

THE LABOUR PARTY AND THE ECONOMICS OF REARMAMENT, 1935-

1939*

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ABSTRACT: This article examines the Labour Party's attitude to the finance of the British rearmament programme in the later 1930s, principally with reference to debates in the House of Commons. It is suggested that the party's opposition to the National Government's borrowing for rearmament was strongly influenced by continuing bitterness over the political crisis of 1931; and that focussing criticism on the economic aspects of the rearmament programme helped Labour to mask its divisions over the validity of rearmament itself. Labour politicians' varying reactions to John Maynard Keynes's arguments in favour of defence borrowing are explored; as is the party's attitude to, and impact upon, Neville Chamberlain's 1937 proposals for a 'National Defence Contribution'. Moreover, it is argued that, as the political situation in Europe deteriorated, Labour's policies were influenced further in the direction of central planning and 'conscription of wealth', as an alternative to borrowing, which was alleged to be inflationary. Finally, it is suggested the party's attitude to these questions is illustrative of the way in which economic ideas in the public sphere are inevitably conditioned by the political interests of the politicians who promote them.

I

The Britain of the 1930s is generally known as an era of 'slump' at home and 'appeasement' abroad. Indeed, at the time, these issues - perceived economic decline and alleged willingness to truckle to dictators - formed the main bases of the Labour Party's attacks on the National government. Economic and foreign policy were, moreover, intrinsically connected. G.C. Peden has shown the ways in which the government's policy on rearmament was conditioned by the fear, voiced by Neville Chamberlain (chancellor and after 1937 prime minister), that greatly increased arms expenditure might, in economic terms, 'break our backs'.¹ The link between the two areas of policy was perhaps even stronger in the mind of the Labour party, given that it was committed to the proposition that economic rivalries between capitalist nations were the cause of war.² Labour politicians argued, furthermore, that because of the class interests which the Conservative party represented, the government which it dominated was congenitally incapable of a) pursuing a 'constructive' foreign policy based on collective security via the League of Nations, and b) organising finance and production in the developing 'near-war' economy in an equitable and efficient fashion. Labour aspirations towards a socialist foreign policy based on international co-operation thus went hand in hand with calls for a domestic economy planned on socialist lines. These beliefs underlay the party's hostility to the government's defence finance schemes in the later 1930s. As Clement Attlee, the party's leader, put it in 1937, home and foreign policy 'cannot be separated. The foreign policy of a Government is the reflection of its internal policy.'³ And, as a 'capitalist' government, the incumbents could be trusted in neither sphere.

Therefore, the government's borrowing of large sums of money to pay for defence was attacked, both as the expensive consequence of a failed foreign policy, and as bad finance in its own right. This article examines the arguments Labour politicians made about the economics of rearmament, partly in order to derive lessons about the party's economic world-view, and partly in order to explore the political function of

economic arguments. It aims to show how such arguments were conditioned in the interest of politics; that is to say, it examines the ways in which Labour's economic policy was affected by the interpretation of recent political history, by the day-to-day dictates of inter-party warfare, and by unfolding European and world events. It also sheds new light on the question of Labour attitudes to the ideas of John Maynard Keynes.

These questions are explored primarily with reference to debates in the House of Commons. The official record of these is a neglected source for the study of Labour's economic policy during this period. There is such a wealth of extant archival material on Labour's policy deliberations, and so many contemporary pamphlets and treatises, not to mention the party's annual conference reports, that it is quite understandable why historians have for the most part not taken on the additional burden of ploughing through Hansard.⁴ However, this has perhaps skewed the accounts they have presented too much in favour of Labour's 'young economists' (e.g. Hugh Gaitskell, Evan Durbin and James Meade) and away from an arguably more significant group of people - the party's leaders in parliament. After all, the average voter was far more likely to read a newspaper account of a speech in the Commons than to read a Fabian Society pamphlet. Parliamentary debate, far more than today, was a vital way for the party to maintain its public profile.

First, then, the economic and foreign policy background to the rearmament finance debates of the 1930s will be examined. Next, Labour's opposition to the 1937 defence loans bill will be analysed, with particular reference to Keynes's views on this subject. Then, the party's attitude to Neville Chamberlain's proposed National Defence Contribution will be looked at, and its influence in modifying its form will be assessed. Following on from this, the party's approach to the government's proposed extension of its borrowing powers in 1939 will be examined, in order to gauge the impact of the deterioration of the European political situation on Labour's economic views. Finally, the

positive proposals offered by Labour will be explored, in order to assess the extent to which the party offered a credible alternative to the government policies it attacked.

II

The second Labour government had been ejected from office in August 1931. Ramsay MacDonald, prime minister and Labour leader, abandoned Labour to join with Liberals and Conservatives in a National government, of which he became head, subsequently inflicting massive defeat upon his former party at a general election in October. Labour was reduced to 46 seats in the Commons (there were, in addition, a half-dozen ILP and other rebels). This course of events was brought about by a financial crisis, the causes and seriousness of which for a long time after remained a highly contentious topic. Moreover, arguments about the crisis were constantly recruited into debates about defence finance in the later 1930s. Because Labour had, as a consequence of 1931, been painted by its opponents as the party of financial irresponsibility, its leaders were subsequently keen to demonstrate their rectitude through the advocacy of budgetary orthodoxy. They were, moreover, nervous of possible laxity amongst their followers on this score. As former minister H.B. Lees-Smith warned privately, two years after the Labour government's collapse, 'It is dangerous to suggest to our people that they need not balance the budget'.⁵ For if Labour appeared weak on this issue, then it would not be possible to criticize the National Government when it violated its own orthodox canons. And such criticism formed a vital part of Labour's strategy - for, given that the government claimed the reestablishment of sound finance as its *raison d'être*, to challenge it on this score called the government's very legitimacy into question. As Sydney Silverman MP argued in 1939, if the National Government's massive borrowings for defence were contrasted with the relatively 'paltry' debts run up by Labour, the

political controversy that had projected that government into power could easily be seen as 'dishonest and fraudulent' in nature.⁶

And just as Labour challenged the government's 'national' pretensions at the domestic level, so the party rejected a 'purely national' policy at the world level.⁷ It was alleged that the government was both incompetent and hypocritical in its handling of foreign affairs as a result of reliance on such a policy. But although the government's real and apparent failings provided Labour with political ammunition, the party had its own foreign policy difficulties. George Lansbury, the party's leader in the Commons after 1931, was an unconditional pacifist - and a significant body of the party was of the same view. Labour's official position, however, although based on the aspiration towards a world socialist commonwealth and the outlawing of war, did not imply a renunciation of force under all circumstances, but rather support for the ill-defined concept of 'collective security' under the League of Nations. At the same time, on the party's left, Stafford Cripps's small but vocal Socialist League opposed the official policy, on the non-pacifist ground that the League of Nations was 'nothing but the tool of the satiated imperialist powers'.⁸

In March 1935, the government announced that in view of the deteriorating world situation, the nation would equip itself to deal with foreign threats, and that this would entail additional spending.⁹ Developments later in the year, in reaction to Mussolini's invasion of Abyssinia, went some way towards clarifying Labour's position on such questions, but also reinforced the party's suspicion of the National government's foreign policy. Faced with government declarations of support for strong action against Italy via the League of Nations, Labour had to decide whether or not it would countenance a 'League war'. After a powerful attack upon Lansbury by Ernest Bevin, the leader of the transport and general workers union, the party conference overwhelmingly rejected the pacifist and extreme socialist positions by 2,168,000 votes to 102,000. Lansbury resigned, and was replaced by Attlee.

