

DRAFT

The Origins of ‘Keynesian’ policy in the 1930s

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1. Introduction

Fiscal policy and other ‘non-market’ measures are not radical. Karl Marx regarded “the public debt and the fiscal system” as playing a “great part” in the “expropriation of the masses” (Marx, 1976 [1867], p. 921). Throughout history, policymakers, as exemplified by George W. Bush, have not hesitated to retreat from professed free-market ideals in the wake of domestic economic difficulties. While conventional wisdom has Keynes fighting a futile battle over the merits of fiscal policy in the 1930s, the reality was that, at the time, with the Labour Government out of office, a broad section of the British Establishment turned to advocating what became known as ‘Keynesian’ measures. One of the most prominent champions was the future British (Conservative) Prime Minister, Harold Macmillan, for whom the policies constituted ‘economic nationalism’.

I argue here and have argued elsewhere that Keynes’s primary aim and policy goal was monetary reform. That is not to say that Keynes opposed ‘Keynesian’ measures; he lent his support to arguments for both tariffs and public works expenditure. On the other hand, those who most strongly advocated ‘Keynesian’ measures appeared more sceptical about

monetary reform. Keynes saw these measures as *supplementary* to monetary reform; it seems that others saw the measures as *alternative* to monetary reform.

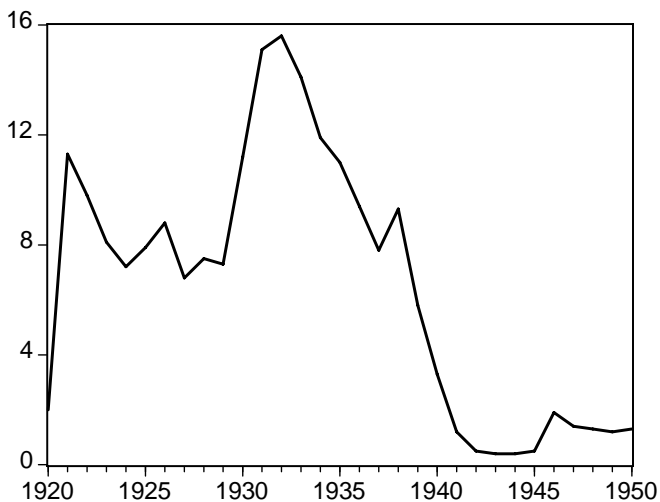
The British Government *Employment White Paper* (Cmnd. 6527) was more in the spirit of Macmillan's 'Keynesianism' than the monetary perspective of Keynes.

2. 'Keynesian' policy in the 1930s

Economic Background

In Britain, the backdrop to the policy debate was an economic environment that appeared to validate the arguments of those who had opposed the return to the gold standard. The deflationary policies of the 1920s, under preparation for and then with membership of the gold standard, had led to persistent and high unemployment. The British unemployment rate remained high throughout the 1920s (Figure 1).

Figure 1: British unemployment, 1920-50



Source: Feinstein (1972)

These economic conditions led to an increasingly vocal and substantial opposition to the gold standard and the financial interests that were its most vigorous defenders. The Macmillan Committee was set up by the second Labour Government (June 1929):

There had for years been a demand for such an enquiry, and this had not been confined to Labour circles. From the moment of Keynes's onslaught in *The Economic Consequences of Mr Churchill*, the gold standard policy had been widely held to have sacrificed the interests of industry and trade, if not actually to the benefit of the financial community, at least for the sake of a fetish of that community. This criticism was voiced for example by Sir Alfred Mond a leading industrialist who had been one of Lloyd George's Ministers. In 1928 Mond with the Trade unionist Ben Turner took the lead in an official but significant 'Conference on Industrial Reorganisation and Industrial relations', and this conference urged the Chancellor to institute an enquiry into monetary policy. The suggestion was from 1927 onwards ventilated by McKenna in speeches and in his *Midland Bank Review*, especially in the context of the legislation then in process on amalgamation of the note issue. (Sayers, 1976, p. 360)

On 5 November 1929 the Chancellor of the Exchequer appointed the 'Committee on Finance and Industry' with the following terms of reference:

To inquire into banking, finance and credit, paying regard to the factors both internal and international which govern their operation, and to make recommendations calculated to enable these agencies to promote the development of trade and commerce and the employment of labour. (CW XX, p. 17).

As Sayers (1976, p. 360) puts it: "... the Bank for the first time in living memory faced a public enquiry into the full range of its activities". The membership of the Committee drew on leading figures from finance, academia, journalism, politics, industry and the trade union movement.¹ The first meeting was on 21 November 1929.

