

## 5 The Labour party and Keynes

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In September 1994, during the early months of the phenomenon known as ‘New Labour’, *The Independent* carried the headline ‘Blair ditches Keynes’. It was reported that Labour leaders would tell a conference of businessmen and academics ‘that the party has turned its back on Keynesian economics and “the old ways of corporatism”’.<sup>1</sup> In fact, Blair used his speech to insist that Keynes’s legacy of demand management had never implied increasing demand ‘irrespective of economic circumstances and even at a time of inflation and high borrowing’. Real Keynesianism, in his view, represented a wider critique of the functioning of capitalism – not a call for permanent government pump-priming. Likewise, Gordon Brown stated on the same occasion that ‘I am not here to bury the real Keynes but to praise him’.<sup>2</sup> This is an approach that New Labour followed in government. Blair continued to cite Keynes as an example of the beneficial influence of Liberalism on the Labour party. Brown, as Chancellor, asserted that although New Labour rejected ‘crude “Keynesianism”’, the government sought ‘to draw on the best of Keynes’ insights about political economy and put a modern Keynesian approach into practice’.<sup>3</sup>

Blair and Brown’s approach represents an attempt, whether conscious or otherwise, to employ Peter Clarke’s useful distinction between ‘Keynesianism’ and ‘the historical Keynes’.<sup>4</sup> In their opinion, the views of the ‘real’ (or ‘historical’) Keynes were misinterpreted by the economists and politicians who came after him. Keynes thus needed to be rescued from his ‘Keynesian’ followers; and in this light, Blair and Brown could be seen as the true keepers of the flame. In order to understand the reasons why they made such a claim it is helpful to look at the ways in which earlier generations of Labour politicians reacted to Keynes’s ideas while

<sup>1</sup> P. Routledge and S. Castle, ‘Blair ditches Keynes’, *Independent*, 25 September 1994.

<sup>2</sup> ‘Labour leaders on the road to the true Keynes’, *Guardian*, 28 September 1994.

<sup>3</sup> Gordon Brown, lecture to the Royal Economic Society, 13 July 2000, <http://archive.treasury.gov.uk/press/2000/p90.00.html>, consulted on 31 October 2003.

<sup>4</sup> P. F. Clarke, *The Keynesian revolution in the making, 1924–1936* (Oxford: Clarendon Press, 1988), p. viii.

he was alive, and how, after his death, they laid claim to his intellectual legacy.

Historians have discussed Labour and Keynes in considerable depth and from a variety of perspectives.<sup>5</sup> Discussion has tended to focus on the question of 'how Keynesian' the Labour party was at various points in time. Inevitably, this chapter makes reference to such issues. However, its main focus is the *political and rhetorical* uses that Labour politicians and intellectuals have made of Keynes's economic ideas. During Keynes's lifetime and (especially) beyond, many Labour figures were, in certain contexts, prepared to enlist his ideas – or, at least, ideas that they understood to be 'Keynesian'. However, they often did so in defence of positions that they had already established. At times, moreover, tactical or strategic political considerations prevented a warmer embrace of his thinking. Economic ideas, in the public sphere, were powerfully conditioned by the political interests of those who adopted and adapted them.<sup>6</sup> We should not rush to condemn this phenomenon, however. Keynes himself saw no shame in trying to make his advice conform with political reality, even if he did not always succeed. Historians must be careful not to assume automatically that political actors who reject 'advanced' economic advice do so because they are intellectually deficient or narrowly self-seeking.

## I

The publication of *The Economic Consequences of the Peace* (1919) brought Keynes some kudos within the Labour movement as well as in wider radical circles.<sup>7</sup> His subsequent denunciations of official policy also found

<sup>5</sup> For example, E. Durbin, *New Jerusalem: The Labour party and the economics of Democratic Socialism* (London: Routledge & Kegan Paul, 1985); A. Booth, 'How long are light years in British politics? The Labour party's economic ideas in the 1930s', *TCBH* 7 (1996), 1–27; B. Pimlott, *Labour and the Left in the 1930s* (Cambridge: Cambridge University Press, 1977), pp. 38–40; R. Skidelsky, *Interests and obsessions: Selected essays* (London: Macmillan, 1993), pp. 107–35; D. Winch, *Economics and policy: A historical study* (London: Hodder & Stoughton, 1969), pp. 339–50.

<sup>6</sup> See R. Toye, 'The Labour party and the economics of rearmament, 1935–1939', *TCBH* 12 (2001), 303–6.

<sup>7</sup> See, for example, 'The problem of 1920', *New Statesman*, 3 January 1920. The Labour Research Department – an independent organisation which should not be confused with the Labour party's research department – published a cheap edition of the book. See R. Skidelsky, *John Maynard Keynes*, vol. I: *Hopes betrayed, 1883–1920* (London: Macmillan, 1983), p. 394. One example of later Labour praise of the book can be found in Thomas Johnston, 'Unemployment to be reduced by 1,000,000: Mr J. M. Keynes as prophet', *Forward*, 22 April 1939.

favour with key Labour figures. For example, Ramsay MacDonald, the party's leader, described Keynes's attack on the 1925 return to the Gold Standard as a 'smart piece of work'.<sup>8</sup> This did not necessarily imply any fundamental sympathy with the economist's outlook; but it was natural for Labour figures to approve of cogent, strongly worded attacks on their political opponents. Unsurprisingly, at this time as later, socialists tended to pick up and make use of Keynes's ideas when they fitted in with their existing preconceptions and thus had a political use, and to ignore or reject them when they did not.

During the 1920s, Keynes continued to support the Liberal party. In 1925, in a well-known remark, he declared that the class war would find him on the side of the educated bourgeoisie.<sup>9</sup> Nevertheless, in August the following year, Keynes addressed the Independent Labour Party (ILP) summer school, on 'The future balance of British industry'. (After the ILP disaffiliated from the Labour party in 1932 it faded to the margins of British politics, but at this time was still a body of considerable, if declining, importance.) He may well have been attracted to the ILP because he saw it as a breeding ground for new expansionist proposals, albeit ones that he by no means fully accepted, such as Oswald Mosley's programme *Revolution by Reason* (1925). The significance of Keynes's address to the ILP has previously been overlooked, doubtless because no extensive record of his remarks, or any of his speech notes, have been preserved in the Keynes Papers.<sup>10</sup> However, a brief account of what he said was reproduced in the ILP weekly, the *New Leader*. In a report for the paper John Strachey noted that Keynes's lecture had undoubtedly been the event of the week. He then went on to report Keynes's main thesis, which was as follows.

The days of Great Britain as 'the workshop of the world' were over. In the future it would be impossible to depend as before on the great staple export industries. Maintaining the level of such exports at their pre-war volume would inevitably mean the depression of the standard of living of workers in those industries. Therefore, those industries had better be allowed to contract – 'something like 10 per cent. is what Keynes had in mind, as the redundant margin which must be pruned'. The problem to be tackled, of course, would be how to reabsorb the displaced labour in other industries.

<sup>8</sup> D. Marquand, *Ramsay MacDonald* (London: Cape, 1977), p. 454.

<sup>9</sup> *JMK*, vol. IX: *Essays in persuasion* (1972), p. 297.

<sup>10</sup> *JMK*, vol. XIX: *Activities 1922–1929: The return to gold and industrial policy* (1981), p. 568.

Keynes admitted that this was a difficult task, but he did not think it an impossible one. While our heavy industries were undoubtedly decaying, there was a whole world of new, miscellaneous, light industries, producing for home consumption, which were expanding . . . Somehow or other we must get our labour power transferred to them. Mr Keynes criticised the Trade Unions for making such transferences more difficult.

He also criticised, more strongly, the attitude of John Wheatley and other socialists who had not condemned the principle of subsidies for distressed industries such as mining. A subsidy, he argued, was pernicious because it tended to maintain the existing unsatisfactory state of things. It eliminated the natural pressure of economic factors that would, left to themselves, have driven labour from decaying industries into the new expanding home industries. Wheatley's suggestion (made the previous week) of subsidies for the export trades was, he suggested, 'thoroughly reactionary'.

The subsequent debate on Keynes's speech centred mainly on the subsidy question. Fenner Brockway, R. C. Wallhead, P. J. Dollan and Oswald Mosley all made similar criticisms. Strachey summarised their points:

Did the lecturer really suppose that the present economic change amounting, as he admitted, to a new economic revolution, could be accomplished merely by driving the workers out of the depressed industries into new expanding industries by means of the starvation weapon? Did he not see that in order to effect a transference of labour, and also a transference of investment from the foreign to the home field, far greater changes than he contemplated were necessary?<sup>11</sup>

(There is no record of Keynes's response, which we may imagine was robust.) According to Dorothy Jewson, also writing in the *New Leader*, although the summer-school students had gathered to hear Keynes 'with great expectancy', they 'were frankly disappointed'.<sup>12</sup>

The episode set the tone for Keynes's subsequent relations with the Labour movement. On the one hand, he clearly wanted to court or convert his listeners; on the other he tactlessly accused one of their leaders of holding reactionary views. As Beatrice Webb (with whom Keynes had stayed on his way to the summer school) noted at this time, 'he is contemptuous of common men, especially when gathered together in herds'.<sup>13</sup> But his problems with the ILP were not merely ones of personality, but of a fundamental divergence in political outlook. Nobody

<sup>11</sup> John Strachey, 'The ILP at work', *New Leader*, 13 August 1926. For Wheatley's views on export subsidies, see Dorothy Jewson, 'The summer school at Easton Lodge', *New Leader*, 6 August 1926.

<sup>12</sup> Jewson, 'The summer school'.

<sup>13</sup> N. and J. MacKenzie (eds.), *The diary of Beatrice Webb*, vol. IV: 1924–1943: 'The wheel of life' (London: Virago, 1985), p. 94 (entry for 9 August 1926); R. Skidelsky, *John Maynard Keynes*, vol. II: *The economist as saviour, 1920–1937* (London: Macmillan, 1992), p. 257.

questioned Keynes's technical competence. Nevertheless, as Strachey put it, 'the whole trend of Socialist thought is so divergent from Capitalist economics . . . that even when we agree as to the facts we make utterly different deductions'.<sup>14</sup>

That September, the ILP published some novel proposals under the title *The Living Wage*. Drawing on co-author J. A. Hobson's theory of 'underconsumption' (that maldistribution of income led to oversaving and in turn to economic slump and unemployment), this document argued that increased working-class incomes and credit expansion would, by increasing purchasing power, help cure unemployment.<sup>15</sup> Keynes himself was cautious about the policy, seeing the credit expansion element as reminiscent of the 'inflationist fallacy', and pointing out that the proposals were unclear as to whether increased wages were to be the first or the final step in the process.<sup>16</sup> Ramsay MacDonald's objections were different. Although he found *The Living Wage* to be 'an admirable economic document' (as he told Hobson), he objected to the political uses to which it was put. He perceived it as an attack on his own political strategy of evolutionary gradualism.<sup>17</sup> He therefore did his best to ensure that the proposal was rejected by the Labour party, and it was effectively squashed. It would thus be a mistake to see *The Living Wage* as a proto-Keynesian idea killed off by a Labour party that was completely in thrall to outmoded economic orthodoxy, but the story does yield lessons about the political functions of economic ideas.

