

The
RECORD
OF THE
NATIONAL
GOVERNMENT

by
RAMSAY
MUIR

London
GEORGE ALLEN & UNWIN LTD

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P R E F A C E

THIS little book is an attempt to survey the work of the National Government from the point of view of one who began by supporting it, and has been driven into more and more complete opposition. Although I have tried to give it credit for whatever it has done that is good, I do not pretend to be impartial. As a student of modern history, I believe it to be the worst, the weakest, the most timorous, and the most incompetent Government that Britain has known since the days of Lord North. Honestly holding this view, I have felt myself under an obligation to express it. But I have avoided personalities and mere denunciation. I have confined myself to the analysis of facts and to the development of serious argument. The book might have been more lively if I had adopted another method. But I submit that both the facts and the arguments deserve to be seriously weighed by those who have hitherto been bemused by the name of the *National Government*. Its worst failures have indeed been due to the *Nationalism* of its policy and to its abandonment or reversal of the principles upon which the greatness of Britain was built during the nineteenth century.

RAMSAY MUIR

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CHAPTER I

ANTECEDENTS

THE experiment of "national" or all-party government was set on foot in Britain in 1931 as a means of enabling the country to extricate herself from the financial crisis of that year, which threatened to destroy her credit and to plunge her in financial confusion. It is impossible to form a fair judgment upon the character and results of this experiment without first obtaining clear ideas about the crisis which gave it birth.

I

Although the crisis only began to mature towards the close of 1929, it had been long in preparation, and was in truth the outcome of the dislocation of world trade and finance which had resulted from the Great War. Three aspects of this dislocation deserve to be kept in mind.

In the first place, during the war the great industrial nations of Europe, which had previously supplied the greater part of the world with the manufactured goods they required, were all so engrossed in the war that they could no longer carry on their foreign trade on the old scale. The result was that the United States and Japan saw a great increase of their foreign trade, while in many countries new manufacturing industries

were stimulated into existence. When the war was over, reluctant to lose their war-time advantage, these countries protected their new industries with high tariffs. And another motive reinforced this tendency. With the experience of the war before them, most countries feared to see themselves dependent upon other countries for important classes of goods, and especially for commodities needed in war. They strove after self-sufficiency. From these causes arose the plague of "economic nationalism," which has brought distress to all countries and impoverished millions of people. It did not reach its height until the crisis which began in 1929, but it was at work earlier. The channels of world-trade were being clogged; and the peoples of the earth were being impoverished, and prevented by their Governments from enjoying the abundance which the generosity of Nature and the ingenuity of man were making available for their use.

In the second place, the war had brought about a complete disorganisation of the monetary system of all the belligerent countries, and, indeed, of others also. Before the war all the great trading countries except China had put their money on the Gold Standard: that is to say, they had guaranteed that their units of money (pound, franc, dollar, mark, etc.) should always be equal in value to a fixed weight of gold; and to ensure this their banks were always ready to give gold in exchange for their notes. But in war so much money had to be issued for the payment of troops and the purchase of supplies that all the belligerent countries had to abandon the Gold Standard and issue inconvertible paper money. Some countries were more reckless than others in their use of the printing-press for the creation of money. But all had to increase vastly their

supply of money, with the result that prices rose rapidly: for when money was plentiful, more of it had to be given in exchange for the same amount of goods. After the war the issue of paper money went on for the purposes of reconstruction and (in the case of Germany) under the pressure of the immense burdens imposed upon her by the victorious Allies. In some countries inflation was carried to such a point that their money became almost valueless. The result was that as the value of various countries' money changed violently from day to day, trade became almost impossible. By an immense effort this ruinous process was brought to an end in 1924 and the following years, when, in modified form, all the European countries returned to the Gold Standard. This was the chief cause of the revival of international trade which marked the years 1924-9; trade again became possible when the moneys of various countries had a fixed value in relation to one another. But vast losses had been inflicted upon certain classes of the community in the countries where this frenzied process of "inflation" had been carried furthest. All savings invested in securities with a fixed rate of interest lost value; the German (for example) who had owned £10,000 worth of national debt found that his holding was only worth a minute fraction of a penny, and in this way the German national debt was wiped out, and a large part of the German, Austrian, Polish, Hungarian, and (in a less degree) French middle classes were reduced to poverty or even destitution.

In the third place, the war left a bewildering problem of international debts. Germany owed colossal and (until 1924) undefined sums to the victorious allies (other than America) as reparations for war losses.