¹ Moggridge (CW XX, p. 17) provides a source for the membership. Chairman: H. P. Macmillan, a Scottish judge; Members: Sir Thomas Allen, of the Co-operative Wholesale Society, Ernest Bevin, of the Transport and General Workers Union; Lord Bradbury formerly of the Treasury; R.H. Brand of Lazards, the merchant bankers; Professor T. E. Gregory of the London School of Economics; J. M. Keynes of Cambridge University; Lennox Lee of the Federaton of British Industries; Cecil Lubbock of Whitbreads the brewers and a former Deputy Governor of the Bank of England; Reginald McKenna of the Midland Bank and a former Chancellor of the Exchequer; J. T. Walton-Newbold editor of *The social democrat*; Sir Walter Raine, a coal exporter; J. Frater Taylor of Armstrong Whitworth; R. G. Tulloch of the District Bank.

While the financial establishment would not give up on the gold standard and associated high interest rate policies, it did show a willingness to entertain more radical retreats from market mechanisms.

Industrial intervention

A development already underway was the Bank of England's involvement in industrial finance. Kynaston (1999, pp. 189-95) records Governor Montague Norman's desire to seek industrial 'rationalisation' through mergers of companies into larger industrial corporations under a good degree of control by the finance sector. Sayers (1976, pp. 314-325) discusses a case by case role:

- the support to armaments manufacturer Sir W. G. Armstrong, Whitworth and Co., that led eventually to the merger establishing Vickers-Armstrong (1928);
- the formation of the Lancashire Textile Corporation (1928);
- the establishing of National Shipbuilders Security Ltd (1930); and
- the establishing of the Lancashire Steel Company (1930).

The Bank then looked to a more systematic approach: "In November 1929 the Bank established the Securities Management Trust, essentially a group of experts to advise Norman and see through rationalisation schemes" (Kynaston, 1999, p. 190).² In July 1930 the Bankers' Industrial Development Company was established, with subscriptions from forty institutions – clearing banks, merchant banks and issuing houses, and a quarter of the capital from the Bank of England itself. Sayers however concludes: "In the event these agencies proved not to be the engines of rationalisation through a great array of industries; their principle task was rather to oversee the unwinding of commitments into which the Bank had already ventured, ..." (Sayers, 1976, p. 547). The episode serves as a fascinating example of a special type of 'Keynesianism', one controlled not by government but by financial interests.

² Kynaston (ibid, p. 191) also records the scepticism of industrialists, citing the 27th Earl of Crawford, in the context of his family firm the Wigan Iron and Coal Co being about to be rationalised into part of the Lancashire Steel Corporation: "They are too much detached from the realities of production with its tremendous problems; they are usurers and nothing else ... The banks sail serenely above the tempests of industrial trouble."

Protectionism

In parallel, City bankers had also turned to protectionism. A bankers' 'resolution' was issued on 4 July 1930:

While we retain the hope of an ultimate extension of the area of free trade throughout the world ... we believe that the immediate step for securing and extending the market for British goods lies in reciprocal trade agreements between the nations comprising the British Empire. (Kynaston, 1999, p. 204)

Kynaston (1999, p. 204) records the following signatories:

- Three Bank of England Directors (Peacock, Anderson and Walter Whigham);
- The Chairmen of four large clearing banks (Westminster, Lloyds, National Provincial and Midland); and
- Vivian Hugh Smith of Morgan Grenfell.

He also cites a *Financial Times* report on 5 July: "Those dissenting from the views expressed were in a marked minority ... It was insistently urged that banking interests had, within recent months, completely revised their view of tariff problems" (*ibid.*).

In February 1933 the (Conservative) Chancellor of the Exchequer Neville Chamberlain announced a ten per cent general tariff.

Public works

The public works debate has of course been extensively discussed. To me it seems any opposition was brief, perhaps initially political, and with robust and dependable support from HM Treasury. The proposals in the Liberal Party's *We Can Conquer Unemployment* (March 1929) and Keynes's subsequent *Can Lloyd George Do It?* were challenged by (the Conservative Government's) White Paper (HMSO, 1929). Clarke records how Keynes rejected HM Treasury's notion of 'crowding out': "Choosing his words with care, so as to exclude Hawtrey, Keynes professed himself unable 'to discover any recent

pronouncement to the contrary, outside the ranks of the Treasury, by an economist of weight or reputation' [CW IX, p. 121]" (Clarke, 1988, p. 100).

While in 1931 the Labour Government was destroyed in the wake of the May Committee's demands for cuts to public expenditure, such demands may still have represented a minority view [who made the choice to have May head the Committee is of interest]. On 17 October 1932 A. C. Pigou and D. H. MacGregor, respectively professors of political economy at Cambridge and Oxford, headed the signatories to a letter to *The Times* advocating public works expenditure. The other signatories were Arthur Salter, Walter Layton, Josiah Stamp and Keynes.³ At this point the L.S.E. economists [Lionel Robbins, Hayek and William Beveridge?? CHECK] signalled their opposition to such initiatives, and emerged as the rivals that Keynes had previously considered absent.

