



OXFORD

PETER SLOMAN

# The Liberal Party and the Economy, 1929–1964

OXFORD HISTORICAL MONOGRAPHS

THE LIBERAL PARTY AND THE ECONOMY,  
1929-1964

## OXFORD HISTORICAL MONOGRAPHS

The *Oxford Historical Monographs* series publishes some of the best Oxford University doctoral theses on historical topics, especially those likely to engage the interest of a broad academic readership.

### *Editors*

P. CLAVIN   J. DARWIN   L. GOLDMAN

J. INNES   D. PARROTT   S. SMITH

B. WARD-PERKINS   J. L. WATTS

# The Liberal Party and the Economy, 1929–1964

PETER SLOMAN

OXFORD  
UNIVERSITY PRESS

OXFORD

UNIVERSITY PRESS

Great Clarendon Street, Oxford, OX2 6DP,  
United Kingdom

Oxford University Press is a department of the University of Oxford.  
It furthers the University's objective of excellence in research, scholarship,  
and education by publishing worldwide. Oxford is a registered trade mark of  
Oxford University Press in the UK and in certain other countries

© Peter Sloman 2015

The moral rights of the author have been asserted

First Edition published in 2015

Impression: 1

All rights reserved. No part of this publication may be reproduced, stored in  
a retrieval system, or transmitted, in any form or by any means, without the  
prior permission in writing of Oxford University Press, or as expressly permitted  
by law, by licence or under terms agreed with the appropriate reprographics  
rights organization. Enquiries concerning reproduction outside the scope of the  
above should be sent to the Rights Department, Oxford University Press, at the  
address above

You must not circulate this work in any other form  
and you must impose this same condition on any acquirer

Published in the United States of America by Oxford University Press  
198 Madison Avenue, New York, NY 10016, United States of America

British Library Cataloguing in Publication Data  
Data available

Library of Congress Control Number: 2014941600

ISBN 978–0–19–872350–9

Printed and bound by  
CPI Group (UK) Ltd, Croydon, CR0 4YY

Links to third party websites are provided by Oxford in good faith and  
for information only. Oxford disclaims any responsibility for the materials  
contained in any third party website referenced in this work.

## *Acknowledgements*

This book started life as an Oxford D.Phil. thesis, and I have accumulated many academic debts over five years of research. The greatest is to my supervisor, Dr Ben Jackson, who has been generous with his time and wisdom and provided incisive and constructive feedback on a long series of drafts. I am also very grateful for the advice and encouragement of Dr Matthew Grimley and Professor Jim Tomlinson, who examined the thesis; Dr Jane Garnett, who conducted confirmation of status; Dr John Davis at The Queen's College; and Dr Michael Hart, Professor Tomoari Matsunaga, and the anonymous reader for Oxford University Press, who kindly read and commented on the manuscript. Thanks, too, to my fellow graduate students—especially Dr Sam Brewitt-Taylor, Dr Kit Kowol, Ms Lise Butler, and Dr Aled Davies—for their comradeship over the years, and to the seminar and conference participants who have listened to and engaged with parts of the argument. This book has been greatly improved by their ideas, criticisms, and suggestions. Those shortcomings which remain are, of course, my own responsibility.

The project was made possible in the first place by funding from the Arts and Humanities Research Council, with some additional small grants from the Dowager Countess Eleanor Peel Memorial Trust. I am grateful to both organizations, and also to the Warden and Fellows of New College, Oxford, who elected me to a post-doctoral research fellowship in 2012 and so enabled me to prepare the text for publication. It's also a pleasure to thank the veteran Liberal activists who have shared their experiences with me, the librarians and archivists who have helped me gain access to archival materials, and the friends in various places who put me up during research visits.

I am grateful to the following institutions and individuals for permission to quote from unpublished works in which they hold or administer the copyright: the British Library of Political and Economic Science, the Conservative Party, the Parliamentary Archives, Dr Malcolm Baines, Mrs J. M. R. Brown, Dr Gideon Calder, Mrs Elspeth Chowdharay-Best, Mrs Joanna Clement-Davies, Sir Christopher Harris, Dr Michael Hart, the Marquess of Lothian, Mr Derick Mirfin, Professor W. G. Runciman, Mr Charles Simon, Viscount Thurso, and Lord Wallace of Saltaire. Crown Copyright material is reproduced under the terms of the Open Government Licence and the Open Parliament Licence. I also thank the Bodleian Library, the Borthwick Institute for Archives at the University of

York, the National Library of Wales, and the Master and Fellows of Trinity College, Cambridge for allowing me to quote from works in their possession, and the Macmillan Trustees for permission to draw on material in the Macmillan papers. I have made every effort to trace other copyright holders, but will be glad to rectify any omissions in future printings. Some of the material in Chapter 2 has previously appeared in *Historical Research* under the title 'Can we conquer unemployment? The Liberal party, public works, and the 1931 political crisis', and I am grateful to the journal's editors for permission to reproduce it.

Last but not least, I thank my parents, Richard and Susan Sloman, and my brother Ben for their love and support over the years. What I owe to them can hardly be repaid here.

# *Contents*

<i>Abbreviations</i>	ix
Introduction: The Wilderness Years	1
1. Economic Inheritances	19
2. The Liberals, Keynes, and the Slump, 1929–31	48
3. Defending Economic Internationalism, 1931–5	80
4. From ‘Middle Opinion’ to <i>Ownership for All</i> , 1935–9	109
5. Planning for War and Peace, 1939–45	135
6. Clement Davies and Liberal Keynesianism, 1945–56	166
7. Jo Grimond and the Liberal Revival, 1956–64	204
Conclusion: Progressives, Distributists, and Neoliberals	230
<i>Bibliography</i>	245
<i>Index</i>	271





## *Abbreviations*

<i>AJES</i>	<i>American Journal of Economics and Sociology</i>
BLPES	British Library of Political and Economic Science
<i>CBH</i>	<i>Contemporary British History</i>
<i>EHR</i>	<i>English Historical Review</i>
<i>EJ</i>	<i>Economic Journal</i>
<i>HDE</i>	<i>Huddersfield Daily Examiner</i>
<i>HJ</i>	<i>Historical Journal</i>
IEA	Institute of Economic Affairs
<i>JLDH</i>	<i>Journal of Liberal Democrat History</i>
<i>JLH</i>	<i>Journal of Liberal History</i>
<i>JMK</i>	<i>The Collected Writings of John Maynard Keynes</i> , ed. D. E. Moggridge and Elizabeth S. Johnson (30 vols, 1971–89)
<i>L&amp;L</i>	<i>Land &amp; Liberty</i>
<i>LM</i>	<i>Liberal Magazine</i>
<i>LN</i>	<i>Liberal News</i>
LPO	Liberal Party Organisation
LSE	London School of Economics
<i>MG</i>	<i>Manchester Guardian</i>
NLF	National Liberal Federation
NLYL	National League of Young Liberals
PEP	Political and Economic Planning
RRG	Radical Reform Group
TNA: PRO	The National Archives: Public Record Office
<i>TCBH</i>	<i>Twentieth Century British History</i>



