a decision without lengthy discussions". (2)

Attlee had indicated one of the major problems in the MacDonald administrations use of advisors. There was an extensive use of external advisors to whom major policy issues were referred for advice in the hope that rational discussion amongst persons of wide experience and differing persuasions would lead to the emergence of the distilled wisdom in the form of a consensus decision. Instead, there was conflicting advice and excessive delays in policy making.

Meanwhile the committee on the potential of town planning, set up to answer the criticisms Lloyd George made in his statements in November, (see Chapter Four above), reported that not much could be achieved in this field. Even Lloyd George's nominees to the Committee agreed with Greenwood, that little could be done. It was also agreed that a new executive authority was not needed as financial assistance was more important (3). Later in

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(1) CAB 27 438 24th Meeting, 6th March 1931; CAB 27 439; UP 58, 65, 66, 67 (30).

(2) CAB 27 439; UP 66 (30).

(3) CAB 24 220; CP 83 (31).

April snags were also found in the Liberals' suggestion for rural housing schemes (1).

Other big schemes which were afoot were to electrify the railways and the homogenization of oil from coal. These two schemes were the great white hopes: the North Sea oil of the thirties. A report giving the details of the potential of the railway schemes was produced. This report recommended a comprehensive plan to reap the full advantage of the scheme. The work should be undertaken over a period of 15 - 20 years. The new capital required was estimated to be £261 million. After meeting interest charges on the new capital, the yield would be 2%. This was thought to be too narrow a margin given the risks involved but it was pointed out that this took into account only the direct benefits and ignored

"a number of substantial advantages including speed, comfort, amenity and improved service, the value of which cannot be expressed in money". (2)

What a challenge for contemporary cost-benefit analysts. The plan to research further into the possibilities of producing oil from coal was however agreed.

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(1) CAB 24 221 CP 104 (31).

(2) CAB 24 220; CP 82 (31).

Reconstruction

The other aspect of policy was tied up with reorganization of industry. This policy was proceeding painfully slowly. The committee to consider and report upon the present conditions and prospects of the iron and steel industry was set up on 31st July 1929. It reported on 30th May 1930<sup>(1)</sup>. The report mentioned the increase in imports amounting to one million tons or 50% between 1910 - 1913 and 1929. At the same time, exports had fallen by 300,000 tons. Britain had failed to retain its share in world trade in spite of the increased capacity during the war. Profits had been low and often no adequate provision had been made for depreciation. During the same period continental industries had flourished.

British plants were small and there was a lack of co-operative machinery which could ensure plants were run at full capacity and reduced costs. Regional amalgamations to ensure economies of scale and plants of the highest technical efficiency were recommended. Provision of the necessary capital had been promised by Norman providing schemes were satisfactory. Only after such reorganization had taken place in the most efficient way should resort be made to safeguarding. The Government were advised to carry out the necessary changes as quickly as possible.

A conference was convened to recommend how best to implement the proposals <sup>(2)</sup>. The conference immediately asked for protection but was rebuffed by MacDonald who threatened to replace the committee. The rumblings continued

(1) CAB 58 127; CAB 24 212 CP 189 (30).

(2) CAB 24 214 CP 265 (30); EAC 58 2 5th Meeting, 19 June; EAC H88.

and pressure for protection mounted as conditions in the industry deteriorated. The issue was discussed at the E.A.C. Balfour and Keynes were in favour of a tariff and MacDonald hinted at compulsory powers. Bruce Gardner <sup>(1)</sup> later produced a confidential report (in February 1931) drawing attention to the deteriorating situation; exports had fallen 25.8% since 1929 whilst imports had remained unchanged and production had fallen 24.5%. He produced a scheme for reorganization based on steel producing combines. He continued to negotiate with the leaders of industries about the implementation of the scheme, of which there was little criticism <sup>(2)</sup>. Conditions in the industry got worse and unemployment rose. Reports throughout the Winter told of the growing problem. In February it was reported that 20 out of 40 blast furnaces in South Wales were not working and the Middlesborough industry was also in trouble <sup>(3)</sup>.

Protection was again suggested during the debates with the industry on the terms of the Bruce Gardner Report <sup>(4)</sup>. The Prime Minister wanted guarantees on prices for the home market before granting any form of protection and this the industry could not give. The industry also complained that without protection the capital to reconstruct would not be forthcoming. The Government threatened intervention if action was not taken. But at the rumour of nationalization Norman threatened to withdraw his support for reconstruction. The industry continued to seek Government aid:

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- (1) CAB 24 220 CP 55 (31).
  - (2) CAB 24 220 CP 66 (31).
  - (3) CAB 27 440 UP 64, 68 (31).
  - (4) CAB 24 220 CP 55 (31).

"Considerable finance would be needed to put the various schemes into operation and I am informed that in view of the recent history and present position of the trade the leaders of the industry see no likelihood of obtaining the money from the investing public, and if indeed money were advanced by the Government or the country, it could only be on terms that no payment of interest or repayment of capital could be made unless and until profits were earned ..... It is quite clear that in the existing unsecured state of the home market it would be quite impossible to put forward a proposal that would have at least a chance of obtaining from the investing public the money needed for the schemes". (1)

This is illuminating in so far as it relates to the potential availability of credit and the rate of return on ventures: the two blocks which Keynes later used to build up the conditions under which no increase in the supply of money or reduction in wages would be sufficient to re-established full employment.

The cotton scheme was making modest progress . The report on the cotton industry had been available since June 1930. It had recommended improvements in spinning and the formation of larger units and co-operation between different sectors of the industry. Throughout the Autumn, Graham and Clynes had visited Lancashire to take part in discussions to reorganize the industry but little had been achieved. Conditions had deteriorated and the incentives to reorganize were becoming less apparent to the cotton manufacturers but negotiations continued and it was hoped that a plan would be formulated by the end of July (2). The Minister of Labour expressed concern in June about the plight of Lancashire where redundant mills were being closed (3).

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(1) CAB 24 220 CP 90 (31).

(2) CAB 24 221 CP 136 (31).

(3) CAB 23 67, 30th Meeting, 3rd June 1931.

Trade

The protection issue was no nearer resolution. Agricultural policy was held up by the debate. A final decision was, by one ruse after another, stalled until the early Summer when it was finally rejected. Keynes made public his pronouncements on free trade in the Spring of 1931. Harrod recalls that he found the move, a move towards something less good in itself for the sake of temporary expediency, but as he says he had not had the advantage of:-

"seeing all the other exits from our present woeful prison bolted and barred by the inexorable logic of Hopkins and other experts". (1)

It was not only Hopkins and his colleagues who were to be blamed for 'bolting and barring' all viable policy routes, but the accepted economic philosophy of the administration.

Economists were not impressed by Keynes' advocacy of protection although Bellerby pointed out that Keynes was concerned with the present dilemma not the elegant equilibrium model which his academic friends were playing with in their ivory towers. Keynes was angry and impatient with them:

"Is it the fault of the odium theologium attaching to Free Trade? Is it that Economics is a queer subject or in a queer state? Whatever may be the reason, new patterns of thought have no appeal to the fundamental of Free Trade. They have been forcing me to chew over a lot of stale mutton, dragging me along a route I have known all

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(1) R.F. Harrod, Life of John Maynard Keynes, Macmillan 1951. p428

about as long as I have known anything, which cannot as I have discovered by many attempts lead one to a solution of our present difficulty - a peregrination of catacombs with a guttering candle". (1)

He tried to tempt Snowden with his view but his memorandum was returned unread by Snowden, and summarily dismissed by Mrs Snowden:

"we are as strongly convinced that it is wrong as you are that it is right". (2)

### Agricultural Policy

The Government were still under pressure to state their agricultural policy upon which Snowden had given certain assurances during the debates of the previous Summer (3). The Agricultural Development Committee had prepared a quota scheme but could not reach agreement (4). The majority recommended that a bill should be presented to give effect to the scheme but the First Lord of the Admiralty and the Financial Secretary to the Treasury, the dissenting members of the committee, considered that the advantages claimed for the scheme were not sufficient to outweigh the objections and condemned the scheme on political grounds as it involved food taxes and the abandonment of free trade. The Chancellor of the Exchequer, of course, was against the scheme and had sent a note from his sick bed! His health delayed the matter until April when he returned to the Cabinet. The Minister of Agriculture stressed the importance

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(1) ibid. p.431

(2) R. Skidelsky (1967) op.cit., p. 327.

(3) See Chapter Four above

(4) CAB 23 66, 16th Meeting, 4th March 1931; CP 52 (31).

of taking into account the dire state of the cereal growing areas (1). He stated that no new principle was involved as the coal and sugar beet policies raised the price in order to assist the industries. The free traders argued that there would be a clamouring for protection from other agricultural and industrial interests if the scheme went ahead. The adjustment problem was also raised: it was thought,

"wrong to give fictitious assistance to cereals, which were already greatly over produced in the World. Fair wages would be achieved more successfully by the adaptation of agriculture to economic conditions". (2)

Such touching faith in the ability of the market to adjust to structural imbalances is remarkable from a socialist administration.

The problem of equity for Scottish farmers who were not so heavily involved in wheat growing was also mentioned but was dismissed as <sup>a</sup> solution by the Secretary of State for Scotland. The political attractiveness of the scheme was also considered as it was thought that taxation on food would be a major issue in the next election. Further meetings were held and it was felt that no decision could be reached because of the 'close balance of argument and opinion' in the Cabinet. The Prime Minister even quoted from Labour and the Nation to clarify the position on trade and eventually the opinions of the agricultural Labour M.P.'s were sought. The M.P.'s were similarly divided but only two out of nine were against the scheme.

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- (1) CAB 23 66, 22nd Meeting, 15th April 1931. Agricultural workers were not included in the insurance schemes and the depression fell heavily upon them. The agricultural wage was about half the national average.
- (2) ibid. a good illustration of the structuralist's view that readjustment provided the answers and that temporary alleviation would merely delay the process.

Those in favour of the scheme considered that Trade Union policy was founded on the principle that a living wage should be a first charge upon industry. In their opinion socialists were confusing free trade with cut throat competition. They recommended that the scheme should be accompanied by the formation of a wages board to ensure that reasonable wages were paid.

The movement of socialists against protection was not confined to Britain. In Germany a 'rye' scheme had had the effect of pleasing no one and had united the socialists and communists in their opposition to tariffs on food (1). This debate was eventually overtaken by the Conservatives' next step in the direction of protection - the announcement of a plan for a wheat quota and a fixed price. In face of this proposal the Government's proposed policy, which passed on the increase in price, was thought unlikely to be attractive. The Government would not have been able to get support for the scheme even if it was presented, so the policy was abandoned. The only strategy adopted was on the lines of Snowden's suggestion that agriculture should be developed in areas which were more likely to be self-supporting and which might reduce imports (2).

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(1) CAB 24. 221; CP 133 (31).

(2) Snowden (1934) op.cit. The Snowdens were actively promoting a joint campaign by the Liberal and the Labour party for free trade to be launched in the Autumn. Snowden gleefully suggested that Thomas should be the spokesman for the Labour Party knowing that Thomas had moved a long way towards protection by this time.

In spite of his fierce opposition to the plan, Snowden was present, as Lord Privy Seal, at the Cabinet meeting in November which approved what was substantially the wheat quota scheme and a policy to restrict the imports of other agricultural produce!

In January Snowden and the Samuelite Liberals were threatening to break up the National Government on the trade issue but were eventually persuaded to remain in the Government by the relaxation of the Cabinet rule of collective responsibility which allowed them to speak and vote against protection. D. Marquand, (1977) MacDonald Jonathan Cape, London. p. 713. Snowden (1934) op.cit. vol. 1011.

### Iron and Steel

The iron and steel industry and the cotton industry were anxious to achieve protection. The issue of protection for the iron and steel industry was discussed in a meeting of the E.A.C. in the Spring. It had also been an issue raised with the Conservative Government with respect to safeguarding. Bevin favoured protection if accompanied by nationalization and Keynes was also sympathetic to the idea. Stamp, however, considered that difficulties would remain even after the adoption of a tariff and reorganization for he considered efficiency wages to be as much as 40% below competitors (1). As we saw in earlier chapters, the small scale operations of the iron and steel industry were preventing their recouping the economies of scale which were being exploited by American and German industries.

### Dumping

The issue of dumping, especially from Russia, was raised by many industries. It was examined by a committee set up by the Secretary of State for Foreign Affairs in February. Nothing was done about the matter however, until the National Government introduced its protectionary measures.

### Tariff Truce and Customs Union

Whilst the movement for protection continued, the President of the Board of Trade was persevering with the remnants of his Tariff Truce. Only seven European countries were now involved and they were not willing to make any moves to remove tariffs and the operation appeared to be merely a holding one. The moves were probably counter to all European activities of the period which as Boyce (2) points out were towards regional grouping of which

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(1) E.A.C. 58 2, 12th Meeting, 12th March, 1931.

(2) Boyce (1975) op.cit.

the proposed German and Austrian scheme for a customs union was but one. This scheme caused a great deal of consternation and a great debate as to its legality under the post-war agreements made in 1922.

Henderson, as Secretary of State for Foreign Affairs, was dealing with the international problems which were associated with the suggestion. France was bitterly opposed to the proposal but Henderson recognised the dangers in the situation and felt that none of the parties should be left to feel grieved by the outcome. A particular worry was that failure might mean the collapse of the German Government which he felt might bring about a revival of Hitlerism. One of his suggestions was that other states should join the union in the hope that it would 'flounder under its weight'. More constructively he suggested that European Governments should elaborate some economic solutions which both France and Germany would find acceptable and offered himself as 'honest broker' between France and Germany. With Graham he tried to arrange a reduction in tariffs of protectionist countries (and a stand still on British tariffs for three years) to allow the Austrians and the Germans access to markets (1).

#### Revenue Tariff

The revenue tariff was discussed in the E.A.C. on March 12 as part of the discussion of the Economists' Report. Keynes introduced the discussion of the relevant sections of the report and concluded that:-

"a revenue tariff was an essential link with the recommendations contained in the earlier part of the report. If any of the bolder schemes there discussed were adopted, either development plans or steps to secure international financial co-operation, it was certain

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(1) CAB 24 221; CP 115 (31).

that their initial effect upon either the budget or the balance of trade or both, would be adverse. It would be difficult to proceed with any such plans unless the budget was not only balanced but had such a margin that causes for an immediate anxiety were allayed". (1)

Keynes stressed the importance of being seen to be doing something. The Government should he said, secure the budgetary position and to do so quickly; and this could only be done by <sup>a</sup> revenue tariff! But in spite of Keynes' valiant attempts to spur the Government on, nothing came of the matter until it was discussed again in the crisis debates.

#### Monetary and Fiscal Policy

Snowden had issued dire warnings about the problems he faced in the coming year in his January memorandum. This contained a detailed rationale of the desirability of balancing the budget and on the importance of making provision for the sinking fund. Any curtailment of such provision he considered would so upset the credit market that the advantages would be out-weighed. The cheap money policy would be put in jeopardy.

"This country cannot afford a budget with any sort of deficit ...." There were, "disquieting indications that the national finances and especially the continuously increasing load of debt upon the Unemployment Insurance Fund are being watched abroad .... There are already signs that London is losing confidence of foreign markets and it is believed that there is a steady trickle of money being transferred from this country abroad ..... Any flight from the pound would be fraught with the most disastrous consequences not merely to the money market but to the whole economic organization of the country". (2)

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(1) CAB 58 2, 12th Meeting 1931. See also Janeway (1971) op.cit.; Snowden on revenue tariff. Note Keynes's change of stance since his advocacy of the Liberal schemes, Chapter One, p.85.

(2) CAB 24 219; CP 3 (31).

This statement indicates the importance to Snowden of the exchange parity and also the recognition of the long term problem of international liquidity. Such uncertainties, it was thought, would make international co-operation impossible and thus impede any progress towards the rationalization of the use of the gold available.

Meanwhile Lloyd George was offering some advice to the Chancellor on monetary affairs:

"I urge him again not to be frightened of the City of London. Since the war the City of London has been invariably wrong in advising the Government. . . . . These men who have mishandled this monetary question not merely advise us what to do, but establish a veto upon every proposal which is made for National Development. We got rid of the veto of the Lords. Take care that you do not establish a more sordid one". (1)

In the event his April budget did not prove to be so fierce as was expected for he used the pending Report of the May Committee (into which the Government had allowed itself to be pressurised in order to facilitate the acceptance of the Unemployment Insurance Bill in February) as an excuse for postponing action:

"Criticism missed altogether the motive I had in producing what I admitted was a stop-gap Budget. It would have been quite impossible at that time to get the support of the House of Commons to drastic reductions of expenditure and to the impositions of heavy additional taxation. The question of National Expenditure had been remitted to the May Committee which was then at work, and I had no alternative but to await the Report of that Committee, when I should

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(1) Hansard, 12th February 1931. vol. 248, col. 731.

have its authority for producing reductions in expenditure. I anticipated then that when the Report of this Economy Committee was made a second Budget in the Autumn would become 'necessary'. (1)

It is unlikely that by taking further steps in April he could have stopped the crisis but may be he could have done something to lessen the impact of the Reports. But Snowden's policy portfolio was empty. He had done all that could have been done by bullying his colleagues to reduce expenditure and needed the support of the Reports before he could make further cuts. He considered tax increases were likely to damp down any possibility of a trade revival and as a free trader would take no comfort from protection.