Figure 2: Growth in public expenditure, 1922-1938

[INSERT]

Source: Feinstein (1972)

Planning

In parallel to these events, Sir Oswald Mosley and Harold Macmillan (one day to become British Prime Minister) were emerging as champions of a broader agenda of 'planning'. Mosley had resigned from his post as a junior minister in the Labour Government in May

³ Stamp (1880-1941) was a statistician (Vice Chairman, 1925-32, and Chairman, 1935-41, of the Royal Statistical Society) and industrialist (Secretary and Director of Nobel Industries, 1919-26, and president of the London, Midland and Scottish Railway, 1926-41), who also took a number of public roles (e.g. British representative on the Dawes and Young Committees on German reparations). He was a vociferous supporter of Keynes (reviewing the *Treatise for the Economic Journal*). He was made a Baron in 1938 but was killed in an air raid in 1941. Salter and Layton would be important figures in the post-war world. Salter was variously a bureaucrat (in the British civil service and as a League of Nations official), academic (the Gladstone Professor of Political Theory and Institutions at Oxford and fellow of All Souls) and a Member of Parliament (for Oxford University, 1937-50, and as a member of the Conservative Party, 1951-53). He became a Baron in 1951. Layton was an academic (economics at Cambridge University and then University College London), and then the editor of *The Economist* magazine from 1922-38; *The Dictionary of National Biography* adds that Layton "worked for Anglo-American understanding, European Unity, and the United Nations". He became a Baron in 1947.

1930. In December 1930 he set out his Manifesto calling for protectionism and planning [Keynes's response CW XX 474]; and in early 1931 he founded his 'New Party'. Macmillan's biographer observes that the agenda "particularly appealed to Macmillan and his parliamentary friends" (Horne, 1989, p. 94). While Mosley's fascism would not take hold, Macmillan, operating within the Conservative Party, became the figurehead for (what he referred to as) 'economic nationalism'. Horne (1989, p. 95) notes that two leading New Party members (and 'ex-Marxists'), Allan Young and John Strachey, became Macmillan's advisers.

Intellectual and 'technocratic' support for planning was set out by Sir Arthur Salter (footnote 3) and Basil Blackett⁴. In 1931, their perspectives were set alongside those of other leading intellectuals in a series of Halley Stewart Trustees lectures. These were published as *The World's Economic Crisis and the Way of Escape* (Salter *et al*, 1931). Salter discussed causes and remedies of the depression from a global perspective. He distanced himself from 'nationalistic economic policy', but supported a degree of 'planning': "I still believe that it is possible to combine real initiative, real political freedom, with an element of deliberate planning" (*ibid.*, p. 26). Blackett was straightforwardly in favour of a 'Planned Economy'; he considered that the capitalist system could survive, but individualism could not. [detail perhaps] Blackett belonged to a lobby group, 'Political and Economic Planning', details of which are included in annex A. Salter (1932) set out his case in *Recovery: The Second Effort*.

Macmillan set out his personal manifesto in his 1933 book, *Reconstruction: A Plea for a National Plan*. The Preface explained cause, motive and means:

We must realise the essential contradictions of *laissez-faire* even while we may appreciate the energy and drive of a rugged individualism. The policy we are seeking will only be satisfactory if it goes *deep* enough to correct the maladjustments and reconcile the disharmonies from which our problems arise. But, if revolutionary violence is to be avoided, it must also make its appeal to a sufficiently *broad* strip of public opinion to secure the support for its adoption. It must be at once radical and popular. (Macmillan, 1933, pp. 6-7; his italics)

⁴ HM Treasury from 1904 and a director of the Bank of England from 1929-1935 (Sayers, 1976, p. 65).

Chapter 3 set out 'The Case for Planning':

The idea of planning is slowly but definitely gaining ground as the real nature of the problem now confronting us is revealed. It is a view which arises out of the realities of industrial and commercial life. ... Economic planning is the attempt to regulate production in accordance with effective demand. It is not a new or strange idea. (*ibid.*, p. 16)

His biographer observes:

He admitted that some of his proposals bore points of similarity with the Soviet system and Mussolini's corporate state, but he stressed that the idea of planning was neither Fascist nor Communist, and ended by warning that, if capitalism did not reform itself, these two 'movements of revolution which rest upon passion' would overthrow reasons. (Horne, 1989, p. 104).