# Introduction: The Wilderness Years

The historiography of twentieth-century British politics has long been shaped by the theme of Liberalism in decline, but from the perspective of the early twenty-first century it is the resilience of the Liberal political tradition which appears more striking. The Liberal Democrats' return to government after the 2010 general election capped a remarkable recovery from the position of near-extinction in which the Liberal Party found itself in the early 1950s. Coalition with the Conservatives has brought its own difficulties for the party, so it would be premature to suggest that the mould of two-party politics has been permanently broken, but for the time being British Liberalism is back.<sup>1</sup>

The Liberal Party has never been short of historians, but scholarly interest has long focussed—with good reason—on the Victorian and Edwardian periods when the party of Lord John Russell and Viscount Palmerston, William Gladstone and H. H. Asquith dominated the political scene. During the 1960s, 1970s, and 1980s research by both 'high' and 'popular' political historians transformed our understanding of the nineteenth-century Liberal Party and the reasons for its eclipse by Labour in the early twentieth century, but most of this work did not make it past 1929. It is only in the last twenty-five years that scholars have begun to explore the Liberal Party's fortunes after its relegation to third-party status, and to analyse the party's organization, policy, personalities, and culture during its years of survival and revival.<sup>2</sup> The deposit and cataloguing of the party's archive at the London School of Economics in the late 1980s has been one important catalyst for this wave of research; the formation of

<sup>1</sup> This study follows the common practice of using a capital L to denote the political tradition associated with the Liberal Party and Liberal Democrats, and a small l for liberalism as a political philosophy.

<sup>2</sup> Malcolm Baines, 'The Survival of the British Liberal Party, 1932–1959' (Oxford D.Phil. thesis, 1989); Geoffrey Sell, 'Liberal Revival: Jo Grimond and the Politics of British Liberalism, 1956–1967' (London Ph.D. thesis, 1996); Don MacIver (ed.), *The Liberal Democrats* (Hemel Hempstead, 1996); Ruth Fox, 'The Liberal Party 1970–1983: Its Philosophy and Political Strategy' (Leeds Ph.D. thesis, 1999); Garry Tregidga, *The Liberal Party in South-West England Since 1918: Political Decline, Dormancy and Rebirth* (Exeter,

the Liberal Democrat History Group and its quarterly *Journal of Liberal History* has been another. Most recently, the appearance of *The Orange Book* (2004) and the re-emergence of overt ideological conflict within the Liberal Democrats has prompted new interest in the party's ideas and policy.<sup>3</sup> This book is intended to contribute to the growing literature on twentieth-century Liberalism by providing, for the first time, a detailed analysis of how British Liberals thought about economic questions during the years of the Keynesian revolution and the development of a mixed and managed economy in Britain: that is, roughly between the 1929 and 1964 general elections.

Quite apart from its contemporary political resonances, the Liberal Party's economic thought in this period deserves the historian's attention for three main reasons. Firstly, although the party was no longer entrusted with the nation's economic destiny in the way it had been under Gladstone and Asquith, it could still exert a significant influence on the course of events. David Lloyd George's 1929 proposal to 'conquer unemployment' through loan-financed public works launched Keynesianism onto the British political agenda, whilst in 1931 the Liberals' belief that unemployment benefit cuts were necessary to keep sterling on the gold standard helped bring the National Government into being. At the other end of our period, the Liberal revival under Jo Grimond added to the pressure on Harold Macmillan to reorient his government's economic policy around indicative planning, modernization, and growth. In between, the party canvassed support for free trade, demand management, and wider property ownership, and helped shape the dynamics of economic policy debate at Westminster, in the press, and on the hustings. A study of Liberal economic policy enriches the historian's understanding of the range of policy options that were canvassed in Britain in these years and the political context in which public policy choices were made. It thus provides a new angle on long-standing controversies over the existence of a 'Keynesian revolution' in British policy-making, the political significance of economic planning, the

2000); Mark Egan, 'The Grass-roots Organisation of the Liberal Party, 1945–1964' (Oxford D.Phil. thesis, 2000), published as *Coming into Focus: The Transformation of the Liberal Party, 1945–64* (Saarbrücken, 2009); Richard S. Grayson, *Liberals, International Relations, and Appeasement: The Liberal Party, 1919–1939* (2001); David Dutton, *A History of the Liberal Party since 1900* (Basingstoke, 2004; second edition, 2013); Matthew Cole, 'The Identity of the British Liberal Party, 1945–62' (Birmingham Ph.D. thesis, 2006); Robert Ingham and Duncan Brack (eds), *Peace, Reform and Liberation: A History of Liberal Politics in Britain 1679–2011* (2011).

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

emergence of perceptions of relative economic decline, and the nature and extent of Britain's post-war 'consensus'.<sup>4</sup>

Secondly, the Liberal Party's economic thought is significant because the party's engagement with contemporary economic opinion did not end with its exclusion from power. Up to the middle of the twentieth century, as Andrew Gamble has noted, 'economists with an orthodox training who became interested in the problems of political economy naturally gravitated to the Liberal party': its traditional support for free markets and its progressive middle-class culture made it a very congenial political home.<sup>5</sup> The roll-call of economists who supported the party in our period is an impressive one, and includes both self-defined radicals and market liberals: John Maynard Keynes, William Beveridge, Dennis Robertson, Walter Layton, Roy Harrod, Michael Fogarty, Frank Paish, and Alan Peacock all advised Liberal leaders or stood for Parliament as Liberal candidates at one point or another. As a result, the mid-twentieth-century Liberal Party offers a valuable case study of how economists engaged with party politics in the early Keynesian era and how politicians received, understood, and used economic ideas, complementing similar work by Nigel Harris, Elizabeth Durbin, Noel Thompson, Jim Tomlinson, Richard Toye, and Ewen Green on Labour and the Conservatives.<sup>6</sup>

Thirdly, an examination of Liberal economic thought and policy sheds new light on the Liberal Party as a political organization during its wilderness years—its leadership, identity, strategy, and policy-making processes—and on the age-old ideological question of British Liberalism's orientation towards the state. In spite of the many important theses, books, and biographies that have emerged in recent years, the Liberal Party of the 1930s, 1940s, and 1950s is still imperfectly understood, and

<sup>4</sup> The literature on these questions is vast, but the most important works include Alan Booth, *British Economic Policy, 1931–49: Was There a Keynesian Revolution?* (1989); Daniel Ritschel, *The Politics of Planning: The Debate on Economic Planning in Britain in the 1930s* (Oxford, 1997); Jim Tomlinson, *The Politics of Decline: Understanding Post-War Britain* (Harlow, 2000); and Glen O'Hara, *From Dreams to Disillusionment: Economic and Social Planning in 1960s Britain* (Basingstoke, 2007).