MacDonald's electoral strategy was based on his belief that Labour needed to demonstrate its responsibility and competence to govern. This informed his desire to sideline radical proposals that appeared to challenge this strategy, even if he actually agreed with their economic content. The perceived *political* advantages of appearing economically orthodox also informed Labour's reaction to David Lloyd George's public works proposals, backed by Keynes, which were summarised in the manifesto *We Can Conquer Unemployment* (1929). It was by no means that Labour was opposed to contra-cyclical public works (which had been advocated by the Webbs as early as 1909). These were acceptable, provided they were paid for out of taxation and brought back enough money to the national purse to cover their costs.<sup>18</sup> The party's response to Lloyd

<sup>14</sup> Strachey, 'The ILP at work'.

<sup>15</sup> H. N. Brailsford, John A. Hobson, A. Creech Jones and E. F. Wise, *The living wage* (London: ILP, 1926), p. 19.

<sup>16</sup> Skidelsky, *Economist as saviour*, p. 247; F. Leventhal, *The last dissenter: H. N. Brailsford and his world* (Oxford: Oxford University Press, 1985), p. 194.

<sup>17</sup> Marquand, *Ramsay MacDonald*, pp. 454–5.

<sup>18</sup> R. Skidelsky, *Politicians and the Slump: The Labour government of 1929–1931* (London: Macmillan, 1994), p. 43. See also D. I. Mackay, D. J. C. Forsyth and D. M. Kelly,

George was therefore conditioned partly by hostility to his idea of funding public works via loan, but also by a sense of outrage at having its political clothes stolen: 'The very plans which, caricatured and distorted, he is putting forward to-day he has again and again rejected when they were urged upon him by the spokesman [*sic*] of Labour.'<sup>19</sup> It was clearly hoped that Lloyd George's reputation for personal untrustworthiness would lead the voters to conclude that his economic proposals were not to be relied upon, and thus counteract his successful seizure of the political initiative. Some of the younger and more energetic Labour MPs felt that this would fail. In March 1929 Hugh Dalton noted in his diary: 'We are letting L.G . . . and the rest simply march past us.' In his memoirs, he recorded that most of the party's leaders had not been opposed to the 'lucid positive employment policy' that Keynes and the Liberals were advocating: 'But they missed most of the points and put it all so dully.'<sup>20</sup> These internal party divisions, then, were as much about political tactics as they were about economic ideas.

Keynes himself was quite alive to the demands of electoral politics and the importance of phrase-making. Campaigning for the Liberals, he alleged that 'The Labour Party thrives on depression. They say the worse off the working classes are the better it will be for them to secure their drastic changes.'<sup>21</sup> It is possible to argue that Labour would have done better in the 1929 general election had it been more radical; but given that Labour did achieve government, albeit on a minority basis, it is tempting to suggest that the leadership's line was not quite as unsound as Dalton implied. On the other hand, the attacks on Lloyd George's economic plans formed a clear constraint on Labour's ability to co-operate with the Liberals during the 1929–31 parliament. It would clearly have been politically difficult for Labour to accept ideas it had previously dismissed as madcap finance even had the party experienced a full intellectual conversion in the meantime. To some extent, though, the supposed unsoundness of the ideas may have helped provide an excuse to those who wished to reject co-operation with the Liberals on other grounds.

'The discussion of public works programmes, 1917–1935: some remarks on the Labour movement's contribution', *International Review of Social History* 11 (1966), 8–17.

<sup>19</sup> Labour Party, *How to conquer unemployment: Labour's reply to Lloyd George* (London: Labour Party, 1929), p. 7. This manifesto was drafted by G. D. H. Cole (Skidelsky, *Politicians and the Slump*, p. 60). Lloyd George observed: 'The Labour Party cannot make up its mind whether to treat the Liberal plan as a freak or to claim its paternity.' See J. Campbell, *Lloyd George: The goat in the wilderness 1922–1931* (London: Cape, 1977), p. 226.

<sup>20</sup> H. Dalton, *Call back yesterday: Memoirs 1887–1931* (London: Frederick Muller, 1953), p. 183.

<sup>21</sup> 'Mr J. M. Keynes in the City', *The Times*, 29 May 1929.

## II

The economic ideas of the 1929–31 Labour government are dealt with in detail in Duncan Tanner's contribution to this volume. Tanner rightly stresses that MacDonald's views were not determined solely by the economic advice he received but were also influenced by his personal values and character, and that his failings in turn reflected the broader institutional culture of the Labour party. We may also note in passing that the Labour leadership clearly hoped to extract credibility from Keynes's appointment to the new Economic Advisory Council, even if his ideas were spurned in practice. When the government fell in August 1931, and MacDonald, Philip Snowden and J. H. Thomas abandoned Labour to join with Conservatives and Liberals in a National Government, there seemed some hope of a rapprochement between Keynes and the remaining rump of the party. He hoped for an alliance between Labour and Lloyd George.<sup>22</sup> In October Keynes met with Arthur Henderson, the party's new leader, shortly after Britain's departure from the Gold Standard. He offered him a line for a speech: 'A week ago the pound looked the dollar in the face. Today it is kicking it in the arse.' A gratified Henderson said afterwards: 'And when I quoted that chap in the cabinet, Snowden said he was a fool!'<sup>23</sup> Although Labour met with catastrophic defeat at the general election a few weeks later, Keynes concluded that, as 'the only organised body of opinion outside the National Government', the party would be called on some day to form an alternative administration. Thus, he published articles in the *Political Quarterly* and the *New Statesman* in which he gave Labour advice. In 1932 he expressed cautious approval of its newly published financial policy, which, amongst other things, advocated the nationalisation of the Bank of England and the establishment of a National Investment Board (originally a Liberal idea).<sup>24</sup> According to Robert Skidelsky's biography of Keynes, he voted Labour in the election of 1935, whilst continuing to look forward to modest progress under 'good King Baldwin' (who had replaced MacDonald as Prime Minister earlier that year).<sup>25</sup> This ambiguity was reflected in his habit of alternating praise for Labour with acid contempt, often within the confines of a single paragraph.<sup>26</sup>

<sup>22</sup> Campbell, *Lloyd George*, p. 301.      <sup>23</sup> Dalton, *Call back yesterday*, pp. 290–1.

<sup>24</sup> JMK, vol. XXI: *Activities 1931–1939: World crises and policies in Britain and America* (1982), pp. 33–8, 128–37. Quotation at p. 128. Labour Party, *Currency, banking and finance* (London: Labour Party, 1932).

<sup>25</sup> Skidelsky, *Economist as saviour*, p. 536.

<sup>26</sup> See, for example, Keynes to A. L. Rowse, 12 May 1936, cited in R. Ollard, *A man of contradictions: A life of A. L. Rowse* (London: Allen Lane, 1999), pp. 96–7.



The tensions in Keynes's developing relationship with Labour were not, it should be stressed, caused merely by the fact that, as Francis Williams put it, whenever he 'actually met Labour or trade union leaders he managed to insult them'.<sup>27</sup> The problems were more profound. Certainly there were those within the Labour movement, like Williams himself (City Editor and then Editor of the *Daily Herald*), who were receptive to what Keynes was saying. The party's 'young economists' (notably James Meade, Douglas Jay, Hugh Gaitskell and Evan Durbin) engaged actively with Keynes's ideas, even if some of them were sceptical about key aspects of his thinking. However, in the aftermath of the debacle of 1931 the Labour party rapidly adopted a vision, which Keynes did not share, of a planned economy based on nationalisation and extensive physical controls. Therefore, whilst there was undoubtedly considerable interest in, and discussion of, the use of financial policy as a means of alleviating unemployment, it was argued that this would never be sufficient in itself to eradicate the booms and slumps that were considered inevitable under capitalism.<sup>28</sup>

It is perhaps not surprising that a left-winger such as Stafford Cripps should have stated that 'no amount of controls or financial experimentation can make capitalism successful'.<sup>29</sup> (This did not prevent him advocating public works.)<sup>30</sup> But this was a view also shared, in broad terms, by key mainstream figures such as Dalton and Gaitskell. In 1939 the latter argued that control of the business cycle was difficult because the government lacked direct control over the major part of industrial orders. This, in his view, helped justify Labour's policy ownership of nationalisation: the 'irregularities, the waste and the unemployment' that existed under capitalism were 'so closely bound up with the system of private enterprise, that it is optimistic to hope that they can be abolished without a far more extensive degree of government control over industry than at present exists'.<sup>31</sup> Keynes, then, in the view even of those Labour figures who felt some sympathy for his ideas, failed to take his exposure of the defects of the existing system to its logical conclusion. As A. L. Rowse, a minor figure in Labour politics but one of its most enthusiastic Keynesophiles, put it in 1932: 'Mr Keynes's economic ideas . . . imply socialism . . . [but]

<sup>27</sup> F. Williams, *Nothing so strange: An autobiography* (London: Cassell, 1970), p. 110.

<sup>28</sup> See R. Toye, *The Labour party and the planned economy, 1931–1951* (London: Royal Historical Society, 2003).

<sup>29</sup> Stafford Cripps to Clarence Senior, 1 December 1933, Cripps Papers, Bodleian, Oxford.

<sup>30</sup> Stafford Cripps, 'The axe that cuts the nation in two: an analysis of the Budget', *New Clarion*, 6 May 1933.

<sup>31</sup> H. Gaitskell, *Money and everyday life* (London: Labour Book Service, n.d. [but 1939]), pp. 95–6. For Dalton's views see, in particular, H. Dalton, *Unbalanced budgets: A study of the financial crisis in fifteen nations* (London: Routledge, 1934), p. 458.



he fails to go on from the economic principles he has laid bare to the necessary institutions which embody them in society.<sup>32</sup> In other words, some Labour figures found in Keynes's writings the means to justify political positions they already held; and this may indeed have involved some adaptation of those positions; but they certainly did not become 'crude Keynesians' in the sense of viewing demand management as a cure-all.

