

## *Introduction*

These eventful years through which we are passing are not less serious for us than the years of the Great War... We see our race doubtful of its mission and no longer confident about its principles, infirm of purpose, drifting to and fro with the tides and currents of a deeply-disturbed ocean. The compass has been damaged. The charts are out of date.

Winston Churchill, The Romanes Lecture, 19 June 1930<sup>1</sup>

The early 1930s were a pivotal period in modern British politics and policy. It had already become painfully clear that Victorian and Edwardian conditions of prosperity, progress, and imperial power disrupted by the First World War could not be restored. Now the deeper implications of this changed environment for the character of British government became apparent, and could no longer be evaded. The extension of the electorate, increased strength of the Labour movement, and adjustments in the party system from 1918, had also left unresolved problems about the role and finance of government, and about the distribution of political power. Two years of intense difficulty and uncertainty culminated in the greatest peacetime crisis in Britain this century, that of August to October 1931. The longer-term effects were a new political pattern, new bases for economic and imperial policy, and new conceptions about the role of the state. These formed the political, administrative, and intellectual context within which British policy was reshaped during and after the Second World War.

During 1931 the party system underwent a major and lasting reconstruction. The Labour party which MacDonald, Henderson, Snowden, Clynes, and Thomas had made into a party of government

<sup>1</sup> 'Parliamentary Government and the Economic Problem', in Winston Churchill, *Thoughts and Adventures* 1932, 240.

during the 1920s suffered a split leadership, a disastrous departure from office, and parliamentary devastation. Its expectation of steady political advance was destroyed, its strategies of 'gradualism' and accommodation to existing political conventions were discredited. The Liberal party, divided and weakened by the war and then reduced to third-party status in the early 1920s, had been surrendered acrimoniously by Asquith to Lloyd George and Samuel in 1926-7. After a period of revival it obtained its long-craved re-entry into government, only to disintegrate finally into three irreconcilable splinters and to disappear as a substantial parliamentary force. The Conservative party of Baldwin and Neville Chamberlain endured its own period of severe internal differences. It then obtained surprising allies in the two largest Liberal sections and three Labour leaders within a National government headed by the socialist, MacDonald. In a remarkable general election coup in October 1931 this National government obtained massive ascendancy over a newly radicalised Labour party led by Lansbury, Attlee, Cripps, Dalton, Morrison, and by the TUC leaders, Bevin and Citrine. The politics of 'national unity' had swamped the politics of 'socialism'.

Many political careers lay in ruins, including those not just of former Labour ministers and MPs but also, it seemed, of Lloyd George, Mosley, Amery, and Churchill. Of the three party leaders in the late 1920s – MacDonald, Baldwin, and Lloyd George – only Baldwin survived 1931 at the head of his party. The recurrent electoral uncertainty, parliamentary complications, and governmental instability of the three-party system of the 1920s had been replaced for the 1930s by the lesser insecurities of a two-bloc alignment of the 'National' allies as against the Labour party. This arrangement persisted despite subsequent differences within each bloc and cross-fertilisation between them during the international crisis of the late 1930s and in the war coalition of the early 1940s. Thereafter it solidified into the highly resilient two-party, Conservative–Labour, system which, despite challenges in the 1970s and 1980s, has survived into the present.

In economic policy, efforts made during the 1920s to restore the pre-1914 international financial and commercial system collapsed during 1931 and 1932. The gold standard – the regime of a stable pound and fixed exchange rates re-established in 1925 – had finally to be abandoned. After almost a hundred years, and following three



decades of political assault inspired by Joseph Chamberlain, free trade was renounced and tariff protection imposed by Neville Chamberlain. In domestic finance, on the other hand, the 1931 crisis resulted in substantial reversion to pre-1914 conceptions of budgetary rectitude and fiscal apportionment between social classes. All classes were obliged to make some contribution towards balancing the budget, and the direct taxation net was spread more widely than ever before. Nevertheless the burden of impositions fell not so much progressively against wealth (through taxation) as regressively against lower incomes (through retrenchment). All unemployment benefits and state wages, salaries and fees were cut at a stroke. The growth of central government social service expenditure had been temporarily checked. Despite an unemployment rate of around 20 per cent the idea that government could and should spend substantial sums of money to create employment was defeated. Yet this victory for 'sound' public finance obscured important shifts in monetary, commercial, agricultural, and industrial policies towards state assistance and stimulus to private enterprise. Outside the government more explicit *dirigiste* ideas, of state management and planning, became deeply entrenched, while Keynes moved towards the full development of his theory and policy prescriptions.

