

THE ROAD TO AND FROM GAIRLOCH: LLOYD GEORGE, UNEMPLOYMENT, INFLATION AND THE 'TREASURY VIEW' IN 1921.*

[Published in *Twentieth Century British History*, vol. 4, no. 3 (1993), 224-49]

In his history of the Lloyd George Coalition Government of 1918-22 Kenneth Morgan notes that there was a point in the autumn of 1921 when 'unemployment . . . transcended every issue save Ireland amongst the government's priorities' and when the Financial Secretary to the Treasury, Edward Hilton Young, could declare that inflation was preferable to mass starvation.¹

In the context of a slump in which unemployment rose more rapidly than at any other time in the twentieth century, and to level higher than at any time in the interwar period except the years 1930-1934,² ministers discussed what would now be called a reflationary alternative to the economic orthodoxy pursued by the Treasury since 1919. This article considers why that alternative strategy was not adopted and why the 'Treasury view' that government borrowing and government expenditure would tend to increase, rather than reduce, unemployment prevailed.³

The initial ministerial discussions of reversing the policy of deflation took place in September 1921 in the remote Scottish village of Gairloch, where the Prime Minister, Lloyd George, was at least nominally on holiday. The first section of this article summarises the policies actually pursued by the Coalition Government between 1919 and 1921 and contrasts them with the alternatives considered at Gairloch. The next three sections focus on discussions of these alternatives, the key actors and the chief influences on the formulation of policy. The final section considers the significance of the Gairloch episode for the history of economic policy.

(i) Economic orthodoxy 1919-21

The term 'inflation' is now commonly identified with the rate of increase in prices as measured by the retail price index. In the early 1920s, however, there would have been general agreement with Keynes's definition of inflation in his *Tract on Monetary Reform* (1923) as 'an expansion in the supply of money to spend relatively to the supply of things to purchase'.⁴ On this definition, an increase in prices was a result of inflation, and when the Financial Secretary to the Treasury spoke of inflation he meant an increase in the supply of money to spend.

The First World War and its aftermath had provided recent experience, both in Britain and on the continent, of how government expenditure which was not financed out of taxation or loans from the non-bank public would increase the supply of money to spend. Keynes, while a Treasury official, had defined 'inflation' borrowing in 1915 as additional money provided by the Bank of England (through ways and means advances) or by joint stock bankers.⁵ Ways and means advances from the Bank of England enabled the government to pay its contractors and creditors by cheque. Once the cheques were cleared, the cash reserves of the joint stock banks were increased by an equal amount, enabling them to lend to their customers (including the government) a much larger sum. Likewise money lent to the government by the joint stock

banks returned to the banks via cheques made out by the government to its contractors and creditors, with the result that the banks' cash reserves and ability to extend credit were increased.

One consequence of deficit finance and excess demand had been that prices, as measured by the official cost-of-living index, had more than doubled between 1914 and 1919. Another consequence, and one that much exercised the Treasury, was that the cost to the Exchequer of interest, management and statutory sinking fund on the war-swollen National Debt in 1921/22 was £328.9 million, compared with £24.5 million in 1913/14 (at current prices). As a proportion of the Chancellor's budget, the debt burden in 1921/22 was 31.2 per cent, compared with 12.5 per cent in 1913/14.⁶ Unsurprisingly, budgetary and monetary policy in the immediate post-war period were concerned to place constraints on government expenditure and to reduce both the National Debt and the banks' ability to extend credit.

The Chancellor's annual budget was prepared by the Treasury's Finance Department, headed from 1919 to 1922 by Basil Blackett. The Finance Department was responsible, in conjunction with the Boards of Inland Revenue and Customs and Excise, for estimating revenue in the coming financial year, and therefore for the level of central government expenditure that could be afforded within a balanced budget at given rates of taxation. The task of detailed examination of departmental estimates from the point of view of identifying possible economies fell to other sections of the Treasury, and the final form of the budget represented a political compromise between desired objectives with regard to taxation on the one hand and expenditure on defence, social services etc on the other. The Finance Department was also responsible for the management of the National Debt and for banking and currency, but relied heavily on the technical skills of the Bank of England in carrying out these responsibilities.⁷ Collectively the Treasury and the Bank of England were known as the 'monetary authorities'.

In order to reassert Treasury control of public expenditure, which had been much relaxed during the war, the Cabinet agreed in August 1919 not to consider new proposals for expenditure until the Treasury had approved them or until the responsible minister had given notice of his intention to appeal to the Cabinet against a Treasury decision. This procedure ensured that there was time for Treasury officials to advise the Chancellor as to the effects of a given proposal on the overall position regarding government expenditure and revenue, and to prepare possible arguments against the proposal. In the autumn of the same year the Treasury was reorganised and its Permanent Secretary recognised as head of the Civil Service, with a view to giving the Treasury tighter control of expenditure and Civil Service staffing.⁸

Generally speaking, Treasury officials believed in what Peter Clarke has called three 'rigid doctrines': first, that budgets should be balanced out of revenue, with enough provision for redemption of the National Debt to maintain confidence in government stock, and with expenditure held down to allow reductions in high war-time levels of taxation; second, that free trade should be maintained, in the belief that protection would coddle inefficiency and divert factors of production away from trades where Britain held a comparative advantage; and third, that the gold standard, managed by an independent central bank, the Bank of England, would be the best guarantee of sound money and a proper regulation of credit and the balance of trade.⁹

Under the gold standard, the supply of legal tender, or what would now be called M0,

was limited by the amount of monetary gold available to back the issue of bank notes. The principal means of regulating the amount of gold in the country was through the raising or lowering of the Bank of England's discount rate, known as Bank rate. Being on the gold standard would impose the discipline of having to maintain a fixed rate of exchange against all countries that were also on the gold standard. The general effect would be that politicians would be no longer free to determine the supply of money or the level of interest rates.¹⁰

The convention that, except in times of war, central government expenditure should be balanced by revenue from taxation was likewise a check on politicians, who might otherwise be tempted to secure electoral support through increased public expenditure. As Blackett noted in 1922:

The public as a whole objects not to State expenditure, but to the consequent taxation. It is dangerous for the State to have too easy a means for incurring expenditure without having to face the need for imposing taxes to meet it.¹¹

Consequently, even while the budget had been unbalanced by war-related expenditure in the immediate postwar Treasury had made use of the concept of a 'normal year' to concentrate ministerial and other minds. A balance sheet for a 'normal year' was presented to Parliament in October 1919 by the Chancellor, Austen Chamberlain, with the comment that 'the value of the paper is that the House may understand that every time they sanction fresh expenditure . . . they are rendering it necessary to impose additional taxation.'¹² No particular year was specified as the future normal year, and it was not until 1922/23 that the budget was in fact balanced out of revenue as opposed to receipts from surplus war stores.

Nevertheless, the Treasury's strategy had the desired effect of restricting politicians' scope for spending public money. From 1919 the Northcliffe and Rothermere press maintained a powerful agitation, alleging that the taxpayers' money was being spent wastefully, and pointing out that lower public expenditure would mean lower taxes. (The standard rate of income tax at the end of the war stood at 6s. (30p.) in the pound compared with 1s. 2d. (5.8p.) in 1914.) In December 1920 the Cabinet decided that the social reconstruction programmes associated with Lloyd George's electoral promise in 1918 of a 'land fit for heroes' could be allowed to proceed no further without specific Cabinet approval. Subsequently, in March 1921 Dr Christopher Addison, the minister responsible for the most expensive part of the social reconstruction programmes, housing, was replaced as Minister of Health by Sir Alfred Mond, under whom the housing programme was restricted to 176,000 houses instead of the 800,000 originally envisaged by Addison. The anti-waste agitation continued, however, and in August the government responded by setting up a committee of businessmen under Sir Eric Geddes to make recommendations for further economies in government expenditure.¹³