The Bank of England policy appears to have the same characteristics of internationalism as the British free trade policy. For the evidence discussed by Williams suggests that the Bank was providing short term facilities at a time when foreigners were disinvesting in sterling and when it was itself unable to 'borrow in order to lend', which was its usual strategy when attempting to finance a depression. This time traditional sources of funds from creditor countries were not forthcoming and they were, largely for internal banking reasons, actually withdrawing funds from London. The Bank of England did nothing to protect itself and in the event the task of financing the depression as well as the financing of the liquidity of foreign owned assets proved too difficult (2). The Bank over

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(1) Snowden (1934) op.cit. p.904.

(2) Williams (1963) op.cit. p.526.

estimated the confidence in London.

The international monetary situation was being discussed at the E.A.C. meeting in April <sup>(1)</sup> when the Prime Minister brought along Lord D'Abernon to give his views on the international monetary situation. He discussed ways in which prices could be raised considering that central banks in harmony could achieve the desired results possibly by the release of gold from France and America. Keynes suggested an alternative method by varying the gold content of the currencies and so doubling reserves. All agreed that co-operation was necessary but again as in the November meeting there is the fear that a call for co-operation would be interpreted as a cry of distress and it was considered that co-operation would arise from other quarters if the slump last<sup>ed</sup> long enough. There appears to be plenty of evidence that the problem of international liquidity was identified as crucial to the containment of the depression. The problem was, given the political uncertainties and tensions, how to achieve action on the matter. Progress in the subsequent forty years gives some measure of the difficulties involved in surmounting the problem <sup>(2)</sup>.

Citrine felt that some risks should be taken in the hope of improving the present situation and Bevin said that he did not regard the gold standard as sacrosanct and wondered whether the inventive genius of financial experts could not find an alternative. Keynes sympathised with Bevin's view but was fearful least the mere discussion of the matter would create a crisis of confidence.

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(1) CAB 58 2 13th Meeting, 16th April 1931.

(2) H.G. Johnson (1975) op.cit. suggests the policy makers failed to recognise this aspect of the problem.

Events did force the issue as the plight of the European banking system became acute <sup>(1)</sup>. By May a run had developed on the Austrian Credit Anstalt. In June there was an Anglo-German discussion at Chequers at which the Germans reported that in spite of the work of the expert Geneva committees they could not await their deliberations before taking advantage of the safeguards embodied in the Young plan <sup>(2)</sup>. When the Governor of the Bank of England arrived at the meeting, he asked immediately if the Germans had come to explain that they could not continue to pay reparations <sup>(3)</sup>. The Germans explained to Norman that they had merely come to explain their difficulties. Norman was rather dismissive of their plight: Germany had come through many crises which would have been fatal to other economies. The problem was South East Europe. He explained that the previous day he had received telephone calls from Basle and Vienna and he regarded the situation in Austria as critical. Unless everybody co-operated there would be a catastrophe which would not be confined to Austria. The only thing was to get Austria out of her present difficulty and do nothing that would disturb confidence further. He did not believe in raising the question of reparations at Geneva, for America would not be ripe for a discussion of reparations for twelve months or more. Vansittart thought twelve months was an optimistic estimate; in view of the imminent elections, it was likely to be two years. Arthur Henderson thought that things were changing rapidly and asked what could be done; must the Government merely

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(1) -I see no evidence for the statement in Bentley B. Gilbert, British Social Policy, 1914-1934, Batsford, London 1970, p. 164, that "until this time (July 15) not only the Government, but almost unbelievably, the City and the Bank of England had taken little notice of the events in Central Europe

(2) CAB 24 222; CP 157 (31).

(3) Norman had been working very hard throughout the spring attempting to bolster up the tottering finances of some of the European states, trying to get support for his scheme for an international loan to help them and generally working for better agreements amongst central banks.

'sit back with folded arms?'<sup>(1)</sup> Norman said that if there were any fresh shocks to confidence the Geneva committees would not have to diagnose the difficulties in Europe but to conduct a post mortem on a corpse.

The Prime Minister asked the Germans to have frank discussions with the French, but learnt that overtures had been rebuffed. The Germans spoke more of their domestic problems including the growing danger from Nazis and Communists.

At this point, the meeting was interrupted dramatically whilst telegrams from the United States were read out. It appeared that the statement made by the Germans the previous day had upset the Americans and was likely to have an unfavourable effect on German credit. The Germans purported not to understand the fuss. They had made similar statements in the Reichstag. Norman was rather brusque with them. He considered that the passage in their statement:

" 'that the economic and financial situation of the Reich inevitably compels the relief of Germany from the intolerable reparations obligations', was pretty emphatic. He understood the Americans and hoped Germany had no other surprises to spring in the next few months". (2)

Whatever the merits of German tactics, the effect was to ensure that the moratorium which only minutes earlier had been forecast as unlikely within the next two years was in fact in operation within a matter of days: on 20th June. In fact the very next Cabinet memorandum referred to the Government's acceptance of the Hoover proposal and hoped it would have effect

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(1) CAB 24 222; CP 157 (31).

(2) ibid.

before 15th July when the next payments were due (1).

### London Meeting

In the event there was considerable delay in reaching agreement on the moratorium largely because of the problems with the French who were the main losers under the scheme. The good effects of the announcement were largely nullified. The pressure passed to Germany and at long last the Prime Minister was able to announce that an International Conference was to be held, for Heads of Governments, with Great Britain as the host nation. The meeting was held in London on July 20. The political difficulties between France and Germany prevented anything positive coming out of the conference and within days the pressure spread to London where there had been considerable disturbance of the rate for some days; and the rise in the Bank Rate to  $4\frac{1}{2}\%$ , by two changes of 1% on 23rd and 30th July, did little to stop the flow. Loans were raised from United States and France to stave off the immediate crisis.

### Unemployment Insurance

Margaret Bondfield had never been able to accept, or persuade her colleagues to accept, the impossibility of ensuring that the insurance fund was actuarially sound during periods of prolonged and unpredictably severe unemployment. Instead, at regular intervals, she was forced to present bills to Parliament asking for her borrowing powers to be raised thus parading the problems of the fund before a hostile Parliament containing those clamouring for more and those clamouring for less to be granted to the unemployed. The political problems from those claiming that increases in contribution could

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(1) CAB 24 220; CP 158 (31).

be borne by industry and those who were unwilling to consider any cut in the benefits made it impossible to use those changes to remedy the plight of the fund and after endless and indecisive discussion the matter was farmed out to a Royal Commission. It was hoped that this Commission would produce a speedy interim report to enable the Minister to 'sugar the pill' of the next request for funds with an announcement of the renewal of the 'abuses'. By February, however, the committee were unable to produce anything like an interim report. The Cabinet Ministers were asked about the policies which they preferred in the event of a crisis in the fund. A memorandum on this issue was produced by the Prime Minister, the Chancellor of Exchequer and the Ministry of Labour. It contained proposals for emergency measures to deal with the unemployment insurance scheme and was circulated at the meeting, but then withdrawn and appears in the confidential annexes of the official records.<sup>(1)</sup> The scheme involved a reduction of benefits of two shillings for a limited period and the removal of benefits for some claimants: married women, casual and seasonal workers. The proposals were not adopted because of the distributional aspects.

"The Cabinet were asked to bear in mind that if the proposals now under consideration were adopted without corresponding financial sacrifices elsewhere, the burden would fall exclusively upon the unemployed, that is to say, the poorest element of population". (2)

Further evidence about the sort of things discussed might be obtained from a memorandum from Lansbury which appears, probably in error, as a Panel of Ministers' memorandum. Lansbury considered that the abuses were small proportionately and that much could be done to ease the situation.

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(1) See Confidential Annexes; CAB 24 218 CP 32 (31).

(2) CAB 23 65 12th Meeting, 5th February 1931; CAB 24 219; CP 31 (31).

He considered that the plans laid out by Attlee should be adopted and that:

"We cannot go to the country or admit in Parliament that we fail both in finding work and also in securing full and adequate maintenance ... I'm compelled to give my view as to whether we should raise contribution or lower benefits. I'm against both, but if I must choose, it would be in favour of an increase in contribution. The amount of benefits at present paid is in most cases miserably small especially in centres where rents are high". (1)

The Cabinet in the end decided that the rehabilitation of the Unemployment Insurance Fund could not be dealt with as an isolated problem and only as a part of a comprehensive policy for spreading the burden of the existing financial difficulties throughout all classes of the community, a task which had to await the Royal Commission report.

#### The Reports

Soon the reports of the Macmillan Committee, Unemployment Insurance Commission and the May Committee, which had been commissioned earlier, were coming home like pigeons to roost. First came the Royal Commission on Unemployment Insurance. On 20<sup>th</sup> May, it was reported to Cabinet that the Report was imminent and a Cabinet Committee consisting of the Secretary of State for War, the Minister of Labour, the Minister of Health, and the Financial Secretary to the Treasury was set up to make a preliminary survey. On 4th June (2) Cabinet was told that the interim report was much more

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(1) CAB 27 440; UP 61 (30).

(2) CAB 23 67, 31st Meeting, 4th June 1931. First Report of the Royal Commission on Unemployment Insurance 1931. CMD 3872.

formidable than had been anticipated and additional members were added to the Committee- Henderson, Thomas and Johnson. The Report suggested cuts in benefits, the shortening of the period of benefits, raising the contributions, the introduction of a means test for beneficiaries of transitional payments, and suggestions for dealing with 'anomalies'.

The political impact of the proposals was such as to raise a great deal of anxiety amongst the supporters of the Labour Government and amongst trade unionists, who organised marches and published a pamphlet entitled, 'Fair Play for the Unemployed'. (1). Attempts elsewhere, in Germany and Australia, to reduce benefits had been associated with political upheavals. The Government trod warily. They made it clear that it was not intended that the major recommendations should be adopted but a difficult problem faced the Government for they needed to raise the borrowing powers of the fund yet again. It was necessary that a Bill should be passed before the recess. As a gesture, the Government produced a Bill to remove the anomalies at the same time as introducing the Bill for more borrowing powers (2).

Miss Bondfield introduced the Bill in a rousing way. The Economist considered Miss Bondfield's speech more satisfying than earlier ones and that the strong words in the passage dealing with married women indicated that she meant business and

"if so some tangible contribution would be made both to the cause of economy and sound finances and also to the cause of public morality!" (3)

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(1) R. Skidelsky (1967) op.cit.

(2) CAB 24 222; CP 153 (31).

(3) The Economist, July 1931.

The greatest hostility, it was reported, came from the New Party and the Labour Party back benchers. Sir Oswald Mosley making his first speech from the opposition side of the House criticised the Government for putting people out of benefit instead of putting them into jobs (1).

The anomalies were to be dealt with largely at the Minister's discretion. Even this caused some dissension especially from the I.L.P. and some modifications were made with regard to part-time workers, but it was reported that there had been some considerable agreement from the General Council on the anomalies issue. The strategy was successful in the short period as the borrowing powers were extended, but the procedure could not have contributed to the confidence amongst others that the Government was willing to take unpopular measures to balance the budget.

#### Macmillan Committee Report

On 1st July it was announced that the Committee on Finance and Industry had reported and arrangements were made for a meeting to discuss the Report (2). Keynesian ideas were generally adopted in the Report with some modifications. Central banks were to concern themselves with the flow of savings and investments at home and abroad and with long term investment. By international co-operation prices should be raised and maintained. Legal requirements for gold reserves should be relaxed and balances with other countries and the B.I.S. should be treated as gold. The majority report said little on public works but the minority report which was signed by Keynes, Bevin and others reported in favour of public works. The Report

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(1) Hansard, July 1931. Vol. 254, cols. 2141/2147.

(2) CAB 236 7 36th Meeting, 1st July; CP 160 (31). (op.cit.) CMD 3897 1931.

according to Harrod was worthy of taking its place in the history of great British Monetary Reports (1). The Economist felt it was unfortunate that the Report should have been published during the week when the pre-occupation was with the monetary crisis and few could absorb it. They did not however regard it as offering any quick remedies. Stamp's review of the Report for the Economic Journal in September said:

"The worst that can be said about the Macmillan report is that in the face of our present tremendous and urgent problems its recommendations for immediate relief seem feeble and nerveless; but no one ought to make this criticism unless he is prepared to assert that there actually exists a field of active possibility which has been unexplored".

Whatever the academic merits of the Report, it was of little practical help to the distracted administration. As advice to a Government in acute crisis it offered little that was new and nothing that was easy to implement. The international conference, which was held in London late in July, (2)

illustrated the problems of achieving any international co-operation at that time. The Report did reveal the volume of London's short-term debts and probably increased doubts about the solvency of the country (3).

#### The May Committee Report

It was the May Committee, which Snowden had set up in March, going back considerably on his views of November about outside interference, which was the greatest blow to financial confidence, and to the administration.

(1) Harrod (1951) op.cit. p 423 (2) See below 395.

(3) Howson (1975) op.cit. <sup>p 75</sup> and Williams (1963) op.cit.

The report pronounced that the borrowing for the Unemployment Insurance Fund and the Road Fund should be regarded as a revenue liability and on this basis, including the usual redemption of debt, the deficit was likely to be £120 million (1). They felt that the electoral programmes of each successive party in power had been prepared with a view to gaining electoral support rather than considering the national interest. Nothing but the strictest regard for economy and efficiency would restore the trade of the country. Thus savage cuts were proposed. Rates of pay for all personnel of the fighting services were to be reduced to the level of 1925; teachers' pay and all Unemployment Insurance Benefits were to be reduced by 20%; and the police pay by 12½%. Cuts were also announced in the expenditure of all departments including the Road Fund and the Unemployment Grants Committee. Given that economies were to be made, the savage cuts across the board paid little heed to priorities and the minority report found this particularly unpleasant quoting the cutting of the plans for improved maternity services for which Greenwood had fought so hard and which were expected to save many lives (2). By highlighting the budget deficit as a threat to the economy they attacked one of the few negative feedbacks in the system which might have helped to contain the employment position. Keynes considered the Report one of the most foolish documents which he had ever read. It was hysterical and inaccurate and as Keynes said:

"gave not a moment's thought to the possible repercussions of the programme either as to the volume of employment or to the receipt of taxation ...." (3)

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(1) ibid. pp 15, 215.

(2) ibid. pp 254-255.

(3) Harrod (1951) op.cit. p 438 See also Keynes's letter to MacDonald in early August on reason for not recalling E.A.C., Howson and Winch (1977). op.cit. pp.88-90.

Snowden announcing the Government's agreement to set up a Committee had said,

"in view of the 72 Committees already appointed by the Government since they came into office they would not oppose the proposal of the Liberal party for a further inquiry into the economy in Government Departments" (1)

Snowden said that:

"I welcomed the agitation for reduction of expenditure because I realized no Government could embark upon a drastic reduction unless it were supported by a strong public opinion". (2)

Yet of all the 72 committees reporting this was the one which the Government could well have done without. The committee was appointed under the chairmanship of Lord May. The membership was not conducive to the formation of policies likely to find sympathy with the Labour Party. It was probably a bad decision to set up the committee and having set it up the terms of reference were too wide for a matter so central to the policy of the administration. Set up on 17th March, the terms of reference were:

"To make recommendation to the Chancellor of the Exchequer of effecting forthwith all possible reductions in the National expenditure on Supply Services having regard especially to the present and prospective position of the Revenue. In so far as questions of policy are involved in the expenditure under discussion they will remain for the exclusive consideration of the Cabinet but it will be open to the Committee to review the expenditure and to indicate the economies which might be effected if particular policies were either adopted, abandoned or modified". (3)

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(1) CAB 23 66, 13th Meeting, 11th February 1931.

(2) Snowden (1934), op.cit.

(3) CAB 24 222; CP 194 (31).

or one might add, on the international monetary system. Its effect was described as cataclysmic. It undermined the attempt at international co-operation in the highly volatile money market. The credit so recently obtained from France and U.S.A. was soon rushing away.

The Economist considered that it overpainted the gloom of the budgetary prospects, but they strongly denied the proposition of the minority report that the redistribution of benefits was likely to reduce purchasing power - it was merely a transfer - thus once again there was a denial of a balanced budget multiplier. <sup>(1)</sup> Snowden, with the report in his hands, said in the House of Commons on 30th July that it was absolutely essential to balance the budget. <sup>(2)</sup> As he had previously stated that an increased taxation would be the last straw The Economist felt that this implied a determination to effect all possible economies.

The Report was published as Parliament began its Summer recess. The Cabinet, possibly underestimating the impact of the Report, left it in the hands of a Cabinet Committee composed of the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Foreign Affairs, Secretary of State for Dominion Affairs and the President of the Board of Trade who were to meet and to report as soon as possible. All departments were to send observations to the Treasury by 13th August and the Treasury was to prepare a co-ordinated report, including Ministers' salaries. So even prior to the crisis a package was being prepared which could be presented as equitably distributed economies in Government expenditure for balancing the budget. The Cabinet left with their vacation homework and the warning that they might be recalled. The Prime Minister left for Scotland.

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(1) The Economist, 3rd Aug 1931.