<sup>5</sup> Andrew Gamble, 'Liberals and the economy', in Vernon Bogdanor (ed.), *Liberal Party Politics* (Oxford, 1983), 191–216, at 200.

<sup>6</sup> Nigel Harris, *Competition and the Corporate Society: British Conservatives, the State and Industry, 1945–1964* (1972); Elizabeth Durbin, *New Jerusalem: The Labour Party and the Economics of Democratic Socialism* (1985); Noel Thompson, *Political Economy and the Labour Party: The Economics of Democratic Socialism, 1884–2005* (1994; second edition, 2006); Jim Tomlinson, *Democratic Socialism and Economic Policy: The Attlee Years, 1945–1951* (Cambridge, 1997); Richard Toye, *The Labour Party and the Planned Economy, 1931–1951* (Woodbridge, 2003); Ewen Green, 'The Conservative Party and Keynes', in E. H. H. Green and D. M. Tanner (eds), *The Strange Survival of Liberal England: Political Leaders, Moral Values and the Reception of Economic Debate* (Cambridge, 2007), 186–211.

policy is one of the most significant lacunae.<sup>7</sup> Manifestos and pamphlets make it easy enough to see which policies the party espoused at any given point, but give little sense of where those ideas came from, how Liberal thought developed over time, or where internal divisions lay. Article-length surveys of Liberal economic policy by Andrew Gamble and Duncan Brack have captured the main trends in the party's thought very effectively, but they are inevitably somewhat light on the details of policy-making; the same might be said of David Dutton's highly readable general history of the party.<sup>8</sup> As a result, the historian lacks the evidential base needed to answer some crucial questions about the character of twentieth-century British Liberalism: for instance, about the long-term impact of New Liberal ideas, the party's response to Keynesian economics, the relationship between Gladstonian classical Liberalism and the neoliberal movement, and the role which policy choices played in Liberal decline and revival.

## SOCIAL AND CLASSICAL LIBERAL NARRATIVES

In the absence of a comprehensive study, historians and political scientists have quite naturally interpreted the Liberal Party's economic thought during the mid-twentieth century through the lens of the evidence they have encountered. This practice has given rise to two contrasting narratives about the party's ideological trajectory, both structured around the dichotomy between 'classical' and 'social' forms of Liberalism which has become commonplace in recent years. One interpretation sees the Liberals as the party of Keynes and Beveridge, the consensus party par excellence, and the midwife of the managed economy and welfare state which emerged in Britain after 1945. According to this view, the party had completed the transition from classical to social Liberalism by the early twentieth century, amid widening suffrage and growing concern for 'the condition of the people'.<sup>9</sup> In the social Liberal vision, as characterized by W. H. Greenleaf, the state ceased to be a 'necessary evil' and became a 'vital instrument of reform':

<sup>7</sup> The Liberal Party's leaders in this period have been well served by biographers: John Campbell, *Lloyd George: The Goat in the Wilderness, 1922–1931* (1977); Bernard Wasserstein, *Herbert Samuel: A Political Life* (Oxford, 1992); Gerard J. de Groot, *Liberal Crusader: The Life of Sir Archibald Sinclair* (1993); Alun Wyburn-Powell, *Clement Davies: Liberal Leader* (2003); Michael McManus, *Jo Grimond: Towards the Sound of Gunfire* (Edinburgh, 2001); Peter Barberis, *Liberal Lion. Jo Grimond: A Political Life* (2005).

<sup>8</sup> Gamble, 'Liberals and the economy'; Duncan Brack, 'Political economy', in Hickson (ed.), *Political Thought*, 102–17; Dutton, *A History of the Liberal Party since 1900*.

<sup>9</sup> See, for instance, Alan Bullock and Maurice Shock (eds), *The Liberal Tradition from Fox to Keynes* (1956); W. H. Greenleaf, *The British Political Tradition* (3 vols, 1983–7), ii, part two.

Liberalism was still formally concerned with countering tyranny and maintaining freedom but the specific objects involved were being radically transformed. The external restraints which had now to be removed were not the cramping effects of arbitrary authority and outmoded privilege but those conditions which inhibited the full life for the mass of citizens, the poverty and distress brought about by unregulated economic growth and technological change.<sup>10</sup>

Once Liberals had abandoned classical strictures against state activism, it was relatively easy to abandon classical economics and to support interventionist measures which were designed to tackle poverty and unemployment. On this reading, classical Liberals were a dying breed by the inter-war years, and the neoliberal movement which emerged from the 1930s onwards had little to do with the Liberal Party. Both modern Liberal Democrats such as Conrad Russell and neoliberal activists such as Arthur Seldon have had good reasons for favouring this narrative.<sup>11</sup> Few specialist scholars would state the case quite so baldly, but historians of political thought such as Greenleaf and Michael Freeden have also tended to see twentieth-century Liberalism in these broad terms.<sup>12</sup>

A second interpretation has been found more convincing by political historians, and especially by those who have studied the Liberal grassroots and the party's behaviour during the 1931 political crisis. Here Andrew Thorpe, Duncan Tanner, Ross McKibbin, and Malcolm Baines deserve particular mention.<sup>13</sup> These historians have been impressed by the persistence of Gladstonian beliefs among Liberal activists during the 1930s and 1940s, and by the party's commitment to free trade and sound finance in the midst of the great depression. The bourgeois social profile of Liberal activists and MPs and the prevalence of 'anti-socialist' cooperation in inter-war elections seem to bear out the party's intrinsic conservatism. From this perspective, the radicalism of Keynes and Beveridge represents, at best, a social Liberal current which *competed* with the classical tradition (and frequently lost out), and, at worst, a symptom of the party's desperation and opportunism in the face of electoral decline. It is therefore hardly

<sup>10</sup> Greenleaf, *British Political Tradition*, ii, 27.

<sup>11</sup> Conrad Russell, *An Intelligent Person's Guide to Liberalism* (1999), 57–69; Arthur Seldon, 'Economic scholarship and political interest: IEA thinking and government policy', in *The Collected Works of Arthur Seldon*, ed. Colin Robertson (7 vols, Indianapolis, 2004–5), vii, 43–68.

<sup>12</sup> Greenleaf, *British Political Tradition*, ii, 142–85; Michael Freeden, *Liberalism Divided: A Study in British Political Thought, 1914–1939* (Oxford, 1986).

<sup>13</sup> Andrew Thorpe, *The British General Election of 1931* (Oxford, 1991); Andrew Thorpe, *Parties at War: Political Organisation in Second World War Britain* (Oxford, 2009); Duncan Tanner, 'The strange death of Liberal England', *HJ*, 37 (1994), 971–9; Ross McKibbin, *Parties and People: England, 1914–1951* (Oxford, 2010); Baines, 'Survival'.



surprising that Keynes and Beveridge undertook their most important work outside the Liberal Party.