The momentum was sustained by the 'Next Five Years Group', "started in 1935 by Harold Macmillan and Clifford Allen" (Skidelsky, 1992, p. 438)⁵. Reflecting the cross-party nature of the initiative, Allen was a leading Fabian and member of the Labour Party (he took MacDonald's side when the Labour Party split in 1931). After issuing two pamphlets, a fuller manifesto was published as *The Next Five Years: An Essay in Political Agreement* (1935). The 'Foreword' includes a list of 152 signatories drawn from across the British Establishment ("drawn from different parties and schools of thought"). The list also indicates those signatories that were members of the 'drafting Committee': Allen, W. Arnold-Forster, A. Barratt Brown (the Principal of Ruskin College Oxford), Geoffrey Crowther (soon to succeed Layton as editor of *The Economist*), Macmillan and Salter. [Attach membership as annex B] Blackett and Young were also among the signatories.

The manifesto foreshadowed much of what was to become the post-war agenda. Chapter 1 was titled 'Economic Planning':

⁵ Skidelsky discusses the group no further, but notes that Macmillan was "more of a corporatist than an expansionist" (*ibid.*).

The *motive* of profit-making has already, to a greater extent than is commonly realized, ceased to be the mainspring of economic activity in this country: and we think it safe to assume that this tendency will continue in the future, ...

... [W]e believe that the State will find it increasingly necessary to intervene in order to set the *direction* of the economic activity of the community. ...

We assume, then, that the functions of government in relation to economic activities are increasing and will increase, both in range and complexity. ...

We need more economic planning. (Liberty and Democratic Leadership, 1935, pp. 11-12)

Chapter VIII, under the title 'Social Justice', looked at what was to become known as the welfare state (extracted from the summary in the 'contents' section):

The Social Services. The policy of a National Minimum. ... (1) Unemployment. ... The Means Test to be purged of its harshness. (2) Old Age. ... the urgent need for a State organized system of superannuation allowances. ... (3) Education. ... an increase in the school leaving-age is essential ... (4) Nutrition ... beginning with milk.

Taxation and Equity. ... Possible future sources of tax revenue: the increment in land values; increased surtax rates on 'unearned income'; increased death duties. (*ibid.*, pp. x-xi)

The support for the planning agenda was therefore widespread, cutting across the left, the right, the bureaucracy, the financial sector, the financial media and academia; the signatories needed no *General Theory* to convince them of the merits of their case.

3. Post-war resolution

Behind the scenes of W.W.II, technocrats sought to resolve, and to a great extent did resolve, the economic policy debate. In Britain this was affected through the *Employment White Paper* (Cmnd. 6527, 1944) and Beveridge's (1944) *Full Employment in a Free Society*, which most still regard as setting the planning agenda for the post-war world. The conventional wisdom of a conversion to Keynesianism is perhaps based on these

official developments. However the reality of the nature of any conversion is wholly different to that of associated with the conventional wisdom. Instead the preparation for post-war employment policy saw the L.S.E. advocates of *laissez-faire*, Beveridge and Robbins, as well as the persistent advocate of austerity, Hubert Henderson (see below), not only converted to but leading the development of post-war planning agenda. These economists (Keynes's most outspoken rivals) adopted the economic nationalism agenda set out by Macmillan and the Next Five Years Group.

The *Employment White Paper* emerged from the Economic Section of the British Government Cabinet Office. This unit appears to have been set up during the war, perhaps in part as a successor to the Economic Advisory Council (EAC) and as a counter-balance to Keynes's influence though his wartime role in HM Treasury. Lionel Robbins became director in 1941. James Meade produced both the preparatory material for and then the first draft of the *White Paper* itself (in March 1943), which Robbins then redrafted.⁶

Skidelsky (2000, p. 282) records how Hubert Henderson was involved in the preparation of the final draft. Henderson rivalled Robbins for his relentless opposition to Keynes's work and practical initiatives. Skidelsky offers an insight into Henderson's policy perspective:

Henderson was a Schachtian ⁷... Contrary to what he called the 'Chatham House' view, which blamed inter-war economic evils on economic nationalism, he viewed economic nationalism as an inevitable response to changes in the world economy. He did not believe that the old system of complementary international trade between manufacturing centres and primary producers, fuelled by rapid population growth and international lending, could be restored. ... Henderson was convinced that the system of planned trade pioneered by Schacht, and copied by Britain in the war, was tailor-made for both Britain's 'secular' and its short-term balance of payments problem ... Henderson believed that Britain needed to cling on at all costs to the imperial remnants of its once global position. ... In point of theory, Hubert Henderson was a Schachtian because he was not a Keynesian. He believed that Britain's economic problems lay on the supply not the demand side. But, unlike the Thatcherites of the 1980s, he thought that very little could be done

⁶ Howson (2000, p. F129)