(2) Hansard, 30th July 1931. Vol. 255, Col. 2512.

THE CRISIS

Ten days later he was recalled to London. Meanwhile the situation had deteriorated and the French and American loans were practically exhausted. The Cabinet Committee met on Wednesday 12th and on three subsequent occasions and drew up a memorandum <sup>(1)</sup> which Cabinet discussed along with proposals for a revenue tariff and the suspension of the sinking fund <sup>(2)</sup>. Ministers were reluctantly willing to accept as a temporary measure, certain economies but they were not prepared to entertain the main recommendations of the May Committee: the proposal (also rejected by the Cabinet Committee) for a reduction in unemployment benefits and also a suggestion that transitional benefits should be abandoned and the responsibility for the provision of long term assistance to the unemployed be handed over to the public assistance authorities. Instead they adopted the conclusion of the Cabinet Committee that the budget must be balanced by the application of the principle of 'common sacrifice and effort' and approval was given to the proposals to increase revenue by means of additional direct and indirect tax; expenditure cuts and the removal of anomalies; reduction of the period of benefits to 26 weeks and the increase of contributions and the imposition of a premium <sup>(3)</sup>. A committee was given the further task of finding an additional reduction in expenditure of £20 million.

The economies agreed now amounted to £78.575 million and it was proposed to raise revenue by £62 million direct taxation, and £26.5 million indirect

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(1) CAB 24 222; CP 203 (31).

(2) See Bassett (1931) op.cit. for description of the crisis meetings.

(3) CAB 23 67 43rd Meeting, 21st August 1931.

taxation and to defer the question of a revenue tariff until 21st August. Outside Cabinet a series of flurried consultations were taking place with the opposition parties, the Labour Party Executive and the Banks.

On 20th August, the Chancellor informed the Cabinet that he and the Prime Minister had met the leaders of the opposition parties and had outlined the proposals to them. There had been doubts about the feasibility of securing cuts in the fighting services and it had been intimated that the proposed savings on the unemployment insurance would fail to satisfy expectations and that unless larger economies were made the scheme would be ineffective. The revenue tariff was not mentioned but both parties had been opposed to raising taxes. The Liberals favoured more drastic cuts in unemployment insurance and had suggested a temporary suspension of the sinking fund and indirect taxation (1).

The Secretary of State for Foreign Affairs had consulted with representative groups of the Labour Party: that is the Consultative Committee and the National Executive. The National Executive had agreed to leave things to the Government (2). The Chancellor had met the TUC Committee. The representatives of the TUC said that in their view the Government had been mistaken in their method of approach; and the Government thought that the General Council had no real appreciation of the seriousness of the situation and the statements made were based on a 'pre-crisis mentality' and were statements with which, in other circumstances, the Government

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(1) CAB 23 67 42nd Meeting, 20th August 1931.

(2) ibid.

would have agreed. Citrine had stated that the General Council were opposed to any interference with the existing conditions and terms of the Unemployment Insurance Fund and all attacks on salaries which would merely lead employers to attack wages. They were also opposed to any cuts in the public works programme. The only cuts they did not oppose were cuts in the Ministerial salaries! They suggested increases in direct taxation and suspension of the sinking fund. The matter of the revenue tariff was referred to Congress for decision (1).

The Prime Minister reported on his meeting with the Deputy Governor of the Bank of England who said that arrangements for balancing the budget without recourse to very substantial economies would have a most detrimental effect on the situation: one-third of the deficit met by economies was not enough, it must be at least half; and to satisfy foreign interests, substantial parts of this must come from the unemployment fund. Meanwhile, the Cabinet Committee had not got very far in raising £20 million finding only £4 million by increasing workers' contributions. Cabinet was reminded that unemployment benefits were 30% higher than in 1924 when the budget was in surplus (2).

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(1) ibid.

(2) CAB 23 67 43rd Meeting, 21st August 1931.  
 The pre-occupation with money value in an acute depression with rapidly falling prices is an interesting behavioural characteristic which one could compare with the predominant interest in real wages during an inflation.

The Prime Minister referred to the way in which the situation was likely to develop and suggested that the best possible solution would be to decide, with agreement of all concerned, upon a programme which if carried out would 'satisfy' the situation. The Government should proceed to include sufficient economies to restore public confidence and to enable the position to be re-established and to inform the TUC that there was no alternative but to proceed with their proposal.

'Could', he asked, 'Cabinet accept as a temporary emergency measure a reduction of 5 or 10% in benefits?' The average cost of living had fallen by 11½% since 1929. The Cabinet were not prepared to take a fall in the cost of living as a basis for a reduction in benefits and there was little support for a cut of 5% and the Cabinet was equally divided on the proposed 10% cut. In the circumstances, the Prime Minister informed the Cabinet that his only reason for proceeding with the review was in order that he might be in a position to submit the scheme as a whole to the heads of the opposition parties and representatives of the Bank of England later in the day.

The discussion proceeded and the issue of the sinking fund was again raised. The Chancellor warned of the serious consequences of the proposal. The position regarding the revenue tariff had changed since the last meeting as it had been rejected by the Liberal Party who had accepted the principle of the suspension of the sinking fund which it was claimed made the revenue tariff unnecessary. From the debate emerged considerable support for the proposition that the revenue tariff should be excluded from the proposals if and only if no further economies were made in regard to

unemployment insurance. Tensions on this issue were great and no one was open to trade-offs between the extremes of the policies. The Chancellor objected to any commitment to the revenue tariff and the Prime Minister stated that it would be clearly understood that no decision of any kind had been reached on the subject of the revenue tariff. MacDonald said he would re-submit the proposals, which included the suspension of the sinking fund, but would not include a reference to the revenue tariff or the insurance benefits to the leaders of the opposition parties. Cabinet approved the attempt, by the Prime Minister, to reconcile the differences and decided that a statement should be made to the effect that a scheme to balance the budget was to be brought before Parliament as soon as possible. Arrangements were to be made for the reassembly of Parliament; notification made to the TUC; and ministers were to be informed of cuts in salaries. The Ministers should be ready for an emergency meeting (1).

Matters appeared to be settled but not for long. By Saturday morning things had changed considerably (2). The Prime Minister reported that the financial situation had deteriorated and the representatives of the Bank of England and leaders of the opposition parties had rejected the proposals. The opposition parties had called for greater economies. It was considered that all attempts to camouflage the situation by recourse to the sinking fund would be detected. The budget should be balanced in an 'honest fashion'. Could Cabinet find a further £25 million?

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(1) ibid.

(2) CAB 23 67, 44th Meeting, 22 August 1931.

The tenuous agreement was shattered and the argument was reopened.

The Chancellor threatened the Cabinet by alluding to the possibility of a Government taking office and introducing economy legislation based on existing proposals plus further substantial cuts in Unemployment Insurance. He went on to warn them of the consequences of any departure from the gold standard:-

"So far as he was concerned he had no doubt whatever, if he was compelled to choose between retaining the Labour Movement in its present form and reducing the standard of living of workmen by 50%, which would be the effect of departing from the gold standard, where his duty would lie; he felt confident that his views would be shared by every responsible leader of the party". (1)

After Snowden's dire warnings, the Prime Minister asked if the Cabinet would be prepared to add a further £20 million made up of £12½ million by 10% off unemployment benefits and £7¾ million in other ways. Cabinet were not prepared to make this offer: Snowden and Thomas dissenting (2). The Prime Minister then spoke of the difficulties which would arise if Cabinet could not agree to further economies; 'could he ask the opposition if a further £20 million cut would be satisfactory?' He was given permission to make this informal proposal and a little later in the day he reported that he felt that the banking interests were prepared to regard the proposition as adequate and that opposition parties would accept it if the Bankers would, though Chamberlain made reservations to the effect that acceptance must not be taken to preclude them from pressing for further

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(1) ibid.

(2) ibid.

cuts when the legislation was before the House of Commons (1).

The Prime Minister was forcing his colleagues into a corner.

"How embarrassing if after an affirmative reply had been received to a hypothetical question the Cabinet were to decide that they could not implement the cuts! " (2)

The Cabinet spent a tense Sunday awaiting telephone calls from America. After 7 p.m. on Sunday, Harrison had expressed a personal view that the new proposals would be satisfactory but he needed to confer with banking interests in New York (3). Opposition parties had agreed to the proposals and this was understood to mean that they would facilitate the passage of the Government's proposals without changes. The Prime Minister had also seen the King and advised him to consult with the leaders of the opposition parties.

One question remained: would Cabinet be prepared to sanction the cuts in unemployment benefits? A message, later that evening, from America indicated that the economies would be supported if the Bill was presented soon.

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(1) CAB 23 67, 45th Meeting, 22nd August 1931.

(2) ibid

(3) CAB 23 67, 46th Meeting, 23rd August 1931. Harrison was Governor of the New York Federal Reserve Bank.

MacDonald made his final appeal to the Cabinet:

"He most sincerely hoped that the Cabinet would now accept the proposals as a whole. If, however, the Cabinet were unable to accept them, then it was clear that the loan which was essential to avert the crisis would not be forthcoming and it was unthinkable that the Government could remain in Office and prevent some other Administration being given the opportunity of deciding that the money should be found..... a situation had now to be faced of a peculiarly difficult character because if the Labour Party was not prepared to join with the Conservatives and Liberal Parties in accepting the proposals as a whole; the condition mentioned in Mr Harrison's message regarding a national agreement would not be fulfilled. So far as he was concerned he was strongly in favour of such acceptance while at the same time making clear that the scheme represented the extreme limit to which he was prepared to go.

The country was suffering from lack of confidence abroad. There was, as yet, no panic at home, but the Prime Minister warned the Cabinet of the calamitous nature of the consequences which would immediately and inevitably follow from a financial panic and flight from the pound. No one could be blind to the very great political difficulties in which the giving effect to the proposals as a whole would involve the Government. But when the immediate crisis was over and before Parliament met, it would be possible to give the Labour Party that full explanation of the circumstances which had rendered it necessary for the Government to formulate such a drastic scheme which could not be given at the moment. The only alternative was a reduction not of 10% but of at least 20% and he could not believe the Labour Party would reject the proposals when they knew the true facts of the position; he was confident, indeed, that a majority of that Party would accept them. A scheme which inflicted reductions and burdens in almost every other direction but made no appreciable cut in unemployment insurance benefit would much alienate much support and lose the party their moral prestige which was one of their greatest assets. In conclusion, the Prime Minister said that it must be admitted that the proposals as a whole represented the negation of everything that the Labour Party stood for, and yet he was absolutely

satisfied that it was necessary in the national interest, to implement them if the country was to be secured. He then pointed out that, if on this question there were any important resignations the Government as a whole must resign". (1)

Each member of the Cabinet then expressed his views on the question of the inclusion or otherwise in the proposals of the 10% reduction in Unemployment benefit. It became apparent that the adoption of the scheme would involve some major resignations from certain Ministers. The Prime Minister said that he would inform the King. Cabinet agreed and authorised the Prime Minister to state that all Cabinet Ministers had placed their resignations in the hands of the Prime Minister. The Prime Minister saw the King that evening and the following morning before the last Cabinet meeting of the Labour Administration. He said that

"he had proposed to His Majesty the resignation of the Government. He had not failed to present the case against his participation in the proposed Administration but in view of the gravity of the situation he had felt that there was no other course open to him than to assist in the formation of a National Government on a comprehensive basis for the present emergency" (2)

He explained that the National Cabinet would be small and would exist for no longer than was necessary to dispose of the present emergency after which the political parties would resume their respective position;

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(1) CAB 23 67 46th Meeting, 23rd August 1931, 9 p.m.

(2) Janeway refers to a note in the MacDonald's papers on which MacDonald had analysed the options open to the Government - one of which was that a nucleus remained to form a National Government - they would be slaughtered at the next election. There is little to suggest from the conduct of the meeting that MacDonald had any other objective but to persuade his colleagues to accept the cuts which had been forced upon them. The conspiratorial model could only be supported from other evidence. op. cit. p260. This view is also supported by Bassett (1932) op. cit.; Marquand (1977) op. cit. p 630-1.

"The Administration would not be a Coalition Government in the usual sense of the term, but a Government of co-operation for this one purpose". (1)

The 'nine' (2) who disagreed bowed out into the annals of Labour Party mythology: the well sung heroes of the left. Yet they were without an alternative policy and merely made way for those with stronger stomachs to make possibly even more severe cuts.

MacDonald was not so lightly let off the hook. After issuing the press release announcing the Government's decision he had to deal with the Bankers' negotiations and was patently impatient at having to await the decisions of yet another banker, (this time Morgan's, representing the U.S. Government) to see if the proposals which had devastated his administration were acceptable to the Americans (3).

'All hell broke loose' in the Labour Party and Executive and T.U.C. produced a Manifesto within days of the fall of the Government. Vindictive debates took place inside and outside of Parliament between erstwhile members of the Government. The Conservatives pressed for an election (4). The heroics and melodramatics were not sufficient to save the pound, which continued to deteriorate. As early as 10 September

(1) ibid.

(2) Henderson, Graham, Adamson, Lansbury, Alexander, Johnston, Greenwood, Clynes. They accepted protection only as a last ditch defence and were not for the most part fully convinced of its usefulness. Hansard, September 1931.

(3) Prem. 1/96.

(4) Hansard, vol. 256 cols: 112-3. New Statesman 19th 26th September, The Economist 29th August and 5th September. Reported favourably of the reaction abroad to the new administration.

before the Economy Bill had been presented the £ was already in jeopardy as a letter keeping the Prime Minister informed of the financial situation stated:

"Considerable doubt prevails in financial circles regarding the possibility of our maintenance of the gold standard and consequently many institutions and firms are directing their attention to the desirability of selling sterling securities and investing dollars, francs and guilders .... They proceed upon the argument that as trustees for shareholders they are bound to take this action unless the Government makes it illegal". (1)

For the next week or so the conditions got worse until on September 18th the decision to abandon the gold standard was taken. It had become apparent that no further help was likely from the Americans although the French were willing to help as is indicated in a letter to Snowden from the French Minister of Finance:

"I hastened back from Geneva in the desire to do everything in my power to help you to maintain the stability of the £ sterling. One of the ways of doing this would have been the issue of a foreign loan. I was pleased to learn that the Bank of France had spontaneously made proposals to the Bank of England in that sense but I understood the force of the arguments which have made it necessary to abandon the idea.

Apart from that solution the defence of the £ could only be assured by some extensive operation concerted between America and Paris markets. The last of your messages shows unfortunately that this is not at present realizable in America." (2)

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(1) ibid.

(2) Prem.1 1/97.

In one of the most pathetic meetings of the period MacDonald, alone with his advisors, agreed to the proclamation and procedures necessary for Britain to abandon the gold standard. The philosophy surrounding the event was reminiscence of that which was adopted towards the loss of the 'Pobbles Toes' (1). MacDonald asked what would be the effect of the 'upset' and was told by Harvey that the impact

"would be felt most keenly by wealthy financiers; there were lots of people who had in fact said that this was the one cure for our ills". (2)

Peacock felt it would be an 'awful blow to everyone' and mentioned Irish and Indian peasants who had long relied on the Bills of Exchange drawn on London! MacDonald inquired about pegging the rate but Harvey dismissed the idea as a very 'complicated operation' and felt that the situation should be 'watched' before taking any decisions. 'Could not the theorists be used?', asked the Prime Minister retaining his belief in experts, 'we ought to enlist every brain. ...It would be a case of all hands to the pump'. (3)

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- (1) Edward Lear, Complete Songs & Nonsense Faber & Faber 1977  
 (2) Prem 11/97  
 (3) ibid.

Peacock felt,

"no one could accuse this country of not having made every effort before letting the pound go, and it was pointed out that by having balanced the Budget, whatever happened, this country had at least demonstrated her will to play the game at all cost". (1)

Honour was saved!

### Postscript

In spite of the sacrifices of aspects of the modest unemployment programme, cuts in public works and in maintenance provisions, the 'sacred cows' of the administration had to be abandoned. First the gold standard and then free trade. Only one remained: the balanced budget. Every policy manifesto for the 1931 election stated specifically that 'Balanced Budgets' would be an objective (2). In the King's speech in November the policy was spelt out again.

"The Nation, at the General Election, endorses these measures for securing the economy and balancing the National Budget which contributes the first essential steps in the solution of the financial and economic problems with which the country has been confronted". (3)

MacDonald, the man of reason, with an over optimistic belief in the wisdom of experts and the possibility of national debate achieving consensus

(1) Prem. 1 1/97.

(2) Craig (1975) opcit.

(3) CAB 23 69 3rd November 1931.

decisions was left to protect the interests of the unemployed against even more stringent cuts. He was abandoned by the Labour Party, removed from its ranks by a rubber stamped notice and maligned by generations on the Left (1). The Labour Party floundered for the next decade finally emerging, phoenix like, after the war in the hands of Attlee who was able to implement some of the policies of which the old men had dreamed.

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(1) Citrine (1964) op.cit.