Each of these interpretations has much to commend it, but both are liable to harden into caricature, and stated in their strongest forms they cannot both be true. The fuller account of Liberal economic thinking developed in this book enables us to move beyond them and to resolve some of the difficulties they pose. Drawing on a wide range of sources, including private papers, party publications, and the press, this study emphasizes the diversity and complexity of the Liberal Party's economic traditions and traces their development in the light of changing economic, political, and intellectual contexts. Whilst recognizing that policy choices are often shaped by calculations of personal or party advantage and that Liberal policy-making in this period was frequently spasmodic and confused, it nevertheless seeks to take the party seriously both as a site in which ideas were 'filtered by rooted languages, traditions and expectations' and as a vehicle which carried ideas into the electoral arena.<sup>14</sup> For reasons of space and coherence the analysis is focussed on the official Liberal Party, not on defectors or liberals in other political groups. Readers interested in the formation of the Liberal National Party will find much of interest in chapters 2 and 3, but in view of David Dutton's recent study no attempt is made to document its later fortunes here.<sup>15</sup>

## THE LIBERAL PARTY AFTER 1929

Before proceeding to the main body of the analysis, it may be helpful to make some general comments about the character of the twentieth-century Liberal Party, its place in the British political system, its intellectual heritage, its engagement with economic ideas, and how we should define Keynesianism and neoliberalism. The remainder of the introduction considers these five subjects in turn.

The Liberal Party as it existed in the middle decades of the twentieth century was a shadow of its Victorian and Edwardian self, with dwindling parliamentary representation and little realistic prospect of returning to major-party status. Tensions between Asquithians and Lloyd Georgeites, and the 1931 secession of Sir John Simon's Liberal Nationals, damaged the party's cohesion in the inter-war period, and ambitious MPs and activists continued to defect to both the larger parties in later years. Nevertheless,

<sup>14</sup> Ewen Green and Duncan Tanner, 'Introduction' to Green and Tanner (eds), *Strange Survival*, 1–33, at 11.

<sup>15</sup> David Dutton, *Liberals in Schism: A History of the National Liberal Party* (2008).

the Liberal Party remained an independent political institution with its own identity and its own internal discourse. It maintained the trappings of a national party inside and outside Parliament, with a London headquarters, annual assemblies, and a large network of constituency associations, and probably had more than 250,000 members at the beginning and end of our period, if we include its women's and youth organizations. Even at its nadir in the early 1950s, the Liberal Party still had more members, ran more candidates, returned more MPs, and won more votes than the Communist Party of Great Britain ever managed.<sup>16</sup> The Liberals also enjoyed significant press support, notably from the *News Chronicle* (1930–60) and *Manchester Guardian*, various regional titles, and *The Economist*. None of these newspapers was slavishly loyal and they became less so over time, but they could usually be relied on to give the party a sympathetic hearing.

The Liberal Party's organizational structure was a holdover from the late Victorian period, especially before it was reformed in 1936; in the terms coined by Maurice Duverger, it was effectively a cadre party with a mass wing.<sup>17</sup> The party's parliamentary leaders historically controlled both policy and strategy, and oversaw organization and finances through the Liberal Central Association, which was run by the chief whip. The National Liberal Federation had emerged as a representative body for English and Welsh Liberals during the Gladstonian era, but its organizational capacity waxed and waned with the party's fortunes in the country, and it faced an ongoing battle to assert the authority of its policy resolutions. The new party constitution adopted in 1936 introduced a more coherent and democratic structure, creating a Liberal Party Organisation in place of the NLF and granting the annual Assembly the right to determine party policy, but the Scottish Liberal Federation and the Liberal Parliamentary Party both remained autonomous. In practice, successive Liberal leaders proved able to define the structures through which policy ideas were

<sup>16</sup> Reliable national membership figures do not exist before the 1950s, but the Women's National Liberal Federation (later the Women's Liberal Federation) claimed 100,000 members in 1928, and the National League of Young Liberals 30,000 in the following year, so 250,000 seems a plausible overall estimate for the start of our period. Liberal membership bottomed out at around 76,000 in 1953, before climbing to 351,000 in 1963; the CPGB's peaked at 56,000 in 1942. See Pat Thane, 'Women, liberalism and citizenship, 1918–1930', in Eugenio F. Biagini (ed.), *Citizenship and Community: Liberals, radicals, and collective identities in the British Isles, 1865–1931* (Cambridge, 1996), 66–92, at 68; *The Liberal Year Book for 1929* (1929), 7; *LN*, 19 March 1964, 1; and Andrew Thorpe, 'The membership of the Communist Party of Great Britain, 1920–1945', *HJ*, xliii (2000), 777–800, at 781.

<sup>17</sup> Maurice Duverger, *Political Parties: Their Organization and Activity in the Modern State* (1954). For a recent overview of organizational development, see Sarah Whitehead and Duncan Brack, 'Party organisation from 1859', in Ingham and Brack (eds), *Peace, Reform and Liberation*, 373–86.

developed throughout the period in question, whether through ad hoc meetings between senior Liberals and outside experts (in the late 1920s and 1930s), a shadow cabinet (known as the Liberal Party Committee in the 1940s and 1950s), or policy panels on which the leader could draw (in the Grimond era); they were also well placed to determine the content of election manifestos. One consequence was that Liberal policy-making was a male-dominated exercise, with only a handful of women—most notably, Violet Bonham Carter and Megan Lloyd George—wielding significant influence in their own right. The Women's Liberal Federation was an important element of the mass party and could not be ignored by the party leadership, but it tended to focus most of its energies on what it saw as female issues: women's rights, public health, social welfare, and the cost of living.<sup>18</sup>

Until the Liberal revival began in earnest in the late 1950s, the Liberal Party in the country continued to resemble in microcosm the party of the Edwardian period. The Liberal business elite included both traditional free traders, whose interests mostly lay in the City of London and the export industries, and more progressive industrialists such as the Cadbury and Rowntree families, whose philanthropy helped sustain the Liberal press.<sup>19</sup> The party also drew significant support from the London professional classes, including lawyers and retired civil servants and diplomats, and from the universities, where the Liberal clubs—especially at Oxford and Cambridge—remained valuable recruiting grounds. Constituency Liberal Associations were often dominated by middle- and lower-middle-class Nonconformists, with solicitors, small traders, and farmers figuring most prominently, though of course there were significant regional variations.<sup>20</sup> Party organization tended to be weakest in the inner cities (with the notable exception of parts of London's East End), in mining areas, and in those parts of rural England where Labour had broken through; conversely, it was usually strongest on the Celtic fringe and in the textile towns of the Pennines, which together accounted for all six of the party's MPs in 1951, 1955, and 1959. This pattern began to change as the Grimond revival gathered pace, with the party's new members and local government strength found increasingly

<sup>18</sup> Thane, 'Women', 81–92; Cole, 'Identity', 123–36.

<sup>19</sup> G. R. Searle, 'The Edwardian Liberal Party and business', *EHR*, xcvi (1983), 28–60; Paul Gliddon, 'The political importance of provincial newspapers, 1903–1945: The Rowntrees and the Liberal press', *TCBH*, xiv (2003), 24–42.