Balanced budgets, with provision for debt redemption, were also necessary if the monetary authorities were to curb inflation and to restore the gold standard. A substantial part of government expenditure in 1914-19 had been financed by selling Treasury bills, which were issued to the banks and fell due to be repaid in three, six or twelve months. This meant that

after the war the banks could supplement their cash reserves by not subscribing for new Treasury bills when old ones matured, and consequently the monetary authorities had been powerless to prevent a great expansion of bank credit during the postwar boom of 1919-20. The monetary authorities could only gain control of the money market by reducing the number of bills in the hands of the banks, and this could only be done by a combination of reducing government expenditure, so as to free the Treasury from the need to borrow, and by selling longer-dated stock to replace the bills held by the banks.¹⁴

From 1919 the Treasury had two distinct but related monetary objectives: the first, to halt inflation; the second, to reduce prices sufficiently to bring sterling prices into line with prices in the United States, where war-time inflation had been lower than in Britain, thus enabling sterling to return to the gold standard at the pre-1914 parity with the dollar. Approval in principle for the latter objective was forthcoming in December 1919, when the government accepted the *Final Report* of the Cunliffe Committee on Currency and Foreign Exchanges, although no date was set for a return to the gold standard. Deflation was understood by the Treasury to require both a reduction in the supply of money and a fall in prices, but an assumption that wages would fall in line with prices allowed officials to believe, prior to 1921, that deflation need not lead to unemployment. As Blackett told a parliamentary committee in March 1920: 'any policy of deflation must guard against being so precipitate as to interfere with production.' On the other hand, he believed that the 'continual process of rising prices and fresh inflation' had to be dealt with quickly:

The longer you leave it alone the worse it will be. The vicious circle will go on spinning and the crash will come.¹⁵

The crash came after the inflationary postwar boom broke in April 1920 and demand for exports collapsed at the end of the year. How far the monetary authorities were responsible for the onset of the slump is debatable. The rate of interest borne on Treasury bills was raised in two stages between October and November 1919 from 3.5 per cent to 5 per cent, and Bank rate was set at 6 per cent in November 1919 and then raised to 7 per cent in April 1920. However, the Board of Trade's wholesale price index had risen by 15.7 per cent in the 12 months to November 1919, and by 42.5 per cent in the 12 months to April 1920, while the Ministry of Labour's working-class cost of living index had risen by 2.3 per cent in the 12 months to November 1919, and by 17.6 per cent in the 12 months to April 1920. Price increases were thus accelerating and even after November 1919 real interest rates were negative until prices began to fall, from June 1920 in the case of wholesale prices and from January 1921 in the case of retail prices. The speed with which the trend in wholesale prices was reversed suggests that forces other than higher Bank rate were at work. Be that as it may, the persistence of the monetary authorities in holding Bank rate at 7 per cent until May 1921, with only a gradual reduction to 5 per cent by November, even although wholesale prices continued to fall until the spring of 1922, must have encouraged investors to hold money assets rather than invest in stocks or production in 1921. Likewise high interest rates were associated with a rise of sterling

on foreign exchange rates, increasing the cost of British exports in terms of other currencies to a greater degree than when Britain eventually returned to the gold standard in 1925.¹⁶ In these ways monetary policies that would have been appropriate to the boom of 1919-20 added to the severity of the slump and helped to prolong it until the end of 1921, with only partial recovery following in 1922.

A Cabinet committee on unemployment was set up in September 1920 'to explore all possible remedies and to co-ordinate the relief of unemployment by departments', and in December another committee was established under Viscount St David's to initiate public works projects (such as land reclamation or improvement of public parks), being authorized to allocate £3 million in grants to assist local authorities carrying out 'useful works', other than housing and road schemes for which provision had already been made.¹⁷ However, there was no intention of reducing unemployment by raising central government expenditure as a whole. On the contrary, in December 1920 the Cabinet, 'having regard to the exceptionally heavy taxation . . . and the emergency measures . . . required to mitigate the hardships of unemployment', decided to curb expenditure on social services and to reduce expenditure on defence.¹⁸ Unemployment policy, as before 1914, was essentially a matter of relief for the unemployed, either through cash benefits or through employment on public works.¹⁹

Initially the Gairloch discussions centred on an expansion of unemployment policy without questioning financial policy as a whole. The minutes of a conference of ministers meeting at Gairloch on 22 September show only that they agreed that the Ministry of Health should be entitled to assist Poor Law guardians who had exhausted their credit with banks, and that the Treasury should be requested to advance an additional sum of up to £600,000 to the St David's Committee to allow it to carry on the public works it was financing, once the £3 million allocated the previous December was exhausted. It was also agreed that the Cabinet's Unemployment Committee had full power to deal with the whole question of unemployment, but the minutes made no mention of financial policy other than to state that the Chancellor's consent would have to be obtained before the St David's Committee could spend the additional funds.²⁰ Thus far the discussions did not represent a radical departure from economic orthodoxy.

Ideas discussed informally by Lloyd George and other Liberal ministers at Gairloch, however, were of a quite different order. Lloyd George's papers show that by 26 September he was contemplating £250 million of 'honest inflation' (meaning by 'honest' 'frank and unconcealed'), the money to be spent on roads, trains, light railways, canals and 'especially' settling people on the land.²¹ Such a sum was very large in relation to current central government expenditure - £846 million in 1920/21, excluding interest and other charges related to the National Debt - and represented roughly 4.9 per cent of gross domestic product (GDP) in 1921 at current prices.²² The Prime Minister was not specific as to how the £250 million would be borrowed, but his comparison of the risks of unemployment with the risks of war implied that the money would be raised in the same manner as in the war, that is by borrowing mainly from the banks with the result that there would be inflation in the sense of an increase in the supply of money to spend. The degree to which deflation was called into question at Gairloch is

indicated by a Cabinet memorandum, written by Winston Churchill, the colonial secretary, on 28 September; describing financial policy as 'incomparably the most important' aspect of the unemployment problem, Churchill went on:

Is our policy to pay off our Debt as quickly as possible, thus diminishing the public burden by the direct exertions of the taxpayer? Is our policy to inflate within certain limits the national credit so as to secure cheaper money and encourage a resumption of enterprise? . . . Are the interests of the State in the next year, next two years, or next three years best served by a fall in prices or by a rise in prices, and within what limits in each case?²³

In short, the slump of 1921 led Lloyd George and Churchill to question the whole deflationary strategy of balanced budgets, with Debt redemption out of taxation, together with high interest rates. Even although these ideas were mooted in the context of heavy unemployment, they represented a challenge to the orthodoxy that, except in times of war, governments should be subject to the discipline of having to match (politically popular) expenditure with (politically unpopular) taxation. By extension, these ideas also represented a threat to the goal of a return to the supposedly 'automatic' (i.e. non-party political) gold standard. Consequently the debate touched on the fundamentals of political economy.

(ii) Discussions prior to Gairloch

The idea of mitigating the slump by resorting to inflation had been raised within the Treasury as early as June 1921, when the Chancellor, Sir Robert Horne, asked Blackett what would be the probable effects of putting an extra £20 million of currency notes into circulation. Blackett replied that paying for £20 million of government expenditure by printing more money would revive home demand for goods and services, but prices would rise more quickly than production. As a result there would be an increase in imports and a reduction in exports, and therefore a tendency for sterling to depreciate in terms of other currencies. A fall in sterling exchange rates would tend to correct the balance of trade, but it would also raise the price of raw materials and food, thereby stimulating demands for higher wages. There would be, he warned:

a new cycle of rising prices and rising wages and an increasing Budget deficit . . . just at the moment when with a little patience the most difficult period of the painful process of return to sound conditions will begin to be succeeded by a revival of industry on a new basis of reduced wages and reduced prices. The fact is that the only form of demand which will really help the situation is demand from abroad. An artificial stimulation of home demand will merely mean encouraging people in this country to take in each other's washing and waste their energies in so doing.²⁴

An unspoken premise in Blackett's argument was that Britain would continue to be an open

economy, without protective tariffs other than those provided for a small range of goods by the McKenna Duties of 1915 and the Safeguarding of Industries Act of 1921. Another unspoken premise was that, as the world's largest exporter of industrial goods, Britain would benefit from a revival of world trade, which was being held back by unstable exchange rates. The solution to the country's difficulties, Blackett advised, lay in reducing the costs of production and in encouraging stable conditions for trade abroad (including, although again the premise was unspoken, a restoration of the international gold standard).²⁵