⁷ Schacht was Hitler's economic adviser and the head of the German Central Bank.

about them – that is, he had little faith in market mechanisms or the possibility of restoring them. This being so, Britain should grab as much of the world’s supply as possible – by exploiting its imperial position to plan its trade to its advantage. This sounded very much like the ‘rational’ division of labour Funk [⁸] planned for occupied Europe. ... He is accurately described as an Economic Nationalist - the British equivalent of Hjalmar Schacht. (Skidelsky, 2000, pp. 200-1)

In a footnote to the end of this passage, Skidelsky offers the following additional information on ‘economic nationalism’:

Economic Nationalists, too, can be divided into two camps – National Capitalists and National Socialists. Henderson fits the first, his protégé Thomas Balogh the second. One must, of course, distinguish the economic doctrines of the latter from the politics of Hitler’s national socialists.

In parallel Beveridge was preparing his *Full Employment in a Free Society* (1944). Beveridge had been opposed to Keynes’s economics from as early as the *Economic Consequences of the Peace*. Between 1919 and 1937 he was the director of the L.S.E.; and then between 1937 and 1944 he was the Master of University College Oxford. He moved from the University that most strongly opposed Keynes’s ideas throughout the 1930s to the University that was at the centre of the ‘Keynesian revolution’. His leaving speech between the two posts was notable for his vicious assault on both Keynes’s theory and practice; described by Dimand (1999, p. 222 and 228) as follows:

Beveridge devoted his farewell lecture, upon leaving the LSE for the mastership of University College, Oxford, in 1937, to a denunciation of abstract economic theorizing as exemplified by Keynes’s *General Theory*. At the same time, Beveridge published a series of three articles on ‘An analysis on unemployment’ in *Economica* (1936-7), reformulating and restating his own approach. ...

... Beveridge’s remarkable valedictory address had a second theme: he deplored the excessive involvement of university teachers, especially social scientists, in public affairs, seeking to change society as well as study it, as a menace to the objectivity and neutrality of science.⁹

⁸ Schacht’s deputy / successor.

⁹ Beveridge’s views were published in *Politica*, the LSE journal of political science; his views on unemployment were published in *Economica*.

In spite of these views, he emerged from the war as what Dimand (1999, p. 222) describes as a ‘militant Keynesian’. His book effectively set out a more extreme economic nationalist agenda; at the same time fostering a debate, not about the *necessity*, but about the *extent* of state control.

4. Keynes and Economic Nationalism

I have argued elsewhere that Keynes’s primary concern was monetary reform (see e.g. Tily, 2006, Chick and Tily, 2004 and Tily, forthcoming). He lent his support to some of the planners’ initiatives, but kept a degree of distance. Moreover when it came to monetary considerations, more substantial differences between the two sides were evident.

Keynes had supported tariffs¹⁰ and put his name to Pigou’s letter. But he refused Salter’s request to include his name among the signatories of the Next Five Years Group (NFYG) manifesto:

My own belief today is that neither the real remedy nor the power of persuading people to adopt it will come except from a more fundamental diagnosis of the underlying situation and a wide-spread understanding of this diagnosis and conviction of its correctness. Now, a fundamental diagnosis is just what this document, perhaps quite wisely, entirely avoids; and where one catches a glimpse, by inference, of what the underlying theory of the authors probably is, I find myself much more conscious of differences of opinion than in the matter of the practical proposals. (CW XXI, p. 355)

Indeed when it came to monetary reform, the NFYG revealed themselves as very much opposed to Keynes’s analysis:

The importance of monetary policy, though great, can easily be exaggerated. ... But money is not all-powerful. Many years ago Jevons wrote: “There are men who spend their time and fortunes in endeavouring to convince a dull world that poverty can be abolished by the issue of printed bits of paper. I know one gentleman who holds that exchequer bills are the panacea for the evils of humanity. Other philanthropists wish to make us all rich by coining the national

¹⁰ But only as second best. See CW XXI pp. 204-210 for a clear statement of his position.

debt, or coining the lands of the country, or coining everything.” The forms of these beliefs have grown more subtle, and more plausible in the process, since Jevons’ day. But the root-belief is still the same: that by a few simple book-keeping transactions a flood of wealth hitherto pent up by an imperfect monetary system can be released to sweep poverty from the face of the earth.

We do not share these beliefs. (*ibid.*, pp. 98-9)

The most promising suggestion is that currencies should be re-linked to gold, but at parities which could be changed from time to time. (*ibid.* , p. 111)

In the longer run, the task of the Central Bank in regulating credit policy should, as far as it is compatible with its international currency policy, aim at preserving stability. This somewhat vague requirement can perhaps best be envisaged as meaning the stability of the general price-level. ... (*ibid.*, p. 113)

Keynes only occasionally set his own solutions against those pursuing Economic Nationalist policies. But these rare moments are highly significant. Just after publication of *A Tract on Monetary Reform*, he set out his position in a speech to the Liberal Club (on 11 December 1923) that has substantial relevance as a general statement of his lifetime policy perspective:

To begin with a few words about what should be the attitude of Liberalism towards social policy.