Imperial relationships were also readjusted, in calculated relaxations of British control. The self-governing 'white' Dominions ceased to belong to the British Empire and became members of a British Commonwealth. As embodied in the 1931 Statute of Westminster this Commonwealth was regarded in Britain not as a retreat from Empire but as a British-led partnership. As trade and finance were considered to be the essential underpinnings for this new relationship, the establishment of an imperial preference system and a sterling bloc had profound political as well as economic significance. Meanwhile the British Empire in India – a miscellaneous collection of British provinces and dependent Native States, all still governed by some measure of autocracy – underwent a process of constitutional reform. This sought to establish, by means of Round Table conferences, a similar British-managed partnership based upon co-operation with moderate nationalists and princes in representative governments and an All-India Federation. These two movements, towards the British Commonwealth and Indian Federation, provoked the emergence of a new imperialist resistance, especially within the Conservative party. It therefore mattered a



great deal for the success of those two movements that the Labour government was succeeded not by a Conservative government, heavily reliant upon diehard imperialist support, but by a broad National coalition tipped towards moderate opinion.

These events of the early 1930s are not only important in themselves. They are also important because since the late 1930s they have been interpreted in ways which give them a special place in common understandings of the shape of twentieth-century British history. The Munich crisis, the Second World War, the Churchill coalition, the Beveridge Report and the 'Keynesian' White Paper on Employment Policy, the 1945 Labour election victory, and two decades of 'full employment': these in various combinations cast a dark shadow over the politics and policies of the 1930s. For Churchill, 1931 was the beginning of the 'locust years'. In his version of events, MacDonald 'brooded supinely' and Baldwin 'reigned placidly' at the head of a 'so-called National Government' that 'steadfastly closed [its] eyes and ears' to the rise of the dictators and challenges to British power.<sup>2</sup> More influential still have been amalgams of this Churchillian view with either Labour or Keynesian interpretations, or even a fusion of all three. Here criticism broadened to include a supposed inertness in the face of depression and mass unemployment, which seemed all of a piece with the foreign policy record.<sup>3</sup> During the prosperous 1950s and 1960s such views became standard. Robert Skidelsky, for instance, declared that the failure of governments in the early 1930s to overcome the economic problem 'helped create a mood of national self-doubt, of pessimism regarding the future, in which appeasement could flourish'. The 'refusal to stand up to the dictators was part of the refusal to stand up to unemployment'; it 'required Dunkirk to give the British faith in themselves again'.<sup>4</sup>

Since the 1960s reassessments of appeasement and the economic problems of the 1930s have qualified such interpretations, softening their hard outlines. Yet the crucial events of the early 1930s which were once seen as blighting the rest of that decade have not received comprehensive examination. This does not mean that the period has

<sup>2</sup> Winston Churchill, *The Second World War*, Vol. I: *The Gathering Storm* (1948), 60-1, 64, 66, also 71, 76-7, 80.

<sup>3</sup> For early versions see 'Cato' [Michael Foot, Peter Howard, and Frank Owen], *Guilty Men* (1940), 16-26, and A. L. Rowse, *The End of an Epoch* (1947). The latter consists of essays written between 1938 and 1946, whose heroes are Churchill, Keynes, and Bevin.

<sup>4</sup> Robert Skidelsky, *Politicians and the Slump: The Labour Government of 1929-1931* (1967), 386-7.



been neglected. On the contrary, certain aspects of it have attracted great controversy and historical scholarship of the highest quality.

For many years interest concentrated upon the 1931 political crisis. As its most spectacular features issued from a split within the Labour Cabinet, the principal problem seemed to be ascribing responsibility for that division. From the moment the Labour Cabinet fell and the National government was announced this question of responsibility became a central issue. Fought largely between members and former members of the Labour party, the debate was embittered by an election campaign and produced disclosures which meant that a great deal became known, or rather disputed, about Cabinet proceedings. As the Labour party was considerably more substantial and enduring than MacDonald's National Labour group, and seemed to receive justification in its political successes of the 1940s, the interpretations of its members became orthodox. Labour charges of a 'bankers' ramp'<sup>5</sup> – that British or American bankers had 'dictated' cuts in unemployment benefits and contrived the Labour government's downfall – and of various sorts of 'betrayal' of the Labour movement and the working class by Snowden, Thomas, and especially MacDonald, came to overshadow accusations that Henderson and his supporters had 'run away' from their ministerial responsibilities under pressure from TUC 'dictation'. MacDonald was said to have been perverted by deficient principles or seduced by an 'aristocratic embrace' into a long meditated desertion or 'plot' dating, perhaps, from his appeal in June 1929 for a 'Council of State', if not earlier. Sidney Webb's account published in 1932 became the first of a series of memoirs by ex-Cabinet ministers which combined selective amnesia with creative recollection. Herbert Morrison's were the most outrageous.<sup>6</sup> Labour intellectuals – Woolf, Laski, and Jennings – added the notion of a 'constitutional revolution', especially that the King had been responsible for, or had lent himself to 'undemocratic' action when he appointed a partyless MacDonald to head the

<sup>5</sup> This phrase was invented and used during the August 1931 crisis by the City and Night editors of the *Daily Herald*: see Francis Williams, *Nothing So Strange. An Autobiography* (1970), 101.