Horne seems to have accepted Blackett's advice. The political problem of unemployment nonetheless demanded the Treasury's attention. The Cabinet's Unemployment Committee had been set up in 1920 without any Treasury representative, but on 17 August 1921 the leading members of the committee, the Minister of Health (Mond), the President of the Board of Trade (Stanley Baldwin) and the Minister of Labour (Thomas Macnamara) were joined by the junior Treasury minister, the Financial Secretary (Hilton Young). By 13 September the business of the committee was of such importance that the Chancellor of the Exchequer himself was present.²⁶

At the meeting on 17 August the Minister of Health pointed out that local authorities had been discouraged from raising loans to carry out ordinary municipal work, as part of the general policy of restricting public expenditure to what was absolutely necessary, and there was little point in the committee considering the merits of public works schemes to assist the unemployed unless the Treasury was prepared to agree to financial assistance for schemes recommended by the committee. For the Treasury, Hilton Young observed that his 'preliminary impressions' were that there was no strong evidence of 'such a widespread state of acute crisis' as to justify reversing earlier decisions, although he was prepared to contemplate some exceptions to the general restrictions on municipal works.²⁷

At the same meeting, there was discussion of the pressure that the Ministry of Health was under to assist Poor Law guardians to find the money needed for outdoor relief. So far the only assistance given to the guardians was to allow them to raise loans from the banks, with the repayment of these loans being spread over a longer period than usual. Hilton Young persuaded the committee to agree that the situation so far did not justify state loans to Poor Law guardians.

Unemployment moved up the political agenda early in September when Lloyd George, by then on holiday at Gairloch, summoned a meeting of the Cabinet at Inverness. The purpose of the meeting on the 7th was to consider negotiations with Sinn Fein, but there was also an informal discussion on unemployment.²⁸ Subsequently, at the Cabinet's Unemployment Committee on 13 September, the Chancellor of the Exchequer found himself under pressure to relax his purse strings. The Minister of Labour reported that the situation was acute in some provincial areas and in the whole of the poor districts of London, and that the Communists were exploiting the position. Some 280,000 people had run out of entitlement to unemployment insurance benefit and the number was rising by over 25,000 a week. Macnamara claimed that expectations had been raised by press reports on the Cabinet discussion at Inverness and the 'psychological' (i.e. political) effect of arranging public works schemes would be very great even if work were provided thereby for only a small number of the unemployed. Horne replied that

public works were an extravagant form of relief, with the cost of employing a man at standard wages being the same as providing unemployment benefit for four men. However, on condition that the rate of wages on relief works should be less than standard wages, the Treasury was prepared to consider bearing a proportion of the cost of loans raised by local authorities to finance 'works of genuine public utility', in areas of high unemployment, and providing that the work could begin before the winter. The Treasury was thus ready to make some financial concession to political expediency, but it remained doubtful whether the terms that the Treasury was prepared to contemplate - 50 per cent of interest and sinking fund charges in the case of relief works - would be sufficient to persuade local authorities in areas of high unemployment to add to the already heavy burden on local rates.²⁹

(iii) The Gairloch discussions

The discussions at Gairloch on unemployment took place within a space of eleven days, beginning on 22 September, when Lloyd George agreed to meet a deputation of London mayors, and ending on 2 October, after the Prime Minister had taken advice from financial and economic experts. The venue, Flowerdale House, where Lloyd George was staying, was certainly suited to a ministerial seminar detached from the influence of official advisers in Whitehall, since the nearest telephone was at the village post office a mile away. Gairloch itself was 30 miles by single-track road from the nearest railway station, a journey which Tom Jones, the assistant secretary of the Cabinet Secretariat, who was in charge of arrangements, claimed took four hours by car. The station, at Achnasheen, was itself over 40 miles from the nearest main line station at Inverness. Undeterred, eight Labour mayors, led by Herbert Morrison, then mayor of Hackney, travelled north from London to demand a meeting with the Prime Minister, to complain about Whitehall's lack of assistance to local authorities who were trying to cope with heavy unemployment. At first they were told that the Prime Minister, who had just had a badly ulcerated tooth removed, was too ill to receive them, but after waiting a few days they were allowed to see him. Meanwhile, and on account of their presence, the Minister of Labour, the Minister of Health and the Financial Secretary of the Treasury, all of them as it happened Liberals, were summoned to Gairloch and, on the same day as Lloyd George met the mayors, 22 September, a conference of ministers was held to discuss unemployment.³⁰

As already noted, ministers focussed on this occasion on assistance to local authorities. Hilton Young said that until that point it had not been clear that the credit of some local authorities was such that they could no longer borrow from the banks, and remarked that 'if people were actually starving the state must step in.'³¹ However, ministers did not anticipate any very large departure from existing policy, merely agreeing to introduce legislation to enable the Treasury to repay loans raised by local authorities and to make available extra funds to the St David's Committee.

The ad hoc nature of the discussions at Gairloch is indicated by the fact that, at the ministerial conference on the 22nd, the ministers with responsibility for unemployment were joined by the Colonial Secretary, Churchill, who happened to be present for the Irish negotiations. Churchill recalled that in the days that followed 'we toyed with . . . big national

schemes of artificial employment³², but it is not clear who produced these schemes, or, in particular, where Lloyd George came by his figure of £250 million for expenditure on public investment and land settlements. A crucial role was played by Hilton Young, who undertook to investigate the reactions of City men and industrialists to different ways in which inflationary finance might be applied to maintain employment. Hilton Young was unusual among ministers in having a firm grasp of public finance, being the author of a standard work on the subject.³³ However, the wording of Lloyd George's letter to him of 26 September, when the figure of £250 million was first mentioned in writing, does not suggest that the Financial Secretary had provided the figure (see below). Two of Lloyd George's close advisers, Sir Edward Grigg, who had succeeded Philip Kerr as adviser to the Prime Minister, and Tom Jones were present, but neither was an economic expert.

It is quite possible that the figure of £250 million was Lloyd George's own. Certainly it does not seem to have rested on any elaborate calculation. Lloyd George urged Hilton Young not to be bound by orthodox political economy in the following terms:

. . . we must be prepared to take at least one-fortieth of the risk we took in war to save the country from suffering civil tumult. . . . I cannot imagine that £250 millions, say, of honest inflation . . . can possibly sink the country which has a revenue of £900 millions and especially if we have something really substantial to shew for our £250 millions - roads, trains, light railways, canals and especially land settlements. A garrison of contented people surrounding our great cities is worth more to the State than fortifications. In the end, taking all the ledgers into account - and I want you always to bear in mind that the State has many ledgers - the balance will be overwhelmingly on the right side.³⁴

(The figure of £900 million for the revenue of the country referred to the revenue of central government as shown in the Chancellor's budget, not national income in the modern sense of the output or income of the whole community. Tax revenue in 1921/22 had been estimated in the budget at £964 million on the existing basis of taxation, but turned out to be only £857 million, largely on account of the slump.³⁵)

A Cabinet paper written by Churchill two days later³⁶ shows that ministers had identified four aspects of the unemployment problem: first, relief of destitution through the Poor Law guardians or through the Unemployment Insurance Act; second, relief through employment on public works; third, measures to stimulate orders for industry; and fourth, financial policy in relation to prices and credit. Churchill accepted that public works would minimise reliance on 'doles', but also that the employment provided was not suitable for women or for men who were not fit for manual labour, and that the work done was of the lowest order. Relief, either through cash benefits or public works, he described as a mere palliative; it would be better to revive industry through export credits, colonial development or assistance to public utility companies to bring forward investment. On the other hand, Churchill, and doubtless other ministers too, believed that direct subsidies to private firms, either in cash or credit, would

undermine British industry, which would become dependant upon such subsidies. Hence Churchill's view that financial policy was 'incomparably the most important' aspect of policy.