There was, therefore, an apparent temporary congruence between Labour's policy and that of the government - both sides gave public backing to collective security. Labour thus had difficulty, during the subsequent general election campaign, in establishing the distinctiveness of its position; infuriatingly, the party's political clothes had been stolen by its opponents.¹⁰ But the government's apparent betrayal of Abyssinia and the League, in the aftermath of the election, caused disgust in Labour's ranks. Moreover, Stanley Baldwin, the Prime Minister, had given his word that 'there will be no great armaments.'¹¹ The majority within the Labour party held that collective security would render increased national armaments unnecessary, so when Baldwin later went back on this promise, his government was attacked for promoting a dangerous arms race. As Morgan Jones, Labour chairman of the public accounts committee, put it in 1937, 'this expenditure is proposed by them [the government] because they are thinking in terms of inevitable war.'¹²

However, the main lines of Labour's attacks on the government over defence finance were decided even before the 1935 general election - and before the government first notified parliament of its intention to borrow for defence. Moreover, the argument was at first couched, not in terms of foreign policy, but in terms of living down the legacy of 1931. At an election strategy meeting in October 1935 (the election was in November), the possibility was raised that the National Government might propose a defence loan. Bevin - hardly a militant pacifist - thought this 'the most dangerous thing that might go before the country.' Hugh Dalton, chairman of the party's Finance and Trade Policy sub-committee, concurred on the following grounds:

In 1931 we were attacked because we could not balance the budget by taxation. We should reverse that and turn it against the Government. Whatever is required should be met by the taxation of those able to pay ... We stand for an honestly balanced budget. A defence loan would be a great financial ramp.¹³

III

It is thus no surprise that, when Chamberlain, in his April 1936 budget, first suggested that a part of the nation's emergency defence expenditure might, in future years, properly be met out of loan, Labour reacted accordingly. F.W. Pethick-Lawrence MP, who had been financial secretary to the Treasury in the second Labour government, argued that this would be 'a very grave new departure from principles of finance to which we have been accustomed in this House', and gave notice that his party would oppose such a loan scheme were it brought forward.¹⁴ (Arthur Greenwood, Labour's deputy leader, also argued that expenditure on armaments 'helps to twist the economic life of the nation out of its normal course' and would cause 'social wreckage' when all the money had been spent and industries had to try to reconvert to normal production.)¹⁵ Chamberlain had first considered the idea of borrowing for defence in reaction to Lloyd George's January 1935 proposal for 'a great Prosperity Loan'; but he had received Treasury advice that such borrowing would be improper, as this category expenditure ought to be met out of revenue. Officials in due course came round to what was admitted to be the 'heterodox' idea of a defence loan; but it is notable that Labour criticisms of the idea in fact had a great deal in common with Treasury fears that such a loan would breach good financial practice, and be inflationary.¹⁶ Labour also opposed Chamberlain's efforts to raise money for rearmament through indirect taxation by increasing the tea duty by 2 pence per pound, as this would weigh most heavily upon the poor.¹⁷

On 11 February 1937, Chamberlain announced in the Commons that the government proposed to ask for general powers to raise capital or use realized surpluses for defence expenditure up to a sum not exceeding £400 million spread over a period not exceeding five years.¹⁸ (This was part of a broader £1500 million rearmament programme.) A special Parliamentary Labour Party (PLP) meeting was called to decide Labour's reaction, which proved to be one of outrage.¹⁹ At a series of by-election meetings in Manchester, Attlee and Herbert Morrison (a defeated leadership rival), denounced the proposal. Attlee dwelt at length on the alleged hypocrisy of the National

Government's leaders, contrasting their present willingness to borrow for defence with their former attitude to the Labour government's borrowing to pay for unemployment relief. The *Manchester Guardian* reported his words thus:

This £400,000,000 meant there would be no attempt in future to balance the Budget. This payment of current expenditure out of loan was contrary to all canons of good finance. "Do you remember that scream against the Labour party's unorthodox finance in 1931 when they borrowed £100,000,000 for life?... "Now we are going to have £400,000,000 for death. ..."²⁰

He also alleged that the National government had connived at German rearmament 'because of its hatred of Russia.'²¹ Morrison too denounced 'the drifting, indecisive and incompetent foreign policy of the Government', which he linked with its economic failings:

The Government has reverted in spirit to the policy that led up to the Great War. Not only is the taxpayer being heavily burdened by Britain's being involved in a competitive arms race, but now the assets, the labour and the future resources of the country are to be pledged by borrowing for current expenditure on armaments.²²

An editorial in the *Daily Herald*, the Labour movement's newspaper, likewise denounced the proposed loan as 'foolish', 'immoral' and 'inflationary'. The paper's city editor, Douglas Jay, went still further: 'Mr. Chamberlain is setting out along the paths of Nazi finance.'²³

The stage was therefore set for a harsh attack on the government in the House of Commons. A government resolution in favour of the defence loan was debated on 17 and 18 February. The task of opening for the opposition fell to Pethick-Lawrence, who at this time was Labour's principal financial spokesman in the Commons. Pethick-Lawrence's knowledge of finance was great, perhaps too much so for parliamentary purposes; as he later recalled, Chamberlain could often outwit him in debate by 'feigning ignorance so as

to trap me into making impromptu explanations, which he knew would be too technical for the House of Commons to understand.’²⁴ On this occasion, Pethick-Lawrence opened by casting doubt on the chancellor’s assertion that the expenditure would be non-recurring, as the arms bill was likely to grow, and then moved on to a discussion of the merits of deficit financing. He claimed that in the relatively buoyant economic conditions then current - buoyant, that is, compared with the prior depths of the slump - the kind of borrowing the government proposed would unbalance the Budget in an economically destabilising fashion.²⁵ Pethick-Lawrence was familiar with the ideas of Keynes, having helped explain to Francis Williams, the editor of the *Daily Herald*, the mathematics of the recently published *General Theory*.²⁶ Referring in part, presumably, to this work, he now remarked that ‘There is almost unanimous economic opinion ... that it may be wise, whether it be in accordance with orthodox traditions or not, in a slump to borrow money and pump new purchasing power into the community, enabling it to keep itself afloat.’ However, ‘it is thoroughly bad to unbalance the Budget at a period when boom is shortly coming, because that accentuates the boom and accentuates the slump that is to follow.’ Such a course, taken now, would be ‘most dangerous’, and the defence loan would be ‘rank inflation’.²⁷ Keynes himself later discussed the defence loan with Pethick-Lawrence directly.

A further contribution to the debate, from Hugh Dalton, both echoed Pethick-Lawrence’s economic themes, and reflected Labour’s continuing internal tensions over the issue of rearmament itself. Dalton was a ‘hawk’ on this question, having told the 1936 Labour conference that ‘a Labour Government, if it came into power tomorrow ... would be compelled to provide an increase in British armaments’ - a highly controversial remark, albeit hedged with references to potential future disarmament under the auspices of collective security.²⁸ Accordingly, he now emphasized that the question before the House was ‘not a vote for or against armaments in general’, nor ‘a vote for or against armaments at any particular level’, but simply a vote for or against a particular method of

raising money. The loan was objectionable because it would lead to the budget being 'gravely unbalanced' for the next five years, and would be inflationary at the present stage of the trade cycle. Chamberlain's plan for the loan to be repaid over a period of thirty years was implausible: 'who believes in these paper schemes?' Moreover, 'purely on a point of economics and not on the question whether these armaments are necessary or not', the rearmament programme was causing resources to be diverted away from houses, schools, bridges and other civil projects. Because it would thus add nothing to the consumable goods available to the masses of the people, the loan would create more inflation than were it used for such purposes. It was therefore thoroughly bad finance, Dalton argued, particularly when it was in fact possible to put the whole burden of arms expenditure upon the direct taxpayer.