Moreover, aside from the broad fact that Keynes was far more enthusiastic about capitalism than Labour thinkers were, there were also important tactical obstacles to the party adopting some of the remedies he suggested. 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. 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.'<sup>33</sup> For if Labour appeared weak on this issue, then it would not be possible to criticise the National Government when it violated its own orthodox canons. In offering such criticism, Labour speakers felt that they were shooting at an open goal. For example, Neville Chamberlain, in his 1933 Budget, was forced to concede that, in spite of his predictions and best efforts, the country had run a budget deficit of £32 million over the course of the previous financial year. He nonetheless rejected the idea, recently aired by Keynes in the articles that became *The Means to Prosperity* (1933), that such deficit financing could actually be beneficial.<sup>34</sup> Acceptance of Keynes's ideas by Labour would have been an implicit admission that the National Government was doing the right thing, albeit inadvertently and with every intention of stopping. From the political point of view, it was naturally more tempting to suggest that the government's financial irresponsibility would damage the economy. Josiah Wedgwood, a maverick Labour MP, did concede that 'two years ago I should have been criticising this Budget solely on the ground that it was not balanced'; but that now he thought that the government should 'use the money by which the Budget is unbalanced on public works'.<sup>35</sup> But the dominant response was that of Labour's deputy leader, Clement Attlee, who compared Chamberlain to a prodigal son who swears never to resort to moneylenders but presents his father with a mass of unpaid bills at the end of the year. The government

<sup>32</sup> A. L. Rowse, 'Socialism and Mr Keynes', *The Nineteenth Century and After* 112 (1932), 341.

<sup>33</sup> H. B. Lees-Smith to James Meade, 25 October 1933, James Meade Papers 2/7, BLPES.

<sup>34</sup> *HC Debs*, 25 April 1933, cols. 36–7, 57–61. <sup>35</sup> *Ibid.*, 26 April 1933, cols. 176–7.

had merely added to the nation's borrowings: 'It was hardly worth while the Prime Minister betraying all his old colleagues for that.'<sup>36</sup>

The obsession with extracting political revenge for 1931 was made clear in the following remark made by Hugh Dalton at an election strategy meeting in October 1935: '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.'<sup>37</sup> Squaring this with the party's existing commitment to loan-financed public works – an idea for which Keynes's writings were recruited in support – required some skill.<sup>38</sup> An observation made by Aneurin Bevan in 1933 illustrates the common method of trying to do so: 'While the party to which I belong is an advocate of public works schemes of various kinds we have never put it forward that they will rescue this [capitalist] system from the difficulties in which it is placed.'<sup>39</sup> A planned socialist economy would supplant the temporary expedient of public works, and overcome the financial difficulties it threatened to raise.

What, then, was the impact on Labour of the publication of the *General Theory* in 1936? It has been well said that the best books are those that tell us what we imagine we knew already. Thus Barbara Castle recalled in her memoirs that the book put the 'commonsense' if 'rather inchoate' views of Labour rank-and-filers 'into the language of the professional economist'. She herself, she claimed, had always 'instinctively believed that socialism meant using expenditure on public works to set men and women producing goods and services people were crying out for'.<sup>40</sup> Hence also Rowse's contemporary description of the *General Theory* as a 'complete justification of Labour Policy', in spite of Keynes's belief that nationalisation – one of the keynotes of that policy – was an irrelevance.<sup>41</sup> Similarly, G. D. H. Cole welcomed the book as 'the most important theoretical economic writing since Marx's *Capital*', but noted that 'Mr Keynes's most signal service is that he has brought together, co-ordinated and rationalised many criticisms of orthodoxy which have hitherto been ineffective because they have been disjointed and unrelated to any clear body of fundamental theory.' Moreover, Keynes's rejection of 'complete socialism' was 'not a

<sup>36</sup> *Ibid.*, cols. 108–9.

<sup>37</sup> 'Notes on a joint meeting held in Grand Committee Room, Westminster Hall, on 22 Oct. 1935', Walter Citrine Papers I/I, BLPES.

<sup>38</sup> Labour Party, *Socialism and the condition of the people* (London: Labour Party, 1933), p. 19, citing Keynes's *The means to prosperity*.

<sup>39</sup> *HC Debs*, 27 April 1933, col. 316.

<sup>40</sup> Barbara Castle, *Fighting all the way* (London: Macmillan, 1993), pp. 55–6.

<sup>41</sup> A. L. Rowse, *Mr Keynes and the Labour movement* (London: Macmillan, 1936), p. 12.

necessary deduction from his analysis'.<sup>42</sup> Cole clearly felt some warmth for Keynes as an individual – he subsequently pressed Keynes to become a parliamentary candidate<sup>43</sup> – but suggested that he had merely 'sugar-coated' the Hobsonian doctrine of underconsumption by putting it into language that was difficult enough for economists to understand.<sup>44</sup>

Following the Hobsonian theme, Douglas Jay, for his part, felt that although the *General Theory* was formidable and illuminating, it over-rated the importance of investment in comparison with consumption: 'Why . . . when effective demand falls off, should we stimulate investment and not consumption direct? Mr Keynes is not the man to be enslaved by intellectual prejudices or conventions. Will he not then take courage, like Socrates, and follow the argument where it leads?'<sup>45</sup> It may therefore be seen that Jay's 'Keynesianism' – of which some historians have made much – was of limited scope.<sup>46</sup> Although he made efforts to ensure that the doctrine of effective demand advanced in his 1937 book *The Socialist Case* 'was at least consistent with Keynes's argument',<sup>47</sup> Noel Thompson has pointed out that Jay was clearly influenced by Barbara Wootton, J. A. Hobson and Evan Durbin as well as by Keynes (and James Meade); or as Peter Clarke has put it, 'It was Keynes with a Hobsonian twist.'<sup>48</sup> Moreover, Jay, unlike Keynes, emphasised redistributionary taxation; and in 1938 he argued privately that the multiplier effect was 'a red herring'.<sup>49</sup>

Nevertheless, although Jay, Cole and other socialists tended to cherry-pick those parts of Keynes's arguments that fitted their preconceptions, it would be wrong to claim that the *General Theory* had no effect on Labour thinkers other than to confirm established prejudices. It does not seem coincidental that there was now an increased willingness to talk about the potential theoretical desirability of deficit financing. Donald Winch has noted that Hugh Dalton, in the 1936 edition of his *Principles*

<sup>42</sup> G. D. H. Cole, 'Mr Keynes beats the band', *New Statesman and Nation*, 15 February 1936.

<sup>43</sup> I am grateful to Prof. Takao Matsumura for this information.

<sup>44</sup> R. Eatwell, *The 1945–1951 Labour governments* (London: Batsford Academic, 1979), p. 28.

<sup>45</sup> D. Jay, 'Mr Keynes on money', *Banker* 38, 123 (April 1936), 10–14, quotation at 14. See also D. Jay, *The Socialist Case* (London: Faber & Faber, 1937), p. 192.

<sup>46</sup> See Pimlott, *Labour and the Left*, pp. 38–9, 201; M. Francis, *Ideas and policies under Labour, 1945–1951: Building a new Britain* (Manchester: Manchester University Press, 1997), p. 38; S. Brooke, *Labour's war: The Labour party during the Second World War* (Oxford: Clarendon Press, 1992), p. 238.

<sup>47</sup> D. Jay, *Change and fortune: A political record* (London: Hutchinson, 1980), p. 62.

<sup>48</sup> N. Thompson, *Political economy and the Labour party: The economics of democratic socialism, 1884–1995* (London: UCL Press, 1996), pp. 96, 107; P. F. Clarke, *Liberals and Social Democrats* (Cambridge: Cambridge University Press, 1978), p. 274.

<sup>49</sup> Jay to John Strachey, 20 August 1938, cited in M. Newman, *John Strachey* (Manchester: Manchester University Press, 1989), p. 88.

of *Public Finance*, gave cautious support to contra-cyclical budget balancing.<sup>50</sup> Likewise, in June 1936, Jay, Gaitskell, Durbin and Colin Clark wrote a memorandum that accepted that the budget should be unbalanced in exceptional circumstances.<sup>51</sup> To a very limited degree, these views came to be reflected in official party statements. In a 1938 Labour pamphlet, Jay wrote that 'Labour will consider sympathetically such proposals as that for a "long-term Budget" balanced over a longer period than one year, showing surpluses in good years and deficits in bad.'<sup>52</sup> There were, however, good political reasons for the embrace not being warmer.

To understand these, it is necessary to understand the broader context within which Keynes's ideas were being discussed, and the consequences that they had for the battles between (and indeed within) the main political parties. The later 1930s were, of course, a time of increasing political crisis in Europe; and we may note that Keynes himself hoped that his own economic proposals would help avert war.<sup>53</sup> The National Government reacted to the deteriorating foreign policy situation, from 1937 onwards, by borrowing hundreds of millions of pounds in order to pay for rearmament. This created a dilemma for Labour, and also an opportunity. The dilemma was caused by the deep divisions within the party over whether or not rearmament should be supported. The opportunity was created by the fact that the government, by going so deeply into the red, was opening itself to the charge of financial irresponsibility. Keynes, for his part, believed that the borrowing could be achieved without inflation and was likely to help postpone industrial recession.<sup>54</sup> But Labour rejected this view, partly (one suspects) because of the sheer pleasure to be derived from painting Chamberlain and his colleagues as fiscal reprobates, and partly because focusing on the alleged financial demerits of the defence loans helped paper over divisions within the party about the virtues of rearmament *per se*.<sup>55</sup>

Labour's strategy can be gauged from the approach taken by F. W. Pethick-Lawrence, one of the party's principal financial spokesmen, in the Commons debate on the government's first defence loan in 1937. Pethick-Lawrence has been unfairly traduced as an opponent of 'unorthodox Keynesian budgeting proposals'.<sup>56</sup> In fact, as early as 1932, he

<sup>50</sup> Winch, *Economics and policy*, p. 345. <sup>51</sup> Durbin, *New Jerusalem*, p. 251.

<sup>52</sup> D. Jay, *The nation's wealth at the nation's service* (London: Labour Party, 1938), p. 11.

<sup>53</sup> See JMK, vol. VII: *The general theory of employment, interest and money* (1974), pp. 381–2.

<sup>54</sup> JMK, vol. XXI: *Activities 1931–1939*, pp. 401–2.

<sup>55</sup> For a full discussion, see Toye, 'The Labour party and the economics of rearmament'.

<sup>56</sup> Durbin, *New Jerusalem*, p. 269.

had shown he was no strict Gladstonian: 'These are not the times for all round cuts . . . On the contrary, useful public enterprises paid for out of borrowed money are to be encouraged just because the times are depressed.'<sup>57</sup> He had maintained a long-standing correspondence with Keynes, dating back to 1915.<sup>58</sup> He was also familiar with the *General Theory* (whereas it is not clear that Dalton, for example, ever read it).<sup>59</sup> In the defence loan debate, however, he claimed that the kind of borrowing the government proposed would unbalance the budget in an economically destabilising fashion.<sup>60</sup> He was prepared to concede, hypothetically, that it might be right 'in a slump to borrow money and pump new purchasing power into the community'. However, in the relatively buoyant economic conditions then current – buoyant, that is, compared with the prior depths of the Slump – such a course would be 'most dangerous', and the defence loan would be 'rank inflation'.<sup>61</sup> Dalton too argued that 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.<sup>62</sup>

Although these arguments had considerable advantages from the point of view of tactics – and also reflected the continuing obsession with 1931 – there was also a serious economic point behind them. Pethick-Lawrence made clear to Keynes that he was concerned that the defence loan would result in inflation because of insufficient manufacturing supply to meet the increased demand in which the new borrowing would result. Keynes, though, was confident that the defence programme could be carried through without inflation and without any 'punitive measures' to stop alternative civil projects.<sup>63</sup> In 1939, shortly after Keynes had suggested publicly that 'the problem of abnormal unemployment will cease to exist during the financial year 1939–40', as a consequence of the government's increased loan expenditure, Pethick-Lawrence developed his earlier point further. He said that: '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.' He urged the need for planning 'in order to bring the whole available manpower of

<sup>57</sup> F. W. Pethick-Lawrence, 'Hoard and grow poor', *New Clarion*, 19 November 1932.