CONCLUSIONIntroduction

There was, as Keynes had said in discussions with the Macmillan Committee (1), something to be said for almost all the remedies advocated to reduce unemployment. The Labour Party had proposed most of the potential policies available for the reduction of unemployment. But few of these policies were implemented or were implemented in such a feeble way as to have little impact on the problem. The reasons for the failure were suggested in the introduction to this thesis as being associated with the acceptance of certain economic and political philosophies, the weakness of economic analysis and economic management, administrative failures and failures associated with personalities. We can now reconsider these explanations in the light of the narrative chapters which chart the progress of policy formulation and implementation during this period.

Economic and Political Philosophy

The Labour Party was a socialist party and as such did not have much sympathy with the capitalist economic philosophy or the economic model which was derived from the description of the operation of the capitalist economy. They were committed to neither the classical model nor the emerging Keynesian model. This did not preclude them from accepting, as central tenets of their policy, aspects of classical economic philosophy and dogma more usually associated with parties of the right: the maintenance of the gold standard; the balancing of the budget and free trade.

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(1) Committee on Finance and Industry. Minutes of Evidence (1931) op.cit., Friday 21 Feb. 1930.

"There is something to be said for each of the different remedies that people have been proposing and one might make a concoction which in the aggregate might be of value".

Manipulation of exchange rates, the budgetary balance or trading policies can all be regarded as policy instruments which could be used to further other policy goals such as the maintenance of high levels of employment. For the Labour administration these potential instruments were objectives which operated as constraints upon the unemployment policies.

These constraints, as we have seen, impeded the development of unemployment policies associated with the provision of work by public works and the retirement plan put under pressure the policy of maintenance of the unemployed; and eventually brought down the administration.

In addition to these constraints, the Labour Party had quite decided views on the distribution of income in the economy and whilst they were not in a position to do much to improve the distribution, they were against policies which might make it worse, so any policies favouring capitalists or adversely affecting the workers were resisted. This attitude is apparent in the discussions on agricultural protection, reconstruction and the management of insurance funds.

#### The Use of Advisors

In spite of the talk before the election of the formation of a centralized body to deal with the development of economic policy, it took MacDonald some months to develop the concept and set up the structure which became known as the E.A.C. The relationship between this body, a sort of 'think tank', and the policy formulation and executive branches of the Government was never resolved.

MacDonald took advantage of all shades of opinion when obtaining advice on matters of policy. He had an unfailing belief in the wisdom of experts and also in the possibility that a wide ranging body of opinion, if brought together in the form of a committee, would arrive at a consensus decision.

This view was criticised many times during the administration both by Ministers and Members of Parliament, e.g. Oliver Stanley on the question of the Royal Commission on Unemployment Insurance:

"We are told that the object is to free the whole thing from political taint. What does the P.M. mean? Does he mean that he is going to form a Royal Commission of members entirely free from any party or political bias or affiliation? ... Or does he simply mean that this Commission is going to be packed with all the conflicting elements of political life today and that then the Govt. are not going to accept any recommendation unless it is unanimous and therefore free from political taint". (1)

One may also cite Attlee's remarks on the Committee to be formed to consider regional policy:

"It was no use setting up a Committee of persons whose attitude of mind was opposed to the principle of public control of industry and it was little use for the committee to consist partly of such people and partly of those who sympathised with that principle" (2)

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(1) Hansard Oct. 30th 1930. Vol. 244, Col. 83.

(2) CAB 27 438 UP (30) Meeting 24; CAB 27 440 UP (30) 66.

In the economic sphere, he brought together economists and industrialists from all sections of the economic spectrum who, not surprisingly, could not reach agreement. In the Economists' Committee of the Economic Advisory Council, a less assorted group <sup>(1)</sup>, Keynes, Henderson, Pigou, Robbins and Stamp, were brought together by MacDonald who hoped for some clear advice to emerge from their deliberations; instead he was presented with a pedantic report hedged in with academic disclaimers and provisos. It was the very opposite of the kind of report that MacDonald required and its interpretation into policy terms was a daunting task.

#### Failure of Economic Theory

The advice given was seriously deficient because of the lack of development of some aspects of economic theory. The issues involved were concerned with the debate about the 'Classical' interpretation of the depression and the policies likely to be effective and the emerging 'Keynesian' interpretation which was still relatively undeveloped. The debate raged about whether reductions in wages would increase employment by increasing the rate of profit and encouraging investment; or whether the effect on income would be such as to reduce demand, cause further falls in prices and reduce economic activity still further. Keynes attempted to illustrate a case, in which no change in wages would be sufficient to remove unemployment, by setting up an allegory concerning two trading nations but he had not extended it very far in terms of the domestic

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(1) CAB 58 150. Some of these economists had taken part in radical policy formulation (Keynes, Henderson and Stamp); had expressed doubts about the wisdom of the Treasury View (Pigou); or had expressed uncommitted interest in the debate (Robbins). See Chapter Four above and Howson and Winch (1977), op.cit. pp 47-48.

market (1) beyond expressing fears that reduction of wages could cause a spiralling effect if wages in other countries also fell. Most of his fears about wage cuts were associated with the feasibility of implementing such cuts given the political situation of the period and he was anxious that if the cuts were made, they were undertaken as part of an equitable package of cuts (2). He preferred cuts in real wages, which it was thought might arise from some of the policies intended to raise internal demand, to cuts in money wages. There was also considerable discussion about the effect on the price level of measures to increase internal activity. Snowden attacked all such measures in distributional terms. Keynes oscillated between the idea that they probably would cause an initial increase in prices which he considered to be a necessary stimulus to the internal economy and tentative explorations into the production function which led him to the belief that the supply schedule was probably highly elastic in conditions of under-employed resources. For Keynes's views on the impact on prices during this period, it is interesting to compare,

"A large amount of deflationary slack has first to be taken up before there is the slightest chance of development policy leading to inflation". (3)

with

"When I was advocating Government schemes of home investment, these schemes were sometimes criticised as 'inflationary' and therefore undesirable, because of the rise of home prices associated

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- (1) For this development the money market needed to be integrated with the real system and the special cases of investment being interest inelastic and the demand for money would being infinitely elastic at going rates of interest needed to be specified. This position was subsequently modified by the specification of the real balance effect.
  - (2) Committee on Finance and Industry; Minutes of Evidence (1931), op.cit.
  - (3) Keynes, Henderson (1929), op.cit.

with secondary employment ensuing on the primary employment created by the Government. But in this sense any conceivable cause of increased employment is 'inflationary' in the sense that the secondary effects cause the prices of home-produced goods to rise relatively to the new level of money wages". (1)

The earlier view, which later received the support of Kahn (2), was the one which he subsequently adopted and incorporated into the General Theory. But at the time that vital policy decisions were being made, the analysis to support intervention was rather sketchy. On the central issue as to whether the increase in internal demand would raise economic activity or merely be diversionary, there was surprisingly little debate and certainly not much support, from the economists involved with the Government for the 'Treasury View'. There was not a great deal added to the theory of direct intervention in the form of public works, except a somewhat conditional blessing from all members of the Economists' Committee. The concept which would have provided a great support for direct intervention was the multiplier but, in spite of the work by Kahn for the Economists' Committee which provided the background to the development of the concept, the idea was not communicated to politicians who continued to use rather dubious attempts to calculate 'indirect effects' of works programmes. Until the development of this concept which set a limit to the possible expansionary impact, the idea was extremely woolly. Lacking this concept, the support for public works schemes was couched entirely in cost-effectiveness terms - usually not extended to take into account social benefits - rather than as an expansionary tool.

Trade policy was another area of conflict. The arguments in support of free trade ranged from the excessively formalistic and pedantic approach

(1) CAB 58 150 EAC (E) 15. September 1930.

(2) Hancock K., "Unemployment and the Economists in the 1920's", Economica 1960, discusses Bellerby's estimates that at about 3% the level of unemployment at which rising output was supplanted by rising prices. At this point he suggested that monetary policy should be used to halt the boom.

of Pigou to the emotionally charged arguments of Robbins. Keynes argued the case for tariffs in terms of budgetary and employment potential, and provided formulations capable of minimizing the efficiency problem by suggesting export bounties to compensate for the import tariffs; but his formulations were dismissed by his colleagues as impractical, so another potentially powerful policy received little support from the experts (1). This theoretical gap could have been met by the development of theory of the 'second-best' but although a germinal form of the theory was mentioned by Keynes, the development of the concept did not occur until much later (2). Other refinements which might have been helpful were the concept of the optimum tariff, and further developments in the theory of international trade exploring the effects of changes in factor prices and productivity on trading patterns incomes and prices (3). These developments might have done much to reduce the polarization of the parties for and against free trade policies causing them to recognise:

"The implication as in many other problems in the theory of international economic policy, is that the answer depends on the circumstances of the particular case: and that anyone who asserts that one conclusion is universally valid is making an implicit assumption about the facts which ought to be explicitly defended - if it can be". (4)

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- (1) CAB 24 216 CP 363 (30), op.cit. See also debates in the economic journals of this period on free trade.
- (2) Lipsey and Lancaster (1966/7) op.cit. Meade (1955) op.cit. Viner (1950) op.cit.
- (3) Kaldor (1940) op.cit.; Scitovszky (1941/2) op.cit.; de Graaff (1949/50); op.cit. Machlup (1943) op.cit.; Metzler 1942; op.cit. Johnson 1953/4; op.cit.
- (4) Johnson (1953) op.cit.

Another factor which affected trade policy was associated with the nineteenth century pattern of colonial development which had led to the belief that investment abroad had its counterpart in demand for exports from the domestic market <sup>(1)</sup>. With the emergence of competition from other industrialized countries and from home based industries, this was no longer true but it was still used to support overseas investment and to oppose exchange controls on the flow of funds abroad.

In addition to the inadequacy of the theoretical models, the quality of economic information and quantitative methods were not an adequate guide for policy. This inadequacy is highlighted in the deliberation of the E.A.C. when MacDonald was astonished to learn that there were no estimations of the potential of export markets at a time when export expansion was one of the main strategies of the Government <sup>(2)</sup>. Further examples can be found in the queries about the quantitative relationships made by the Economists' Committee <sup>(3)</sup>. The work of Colin Clark and Stamp, pioneers in the field of economic information, was available and the London and Cambridge Economic Service was functioning, but there is a difference between the amassing and description of data and the estimation and testing of economic models <sup>(4)</sup>. The use of advanced econometric models and policy analysis in the style of Tinbergen would have contributed to the policy formulation <sup>(5)</sup>.

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- (1) Committee on Finance and Industry, Minutes of Evidence (1931), op. cit.  
See Keynes's discussion on this point.
- (2) CAB 58, 2, 5th Meeting, 19th June 1930.
- (3) CAB 58 150 E 8.
- (4) Hancock (1960), op. cit. Hancock expressed the view that sufficient information was available.
- (5) Tinbergen (1950) op. cit.

### Administrative Problems

The difficult task of policy making was made even more difficult by the administrative tangle of the policy formulating and executive branches of the Government.

### Administrative Structure

MacDonald began by appointing the Lord Privy Seal, Thomas, to take over-all charge of unemployment policy assisted by a small secretariat and three junior ministers, Mosley, Lansbury and Johnson, two of whom had other responsibilities. This group, with officials from the various departments, met as the Inter-Departmental Committee on Unemployment and generated a great deal of enthusiasm in the first months of the administration, but this was soon sapped by their lack of any executive power. They were limited to the stimulation and approval of schemes; they could not initiate action.

They were separated from, yet dependent upon, the Treasury for sanctioning schemes and also separated from the potential spending departments, e.g. Ministry of Transport and the Department of Health which relied upon the local authorities and the public utility companies to initiate schemes. Mosley soon became very impatient with this arrangement and produced his memorandum on government organization <sup>(1)</sup>. By this time, however, the E.A.C. was set up, but in order to meet some of the problems highlighted by Mosley, the Panel of Ministers was organized to develop:

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(1) CAB 24, 209 31 (30).

"the policy of the Government in regard to employment and unemployment and supervising, energising, criticising and making suggestions as to execution". (1)

This panel consisted of the ministers of departments crucially involved in policies affecting unemployment with the Lord Privy Seal, Hartshorn, having the task of co-ordinating unemployment policy by keeping in touch with the Prime Minister and other ministers involved. The secretariate was expanded and helped by Henderson who was already working with the E.A.C. In spite of its apparent activity, this structure was also criticised quite strongly by Attlee (2) who bemoaned its cumbersome nature and the lack of executive power and after only six months there were feelings that what was needed was some "centralized co-ordinating authority which could arrive at quick decisions" (3).

#### Decision Making

The failure to make quick decisions or any decisions was one of the most serious defects of the administration. The pattern which emerges on a number of issues is: the formulation of a difficult problem, probably involving a political as well as an economic dilemma; the formulation of alternatives by the Minister; their rejection; the setting up of a committee; further activity attempting to formulate feasible alternatives; the reporting of suggestions and their rejection usually on the original

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(1) CAB 23 64, 31st Meeting 1930.

(2) CAB 27 439 UP 34 (30).

(3) CAB 23 65, 26th November 1930, 70 (30).

grounds. The Unemployment Insurance scheme was a good example of this. The problem was how to deal with the workers receiving benefits under the transitional arrangements without contravening the pledges to ease the burden on local authorities; not raising contributions or changing benefits or imposing extra burdens on the budget. As specified, the problem was practically insoluble and some requirement had to be relaxed. The matter was discussed by a Cabinet Committee in September 1929, by an inter-party working group in 1930, by the Panel of Ministers, by a further Cabinet Committee in 1931, by the Royal Commission on Unemployment Insurance and the May Committee and the Government was dissolved before a decision was taken. Was the problem too difficult? Was the imagination lacking in the quest for solutions? Or was the administration incapable of making decisions which involved any kind of compromise? The problems were difficult and the ministers often lacked flair in finding solutions but so did other people considering the problem. The most important defect appears to be the lack of any concept of a trade-off amongst policy objectives. The ministers were idealists and compromise was not easy for them but in failing to make compromises, they were compromising those whom they were purporting to help: the unemployed. Possibly they would have been willing to take unpleasant decisions which went against some of their ideals if sanctioned by as many additional authorities as possible and so used Royal Commissions, outside experts and the opposition parties for support whenever possible.

### Personalities

Personalities were involved in the failure of the administration to make decisions. Snowden was one of the most powerful personalities and the common factor in many issues which remained unresolved during the

administration. Snowden is caricatured as the arch-reactionary in the administration. He believed with puritanical fervour that the budget should be fairly and honestly balanced and that the national debt should be reduced and free trade established. On the distributional issues in society, however, there was little doubt where his sentiments lay. His budgets tended to be redistributional and probably had a greater expansionary effect than expected. His attacks on most of the 'radical' economic policies were based on distributional grounds. The thing they had in common in Snowden's eyes was their effect on prices: they would all raise prices and reduce real wages. This he saw as raising the profits of the entrepreneur at the expense of the worker: something he would not be a party to. He saw the economy in static distributional terms and failed to see the dynamic implications of the policies, nor was he able to see or willing to make any trade-off between real wages and unemployment. His view was that if there was over-production in agriculture then it should adjust itself to the changed conditions; agriculture and industry would not complain at making profits, so why should they complain at making losses? Snowden was unwilling to help them even to the extent of  $\frac{1}{4}$ d on a loaf <sup>(1)</sup>. For similar reasons he was unwilling to subsidize wages. He appeared to believe in a structuralist explanation of the depression and was unwilling to ease the conditions during the slump by any short term measures which he saw as merely prolonging the adjustment process. To further these beliefs he was willing to use all his political wiles from tantrum <sup>and</sup> / cunning to mere invective.

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(1) CAB 24 220 CP 52 (31).

MacDonald could not out manoeuvre him as is shown quite clearly on the protection issue (1).

Thomas, taking an unattractive job, was quickly overwhelmed by the difficulties and after six months had accepted the idea that little could be done to make any impact on unemployment. He did see the case for protection and attempted to move the administration towards it during 1930 on the issue of the tariff truce and the Imperial Conference, but he too was unable to move Snowden who was in fact mischievously planning to get him to be spokesman for the Party at a free trade campaign which was being organized for the autumn of 1931! (2).

Of the other ministers, Morrison, Greenwood, Adamson and Johnson worked consistently to get the unemployment programme under way. Whilst Lansbury was unrelenting in his efforts to make some impact on Government policy and the memoranda are 'peppered' by his periodic attacks on the mediocre progress which was being made, he had little to contribute individually to the programme except his 'land settlement' dreams but he supported vigorously any programme which had any potential for reducing unemployment (3).

(1) CAB 23 64, 49, 50; CAB 23 64 65 (30); CAB 23 66 31 (31).

(2) P. Snowden (1934), op.cit.

(3) CAB 24 216 CP 390 (30); CAB 27 440 UP 30 (61).

Mosley's impatience with the inaction arose early in the administration and his personality was not one which could have easily been constructively assimilated into a consensus team. Attlee coming into the team at the end of the second year quickly applied his logic to the situation, and in spite of his incomplete grasp of the macro-potentials of his policies, formulated a blue-print for industrial and regional planning which was one of the few encouraging possibilities remaining at the end of the administration.

Bondfield and Graham carried on fairly determinedly, if unimaginatively, with their rather difficult tasks but neither was able to make any significant contribution to the problem of unemployment.