<sup>6</sup> Sidney Webb-Lord Passfield, 'What Happened in 1931: A Record', *Political Quarterly*, 3 (1932), 1-17. Morrison, a MacDonaldite up to October 1931, later resorted to outright fiction in order to present himself as a leading anti-MacDonaldite during the August crisis: see his 'recollections' recorded in Harold Nicolson, *King George the Fifth* [hereafter *George V*] (1952), 467; Herbert Morrison, *Government and Parliament* (1954), 78, and Herbert Morrison, *An Autobiography* (1960), 126-7.



National government.<sup>7</sup> The idea of a MacDonald 'plot' was reinforced by Snowden's *Autobiography*, where malice against MacDonald overshadowed malice against the Labour opponents, and by a bizarrely vicious account by MacDonald's former parliamentary private secretary.<sup>8</sup>

Such interpretations for long exercised an important influence upon Labour politics. In 1943 the Bank of England, dismayed to find Labour Cabinet ministers still perpetuating the 'bankers' ramp' accusation, compiled a detailed account of its own role during the crisis for non-attributable use in 'dispel[ling] misconceptions'.<sup>9</sup> The Bank nevertheless became the first institution nationalised by the 1945 Labour government, even though effective control of monetary policy had already passed to the Treasury in the immediate aftermath of the 1931 crisis. Fear of evoking unpleasant and damaging parallels with MacDonald's 'betrayal' inhibited Labour party leaders from resorting to cross-party co-operation in later periods of difficulty. Through such political obsessions and associated writings, the terms of the 1931 party conflict, however diluted or modified, for long determined the form of historical accounts. They were, at first, unshaken by Harold Nicolson's sensible account in his biography of King George V, based upon the Royal Archives and access to certain Cabinet papers and Bank of England documents.<sup>10</sup> If only because of the constrictions of abridged description, their residue can still be found in recent historical writings.

Reassessment was begun by Reginald Bassett, a MacDonalдите of 1931 writing as a political scientist in 1958. He understood that the key to an explanation of the 1931 crisis was a reliable, detailed narrative. He used this to explode the absurdities of earlier accounts,

<sup>7</sup> Leonard Woolf, 'A Constitutional Revolution', *Political Quarterly*, 2 (1931), 475-7; Ivor Jennings, 'The Constitution under Strain', *ibid.*, 2 (1932), 194-205; Harold Laski, *The Crisis and the Constitution* (1932).

<sup>8</sup> Philip, Viscount Snowden, *An Autobiography* II, (1934), 929-58; L. MacNeill Weir, *The Tragedy of Ramsay MacDonald* (1938). Weir wrote his first draft during 1932, seeking material from Lloyd George - see Weir to Lloyd George, 21 June, 7 July 1932, and to Sylvester, 31 Aug. 1932, LG G/33/3/42, 43, 44. But Lloyd George was wary and offered little help, and Weir could find no publisher for such a strident attack until after MacDonald's death.

<sup>9</sup> BoE Cte, 10 March, 9 June, 11 Aug. 1943, and Norman to Sir Horace Wilson, 10 Aug. 1943, BoE G14/316. This activity was precipitated by statements made by the Home Secretary, Morrison - who during the 1931 crisis itself had given no sign of believing in any 'bankers' ramp'. The result was a 51-page memo by Thompson-McCausland, 'The Crisis of July-September 1931', used in chs. 8-11 below.

<sup>10</sup> Nicolson, *George V*, 455-69. For Nicolson being allowed to see the vital telegram of 23 August 1931 from New York bankers, see BoE Cte, 10 Aug. 1949, in BoE G14/316.



and to demonstrate that the differences between the two sections of the Labour Cabinet were much narrower than had been asserted.<sup>11</sup> However, as most documentary sources were then still unavailable, he could only speculate about motives. Following the opening of the public archives and with full access to MacDonald's papers, David Marquand's biography of MacDonald produced an impressive and convincing interpretation both of MacDonald himself and of his part in the crisis. He displayed not only MacDonald's vanity and disillusionment but also his sense of duty and honour, his courage, hard work, and resourcefulness, and his genuine attempts to get things done and prove the Labour party's 'fitness to govern'.<sup>12</sup> So far had rehabilitation of MacDonald proceeded that his Labour opponents now seemed neglected. A recent reappraisal of Henderson, however, has presented his actions as 'in the deepest sense, patriotic', in that his objective was to 'keep Labour moderate'.<sup>13</sup>

Accounts of the political crisis had long concentrated upon the Labour party. Autobiographies and biographies of Conservative and Liberal leaders and histories of their parties supplied important details, and showed how each had faced serious internal party problems after the inconclusive 1929 general election. Yet since from both Conservative and Liberal perspectives it seemed easy to regard entry into a National government as a straightforward matter of acting in the 'national interest', their role had not been treated as problematic. More recently, however, their activities have attracted detailed attention. One interpretation supposed that a Labour – Liberal failure to establish a parliamentary alliance enabled Neville Chamberlain successfully to mastermind a 'Conservative Party bid for power' in August 1931.<sup>14</sup> In contrast it has been argued that until a late stage no one could have expected advantage from joining a National government, and emphasis has been placed upon the importance of the Liberal leadership's role during its formation.<sup>15</sup> It

<sup>11</sup> R. Bassett, *Nineteen Thirty-One: Political Crisis* (1958). For his MacDonaldism, see Bassett to Allen, 29 Dec. 1931, in Martin Gilbert (ed.), *Plough My Own Furrow: The Story of Lord Allen of Hurtwood* (1965), 225–6. <sup>12</sup> David Marquand, *Ramsay MacDonald* (1977).