Hilton Young began his enquiries in London on 26 September, proposing to complete them by the evening of the 28th, when he would return to Gairloch. In the event he delayed his return until the 30th, but, even so, five days was a short time in which to sound out opinion. In particular, as he himself observed, 'industrial men being mostly provincial take longer to get at than financial men', with the result that most of his conversations were with the latter.³⁷ He sent to Lloyd George reports on the views of City men with knowledge of overseas trade, together with those of Montagu Norman, the governor of the Bank of England. However, Hilton Young seems to have placed particular weight on the opinions of the four men he chose to return with him to Gairloch to discuss policy options with the Prime Minister: Sir James Hope Simpson, a director of the Bank of Liverpool and Martin's Ltd, who was to represent the financial point of view; Walter Layton, the director of the Economic Section of the League of Nations, who had served in the Ministry of Munitions during the war, and Josiah Stamp, the taxation expert who had lately left the Inland Revenue for a career in business, who were to represent the industrial point of view; and Dudley Ward, a manager of the British Overseas Bank, who had served as a temporary official in the Treasury during the war. Ward, whom Hilton Young described as having a 'prehensile mind', went to Gairloch via Glasgow, where he sounded out industrial opinion. In the event, Stamp was unavailable and only Hope Simpson, Layton and Ward were to take the road to Gairloch.³⁸

The question Hilton Young posed to his interlocutors in London was as follows:

Suppose that we had to contemplate having a million unemployed on our hands for several years to come. We could not let them starve. It would cost something like £100,000,000 per annum to keep them alive. Granted that the money cannot be had from fresh taxation or from loans to the Government by investors of real savings, then it must be got by some form of inflation. But when got, how can it best be applied?³⁹

City reactions to suggestions of financial unorthodoxy were predictable; Gaspard Farrer, a director of the merchant bankers Baring Brothers and a former member of the Cunliffe Committee, was reported by Hilton Young to have turned green at the mention of the word inflation.⁴⁰ Hilton Young himself was more than a simple investigator for Lloyd George, and was certainly not an enthusiastic advocate of inflation. He confided to Lady Kathleen Scott that 'what I want to do is to make as little fresh money as possible in order to feed the unemployed.'⁴¹ He believed that Lloyd George had summoned ministers to Gairloch only because of the publicity it gave him in the newspapers. On the other hand, Hilton Young was glad to be able to discuss unemployment with the Prime Minister in the remoteness of the Highlands, before the latter returned to London, where 'old associates' would give him less sound advice. While Hilton Young believed that 'the Goat' found him a 'useful and accommodating spirit, from his point of view, within the Treasury', the Financial Secretary was in fact engaged in what would

now be called a damage-limitation exercise.⁴²

Hilton Young accepted that it would be politically impossible to raise tax rates in the slump and that, with the government unable to balance its budget by a sufficient reduction in expenditure to match falling revenue, a substantial amount of 'automatic inflation' was inevitable in the near future. However, he believed that it would be 'indefensible' to inflate deliberately, for example by printing currency notes to pay off the government's war debt. What he wanted was to call a halt to deflation, as that policy had contributed to the speedy and sharp reduction in prices below costs that was the proximate cause of unemployment.⁴³

On the other hand, he wanted as little money as possible to be devoted to cash benefits for the unemployed, for which there would be 'nothing to show', or for public works of the conventional kind. He was attracted to ideas for maintaining workers in their normal occupations, by stimulating trade, but agreed with City advice, and such industrial opinion as he was able to obtain, that there were problems with export credits or encouraging manufacturing for stock. Export credits would allow bankers to make profits while the government took all the risk, and the accumulation of stocks for which there was no buyer would dislocate prices and postpone revival. He therefore saw the best 'palliation' for unemployment in the promotion of capital works of public utility, if possible by private enterprise, in Britain, in the dominions and India, or in foreign countries.⁴⁴

Hilton Young did enquire of the Governor of the Bank of England whether British exports could not be made competitive with German exports by inflation, to reduce the British standard of living, and by lowering the sterling exchange rate, but predictably received a strongly worded response. 'Why should you', asked Norman:

by depressing the standard of living diminish the economic efficiency and well being of the whole people, in order to benefit a small unemployed proportion? Germany is at the end of her tether. The wage earners, underfed and overworked, are drifting into a period of strikes, and beyond the strikes lies revolution.⁴⁵

Hilton Young's own view, openly expressed to Lloyd George, was that recovery depended upon reducing wages and costs of production, and that inflation would delay the necessary reduction. Moreover:

Now that labour's collective bargaining is so effective, . . . it is by no means certain that the indirect taxation which is the true effect of inflation would fall upon the wage earners in a depressed standard of living. It seems not improbable that they would succeed in passing the burden on to the fixed income and the possessor of capital by obtaining proportionately increased wages.⁴⁶

Nor was he any more favourably impressed than Norman was with the German example. In Germany the apparently successful results of a policy of inflation, from the point of view of

employment, were 'deceptive':

The impending penalty of her policy is that she will find herself in the position of Poland with a currency and exchanges so disorganised that her foreign trade is brought to a standstill.⁴⁷

Stamp reinforced Hilton Young's arguments against a deliberate policy of inflation. In a note forwarded by the latter to Lloyd George, Stamp noted that inflation would dislocate arrangements between all borrowers and lenders of sterling; while an open policy of inflation would lead to an immediate increase in prices, making the settlement of wage difficulties more difficult, although a lower real wage was essential to restarting the economy. Although Stamp thought that 'a certain amount of inflation' would be helpful in present circumstances, it should be gradual and unannounced.⁴⁸

The final stage of the Gairloch discussions proper came on 2 October when Hilton Young, Hope Simpson, Layton and Ward submitted draft proposals to the Prime Minister. Observing that the fundamental causes of unemployment lay in dislocation of the international economy, arising from the war, and in relatively high costs of production (mainly wages) in Britain, Hilton Young and his expert advisers advised against 'any general extension of credit facilities'. Nevertheless, state assistance could give 'an impulse towards industrial revival', and such assistance should be concentrated on keeping as many workers as possible engaged in their normal industries. The impulse would come from (a) the promotion of capital works, to be undertaken by local authorities, public utilities or private enterprise, that would be of 'ultimate benefit' to the community and which would provide employment, and (b) the encouragement of orders for capital works from the British Empire and foreign countries. State assistance would normally take the form of a Treasury guarantee of interest and sinking fund on a loan to be raised by the borrower, either from a bank or by a public issue, thereby allowing the money to be borrowed at a lower rate of interest than otherwise. Applications for state assistance would be vetted by a committee of about five representatives of industry, labour and finance. The committee's financial powers would be limited and it would be instructed to reject any scheme where costs of production were 'unreasonably high'. Finally, 'to counteract the evils of possible inflation', a government loan, to be called a 'National Development Loan', should be raised to finance the investment at home and the trade guarantees.⁴⁹

Lloyd George's response to these proposals, which were clearly designed to curb his ideas for £250 million of 'honest inflation', seems to be unrecorded, but Churchill later recalled that, 'after a few days' reflection' at Gairloch, Lloyd George came down solidly against the big national schemes of 'artificial employment' that ministers had discussed earlier.⁵⁰

(iv) Discussions after Gairloch

Meanwhile the Cabinet's Unemployment Committee had continued to meet. The scale of assistance contemplated in Whitehall, however, was markedly lower than that originally envisaged by the Prime Minister at Gairloch. On 29 September the Chancellor of the

Exchequer told the committee that, in view of the likely scale of borrowing to cover the budget deficit, he could find no more than an additional £10 million over the next twelve months for the immediate relief of distress by Poor Law guardians; for public works approved by the St David's Committee; and for any cash payments that had to be made under the government's export credits scheme. The Unemployment Committee agreed to a new export credits scheme to replace an earlier scheme which had been in suspense since July. The old scheme had been designed to deal with the problem of trade with Eastern Europe, where, in the aftermath of war, the risk of default was so high that banks were often unwilling to discount exporters' bills of exchange. The new scheme was to be extended to include all countries, except those excluded by administrative action. Moreover, the Board of Trade was empowered to guarantee exporters' bills for up to 75 per cent of any default by an importer instead of 50 per cent as hitherto.⁵¹