Henderson and Passfield had little to do with the central issues of policy but were usually on the conventional side when policy issues impinging on unemployment were discussed. Henderson was a committed free-trader giving little support or encouragement to any attempts at a more pragmatic approach to trade until the last moments of the administration when one is dubious of the motives for the change of heart <sup>(1)</sup>. Passfield was also a free-trader and had a fairly punitive attitude when he did contribute to discussions about the unemployed - benefits were 'a privilege and not a right' <sup>(2)</sup>.

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(1) See Bassett (1958) op. cit.

(2) CAB 27 396 U1 (29) 3rd Meeting.

Members of the House of Commons, such as Bevan, Maxton, and Whitfield consistently advocated, though not from a very rigorous theoretical basis, policies of a radical nature and would have rallied support for any gesture from the Government in this direction. In addition the Liberal Party would have supported more vigorous intervention as was indicated even as late as February 1931 by Lloyd George: "If they proceed boldly, they have the support of the House of Commons behind them..." (1).

For MacDonald, the failure of his administration to deal with unemployment was to some extent determined by his failure to contain Snowden. Yet who else could have coped with the Exchequer? Snowden had a powerful personality and the competence to deal with the complexities of the financial scene. Although there were younger members of the team who were able, MacDonald did not appear to believe that they had the ministerial experience to take over. It was a cabinet full of potential foreign secretaries but few experts on the domestic scene - perhaps an explanation of some of their success in the one sphere and failure in the other. MacDonald believed in getting the best advice and so involved many able people with the administration, and ambitiously took steps to involve experts from outside government. This led to radical improvement in the machinery of government. The problems which he faced - using the experts constructively within the ministerial and cabinet structure - are still being sorted out by more recent administrations. Probably, the model which attempted to involve all shades of opinion was too idealistic and doomed to failure in terms of decision-making and the more recent model which involved

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(1) Hansard, February 1931. Vol. 248 Col. 728.

taking in politically 'sympathetic' experts is the viable alternative.

MacDonald did not appear to weigh up the conflicting advice offered and use his own judgement about its merits. If there was any dissension, there tended to be no decision. This was perhaps a form of intellectual honesty, but one more suited to an academic than a politician. There was a need for the constraints to be recognised and if the simultaneous attainment of all objectives was not possible then some of the objectives had to be reformulated.

#### Major Policy Strategies

Let us reconsider the policy measures available, their potential in terms of reducing unemployment and the reasons they were unsuccessfully implemented.

#### Public Works

Although the Labour Party did not accept the view that public works policies were merely diversionary neither did they understand the possible expansionary effect which such policies might have involved. Public works policies were considered as anti-cyclical devices which would simultaneously absorb some of the unemployed resources and enable improvements to be made to the social and economic fabric of the economy, which could be part of a policy of 'rational' organization of the economy (1). This misunderstanding led to insufficient emphasis being placed on public works policies, but would not have prevented those which were implemented making a contribution to economic activity.

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(1) See Labour and the Nation (1929) op.cit.

The impact of such policies depends upon the value of the 'multiplier' but a clear operational formulation of this was not available to the Government although in the background of the Economists' Committee, Kahn was refining the concept. Keynes <sup>(1)</sup>, using Kahn's estimations, implying a multiplier of two, calculated that public investment of £75 million plus a tariff worth £75 million were together capable of removing unemployment. These formulations did not reach the policy makers who were merely given a rather sterile report stating pros and cons of the policy and conditions under which schemes were suitable. <sup>(2)</sup>.

Public works policy was an important feature in the programme of the Labour Administration; why then was it implemented so slowly? In spite of the debates about large loan programmes with Mosley, in the first half of 1930, it does not appear that finance was a major handicap until the last six months of the administration. The factors which held up the programme were:

- (a) the criteria upon which grants were given;
- (b) the level of the grant;
- (c) the lack of any control over the initiation or implementation of the plans;
- (d) administrative delay at all levels: from the initiation of the plans to their approval and implementation.

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(1) CAB 58 150 EAC (E) 15.

(2) CAB 24 216 CP 363 (30).

Early in the administration, J.H. Thomas warned against 'relief works pure and simple' and he was rather pessimistic about the impact of the schemes upon unemployment:

"£190 million spent on works to reduce unemployment between 1918 and 1928, and that at no time had more than 75,000 men been employed". (1)

There are few clear statements of the criteria adopted but they appear to have involved a positive rate of return to the undertaking involved; externalities which would aid other sectors of industry and an acceleration of work which would otherwise be undertaken in the future. The benefits to society in general as opposed to benefits accruing specifically to industry were largely discounted, although referred to by Mosley and (2) developed by Attlee.

In spite of the concepts largely developed by Pigou about social benefits, cost-benefit analysis, as we understand it today, was not available (3).

(1) CAB 24 204 CP 159 (29).

(2) CAB 27 (389) DU 29 (29). ; CAB 24 214 CP 283 (30)

(3) The development of cost-benefit analysis has its roots in welfare economics developing slowly from the marginalist propositions of Marshall and Edgeworth to Pigou. The analysis was systematized and extended by N. Kaldor, 'Welfare Propositions of Economics and Interpersonal Comparisons of Utility', Economic Journal 1939; J.R. Hicks, 'Foundations of Welfare Economics', Economic Journal 1939; E.J. Mishan 'A Reappraisal of the Principles of Resource Allocation' Economica 1957; K.J. Arrow, Social Choice and Individual Values, Wiley, New York 1961; G. Debreu, Theory of Value, Wiley, New York, 1959. Attempts to utilize some of the propositions of welfare economics for practical application led to the utilization of the concepts of consumer surplus and compensation tests to develop a tool for decision-making, cost-benefit analysis. See J.R. Hicks, A Review of Demand Theory, Clarendon Press, Oxford 1956; J.R. Hicks, 'The Rehabilitation of Consumer's Surplus' Review of Economic Studies 1941; for Cost-Benefit Analysis, see E.J. Misham, Cost-Benefit Analysis, Unwin 1971; R. Layard, Ed. Cost-Benefit Analysis, Penguin Modern Economics Readings 1972.

Apart from the efforts of Mosley and Attlee to introduce the concepts of social benefits they were not taken into account in policy formulation. Social benefits were included in the rationalization of public works in the 'Yellow Book' (1). The failure to take social benefits into account systematically caused the value of schemes to be under-estimated. The Government did, however, undertake some fairly comprehensive cost-effectiveness studies of some projects. The evaluation of large schemes such as the Channel Tunnel and the Scottish canals and bridges were undertaken in considerable depth taking into account the traffic volume and hours saved in journey time.

Schemes having the highest potential rate of return were not consistently chosen. Ambiguities in the policy can be seen in the management of the programme which attempted to speed up the adjustment process by giving incentives to local authorities in more prosperous areas (providing they accepted workers from the 'necessitous areas') but at the same time discouraged some schemes suggested by more prosperous areas and industries. Examples of this punitive attitude can be seen in the treatment of schemes suggested by the electricity industry which 'should help unemployment and not expect funds', and of the scheme of the L.C.C. for a road bridge which was considered 'not to merit additional aid'. The plans for the inner London goods railway and the Channel Tunnel were similarly treated and could go ahead only if private financial support was forthcoming. But neither did they attempt to distribute the works according to need.

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(1) Britain's Industrial Future (1928) op.cit.

The attitude towards public works in depressed areas was not likely to encourage the development of works programmes. These areas were poor, heavily committed and having problems in merely maintaining services, yet they were offered, for the first year of the administration, terms less attractive than the more prosperous areas providing the latter employed transferred labour. This policy, inherited from the Conservatives, was intended to deal with structural unemployment associated with the declining industries. It was modified when MacDonald attempted to get to grips with the unemployment problem in June 1930 but even when terms were improved they were not sufficient for the depressed areas to put forward plans. Appeals were made for a more sympathetic attitude towards these areas. Bevan, for example, in November 1930 was asking for the state to finance schemes. Such action he felt could not impinge upon local autonomy providing the local authorities were not forced to raise money from the rates (1).

In addition, the criteria adopted by the Treasury, which had the ultimate power to sanction schemes appear to have been even more strict than that imposed by the policy scrutineers in the I.D.C.U. and later in the Panel of Ministers. An example of the stringency of the Treasury was the case of the Montague House site which was rejected as unremunerative but had in fact been put forward because of the urgent need for accommodation for civil servants (2). There may also be something in the view of Lloyd

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(1) Hansard, 4 November 1930. Vol. 244, Col. 756/7.

(2) CAB 24 (210) CP 67 (30). This was a proposal to extend the facilities of civil servants originally put up as a replacement scheme having employment potential but was denied Treasury approval on the basis that it was not productive. See Chapter Three above.

George that Snowden's personality presented a barrier to young ministers initiating programmes:

"I would think twice before I approached him to ask for £20m for a project of mine. He would probably say nothing, but his very look would be enough". (1)

Snowden's policy, he had admitted was to say "no" for as long as possible to colleagues' demands, but it would be unfair to blame Snowden for the lack of initiative in the programme or its feeble application. In fact, he was one of the few who mentioned the potential of the electricity companies' schemes (2).

The Government were relying upon grants to encourage local authorities and public utility companies to submit schemes. If incentives are used to encourage works' programmes, then they should be high enough to facilitate the programme which is required. The Government did not pay much attention to the level of the grants; they were convinced that uncertainty about terms was the main barrier to the initiation of schemes and so retained the maximum grant at 75%. Initially, this amount was paid only when the transfer conditions were fulfilled. There was plenty to suggest that more schemes would have been put forward had the grant been higher: that the demand for funds for public works' programmes was likely to be elastic with respect to the terms of the grant. The first report from the road engineers (3) to the I.D.C.U. made this point

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(1) Hansard, 12 February 1931, Vol. 248. Col. 731.

(2) CAB 27 413 UPC (30) 1.

(3) CAB 27 389 DU 29 (3).

and Lord St. Davids indicated that increased grants had had a favourable effect upon his programme (1). Yet no serious attempt was made to increase the grants. It was suggested many times that 100% Government support would be necessary to get the programme going. The idea of complete Government finance for schemes initiated by local government were, like the suggestions for national schemes, rejected as likely either to impinge upon local autonomy or involve the possibility of mal-administration of funds once the onus of paying was removed! This commitment to local autonomy and democracy resulted in the Government being a passive bystander in the public works programme. Unable to initiate schemes and unwilling to provide adequate incentives, they relied upon persuasive exhortation. The sensitivity of the Government to the problem of local autonomy could have ensured that schemes which were devised provided for local involvement and ultimate management of the scheme. The Government appeared to be frightened by its own nightmares. Lloyd George said in February 1931:

"It is no use blaming the Local Authority  
..... Therefore I am going to ask the Prime  
Minister again to carry out the policy of  
'Labour and the Nation' where you say that  
there must be a recognition that the main  
roads are national rather than local. You  
will never get the work done until you take  
upon yourselves the same responsibility in  
the Country as France has". (2)

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(1) CAB 27 389 DU 29 (2).

(2) Hansard, 12 February 1931. Vol. 248 Col. 730

By this time, however, they had not only failed to get a public works programme working, but had accepted the view adopted by Thomas at the second meeting of the I.D.C.U.

"large amounts had been expended in the past with little results". (1)

The disenchantment was passed on to Hartshorn, who in Summer 1930, a few weeks after taking office as Lord Privy Seal, wrote,

"After fully examining the position I am satisfied that not much more is possible than is actively being done". (2)

and to Johnston, as the next Lord Privy Seal, in the debates in April 1931 (3).

The administrative organization for sanctioning and initiating the schemes was extremely unwieldy, and successive attempts at reorganization of the policy machinery to deal with unemployment did not tackle the central problem of lack of executive authority.

By Spring 1931, 226,000 were estimated as being directly or indirectly employed in public works. The Labour Party had hoped to create 600,000 jobs. From then on the programme suffered from Snowden's attempt to

(1) CAB 27 389 DU 29 (2), 2nd Meeting.

(2) CAB 24 213 CP 293 (30).

(3) Hansard, April 1931. Vol. 251. cols. 375/388.

balance his budget, the economies of local authorities, and also from the crisis economies. The programme failed to produce the anticipated impact largely because of the Government's failure to become involved and to take the initiative in formulating the policy.

Public works policies however organized are likely to be rather clumsy regulators of the economy. They pose problems of efficiency and distributional equity which this administration never faced up to, for not being able to decide whether they wished to maximize the potential returns from the schemes or use them to aid the most severely hit regions. In the event they achieved neither objective. In addition, the public works schemes are of little use in the 'fine tuning' of the economy for they have long, and often unpredictable, lag structures. Even if planning is undertaken in advance of the period in which the policy is to be used, considerable lags are likely to be involved before the response to the original injection has its impact on economic activity. The possibility of the policies having an immediate impact upon the problem was not very great but had a large works programme been introduced early in the administration, it would have had some impact by the Winter of 1931. Thomas's estimates suggest a multiplier of 1.44 within four years (1).

### Reconstruction

Reconstruction was a strategy which relied upon the restoration of competitiveness in the economy by reducing the costs of production. This policy has a ring of good sense that gave it great importance as a

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(1) Thomas (1975) op.cit.

possible long term remedy. For some periods - from January to May 1930 and from November 1930 until the Crisis - it was the only policy which retained the confidence of the Labour Administration.

To be effective in reducing the costs of production, the reconstruction programme would have involved changing the productive process probably by large investments in more efficient plant and machinery. The difficulty was ensuring that this investment was in fact forthcoming. There were two problems associated with establishing such an investment programme, the willingness of businessmen to invest and <sup>of</sup> the public to lend funds. It is doubtful in uncertain economic conditions, whether entrepreneurs will be willing to take risks involved in investing in improved equipment and possibly capacity when existing equipment was already under-employed and the rate of return was low, if not negative (1). Profits, which appear to be one of the most important variables determining investment, fell by about one-fifth between 1929-1931, and whilst profits were falling the 'confidence' problem was likely to dominate the effect of other policies such as the lower interest rates.

The Government recognised the effects on investment of low profits and tried to avoid imposing further burdens on industry in the form of taxes or social security payments but was not willing to provide much in the way of positive incentives. The Government's attempts to encourage businessmen took the form of advocating and trying to initiate a cheap money policy, in the hope that investment would be responsive to lower interest rates, and in providing channels for raising the necessary capital.

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(1) Committee on Finance and Trade (1931) op.cit. See Keynes's comments on the importance of raising the rate of return on investment.

This was done by organizing banking interests in such a way that 'acceptable' plans submitted would be able to find the necessary funds for implementation through the B.I.D.C.<sup>(1)</sup> Only one small scheme was sanctioned in the first year. Public utility companies were helped by the simplification and extension of their money raising facilities. Little was known about the responsiveness of investment to the rate of interest; though the appeals of businessmen, managers of the public utility companies and the local authorities to the Government for help in underwriting risks would suggest that they were not so paralysed by lack of confidence and dismal expectations as to be completely unresponsive to incentives in the form of reduced rates. Government policy was based on the assumption that they were likely to respond to lower interest rates although Norman was highly sceptical<sup>(2)</sup>. The possibility that businessmen were likely to be fairly unresponsive to changes in rate of interest was later explored by Keynes as a factor which would impede the progress towards a fully employed economy - in the absence of a real balance effect<sup>(3)</sup>. Keynes did not at this time appear to consider that this was the case, for he considered that the monetary policy of the Government and the Bank of England was moving in the right direction although not going far enough - short term rates had fallen

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- (1) Skidelsky (1969) op.cit. on comparative ineffectiveness of this scheme. The Bank of England's involvement with industry preceded the setting up of the B.I.D.C. Sayers (1976) op. cit. pp 314-330.
- (2) Committee on Finance and Trade (1931) op.cit. See Chapter Three above.
- (3) Pigou 'The Classical Stationary State' Economic Journal 1943; Gottfried Haberler, Prosperity and Depression, Geneva: League of Nations 1941; Don Patinkin, 'Price Flexibility and Full Employment', American Economic Review 1948.

but the policy had not made much impression on the long term rates which he considered to be more important for investment.

If the problem of stimulating the desire of businessmen to invest could have been dealt with the problem of ensuring a flow of funds for investment remained. In periods of depression other forms of holding assets such as money, government securities or foreign investments appear more attractive than risky industrial stocks with low rates of return. The structure of the asset portfolio changes. The effect of the Government's raising money in such circumstances was considered by some to divert funds from industrial investment thus causing no increase in the net amount of investment undertaken. In its extreme form this view was linked to the concept of Say's Law which denied that any change in employment was possible from government intervention aimed at raising aggregate demand. In its weaker form it implied that government intervention would have the effect of raising interest rates in order to attract money from abroad or from idle balances. Keynes appeared to believe at the time of the publication of the Liberal Policy in 1929, that the mere raising of a large government loan would be sufficient to attract funds from abroad and out of idle balances and that there would be little interruption of the flow of funds to industry. He afterwards modified his views somewhat and advocated controls on the international flow of funds (1). The concept that there were situations when at the going rate of interest the demand for money to hold might become infinitely elastic was not discussed. This possibility was later built into the

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(1) CAB 58 150.

Keynesian model to provide an obstacle to the establishment of full employment equilibrium. The possibility that it might be difficult to raise funds was mentioned by industrialists many times, for example see the discussions with the railway managers and the iron and steel companies and local authorities. But banking interests strongly denied that any viable project had been held up because of lack of finance. To facilitate the flow of funds Government established the B.I.D.C.