<sup>13</sup> Andrew Thorpe, 'Arthur Henderson and the British Political Crisis of 1931', *Historical Journal*, 31 (1988), 117–39, at 123, 138–9. See also Andrew Thorpe, *The British General Election of 1931* (Oxford, 1991).

<sup>14</sup> John Fair, 'The Conservative Basis for the Formation of the National Government in 1931', *Journal of British Studies*, 19 (1980), 142–64, at 143; Fair, 'The Second Labour Government and the Politics of Electoral Reform, 1929–31', *Albion*, 13 (1981), 276–301.

<sup>15</sup> David Wrench, '"Cashing In": The Parties and the National Government August 1931–September 1932', *Journal of British Studies*, 23 (1984), 135–53.



has also been shown that Conservative leaders, far from seizing power in August 1931, wanted the Labour Cabinet to remain in office for the duration of the immediate financial crisis. Again, though, no special problem is seen about their ultimate decision: joining the National government seemed 'the only possible solution', a matter of 'patriotic duty'.<sup>16</sup>

Meanwhile, another form of interpretation had developed. Here the explanation for the Labour government's collapse lay not in the circumstances of the 1931 crisis, but in its longer-term failure since taking office in 1929 to tackle the economic problem effectively. This approach was foreshadowed as intra-party polemic by Woolf and Tawney, and as history by another Labour intellectual, Cole. For these, the failure was one of insufficient 'socialism'.<sup>17</sup> The approach received its fullest development in the writings of Skidelsky, but for him the failure lay in the nature of 'socialism'. He argued initially that 'socialism' had been 'Utopian' and 'nebulous', with 'nothing constructive to offer the present',<sup>18</sup> and later that it had been fatally rooted in orthodox nineteenth-century political culture and liberal economic assumptions, including that of the continuing viability of free-trade capitalism.<sup>19</sup> Both versions have great historiographical importance. The 'real story' of inter-war domestic politics becomes not the struggle between the political parties or between socialism and capitalism, but that between 'economic conservatives' and 'economic radicals'. It is assumed that 'all policies' turned upon the issue of mass unemployment. Effective means to create employment are said to have been available in 'interventionist' capitalism, as expressed in the ideas of Keynes and those politicians influenced by him.<sup>20</sup>

Skidelsky's approach broadened and deepened analysis, connected political with economic history, and exhumed two previously neglected 'Keynesian' programmes: Lloyd George's loan-financed public works schemes of 1929-30 and Mosley's national development

<sup>16</sup> Stuart Ball, 'The Conservative Party and the Formation of the National Government: August 1931', *Historical Journal*, 29 (1986), 159-82, at 162; Ball, *Baldwin and the Conservative Party. The Crisis of 1929-1931* (New Haven and London, 1988), chapter 9.

<sup>17</sup> Woolf, 'A Constitutional Revolution', 475; R. H. Tawney, 'The Choice Before the Labour Party', *Political Quarterly*, 3 (1932), 323-45; G. D. H. Cole, *History of the Labour Party From 1914-1948*, 255-8.

<sup>18</sup> Skidelsky, *Politicians*, xii, 27, 394-5.

<sup>19</sup> Skidelsky, '1929-1931 Revisited', *Bulletin of the Society for the Study of Labour History*, 21 (1970), 6-7; Skidelsky, 'The Reception of the Keynesian Revolution', in Milo Keynes (ed.), *Essays on John Maynard Keynes* (Cambridge 1975), 89-107; and Skidelsky, *Oswald Mosley* (1975), 54-6.

<sup>20</sup> Skidelsky, *Politicians*, xi-xii, 387, and see Skidelsky 'Reception of the Keynesian Revolution', 95-102.



and international 'insulation' plans of 1930–31. At a time when Keynesian economics still seemed a body of almost self-evident truths, this emphasis upon the centrality of a 'Keynesian' solution to unemployment also pervaded the works of historians of economic policy.<sup>21</sup>

Ross McKibbin was the first to suggest that matters were more complicated. 'Keynesianism', he argued, did not offer a real choice because it had yet to become a coherent policy position, would have required fiscal and administrative leverage which the state did not then have, and, given the existing structure of power, would have faced insuperable political obstacles. In his view, the Labour government's effective choice lay only between drift and deflation. In clinging to the former it became so financially unorthodox that it helped manufacture its own collapse.<sup>22</sup> Thereafter, a broader debate about inter-war economic policy – stimulated by the 'end of Keynesianism' and radical changes in national policy during the late 1970s and 1980s – issued in a revisionism which from an economic direction gave analytical depth to what some had intuited from the political end. It has been argued that the unemployment problem was more diverse and more resistant to macroeconomic 'management' than Keynesians had supposed, and that if Lloyd George's and Mosley's public works programmes had been implemented their effect would have been limited, and possibly counter-productive.<sup>23</sup> It has also been argued that the Treasury's resistance to the claims of Keynes, Lloyd George, and Mosley was economically and politically intelligent, and emphasised that it had priorities other than reduction of unemployment.<sup>24</sup> Donald Moggridge, in a