Churchill's Cabinet paper drawing attention to the importance of financial policy was circulated on 30 September and Treasury officials had to prepare a brief for the Chancellor before a meeting of the Unemployment Committee, with the Prime Minister in the chair, on 6 October. In the brief⁵² Otto Niemeyer, the deputy controller of finance under Blackett, noted that financial policy was based on the Cunliffe Report, whose conclusions had been endorsed in November 1918 by the Committee on Financial Facilities, 'a body consisting of commercial rather than banking representatives'. (This last claim, was regularly made by Treasury officials to persuade ministers that consultation on the gold standard issue had not been confined to financiers, but in fact, the committee's thirteen members had comprised five bankers, one City accountant, the President of the Chambers of Commerce, two civil servants and only four industrialists.⁵³) The government had accepted the Cunliffe Committee's recommendation of a lengthy and gradual return to the gold standard and actual deflation, according to Niemeyer, had been 'slight', as measured by the fall in legal tender in circulation (6.8 per cent down in September 1921 compared with a year earlier), while statistics of bank deposits showed even less sign of deflation. Indeed Niemeyer argued that the tendency was already rather the other way: the floating debt had increased by £45 million over the previous six months, with a tendency for ways and means advances to increase, and during the next six months the budget position would produce further inflation. Any inflation added for extensive employment schemes would, he believed, almost certainly lead to a substantial rise in the cost of living and wages; the exchange rate would fall, making the import of food and raw materials, and the repayment of government debt abroad, more expensive. There was, he reported, already a tendency for some wages to fall, and nothing should be done to check that tendency. As little inflation as possible should be created by recourse to ways and means advances. Ambitious schemes for expenditure would make the 'ultimate' remedy for unemployment, lower wages and prices, more difficult.⁵⁴

Indeed, Niemeyer claimed, the best employment policy, apart from minimum assistance to prevent starvation, was for the state to reduce its expenditure and to repay its debts. This claim rested on the assumption that, if the state reduced its expenditure and balanced its budget, it would cease to compete with the private sector for loanable funds, thereby encouraging private investment. It was established Treasury wisdom that taxation extracted money from the

community in general, most of whom were not likely to save or invest, while debt repayment made money available to that part of the community which was likely to save and invest. Rather than relieve Poor Law guardians of the costs of unemployment relief, Niemeyer preferred to see local rates rise, thereby supplementing the savings enforced by taxation.⁵⁵ His advice, although stark and not very attractive to politicians, at least had the advantage of being argued with conviction. Churchill, on the other hand, thought that ministers, including himself, did not have a clear view on the fundamental questions to which he had drawn attention regarding financial policy.⁵⁶

At the meeting of the Unemployment Committee on 6 October Lloyd George accepted that 'from the financial point of view' it would be better to restrict government expenditure to 'a few temporary expedients' to tide over the period until trade returned to normal. Nevertheless, in a forum that included Conservative as well as Liberal ministers, he argued that the political risk of unemployment was too great, especially if there were to be riots and 'extreme measures had to be taken against starving men who had fought for their country.' The Government, he said:

might find themselves in the position of having alienated the whole of the working classes, who might sweep away all parties, put in their own people, and in the first flush of their success undertake experiments which would endanger the life of the community.⁵⁷

Despite this rhetoric, Lloyd George did not propose to undertake experiments greater than those proposed by Hilton Young's committee of experts at Gairloch, while Hilton Young himself continued to warn Lloyd George against inflation.⁵⁸

The measures announced by Lloyd George to Parliament on 19 October⁵⁹ were a pale reflection of the grander ideas he had discussed with fellow Liberal ministers at Gairloch. Instead of £250 million of 'honest inflation', only an additional £35.3 million was to be voted for employment creation (apart from export credits). Moreover, there was no suggestion of any departure from orthodox finance. Of this sum, the largest element was £25 million to be made available for guarantees for the payment of interest and principal of loans raised by public authorities (including dominion, colonial or foreign governments) or private enterprise for projects, such as railways or electrification, that were calculated to promote employment in the United Kingdom. Ministers had considered devoting £50 million to this purpose but the Governor of the Bank of England had advised that £25 million was the maximum capital sum that could be raised on the market, and had strongly opposed any suggestion that the Gairloch guarantees might be financed by ways and means advances.⁶⁰ A further £10 million was allocated for assisting local authority relief works approved by the St David's Committee, and £300,000 was added to the £637,000 already voted to help ex-servicemen to settle in the dominions. The maximum total of export credits under the new scheme was kept at the £26 million originally voted in 1920 but, as had been agreed by the Cabinet's Unemployment Committee, the proportion of risk covered was increased and the scheme was extended to all

countries, including the Empire.

At the same time it was announced that Churchill, as colonial secretary, was arranging for £20 million to be raised on the credit of colonial governments, without British government guarantee, for projects that were expected to benefit the British engineering industry. Churchill had apparently wanted a £2 million grant from the British Exchequer for colonial development but Niemeyer had advised the Chancellor against the idea, on the grounds that such grants were 'highly infectious' and would provoke requests for similar assistance, for example from India.⁶¹

In addition to these measures to create jobs, Lloyd George promised more money for unemployed workers' dependents, the cost to be met by increased weekly contributions to the Unemployment Insurance Fund - 2d from employed adults, 2d from employees and 3d from the state. However, his speech ended with assurances of rigorous economy in public expenditure to reduce the burden of taxation, and, with the Geddes Committee at work, the Treasury could hope that the money to be found for unemployment could be offset within a balanced budget by reductions in other areas of expenditure. Treasury views were also reflected in the stress placed by the Prime Minister on the need for industry to reduce costs of production.

One Gairloch proposal that did not find its way into Lloyd George's speech was the recommendation, made by Hilton Young and his expert advisers, for a National Development Loan. Ministers in the Unemployment Committee thought that subscriptions for such a loan could be stimulated by patriotic propaganda similar to that undertaken in the war, but the official Treasury took the view that an attempt to raise a loan of this kind would make it difficult to raise money for other government purposes.⁶² The Unemployment Committee had advised that the idea of a 'National and Empire Development Loan' should be further explored but this was an area where the Treasury and the Bank of England had the last word.

The Trade Facilities Act, incorporating loan guarantees and export credits as announced by Lloyd George, was passed in November, but Treasury orthodoxy did not escape further challenge from within the government before the end of the year. Early in December the Secretary of State for India, Edwin Montagu, a Liberal, pressed on Lloyd George arguments why the Chancellor of the Exchequer should budget for a deficit, so as to reduce taxation and stimulate economic recovery. As a former Financial Secretary of the Treasury, Montagu could argue his case with some authority. Retrenchment alone, such as was being undertaken through the Geddes Committee, would, he warned, lead to 'political disappointment'; substantial tax relief, on the other hand, would have a beneficial psychological effect on enterprise and would increase purchasing power. Having consulted Treasury officials about tax yields, he proposed tax concessions, including a reduction in the standard rate of income tax from 6s (30p) to 4s (20p) in the pound, costing £120 million. The Treasury anticipated a deficit of £45 million at current tax rates, so that the prospective budget deficit would be £165 million, but Montagu assumed that the Geddes Committee plus naval disarmament as a result of the Washington Conference could produce savings of £80 million, leaving £85 million to be borrowed. Such a sum, he believed, could be borrowed on a short-dated security, especially given that the tax-paying public would have more money to lend, and he further argued that the amount to be borrowed in subsequent years would be reduced by rising tax yields as the cuts in tax rates led to

a revival in prosperity.⁶³

The Chancellor's officials were not prepared to accept what became known in the Treasury as the 'act of faith theory' of public finance, and successfully defended the doctrine of balanced budgets. They agreed that tax cuts would have been 'the most effective assistance to unemployment', but tax cuts had to be preceded by reductions in government expenditure; in the absence of balanced budgets there could be no effective curb on political pressures to increase government expenditure.⁶⁴ In the event, the standard rate of income tax was cut in 1922, from 6s (30p) to 5s (25p) in the pound, but only after the budget had been brought into balance by a massive reduction in central government expenditure, from £747 million in 1921/22 to £489 million in 1922/23, excluding Debt charges and interest in both years.⁶⁵

One small concession was wrung out of the Treasury in December 1921, with regard to the £10 million limit placed on local authority schemes approved by the St David's Committee. With more applications forthcoming from local authorities than expected, it was clear that the sum approved by the Cabinet's Unemployment Committee in the autumn would soon be exhausted. Initially the Chancellor resisted any relaxation of the £10 million limit, and the matter was referred to the Cabinet, which called for a review of the schemes that had been submitted to the St David's Committee, with a view to eliminating those that were 'not of a strictly utilitarian nature'. However, the review revealed that 'only a very small part of the schemes were for parks or recreation grounds', with the result that the total of applications that might be expected to qualify for a grant was £15 million. A conference of ministers, presided over by the Lord Privy Seal (Austen Chamberlain), with Horne, Mond, Macnamara and the Secretary of State for Scotland (Robert Munro), hammered out a compromise, with the total allowed for grants raised to £13 million, and with the last three ministers named directed to apply tests, such as the level of unemployment in a district, to ensure that the total of schemes approved fell within the new limit.⁶⁶ It was an appropriate note to end the year in which the ideas mooted at Gairloch had been so deflated by the Treasury.