He went on to suggest ways in which this could be done. One alternative was a steep increase in the scale of death duties - an old Daltonian theme. Another was to tackle the 'arms racket': a large part of the weapons bill could be met 'by a special tax analogous to the excess profits duty of the last war upon persons who have secured undeserved additions to their wealth through armaments.' (Chamberlain would, in fact, shortly develop a proposal on similar lines to this, with intriguing political results.) For good measure, Dalton rounded off his speech with an attack on the government's foreign policy, arguing that the 'very fair international prospect' bequeathed by the Labour government in 1931 had been squandered. Had the National Government not 'made an utter mess' of the disarmament conference (established by the Labour foreign secretary, Arthur Henderson), the need for rearmament 'would have been outside the bounds of possibility'.²⁹ Such claims formed a running theme in all quarters on the Labour side.

The debate continued the following day, with Cripps speaking at length. He was prepared to acknowledge, he said, the necessity for armaments 'in the circumstances which now beset the world'. Yet the issue at stake was not whether or not armaments ought to exist in a particular country, rather the use to which those weapons might be put,

and by whom. Money for arms should properly be found, not out of loan, but out of taxation. However, 'when I am asked to trust this Government with the expenditure of that money, then I answer without hesitation, "Not at any price."' This was because the weapons would be used 'for the continued domination of the subject peoples' and because the government 'are far more likely to be the allies of Fascism than the allies of Russia or any other working-class country'.³⁰ At this time, Cripps was prominent in the Labour movement as a left-wing 'irritant' to the leadership, but had little influence on official policy. Attlee, winding up the debate for Labour, nonetheless provided a class-based analysis of the arms programme, with which Cripps could easily have agreed:

The weakness of all the armaments of the Government is that there is no spirit behind them but the spirit of a feeble class Imperialism ... It is a spirit which is in tune with the Government's home policy and which makes their foreign policy hopeless, because you cannot hope to carry out a policy of social justice abroad, when you rest upon social injustice at home.³¹

The resolution was passed by 329 votes to 145, a normal and healthy result for the government, but with the opposition vote also holding up well. The Labour speakers had all agreed on the economic defects of the loan proposal, which would be inflationary and thus penalise the poor. The majority wanted also to criticize rearmament *per se* - at least if, as must have been the case, it was to take place under the National government - whereas Dalton wished to avoid commenting on this. But equally, all speakers were able to agree that the government's past foreign policy was to blame for the sad state of world affairs. They could agree with Attlee that 'We should not have allowed ourselves to get into such a position' as that in which Britain now found herself: 'When we left office the world was moving towards peace.'³² Nonetheless, as the European situation deteriorated still further, there was a risk that internal Labour differences on rearmament would come increasingly to the surface.

IV

The Labour Party's view that the loan would have bad economic consequences was rejected by Keynes, who took the view that 'the Government's rearmament programme certainly seems to postpone for some time the prospect of an industrial recession.' Speaking at the annual meeting of National Mutual Life Assurance on 24 February, the economist argued that 'the sums which the Chancellor proposes to borrow are well within our capacity; particularly if as much of the expenditure as possible is directed to bringing into employment the unused resources of the Special [i.e. depressed] Areas.' Over a period of five years there should be no problem in finding £400 million of investible sums; 'Thus it lies within the power of the Chancellor to get his money without producing conditions of inflation.'³³ Keynes's verdict immediately became a subject for political controversy.

The next day saw the Commons debate on the second reading of the defence loans bill. Chamberlain, opening for the government, was quick to quote Keynes's view that the loan could only be inflationary were it to involve an excess of borrowing over genuine savings.³⁴ Lees-Smith, who had been returned to the Commons in 1935, pounced:

The Chancellor quotes Mr. J.M. Keynes on one of the very few occasions when it suits him, but no one has spoken about the Chancellor's habit of borrowing, and also of refusing to borrow, at the wrong time with more contempt than Mr. J.M. Keynes. If he is now to bring up Mr. Keynes as a great authority for the Government to quote, I would only say that we on this side of the House have our own authorities just as good and more authoritative than Mr. Keynes.

He then cited Hubert Henderson, the former secretary of the government's own economic advisory council, as an opponent of the loan. Lees-Smith went on to claim that the borrowing would precipitate a slump, albeit only 'a few years hence' when arms expenditure slackened:

If the Chancellor knows his Mr. J.M. Keynes, he will remember that in the past he has always pointed out ... that the proper corrective for this would be to reserve our borrowing now, in order that when armaments' expenditure falls off we could use that to increase or to maintain purchasing power, and to stop that sudden fall in prices which otherwise might precipitate a trade slump.³⁵

This exchange, then, is an intriguing example of the way in which Keynes's economic opinions were recruited into political debate at the public level.³⁶ Both the Conservative and Labour leaders clearly felt that he was a weighty authority worth quoting; but, naturally enough perhaps, only when his ideas coincided with theirs. Nonetheless, on the Labour side, there was also a certain amount of private dialogue with Keynes which, in turn, influenced the economist to express his views on rearmament finance yet more fully.

Pethick-Lawrence was responsible for this. Having corresponded with Keynes intermittently over a period of many years, the MP sent him a copy of the views he had expressed in parliament on the issue of the loan. Keynes responded, on 3 March:

The Chancellor says that £80,000,000 [per year over five years] is not inflationary. You say that it is. He would probably agree that £200,000,000 a year would be inflationary, and you would agree that £20,000,000 a year is not. Therefore it is a question of figures, and neither of you appear to me to give any detailed justification of your views.

He also wrote that he was minded to publish an article in *The Times* in order to 'assist the discussion'.³⁷ Pethick-Lawrence answered on 5 March. The letter appears to have been lost - no copy survives in either the Keynes or Pethick-Lawrence papers - but the gist seems clear from Keynes's subsequent reply. Pethick-Lawrence was concerned that the defence loan would result in inflation because of insufficient manufacturing supply to meet the increased demand the new borrowing would result in. Keynes indicated that this was a pertinent line of thought: 'Fundamentally this is not a matter of finance, but of calling out, as you say, new sources of production.' The answer would depend on the

elasticity of supply. Keynes believed, nonetheless, that the defence programme could be carried through without inflation without any 'punitive measures' to stop alternative civil projects; 'though doubtless there will be cases where shortage of plant will force the manufacturer to choose between one thing or another.' He enclosed with his letter an advance copy of his *Times* article.³⁸