The reconstruction policy was largely defensive being concerned with the orderly contraction of the declining industries: coal, cotton, and iron and steel. There were hopes that by reorganization and increased efficiency the industries could again compete successfully in international markets. As we saw in Chapter Two these industries faced vast changes in the supply and demand for the products. Many countries had become self-sufficient during the war period in coal and in cotton production and in addition, technological changes in the use of fuel and the introduction of new forms of energy had reduced the demand for coal. Production in Britain was probably less efficient than in competing countries but how much less is a matter for debate. Tales of ancient equipment in the cotton industry, small units in the iron and steel industry and the lack of mechanization in coal mining suggest that there was much to be done <sup>(1)</sup>. It has been estimated that an overall adjustment of about 10% in prices or exchange rates was necessary but for individual

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(1) Aldcroft (1970) *op.cit.* Lars Sandberg Lancashire in Decline, Columbus Ohio (1974).

industries much higher figures have been suggested. The iron and steel industry was thought to be about one-third to one-fifth less efficient than its foreign competitors and output per man shift in the coal industry was thought to be about one-third less than in other countries.

If prices had fallen how would exports have been affected? Whether or not exports were likely to have responded to lower prices depended upon the interaction of income and price effects and the protective strategies adopted by other countries. The problem in the coal industry was not confined to Britain. Poland was successful in increasing coal exports during this period; all other exporting countries suffered losses. The iron and steel industry asked for protection in return for reconstruction but it had been suggested that recovery in iron and steel came eventually from expansion in the domestic market in sectors not much affected by imports. The cotton industry never regained its share of world trade and has undergone a period of secular contraction for the past fifty years (1).

Keynes was dubious of the policy and considered it unlikely to have any great impact on the unemployment problem. His views were endorsed by the Committee of Economists' Report (2). The Government's response to this advice was such as to make one doubtful of the proposition that it was the dissension amongst the economists which was a major stumbling block to the implementation of policies. Here was a case where the advice of the economists was unanimous yet ignored largely because the industrial

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(1) Aldcroft (1970) op.cit.

(2) CAB 24 216 CP 363 (30).

and regional distribution of unemployment made it politically impossible for the Government not to associate itself with the reconstruction of these sectors. Attlee attempted to combine the public works programme and the reconstruction programme into a policy for industry in general; planned industrial development which Mosley, Boothby, Macmillan and others were so keen to develop. Keynes was cool towards such schemes seeing the problem in a depression as raising the level of demand (1). Yet these programmes would have generated an increase in capital investment giving rise to an increased income stream, the size of the increase depending upon the size of the multiplier. Presumably he felt that the rate of return on such projects would not be high enough to sustain the development.

The reconstruction policy could have been adapted to speed up the adjustment process by providing greater incentive to the newer industries which were being developed (2). The growing industries were chemicals, electrical engineering, vehicles, silk and rayons and electricity. These industries continued to grow throughout the depression accounting for 12.5% of net industrial output in 1924, and 19% in 1935. The motor industry, which Amery had been keen to develop in 1929, was an obvious possibility. Even without much help the industry did well, output falling only slightly during the bad years of 1931 and 1932, regaining its former level by 1933 and passing France and Canada to become the

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(1) CAB 58 2 10th Meeting, 11th December 1930.

(2) Aldcroft (1970) op.cit.

second largest producer later in the decade. The industry had become dependent upon the domestic market and provided 97% of the cars purchased. There was a movement towards standardization and both the number of firms and the number of models was reduced allowing advantages to be taken of the economies of scale <sup>(1)</sup>. Britain was rather behind in the exploitation of the benefits of electricity, largely because the technology employed in industry generally was out of date and also because the vast number of generating establishments led to high prices and inefficient supply: there were 45 different voltages. Yet the industry grew continuously and its prices fell, but as we saw above, the Government did not support the applications of the electricity industry. Accompanying the rapid adoption of electricity was the growth in the electrical appliance industry which almost trebled in the thirties.

Whilst one vast structural change was taking place in the older basic industries, another was taking place in the new industries. Yet the Government were not very successful in intervening in the process of either change in order to speed up or smooth out the process being bedevilled by the determination not to bail out industry. Reconstruction policy like public works was a policy which could only be effective in the long run. It was thus not very suitable for a short term cyclical depression but had a part to play in the long term adjustment problem.

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(1) D. Aldcroft (1970) op.cit. G. Maxcy & A. Silbertson The Motor Industry Allen & Unwin London 1959.

### International Trade

International trading relationships were dominated by the Labour Party's allegiance to free trade. In spite of the small majority gained by the Labour Party at the 1929 election, it was interpreted almost immediately by Snowden as a mandate to maintain free trade,

"you will find that in every constituency in the country where a Safeguarding Duty was in operation the protectionist candidate was overwhelmingly defeated or there was an overwhelming vote cast against Safeguarding". (1)

Snowden recalled the 1923 election when the Conservatives, fighting a protectionist campaign, did not get a mandate and subsequently modified their trade policy by advocating 'safeguarding' rather than a general tariff and avoiding trading restrictions affecting food. The allegiance of the Labour Party to free trade was strong and the issue had great emotive appeal to the electorate.<sup>(2)</sup> With the continuation of high unemployment attitudes changed and disagreements within the party emerged in 1930 in connection with the policy for a tariff truce, agricultural policy and Imperial trade. The discussions continued throughout the period and contributed to the general failure of decision making. A delay of three months was allowed to occur because Snowden was absent from the Cabinet meetings during the early part of 1931. The disagreements remained until the final Cabinet meetings of the administration when the idea of a revenue tariff was being mooted; faced with a choice, of reducing insurance benefits or a tariff, some of the free traders were willing to compromise; otherwise tariffs were resisted whether for revenue purposes or employment purposes.

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(1) Hansard 9th July 1929. vol. 229 cols. 747/750. Labour had 27 seats more than the Conservatives but no overall majority.

(2) Craig (1975) op. cit.

Attitudes in the Conservative Party hardened in favour of protection and Chamberlain announced plans for the introduction of protection in November 1930 after his party had won the Shipley by election. (1) Although the Samuelite Liberals were still adamant free traders Lloyd George was thought to be willing to accept some movement towards protection. Industrialists were frequently appealing for protection to ease their situation. Advice from the E.A.C., though divided, was moving towards the acceptance of some trading restrictions. The economists did not have the theoretical framework available to examine many of the special cases in which the general advantages of free trade would not apply (2) and did little to clarify the position for the politician.

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(1) Hansard vol. 244 col 508.

(2) The exception being the infant industry argument which was already well developed in the 19th Century.

Britain's share in world trade and trade as a portion of GNP had fallen considerably since 1913. Trade had suffered because of import substitution in the traditional markets and the introduction of new products. During the early thirties, this problem was accentuated by the erection of trade barriers in other countries. The extent of the structural problem has been discussed above e.g. employment in the coal industry had shrunk by about 50%. It is doubtful whether the market situation could accommodate adjustments of this size in anything but the very long run. The commodities in which Britain's trade was concentrated and the countries with whom Britain traded were both affected more than the average by the depression but Britain's share in world trade declined over a wide range of expanding as well as declining industries and in industrialized countries as well as less developed countries. This might indicate inefficiency or an over-valued currency.

Would import controls have achieved any improvement in Britain's economic position? Unlike exports, imports remained above the pre-war level. Eighty-three per cent of the imports came in duty free. Imports dropped fairly sharply after the imposition of the tariff but climbed again as the economy began to recover. The effect of a tariff on revenue and employment depends upon the income and price effects on the goods traded and the likely retaliatory actions. No estimates are available but it seems likely that by adopting some protection, some industries could have been helped and in addition, a revenue tariff either with or without the refinement of export subsidies suggested by Keynes to minimize the efficiency problem, could have eased the strain on the budget. These

policies were discarded because of the adherence to the free trade doctrine and also because of the bogey of retaliation <sup>(1)</sup>. Yet given the large market which Britain was providing for the goods of other countries, it would appear that the bargaining power was greater than the Government appeared to believe. Something could have been achieved if the Government had not allowed itself to believe that it could achieve nothing.

Trading policy instead of being a useful tool with which to ease a difficult employment situation was a policy goal. Free trade as a policy objective became predominant over the policy to reduce unemployment. Its potential as a policy to reduce unemployment is difficult to predict during the period but it is likely that the elasticity of demand for exports was much less than the Government believed and that given the high level of imports which held up in spite of the low economic activity, there was scope for either a revenue or a protective tariff.

#### Monetary and Fiscal Policy

Snowden was determined to fund some of the war debt on which the Government were paying high interest rates. <sup>(2)</sup> This together with establishing budgetary balance was the major task he set himself as Chancellor. He was not unsuccessful in these objectives for although estimates of budgetary balance do in fact show deficits of £10 and £32 million in

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(1) J.W. Richardson (1966) British Economic Foreign Policy. See for trading agreements and negotiations with the Scandinavian Countries.

(2) The 5% War Loan, which the Treasury and successive Chancellors were anxious to fund, was created in 1917. The outstanding balance, £2,100m, was 1/4 of the National Debt, and absorbed 2/5 of the income tax payments. The first maturity was in 1947 but, as this debt could be repaid at any time after 1st July 1929 at three months' notice, it had virtually acquired the liquidity of a Treasury Bill. It was thus a budgetary burden, because of high interest charges, and a potential drag on monetary policy, see Sayers (1976) op.cit. vol. II. 430-1.

1930 and 1931, the amounts were extremely small if one considers the amount of the debts liquidated out of revenue and the pressures upon the budget of the insurance fund which increased by 30% from 1929 to 1930 and still further in 1931 when it reached its peak (1).

The troubles in the American market in the Autumn of 1929 reversed for a while the flow of funds from London and this reduced the pressure on the pound and allowed interest rates to be reduced from 6½% to 3% in six months to May 1930. Great hopes were placed on the effect of this move. The floating debt had been reduced by £100 million and the Government were able to borrow at 2½% in April:

"Market conditions left to themselves should improve with the lower bank rate and easier money conditions which recent Government issues were themselves designed to foster". (2)

Conditions began to deteriorate in the Summer of 1930 but the bank rate remained low until the April of 1931 when the troubles in the European money market began. Whether the effect of this policy, if carried still further, could have achieved a great deal in terms of domestic activity, is dubious, although there was obviously some response by businessmen to low rates - it was a step in the right direction, probably not in itself

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(1) The 5% War Loan which the Treasury and subsequent Chancellors were anxious to fund was created in 1917. The outstanding balance, £2100m, was 1/4 of the National Debt, and absorbed 2/5ths of the income tax payments. The first maturity was in 1947 but the Government could give three months notice to deal in the debt from the 1st July 1929. Sayers(1976) p430-1.

(2) Feinstein (1972) op.cit.

(3) Cab 24 211 CF 134 (30).

capable of providing the necessary impetus to the economy. Norman doubted its effectiveness <sup>(1)</sup> and later Keynes came to believe that it was unlikely to be an effective policy instrument in conditions of acute uncertainty and lack of confidence; although it is thought to have contributed to the housing boom which was so important for economic recovery <sup>(2)</sup>.

Monetary stock rather than the rate of interest may be important in stimulating the economy but even the monetarists agree that it did not provide a very good explanation of output during the period, although it was more successful in explaining prices <sup>(3)</sup>.

Snowden was pleased that his budget in 1930 shifted the tax burden by raising the tax threshold from the poor to the rich. In spite of the strong feelings he had about free trade, he did not remove the safeguarding duties to the extent that had been expected for he needed the revenue.

Snowden did not deny that expansionary policies could affect the level of activity in the economy but he felt that such policies would have an adverse effect upon the distribution of income and put in jeopardy his

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(1) Committee on Finance and Industry, (1931) op.cit.

(2) S. Howson (1975), op.cit.

(3) Walters (1969), op.cit.

hopes of rationalizing the National Debt. In not being prepared to use the balance of the budget as a regulator in the economy, Snowden still had the option of expanding the budget whilst keeping it balanced and inducing expansionary effects at the same time. He was pressed to do this by Labour back benchers but was bewildered by the request for 'bigger' not smaller budgets (1).

It has in fact been asserted that Government policy during the period was expansionary, but no adequate statistical estimation has yet been undertaken on the various components of expenditure of the Government, for this assertion to be substantiated. Snowden's attempts at modest redistribution may have been movements in the right direction and more expansionary than he envisaged.

Although Keynes referred to reduced savings and increased unemployment benefits as having expansionary effects, he did not pursue the matter and the concept of the balanced budget continued to dominate fiscal policy until the forties when concepts and use of compensatory finance became part of economic management. This became possible in the managed war-time economy when with the statistical background provided by Clark's work it became possible to apply the ideas embodied in the General Theory. (3)

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(1) Snowden (1934) op.cit. p. 896.

(2) Robbins (1976) op. cit. pp 88/91. Winch (1969) op.cit. pp 347/8.

(3) Beveridge (1944) op.cit.

Attempts to balance the budget placed considerable constraints upon the implementation of the Labour Party's programme. In spite of the restraint, there was constant criticism of the public expenditure of the Government and Snowden said that he welcomed the May Committee's report as it would provide him with the support needed to implement the necessary cuts (1).

Snowden was against large loans which he saw as likely to interfere with his funding and on several occasions the 'Treasury View' was expressed though less dogmatically than in the months before the election in 1929. The Treasury View cannot be regarded as a major constraint on policy given the rate at which schemes were being suggested, the poor administration and implementation of schemes and the unwillingness of the Government to intervene in the process of public works directly.

Snowden grossly over-estimated the catastrophe which going off the gold standard entailed and by his fire and brim stone speech to the Cabinet during the crisis and his doctrinaire view of the revenue tariff he contributed to the break up of the Government and ironically to its replacement by an administration keen to introduce the protection which he hated!

There appears not much doubt from the evidence of Norman to the Macmillan Committee and from the actions of the Bank that banking policy was concerned almost entirely with international rather than national affairs and surely there were enough problems on that front to provide some justifications

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(1) ibid.

for their actions (1). Had the pre-occupation been indulged in by banking interests in New York and Paris, the crisis may have been avoided or at least cushioned. But for national and political reasons the other financial centres were unable to involve themselves with the international scene and contributed to the problem by curtailing lending. London took on the job of financing the depression by lending and backing up ailing currencies as far as possible (2). This was at a time when holders of sterling were liquidating balances and sources of funds available to the Bank, to finance its lending activities were drying up (3). The wisdom of the bankers' policy in this respect is questionable.

The management of the gold standard was very much part of the budgetary strategy. Even Keynes was against the expansion of Government expenditure in the Spring of 1931 (4). Few, Keynes, Bevin and Citrine being notable exceptions, questioned the importance of maintaining the exchange rate. It is interesting to contemplate the effects upon Britain of a devaluation of 10%, the figure usually mentioned as representing the likely imbalance. Without constructing some very elaborate tests, it is difficult to estimate the effects of the devaluation because of the barrage of policies which would have accompanied the change. The effect would depend upon the elasticity of the

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- (1) Norman was already involved with the problems of reconstruction of industry before the setting up of the B.I.C.D. C. Sayers (1976) vol 1 pp 314-330, vol 11-546-7.
- (2) Kindleberger (1972), op.cit. p. 28
- (3) Williams (1963), op.cit. p 525
- (4) CAB 58 2 12th March 1931.

demand for exports and imports with respect to price and upon the income effects and the retaliatory strategies of other countries. Thomas's estimates of these elasticities suggest that they are slightly below one thus, the expansionary effect of a devaluation would probably have been small (1). The return of the gold standard is seen by some, Robbins and Johnson, to have been the main problem of the period but these estimates would appear to call into question such views.

International co-operation was one policy which might have had considerable effect upon the problem, but the countries, U.S.A. and France, which could have had some impact were not willing for domestic or political reasons to intervene. In spite of his interest and expertise in international affairs, MacDonald was not willing to initiate action for fear of worsening the confidence problem still further.

When international action did take place in the form of the Hoover Moratorium and the London Conference, it was too late to prevent the crisis in the international money market.

### Labour Supply

The Labour Party policy to rationalize the supply of labour by raising the school leaving age and lowering the retirement age floundered badly. The one failed for technical Parliamentary reasons

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(1) Thomas (1975), op.cit.

involving the difficulties in accommodating the voluntary schools, and possibly some lack of commitment by the Government. The other failed because of the constraints imposed by budgetary policy.

Migration policy was handicapped as the depression became a nation-wide and world-wide phenomenon. Various countries accepted fewer and fewer migrants as conditions domestically became more serious and the incentives to move became less (1). Internally, the transfer policy and the re-training programme did not have a great impact on the problem and although voluntary movements did occur - from Wales in particular - these were not large enough to provide a solution. Migration, although generally moving in a stabilizing fashion, has seldom been sufficient to remove even modest regional imbalances and has been shown to aggravate the problem in certain circumstances (2).

#### Alleviation of Distress

Apart from filling in gaps in the coverage of the scheme, little was done to improve the support for the unemployed, except the increase in the real value of the benefits which occurred as a result of the falling price level. The introduction of the new Act (1930) provided an opportunity for persons other than those whom the Government had in mind to benefit, and led to the great debate about 'abuse' which so embarrassed the Government in its last year.