<sup>20</sup> A. H. Birch, *Small-Town Politics: A Study of Political Life in Glossop* (Oxford, 1959), 53–60; Margaret Stacey, *Tradition and Change: A Study of Banbury* (1960), 38–56; Tregidga, *Liberal Party in South-West England*; Matt Cole, *Richard Wainwright, the Liberals and Liberal Democrats: Unfinished Business* (Manchester, 2011).

in south-east England, seaside resorts, and the London and Manchester suburbs.<sup>21</sup>

## THE LIBERAL PARTY IN THE PARTY SYSTEM

The Liberal Party's political development during the mid-twentieth century can only be understood in the context of its broader environment. '[T]he Liberal Party exists', Vernon Bogdanor wrote in 1983, 'in a political and electoral environment which is alien to it.'<sup>22</sup> If this was true in the 1980s, it was almost certainly truer in the middle decades of the twentieth century, when the party was reduced to a handful of seats in the Commons. The electoral problem was Britain's first-past-the-post system, which encouraged political polarization; the political problem was the strength of Labour and Conservative support after 1918, based largely on class identities and the ways in which these parties managed to construct or identify with them. As Ross McKibbin has argued, class became 'the dominant variable' in political alignments in this period, steadily squeezing out the influence of religion, region, and nationality: 'What primarily determined political allegiance was ideological–sociological identification: a sense among voters that their party stood for the world as they understood it and wished it to be.'<sup>23</sup> Many of the Liberal Party's difficulties stemmed from the basic fact of its third-party status and its lack of a distinct class appeal.

There was, to be sure, nothing very inevitable about the Conservative–Labour duopoly which emerged after the First World War, or the electoral dominance of class. Yet once it was established, this duopoly was exceptionally difficult for the Liberal Party to puncture, as the experience of the 1929 election showed; and the progressive nationalization of electoral choice, driven partly by Labour's expansion and partly by the growing influence of radio, made the Liberals' task even harder.<sup>24</sup> By the early 1950s the party was only really competitive in about a dozen constituencies. It is perhaps no coincidence that the long-awaited Liberal revival finally began at a time when class-based identities were starting to weaken and electoral swings were starting to become less uniform.

Within the structure of mid-twentieth-century British politics, however, Liberals retained some control over their party's fortunes. The party's inter-war collapse stemmed partly from the feud between Asquith and

<sup>21</sup> On local government see Egan, *Coming into Focus*, 164–86.

<sup>22</sup> Vernon Bogdanor, 'Conclusion: The Liberal Party, the Alliance, and the future', in Bogdanor (ed.), *Liberal Party Politics*, 275–84, at 275.

<sup>23</sup> McKibbin, *Parties and People*, 185, 193.

<sup>24</sup> Tregidga, *Liberal Party in South-West England*, 206–8.

Lloyd George, and was exacerbated by the Simonite split; if the party had held together it might have remained a much more formidable third force. Equally, the Liberals' refusal to lie down and die—or align permanently with one of their rivals—had important implications for the wider political scene, making it harder for the Conservatives to monopolize the anti-socialist vote (though they came close to doing so in the 1930s and 1950s) and for Labour to establish itself as the sole heir of British radicalism. As one of the few spheres in which Liberals' agency was complete, policy-making figured prominently in their efforts to ensure the party's survival. Liberal politicians and activists hoped that a cogent and distinctive policy programme would attract new support and bring about an electoral recovery; more soberly, they recognized that failure to develop policy would destroy the party's remaining credibility as a political movement. Jo Grimond thought that '[t]he main task of a party must be to say what its aim is, how it sees politics developing, what will happen if a voter votes Liberal'.<sup>25</sup> Party policy provided MPs and candidates with material for their speeches, and helped recruit members and activists by showing that Liberal principles were relevant to contemporary problems.<sup>26</sup> Liberals also sought to shape the climate of opinion by keeping traditional Liberal ideas (such as free trade) alive and putting new ones (such as Common Market membership) on the political agenda. Of course, the adoption of such policies by Labour and Conservative governments was not a cause for unmitigated celebration, since it reduced the political space that Liberals could claim as their own.

## POLITICAL AND ECONOMIC IDEAS

The Liberal Party's ongoing commitment to policy-making partly reflected the extent to which it saw itself as a party of ideas. Liberal ideas did not derive from a fixed ideology, as Marxian socialism was often (rightly or wrongly) believed to, but nor was Liberalism wholly open-ended; rather, Liberals tended to define their creed historically. As Michael Bentley has argued in his study of *The Liberal Mind*, 'Liberalism always involved, and sometimes amounted to, an implicit language about the past and how the present had grown out of it'.<sup>27</sup> Victorian and Edwardian Liberalism bequeathed principles, currents of thought, and rhetorical tropes to

<sup>25</sup> *The Guardian*, 2 Sept. 1971, 12.

<sup>26</sup> Duncan Brack, 'Liberal Democrat policy', in Don MacIver (ed.), *The Liberal Democrats* (Hemel Hempstead, 1996), 85–110, at 85–6, 101–2.

<sup>27</sup> Michael Bentley, *The Liberal Mind, 1914–1929* (Cambridge, 1977), 14.

the mid-twentieth-century party. Most obviously, the conception of Liberalism as a progressive creed with an emancipatory mission, extending the bounds of 'freedom' and 'citizenship' to the whole community, remained powerful throughout this period. So, too, did the political commitments which had distinguished Liberalism in Gladstone's time, including internationalism, civil libertarianism, opposition to sectional interests, and concern for the welfare of the masses. Even when Liberals understood these commitments in different ways, they remained common ideological property.

We have already noted the tendency for analysis of Liberal political thought to be framed around a binary distinction between classical and social varieties of Liberalism. In many respects, this is a useful distinction, not least because so many Liberals and Liberal Democrats have understood their politics in these terms since at least the 1950s. Used casually, however, it runs the risk of collapsing diverse economic and political debates into a single frame, depending on which Liberals were on the right or left of a particular argument. If we are to avoid this problem, we need to *historicize* the concepts of classical and social Liberalism, recognizing that they have been constructed and reconstructed over time, and also to *disaggregate* them into their constituent parts: ideological differences, particular modes of thinking about the economy and the role of the state, and more specific policy commitments.

The ideological element in the classical–social Liberal distinction has been analysed at length by scholars, and is relatively well understood.<sup>28</sup> In broad terms, it seems fair to identify classical Liberalism with liberal political thought as it developed up to John Stuart Mill, with its emphasis on 'negative' liberties, and social Liberalism with Mill's later writings and the thought of T. H. Green and the New Liberals, who added the concept of 'positive' freedom. In the former vision, the state's role was mainly one of upholding order and securing the civil and political rights of its citizens; in the latter one, the state also took on the task of facilitating and promoting their development. Even here, however, the distinction is not always easy to apply. What, for instance, should we make of the distributist strand in Liberal thought, with its emphasis on spreading power and property more widely so that citizens can become independent of the state?