This was published on 11 March. Keynes sought to estimate the amount of borrowing that could safely be undertaken without inflation. He concluded that the amount proposed by Chamberlain '*need* not be inflationary. But unless care is taken it may be rather near the limit.' He suggested, therefore, that it was necessary to increase both imports and exports, in the former case to bring forth new sources of industrial supply, and in the latter to offset the effect of the increased imports on the balance of payments. The export drive should focus on the staple industries, for this was where unemployment was concentrated. Furthermore, the government should concentrate as many defence orders as possible in the special areas, for 'it is only by using resources which are now unemployed that the job can be got on with, except at the cost of great waste and disturbance.' In other words, Keynes did not simply wish to stoke up demand and leave the supply side to take care of itself; he conceded the '*Need for planning*' (emphasis in original) and proposed a central government organization that would collect economic information and provide policy advice.³⁹

Pethick-Lawrence felt, however, that Keynes had not gone far enough in his supply side proposals: 'I am not quite sure ... whether you allow sufficiently for the specialised character of the demands'. If the new defence demand was to be concentrated mainly in the metallic and building industries, 'is there not inherently some inflation unless people are deliberately checked from other usage of the metals (e.g. motor cars) and luxury building?'⁴⁰ Keynes did not, in fact, reply further; it seems clear that he felt the remedies he had proposed were sufficient, and did not feel the need to expand on the points he had already made. The correspondence, however, considered together with the

Labour contributions to the Commons debate, is significant. Partly, this is because examples of direct discussion of Keynes's ideas by senior Labour figures have a certain rarity value.⁴¹ But also, this evidence can be used to throw light on Robert Skidelsky's claim that Labour opposition to the defence loan was based on a combination of pacifism and orthodox finance.⁴²

Clearly, both doctrines remained influential within the party, but this is not enough to explain Labour's attitude. The party was committed not to pacifism but to collective security. Although critics could, and did, argue that the latter was merely a cloak for the former, even Dalton, a supporter of rearmament, opposed the government's planned method of paying for defence. (It seems reasonable to speculate that Bevin did too, given his expressed attitude in 1935.) This leads to the question of finance. Certainly, the commitment to 'an honestly balanced Budget' remained, not least because of an almost obsessive desire to prove national Government double standards over the events of 1931. Yet, there was a willingness to grant, hypothetically, that it might be correct in times of slump to unbalance the budget in order to stimulate the economy; Lees-Smith described as 'common sense' Keynes's suggestion that the government should begin to prepare public investment schemes against the time that they were needed.⁴³ However, given that the borrowing that was presently proposed would take place at the peak of the trade cycle, when, outside of unemployment blackspots, shortages of materials and skilled labour were already starting to appear, the loan could create inflation without curing unemployment. The corollary of this, which was implicit in Pethick-Lawrence's letters to Keynes, and which developed yet more strongly before the outbreak of war, was that extensive physical economic planning was the only way to resolve this impasse. Arguably, Labour was unnecessarily cautious about the safe extent of government borrowing. And arguably, many of the party's politicians advanced facile positions on both foreign and economic policy. But, equally, the party's position on the loan was not

the wholly unsophisticated result of knee-jerk economic orthodoxy. An alternative policy was beginning to emerge.

V

The defence loans bill passed through the Commons without difficulty, its second reading being approved by 307 to 132. Chamberlain's next defence finance innovation, however, hit stormy waters, giving Labour, in due course, the chance to make a constructive impact on the final form of the government's proposals. Chamberlain's plan was for a special tax on increased profits called the National Defence Contribution (NDC) - in effect, a new form of excess profits duty, as previously suggested by Dalton. This was introduced in April 1937 as part of the budget - Chamberlain's last before his elevation to the premiership. The announcement, made towards the end of the chancellor's speech, was greeted in bewildered silence on the government benches, but with a few cheers from the opposition side.⁴⁴

Leo Amery, at this time a National government backbencher, suggested in his diary that the political aim behind the measure was 'to forestall any Socialist cry about armament profiteering'.⁴⁵ He was right, but this should not be taken to mean that Chamberlain was cynical. He was genuinely worried about profiteering, and shared with his Labour opponents the fear of 'a feverish and artificial boom followed by a disastrous slump'.⁴⁶ But, as he had hoped, the wind was taken out of Labour's sails - or so it seemed. Attlee attacked the budget as a whole as being unbalanced, as a result of the defence loan, and as being thus, in effect, 'the first of a new series of war Budgets'; but his response to the NDC proposal was merely to wish the chancellor luck 'in the endeavour to put salt on the tails of the profiteers'.⁴⁷ The following morning, the *Daily Herald* ran an editorial which was eulogistic of the plan's principle: 'It is socially equitable and it is economically sound at a time when a speculative boom resulting from rising profits is one of the dangers most to be guarded against.' (Unsurprisingly, perhaps,

the *Herald* also felt that the plan should be implemented in a more drastic form than the government proposed.)⁴⁸ The honeymoon, however, was not to last.

This was because the plan ran into difficulties both with the government's own supporters and with the city, where, the day after the budget, £200 million was wiped off the value of shares. Part of the problem was that the tax was badly designed. Because it was targeted at *increased* profits, it would discriminate against firms which, for example, were young and growing, or which had suffered especially badly in the slump, and were now beginning to recover. As Keynes wrote in *The Times* on 23 April, 'It will fall arbitrarily, heavily and disproportionately on the ordinary shareholders in a minority of enterprises which happen to suffer from an unlucky conjunction of circumstances ... The only apparent principle behind its anomalies and arbitrary incidence is that it is a tax on enterprise, growth and youth as such.'⁴⁹ As both the flaws in the tax and the market disturbance caused by them became apparent, the potential for Labour to attack Chamberlain over the issue became clearer.

However, as B.E.V. Sabine has noted, the party faced a dilemma. It was tempting to attack the government on the ground that the NDC had caused an unjustified disturbance to industry and had not been properly thought out or explained. But equally, to press for changes might mean that an (arguably) proto-socialist measure would end up being whittled down.⁵⁰ The divisions thus caused in Labour opinion were evident in a debate in the socialist weekly *Forward* in early May. Tom Johnston, MP for West Stirlingshire and the paper's former editor, wrote an article attacking the NDC on three grounds. First, under the tax, 'the landlord and the rentier are to go free'. Second, companies registered abroad would escape. Third, the tax would not hit prosperous industries, such as brewing and tobacco, which had long made high profits, which were thus unlikely to *increase*. In the same issue, Ernest Davies, the prospective parliamentary candidate for Peterborough, argued similarly that the NDC was a confidence trick:

The Chancellor's desire is to create the impression in the mind of the country that he is taxing excess profits and curbing speculation. His object is to nip in the bud it is to prepare public opinion to receive the workers' claims unsympathetically.⁵¹

But the following week, William Leach, a Labour MP with pacifist tendencies, defended the NDC strongly.⁵² It was no criticism to say that the landlord and the rentier had been left out. They should be included if possible within the scope of the tax, but the tax itself should certainly be preserved: 'Labour should support the tax, oppose whole-heartedly the coming attempts to weaken it by concessions and make the Chancellor feel he can rely on our votes to resist intimidation from the City. *The tax is worthwhile* [emphasis in original].'⁵³ Similarly, in the Commons, Labour opinion was divided. Cripps hoped that 'this tax will be a permanent feature of taxation ... by which private industry will be able to gradually replaced by national and state-owned industry'.⁵⁴ A.V. Alexander MP argued that to allow businesses to make profits first, and then to tax some of those profits, was the wrong way to deal with profiteering; although he later changed his mind and said that the principle which Chamberlain had adopted was acceptable, if not the precise form of the tax itself.⁵⁵ Morgan Jones steered a middle course, arguing that the principle was fair, but that the tax would be unjust in its incidence.⁵⁶