We are traditionally the party of *laissez-faire*.

But just as the economists led the party into this policy, so I hope they may lead them out again.

It is not true that individuals acting separately in their own economic interest always produce the best results.

It is obvious that an individualist society left to itself does not work well or even tolerably.

Here I agree with Labour.

I differ from them not in the desirability of state action in the common interest, but as to the forms which such interference should take. Their proposals are out of date and contrary to human nature.

But it is not safe or right just to leave things alone.

It is our duty to think out wise controls and workable interferences.

Now there is no part of our economic system which works so badly as our monetary and credit arrangements; none where the results of bad working are so

disastrous socially; and none where it is easier to propose a scientific solution. (CW XIX, Vol. I, pp. 158-9)

Here Keynes is seen to favour state action to address monetary arrangements above other forms of state action. Later, in December 1933, he put his views on government spending into perspective in a response to a critique by Professor Edward C. Simmons in the *American Economic Review*:

Anyone who is well acquainted with my writings will, however, be aware that I am not one of those who believe that the business cycle can be controlled solely by manipulation of the short-term rate of interest, that I am indeed a strong critic of this view, and that I have paid much attention to alternative and supplementary methods of controlling the rate of interest. Since, however, myths once started are persistent, it may be unwise of me to allow this representation of my argument to pass uncorrected.

My proposals for the control of the business cycle are based on the control of *investment*. I have explained in detail that the most effective ways of controlling investment vary according to circumstances; and I have been foremost to point out that circumstances can arise, and have arisen recently, when neither control of the short-term rate of interest nor even control of the long-term rate will be effective, with the result that direct stimulation of investment by government is the necessary means. (Keynes, 1933, p. 675)¹¹

In 1934 Keynes made a contribution to a radio debate in which a number of economic experts contrasted their various diagnoses and proposed cures to the Economic Problem. He then summarised the views expressed in *The Listener* of 21 November 1934. His approach was first to draw a distinction between those who saw the economic system as self-adjusting (at least in the long run: Henderson, Robert Brand and Robbins) and those who did not ('Dr Dalton', 'Mr Hobson', 'Mr Orage' and 'Mrs Wootton'). He then examined the opinions of the latter group on the root cause of the failure of the system to self-adjust; of these Wootton advocated planning: "Mrs Wootton, ... calls for planning, although she only half-rejects the theory of self-adjustment, having not reached, one feels, a synthesis satisfactory to herself between her intellectual theory and her spiritual home" (CW XIII, p. 487). Keynes described his own practical perspective as follows:

¹¹ The 'note' that this quotation is taken from is not included in the *Collected Writings*.

Now the school which believes in self-adjustment is, in fact, assuming that the rate of interest adjusts itself more or less automatically, so as to encourage just the right amount of production of capital goods to keep our incomes at the maximum level which our energies and our organisation and our knowledge of how to produce efficiently are capable of providing. This is, however, pure assumption. There is no theoretical reason for believing it to be true. ... Those standing on my side of the gulf, whom I have ventured to describe as half-right and half-wrong, have perceived this; and they conclude that the only remedy is for us to change the distribution of wealth and modify our habits in such a way as to increase our propensity to spend our incomes on current consumption. I agree with them in thinking that this would be a remedy. But I disagree with them when they go further and argue that this is the only remedy. For there is an alternative, namely, to increase the output of capital goods by reducing the rate of interest and in other ways. (CW XIII, p. 490)

Both the *Employment White Paper* and Beveridge (1944) took a low-key approach to monetary considerations. The *White Paper* was non-committal: “59. For some time after the end of the war it will be necessary, ...to maintain a policy of cheap money. Thereafter, the possibility of influencing capital expenditure by the variation of interest rates will be kept in view” (Cmnd. 6527). While Beveridge did have a fuller discussion of monetary issues, this was positioned in Annex C – hardly central to the main discussion. Any notion that monetary failure was the cause of the Economic Problem was absent from both reports.