If the dichotomy of classical and social Liberalism is just about defensible at an ideological level, it is much too blunt to capture the complexity of economic policy debate. At least four main currents of economic thought may be identified in the twentieth-century Liberal Party: classical political

<sup>28</sup> Greenleaf, *British Political Tradition*, ii, part two; Michael Freedman, *Ideologies and Political Theory: A Conceptual Approach* (Oxford, 1996), part two.

economy and the Georgist, New Liberal, and constructive approaches which developed in the late Victorian and Edwardian periods. These four traditions are explored in detail in chapter 1, and provide an analytical framework for the study as a whole. Keynesianism might be considered a fifth current of economic thought, which could be synthesized with other Liberal traditions in a variety of ways—as later chapters will show.

## THE TRANSMISSION OF ECONOMIC IDEAS

One of the main challenges for any historian of economic policy is to establish the sources of new ideas and the lines of transmission. The temptation to attribute policy changes to theoretical developments is particularly strong in this case, since the period from the 1930s to the 1960s was a golden age for British economists' reputation and influence, as Roger Middleton has shown.<sup>29</sup> Nevertheless, what Middleton calls the 'rationalist fallacy' is as misleading in respect of a political party as it is in relation to policy-making in Whitehall.<sup>30</sup> Liberal policy-making was messier and more complicated for several reasons. Firstly, economic ideas are always mediated through interests, institutions, and ideologies.<sup>31</sup> In any party, policy choices are likely to be shaped by the political context, including internal power relations, electoral strategy, and the party's prior commitments. As Terence Hutchison once noted, all politicians are prone to 'select from and distort' economists' ideas 'and infuse them with their own political purposes'.<sup>32</sup>

Secondly, like most of their counterparts in other parties, many Liberal politicians were ill-equipped to engage directly with economic theory. Only five of the ninety-nine Liberal MPs elected during our period held economics degrees, of whom four (including Jo Grimond) were Oxford PPEists.<sup>33</sup> Beveridge was a professional economist before he entered the Commons, and Keynes and Walter Layton sat as Liberals in the House

<sup>29</sup> Roger Middleton, *Charlatans or Saviours? Economists and the British Economy from Marshall to Meade* (Cheltenham, 1998).

<sup>30</sup> Middleton, *Charlatans*, 4.

<sup>31</sup> Andrew Gamble, 'Ideas and interests in British economic policy', *CBH*, x (1996), 1–21.

<sup>32</sup> T. W. Hutchison, *On Revolutions and Progress in Economic Knowledge* (Cambridge, 1978), 284.

<sup>33</sup> The other PPEists were Richard Acland, Frank Byers and Mark Bonham Carter; the fifth economics graduate was R. T. Evans, MP for Carmarthen 1931–5, who had lectured at the University College of South Wales. Sir Percy Harris learned some economics at Cambridge in the 1890s as part of the History tripos, and found that Marshall's *Principles of Political Economy* 'stood [him] in good stead in after years': Sir Percy Harris, *Forty Years in and out of Parliament* (1947), 16.



of Lords, but these men had many other interests besides Liberal policy. In any case, as George Peden has pointed out, theory has never been the only form of economic knowledge which policy-makers value; practical economic experience and 'informed opinion' are in many respects more useful.<sup>34</sup> In line with Peden's argument, the Liberal politicians featured here paid close attention to the policy views expressed in broadsheet newspapers, the bank reviews, and *The Economist* (whose Liberal links dated back to the campaign against the Corn Laws), and took advice from economic and financial journalists such as Graham Hutton and Christopher Layton as well as from academics. Some Liberal-supporting businessmen, financiers, and agriculturalists also contributed their expertise to party policy-making.

Thirdly, we must recognize the intermittent nature of economists' involvement in the Liberal Party. Alfred Marshall had enjoined economists to have 'cool heads but warm hearts', and public-spiritedness propelled many into the public sphere, where they found policy work a rewarding complement to academic research.<sup>35</sup> However, economists also faced countervailing pressures, including the fear that party political activity would undermine their professional reputations and the suspicion that their energies would be better spent elsewhere. This 'opportunity cost' consideration became more significant as the Liberal Party declined, non-party groups and think-tanks proliferated, and the British government became more receptive to economists' advice. After 1929, the cluster of economists who had advised the Liberal Industrial Inquiry disintegrated, and Keynes found he could achieve greater influence as a freelance. In the 1930s the Liberals had nothing to rival the New Fabian Research Bureau, where Evan Durbin, Hugh Gaitskell, and other young socialist economists developed new policies for Labour, and when William Beveridge and Roy Harrod sought careers as Liberal politicians in 1944–5 it was partly because they felt rejected by Whitehall. Frank Paish and Alan Peacock, who advised Clement Davies and Jo Grimond after the war, were more committed to the party, but the overall impression is one of economists drifting in and out of Liberal politics according to their own interest in giving advice and politicians' interest in receiving it. Consequently, it was left to the politicians to turn economic ideas into workable policy programmes.

Finally, as Keynes noted at the end of the *General Theory*, there is almost always a time lag between the emergence of economic ideas and their

<sup>34</sup> G. C. Peden, 'Economic knowledge and the state in modern Britain', in S. J. D. Green and R. C. Whiting (eds), *The Boundaries of the State in Modern Britain* (Cambridge, 1996), 170–87.

<sup>35</sup> Alfred Marshall, *The Present Position of Economics* (1885), 57.



translation into policy. Keynes believed that ideas ruled the world ‘after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age’.<sup>36</sup> As Paul Samuelson later pointed out, the reaction to Keynes’ magnum opus suggested that this was as true of academic economists as of anyone else.<sup>37</sup> One of the advantages of studying Liberal policy over a long span is the opportunity it gives to trace intellectual changes across two or three generations, and to see how Keynesian ideas came to be incorporated into economic ‘common sense’.

## KEYNESIANISM AND NEOLIBERALISM

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

Keynesianism is perhaps the most contested concept in the history of economic thought, straddling as it does the worlds of theory, policy, and political debate. The difficulty for the historian stems partly from the way in which Keynes’ own ideas developed over time as he sought a robust theoretical basis for the discretionary macroeconomic policies he had long favoured, and partly from the fact that ‘Keynesianism’ began to take on a life of its own at a very early stage.<sup>38</sup> From a theoretical perspective it is tempting to take the *General Theory* as a benchmark for Keynes’ mature thought, but even this is problematic because economists have interpreted that book in very different ways. Broadly speaking, mainstream Keynesians have used Keynes’ 1937 articles on ‘How to avoid a slump’ and his 1940 treatise *How to Pay for the War* to justify a hydraulic interpretation of the *General Theory* on the lines suggested by John Hicks’ famous IS–LM diagram, which modelled the relationship between interest rates and real output.<sup>39</sup> By contrast,

<sup>36</sup> John Maynard Keynes, *The General Theory of Employment Interest and Money* (1936), 383–4.