<sup>21</sup> See, e.g., Donald Winch, *Economics and Policy* (1969), and Susan Howson and Donald Winch, *The Economic Advisory Council 1930–1939* (Cambridge, 1977); also W. H. Janeway, 'The Economic Policy of the Second Labour Government, 1929–31', Cambridge Ph.D. thesis, 1971.

<sup>22</sup> Ross McKibbin, 'The Economic Policy of the Second Labour Government 1929–1931', *Past and Present*, 68 (1975), 95–123, reprinted in McKibbin, *The Ideologies of Class. Social Relations in Britain 1880–1950* (Oxford, 1990), 197–227.

<sup>23</sup> See esp. Alan Booth and Sean Glynn, 'Unemployment in the Interwar Period', *Journal of Contemporary History*, 10 (1975), 611–36; Sean Glynn and P. G. A. Howells, 'Unemployment in the 1930s', *Australian Economic History Review*, 20 (1980), 28–45; Sean Glynn and Alan Booth, 'Unemployment in Interwar Britain', *Economic History Review*, 26 (1983), 329–48; T. Thomas, 'Aggregate Demand in the United Kingdom 1918–45', in R. Floud and D. McCloskey (eds.), *The Economic History of Britain since 1700* (Cambridge, 1981), 332–46, and see the debate in Sean Glynn and Alan Booth (eds.), *The Road to Full Employment* (1987).

<sup>24</sup> Especially Roger Middleton, 'The Treasury in the 1930s', *Oxford Economic Papers*, 34 (1982), 48–77; Middleton, 'The Treasury and Public Investment', *Public Administration*, 61 (1983), 351–70, and Middleton, *Towards the Managed Economy* (1985); George Peden, 'The "Treasury View" on Public Works and Employment in the Interwar Period', *Economic History Review*, 37 (1984), 167–81.



Keynesian critique of monetary policy, nevertheless demonstrated that the Bank of England's position was more sensitive and sophisticated than Governor Norman's notorious evidence to the Macmillan Committee had suggested, a conclusion which R. S. Sayers elaborated and confirmed.<sup>25</sup> In a major riposte to the revisionist trend, Peter Clarke revealed how Keynes's challenges forced the financial authorities to examine their assumptions and reconstruct their justifications. He also made important methodological advances, showing that understanding demands attention to how the economic argument developed in specific contexts over time, and appreciation that in crucial aspects it was also a political argument.<sup>26</sup>

In contrast to the party-political and economic issues, imperial and international policies have aroused less scholarly controversy. Nevertheless work in this area has demonstrated that there was a fierce debate between internationalist and imperialist economic policies;<sup>27</sup> that earlier descriptions of the foundation of the British Commonwealth as deliberate constitutional 'evolution' towards independent states were a mythology;<sup>28</sup> and that the political and financial problems which Britain faced in India were partly self-inflicted.<sup>29</sup> These studies have added conceptions of a 'crisis' in Dominion relations and a 'crisis' of Indian unity to those 'crises' detected by other historians in domestic economic, sterling, and budget policies, within the Conservative, Liberal, and Labour parties, and of the party system as a whole. Almost as important, but generally overlooked, is Ronald Butt's view that 'a high tide of criticism of the existing parliamentary system occurred in 1929-31'.<sup>30</sup>

These various 'crises' in party politics, policy, and government have been studied in some depth, but due to the compartmentalisation of much historical interest they have also been studied more or less in isolation. Yet these problems did not bear upon contemporary political leaders in isolation, nor did they just happen

<sup>25</sup> Donald Moggridge, *British Monetary Policy 1924-1931* (Cambridge, 1972); R. S. Sayers, *The Bank of England 1891-1944* (Cambridge, 1976).

<sup>26</sup> Peter Clarke, *The Keynesian Revolution in the Making 1924-1936* (Oxford, 1988).

<sup>27</sup> E.g., Ian Drummond, *Imperial Economic Policy 1917-1939-1974*, and Robert Boyce, *British Capitalism at the Crossroads 1919-1932* (Cambridge, 1987).

<sup>28</sup> See esp. John Darwin, 'Imperialism in Decline? Tendencies in British Imperial Policy between the Wars', *Historical Journal*, 23 (1980), 657-79, and R. F. Holland, *Britain and the Commonwealth Alliance 1918-1939* (1981).

<sup>29</sup> R. J. Moore, *The Crisis of Indian Unity 1917-1940* (Oxford, 1974).