(v) The significance of Gairloch

Lloyd George's grander ideas had come to nought, or at least to very little (£38.3 million of new money, if one includes the Treasury's concession in December, compared with the £250 million mentioned at Gairloch). Unsurprisingly, the Trades Facilities Act receives only a passing mention in most accounts of interwar employment policy. Even Hilton Young's hopes for an end to deflation, in the sense of a reduction in the supply of money relative to the supply of things to be bought, were not fulfilled, as the Treasury and Bank pursued their deflationary policies through the trough of the depression and into 1923. The money stock continued to decline until March 1923.⁶⁷ Recovery, when it came was incomplete, in the sense that unemployment continued to exceed the 1920 level for the rest of the interwar period.

To what extent was there a Liberal: Conservative division within the Coalition over financial and unemployment policy? The ministers at Gairloch, Lloyd George, Churchill, Macnamara, Mond and Hilton Young, were all Liberals, as was Montagu. Moreover, Lloyd George's rhetoric in the Cabinet's Unemployment Committee might suggest that Conservative

colleagues had to be persuaded into accepting Hilton Young's proposals, let alone the larger ideas mooted by Lloyd George and Churchill. On the other hand, Morgan's authoritative study of the Coalition⁶⁸ makes no mention of any party division over unemployment policy. Moreover, there was no unity or firmness of purpose in Liberal ministers' views on financial policy, and neither Lloyd George nor Churchill had any clear alternative to financial orthodoxy.

Nevertheless, one can see in the Gairloch discussions the germ of Lloyd George's later ideas on how to solve unemployment. The figure of £250 million which Lloyd George suggested at Gairloch as a manageable stimulus to employment in 1921 was exactly the same as he was to suggest in his more famous proposal in 1929 for expenditure on roads, housing, electrical transmission lines and other public works to reduce unemployment to normal proportions.⁶⁹ Lloyd George's ideas were, of course, rather more fully formed in 1929 than in 1921, but the persistence of the figure of £250 million suggests that on both occasions it was employed primarily for rhetorical purposes.

In 1929 Lloyd George enjoyed the support of Keynes and his fellow Liberal economist Hubert Henderson, who, in a famous pamphlet, argued that Lloyd George's scheme would succeed in creating 500,000 jobs, if the Bank of England expanded credit, and if the government offered a sufficient rate of interest to ensure that the new credit was invested at home and not abroad.⁷⁰ The association of Lloyd George with the evolution of Keynesian economics has resulted in extensive analysis of his 1929 programme by economists and economic historians. Even studies using a Keynesian model of the interwar economy have concluded that public expenditure on the scale contemplated by Lloyd George would have created balance of payments problems, and that 500,000 jobs could only have been created by avoiding an inflow of imports, for example by allowing sterling to depreciate (although Lloyd George promised to preserve the gold standard) or by imposing tariffs (although the Liberals were still committed to free trade in 1929). Even so, given contemporary financial views on the need for balanced budgets, there would probably have been an exodus of private capital from Britain.⁷¹ Curiously, one of the more optimistic analyses of the possible effects of Lloyd George's 1929 programme has used a 'monetarist' model of the interwar economy. On the assumptions that the real level of wages could be reduced by raising prices, and that other countries would not react to a depreciating sterling exchange rate by devaluing or by raising tariffs, K.G.P. Matthews has argued that a temporary expansion in government expenditure, financed by what contemporaries would have called 'inflation', would have reduced unemployment permanently by about 500,000.⁷²

Whatever one makes of counterfactual histories of employment policy in 1929, it can be said that it would have been easier to reflate, and to allow sterling to depreciate, in 1921, when Britain had not yet returned to the gold standard. On the other hand, studies of the relationship between real wages and unemployment in the interwar period has focussed on the years when unemployment was high (1921-39) rather than on the brief period of full employment (1919-20), and it is not clear how practical it would have been to reduce real wages through inflation in 1921. Hilton Young had some reason for doubting then the possibility of reducing real wages, given the increased bargaining power of trade unions since the war. Wages were in fact

particularly volatile between 1919 and 1922, owing in part to extensive use of sliding-scale agreements whereby wages were adjusted to price changes. Indeed, far from rising prices reducing real wages, average weekly wage rates actually rose faster than retail prices during the inflation of 1919-20.⁷³

Be that as it may, the fact ministers at Gairloch were unable to devise an alternative to the orthodox policies pursued by the Treasury and the Bank of England highlights the importance of alternative sources of economic advice to which ministers could turn. As it happened, the leading economic experts consulted by Lloyd George, Layton and Stamp, did not give radically different advice from that given by Norman, Blckett or Niemeyer, and, had Keynes been consulted, he too would have advised, at any time down to 1924, that public expenditure on fixed capital, such as roads or utilities, with borrowed money could not improve matters, and might do actual harm if it diverted private capital away from the production of goods.⁷⁴ However, once Keynes began to develop heterodox views, in particular his departure from the traditional orthodoxy that there was a fixed fund of savings for which both the state and private enterprise competed, there was the possibility of ministers being given independent economic advice that conflicted with that of the Treasury and the Bank. It is not surprising, therefore, that the interwar Treasury showed very little enthusiasm for ideas for an 'Economic General Staff' attached to the Cabinet Office.⁷⁵

Lloyd George's talk of 'inflation' as a means of reducing unemployment must have confirmed Treasury officials in their belief in the advantages of an independent central bank, preferably one whose independence from party political pressures was reinforced by an overriding commitment to maintaining a fixed exchange rate, a goal achieved in 1925 when the then Chancellor of the Exchequer, Churchill, was persuaded that the time was ripe for Britain to return to the gold standard.⁷⁶ It also seems to have been in reaction to the Gairloch episode that the Treasury deployed its famous 'view' that 'money taken for government purposes is money taken away from trade, and borrowing will thus tend to depress trade and increase unemployment' (the 1922 version) or that 'very little additional employment and no permanent employment can in fact and as a general rule be created by state borrowing and state expenditure' (the 1929 version).⁷⁷ Ironically, in view of his doubts about financial orthodoxy in 1921, it fell to Churchill to act as the Treasury's spokesman when the latter version of the 'Treasury view' was deployed against Lloyd George's proposals in 1929.

Treasury and Bank of England officials genuinely believed, as Keynes did until 1924, that state borrowing could crowd out private investment. However, the effect of the 'Treasury view' on state borrowing and state expenditure, as of the doctrine of balanced budgets, and attachment to the gold standard, was to constrain ministers' range of options to exclude any possibility of resort to inflation. The experience of inflation in Britain between 1914 and 1920, and of continuing inflation on the Continent thereafter, ensured that the reaction in the City, the Bank and the Treasury would be hostile to the kind of ideas floated by Lloyd George at Gairloch. Lloyd George's inflationary ideas were simply not compatible either with the dominant political discourse of the time or with the long-standing biases of the authorities responsible for executing policy.⁷⁸

NOTES

- * This article is part of a wider research project intended to lead to a book on the British Treasury covering the period 1905-1958. The author gratefully acknowledges financial support for his research from the British Academy, the Leverhulme Trust and the Wolfson Foundation. Copyright material in the Public Record Office is reproduced by permission of the Controller of H.M. Stationary Office; from the Lloyd George papers by the permission of the Clerk of the Records, House of Lords Record Office, with the agreement of the Beaverbrook Foundation; and from the Kennet papers by permission of Lord Kennet. Andrew McDonald, Roger Middleton and Kenneth Morgan made helpful comments on an earlier draft of the article but responsibility for errors rests with the author.
1. Kenneth O. Morgan, *Consensus and Disunity: The Lloyd George Coalition Government 1918-1922* (Oxford, 1979), pp. 286-7.
 2. According to Charles Feinstein's estimates, Real Gross Domestic Product (GDP at constant prices) fell by 5.8 per cent between 1920 and 1921, compared with a fall of 5.2 per cent between 1929 and 1931. Over two million jobs were lost between 1920 and 1921, compared with just over 800,000 between 1929 and 1931.