<sup>37</sup> Paul Samuelson, ‘Lord Keynes and the General Theory’, *Econometrica*, xiv (1946), 187–200.

<sup>38</sup> Peter Clarke, *The Keynesian Revolution in the Making, 1924–1936* (Oxford, 1988); Axel Leijonhufvud, *On Keynesian Economics and the Economics of Keynes* (1968).

<sup>39</sup> Don Patinkin, ‘In defense of IS–LM’, *Banca Nazionale del Lavoro Quarterly Review*, xliii (1990), 119–34. The IS–LM model first appeared in John Hicks, ‘Mr Keynes and the classics—A suggested interpretation’, *Econometrica*, v (1937), 147–59.

post-Keynesian economists—including Keynes' Cambridge colleagues Joan Robinson and Richard Kahn—have placed much greater emphasis on a 1937 article in the *Quarterly Journal of Economics*, in which Keynes suggested that the problem of uncertainty and the difficulty of forming accurate expectations in a money economy formed the kernel of his thesis.<sup>40</sup>

In the field of policy, the historian faces the rather different problem of judging how important the *General Theory* actually was. For one thing, Keynes had been a prominent advocate of loan-financed public works for more than a decade before 1936, and many of his fellow economists seem to have supported this policy during the depression on fairly conventional neoclassical grounds.<sup>41</sup> For another, the adoption of demand-management policies in Britain during the 1940s was shaped by a range of influences besides Keynesian theory, including the development of national income accounting by Colin Clark and Richard Stone, the Treasury's receptiveness to new methods of inflation control in wartime, and the relatively stable international environment provided by the Bretton Woods system.<sup>42</sup> The significance of the *General Theory* therefore lay not so much in introducing new policy ideas, as in providing a developed theoretical rationale for abandoning the classical assumption that the economy had a long-run tendency to full-employment equilibrium. Before 1936, public works had generally been advocated as a prudential means of reducing unemployment in a world of market imperfections; thereafter demand deficiency came to be seen as a more fundamental problem.

To the student of the politics of economic policy, the rise of Keynesianism as a political discourse is as important as the influence of Keynes' theoretical ideas. 'Keynesianism' is therefore used relatively loosely here, to refer not only to the particular analysis of the *General Theory* but also to the broader policy approach with which Keynes' name became associated—that is, the manipulation of aggregate demand to achieve full employment or a favourable trade-off between unemployment and inflation. However, we can add nuance to this discussion by distinguishing between three main varieties of Keynesianism: the 'proto-Keynesian' policies which Keynes developed before he had formed his theory of effective demand, which lacked the theoretical grounding of the *General Theory* and were mainly conceived as short-term measures; the 'liberal Keynesianism' of IS-LM and the 'neoclassical synthesis', which focussed on the use of

<sup>40</sup> John Maynard Keynes, 'The general theory of employment', *Quarterly Journal of Economics*, li (1937), 209–23; Clarke, *Keynesian Revolution*, 302–4; Luigi Pasinetti, *Keynes and the Cambridge Keynesians: A 'Revolution in Economics' to be Accomplished* (Cambridge, 2007).

<sup>41</sup> Hutchison, *On Revolutions*, 121–74.

<sup>42</sup> Jim Tomlinson, *Problems of British Economic Policy 1870–1945* (1981), 120–34.

fiscal and monetary policy to manage demand; and ‘interventionist Keynesianism’, which sought to buttress demand management policies with controls over private investment, trade and capital flows, and wages. The distinction between liberal and interventionist Keynesianism roughly corresponds to the difference between the 1944 White Paper on *Employment Policy* and Beveridge’s private report on *Full Employment in a Free Society*.<sup>43</sup>

‘Liberal Keynesianism’ features prominently here, both because the neoclassical synthesis was so influential in the early post-war period and because its non-interventionist bent fitted well with British Liberals’ historic commitment to free markets. Nevertheless, it is worth emphasizing that some of its exponents were more strictly Keynesian than others. Roy Harrod and James Meade, for instance, followed Keynes in regarding fiscal policy as the main tool of demand management, but Meade differed from Keynes in believing that policy should act directly on consumption as well as investment.<sup>44</sup> Treasury officials and free-market economists such as Lionel Robbins, meanwhile, regarded monetary policy as a useful means of curbing excess demand, despite Keynes’ strictures to the contrary.<sup>45</sup> Post-war economic management was thus more ‘Keynesian’ in its analytical focus on influencing aggregate demand than in the methods by which it sought to achieve this. Indeed, as Robin Matthews and Jim Tomlinson have pointed out, the question of running deficits to maintain full employment did not really arise in the 1950s and 1960s because the world economy was so buoyant.<sup>46</sup>

Neoliberalism is a problematic concept for a different reason. In common usage, the term is generally used to describe the strong preference for market forces over state intervention espoused by economists such as Friedrich Hayek and Milton Friedman and think-tanks such as the Institute of Economic Affairs, which has underpinned efforts to ‘roll back the state’ around the world since the 1970s. Leading figures in the neoliberal movement, such as the IEA’s long-standing editorial director Arthur Seldon, have tended to portray its history in heroic terms: a small band of free-market thinkers, formed in a reaction against post-war ‘collectivism’, eventually changed the terms of debate in politics and academia and

<sup>43</sup> For ‘liberal Keynesianism’, see Booth, *British Economic Policy*, 107–21, and Scott Newton and Dilwyn Porter, *Modernization Frustrated: The Politics of Industrial Decline in Britain since 1900* (1988), 120–32.

<sup>44</sup> Booth, *British Economic Policy*, 93.

<sup>45</sup> Clarke, *Keynesian Revolution*, 322–3.

<sup>46</sup> R. C. O. Matthews, ‘Why has Britain had full employment since the war?’, *EJ*, lxxviii (1968), 555–69; J. D. Tomlinson, ‘A ‘Keynesian revolution’ in economic policy-making?’, *Economic History Review*, second series, xxxvii (1984), 258–62.

paved the way for the Thatcher and Reagan revolutions.<sup>47</sup> Many studies of neoliberalism have echoed this narrative; Richard Cockett's *Thinking the Unthinkable* is perhaps the best British example.<sup>48</sup>

During the last few years, however, a number of scholars have emphasized the need to set the neoliberal movement more firmly in its historical context and to be sensitive to change over time. As Philip Mirowski and Dieter Plehwe have argued, neoliberalism is best understood as a 'thought collective' which developed in Europe and the United States in the 1930s and 1940s, became centred on the Mont Pèlerin Society from 1947 onwards, and has become increasingly cohesive and ambitious as its political influence has grown.<sup>49</sup> Ben Jackson and Angus Burgin have shown that early neoliberalism was a broad church, whose exponents found it much easier to agree on what they were against—namely, socialist economic planning—than on what they were for.<sup>50</sup> Several of the progenitors of the neoliberal movement (especially Walter Lippmann, Henry Simons, and Hayek) believed that a positive liberal agenda was needed to counter the appeal of socialism, and were willing to support discretionary economic management, robust anti-trust policies, and limited forms of state social welfare provision in order to legitimate the capitalist system. Some of Britain's leading free-market economists, such as Lionel Robbins, also supported moderate Keynesian policies in the 1940s.<sup>51</sup> This moderate and reformist strand of neoliberalism forms a striking contrast with the more dogmatic anti-interventionism preached at the time by Ludwig von Mises and more recently by Friedman and his disciples.