Fortunately for Labour, Chamberlain's own problems more than eclipsed the party's own divisions. On 27 April, under pressure from his own side, he was forced to promise further consultation with business organizations, including the Federation of British Industry, as to the form of the NDC; in a weak Commons performance, he admitted that he had only chosen 1933, 1934 and 1935 as the base years by which increased profits would be measured 'as one must mention something in describing a scheme of this kind'.⁵⁷ Labour now scented blood. Chuter Ede MP said that it was now clear that it was impossible to know the Chancellor's plans until he had met in 'a secret conclave' with business leaders.⁵⁸ Pethick-Lawrence said that the NDC was being made the subject of 'a kind of Dutch auction. The Chancellor puts forward a tax and one or two

people in the House and the Country object, and he alters it.’⁵⁹ *The Tribune*, the recently-launched left-wing weekly, described the debacle as a victory for the ‘Profit Defence Gang, in and out of Parliament.’⁶⁰

At the end of May, Chamberlain replaced Baldwin as prime minister; on the day that he kissed hands his party’s finance committee begged him to withdraw the NDC.⁶¹ It was left to John Simon, his successor as chancellor, to introduce a revised version of the tax, but this received short shrift from both sides of the House. Dalton described it, on 31 May, as ‘an administrative monstrosity, a financial fantasy, a device for the endowment of accountants and of lawyers’. He conceded that there was a case for a special tax on profits, but argued for a simpler tax with a larger yield. Douglas Jay, in the *Herald*, had been advocating a straightforward extra 5% tax on company profits as assessed for income tax. Dalton suggested that this idea should be considered.⁶² Morrison took the line that the NDC was ‘a mere political device designed to meet the criticisms of the Labour Party against armament profiteering.’⁶³

The mortal blow, however, was delivered from the government side. Tory discontent was rife.⁶⁴ Winston Churchill exploited this, delivering a devastatingly witty speech from the backbenches, expressing the hope that ‘we shall not have a draggle-tailed, tattered tax forced through the sulky lobbies’. Subsequently, Chamberlain stood up to concede that the NDC would be withdrawn, and that Dalton’s suggestion of a simpler tax with a larger yield should be adopted in its place.⁶⁵ The measure finally enacted bore a strong resemblance to Jay’s profits tax plan.⁶⁶ This was a significant coup for Labour. In spite of its own divisions on the issue, the party had benefited from the split on the government side; the superior wisdom of Labour’s own economic experts had, on this question, been implicitly acknowledged.

VI

At the same time, the party was preparing to take a firmer stance on the question of rearmament. In July 1937 the parliamentary Labour party decided by 45 votes to 39 to

abstain on the annual service estimates, rather than follow the traditional practice of voting against. The result was largely due to Dalton's skilful canvassing, and was subsequently endorsed by the party conference in October.⁶⁷ Nevertheless, the minority remained vocal. At that conference, when Bevin argued that rearmament had revived international hopes that Britain would face down the dictators, he was strongly rebuked by Aneurin Bevan MP: 'Does he really mean that the Government's rearmament policy has reassured Czechoslovakia in the light of the Government's betrayal of Abyssinia, of China, and of Spain?'⁶⁸ Even if Bevin's stance was ultimately vindicated, in the short term this was no easy point to answer. Therefore, Labour's attitude to rearmament finance continued to be influenced in some quarters by doubts about, and sometimes by outright hostility to, the purposes for which the money was to be spent.

All the same, there was a growing awareness within the party that war was becoming ever more likely, and that the economic repercussions of this were deserving of attention. In the 1936-9 period, discussion within XYZ (Labour's unofficial group of financial experts) focussed on 'the technique of running an all-out controlled war economy.'⁶⁹ Party politicians and thinkers, moreover, argued that the developing emergency justified existing Labour objectives - notably a planned economy and increased social welfare provision. For example, in October 1938 Pethick-Lawrence gave a talk entitled 'Can we afford it?' to the Edinburgh city business club. He argued for 'intelligent economic planning', in order to prevent the rearmament process depressing working-class living standards: 'the decisive factor is not finance but economics ... Can our economy be made to produce what we require?' Answering in the affirmative, he concluded that the choice between 'guns or butter' was a false dichotomy. Social services, and with them working-class purchasing power, should be maintained and extended, in order that the nation's productive resources should be fully employed.⁷⁰ It was felt in some quarters, moreover, that if war did come, it might provide an opportunity of achieving, at least partially, some socialist aims. As Hugh Gaitskell argued in February

1939, 'we must not only concentrate on winning the war, but also on achieving a greater equalisation of income, national income control, and avoid increasing the National Debt.'⁷¹

Labour, then, was to some degree prepared to adapt its economic message to changing political circumstances. This became increasingly necessary as the international situation deteriorated; as it became clear that the government was likely to seek further borrowing powers to pay for rearmament, it became increasingly difficult to maintain, given the sums involved, that all the requisite money could in fact be found through taxation. Thus, an alternative line of criticism suggested itself. As an internal party memorandum noted in December 1938, 'the Chancellor has intimated that further loan powers may be needed. To contest this on grounds of misapplication of previous loans would be an admirable opportunity'.⁷² Therefore, when, In February 1939, the government put forward a new defence loans bill, which would allow its borrowing to be increased to £800 million, Labour took a new line of attack. The party proposed an amendment that recognized 'the regrettable necessity of an unprecedented defence programme'. However, 'in the interests of efficiency and public economy the Bill ought to be preceeded by more effective measures for the co-ordination of the services, the organisation of supply, and the elimination of excessive private profits.'⁷³ As Alexander put it, 'the real point of our charge ... is that in this national extremity we ought to be getting value for money; and we are not.' Expenditure was not being properly supervised, he alleged, and, as a result, aircraft and munitions manufacturers were making profits that were unreasonable in the face of the nation's need.⁷⁴

Labour's stance was a credible one, given the evidence that had lately emerged on this question.⁷⁵ Dalton, moreover, making the party's initial reaction to Simon's announcement, appeared to signal a more realistic approach than before on the question of borrowing for defence:

I think we should show a sense of complete unreality if we were to argue that all this additional burden should properly be placed upon annual taxation ... there is no reason to suppose that an enormous addition to the ordinary load of annual taxation would have any effect than that of increasing unemployment still further.

However, he suggested, a substantial part of the bill could be met 'by the taxation of arms profiteers', by special taxation of very large incomes, by increasing the rates of death duties at the higher levels, and perhaps, in the future, by 'some such plan as a capital levy.'⁷⁶ Other Labour speakers also took up this idea. (For the subsequent evolution of this proposal see below.) Yet this, to some degree, served to confuse Labour's position on the loan issue. As government MPs did not hesitate to point out, some Labour MPs (such as Dalton and Pethick-Lawrence) seemed to indicate that some money would still need to be provided by borrowing, whereas others (such as Lees-Smith) suggested that a capital levy would extinguish all need for a loan.⁷⁷ Opinion within the party also divided on the views that Keynes now put forward on the economic impact of rearmament.