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(1) Drummond (1974), op.cit.

(2) E.J. Mishan and L. Needleman. (1968) op. cit.

Whilst the objective was to balance the budget, it was difficult to see what more could have been done, but one feels that more confident action would have avoided some of the more acrimonious debates and attracted less attention than constant appeals for borrowing powers.

The failure to accept the unemployment situation of 1930 and 1931 as a cyclical aberration of dimensions such as to put it beyond the actuarial scope of the scheme, caused a crisis of confidence in the management of the Unemployment Insurance Fund. The constant appeals for extended loan facilities caused Parliamentary difficulties which led to the setting up of the May Committee and eventually of the fall of the Government.

#### Summary

"The Labour Party is ready to fight the election with unemployment as the acid test. It is ready to put its record against the records of Mr Baldwin and Mr Lloyd George or to be judged on the comparison of its plans with those of either of the other policies". (1)

Unemployment policy during the period 1929-31 failed so far as it did not achieve much in terms of either provision of work or maintenance of the unemployed. The mere numbers of unemployed give some evidence of this failure but as little numerical change could be expected during the depths of the world depression, one might use less severe criteria to judge Government policy such as evidence that some action had been taken which would have made an impact upon the problem. Although there was endless discussion, there is little evidence of any decisive action. Whilst not achieving much in a positive way to cure unemployment, Government policy did little to aggravate the problem.

(1) Labour - the Nation Opinion

The policy to maintain the standards of the unemployed and the modest public works programme accompanied by budgetary policy which was probably more expansionary than intended, possibly prevented the catastrophic unemployment which might have occurred had a deflationary policy been implemented. Kindleberger (1), acknowledges the importance of Britain's efforts to stabilize the international monetary situation at a time when the U.S.A. and France were unable or unwilling to do so.

Investigators into the extent and dimension of depression in the thirties have been encouraged, by the stability of GNP, and instances of the growth areas, to question the severity of the depression in Britain which is compared favourably to that in other industrial countries (2). One does not wish to get involved in historical riddles about when a depression is not a depression but in spite of the existence of growth sectors in the economy and the relative stability of GNP, there is no doubt that during the twenties and thirties, Britain's economy was operating far below its full employment growth path. The loss involved in this under utilization of capacity was estimated by Keynes to have been in the region of £200 million per year (3) approximately 5% of G.N.P. Government policy during 1929-31 did not move the economy towards its full employment growth path.

(1) Kindleberger (1973), op.cit. p28

(2) Richardson and Aldcroft (1969), op.cit.

(3) Committee on Finance and Industry (1931) op. cit.

This failure is often attributed to the inadequacy of economic theory and its failure to provide support for radical policies which might have eased the situation. This explanation, which provides an exciting scenario for competing Keynesian and Classical systems, has been over-estimated in the literature, which has focused upon the potential of policies advocated by Lloyd George, Keynes and Mosley and has neglected the inter-play of factors affecting policy formulation. It raises two questions: would radical policies would have been effective and did the development of economic theory crucially affect policy formulation? The answer to the former is debatable but Thomas's estimations do not make one optimistic about their potential. (1) Although the weakness of economic theory did contribute to the Government inaction during the period, the weakness provides neither a necessary nor a sufficient explanation of the failure of Government policy. The Government's objectives were incompatible and resulted in a policy dilemma which the administration was not able to resolve. As we saw in earlier chapters, academics even at LSE, which is usually regarded as the reactionary cell of the period, were discussing Robertson's Banking Policy and the Price Level, and had expressed considerable open-mindedness about the relationship of the real and monetary sectors of the economy and the workings of the economy when it was out of equilibrium. Crude versions of the 'Treasury View' were also disclaimed by the most influential economists and by the Labour Party.

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(1) Thomas (1975) op.cit. pp 81-193.

The 'Treasury View' is often quoted as being the central problem involved in the debate but study of the period suggests that this was not a dominating issue. The absence at this time of theories of compensatory budgetary finance placed greater limitations on policy. Even Keynes, though mentioning the potential of changes in savings and unemployment benefits did not develop the policy along these lines and possibly distracted by problems of confidence continued to argue for a policy to 'secure the budget' (1). Clarification on the issue of price movements and the multiplier concept would have added support and realism for the expansionist's case but these issues were not crucial in determining policy; and other aspects of economics such as cost-benefit analysis might well have proved equally potent in getting the public works programme underway. Whilst this lack of understanding may have led them to take less positive action, it did not preclude them from going ahead with a development programme. The programme floundered because the Government failed to give high enough incentives to make schemes attractive to local authorities and were unwilling to assume central control for fear of damaging local authority autonomy. The reconstruction policy again provided scope for a large government investment programme which they did not embark upon being unwilling to aid industry or assume control; preferring to provide the channel for credit and leave industrialists to initiate action. Economic theory also failed to illuminate areas in the debate concerning international trade and left the debate largely to polemicists.

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(1) CAB 58 2.

These weaknesses in economic theory and policy proposals did contribute to policy failure but it would be technocratic to assume that they were crucial. The Government policy portfolio contained radical proposals which they failed to implement, not because of deficient economic theory or advice but because of the acceptance of other policy goals which were incompatible with policies to contain unemployment. These goals: the maintenance of the gold standard, free trade, balanced budgets, constrained unemployment policy throughout the period and finally proved to be the dominating objectives of the Government.

In addition to these incompatible policy objectives the administration were averse to taking decisions involving any sort of compromise. They were unaware of or unwilling to accept even modest policy trade-offs i.e.  $\frac{1}{4}$ d on a loaf. They sought support from all quarters for decisions which they considered would be unpopular, seeking to involve experts even on issues about which they had adequate information and expertise.

The questions asked of experts were badly formulated, they were too wide and were not posed in a way in which experts could make a useful contribution. Factual and policy implications of problems were confused and the experts were left to reconcile conflicting issues. Thus the Government abrogated their responsibility for formulating economic policy.

Interventionist strategies necessary to contain unemployment required a different approach to economic policy from the one adopted by the administration. The ad hoc approach to unemployment policy was not adequate for as J.H. Thomas said in his final memorandum as Lord Privy Seal,

"The whole of Government policy is its unemployment policy, since the economic reactions of nearly every Government measure are bound to be reflected for good or evil in the unemployment figures". (1)

What was required was comprehensive economic management - not necessarily control - capable of manipulating all the policy instruments to maintain the economy at as high a level of activity as external conditions would allow. The administration did not conceive of the problem in these terms and did not have the expertise necessary to achieve this sort of economic management. Individual countries, of the size and structure of Britain, may well be incapable of affecting world prices in either an upward or downward direction but economic management can operate to contain the problem internally to some extent. In difficult external conditions, the administration, because of its adherence to certain economic and political philosophies, was unable to put forward policy strategies which would have eased the unemployment problem which they had set out to cure.

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(1) CAB 24 212 CP 178 (30)

APPENDICES



Ministers not in Cabinet

Chancellor of the Duchy of Lancaster: Sir O. Mosley  
Clement Attlee from  
23rd May 1930  
Lord Ponsonby from  
13th March 1931

Paymaster General : Lord Arnold  
Pensions : F. Roberts  
Postmaster General : H. Lees-Smith  
Clement Attlee from 2nd March 1931.

Table 1a

Percentage of insured workers unemployed each month 1923-39

United Kingdom

Percentages

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept	Oct.	Nov.	Dec.	Yearly Mean
1923	13.3	12.4	11.7	11.5	11.2	11.3	11.6	11.8	11.7	11.7	11.5	10.6	11.7
1924	11.9	10.6	9.8	9.7	9.4	9.3	9.8	10.5	10.6	10.9	10.8	10.7	10.3
1925	11.2	11.3	11.1	10.9	10.9	11.9	11.2	12.1	12.0	11.4	11.0	10.4	11.3
1926	11.0	10.4	9.8	9.1	14.3	14.6	14.4	14.0	13.7	13.6	13.5	11.9	12.5
1927	12.0	10.9	9.8	9.4	8.7	8.8	9.2	9.3	9.3	9.5	9.9	9.8	9.7
1928	10.7	10.4	9.5	9.5	9.8	10.7	11.6	11.5	11.3	11.7	12.1	11.1	10.8
1929	12.2	12.1	10.0	9.8	9.7	9.6	9.7	9.9	9.9	10.3	10.9	11.0	10.4
1930	12.4	12.9	13.7	14.2	15.0	15.4	16.7	17.0	17.5	18.5	18.9	19.9	16.1
1931	21.1	21.3	21.0	20.4	20.3	21.2	21.9	21.9	22.4	21.7	21.2	20.7	21.3
1932	22.2	21.9	20.8	21.3	22.0	22.2	22.8	23.0	22.8	21.9	22.2	21.6	22.1
1933	23.0	22.7	21.9	21.3	20.4	19.4	19.5	19.1	18.4	18.1	17.9	17.5	19.9
1934	18.6	18.1	17.2	16.6	16.2	16.4	16.7	16.5	16.0	16.3	16.3	16.0	16.7
1935	17.6	17.5	16.4	15.6	15.5	15.4	15.2	14.9	14.9	14.5	14.5	14.1	15.5
1936	16.2	15.3	14.2	13.6	12.8	12.8	12.4	12.0	12.1	12.0	12.0	12.0	13.1
1937	12.4	12.0	11.6	10.5	10.7	10.0	10.1	9.9	9.7	10.1	10.9	12.1	10.8
1938	13.2	13.1	12.7	12.7	12.8	13.2	12.9	12.6	12.8	12.7	13.0	12.9	12.9
1939	14.2	13.3	12.2	11.5	10.5	9.6	9.0	8.7	9.1	9.6	9.5	9.1	10.5

Source: British Labour Statistics Historical Abstract Table 160

Table 2a

## Percentage of insured workers unemployed, by industry 1923-1939

United Kingdom

Industry	Averages of the percentages in January and July each year, excluding workers under 16																
	1931	1923	1924	1925	1926	1927	1928	1929	1930	1932	1933	1934	1935	1936	1937	1938	1939
Fishing	18.0	12.0	14.1	12.5	16.7	13.8	11.6	11.8	13.3	22.0	22.8	23.2	21.1	22.0	24.2	26.4	24.6
Coalmining	28.4	3.0	5.8	11.5	9.5	19.0	23.6	19.0	20.6	34.5	33.5	29.7	27.2	22.8	16.1	16.7	12.5
Brick, tile, pipe, etc manufacture	18.0	7.6	7.9	6.8	15.2	6.9	12.4	11.5	13.0	21.5	20.2	13.3	11.9	11.7	8.2	9.1	10.9
Pottery, earthenware, etc	36.3	13.2	13.3	18.1	38.6	16.6	18.6	17.0	23.7	36.2	30.9	23.8	22.3	21.8	17.5	20.7	22.0
Chemicals	17.6	11.8	9.9	9.1	10.9	7.2	6.1	6.5	10.0	17.3	15.2	11.3	11.0	9.2	6.8	7.4	6.4
Pig iron	37.7	10.1	14.1	21.5	43.4	16.4	18.7	14.4	20.3	43.8	41.5	27.7	22.3	16.0	10.7	12.9	17.6
Steel melting and iron puddling, and iron and steel rolling and forging	45.5	21.2	22.0	25.0	40.4	19.4	22.4	20.1	28.2	47.9	41.5	27.3	23.5	17.4	11.4	19.5	15.1
General engineering: engineers' iron and steel founding	27.0	20.5	16.9	13.3	15.1	11.8	9.8	9.9	14.2	29.1	27.4	18.4	13.6	9.6	5.8	7.0	6.6
Electrical engineering	14.1	7.3	5.5	5.6	7.5	5.9	4.8	4.6	6.6	16.8	16.5	9.6	7.0	4.8	3.1	4.7	4.4
Construction and repair of motors, cycles and aircraft	19.3	9.7	8.9	7.1	8.2	8.1	8.1	7.1	12.1	22.4	17.6	10.8	9.0	6.9	5.0	7.2	4.4
Shipbuilding and repairing	51.9	43.6	30.3	33.5	39.5	29.7	24.5	25.3	27.6	62.0	61.7	51.2	44.4	33.3	24.4	21.4	20.9
Stove, grate, pipe, etc and general iron-founding	24.8	17.7	13.2	11.4	14.7	10.0	12.0	10.9	14.7	28.5	25.0	15.3	14.4	9.8	7.0	12.7	11.9
Electric cable, apparatus, lamps, etc manufacture	13.9	16.2	7.7	7.2	7.4	7.7	5.6	5.3	7.5	13.3	14.5	10.0	8.8	7.9	5.0	8.1	6.2
Cotton textiles	43.2	21.6	15.9	8.8	18.3	15.4	12.5	12.9	32.4	30.6	25.1	23.7	22.3	16.7	10.9	23.9	16.9
Wool textiles	33.8	9.5	8.4	16.9	17.4	11.0	12.0	15.5	23.2	22.4	17.0	17.8	15.5	10.3	8.8	21.3	11.0
Linen textiles	35.3	19.8	11.8	25.0	28.2	12.2	19.8	15.7	25.2	29.7	23.1	17.7	24.0	21.4	16.2	40.3	21.5
Hosiery manufacture	20.8	7.9	7.4	9.8	10.3	7.6	5.8	7.1	12.5	13.5	12.8	10.9	13.7	9.4	8.1	12.6	7.9
Tailoring	17.7	6.7	10.4	11.9	11.2	9.2	9.2	10.0	12.3	17.6	18.2	16.3	15.4	13.8	12.3	15.5	12.6
Dressmaking and millinery	9.7	6.3	8.6	9.0	7.7	6.2	5.9	6.1	6.6	11.5	11.7	8.9	8.3	8.8	7.5	9.2	9.4
Boots, shoes, etc, manufacture	22.2	10.6	8.6	11.3	11.5	11.3	13.4	15.5	15.2	18.0	19.5	21.4	17.1	14.6	12.1	14.3	10.4
Bread, biscuits, cakes etc manufacture	12.4	9.9	9.8	9.3	8.4	7.2	6.6	7.2	9.1	12.2	11.8	10.7	10.6	10.3	8.7	8.8	8.3
Drink industries	12.9	6.4	6.8	6.9	6.3	6.3	6.2	6.8	8.7	14.4	13.1	10.9	10.6	9.6	7.7	8.0	7.4
Sawmilling and machined woodwork	18.4	11.5	10.6	9.8	11.1	8.4	9.2	10.0	11.9	22.0	20.0	16.8	15.8	13.6	10.7	11.9	11.2
Furniture manufacture and upholstery	19.0	7.8	8.2	6.9	7.8	6.5	5.9	6.5	10.0	21.7	20.6	15.4	15.9	11.6	9.8	13.4	12.8
Printing, publishing, and bookbinding	9.8	5.6	5.6	5.2	5.4	5.2	4.6	4.6	6.0	11.0	10.3	9.2	8.7	8.1	6.7	6.9	7.1
Building	22.7	12.2	12.5	10.5	12.1	11.1	13.9	14.3	16.2	30.2	29.0	21.3	19.7	19.8	14.6	16.7	17.6
Gas, water and electricity supply	8.9	7.2	6.3	6.2	6.0	5.4	5.8	6.1	7.0	10.9	11.0	10.1	10.4	9.7	8.3	8.3	7.7
Railway service	12.1	6.0	6.4	6.5	12.3	6.1	6.5	6.5	6.9	15.7	16.7	12.3	10.0	8.5	6.5	7.3	8.4
Tramway and omnibus service	5.0	3.1	3.1	3.6	4.3	3.7	3.1	3.1	3.8	5.9	6.1	5.6	4.8	4.0	3.3	3.2	3.1
Other road transport	19.3	17.3	15.6	13.9	14.0	11.8	11.7	12.0	14.8	22.2	22.6	20.1	18.7	16.1	12.3	12.5	11.9
Docks, harbours, canals etc service	39.8	27.5	25.8	29.0	29.7	24.5	29.1	30.7	33.4	33.3	33.3	31.1	31.0	29.3	27.5	25.0	24.1
Distributive trades	11.6	5.9	6.4	6.7	6.7	5.5	5.5	6.2	8.1	12.6	12.4	11.3	11.3	9.8	8.9	9.2	9.0
National government service	10.3	11.1	9.8	8.2	7.3	6.2	6.2	6.9	8.2	12.4	13.3	14.5	13.8	12.9	11.7	12.1	10.0
Local government service	13.7	6.0	6.9	8.6	9.0	8.2	8.6	9.6	10.7	18.2	19.6	20.3	20.2	19.7	17.6	17.2	14.6
Hotel, public house, club, etc service	17.6	9.8	11.3	11.4	9.0	7.9	7.6	8.7	11.8	17.5	16.7	15.2	15.5	15.0	13.9	15.5	15.3
Laundry and dry cleaning service	9.8	5.0	5.8	5.8	4.5	4.1	3.8	4.3	6.1	9.4	9.0	7.7	7.6	6.9	6.0	6.8	7.0