<sup>30</sup> Ronald Butt, *The Power of Parliament* (1967), 118.



to coincide: they became interconnected, and they reacted upon each other. They were parts of a general, delayed, aftermath of the First World War, representing the breakdown of the first attempts made between 1918 and 1925 to adjust to its multiple effects: the disruption of the nineteenth-century international economic and financial systems, a sharp increase in colonial nationalist feeling, and mass working-class enfranchisement and the possibility of socialist government. Between certain aspects of these problems there were substantive links. But connections were also created by politicians, as they took up particular issues in the course of advancing wider policy or party objectives.

As the economy failed to conform to pre-1914 patterns, as the principal imperial possessions declined to accept continued subordination, as the party system seemed locked in persistent compromises, and as political leaders tried to cope with the ensuing difficulties, there was a period of severe strains and deep uncertainty. It became apparent to a growing number of public figures that previous assumptions, arrangements, and expectations - Churchill's 'compass' and 'charts' had become useless or obsolete. Increasingly it was thought and said that fundamental readjustments might have to be made. Doubts were even raised about the effectiveness of the institutions of government, including Parliament. The resulting atmosphere contributed to a transformation in British government, in its personnel, policy, power, and potential.

If these changes are to be understood, each important element in the political system - whether a party or a policy - has to be assessed in relation to the other important elements. From this perspective it is clear that although foreign policy, especially the issue of disarmament, was a large government concern and at an executive level mattered a great deal to MacDonald and Henderson, it did not form a central issue and had only marginal effects upon the course of political change. Consequently it makes only intermittent appearances in the present study.<sup>31</sup> On the other hand it becomes plain that the economic problem was not the all-engrossing issue it is often presumed to have been. Many politicians treated the Indian problem as almost as important, if not more so. Although it was possible to believe that the economy might soon recover, in India many lives were at immediate risk and loss of control there would be a permanent blow to British prestige and power. Contrary to

<sup>31</sup> For a valuable study of these aspects, see David Carlton, *MacDonald versus Henderson. The Foreign Policy of the Second Labour Government* (1970).



another common impression, it also becomes apparent that even within economic affairs unemployment was never the predominant issue around which all other policies turned. It was always a subordinate matter, secondary to a 'sound' currency, a balanced budget, debt management, industrial efficiency and business confidence, free trade or tariffs. Even trade unions considered employment subordinate to the maintenance of existing levels of wages and unemployment benefits.

One effect of studying different elements separately has been that each part has not always been fully understood. This is especially true where 'politics' and 'policy' overlap. For instance, as makers of Indian policy, Simon and Hoare have been criticised as 'trimmers...who placed personal and party considerations above principle'.<sup>32</sup> This statement may contain much truth, yet it is certain that Hoare, for instance, would never have steered the federation scheme past Conservative imperialists if he had not shown the closest attention to party management and his personal position. Misunderstanding is still more frequent in policy studies by economists and economic historians. A great deal of such literature on the inter-war period rests upon an assumption that policy was, or should have been, determined by economic and financial experts on economic and financial merits. It can be granted that the financial authorities and economic interests helped to shape the culture of politics and government, and imposed certain constraints upon policy. Nevertheless, such literature fails either to grasp the primacy of politics in issues of government, or to display a genuine sense of the character of political activity.

Politics inevitably entered into the fundamental concerns of the experts. Clarke has shown how political prepossessions and participation crucially affected the development of Keynes's economic thinking, and similar things can clearly be said of the Treasury and the Bank of England.<sup>33</sup> Politics obviously became central at the level of economic and financial policy decisions which, in most cases, were a matter of power relationships negotiated by politicians. These politicians had their own economic conceptions, however callow. More important, they also had constantly to concern themselves with other areas of policy, with the management of opinion, and

<sup>32</sup> Moore, *Crisis of Indian Unity*, 209.

<sup>33</sup> Clarke, *Keynesian Revolution*, esp. ch. 4, and see his earlier essay, 'The Politics of Keynesian Economics 1924-1931', in Michael Bentley and John Stevenson (eds.), *High and Low Politics in Modern Britain* (Oxford, 1983). For important comments about officials, see Middleton, 'The Treasury in the 1930s', 59-65.



with party objectives. Yet policy studies are often confined to the records of officials and economists, as if policy happened in a world divorced from that of politics, except for occasional, unpleasant, intrusions of some undefined 'political expediency'.<sup>34</sup> Alternatively, politics are reduced to a puppet show manipulated by officials, economists, and pressure groups.

In reality political activity was not some obscure monolithic force, but a matter of constantly shifting disagreement, debate, and persuasion over both fundamentals and details. It was not a passive reflection of 'interests' or inert implementation of advice, but a largely autonomous activity with its own complex priorities, procedures, and languages. So, for instance, if the unemployment policy debate of early 1929 is to be properly understood, it matters a great deal that it took place in the run-up to a general election. Similarly the introduction of protection will not be understood if it is assumed that politicians who had spent half a lifetime believing in tariff reform needed to be led in that direction by businessmen, officials, and economists.