In a pair of articles published in *The Times* on 17 and 18 April respectively, the economist argued that 'the problem of abnormal unemployment will cease to exist during the financial year 1939-40', as a consequence of the increased loan expenditure. Thus, owing to both increased tax receipts and the reduced costs of unemployment relief, that expenditure would, in due course, pay for itself. The limiting factor in avoiding inflation, therefore, was not 'finance', but the physical capacity of the country to carry out the rearmament programme. He saw the shortage of skilled labour as a key part of this problem.⁷⁸ Some Labour figures reacted with hostility to these arguments. Richard Stokes MP referred to Keynes as 'one of our leading mumbo-jumbo economists', and mocked 'his discovery that as a result of this expenditure unemployment will come down, and that this is going to be dreadful because there will only be 750,000 [unemployed] people left on whom we can draw, and most of them probably will be unskilled.'⁷⁹ G.R. Sandison, prospective parliamentary candidate for Southend-on-Sea, described Keynes as

‘the bogey boy of capitalist economists’, who, he said, ‘argued that the present rearmament programme of the Government will abolish unemployment altogether, and that therefore we did not need to do anything about it.’ Sandison went on to say: ‘It may be that the first effect of rearmament will be to decrease unemployment in some measure, but we, in the Labour Movement, know that so long as there is capitalism so long will there be unemployment.’⁸⁰

Other Labour spokesmen, however, attempted to use Keynes’s arguments to justify socialist policies and to attack the government. Lees-Smith claimed that Keynes’s ‘modern scientific argument’ was a vindication of traditional socialist underconsumptionism.⁸¹ George Ridley MP argued that if Keynes was correct, and government borrowing could indeed eradicate unemployment, ‘how much bigger is the crime of the Government in refusing to engage in a public works policy over the last seven or eight years’.⁸² Johnston made a similar point in an article in *Forward*, arguing, moreover, that ‘afforestation and land drainage and mass rehousing would have yielded us *some* return upon our capital, and war preparations yields us no such return [emphasis in original].’ However, ‘what is important is that one of our greatest living economists has arrived at the conclusion that we can, when we desire to do so, reduce our unemployment figures by a million.’⁸³

Pethick-Lawrence, for his part, took the opportunity to articulate in greater depth the case that he had first put to Keynes himself in 1937: ‘Mr. Keynes argued that, so long as unemployment remains, there cannot very well be inflation ... I want to suggest that that does not necessarily follow in this case’. Although there was much in Keynes’s articles with which he agreed, he said,

It is only to a very limited extent that you can adapt round pegs to fit into square holes, and there might very well be a continuance of a considerable amount of unemployment in certain areas and in certain industries, while at the same time there might be an acute shortage of skilled labour in certain bottle-necks where labour is urgently needed for the purposes of rearmament.

Given that Keynes had specifically argued for a department of co-ordination in order to help mobilize the labour supply, Pethick-Lawrence's criticism was not, perhaps, wholly fair. Pethick-Lawrence continued: 'Unemployment will not disappear merely as a result of throwing money about. It will never disappear unless the Government use this money with planning in order to bring the whole available manpower of the country into operation.'⁸⁴ Keynes would surely have agreed with this conclusion; one may surmise, therefore, that the real difference between the two men lay in the scope and extent of the kind of planning they favoured. Pethick-Lawrence's party, of course, favoured a more dirigiste approach, based on physical controls over resources. (This would later be reflected in Labour's attitude to Keynes's wartime compulsory saving plan.)⁸⁵ Indeed, as war came nearer, Labour's calls for such planning became not only more urgent, but increasingly plausible.

VII

The notion of economic planning had been central to Labour's domestic programme since 1931. The policy had been adopted not least because it represented the antithesis of the economic gradualism of the MacDonald era.⁸⁶ The need to prepare against the contingency of war, however, now created an immediate practical justification for the idea. Dalton outlined Labour's view of planning, when speaking on the budget in May 1939. 'We are living at present in a prolonged and sinister twilight between peace and war', he said; yet the budget failed to solve the problem of how to organize a 'near-war economy'. The requisite national plan should provide five things. First, 'the necessities of life for all our people and full provision for their effective defence both against bombs and against poverty.' Second, 'that there should be no cake for anyone until all have bread and the nation has a sufficiency of arms.' Third, 'an opportunity for every willing worker.' Fourth, 'social justice in the carrying of great burdens'. Fifth, 'a deliberate and efficient scheme to mobilise men, money and materials for the common good and for the

security of all.’⁸⁷ By thus linking social justice, full employment and sound defence, Dalton built up a powerful indictment against a government which, in Labour eyes, had failed in its duties on all of these points.

But if such declarations of general principles were broadly convincing, Labour was still not wholly united when it came to discussing practical policy. In the last months before the outbreak of war, problems centred mainly on the question of ‘conscription of wealth’. Labour had first adopted, and then abandoned, the idea of capital levy in the aftermath of WWI. (Dalton and Pethick-Lawrence had been among its most prominent advocates.) As has been seen, this idea resurfaced early in 1939, in reaction to the government’s proposals for further borrowing; but the idea was soon replaced by the rather different idea of ‘an emergency tax on wealth’. This would be an annual tax, as opposed to a once-for-all contribution. As Jay recounted in his autobiography:

By April, it seemed probable that even the Chamberlain Government would introduce military conscription. Gaitskell and I now feared that the Parliamentary Labour Party would make a fool of itself by demanding resistance to Hitler and voting against conscription at the same time. So, together with [Evan] Durbin, we devised a scheme to avert this, and successfully sold it to Dalton.

The proposal was that the Labour party should accept military conscription if the government would in turn accept conscription of wealth, in the form of a special defence tax on accumulated fortunes. This would be levied each year, for at least so long as military conscription continued; and was aimed at preventing an increase in the size of the national debt. Jay, Gaitskell and Durbin put this idea to Attlee in a paper dated 24 April - two days before Chamberlain did, indeed, announce the introduction of military conscription. Dalton arranged for the three young economists to meet Attlee, Morrison, Alexander, Arthur Greenwood and Emanuel Shinwell at the House of Commons. This group was converted to the idea and agreed to recommend it to the PLP: ‘But the latter body ... turned it down by a clear majority - on the ground that military conscription

could never be accepted by the Labour Party.’⁸⁸ Dalton and Pethick-Lawrence continued nonetheless to advocate the idea of the tax in public; but with the party having blocked the suggested *quid pro quo*, Labour’s claims to favour genuine ‘equality of sacrifice’ could not now carry full conviction.⁸⁹ Similarly, the party’s calls for a Ministry of Supply with extensive powers of control over industry were not matched by a willingness to countenance relaxation of trade union restrictive practices in order to increase production.⁹⁰ This was to a great extent because of fears of the National Government’s intentions, but it blunted the effectiveness of the argument.

VIII

The ‘conscription of wealth’ episode was an example of how, in the last years of peace, Labour’s divisions, ambiguities and inconsistencies on defence policy had important repercussions for economic policy. This phenomenon was particularly evident in the party’s generally hostile attitude to defence borrowing. Labour politicians insisted that this was unsound finance, yet they also advocated borrowing for public works in time of slump. Of course, to the extent that they argued that it was simply the timing of government borrowing that was wrong, this was perhaps not unreasonable. However, the crucial distinction was perceived to be between borrowing for ‘unproductive’ and for ‘productive’ expenditure. Again, there may have been something in this point. But, from the political point of view, attacking rearmament borrowing because it was uneconomic left open the question of whether or not the expenditure itself was moral - a question which, within the party, was highly controversial. Therefore, just as Labour’s doctrine of collective security helped gloss over the differences between the party’s quasi-pacifists and its rearmers, so its approach to defence finance fulfilled a similar function. It provided a formal consensus around which the different wings of the party could coalesce - a consensus, which, however was open to significantly different interpretations. Some politicians maintained their criticisms of the government defence finance programme as far as possible along purely economic lines; others alleged that rearmament itself would

bring war closer; yet others argued that a socialist government might safely rearm, but that a capitalist government would use arms for exploitative and crypto-fascist purposes, enriching the arms-merchants who backed it into the bargain.