<sup>58</sup> The correspondence can be found in the F. W. Pethick-Lawrence Papers, P-L 2/192–256, Trinity College, Cambridge.

<sup>59</sup> Williams, *Nothing so strange*, p. 108; Durbin, *New Jerusalem*, p. 156.

<sup>60</sup> *HC Debs*, 17 February 1937, cols. 1222, 1226–7.

<sup>61</sup> *Ibid.*, cols. 1226–8. <sup>62</sup> *Ibid.*, cols. 1297–1306.

<sup>63</sup> Keynes to Pethick-Lawrence, 7 March 1937, Pethick-Lawrence Papers, P-L 2/214.

the country into operation'.<sup>64</sup> 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.

By the outbreak of war, though, the Labour party remained divided over how to react to Keynes and his arguments. To some, Keynes was 'one of our leading mumbo-jumbo economists',<sup>65</sup> or 'the bogey boy of capitalist economists', who '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'.<sup>66</sup> For others, though, Keynes's 'modern scientific argument' was a vindication of traditional socialist underconsumptionism.<sup>67</sup> After all, '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'.<sup>68</sup> Therefore, 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'.<sup>69</sup> These divergences of view, of course, reflected differences over how best to use economic arguments to service political attacks on the National Government. At the same time, the developing 'near-war' emergency lent credibility to the existing Labour demand for a planned economy to mobilise the nation's resources. So political developments in Europe, as well as the narrower concerns of the parliamentary battle, influenced the economic positions taken up by the party's politicians and thinkers. Of course, Keynes's own lack of political nous also limited his influence on the Labour movement. His socialist sympathisers found it impossible to convince him of the political allowances and concessions of understanding that he would have to make when trying to persuade trade unionists of his views.<sup>70</sup>

Interestingly, by June 1939 Keynes had moved, at least in private, to a position with which many in the Labour party might have been expected to sympathise. He wrote to R. H. Brand:

<sup>64</sup> *HC Debs*, 26 April 1939 col. 1182.

<sup>65</sup> Comment of Richard Stokes MP, *ibid.*, col. 1257.

<sup>66</sup> Comment of G. R. Sandison, prospective parliamentary candidate for Southend-on-Sea. Labour Party, *Annual Conference Report 1939*, p. 268.

<sup>67</sup> Comment of H. B. Lees-Smith, *HC Debs*, 26 April 1939, col. 1267.

<sup>68</sup> Johnston, 'Unemployment to be reduced by 1,000,000'.

<sup>69</sup> Comment of George Ridley MP, *HC Debs*, 1 May 1939, col. 1562.

<sup>70</sup> Williams, *Nothing so strange*, p. 110.

As soon as full employment is reached, all sorts of special measures have to be taken, if the government programme is to be carried through without provoking various disagreeable conditions. But my point is that, even so, a high rate of interest is very far from being a serviceable tool. I should expect that the relief that one could get in that way would be almost negligible, whilst the injury in other directions would be severe. An appreciably higher level of taxation, rationing and government priorities must then be the order of the day.

Of course, when full employment really has arrived, one will have to reconsider the whole position in the light of the then circumstances.<sup>71</sup>

However, in the months after the outbreak of war, when full employment seemed to be in prospect, he developed a new line of thinking about how to avoid 'disagreeable conditions' arising. This was followed by his most sustained attempt yet to court the party and the unions.

### III

His proposals for compulsory saving or 'deferred pay', developed between October 1939 and February 1940, generated major public controversy; and Keynes realised from the first that Labour's attitude to his scheme for preventing a vicious spiral of rising prices was vital to the plan's success, not least because it would be unworkable without the support of the trade unions. His attempts to accommodate Labour opinion were a key factor in shaping the final outcome of his thought, the minor economic classic *How to Pay for the War*. Keynes injected further social radicalism into his plan in the hope of making it 'outrageously attractive to the Labour Party'.<sup>72</sup> But Labour neither reciprocated the spirit of his concessions, nor accepted the consumer-choice philosophy upon which the plan's main principle was based. Keynes, working hard to sell his scheme, told a meeting of the Fabian Society: 'It is for the state to say how much a man may spend out of his earnings. It is for him to say how he will spend it.'<sup>73</sup> Hence there would be compulsory saving without the need for extensive rationing. But the latter was the solution (combined with price control and greater taxation of middle and higher incomes and war profits) that the Labour movement preferred. Labour's views coincided substantially with those of the Polish economist Michal Kalecki (who at this time was based in Britain). Kalecki argued, contrary to Keynes, that the optimal way to deal with the type of inflation likely to develop in wartime was

<sup>71</sup> Keynes to R. H. Brand, 9 June 1939, R. H. Brand Papers Box 198, Bodleian, Oxford.

<sup>72</sup> Keynes to John Parker, 18 January 1940, John Maynard Keynes Papers, HP/2/79, King's College, Cambridge.

<sup>73</sup> Notes for a speech to the Fabian Society, 21 February 1940, Keynes Papers HP/2/88–99.



a system of consumer goods rationing. At this time it was not widely appreciated that, in an article published in his native language in 1933, he had anticipated the key idea of the Keynesian revolution; and his direct influence on the Labour party was probably marginal.<sup>74</sup> Nevertheless, it is perhaps not too fanciful to describe the party during this period and beyond as 'Kaleckian' rather than 'Keynesian'.

Once more, however, differences in economic philosophy are insufficient to explain Labour's rejection of Keynes's plan. Again we must turn towards political concerns. Ellen Wilkinson MP told Keynes that his scheme 'was a perfectly sound proposal if considered *in vacuo*, but that, in practice, it was impossible to consider it except in relation to the social and industrial circumstances in which . . . it would be carried into effect'. The Chamberlain government, she believed, was hostile to the working class. All Keynes's safeguards depended 'on the promise of a distinguished professor of economics – but not of the government who would have to implement them'.<sup>75</sup> Thus whilst Chamberlain and John Simon (the Chancellor of the Exchequer), remained in their respective positions, it was impossible for Keynes to succeed. Even had their government sponsored his plan, Labour would have rejected it; a fact which in turn prevented the government adopting it in the first place. But Labour's subsequent entry into Churchill's coalition changed the situation. In the spring of 1941, Kingsley Wood's budget, which included a version of Keynes's scheme – albeit on a small scale and as a complement to rationing and profits-limitation exercises – proved uncontroversial. The *How to Pay for the War* controversy thus illustrates the point that politicians and trade unionists are rarely able to consider policy strictly on its economic merits. (For example, George Woodcock, the Secretary of the TUC's Research and Economic Department, told Keynes in January 1940 that the unions 'might accept completely all the economic points' in favour of compulsory saving, but that this did not eradicate their problems in accepting it.)<sup>76</sup> This general observation may be taken to mean that those who engage in political action are, necessarily, in some senses opportunistic; but this should not always be a matter for regret.

Doubtless in part because of the advent of the coalition (which also saw Keynes brought in as a Treasury advisor) the war period witnessed

<sup>74</sup> For a discussion of Kalecki's priority over Keynes and of his views on wartime inflation, see J. Toye and R. Toye, *The UN and global political economy: Trade, finance and development* (Bloomington: Indiana University Press, 2004), pp. 56, 71–2.

<sup>75</sup> Ellen Wilkinson to Keynes, 13 March 1940, Keynes Papers HP/4/124–6.

<sup>76</sup> 'Report of meeting of the Trade Union side of the National Advisory Council to the Ministry of Labour with Mr J. M. Keynes, on Wednesday, 24th January, 1940, at 3 p.m.', Citrine Papers, 5/19 fo. 25.

a warming of the Labour party towards Keynes's ideas. For example, Evan Durbin was casually dismissive of Keynes in his book *The Politics of Democratic Socialism*, published in 1940.<sup>77</sup> But by January 1943, in the aftermath of the Beveridge report, he was writing to Attlee that 'I feel it is increasingly important to ask Lord Keynes to write some sort of general Report on maintaining full employment.'<sup>78</sup> At the same time, Hugh Dalton and Herbert Morrison, the two men who would be Attlee's chief economic ministers in the 1945–7 period, were agreeing explicitly about the merits of a contra-cyclical budgetary policy to prevent unemployment. Morrison told Dalton: 'I quite agree with you that we should very much keep in mind the technique of unbalanced budgets.'<sup>79</sup> Such proposals had played at most a very marginal part in Labour's pre-war programme; but, as memories of 1931 began to fade, and with the former National Government heavily discredited, the way was now paved for the party's declaration that 'We need not aim at balancing the Budget year by year.'<sup>80</sup> This remark was contained in the 1944 policy statement *Full Employment and Financial Policy*, and this document has been described as 'the formal acceptance by the Labour Party of Keynesian ideas', but, as Alan Booth has argued, such claims must be treated cautiously.<sup>81</sup> At the very least it must be pointed out that the war had the effect in some Labour quarters of bolstering the case for a planned economy based on physical controls rather than more indirect methods of economic management.<sup>82</sup> It is probably safest to say that the document marked the adoption of policies which Labour *took to be* Keynesian, but it should be emphasised that demand management was still not – and never would be – thought to be a sufficient guarantee of full employment.

This can be seen in the party's manifesto for the general election of 1945. Michael Young, its author, later summed up what had been in his mind when he wrote it: 'Beveridge plus Keynes plus socialism'.<sup>83</sup> The socialist element was clearly thought to be important in order to

<sup>77</sup> E. F. M. Durbin, *The politics of Democratic Socialism: An essay on social policy* (London: Routledge, 1940), pp. 137, 174, 360.

<sup>78</sup> Evan Durbin to Clement Attlee, 'The Prime Minister's note on post-war promises', 18 January 1943, William Piercy Papers, 8/4, BL PES.

<sup>79</sup> Dalton to Morrison, 24 January 1943, and Morrison to Dalton, 29 January 1943, Hugh Dalton Papers, 8/4, BL PES.

<sup>80</sup> Labour Party, *Full employment and financial policy* (London: Labour Party, 1944), p. 4.

<sup>81</sup> S. Howson, *British monetary policy, 1945–51* (Oxford: Clarendon Press, 1993), p. 93. Booth, 'How long are light years in British politics?'