	GDP at 1938 market prices (£million)	Civilian Employment (thousands)	Unemployment rates (per cent)	
	(1)	(2)	Insured workers (3)	Working population (4)
1920	4,096	19,537	3.9	2.0
1921	3,857	17,417	16.9	11.3
1922	3,992	17,483	14.3	9.8
1929	4,726	19,146	10.4	7.3
1930	4,720	18,788	16.1	11.2
1931	4,480	18,340	21.3	15.1
1932	4,493	18,430	22.1	15.6

Sources:

- (1) C.H. Feinstein, *National Income, Expenditure and Output of the United Kingdom 1855-1965* (Cambridge, 1972), table 5.
- (2) *ibid.*, table 57.

(3) Department of Employment and Productivity, *British Labour Statistics: Historical Abstract 1886-1968* (1971), table 160.

(4) Feinstein, *op. cit.*, table 57.

Note: The difference between the unemployment rates for insured workers and the working population is explained by the fact that the National Insurance Act of 1920 did not cover agricultural workers, domestic servants, established civil servants, the police, railway officials, or non-manual workers earning more than £250 a year. These groups were on the whole less likely to be unemployed than insured workers in industry. Official figures for unemployment at the time, however, were for insured workers only and the effect was to give a higher percentage than if unemployment had been measured as a proportion of the total workforce, as has been conventional since the Second World War.

3. For the 'Treasury view' see Peter Clarke, *The Keynesian Revolution in the Making 1924-1936* (Oxford, 1988), part 2; G.C. Peden, 'The "Treasury View" on Public Works and Employment in the Interwar Period', *Economic History Review*, 2nd ser., XXXVII (1984), pp. 167-81; and R. Skidelsky, 'Keynes and the Treasury View: the Case for and Against an Active Unemployment Policy 1920-1939', in W.J. Mommsen (ed.) *The Emergence of the Welfare State in Britain and Germany* (London, 1981).
4. Collected Writings of John Maynard Keynes (hereafter *J.M.K.*), vol. IV (1971), p. 2.
5. *J.M.K.* XVI (1971), p. 102.
6. Sir Bernard Mallet and C.O. George, *British Budgets, Third Series, 1921/22 to 1932/33* (London, 1933), p. 558.
7. For Treasury staff and organisation at this time see Andrew McDonald, 'The Formulation of British Public Expenditure Policy, 1919-1925' (University of Bristol Ph.D. thesis, 1988), ch. 4.
8. See Kathleen Burk, 'The Treasury: from Impotence to Power', in Kathleen Burk (ed.), *War and the State: The Transformation of British Government, 1914-1919* (London, 1982).
9. Clarke, *Keynesian Revolution*, ch. 2.
10. For the economic and political constraints imposed by the gold standard see Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (Oxford, 1992).
11. 'Liquidation of Post-war Liabilities', Jan. 1922, Treasury papers, series 171, vol. 202 (hereafter as T 171/202), Public Record Office, London (PRO).
12. *Memorandum by the Chancellor of the Exchequer on the Future Exchequer Balance Sheet* (Cmd. 376), *Parl. Papers*, 1919, XXXII, pp. 159-62; *Parl. Deb. (Commons)*, 5th ser., 1919, CXX, col. 749. For use made by the Treasury of the concept of a 'normal year' see McDonald, 'Formulation of British Public Expenditure Policy', pp. 263-75.

13. Andrew McDonald, 'The Geddes Committee and the Formulation of Public Expenditure Policy, 1921-1922', *Historical Journal*, XXXII (1989), pp. 643-74; Morgan, *Consensus and Disunity*, pp. 97-102.
14. Susan Howson, *Domestic Monetary Management in Britain, 1919-38* (Cambridge, 1975), ch. 2.
15. *Minutes of Evidence Taken Before the Select Committee on Increases of Wealth (War)*, Q.1547, *Parl. Papers*, 1920, VII.
16. For exchange rates see S.N. Broadberry, *The British Economy Between the Wars: A Macroeconomic Survey* (Oxford, 1986), pp. 120-1. For Board of Trade and Ministry of Labour price indices see A. C. Pigou, *Aspects of British Economic History 1918-1925* (London, 1947), pp. 230 and 234.
17. Morgan, *Consensus and Disunity*, pp. 282-3. The latter committee is known to history both by its official title, the Unemployment Grants Committee, and as the St David's Committee, the name most commonly used in Cabinet Office papers. To avoid confusion with the Cabinet's Unemployment Committee, the Unemployment Grants Committee is referred to as the St David's Committee throughout this article.
18. Cabinet Conclusions, 67 (20), 8 Dec. 1920, Cabinet Office papers, series 23, vol. 23 (hereafter CAB 23/23), PRO.
19. See Jose Harris, *Unemployment and Politics: A Study in English Social Policy, 1886-1914* (Oxford, 1972).
20. Conclusions of a Conference of Ministers, held at Flowerdale House, Gairloch, CAB 23/39, PRO.
21. Lloyd George to E. Hilton Young, 26 Sept. 1921, Lloyd George (hereafter LG) papers, F/28/8/1, House of Lords Record Office, London (hereafter HLRO).
22. The official series of national income statistics was begun only in 1941 but GDP for 1921 has been retrospectively estimated at £5,134 million at current prices (Feinstein, *National Income*, table 3).
23. Martin Gilbert, *Winston S. Churchill*, vol. IV, Companion Part 3 (London, 1977), pp. 1630-4.
24. Blackett to Chancellor of the Exchequer, 8 June 1921, CAB 27/114, PRO.
25. *Ibid.*
26. The minutes of the Unemployment Committee are in CAB 27/114.
27. CAB 27/114, pp. 157-8, PRO.
28. Thomas Jones, *Whitehall Diary*, ed. Keith Middlemas, vol. I (London, 1969), pp. 169-71.
29. Minutes of Unemployment Committee, 13 & 16 Sept. 1921, CAB 27/114, PRO.
30. Jones, *Whitehall Diary*, I, p. 173; Peter Rowland, *Lloyd George* (London, 1975), p. 543.
31. Conclusions of Conference of Ministers, 22 Sept. 1921, CAB 23/39, PRO.
32. Gilbert, *Winston S. Churchill*, V (1976), p. 315.
33. His book, *The System of National Finance*, ran to three editions between 1915 and 1936.