What these attitudes had in common, however, was that they were based on a ‘fierce political hatred’ of the National Government.⁹¹ Bitterness over the events of 1931 was accentuated by perceived foreign policy ‘betrayals’; government-opposition relations were abnormally bad, and, in particular, were not improved by the failure of Chamberlain to hide his clear contempt for his opponents. This made it unlikely that the government would make much progress in winning Labour round to its views on defence finance. Perhaps even more than is usual for an opposition party, Labour was predisposed to reject *any* measure that the government might bring before parliament. But, in developing its policy on this issue, the party did not react merely in response to narrow domestic political concerns. Labour did adapt its economic ideas in the face of world events; this was reflected in the way in which planning and social reform policies were adjusted to meet the new ‘near-war’ situation. And, as the NDC episode showed, the party also succeeded, to some degree, in having a constructive impact on the policy of the government itself.

Indeed, with hindsight, Labour’s advocacy of planning stands out as the strongest part of the party’s critique of defence economics. In the light of the events of 1940, it seems difficult to gainsay the party’s contemporary view that the rearmament effort was lacking in co-ordination and central direction. As Walter Elliot, Chamberlain’s minister of health, admitted to the cabinet in November 1938, a more wholehearted economic effort might not have been possible ‘without some radical change in the organisation of this country’.⁹² But that, of course, was exactly what the Labour Party wanted. This is not to say that Labour’s own planning ideas were necessarily well defined, or that there were not possible problems with its proposals for conscription of wealth (which might, if enacted, have damaged confidence, and in fact have thus made the finance of rearmament

more difficult). But, nevertheless, Labour was fulfilling in an effective way one of its key functions as an opposition party - drawing attention to shortcomings in the government's methods.

What light, though, does Labour's approach to the economics of near-war cast upon the party's economic policy-making more generally? The key point, of course, is that this was not a purely abstract process. Politicians had to arrive at positions quickly, sometimes perhaps on the basis of inadequate briefing, in reaction both to specific government proposals and to broader political events. In so doing, they were animated not only by abstract intellectual principles, but also by the desire to 'dish' their opponents politically, and, if they were wise, by the wish to do as little as possible to jeopardize an often fragile party unity. There was nothing unworthy about these concerns; indeed, such situations are the normal and inescapable lot of political parties. This is because economic ideas as they develop in the public sphere are inevitably conditioned, to some degree, by the political interests of those who promote them. As its gradually evolving attitudes to the near-war situation demonstrated, the Labour Party in the later 1930s was no exception. Arguably, indeed, these political influences on economic policymaking had positive benefits, not only for Labour, but for the country as a whole. Inculcating the party with a greater degree of realism and flexibility than perhaps it is generally credited, Labour's increasingly persuasive attacks on the policies of the National Government were brought forth with conviction at a time when Britain was desperately in need of constructive political and economic alternatives.

14 May 2001

* I would like to thank Peter Clarke and two anonymous referees for comments on an earlier draft of this article. Errors that remain are, of course, my own. Unpublished

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¹ G.C. Peden, *British rearmament and the Treasury* (Edinburgh, 1979), p.105

² Labour Party, *For Socialism and Peace* (London, 1934), pp. 9, 11

³ There was, of course, an important measure of truth in this remark. As Scott Newton has noted, the National Government had 'little choice but to strive for an accommodation with Germany if its domestic and international objectives were to be secured.' Clement Attlee, *The Labour Party in Perspective* (London, 1937), p. 226; Scott Newton, *Profits of Peace: The Political Economy of Anglo-German Appeasement*, (Oxford, 1996), p. 6

⁴ See especially Elizabeth Durbin, *New Jerusalems: The Labour Party and the Economics of Democratic Socialism* (London, 1985); Alan Booth, 'How long are light years in British politics? The Labour party's economic ideas in the 1930s', *Twentieth Century British History*, 7 (1996) pp. 1-27; Ben Pimlott, *Labour and the Left in the 1930s* (Cambridge, 1977), pp. 38-40; Robert Skidelsky, *Interests and Obsessions: Selected Essays* (London, 1993), pp. 107-35; Donald Winch, *Economics and Policy: A Historical Study* (London, 1969), pp. 339-50. By contrast, historians of both rearmament finance and budgetary policy more generally have used Hansard as a key source, and have commented to a limited degree on Labour's attitudes to these questions. See Peden, *British Rearmament and the Treasury*; G.C. Peden, 'The Fascist Challenge and the Policy of Appeasement', in Wolfgang J. Mommsen and Lothar Kettenacker (eds), *The Fascist Challenge and the Policy of Appeasement* (London, 1983), pp. 142-156; Robert Paul Shay Jr., *British Rearmament in the Thirties: Politics and Profits* (Princeton, New Jersey, 1977); B.E.V. Sabine, *British Budgets in Peace and War 1932-1945* (London, 1970).

⁵ H.B. Lees-Smith to James Meade, 25 October 1933, Meade Papers 2/7, British Library of Political and Economic Science (henceforward BLPES)

⁶ Parliamentary Debates House of Commons 5th series (henceforward H.C. Debs.) vol. 346 25 Apr. 1939 cols. 1040-1

⁷ Attlee, *Labour Party*, pp. 254-5

⁸ Labour Party annual conference report (henceforward LPACR) 1935, p. 157

⁹ Shay, *British Rearmament*, p. 48

¹⁰ This did not prevent Labour from depicting the National government as irresponsibly committed to rearmament. One Labour election poster read: 'THE CHOICE: LABOUR PLANS OR TORY "PLANES"'. Another read: 'A "NATIONAL" ACHIEVEMENT: DISTRESSED AREAS GRANT: £2,000,000. ARMS ESTIMATE INCREASE: OVER £20,000,000'. (As late as 1937, a Labour poster carried the straightforward slogan: 'DISARM!'.) These posters are preserved at the National Museum of Labour History, Manchester.