Table 3a

Unemployment in industry as a proportion  
of total unemployment

	Thousands					
	Aged 16-64 in United Kingdom					
	1927	1928	1929	1930	1931	1932
Agriculture	-	-	-	-	-	-
Fishing	.3	.2	.2	.1	.2	.2
Mining and quarrying	22.4	24.2	18.3	14.1	14.8	16.0
Manufacturing						
Non-metalliferous mining products	.4	.4	.4	.4	.4	.5
Brick, tile, pipe, etc making	.4	.7	.6	.5	.5	.7
Pottery, earthenware, etc	.9	.9	.9	1.1	1.1	.9
Glass	.5	.4	.4	.4	.4	.4
Chemicals, paints, oils, etc	1.3	.9	1.2	1.2	1.2	1.1
Metal manufacture	5.3	4.3	4.5	4.4	4.9	4.6
Engineering, etc	6.7	5.4	5.4	5.9	7.8	7.5
Construction and repair of vehicles	1.6	2.0	1.8	2.1	2.5	2.5
Shipbuilding and ship repairing	4.8	4.3	3.9	3.3	4.1	4.0
Other metal industries and trades	4.3	3.7	3.5	4.3	4.7	4.4
Textiles	10.0	12.4	14.0	22.0	16.8	12.3
Leather and leather goods	.5	.4	.5	.5	.5	.4
Clothing	2.2	3.1	3.1	2.9	2.9	2.9
Food, drink and tobacco	3.4	2.8	3.0	2.8	2.7	2.5
Woodworking, etc	1.1	1.1	1.3	1.3	1.5	1.7
Paper, printing etc	1.7	1.1	1.3	1.4	1.7	1.5
Other manufacturing industries	.8	.7	.8	1.0	1.1	1.0
Total manufacturing	45.8	44.7	46.8	55.4	54.8	48.9
Building and contracting	7.3	8.6	8.6	7.8	7.9	11.5
Gas, water and electricity supply	.8	.7	.8	.6	.5	.7
Transport and communications	8.8	8.4	9.3	7.0	6.6	6.6
Distributive trades	6.8	6.4	7.9	7.4	7.5	7.9
Commerce, banking, insurance and finance	.5	.4	.4	.4	.5	.5
Miscellaneous service	5.5	4.4	4.9	5.2	5.3	5.3
Local government service	1.5	1.5	1.8	1.5	1.5	2.0
National government service	.7	.7	.6	.5	.4	.5

Source: Computed from British Labour Statistics Historical Abstract

Table 5a

THOUSANDS

## Numbers of insured employees in employment at each mid year by industry 1923-1938

	1923	1924	1925	1926	1927	1927*	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	
Agriculture																	675.8	682.8
Fishing	22.4	23.6	24.2	22.8	25.3	24.5	25.0	25.4	25.2	26.2	24.2	25.6	25.6	27.0	28.6		28.2	26.1
Mining and quarrying	1,305.9	1,295.3	1,015.4	1,183.2	1,057.9	1,035.5	911.2	968.4	907.3	752.5	694.5	715.1	707.4	722.4	711.3	794.3	795.4	795.4
Manufacturing -																		
Non metalliferous mining products	38.0	37.7	39.2	34.8	44.0	42.2	40.8	44.2	41.0	37.6	36.4	37.9	41.9	45.7	48.8	54.9	55.2	55.2
Brick, tile, pipe, etc making	56.2	66.6	73.9	63.3	82.9	78.5	72.8	74.9	74.6	73.8	69.1	76.2	85.4	90.4	94.0	98.9	93.5	93.5
Pottery, earthenware, etc	64.3	65.9	60.0	30.3	62.5	60.2	59.2	63.7	58.0	50.0	48.2	53.9	57.7	58.3	59.3	65.0	61.0	61.0
Glass	35.5	39.3	38.8	34.5	38.7	37.7	36.5	40.0	38.1	34.9	35.3	38.3	41.2	40.3	43.0	46.0	44.0	44.0
Chemicals, paints, oils etc	192.2	196.1	194.3	186.0	199.2	192.2	202.9	204.6	195.3	180.8	185.7	192.6	194.2	194.3	201.7	217.0	227.0	227.0
Metal manufacture	299.6	302.7	270.1	171.5	283.4	277.2	266.8	271.9	243.3	178.6	173.3	200.4	236.9	234.2	255.3	305.9	257.7	257.7
Engineering, etc	654.6	669.3	629.3	622.7	692.0	668.4	675.2	694.7	656.9	543.2	510.6	515.6	585.6	608.4	653.2	783.2	775.0	775.0
Construction and repair of vehicles	246.3	261.7	276.6	265.9	292.6	287.6	285.2	297.2	260.5	252.9	247.3	268.6	299.1	312.7	354.1	393.0	428.3	428.3
Shipbuilding and ship repairing	151.0	150.4	155.5	125.5	164.7	158.8	147.1	158.6	141.9	84.8	67.5	65.9	80.7	89.5	114.5	133.3	140.0	140.0
Other metal industries and trades	415.6	445.2	452.5	444.0	472.9	460.4	462.7	487.2	474.2	441.4	450.8	488.4	546.7	579.2	627.8	701.4	658.6	658.6
Textiles	1,116.9	1,176.3	1,153.1	1,017.5	1,221.5	1,191.7	1,154.3	1,152.2	918.0	861.6	919.3	991.7	978.0	971.3	1,000.2	1,045.8	816.8	816.8
Leather and leather goods	62.2	63.5	61.1	56.9	63.3	62.5	62.4	61.5	57.5	52.9	55.7	60.8	63.9	63.3	67.0	69.8	62.2	62.2
Clothing	538.1	544.7	544.9	534.1	561.1	552.4	536.8	545.1	531.6	528.9	524.3	549.8	543.8	541.7	554.9	567.7	547.1	547.1
Food, drink and tobacco	455.1	468.4	477.7	452.7	487.1	476.6	471.6	477.3	472.6	461.2	465.3	489.4	493.1	494.5	503.4	530.9	534.2	534.2
Woodworking etc	172.4	179.0	182.8	183.1	195.9	190.7	194.0	199.3	193.9	185.3	181.7	185.8	203.3	202.5	216.7	225.9	220.3	220.3
Paper, printing, etc	326.6	341.3	343.4	349.0	361.2	352.5	360.1	371.9	372.5	366.1	374.7	383.9	388.9	389.8	398.6	426.1	412.0	412.0
Other manufacturing industries	115.9	121.4	127.4	116.8	136.8	132.9	140.8	146.9	139.3	127.7	126.1	137.7	141.7	142.0	144.3	149.2	141.5	141.5
Total manufacturing	4,940.4	5,159.1	5,141.7	4,727.5	5,367.7	5,224.5	5,169.3	5,291.3	4,889.3	4,451.7	4,471.2	4,736.9	4,979.0	5,058.1	5,386.8	5,809.0	5,504.7	5,504.7
Building and contracting	729.7	720.9	834.3	870.3	937.8	893.7	867.5	890.4	871.5	941.7	819.5	866.3	943.1	1,001.8	1,087.8	1,119.1	1,241.2	1,241.2
Gas, water and electricity supply	160.0	161.4	167.5	173.0	162.9	155.3	153.8	153.0	154.2	159.3	155.3	164.1	177.8	180.1	193.0	202.7	205.2	205.2
Transport and communications	674.9	660.5	677.2	645.6	705.1	681.1	679.9	698.8	687.5	694.4	687.4	675.7	711.9	727.9	764.9	795.7	777.4	777.4
Distributive trades	1,180.5	1,277.0	1,379.3	1,414.8	1,509.3	1,482.1	1,532.6	1,566.9	1,622.1	1,672.3	1,726.6	1,766.9	1,801.1	1,799.4	1,859.7	1,895.4	1,911.2	1,911.2
Commerce, banking, insurance and finance	216.8	217.2	213.6	213.9	218.0	216.7	217.0	222.9	224.8	224.8	231.6	236.0	246.2	249.6	251.9	260.4	263.2	263.2
Miscellaneous services	559.9	609.2	645.5	659.6	694.5	651.8	695.8	728.6	729.8	757.6	766.6	809.8	836.4	825.4	874.0	1,105.7	1,105.7	1,105.7
Local government service	227.6	227.7	235.1	233.7	246.6	228.8	236.5	253.4	279.1	291.8	282.7	291.8	294.6	294.9	305.0	315.6	333.3	333.3
National government service	160.0	144.9	148.6	140.5	128.5	123.2	113.6	113.3	103.1	109.9	107.3	98.7	97.4	105.8	115.9	130.3	168.4	168.4
All industries and services	10,188.1	10,576.8	10,453.5	10,259.9	11,061.6	10,745.2	10,605.1	10,930.3	10,499.0	10,065.1	9,967.0	10,386.9	10,835.6	11,051.0	11,631.2	13,002.4	12,972.6	12,972.6
Other insured persons in employment														915.9	924.8	932.2	851.9	851.9
Total insured employees in employment	10,188.1	10,576.8	10,483.5	10,289.9	11,061.6	10,745.2	10,608.1	10,930.3	10,499.0	10,065.1	9,967.0	10,386.9	10,835.6	11,969.9	12,556.0	13,934.6	13,824.5	13,824.5

\* estimated

Source: British Labour Statistics Historical Abstract. H.M.S.C. 1971

Table 6a

Activity Rates - Great Britain

		under 20	20-24	25-44	45-64	65 +	All Ages
<u>Males and Females</u>							
1901		-	76.0	61.1	55.5	34.1	-
1911		-	78.7	62.4	56.2	30.9	-
1921	(12-19)	55.8	78.3	60.4	56.0	30.9	58.1
1931	(14-20)	77.6 (21)	80.7	62.5	54.7	25.3	60.7
1951	(15-19)	81.3	79.7	66.7	59.5	15.9	59.6
<u>Males</u>							
1901			97.4	98.1	93.5	61.4	
1911			97.3	98.1	94.1	56.8	
1921	(12-19)	63.2	97.0	98.5	94.9	58.9	87.1
1931	(14-20)	84.7	97.2	97.9	94.3	47.9	90.5
1951	(15-19)	83.8	94.9	98.3	95.2	31.1	87.6
<u>Females</u>							
1901			56.7	27.2	21.1	13.4	
1911			61.9	29.3	21.6	11.5	
1921	(12-19)	48.4	62.4	28.4	20.1	10.0	32.3
1931	(14-20)	70.5	65.1	30.9	19.6	8.2	34.2
1951	(15-19)	78.9	65.4	36.1	28.7	5.3	34.7
<u>Married Females</u>							
1901							
1911	(15-19)	12.6	12.1	9.9	9.3	4.9	9.6
1921	(15-19)	14.6	12.5	9.9	8.0	4.2	8.7
1931	(16-20)	18.7	18.5	11.7	7.7	2.9	10.0
1951	(16-20)	38.1	36.5	25.1	19.0	2.7	21.7

Source: Table 109

British Labour Statistics - Historical Abstract  
1886-1968.

Table 7aNet Migration to the United Kingdom

1924	- 91,000
1925	- 84,000
1926	- 116,000
1927	- 98,000
1928	- 78,000
1929	- 87,000
1930	- 26,000
1931	+ 37,000
1932	+ 49,000
1933	+ 33,000
1934	+ 21,000
1935	+ 16,000

Source: B.R. Mitchell and P. Deane

Abstract of British Historical  
Statistics Cambridge 1962.

P.

Table 8a  
INDUSTRIAL PRODUCTION

	Manufacturing	Mining Quarry	Construction	Electricity Gas Water	<u>Output per man year</u>	
					G.D.P.	Industrial Product
1920	31.6	113.3	30.2	12.3	59	41
1921	24.6	81.2	41.7	11.3	59	41
1922	28.7	120.8	34.5	11.6	63	46
1923	30.7	134.6	28.8	12.5	63	46
1924	33.7	131.8	45.5	13.6	66	51
1925	34.8	121.6	58.2	14.3	68	53
1926	33.7	67.4	67.6	14.9	67	53
1927	37.0	126.4	74.4	15.9	69	56
1928	37.2	120.2	59.9	16.8	69	55
1929	38.7	130.6	64.8	17.8	69	57
1930	37.0	124.2	59.8	18.1	70	58
1931	34.5	111.9	56.5	18.6	68	57
1932	34.7	106.2	53.3	19.1	68	58
1933	37.2	106.4	61.9	20.2	70	59
1934	40.7	114.1	69.8	21.7	72	62
1935	44.6	115.4	71.5	23.7	73	65
1936	48.5	119.3	78.3	26.2	76	67
1937	51.2	125.8	81.6	28.3	74	68
1938	49.9	119.6	78.3	29.4	74	67

Source: The British Economy - Key Statistics 1900-1970 Table C.

Table 9a

GROSS DOMESTIC FIXED CAPITAL FORMATION

	Fuel Power Water	Transport and Communication	Public Services	Dwellings	Manufac- turing	Distribution Financing Agriculture	Total Public Sector	Total
	£M at 1963 prices							
1920	98	337	51	155	315	190	214	1,152
1921	127	291	65	313	337	158	393	1,289
1922	152	349	91	280	242	105	373	1,217
1923	174	291	106	255	215	161	299	1,205
1924	190	355	117	364	215	167	342	1,417
1925	215	394	135	455	300	135	443	1,630
1926	190	236	132	573	257	134	505	1,512
1927	215	355	136	625	268	141	548	1,732
1928	196	450	136	489	289	201	481	1,759
1929	244	378	165	555	275	202	478	1,815
1930	269	316	204	518	259	222	528	1,785
1931	292	242	234	543	219	219	564	1,743
1932	266	145	168	547	215	158	458	1,493
1933	248	68	139	714	208	150	396	1,512
1934	258	178	150	802	314	190	431	1,876
1935	276	236	165	764	307	223	493	1,959
1936	296	363	204	760	356	204	583	2,172
1937	268	361	253	710	437	194	684	2,213
1938	283	402	274	701	393	243	735	2,289

Source: The British Economy Key Statistics 1900-1970, Table J.

Table 10a

## Government Accounts

	Income Tax	Total Receipts	National Insurance Benefits	Total Expenditure	£m Balance of Budget
1926	308	812	80	820	- 8
1927	296	841	78	789	+ 52
1928	286	857	88	804	+ 53
1929	295	864	98	838	+ 26
1930	303	872	130	882	- 10
1931	328	874	154	906	- 32
1932	352	912	125	886	+ 26

Source: Feinstein (1972) op. cit.

Table 11a

## COST OF LIVING INDEX

Bases? &gt;

	All items	Food	Rent	Clothing
1920	249	256	121	416
1921	226	230	148	303
1922	183	176	153	238
1923	174	169	148	222
1924	175	170	147	225
1925	176	171	147	229
1926	172	164	149	221
1927	167	160	151	214
1928	166	157	152	219
1929	164	154	153	218
1930	158	145	154	211
1931	147	131	154	196
1932	144	126	156	189
1933	140	120	156	184
1934	141	122	157	186
1935	143	125	159	187
1936	147	130	159	189
1937	154	139	160	202
1938	156	140	162	209

## PRICES

	Retail	Wholesale	Capital goods
1920	52	79	112
1921	47	50	36
1922	38	41	32
1923	37	41	28
1924	37	43	26
1925	37	41	26
1926	36	38	26
1927	35	36	24
1928	35	36	24
1929	35	35	24
1930	33	30	24
1931	31	27	23
1932	30	26	23
1933	30	26	23
1934	30	27	22
1935	30	27	23
1936	31	29	23
1937	32	33	26
1938	33	30	26

Source: The British Economy Key Statistics.

9

Table 12a

Wages and Profits

	A	B	C	D	E	F
	Indices Weekly Hours	Indices Weekly wage Rates	Indices Hourly Rates	Average Weekly Earnings £.	Profits U.K. Companies £M	Profits Public Corporations £M
1920	106.9	53.6	53.1	4.69	520	23
1921	106.9	53.0	41.2	4.64	267	25
1922	107.3	38.8	33.9	4.22	442	38
1923	107.3	35.9	33.5	4.23	478	40
1924	107.5	37.0	34.4	4.11	475	38
1925	107.3	37.3	34.6	4.09	450	39
1926	108.6	37.1	34.3	4.08	404	38
1927	108.6	36.8	33.7	4.06	461	47
1928	108.6	36.3	33.4	4.05	475	51
1929	108.0	36.2	33.4	4.04	499	51
1930	108.1	36.0	33.2	4.03	472	53
1931	108.3	35.5	32.4	3.97	420	55
1932	108.3	34.8	31.9	3.90	373	57
1933	108.3	34.4	31.8	3.90	428	61
1934	108.2	34.5	32.0	3.93	499	64
1935	108.2	34.9	32.5	3.97	576	65
1936	108.1	35.7	33.4	4.01	656	66
1937	108.0	37.0	34.9	4.04	738	68
1938	107.7	38.1	35.4	4.08	690	69

- A = All manual workers all industries and services Jan 1956=100  
Table 20 British Labour Statistics (Average and June) op. cit.
- B = All manual workers all industries and services Jan 1956=100  
Table 13 June British Labour Statistics op. cit.
- C = All manual workers all industries and services Jan 1956=100  
Table 27 Dec. British Labour Statistics op. cit.
- D = Average weekly earnings male salaried employees. The British Economy Key Statistics 1900-1970. Table E op. cit.
- E = Gross Trading Profits - Companies - (U.K. operations) - The British Economy Key Statistics Table G op. cit.
- F = Gross Trading Profits - Public corporations and enterprises - The British Economy Key Statistics Table G. op. cit.

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