<sup>82</sup> See R. Toye, 'The "gentleman in Whitehall" reconsidered: the evolution of Douglas Jay's views on economic planning and consumer choice, 1937–1947', *LHR* 67, 2 (2002), 185–202.

<sup>83</sup> Quoted by Peter Hennessy, 'Michael Young and the Labour party', paper given at Churchill College, Cambridge, 14 January 2004.

distinguish Labour from the other parties, which had their own political reasons for committing themselves to full employment. According to the manifesto:

Our opponents would be ready to use State action to do the best they can to bolster up private industry whenever it plunges the nation into heavy unemployment. But if the slumps in uncontrolled private industry are too severe to be balanced by public action – as they will certainly prove to be – our opponents are not ready to draw the conclusion that the sphere of public action must be extended.<sup>84</sup>

This demonstrated the truth of Kalecki's remark made in a 1943 article on the political aspects of full employment: 'The necessity that "something must be done in the slump" is agreed; but the fight continues . . . as to *what* should be done in the slump (i.e. what should be the direction of government intervention)'.<sup>85</sup> This fight proceeded not only because of ideological differences between the parties, but also because it suited them to play up those differences in public.

After Labour's landslide election victory, Keynes continued in his Treasury role until his death in April 1946. The story of his negotiation of a post-war loan from the United States has been told many times; what has tended to escape notice is that the majority of Labour ministers had, for some years previously, lent general support to the international economic reform agenda that Keynes promoted. This included support for the 1944 Bretton Woods agreement that established the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). Ernest Bevin, however, had doubts. As Wilfrid Eady, of the Treasury, reported to R. H. Brand in June 1945: 'Bevin has publicly expressed strong doubts about Bretton Woods. In private, and to a friend of mine, he has said that if a Labour Government is elected they will not ratify, and that if they are in Opposition they will oppose.' Nevertheless, Eady continued, 'I do not think that need be treated too tragically: even in a Labour Government of which Bevin is a member there will be other members, and Attlee certainly has not shown any similar signs.'<sup>86</sup> Eady was proved right. Bevin dropped his opposition when it became clear that ratification was the necessary price of the US loan; and unpalatable as some of the other loan conditions

<sup>84</sup> F. W. S. Craig (ed.), *British general election manifestos 1918–1966* (Chichester: Political Reference Publications, 1970), p. 99.

<sup>85</sup> M. Kalecki, 'The political aspects of full employment', *Political Quarterly* 14, 4 (1943), 322–31, reprinted in J. Osiatynski (ed.), *Capitalism: Business cycles and full employment. Collected works of Michal Kalecki*, vol. I (Oxford: Clarendon Press, 1990), pp. 347–56.

<sup>86</sup> Eady to Brand, 28 June 1945, Brand Papers Box 197.

were, other key ministers were actually relatively positive about the new international economic institutions.

It may be going too far to say that Labour was closer to Keynes on these international issues than on domestic ones – and at any rate, his views on these issues at the very end of his life are the subject of some debate.<sup>87</sup> All the same, there are signs that, on the home front, the Attlee government was at first less than wholehearted in its embrace of Keynes's thinking. The *Economist* observed of Dalton's first budget:

Mr Dalton merely concedes that the budget should be balanced over a period of years rather than annually. The Chancellor may have freed himself from the worst of the old orthodoxy, but he still seems to be thinking in narrow financial terms. There is certainly no virtue in *not* balancing the financial budget; but whether that budget should, in any particular period, aim at a deficit, a surplus, or equilibrium must be decided solely by reference to the state of the economy as a whole . . .<sup>88</sup>

Whereas Keynes approved of Bevin and Cripps, he took a rather condescending attitude to the Chancellor: 'He thinks . . . that he has succeeded in educating Hugh Dalton into some understanding of the essentials of the financial position.'<sup>89</sup> One of the last pieces of advice he gave him was on the subject of his forthcoming second budget. On 1 April 1946 Keynes wrote that 'Your Budget is full of good things and is likely, in my judgement, to have a great success. But there is one element in it which I cannot believe to be a good plan – namely the introduction of increased earned income allowance in the autumn.' His objection arose partly because he believed the budget to be overloaded already, and partly on political grounds: 'You are giving away what may well prove practically all you have got left to give away *next* Budget. Why spoil and impoverish next Budget, when this one needs the extra embellishment so little?' Nevertheless, 'a stimulus delivered next autumn may well be much needed and very advisable'. Keynes suggested an alternative idea:

What is needed is not more release of money when there is no release of goods; but just the opposite – namely more release of goods without any further release of money. What I believe we ought to look forward to, if the American Loan

<sup>87</sup> See S. Newton, 'Deconstructing Harrod: some critical observations on *The Life of John Maynard Keynes*', *Contemporary British History* 15 (2001), 15–27, and 'A "visionary hope" frustrated: J. M. Keynes and the origins of the postwar international monetary order', *Diplomacy and Statecraft* 11, 1 (2000), 189–210.

<sup>88</sup> 'An incentive budget', *The Economist*, 27 October 1945.

<sup>89</sup> Lord Halifax diary, 5 March 1946, Halifax Papers A7.8.18, Borthwick Institute of Historical Research, York. This also contains Keynes's positive comments on Cripps's work at the Board of Trade. For his approval of Bevin, see Henry Morgenthau diary, 2 and 3 March 1946, Franklin D. Roosevelt Library, Hyde Park, New York.

goes through and events move reasonably well in other respects, is a significant relaxation on import restriction. It would be a much more tangible stimulus and encouragement if the Treasury were to allow an additional £50 million worth of imports of semi-luxuries, particularly food, etc. It is necessities which are in short supply. If we relax on austerity, we can find things to buy which would be greatly appreciated. This would be a gesture much more to be appreciated, really touching the spot, and leaving your next Budget possibilities intact – for which you will be very glad when the time comes.<sup>90</sup>

A civil servant recorded: ‘The Chancellor has seen this note, but has decided that he must proceed with the proposal.’<sup>91</sup> In refusing to relax austerity, Dalton illustrated once more how his priorities differed from those of Keynes. Three weeks after writing the aforementioned memorandum, Keynes died.

#### IV

Although Keynes’s death was a considerable loss to the Labour government, it is hard to refrain from the cynical observation that it was in some respects convenient, not only for politicians (of all parties) but also for academics, civil servants and commentators who claimed to be his followers. Even while he was still alive his words had often been put to use, selectively, for the political purposes of others. Now, not only could economists claim to know what Keynes would have said about current problems had he still been alive, but politicians too could freely invoke his writings in support of their own policies, without the risk, as formerly, of authorial contradiction. Therefore, the controversial question of how far the Attlee administration (and subsequent governments) implemented Keynesian ideas is complicated by two factors.<sup>92</sup> First, those who saw themselves as ‘Keynesians’ sometimes misinterpreted the historical Keynes, and, in interpreting him, frequently disagreed with one another.<sup>93</sup> Second, claims and counter-claims about ‘what Keynes really meant’ or ‘what Keynes would have advised in the current situation’ were tools to be used in the political arena. That is to say, it is sometimes hard to tell if someone who cited Keynes with approval was genuinely influenced by his ideas, or by those of his interpreters, or was merely seeking to cloak their own

<sup>90</sup> Keynes to Dalton, 1 April 1946, PRO T171/388, TNA.

<sup>91</sup> Unsigned note, April 1946, PRO T171/388, TNA.

<sup>92</sup> For the current state of the debate, see A. Booth, ‘New revisionists and the Keynesian era in British economic policy’, *ECHR* 54 (2001), 346–66; G. C. Peden, ‘New revisionists and the Keynesian era in British economic policy’, *ECHR* 56 (2003), 118–24; and Alan Booth, ‘New revisionists and the Keynesian era: an expanding consensus?’, *ECHR* 56 (2003), 125–30.

<sup>93</sup> Clarke, *Keynesian revolution*, p. viii; Peden, ‘New revisionists’, 118–19.

favoured remedies in the warm glow of his reputation, which, if anything, his death had enhanced. As Roy Jenkins joked in the Commons in 1950, when a Conservative MP disclaimed belief in Keynes's doctrines: 'I was afraid that we were all Keynesians now, and am glad to hear that there are some people on the Opposition side who do not even pay lip-service to the doctrines of the late Lord Keynes.'<sup>94</sup>

In spite of this, it is clear that, over the course of its life, the Attlee government did take vitally important steps towards the establishment of what Clarke calls 'actually existing Keynesianism'.<sup>95</sup> This was not a straightforward process, and it is important to appreciate that many of the ministers directly involved did not have a firm grasp of Keynesian economics. At first, moreover, their civil service advisors were divided amongst themselves. There were two schools of thought. The 'Thermostatters' (led by James Meade, head of the Economic Section of the Cabinet Secretariat) favoured 'sensible global planning', as opposed to 'senseless quantitative planning of output and employment in every single line'.<sup>96</sup> The 'Gosplanners' were more *dirigiste*. They wanted to plan over a long time-frame, they wanted to set targets, and they wanted to do so in terms of real resources, particularly manpower, at least while shortages persisted. Dalton, as Chancellor, does not seem to have been greatly influenced by the Thermostatters' advice, and Cripps, as President of the Board of Trade, appears to have inclined towards the Gosplanners.<sup>97</sup> However, after Cripps replaced Dalton in 1947, and after Robert Hall replaced the rather ineffective Meade, the budget was increasingly used as a mechanism by which to regulate overall demand in the economy. The aim, in conditions that had changed radically since the 1930s, was not to unbalance the budget in order to boost demand, but to run budget surpluses in order to restrain it and thus prevent inflation. In the words of Austin Robinson, 'it was Stafford Cripps in 1948 who first carried into peacetime budgeting the concepts which Keynes had developed for war finance'.<sup>98</sup>

In his 1950 Budget speech, in a classic statement on the role of budgetary policy, Cripps declared that the budget was 'the most powerful instrument for influencing economic policy which is available to the

<sup>94</sup> *HC Debs*, 19 April 1950, col. 208.

<sup>95</sup> P. F. Clarke, *The Cripps version: The life of Sir Stafford Cripps* (London: Allen Lane, 2002), p. 497.

<sup>96</sup> S. Howson and D. Moggridge (eds.), *The collected papers of James Meade*, vol. IV: *The Cabinet office diary, 1944–46* (London: Unwin Hyman, 1990), p. 122 (entry for 1 September 1945).

<sup>97</sup> See Toye, *Labour party*, chap. 8.