34. Lloyd George to Hilton Young, 26 Sept. 1921, LG papers F/28/8/1, HLRO.
35. Mallet and George, *British Budgets, Third Series*, pp. 8, 554.
36. Gilbert, *Winston S. Churchill*, IV, Companion Part 3, pp. 1630-4, circulated as Cabinet Paper 3345, CAB 24/128, PRO.
37. Hilton Young to Lloyd George, 27 Sept. 1921, LG papers, F/28/8/4, HLRO.
38. Ibid and Hilton Young to Lloyd George, 28 Sept. 1921, LG papers, F/28/8/5, HLRO, and Hilton Young to Lady Kathleen Scott, 29 Sept. 1921, Kennet papers 107/1, fol. 42, University of Cambridge Library.
39. Hilton Young to Lloyd George, 26 Sept. 1921, LG papers F/28/8/2, HLRO.
40. T 172/1208, f. 124, PRO.
41. Hilton Young to Lady Scott, 29 Sept. 1921, Kennet papers 107/1, fol. 42, Cambridge University Library. Hilton Young married Lady Scott (who was the widow of the Antarctic explorer Captain Scott) in 1922.
42. Letters to Lady Scott, 21 & 25 Sept., & 5 Oct., 1921, Kennet papers, 107/1, fols. 38, 42 & 45, Kennet papers, Cambridge University Library.
43. Hilton Young to Lloyd George, 26 Sept. & 27 Sept., 1921, LG papers, F/28/8/2&4, HLRO, and Hilton Young to Lady Scott, 29 Sept. 1921, Kennet papers 107/1, Cambridge University Library.
44. Ibid.
45. Precis enclosed with Hilton Young to Lloyd George, 27 Sept. 1921, LG papers F/28/8/4(d), HLRO.
46. Hilton Young to Lloyd George, 28 Sept. 1921, LG papers F/28/8/5, HLRO.
47. Ibid. For destabilising influence of inflation in Continental Europe see Brendan Brown, *Monetary Chaos in Europe* (London, 1988).
48. Stamp to Hilton Young, 28 Sept. 1921, LG papers F/28/8/6(a), HLRO.
49. 'Draft Proposals of Commander Hilton Young's Committee Submitted to the Prime Minister at Gairloch, Oct 2nd 1921', and Hilton Young to Lloyd George, 5 Oct. 1921, T 172/1208, PRO. The proposals were circulated as Cabinet Paper 3363, CAB 24/128, PRO.
50. As recorded in Thomas Jones's diary for 6 March 1929, cited in Gilbert, *Winston S. Churchill*, V, p. 315.
51. Unemployment Committee, 31st Conclusions, CAB 27/114, PRO.
52. Niemeyer to Chancellor of the Exchequer, 5 Oct. 1921, T 172/1208, PRO.
53. Robert W.D. Boyce, *British Capitalism at the Crossroads, 1919-1932* (Cambridge, 1987), pp. 39-40.
54. Niemeyer to Chancellor of the Exchequer, 5 Oct. 1921, T 172/1208, PRO.
55. Ibid. For an earlier statement that money raised from taxation and applied to Debt redemption increased the 'capital fund of the nation', see Sir John Bradbury, 'Reconstruction Finance', 21 Feb. 1918, T 170/125, PRO. Bradbury was then joint permanent secretary of the Treasury. His only caveat regarding taxation and Debt

redemption was that taxation on profits should not be carried to the point of 'strangling enterprise'.

56. Gilbert, *Winston S. Churchill*, IV (1975), p. 899.
57. Unemployment Committee, 33rd Conclusions, 6 Oct. 1921, CAB 27/114, PRO.
58. 'Reasons for Falling Off of Trade', memorandum sent by Hilton Young to Prime Minister, 15 Oct. 1921, T 172/1208, PRO.
59. *Parl. Deb. (Commons)*, 5th ser., 1921, CXLVII, cols. 75-98.
60. Cabinet Conclusions, 80 (21), 17 Oct. 1921, CAB 23/27, PRO.
61. Memorandum by Niemeyer, 13 Oct. 1921, T 172/1208, PRO.
62. Unemployment Committee, 36th Conclusions, 12 Oct. 1921, CAB 27/114, PRO.
63. 'Memorandum by the Secretary of State for India', 9 Dec. 1921, LG papers F/41/1/38, HLRO. Montagu had been financial secretary from February 1914 to February 1915 and again (while also holding the office of chancellor of the Duchy of Lancaster) from May 1915 to July 1916.
64. McDonald, 'Formulation of British Public Expenditure Policy', pp. 193, 249-54.
65. Mallet and George, *British Budgets, Third Series*, p. 554.
66. Conclusions of a Conference of Ministers, 22 Dec. 1921, CAB 23/39, PRO.
67. Howson, *Domestic Monetary Management*, p. 29.
68. See note 1.
69. David Lloyd George, *We Can Conquer Unemployment* (London, 1929).
70. J.M. Keynes and Hubert Hendeson, *Can Lloyd George Do It? The Pledge Examined* (1929), reprinted in *J.M.K. IX* (1972).
71. T. Thomas, 'Aggregate Demand in the United Kingdom 1918-45', in Roderick Floud and Donald McCloskey (eds.), *The Economic History of Britain since 1700*, vol. II (Cambridge, 1981) and T.J. Hatton, 'The Outlines of a Keynesian Solution', in Sean Glynn and Alan Booth (eds.), *The Road to Full Employment* (London, 1987). For reviews of the fiscal policy debate see W.R. Garside, *British Unemployment 1919-1939: A Study in Public Policy* (Cambridge, 1990) and G.C. Peden, *Keynes, the Treasury and British Economic Policy* (London, 1988), pp. 278-39.
72. K.G.P. Matthews, 'Could Lloyd George Have Done It?', *Oxford Economic Papers*, new ser., XL1 (1989), pp. 374-407.
73. J. A. Dowie, '1919-20 is in Need of Attention', *Economic History Review*, 2nd ser., XXVIII (1975), p. 442. For debate on relationship between real wages and unemployment see Garside, *British Unemployment*, ch. 10.
74. *J.M.K. XIII* (1973), p. 23. Keynes first advocated public capital expenditure as an employment policy in May 1924 - *J.M.K. XIX* (1981), pp. 219-25.
75. See Susan Howson and Donald Winch, *The Economic Advisory Council: A Study in Economic Advice during Depression and Recovery* (Cambridge, 1977), esp. pp. 7-15, 22-25.
76. See D.E. Moggridge, *British Monetary Policy 1924-1931: The Norman Conquest of \$4.86* (Cambridge, 1972), esp. appendix 5 for arguments with which Treasury officials

- and Norman persuaded Churchill.
77. Keith Middlemas and John Barnes, *Baldwin: A Biography* (London, 1969), p. 127, and *Parl. Deb. (Commons)*, 5th ser., 1928-29, CCXXVII, col. 54. The 'Treasury view' on state borrowing and state expenditure was not new in the 1920s - see, for example, R.G. Hawtrey, *Good and Bad Trade* (London, 1913), pp. 260-1, where Hawtrey, a Treasury official, states that money which is saved will be spent 'sooner or later' on fixed capital or invested overseas. Overseas investment was assumed by the Treasury to stimulate British exports and therefore, like investment in fixed capital, to create employment.
78. For useful discussion of factors determining political and administrative viability of new policy ideas in inter-war Britain see Peter Hall (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton, N.J., 1989), esp. pp. 370-72, 379 and 383-86.

Lloyd George was an intelligent boy and did very well at his local school. After passing the Law Society examination he became a solicitor in January 1879, eventually establishing his own law practice in Criccieth, North Wales. In 1888 Lloyd George married Margaret Owen, the daughter of a prosperous farmer. Lloyd George joined the local Liberal Party and became an active member. This provided British workers with insurance against illness and unemployment. All wage-earners had to join his health scheme in which each worker made a weekly contribution, with both the employer and state adding an amount. In return for these payments, free medical attention and medicines were made available, as well as a guaranteed 7-shillings per week unemployment benefit. Only RUB 220.84/month.

Lloyd George and the Coalition 1918-1922. STUDY. Flashcards. Sankey Commission. 1919 -suggested nationalisation -publicly agreed but did nothing. Unemployment Problems 1920-1921. Dec 1920 -300,000 to 700,000 July 1921 -2,000,000. Addison's Housing Act. 1919 -paid £910 per house -should have paid £385 per house -should inexperience. Unemployment Act. 1920 -now includes 8,000,000. Bloody Sunday. 21st November 1920 -black and tans killed 31 Irish citizens -in December they burnt down a lot of Cork. Government of Ireland Act. 1920 -split Ireland into North and South -ignored by Dail -caused conflict until Anglo-Irish treaty. Garden Suburb. 405-423; "The "Treasury view" on public works and employment in the interwar period', *Economic History Review*, 37 (1984), 167-181; "The road to and from Gairloch: Lloyd George, unemployment, inflation, and the "Treasury view" in 1921', *Twentieth Century British History*, 4 (1993), 224-249; "Sir Horace Wilson and appeasement', *Historical Journal*, 53. (2010), 983-1014; "Suez and Britain's decline as a world power', *Historical Journal*, 55 (2012), 1073-1096; "Recognising and responding to relative decline: the case of post-war Britain', *Diplomacy and Statecraft*, 24 (2013), 59-76; (with Alan Peacock