A common distortion in the study of economic policy - rather than in the distinct study of the development of economic thinking - is that economists receive a prominence altogether disproportionate to their actual importance. In such works the only Henderson who appears to be significant is Hubert, the economist - not Arthur, the politician. Yet Arthur Henderson, despite being Foreign Secretary from 1929 to 1931, always had more weight than Hubert Henderson whenever he intervened in economic policy. More remarkable is the attention given to Keynes, which is on a scale explicable only in terms of his subsequent influence. Contemporary politicians might have considered that Keynes had valuable economic ideas, but within the whole context of assessing the practicality of policies - a judgement necessarily extending well beyond economics - he was of no more importance than, say, leading backbench MPs or the editors of *The Times*, *News Chronicle*, or *Daily Herald*. In this sense the space given to Keynes in the present study remains excessive. Nevertheless it seems justified for the negative purpose of

<sup>34</sup> To take only the most recent example, see the lists of what is considered relevant in W. R. Garside, *British Unemployment 1919-1939: A Study in Public Policy* (Cambridge, 1990), xiii-xiv: politics and party are not mentioned. For a politically more sophisticated approach, see Jim Tomlinson, *Public Policy and the Economy since 1900* (Oxford, 1990). See also Alan Booth and Sean Glynn, 'The Public Records and Recent British Economic Historiography', *Economic History Review*, 32 (1979), 303-15, for a dawning realisation of the limited usefulness of official records.



showing that his contributions to policy debate could be ambiguous or unhelpful, and that rejection of his views did not necessarily denote prejudice or stupidity. Then again, confusion arises if Keynes's ideas are assumed to be the standard for what constitutes economic 'radicalism', 'intervention', or 'management'.<sup>35</sup> Other versions existed, most notably Conservative imperial protectionism which offered an alternative, if much less sophisticated, political economy. By 1929 the real economic issues lay not between 'laissez-faire' and 'intervention', but between different forms and degrees of radical intervention.<sup>36</sup>

It is true that certain policies were treated as 'non-political', and left to the experts. Here non-political records obviously do provide most of the relevant source-material. Monetary policy is the chief example. Until August 1931 this almost never entered even into Cabinet deliberations, with the result that most political leaders remained ignorant of the issues and potentially at the mercy of officials. As Passfield said, notoriously, after suspension of the gold standard, 'nobody even told *us* we could do that'.<sup>37</sup> Yet such matters were 'non-political' only in the sense that they were taken out of politicians' hands. In a deeper sense these arrangements were highly political, representing the supremacy of a particular political-economic dispensation. This was true of the gold standard, and it can be seen again after 1931, when Conservative ministers placed tariffs and later unemployment relief in the hands of new 'non-political' agencies.

This book begins in 1926 and ends in 1932 not merely because that period encompasses the 1931 crisis, but because it has a distinct coherence. It stretches from the realisation that the gold standard was not operating smoothly to the establishment of new monetary arrangements, and from a free trade to a protectionist regime. The 1926 Imperial Conference defined the notion of Commonwealth, and that of 1932 determined its economic arrangements. Lord Irwin, the principal force behind Indian constitutional reform, became

<sup>35</sup> Alan Booth, 'Britain in the 1930s: A Managed Economy?', *Economic History Review*, 40 (1987), 499-522, develops this criticism.

<sup>36</sup> The point is forcefully made in Robert Sell, *Tories and Tariffs: The Conservative Party and the Politics of Tariff Reform 1922-1932* (New York and London, 1986), xxiii-xxv. Skidelsky, 'Reception of the Keynesian Revolution', 102, and Skidelsky, *Mosley*, 36-8, had earlier accepted the salience of tariff reform before 1914, but ignored its inter-war Conservative manifestations.

<sup>37</sup> This is the version originally recorded in Dalton diary, 12 Jan. 1932. The phrase was then modified in the published source, Hugh Dalton, *Call Back Yesterday: Memoirs 1887-1931* (1953), 298, and is now usually rendered without the 'even'.



Viceroy in 1926; in 1932 the decisions were taken to persist with the process he had begun. The period also extends from one period of Conservative predominance to another.

A less obvious source of coherence, but in some senses the crucial one, is provided by the Liberal party. Except as generators of radical economic ideas Liberals are not often considered to be of much significance beyond 1924, when they failed to re-establish themselves as a party of government. It is generally said that their 'downfall' had already occurred, and that their attempted revival at the 1929 election was a failure. Yet being a self-sufficient party of government does not constitute the sole criterion of importance, nor is regaining such a position the only meaningful party aspiration. After Lloyd George became Liberal leader in 1926 the party enjoyed an increased share of the popular vote, and an advance from parliamentary powerlessness to possession of the balance of power. Later it became a major if divided partner in the National government. Even though the contests between the smaller and the two larger parties were unequal, the period from 1926 to 1932 was nonetheless one of genuine three-party politics. The existence of a 'hung' Parliament between the 1929 and 1931 elections had large consequences for the party struggle and for national policy.<sup>38</sup>