<sup>98</sup> E. A. G. Robinson, *Economic planning in the United Kingdom: Some lessons* (Cambridge: Cambridge University Press, 1967, pp. 21–2.

government'.<sup>99</sup> During the course of the Budget debate, Gaitskell developed the point, with a slightly different emphasis:

We have deliberately set out, while gradually diminishing the extent of inflationary pressure, to ensure that the level of home demand was adequate for full employment . . . We accept the implications of this policy, that it does involve the maintenance of certain controls – for example, over building, investment and some materials which are still scarce. We accept that at present it requires the continuance of rationing of some commodities which might not be necessary if wages were lower and unemployment was greater.<sup>100</sup>

Neither Cripps nor Gaitskell mentioned Keynes explicitly, although they were certainly understood to be referring to his ideas.<sup>101</sup> Tony Crosland, for his part, demonstrated the scope for disagreement amongst 'Keynesians' by warning that the Budget might be excessively deflationary.<sup>102</sup>

Gaitskell's emphasis on physical controls as the necessary counterpart to demand management was significant. Backed by Douglas Jay, he had recently warned his colleagues that any attempt to abandon controls, and to guide the economy solely 'by indirect monetary means' would lead either to inflation and a balance-of-payments crisis, or deflation and unemployment.<sup>103</sup> Other ministers, such as Dalton, who welcomed Gaitskell's views denied that this was an attack on Cripps's policies, blaming officials for the perceived slide towards decontrol.<sup>104</sup> But, as Cripps pointed out to one of his left-wing critics outside the government, blaming civil servants amounted to 'an implied attack upon myself as unable to control my staff'.<sup>105</sup> These rumblings of discontent were soon followed by

<sup>99</sup> *HC Debs*, 18 April 1950, col. 39.

<sup>100</sup> *HC Debs*, 24 April 1950, cols. 638–9.

<sup>101</sup> The Conservative MP Nigel Birch commented of Gaitskell's budget the following year: 'It has been the fashion for some years for the Chancellor of the Exchequer to start his Budget by expounding the Keynesian mysteries of the inflationary gap, and I think it gave general satisfaction that that industrious acolyte the Chancellor of the Exchequer did just as well in performing the rites as the archpriest of the cult, Sir Stafford Cripps.' *HC Debs*, 16 April 1951, col. 1494.

<sup>102</sup> This was Crosland's maiden speech. He said: 'my main argument is a plea to the Chancellor, who has fought for so long a brave and even a rather lonely battle against inflation, to realise that possibly the main danger now has come on another flank and not on that flank at all, and that a certain reversal of policy might, therefore, be necessary'. Oddly, his biographers assert that he argued that fiscal policy was not tight enough. See *HC Debs*, 19 April 1950, col. 186; S. Crosland, *Tony Crosland* (London: Cape, 1982), p. 51; K. Jefferys, *Anthony Crosland: A new biography* (London: Richard Cohen Books, 1999), p. 37.

<sup>103</sup> PRO CAB 134/225 EPC (50) 9, 7 January 1950, TNA.

<sup>104</sup> B. Pimlott (ed.), *The political diary of Hugh Dalton, 1918–40, 1945–60* (London: Cape, 1985), p. 465 (entry for 24 January 1950).

<sup>105</sup> Stafford Cripps to Richard Acland, 21 January 1950, PRO T273/235, TNA. Cripps objected to passages in the pamphlet *Keeping Left*, of which Acland was part author.



further questioning of the Chancellor's plans. The doubts of the veteran cabinet minister Lord Addison were taken up by Attlee. Although these doubts seem to have been the product of simple lack of comprehension, they were, as Clarke puts it, 'a potentially destabilizing challenge to the whole Budget strategy'.<sup>106</sup> Hence Cripps's public clarification, on which Gaitskell, perhaps eyeing up the Chancellorship (to which he succeeded in October 1950), then put his own spin.

These manoeuvrings within the Labour party ran in parallel with international political developments, which in turn Labour hoped to exploit for domestic political advantage.<sup>107</sup> When economic activity in the United States slackened in the spring of 1949, the British had helped initiate a United Nations report on international measures to maintain full employment.<sup>108</sup> The main responsibility for drafting the report fell to Nicholas Kaldor, an economist with close links to the Labour party, who competed with Thomas Balogh, a fellow Hungarian *émigré*, to don the mantle of Keynes.<sup>109</sup> The novelty of the report – published in December 1949 – lay in its call for governments to adopt pre-specified employment targets and to announce 'automatic counter-measures' in the event either of rising unemployment or of rising inflation. More dramatic and unconventional were the report's further proposals for international co-ordinated action. The report recommended that countries that permitted their imports to fall below a 'normal' level (that is, a level consistent with full employment) should be obliged to deposit with the IMF an amount of their currency equivalent to the deflationary impulse thereby propagated. This would constitute a pool of foreign currencies available to be bought with the currencies of countries whose exports had been adversely affected by the deflation.<sup>110</sup> The British were enthusiastic about the report, because, if accepted as the basis for international action, it would help entrench their view that stable exchange rates and free trade would not alone restore balance-of-payments equilibrium in a world of scarce dollars. This would provide a shield against American pressure to liberalise trade and move towards currency convertibility. In January 1950, Kaldor recorded: 'I gather HMG's attitude will be rather good since Cripps is very keen on

<sup>106</sup> Clarke, *Cripps version*, p. 501.

<sup>107</sup> The paragraphs on the international aspects of Keynesianism that follow draw in part on research conducted jointly with John Toye and published as *The UN and global political economy: Trade, finance and development* (Bloomington: Indiana University Press, 2004).

<sup>108</sup> See A. Cairncross (ed.), *The Robert Hall diaries 1947–1953* (London: Unwin Hyman, 1989), p. 289 n. 11.

<sup>109</sup> A. P. Thirlwall, *Nicholas Kaldor* (Brighton: Wheatsheaf, 1987), p. 108.

<sup>110</sup> UN, *National and international measures for full employment* (Lake Success, New York, December 1949).

it.<sup>111</sup> Robert Hall noted that ‘the UK is stuck with Full Employment anyway so we *can’t* lose by it and if US would accept it would be a great step forward’.<sup>112</sup>

The report was referred to the UN Economic and Social Council, which discussed it in July 1950. The fact that Gaitskell was present to make a speech indicates the degree of importance that the British attached to it. He praised the report, noting that there was now much agreement among economists as to the causes of unemployment and its appropriate remedies: ‘Much of the credit for that was due to a great Englishman who had also been a great internationalist – the late Lord Keynes.’<sup>113</sup> But his motive was not merely to place obligations on the Americans and others. He told Hall that ‘HMG were thinking of introducing a Full Employment Bill for political reasons! and hence that it might be useful to have more obligations than we might otherwise have done.’<sup>114</sup> This proposed bill was intended to give the government powers of economic control and price regulation on a permanent basis, superseding the previous temporary powers of wartime origin.<sup>115</sup> Its political purpose was to help explain to the public ‘the planning instruments which we feel are necessary and challenge the Tories to indicate which they would abandon’.<sup>116</sup> Although the bill was eventually abandoned as a consequence of the Korean War – the UN employment report likewise proved a dead letter because of the hostility of the Americans – it can nonetheless be seen as powerful evidence of the limits to Labour’s Keynesianism.<sup>117</sup> Gaitskell’s overall rhetorical strategy is fascinating to consider. He publicly praised Keynes in an attempt to place obligations on his own country that the government was likely to meet anyway. He and other ministers could then claim to be living up to these obligations by passing a bill to give themselves powers of control of the kind to which

<sup>111</sup> Kaldor to Dell, 24 January 1950, Nicholas Kaldor Papers, NK/3/30/55/30–1, King’s College, Cambridge.

<sup>112</sup> Cairncross, *Hall Diaries*, p. 104 (entry for 31 January 1950).

<sup>113</sup> United Nations Economic and Social Council Official Records, Eleventh session, 390th meeting, 17 July 1950, p. 114. See also P. M. Williams (ed.), *The diary of Hugh Gaitskell, 1945–1956* (London: Cape, 1983), pp. 193–4 (entry for 11 August 1950).

<sup>114</sup> Williams, *Diary of Hugh Gaitskell*, p. 123 (entry for 13 July 1950). For the political context of the proposed Full Employment Bill, see R. Toye, *Labour party*, pp. 234–5.

<sup>115</sup> N. Rollings, ‘Permanent economic controls’, in H. Mercer, N. Rollings and J. Tomlinson (eds.), *Labour governments and private industry: The experience of 1945–1951* (Edinburgh: Edinburgh University Press, 1992), pp. 21–3.

<sup>116</sup> ‘Summary of discussions at the Conference held at Beatrice Webb House, 19–21 May 1950’, June 1950, attached to NEC Policy and Publicity Committee minutes, 19 June 1950, LPA.

<sup>117</sup> Rollings, ‘Permanent economic controls’, pp. 25–6; S. Kelly, *The myth of Mr Butskell* (Aldershot: Ashgate, 2002), pp. 82–95, 228.

Keynes himself had tended to be hostile. This was in part intended to help Labour paint the Tories as desirous of returning to the horrors of mass unemployment, which was supposedly demonstrated by the fact that they were prepared to abolish such controls. After Gaitskell's sole Budget (in 1951), some Conservatives, in their turn, accused him, without apparent justice, of applying cures that Keynes had devised for chronic deflation in what were now inflationary conditions.<sup>118</sup> This illustrates further the alternative uses to which Keynes's name could be put.

## V

The demise of the Attlee government at the 1951 general election brought to increasing prominence a group of younger Labour politicians who were considerably more willing than the generation of leaders they displaced to praise Keynes openly. 'To-day our full employment policy is basically Keynesian', wrote Crosland, shortly before the government's fall, adding that Keynes himself was 'an astonishing genius'.<sup>119</sup> (Even the older generation were warming up. Dalton advised Crosland that although Keynes was not 'a comrade', his major works were 'all up our street'.)<sup>120</sup> Nevertheless, Keynes remained a 'capitalist economist'.<sup>121</sup> Crosland observed in his major work, *The Future of Socialism* (1956) that 'many Liberal-minded people, who were instinctively "socialist" in the 1930s . . . have now concluded that "Keynes-plus-modified-capitalism-plus-Welfare-State" works perfectly well'. However, 'this is not socialism'. Victory over poverty, unemployment and the worst forms of injustice brought into view 'new and more subtle social problems'. To these, 'Keynes-plus-modified-capitalism' failed to provide an adequate answer.<sup>122</sup> Keynesianism, therefore, was now almost taken for granted; but so was its ultimate insufficiency.

It would be wrong to deny that Keynesian ideas did have a real impact on the party at this time, but it is hard to gauge their precise impact. This is because, as before, Labour thinkers used Keynes's writings to justify their own preconceptions. This could involve arguing that Keynes himself suffered from a form of false consciousness. John Strachey, a Mosley acolyte turned communist turned Attlee government minister, aimed to

<sup>118</sup> Speeches of Nigel Birch and R. A. Butler, *HC Debs*, 16 April 1951, cols. 1498 and 1581.

<sup>119</sup> Anthony Crosland, 'The greatness of Keynes', *Tribune*, 23 February 1951.

<sup>120</sup> Jefferys, *Anthony Crosland*, p. 39.