Heroic accounts of the British neoliberal movement tend to imply that the Liberal Party as a whole proved immune to neoliberal arguments, subscribing as it did to 'the post-war Fabian–Keynesian–Beveridge collectivist consensus'.<sup>52</sup> Recognizing the diversity of early neoliberal thought, though, opens up the possibility that a more fruitful interaction may have taken place. After all, many Liberals welcomed Keynesian economics as an alternative to a planned economy, and remained passionately committed

<sup>47</sup> Seldon, 'Economic scholarship'.

<sup>48</sup> Richard Cockett, *Thinking the Unthinkable: Think-Tanks and the Economic Counter-Revolution, 1931–1983* (1994; paperback edition, 1995).

<sup>49</sup> Dieter Plehwe, 'Introduction', and Philip Mirowski, 'Postscript: Defining neoliberalism', in Philip Mirowski and Dieter Plehwe (eds), *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Cambridge, Mass., 2009), 1–42, 417–55.

<sup>50</sup> Ben Jackson, 'At the origins of neo-liberalism: The free economy and the strong state, 1930–1947', *HJ*, liii (2010), 129–51; Angus Burgin, *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge, Mass., 2012).

<sup>51</sup> Keith Tribe, 'Liberalism and neoliberalism in Britain, 1930–1960', in Mirowski and Plehwe (eds), *Road*, 68–97.

<sup>52</sup> Seldon, 'Economic scholarship', 55.

to free trade and competitive markets. Some of the economists and financial journalists who kept the free-market tradition alive during the 1930s, 1940s, and 1950s were Liberal advisers or supporters, and if early neo-liberals like Seldon and Arthur Shenfield felt that their talents were under-appreciated by the party, they were less isolated ideologically than they sometimes suggested. Only during the 1960s, as neoliberals' hostility to state intervention hardened and the Liberal Party moved leftwards, did the two groups finally dissociate themselves from each other. Seldon and others focussed their energies on reshaping informed opinion through the IEA, and found that the most receptive audience for the anti-statist ideas they canvassed increasingly lay among Conservatives.<sup>53</sup>

With these definitions in place, we may embark on the analysis proper. Chapter 1 sets the scene by distinguishing four main economic traditions within the early twentieth-century Liberal Party and tracing their development up to 1929. The rest of the book is structured chronologically, reflecting the contingent and path-dependent nature of economic policy debate. The various strands of the argument are then pulled together in the conclusion.

<sup>53</sup> John Meadowcroft and Jaime Reynolds, 'Liberals and the New Right', *JLH*, no. 47 (2005), 45–51.

# 1

## Economic Inheritances

British Liberalism is a historical movement at least as much as it is a philosophical creed. It has no shortage of great texts, from John Locke's *Two Treatises on Government* to John Stuart Mill's *On Liberty* and L. T. Hobhouse's *Liberalism*, which provide inspiration for Liberal political activity. Yet the political purchase of these texts derives largely from their contribution to the long Whig–Liberal struggle to control executive power and challenge privilege, which can be dated back to the seventeenth century. Every generation of Liberals stands in some sense in the shadow of the party's past, its choices informed by the commitments into which its predecessors have entered.

The place of economic ideas in this Liberal tradition can be viewed in different ways. The early modern historian and Liberal Democrat peer Conrad Russell believed that British Liberalism was an essentially political movement to which economics was extraneous. Partly because Liberalism antedated the discipline of economics, Russell insisted that 'the party does not have an economic philosophy', but 'brought to economics a mixture of pragmatism and a series of philosophical convictions such as attachment to equal competition and support for the underdog, whose origins in party thinking lie well outside economics'.<sup>1</sup> Though Russell's argument has much to commend it, it risks understating the extent to which economic ideas have embedded themselves within the party's identity. If the Liberal Party has lacked an economic philosophy, it has nevertheless played host to several economic traditions which have been believed to have a distinctively Liberal pedigree.

During the mid-nineteenth century, the Liberal Party's economic horizons were dominated by classical political economy. However, the Gladstonian identification of Liberal politics with classical economics never went unchallenged, and by the Edwardian period at least three alternative approaches to economic policy had emerged within the

<sup>1</sup> Conrad Russell, *An Intelligent Person's Guide to Liberalism* (1999), 57.

party: Henry George's single tax, the ethical and communitarian approach of the New Liberals, and the 'constructive' proposals developed by centrist Liberals. This chapter explores the economic inheritance of inter-war Liberals by sketching the development of these four traditions, in very broad outline, up to the First World War, and then examining how they structured Liberal policy debate in the 1920s.

## CLASSICAL ECONOMICS

The classical tradition which provided the starting point for Liberal economic analysis in the early twentieth century can be traced directly to the work of the classical economists: Adam Smith in the 1760s and 1770s, David Ricardo and his contemporaries—Thomas Malthus, Jean-Baptiste Say, James Mill, Robert Torrens and Nassau Senior—a generation later, and John Stuart Mill, J. E. Cairnes, and Henry Fawcett in the Victorian era.<sup>2</sup> The classical economists were not a homogeneous group, but there were significant connections between them, and they shared a belief that the market had 'an inherent tendency towards self-adjustment', which rested, of course, on assumptions of perfect knowledge and accurate expectations.<sup>3</sup>

The central concern of the classical economists—especially Smith, Malthus, McCulloch, and John Stuart Mill—was economic development or growth. Though growth was not always an unmitigated good, Smith and those who followed him had little doubt that the expansion of agricultural and industrial production would ultimately enrich the society concerned and improve the living standards of its members. Classical theories of development took a variety of forms, but most of them included the same essential features: a stable legal and political environment in which investment could take place, the accumulation of capital for investment through saving, and the expansion of markets through trade and exchange, which facilitated greater specialization. The process of growth was likely to cease eventually, as a falling rate of profit made further investment unremunerative, but new inventions, capital exports, cheaper food, and cyclical instability could help delay the advent of this 'stationary state'.<sup>4</sup>

The common perception that the classical economists were wedded to a doctrine of laissez-faire contains a good deal of caricature. As Lionel

<sup>2</sup> D. P. O'Brien, *The Classical Economists Revisited* (Princeton, 2004), 3–6.

<sup>3</sup> T. W. Hutchison, *On Revolutions and Progress in Economic Knowledge* (Cambridge, 1978), 125.

<sup>4</sup> O'Brien, *Classical Economists Revisited*, 248–87.