Skidelsky (2000, p. 279) notes that “... Keynes was not importantly involved in its preparation” and Moggridge (1976, p. 132) notes that: “... Keynes’s drafting contributions to the White Paper which followed were few, because of his involvement in an extensive official and ministerial debate on post-war external economic policy and his illness during March and April 1944, the months of heaviest drafting”. Keynes’s (mainly private) comments on these post-war policy deliberations reveal a different perspective as well as a degree of disagreement. In May 1943, on receiving Meade’s preliminary work for the *White Paper*, Keynes was perceptive: “I think you lay too much stress on cure and too little on prevention” (CW XXVII, p. 326). But when the *Paper* was published, comments in his briefing for the Chancellor indicate that he did not appreciate the underlying rejection of monetary reform, though they do reveal a degree of bafflement:

Criticism. Reference to interest rates in Paragraph 59 has been subject to criticism in some quarters of the Press. It is said that whilst we are promised a continuance of the cheap money policy for the time being, we are threatened with a reversal of it at some later date.

Answer. I have never myself been able to make much sense of that paragraph. ... (CW XXVII, p. 375)

It is equally notable that briefing was deemed necessary to counter a public perception that authorities intended to terminate cheap money policy after the war.¹²

I have emphasised the importance of the Coalition Government's April/May 1945 National Debt Enquiry as a statement of Keynes's practical policy perspective (e.g. Tily, 2006, p. 4).¹³ The *Report* of the NDE indicates that it was set up in part to make amends for shortcomings of the *White Paper* with regard to monetary policy: "We were asked to define more closely an appropriate Treasury policy in regard to cheap money with particular reference to statements in the *White Paper* on Employment Policy" (Report, para. 2). Included was a fairly categorical response on the part of the monetary reformers to the 'Keynesian' agenda set out in the *White Paper*:

We have been led to form a series of views not completely consistent with the brief references to the matter in the Employment White Paper. Rather we say that the *White Paper* ought to mean that, subject to uncertainties as to the extent to which and the conditions in which moderate fluctuations should be admitted, (which uncertainties need not be brought too much into the open), the object of Government should be to maintain low interest rates, long and short, for as far ahead as can reasonably be the subject of discussion – certainly far beyond the transitional period. (NDE Report, paragraph 25)

¹² A further remark of interest was included at the end of one of Keynes's internal HM Treasury minutes concerning debt-management policy: "After reading these, and also some other recent papers, I am left with the feeling that the bureaucracy have to beware of drifting into [a] position in which they are equally opposed both to socialism and private enterprise – to the former because it brings in politics, and to the latter because it depends on speculation and money making. It is much sounder, *I* think, to believe in both than to thwart both" (30 January 1945, CW XXII, pp. 430-1).

¹³ The Report of the Enquiry has recently been published by Professor G. C. Peden (2004). Minutes of the meetings are available in the UK National Archives.

The actual debate at the Enquiry that has been recorded in the minutes brought the different views into sharper relief. On the one hand most purported to agree with the theory and policy that Keynes had articulated:

Prof. Robbins ... confirmed that the doctrinal analysis was one with which he (in common with most other professional economists at the present time) agreed. (PRO File T230/94, p. 220)

Mr Meade concluded by saying that he entirely agreed with the practical suggestions put forward by Lord Keynes. (PRO file T160/1408, p. 121)

On the other hand, Keynes again found himself having to defend the secular nature of cheap money policy:

Mr. Meade, while agreeing with Lord Keynes in his general analysis, preferred to lay more emphasis on the importance of keeping interest rates down when we are entering a period of possible stagnation, with a view to lowering the cost of socially desirable public and semi-public investment. (PRO file T160/1408, p. 119)

But he [Prof. Robbins] felt that there should be a certain flexibility. ... During the transitional period, if the physical controls were to crumble, there might be a case for a slight upward movement of rates; ...[and] expressed some uncertainty about his proposals regarding short term rates ... It might well happen that, if the leading nations were for political reasons to put the Trade Unions in a strong position, this would lead to a rise in wage-rates and in the general level of prices, resulting in an upward pressure on interest rates. (PRO File T230/94, p. 220)

Keynes did not have to fight to justify fiscal policy. The fight concerned monetary policy. Any successes were short-lived.

5. Conclusion

I have attempted to show how the planning agenda had a momentum of its own that owed very little to Keynes.

[MORE]

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Annex: Political and Economic Planning ¹⁵

Extract from the Dartington Hall Archive¹⁶:

Collection: Papers of Leonard Knight Elmhirst
Level: Series
RefNo: LKE/PEP
Extent: 18 boxes
Title: LKE Political and Economic Planning
Date: 1925-1968

Description: The personal archive of Leonard Elmhirst documenting work with the independent research organisation Political and Economic Planning.

The collection is arranged into subseries including alphabetical correspondence; personal and organisational correspondence with Max Nicholson; correspondence with PEP directors R J Goodman and Richard Bailey; correspondence with Kenneth Lindsay (1925-1976); personal and PEP correspondence with Israel Sieff (1932-1972); notes for histories of PEP by Kenneth Lindsay, and an oral history transcript about PEP completed by Elmhirst in 1961. There are two boxes of PEP Directorate and Executive Committee papers including reports, agendas, minutes, and records of PEP social functions. The final 10 boxes contain a range of PEP bound printed reports including a set of the broadsheet publication 'Planning', dating from 1933 to 1967.