<sup>121</sup> C. A. R. Crosland, 'The transition from capitalism', in R. H. Crossman (ed.), *New Fabian essays* (London: Turnstile Press, 1952), p. 36.

<sup>122</sup> C. A. R. Crosland, *The future of socialism* (London: Cape, 1956), pp. 115, 156.

synthesise socialist and Keynesian economics.<sup>123</sup> He wrote that ‘the perfectly sincere protests of Keynes and his followers that they were loyal supporters of capitalism failed to carry conviction’.<sup>124</sup> He claimed the efforts of Roy Harrod, Keynes’s biographer, to prove the respectability of his subject had been in vain.<sup>125</sup> (Harrod was at this time a Conservative.) Strachey wrote:

In vain does he [Harrod] emphasise and re-emphasise Keynes’ anti-socialism, which was indeed strong . . . in vain does he quote, like a testimonial, a letter from Keynes to Professor Hayek expressing sympathy with Hayek’s more hysterical anti-socialist propaganda: in vain are Keynes’ detestation and contempt for Marxism, and his ignorance and suspicion of the Labour movement, revealed. All this is not enough . . . The fact remains that Keynes said that capitalism was not self-regulating: that it was necessary for some authority consciously to regulate its workings or it would destroy itself.<sup>126</sup>

Keynes, therefore, could be used to point the way. But his views could not be adopted in their entirety – not least, of course, because he had so often contradicted himself. A certain amount of intellectual ‘cherry-picking’ was indeed inevitable.

The relationship between Labour and Keynesianism was thus still not an entirely comfortable one. However, in the later 1950s many British socialists fell, with alacrity, upon the ideas of J. K. Galbraith, one of Keynes’s American interpreters. Galbraith’s position was a ‘left-Keynesian’ one: he was in favour not only of guaranteeing full employment, but also of using wage and/or price controls, if necessary, to halt any inflationary consequences of doing so.<sup>127</sup> His 1958 book *The Affluent Society* painted a picture of private affluence co-existing with public squalor. Jay summarised Galbraith’s argument: ‘His conclusion – and no intelligent person can deny it, is that the modern community ought to expand greatly its allocation of resources to public services – education above all – and consequently take a more adequate share of the national income through the budget and tax systems.’<sup>128</sup> Crosland, for

<sup>123</sup> N. Thompson, *John Strachey: An intellectual biography* (Basingstoke: Macmillan, 1993), p. 12.

<sup>124</sup> J. Strachey, *Contemporary capitalism* (London: Victor Gollancz, 1956), p. 214.

<sup>125</sup> R. Harrod, *The life of John Maynard Keynes* (London: Macmillan, 1951). For a discussion of the Attlee government’s role in shaping some aspects of Harrod’s book, see R. Toye, ‘The trials of a biographer: Roy Harrod’s *Life of John Maynard Keynes* reconsidered’, in R. Toye and J. Gottlieb (eds.), *Making reputations: Power, persuasion and the individual in modern British politics* (London: I. B. Tauris, 2005).

<sup>126</sup> Strachey, *Contemporary capitalism*, pp. 214–15.

<sup>127</sup> See Toye and Toye, *The UN and global political economy*, p. 91.

<sup>128</sup> Douglas Jay, ‘The man who pleads for more taxes’, *Forward*, 16 January 1959.

his part, declared himself ‘wholeheartedly a Galbraith man’.<sup>129</sup> Labour left-wingers, such as Richard Crossman, also found the book attractive.<sup>130</sup> Thomas Balogh’s favourable review located Galbraith’s arguments firmly in their Cold War context: ‘Only ruthlessly clear thinking and reform can possibly safeguard the survival of the West against the imminent technical advantages of the Communist menace.’<sup>131</sup> Galbraith’s interpretation of the Keynesian message was welcomed because it helped justify Labour’s predilection for direct controls, and provided arguments for the ‘purposive planning’ and the extension of the public sector that the party favoured. Of course, his ideas were not swallowed whole, any more than Keynes’s were – but he spoke more directly than Keynes to Labour’s political purposes.

This was the background to the ‘Keynesian plus’ solutions of the 1960s (to which the Conservative party also subscribed to a degree). Under the Wilson government there were three elements to this package: (1) institutional changes, such as the creation of the Department of Economic Affairs (DEA), which was responsible for the 1965 National Plan; (2) the restraint of wages via incomes policies, aimed at achieving higher growth without inflation; and (3) tax changes, which, it was thought, would help put an end to the phenomenon of ‘Stop-Go’.<sup>132</sup> Historians have had some difficulty reaching conclusions about the degree of Keynesian influence on this government. This is because, in addition to the advice of the Economic Section of the Cabinet Secretariat, other advisors (including Balogh and Kaldor) were appointed. As G. C. Peden points out, these men, like those of the Economic Section, ‘would have described themselves as Keynesians, but did not always agree with each other’.<sup>133</sup> From the point of view of politicians too, ‘Keynesian’ ideas could be deployed for a variety of ends. The publication of *Politicians and the Slump*, Robert Skidelsky’s account of Labour’s allegedly timid failure to adopt Keynesian remedies in the inter-war years, came within a few days of the devaluation of 1967. Skidelsky notes: ‘Reviewers fastened on the parallel with Labour’s attempt to maintain the Gold Standard between 1929 and 1931. What was it about Labour governments, they asked, which

<sup>129</sup> C. A. R. Crosland, *The Conservative enemy: A programme of reform for the 1960s* (London: Cape, 1962), p. 103.

<sup>130</sup> Crossman’s favourable verdict is recorded on the back of the 1962 Pelican edition of the book.

<sup>131</sup> Thomas Balogh, ‘On from Keynes’, *New Statesman*, 4 October 1958.

<sup>132</sup> H. Pemberton, ‘A taxing task: combating Britain’s relative decline in the 1960s’, *TCBH* 12 (2001), 355–6.

<sup>133</sup> Peden, ‘New revisionists’, 119–20.

made them slaves of “orthodox” finance?”<sup>134</sup> Over the next ten or fifteen years, ‘Keynesianism’ within the Labour party became a predominantly left-wing phenomenon, rather than, as previously, a mainly right-wing one. Skidelsky’s presentation of Keynes as an ‘economic radical’ battling an economically conservative Labour leadership was, perhaps, an early stimulant of this process.

For the meantime, however, leading figures on the right of the party remained happy to associate themselves with Keynesianism. During Labour’s period in opposition in 1970–4, Roy Jenkins wrote a series of biographical articles for *The Times*, including three on Keynes. In view of Blair and Brown’s later phraseology, the terms he used to discuss Keynes’s ideas are of considerable interest: “Crude Keynesianism”, as it is now fashionable to describe some applications of his doctrine, has its limitations, but it is a great advance on crude pre-Keynesianism, and is in any event not where Keynes’ thought would have stopped had he been alive today.’<sup>135</sup> Wilson – Jenkins’s *bête noire* – also used Keynesian language. At a joint NEC/Parliamentary Committee meeting in 1973 he used Keynes’s term ‘socialisation of investment’ (albeit it is not clear if he knew its origins): ‘I was thinking in terms of nationalising investment of industrial programmes.’<sup>136</sup> At a time when the party was increasingly divided, the language of Keynes still helped elide ideological differences.

Those differences became more difficult to cover up once Labour was back in power. As Paul Anderson and Nyta Mann point out, the disputes of this period were not about whether the state should manipulate demand to secure full employment, but about *what else* was needed. ‘The left backed a programme, the Alternative Economic Strategy (AES), that added widespread nationalization, heavyweight economic planning and withdrawal from the European Economic Community to the basic Keynesian package; the right rejected the AES and put its faith in a statutory incomes policy (which was opposed by the left) as the magic extra ingredient that would make demand management work.’<sup>137</sup> There was also room for dispute about how demand management should be applied. Denis Healey, the new Chancellor, had to contend with pressure from

<sup>134</sup> Skidelsky, *Politicians and the Slump*, p. xvi. In his review of the book Maurice Edelman, a Labour MP, did not dispute the parallel, but argued that Wilson’s government was better educated than its 1929 predecessor. See ‘The same old crisis’, *Times Literary Supplement*, 14 December 1967. The review was anonymous, but Edelman is identified as the author in the *TLS* Centenary Database.

<sup>135</sup> Roy Jenkins, ‘Architect of the post-war order’, *The Times*, 21 March 1972.

<sup>136</sup> ‘Report of joint meeting of the National Executive Committee and the Parliamentary Committee held on Thursday, 25 January 1973’, p. 14, LPA.

<sup>137</sup> P. Anderson and N. Mann, *Safety first: The making of New Labour* (London: Granta Books, 1997), pp. 78–9.

MPs who saw themselves as belonging to 'the expansionist element of the Cambridge school'.<sup>138</sup> He was also dealing with a Treasury that, he claimed in his memoirs, 'was the slave of the greatest of all academic scribblers, Maynard Keynes himself'. As a result, his first budget was by no means as restrictive as it should have been, given the inflationary pressures bequeathed him by the Conservatives.

Healey, by his own account, 'abandoned Keynesianism in 1975', producing a budget that aimed to cut back demand even when unemployment was rising.<sup>139</sup> Wilson, though, did not abandon Keynesian rhetoric, although he deployed it in support of purposes of which Keynes might well not have approved. It was Labour policy to establish a National Enterprise Board (NEB), as a means of exercising public control over profitable industries. This body would be based on existing state shareholdings, to which further private-sector companies would be added.<sup>140</sup> It was not a policy in which Wilson had any real faith.<sup>141</sup> Nevertheless, he justified it to the House of Commons in the following terms:

More than 30 years ago the war-time coalition Government of all parties in their White Paper on full employment accepted the Keynesian doctrine that where investment of all kinds was insufficient to maintain employment the State must step in with capital spending programmes . . . The NEB concept is an updating of what we all agreed in the 1944 White Paper . . . The NEB concept is designed to maintain and increase the volume of investment, certainly with the idea of safeguarding employment, but the difference from the macro-economic approach of Keynes is that the NEB has the special facility of being an instrument for channelling investment directly to where it is most needed . . . Keynes, who was concerned only with the general level of employment, had no more to offer as his answer to unemployment to a skilled toolroom fitter than the prospect of a job as an unskilled labourer building a road.<sup>142</sup>

Wilson's aim here, it seems, was to blanket his Tory opponents by implying that although nominally committed to full employment, they would not support the policy measures necessary to achieve and maintain it. At the same time, he downplayed the radicalism of his own party's policies, by suggesting that they fell within a consensual tradition.

<sup>138</sup> *HC Debs*, 26 March 1974, col. 341, speech by John Horam. See also *ibid.*, cols. 351–2, speech by Giles Radice.

<sup>139</sup> D. Healey, *The time of my life* (London: Michael Joseph, 1989), p. 378; E. Pearce, *Denis Healey: A life in our times* (London: Little, Brown, 2002), pp. 426–7.