¹¹ Tom Stannage, *Baldwin thwarts the opposition: the British general election of 1935* (London, 1980), p. 143

¹² H.C. Debs. vol 320 25 Feb. 1937 col. 2317

¹³ 'Notes on a joint meeting held in Grand Committee Room, Westminster Hall, on 22 Oct. 1935', Citrine Papers I/I

¹⁴ H.C. Debs. vol. 311 21 Apr. 1936 cols. 54-5 and 22 Apr. 1936 cols. 160-1

¹⁵ Shay, *British Rearmament*, pp. 84-5

¹⁶ Peden, *British Rearmament*, pp. 72-5

¹⁷ Shay, *British Rearmament*, p. 85

¹⁸ H.C. Debs. vol. 320 11 Feb. 1937 cols. 593-5

¹⁹ *Daily Herald*, 15 Feb. 1937

²⁰ *Manchester Guardian*, 15 Feb. 1937

²¹ *Daily Herald*, 15 Feb. 1937

²² *Manchester Guardian*, 15 Feb. 1937

²³ *Daily Herald*, 12 Feb. 1937

²⁴ F.W. Pethick-Lawrence, *Fate Has Been Kind* (London, 1943), p. 190

²⁵ H.C. Debs. vol. 320 17 Feb. 1937 cols. 1222, 1226-7

²⁶ Francis Williams, *Nothing So Strange: An Autobiography* (London, 1970), p. 108

²⁷ H.C. Debs. vol. 320 17 Feb. 1937 cols. 1226-8

²⁸ LPACR 1936, p. 184

²⁹ H.C. Debs. vol. 320 17 Feb. 1937 cols. 1297-1306

³⁰ *Ibid.*, 18 Feb. 1937 cols. 1456-1463

³¹ *Ibid.*, col. 1505

³² *Ibid.*, col. 1503

³³ Donald Moggridge (ed.), *The Collected Writings of John Maynard Keynes volume XXI: Activities 1931-1939, World Crises and Politics in Britain and America* (London, 1982) (henceforward JMK XXI), pp. 401-2

³⁴ H.C. Debs. vol. 320 25 Feb. 1937 col. 2226

³⁵ *Ibid.*, cols. 2227-8

³⁶ Keynes, for his part, must have been feeling positive towards Labour at this time, for he made a donation of £100 towards the party's fighting fund for the London county

council election. See Herbert Morrison to Keynes, 2 Mar. 1937, Keynes papers L37/5, King's College, Cambridge.

³⁷ J.M. Keynes to Pethick-Lawrence 3 Mar. 1937, Pethick-Lawrence papers P-L 2/213, Trinity College, Cambridge. See also Keynes to Geoffrey Dawson 5 Mar. 1937, Keynes papers A/37/121: 'The result of the debate in the House of Commons has been to stimulate me to try and make a little more precise the question of what inflation is and whether the Chancellor's plans are free from risk.'

³⁸ Keynes to Pethick-Lawrence 7 Mar. 1937, Pethick-Lawrence papers P-L2/214

³⁹ JMK XXI, pp. 404-9

⁴⁰ Pethick-Lawrence to Keynes 9 Mar. 1937, Pethick-Lawrence papers P-L2/249

⁴¹ Peter Barberis, 'The Labour party and Mr. Keynes', paper given at 'The left in Britain in the 20th century' conference, Institute of Historical Research, London, 15 July 1999

⁴² Robert Skidelsky, *John Maynard Keynes volume two: the economist as saviour 1920-1937* (London, 1992), p. 630

⁴³ H.C. Debs. Vol. 324 1 June 1937 col. 876

⁴⁴ Robert Rhodes James, ed., *Chips: the diaries of Sir Henry Channon* (London, 1993 edn), pp. 119-120

⁴⁵ John Barnes and David Nicholson, eds., *The Empire at Bay: The Leo Amery Diaries 1929-1945* (London, 1988), pp. 439-440

⁴⁶ Keith Feiling, *The Life of Neville Chamberlain* (London, 1946), p. 292

⁴⁷ H.C. Debs. vol. 322 20 Apr. 1937 col. 1624

⁴⁸ *Daily Herald*, 21 Apr. 1937

⁴⁹ JMK XXI, pp. 411-3

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- ⁵⁰ Sabine, *British Budgets*, p. 110
- ⁵¹ *Forward*, 1 May 1937
- ⁵² Hugh Dalton, *The Fateful Years: Memoirs 1931-1945* (London, 1957), p. 198
- ⁵³ *Forward*, 8 May 1937
- ⁵⁴ H.C. Debs. vol. 322 21 Apr. 1937 col. 1817
- ⁵⁵ *Ibid.*, 22 Apr. 1937 col. 1954 and vol. 323 27 Apr. 1937 col. 238
- ⁵⁶ *Ibid.*, vol. 322 22 Apr. 1937 col. 2038
- ⁵⁷ *Ibid.*, vol. 323 27 Apr. 1937 cols. 245-7
- ⁵⁸ *Ibid.*, col. 260
- ⁵⁹ *Ibid.*, col. 301
- ⁶⁰ *The Tribune*, 30 Apr. 1937
- ⁶¹ Feiling, *Neville Chamberlain*, p. 293
- ⁶² H.C. Debs. vol. 324 31 May 1937 cols. 722-3; Douglas Jay, *Change and fortune: a political record* (London, 1980), p. 69
- ⁶³ H.C. Debs. vol. 324 31 May 1937 col. 802
- ⁶⁴ Barnes and Nicholson, *Amery Diaries*, p. 441
- ⁶⁵ H.C. Debs. vol. 324 31 May 1937 col. 897 and cols. 926-7
- ⁶⁶ Jay, *Change and Fortune*, p. 69
- ⁶⁷ Ben Pimlott, *Hugh Dalton* (London, 1985), p. 241-2
- ⁶⁸ LPACR 1937, pp. 207-8
- ⁶⁹ Jay, *Change and Fortune*, pp. 60-1
- ⁷⁰ 'Can we afford it?' Speech given by Pethick-Lawrence to the Edinburgh city business club, 18 October 1938, Fabian society papers J36/3, BLPES

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- ⁷¹ ‘Report of a weekend conference on national defence held on 18 and 19 Feb. 1939’, Fabian society papers J16/13
- ⁷² B. Goldman and J. McPhee, ‘Labour party defence supply committee: suggested programme of future work’, 9 Dec. 1938, Fabian society papers J36/3
- ⁷³ H.C. Debs. vol. 344 27 Feb. 1939 col. 946
- ⁷⁴ *Ibid.*, col. 1022
- ⁷⁵ Keith Middlemas, *Politics in Industrial Society: the experience of the British system since 1911*, (London, 1979) pp. 258-259
- ⁷⁶ H.C. Debs. vol. 344 20 Feb. 1939 cols. 64-7
- ⁷⁷ *Ibid.*, vol. 347 25 May 1939 col. 2577
- ⁷⁸ JMK XXI, pp. 509-518
- ⁷⁹ H.C. Debs. vol. 346 26 Apr. 1939 col. 1257
- ⁸⁰ LPACR 1939, p. 268
- ⁸¹ H.C. Debs. vol. 346 26 Apr. 1939 col. 1267
- ⁸² *Ibid.*, 1 May 1939 col. 1562
- ⁸³ *Forward*, 22 Apr. 1939
- ⁸⁴ H.C. Debs. vol. 346 26 Apr. 1939 col. 1182
- ⁸⁵ See Richard Toye, ‘Keynes, the Labour Movement and “How to Pay for the War”’, *Twentieth Century British History* 10 (1999) 255-281
- ⁸⁶ See Richard Toye, *The Labour Party and the Planned Economy, 1931-1951* (London, 2003), Ch. 2
- ⁸⁷ H.C. Debs. vol. 346 1 May 1939 col. 1517
- ⁸⁸ Jay, *Change and Fortune*, pp. 78-9

⁸⁹ For Dalton's views see H.C. Debs. vol. 346 1 May 1939 col. 1530. For Pethick-Lawrence's views see *The Listener*, 15 June 1939 and Pethick-Lawrence to Walter Nash 21 June 1939, Pethick-Lawrence papers P-L 3/10

⁹⁰ R.J. Minney, *The Private Papers of Hore-Belisha* (London, 1960), p. 157

⁹¹ Dalton, *The Fateful Years*, p. 22

⁹² Peden, *British Rearmament*, pp. 94-5