For the Conservative and Labour parties, the Liberal revival of the late 1920s greatly complicated the chief problem of modern government. This was the problem of obtaining sufficient assent from a mass electorate - largely poorly informed, and overwhelmingly working-class - for policies which were difficult to comprehend, which lacked a sensational appeal, or, most seriously, which might involve material sacrifice from large numbers of voters. Throughout the inter-war period there was much anxiety about whether democracy could be persuaded to face 'the truth', and be dissuaded from succumbing to irresponsible 'stunts'. The leaderships of both major parties initially reacted to the Liberal revival by compromising their own preferred policies and seeking to undercut it through appeals to moderate opinion. With the collapse of the Liberal party in 1931-2, they felt more freedom in asserting their own versions of radicalism.

Within the period 1926 to 1932 this book is organised around two shorter periods, which receive close examination as foci for the

<sup>38</sup> One common indication of inattention to the Liberals is that in accounts of the last weeks of the Labour government they are described as an 'opposition party', which altogether misunderstands the Liberal leadership's position.



several strands of exposition and argument. The importance of the later sub-period, from mid July to late October 1931, is self-evident: it was that of manifest financial and political crisis. Here explanation demands detailed attention to chronology, as a series of major and complex changes occurred in every part of the political system. During those months nothing remained constant and predictable. The sterling crisis, for instance, passed through several phases, while attitudes towards the idea of 'national government' changed week by week, and sometimes day by day.

The earlier sub-period, from October to early December 1930, has not previously been regarded as one of general importance. Yet during those months the notion of 'national crisis' took firm hold, both as a description of substantive problems and as an instrument in political conflict. This not only remained an ingredient in high politics during the following year; it also created a wider public atmosphere of 'crisis' which helped make the electorate so responsive to the National government's appeal at the 1931 general election. During this period too, the idea of 'national government' itself became established, some ten months before the National government was actually formed.

These early coalition ideas have been treated in one of two ways, either as evidence of a conspiracy or premeditated betrayal by MacDonald or, more recently, as unimportant because having no relevance to contemporary politics - 'the only national combinations formed in the autumn of 1930 were those scribbled on the backs of menus at select dinner parties'.<sup>39</sup> Both views misunderstand the character and significance of the 'national government' idea. In the first place, the National government of August 1931 was not that envisaged by any political leaders in autumn 1930. This was most certainly true of MacDonald. Second, any serious consideration of suspension of party conflict is an important indicator of severe strain in the political system, particularly of a perceived gap between the scale of policy problems and the ability of government to cope with them. In this sense the discussions of autumn 1930 were similar to those during the constitutional crisis of 1910 and the Irish crisis of 1914, or during the First World War crises of 1915 and 1916. Third, these discussions were relevant even though they might appear to have borne little relation to contemporary party positions. Politics

<sup>39</sup> Skidelsky, *Politicians*, 279; see also Ball, 'The Conservative Party and the Formation of the National Government', 159-61, and Ball, *Baldwin*, 172-4. For a rather different, but still sceptical, verdict, see Marquand, 574-80.



are not just about the present and the immediately foreseeable future, but also about the middle- and long-term futures. They operate simultaneously across several time-scales, and the politics of what might happen are as important as the politics of what is happening. Occasionally, when the future appears unusually uncertain, a large disjunction between present politics and future politics may seem probable. The 'national crisis' perceived in autumn 1930 was such an occasion: it was actually one of anticipated crisis, a fear that something might go very badly wrong and require extraordinary measures. Political leaders hoped that matters would remain stable and that government and party politics would continue safely within the bounds of reasonable calculation. But alongside these hopes there co-existed a politics of extreme uncertainty about the future. This led some politicians to consider contingency plans, just in case drastic and politically difficult action became necessary. Such ideas could remain dormant, yet retain a latent relevance. Even so, when the idea of 'national government' did eventually enter current politics, it did so in an unexpected manner.

The existence of 'national crisis' is a major theme of this book. Nevertheless the notions of 'national interest' or 'patriotism' are not offered as leading explanations for any of the responses to that condition. The difficulties of such notions are revealed by the fact that 'patriotism' can be used by one recent study to describe the actions of the Conservative leaders, and by another to describe those of Henderson. The same terminology might be applied to the Bank of England and the TUC, because during the 1931 crisis everyone saw themselves as acting patriotically, in the 'national interest'. What constituted this 'national interest' was itself central to the dispute. In contrast to the war crises of 1915, 1916, or 1940, no obvious agreed definition of the national interest existed. Defence of sterling might appear a strong candidate. Yet, if this makes Conservative leaders 'patriotic' in August 1931, it would be difficult to apply the same description to them a month later.

The point is not just that each party, institution, group, or individual had their own view of the national interest, but that each presumed an identity between their own higher interests and those of the nation. This book seeks to show how each tried to convert their own objectives into the policy of the nation, and how this competition issued in a major upheaval of politics and government.