<sup>140</sup> *Labour Weekly*, 8 June 1973.

<sup>141</sup> E. Dell, *A hard pounding: Politics and economic crisis 1974–1976* (Oxford: Oxford University Press, 1991), pp. 17–18; B. Pimlott, *Harold Wilson* (London: HarperCollins, 1992), pp. 665–6.

<sup>142</sup> *HC Debs*, 22 May 1975, cols. 1668–9.



The following year, James Callaghan, Wilson's successor as Prime Minister, told the Labour party conference: 'We used to think that you could spend your way out of recession and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists.' This, coming hard on the heels of Healey's 1975 budget, has often been seen as a watershed. That is in some respects debatable. The commitment to full employment was not abandoned – at least at the verbal level – and, as Callaghan himself pointed out in his memoirs, he did not say that governments should never increase public expenditure or cut taxes to boost employment, merely that these methods were not appropriate in the circumstances of 1976.<sup>143</sup> Nevertheless, the rhetoric made a great impact. Rightly or wrongly, the impression was gained that the party's leaders had made a fundamental break with Keynesianism, and this, being perceived on the left as a profound ideological error, contributed greatly to the bitterness of the disputes of the 1980s.<sup>144</sup>

## VI

Michael Foot replaced Callaghan as leader in 1980. Paul Corthorn has written of how 'The nature of Foot's attack on the "curse of monetarism" meant that he had to champion Keynesian policies. As a one-time "socialist critic of Keynes" he now had to portray himself as "an unreconstructed Keynesian", which was not an altogether easy transition.'<sup>145</sup> However, Foot did not make a major contribution to the party's economic policies, leaving the field to the supporters of the AES.<sup>146</sup> The years of Neil Kinnock's leadership (1983–92) and that of John Smith (1992–94) saw Labour moderate its stand, but the battleground was still heavily contested. Bryan Gould, a key 'soft left' figure in the Shadow Cabinet was one of those who warned against the 'siren voices of those who urged that Labour must again give priority to showing itself to be "responsible"'.<sup>147</sup> By 1989, he had largely been defeated, and was

<sup>143</sup> J. Callaghan, *Time and chance* (London: Collins, 1987), pp. 426–7; L. Baston, 'The Age of Wilson', in B. Brivati and R. Heffernan (eds.), *The Labour party: A centenary history* (Basingstoke: Macmillan, 2000), p. 95.

<sup>144</sup> See, for example, J. Hughes, 'Public expenditure: the retreat from Keynes', in K. Coates (ed.), *What went wrong: Explaining the fall of the Labour government* (Nottingham: Spokesman Books, 1979), pp. 103–23.

<sup>145</sup> P. Corthorn, 'Michael Foot as Labour leader: the uses of the past', in Toye and Gottlieb (eds.), *Making reputations*, pp. 161–2.

<sup>146</sup> W. Keegan, *The prudence of Mr Gordon Brown* (Chichester: John Wiley and Sons, 2003), pp. 57–8.

<sup>147</sup> B. Gould, *Goodbye to all that* (Basingstoke: Macmillan, 1995), p. 208.

moved by Kinnock from the Trade and Industry portfolio. Shortly before the 1992 general election, John Eatwell, one of the party's economic advisors, described one of the key changes that had taken place in party thinking: 'Abandonment of the idea that short-term macro-economic management is the key to maintenance of full employment. It is argued that it is no longer possible to have Keynesianism in one country, and hence fine-tuning should be replaced by a search for macroeconomic stability as a framework for long-term investment.'<sup>148</sup>

Nevertheless, as Anderson and Mann have shown, Smith and Brown continued to make obeisance at the shrine of Keynes and Full Employment. This was partly in order to secure support within the Labour party for their other objectives. In 1984 a party memorandum, probably written by Smith, declared: 'the Keynesian argument has been tried before and failed'. But in 1987 he cited Keynes with approval. And in 1993 – with his back to the wall, as he tried to drum up union support for controversial internal party changes – he pledged in a speech to the TUC that a Labour government would use 'all instruments of macro-economic management' to secure full employment. Supporting his leader, Brown called for 'an enhanced Keynesian approach, which treats demand management as an integral part of a structural policy'.<sup>149</sup> Smith pushed his reforms through the party conference by a narrow margin. Brown, whilst helping him, also managed to defend his own position against internal party feeling that his economic policy was too cautious.

Keynes continued to be a significant rhetorical tool for Labour's leaders even after Blair's accession. This was exemplified by the comments quoted at the start of this chapter, and also by Blair's 1995 comment on the Attlee government: 'It was a government that was willing to draw on the resources of the whole progressive tradition. The ideas of Keynes and Beveridge were the cornerstone of reform.'<sup>150</sup> However, after Labour's 1997 election victory, some government backbenchers were keen to allege that their leaders had abandoned Keynes's wisdom. It was claimed that the bill that gave operational independence to the Bank of England was 'a Bill to bury Keynes', because it prioritised the control of inflation over

<sup>148</sup> J. Eatwell, 'The development of Labour policy 1979–92', in J. Michie (ed.), *The economic legacy 1979–92* (London, Academic Press, 1992), cited in Anderson and Mann, *Safety first*, p. 78.

<sup>149</sup> Anderson and Mann, *Safety first*, pp. 89–93. See also A. McSmith, *John Smith 1938–1994* (London: Mandarin, 1994), pp. 191, 308, 327–8.

<sup>150</sup> Tony Blair, *New Britain: My vision of a young country* (London: Fourth Estate, 1996), p. 11. Tony Blair, speech to Labour Party conference, 2 October 2001, <http://politics.guardian.co.uk/labourconference2001/story/0,1220,561985,00.html>, consulted on 18 June 2003.

the maximisation of employment.<sup>151</sup> It was joked that John Prescott, the Deputy Prime Minister, only dared mention Keynes when Blair was out of the country.<sup>152</sup> Brown, however, continued to lay claim to Keynes's legacy<sup>153</sup> (as indeed did Blair).<sup>154</sup> He did this in considerable depth in a speech to the Royal Economic Society in 2000. He repeated his by now familiar theme that the 'stop-go policies which were wrongly said to be Keynesian' reflected an approach Keynes thought appropriate for depression-bound economies. 'The mistake was to try to apply this prescription universally' especially to inflation-prone economies where the problem was not a lack of demand but low productivity, inadequate levels of investment, unreformed labour markets and general short-termism. Therefore, Thatcherites, like Nigel Lawson, who claimed that Keynes had been interpreted perversely, were correct, to a limited degree, when they argued 'against a crude version of the 1944 policy'. (See Ewen Green's chapter in this volume for an exposition of such views.) However, 'far from tackling the boom–bust cycle endemic to the British economy', the Conservatives, in the early 1980s and again in the 1990s, were responsible for two of the deepest recessions since 1945. 'As the late eighties boom showed, the Government of the day eventually relapsed into the very short-termism they had come into Government to reverse.' Therefore, Brown suggested, Lawson's failure was that 'having rejected the crude Keynesianism of the seventies he rejected Keynes's approach altogether when, instead, the real challenge was to interpret Keynes's important insights for the modern world'. Hence New Labour's own rejection of 'crude "Keynesianism"', and its attempts to put a modern Keynesian approach into practice.<sup>155</sup> Brown thus appeared to rescue Keynes from his left-wing Labour advocates and, simultaneously, from his Thatcherite critics.

There is certainly a case to be made that New Labour in government has pursued Keynesian policies. During the first two years after 1997, a time of economic upswing, the government stuck to spending plans laid down by the Conservatives. This strengthening of the public finances facilitated high levels of spending during the subsequent downturn. After 2002/3 there were budget deficits; but recession had been

<sup>151</sup> *HC Debs*, 22 January 1998, col. 1196, speech by Austin Mitchell.

<sup>152</sup> *HC Debs*, March 1999, col. 206, speech by Derek Foster.

<sup>153</sup> William Keegan points out, however, that 'Although references to full employment, and indeed to Keynes, were to appear in subsequent chancellorial speeches, they were not there in the formal brief for the Bank of England's new Monetary Policy Committee, which laid out the objectives of monetary policy. *The prudence of Mr Gordon Brown*, pp. 204–5.

<sup>154</sup> Blair, speech to Labour Party conference, 2 October 2001.

<sup>155</sup> Brown, lecture to the Royal Economic Society, 13 July 2000.

avoided.<sup>156</sup> There is scope for debate about how intentional this really was. Arguably, Labour pledged adherence to the spending limits more as a means of demonstrating its 'toughness' to the electorate than on the basis of calculations about the macroeconomic impact. It is significant, though, that Blair and Brown sought to justify their government's actions with explicit reference to Keynes. It may seem remarkable that they should have attached such importance to the views of a single economist, however eminent, more than fifty years after his death. However, for both of them, 'the real Keynes' served an important rhetorical role. This must be understood in the context of their broader views of the Labour party's history. In order to reassure floating voters, on the one hand, and their own party activists, on the other, they distanced themselves aggressively from certain periods and aspects of Labour's past, whilst asserting that their 'core values' remained those that had motivated the party throughout its life.<sup>157</sup> Thus, they paid homage to Keynes (widely, if wrongly, seen by many as a quintessentially 'Old Labour' figure) whilst at the same time stressing the break with the past they were making in rejecting 'crude Keynesianism'. They linked the 'real Keynes' with the glory days of 1945. So the activists were appeased, yet nonetheless chastened by the thought that Liberal progressivism, rather than diehard socialism, lay at the root of Attlee's success. 'Crude Keynesianism', however, Blair and Brown associated with the crises of the 1970s, and rejected – and so, while the 'real Keynes' was praised, memories that might disconcert the electorate could be buried. At the same time, the Conservatives were attacked for rejecting Keynes and mismanaging the economy as a result. One might characterise this approach as: 'I apply Keynes's genuine insights in a modern setting; you are a crude Keynesian; they advocate a return to boom and bust.' All this demonstrates that, as was the case in his lifetime, Keynes's ideas still serve as much of a political function as they do an economic one.

<sup>156</sup> J. Tomlinson, 'Tale of a death exaggerated: how Keynesian policies survived the 1970s', *Contemporary British History* 21 (2007), in press; J. Tomlinson and B. Clift, 'Credible Keynesianism? New Labour's macroeconomic policy and the political economy of coarse tuning', *British Journal of Political Science* 37 (2007), 47–69. Larry Elliott, 'Brown is the first chancellor to make Keynes work', *Guardian*, 25 April 2005.

<sup>157</sup> M. J. Smith, 'Tony Blair and the transition to New Labour: 1994–2000', in Brivati and Heffernan (eds.), *The Labour party*, p. 150; C. Hay, *The political economy of New Labour: Labouring under false pretences?* (Manchester: Manchester University Press, 1999), p. 8; R. Toye, '“The smallest party in history”? New Labour in historical perspective', *LHR* 69 (2004), 371–91.