General member correspondence includes letters from Gerald Barry; Basil Blackett; Henry Bunbury; John Dower; Maxwell Fry; Arthur Goldschmidt; Fred Gwatkin; Noel Hall; William Holford; Julian Huxley; Lawrence Neal; David Mitrany; Geoffrey Whiskard; and Michael Zvegintzov.

Records include agendas, and meeting notes kept by Leonard Elmhirst. There are handwritten notes kept by Elmhirst of the first organisational meeting at Dartington Hall in 1931. During World War II, Elmhirst was closely involved with international postwar planning efforts in co-operation with the National Planning Association in America. Letters of David Owen in 1940 describe PEP activities and life in London during the sustained bombing of the Blitz.

See the online catalogue for item level descriptions reference LKE/PEP.

¹⁵ <http://www.dartingtonhall.org.uk/>

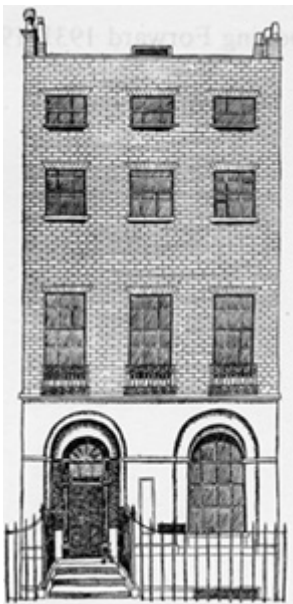
¹⁶ Dartington Hall is a medieval hall built between 1388 and 1400 for John Holland, Earl of Huntingdon, half-brother to Richard II. After John Holland was beheaded it stayed in the Holland family – going to John Holland II, Earl of Huntingdon and Third Duke of Exeter (whose active service included the Battle of Agincourt), 1400-1447; Henry Holland, Fourth Duke of Exeter, (who returning from an invasion of France drowned between Calais and Dover. A leading supporter of the Lancastrian cause, it was possibly at the order of Edward IV), 1447-1475. The Hall then passed through Holland's widow to her second husband, Sir Thomas St Leger, (executed at Exeter for his part in a rising against Richard III), 1476-1483. It then passed to the Crown to be held by a succession of owners and tenants. For short periods it became the property of two of Henry VIII's wives, the Catherines Howard and Parr. it was bought in 1559 by Sir Arthur Champernowne, Vice-Admiral of the West under Elizabeth I. The Champernowne family lived in the Hall for 366 years. The hall was derelict by the time it was bought by Leonard and Dorothy Elmhirst in 1925. They renovated the buildings and set about their goal of promoting innovative rural reconstruction in what was then a depressed agricultural economy. In 1935 the Dartington Hall Trust, a registered charity, was set up to run the estate.

History: Political and Economic Planning was founded in 1931. It grew out of the work of Max Nicholson, who wrote 'A National Plan for Britain' as a supplement to The Week-End Review in February, 1931. PEP members included businessmen, economists, and academic experts attracted by the promise of economic planning as both a means out of economic depression and as a means of avoiding it. During and after World War II, PEP extended its interests into the arts, television, and film in Britain. It also carried out investigations of social problems including racism, publishing the Street Report in 1967. In 1978 PEP merged with the Centre for the Study of Social Policy (CSSP), and became the Policy Studies Institute (PSI).

PEP functioned both as a club, and as a think tank. Research was organised by groups including agriculture, land use, economics, government, industry, and technique of planning (TEC PLAN). Members were asked to research, and contribute according to their expertise, to the production of PEP reports which were edited for publication by the organisation's paid secretaries, Kenneth Lindsay, Max Nicholson, David Owen, and Michael Young. Following World War II, PEP employed executive directors including Ray Goodman, Richard Bailey, and John Pinder.

Although not present at the initial two meetings in the spring of 1931, Leonard Elmhirst soon became involved with PEP both as an advisor, and as the principal source of funding during the group's first three years. He served on the early Directorate, and was a continuous member of the PEP Executive until about 1971. He also served as Chairman of Political and Economic Planning from 1939 to 1953, following Israel Sieff in that role, and preceding Max Nicholson. Dartington Hall served as a rural retreat for PEP meetings and conferences from April 1931.

ArchNote: See holdings of the British Library of Political and Economic Science. PEP/PSI Political and Economic Planning and Policy Studies Institute Archives, 1922-1987.



16 Queen Anne's Gate, PEP headquarters