France, Italy, and other allied countries owed huge sums to Britain and America for supplies obtained to carry on the war; and Britain owed a vast sum to America. If these debts could all have been paid, America would have drawn gigantic sums from Europe, Britain would have had a substantial balance on the right side, and the European debtors would have been ruined. But the debts could only be paid in gold or goods. They could not be paid in gold, because there was not enough gold in the world, and the debtors did not possess it—half of it was already held by America. If the debts had been paid in goods, the world would have been swamped with goods produced by the debtor countries, for which these countries would have got no return, and the trade of the creditor countries would have been destroyed. Recognising this, Britain proposed that all these debts (except German reparations) should be cancelled, as being simply part of the creditors' contribution to the war effort. In the end this, and more than this, had to be done: German reparations were practically cancelled in 1931, and all the other debts were either cancelled or repudiated. But America, in the critical years after the war, would not agree to this proposal. Britain therefore announced that she proposed to ask her allies to pay her only such proportion of their debts as would suffice, when added to the British share of German reparations, to cover her debt to America. In 1922 the British debt to America was fixed; in 1924 the amount to be paid by Germany was fixed; and in the next year or two all the other debts were also fixed. The apparent settlement of the question of international debts helped to bring about the trade-revival of 1924-9.

But the seeming prosperity of 1924-9 was unreal. These huge transfers of wealth from one country to another, without any return, could not be carried out. They were, in fact, only carried out for a few years by virtue of huge loans from America to various European countries; not loans from the American Government to the Governments of Germany and other countries, but advances—often quite reckless—by American financiers to German and other commercial concerns; but these advances indirectly provided the means of making the agreed debt payments for a few years. America was enjoying in these years an exuberant prosperity, which she thought would never cease; the loans were made out of what seemed her superfluity; but her prosperity also was unreal, as time was to show.

Meanwhile, the attempt to pay the debts was producing an unexpected result. The chief creditors were France (owing to her giant share of German reparations), America and Britain. France and America were highly protectionist countries, which meant that they made it as difficult as possible for their debtors to pay them in goods: America, indeed, raised her tariffs to prohibitive levels for this precise purpose. Accordingly there set in a drain of gold towards America and France; and the more this went on, the more difficult it became for other countries to maintain the Gold Standard, so painfully re-established. Finally the gigantic bubble of American prosperity was pricked by the New York Stock Exchange crash of October 1929. American lending came to an end; and the financial and economic crisis began which threatened Britain with the collapse of her credit, and which led to the experiment of "National" government.

II

We shall have to return presently to the immediate antecedents of the crisis. But before we do so, it is necessary to consider certain serious blunders of policy during the years before 1929 which made it more difficult for Britain to stand the crisis when it came.

The first of these was the way in which the British debt to America was fixed. This was the work of Mr. Baldwin, then Chancellor of the Exchequer in Mr. Bonar Law's Government. He went across to America in 1922 to negotiate a settlement; but instead of trying to arrange for a general adjustment of all the debts, he made a separate agreement for Britain which was so onerous in its terms that his chief, Mr. Bonar Law, almost resigned in despair when he heard of it. Since far more favourable terms were subsequently granted by America to the other European debtors, it seems probable that a much better arrangement might have been made. Perhaps Mr. Baldwin, in his easy-going way, thought that it did not matter what obligations Britain undertook, seeing that she had already announced her intention of getting from Germany and the Allies as much as, and no more than, would suffice to meet her debt to America. But he did not reflect that he was destroying the chance of getting a general adjustment, that he was putting unnecessarily high the amount which Britain would have to exact from her debtors, and that he was thereby delaying and rendering more difficult the removal of one of the chief causes of European unsettlement. In the end, Mr. Baldwin's agreement was practically (though not formally) repudiated

by the National Government of which he was a principal member. The repudiation of an acknowledged debt is not an act in which Britain can take any pride.

A still more serious blunder was the way in which, and the level at which, Britain returned to the Gold Standard in 1925. The ministers responsible for this were Mr. Baldwin, then Prime Minister, and Mr. Winston Churchill, then Chancellor of the Exchequer. It was decided, without consulting Parliament, to fix the value of the pound in gold at its pre-war level; whereas France, when she came to deal with the same problem, fixed the value of the franc in gold at only one-fifth of the pre-war level. It was held that to return to the pre-war gold value of the pound would prove the financial stability of Britain to the world, by enabling "the pound to look the dollar in the face." In the event, it had exactly the opposite effect: it was because we had returned to gold at too high a level that we were driven off it in 1931. And it had other bad effects. The value or purchasing-power of the pound having been thus increased, all creditors were enriched and all debtors were impoverished; for though the number of pounds to be paid by a debtor was not altered, the value of these pounds, and the amount of work that had to be done to earn them, was increased. The burden of the national debt, and of all debentures and fixed-interest securities, was also increased; and since there was no way of reducing wages in proportion to the increased purchasing power of the pound, manufacturers found they had to make and sell more goods to meet their wages-bill, the interest on their loans, their taxes, and their rates. This meant that they had to work at a loss, or close

down (thus causing unemployment), or raise their prices. If they raised their prices, they lost sales, especially abroad. Consequently export trade was crippled, and Britain failed to get her share of the general improvement in international trade that marked the years 1924-9; the districts and the industries (such as cotton, coal, and shipping) that depended upon export trade, already hard hit by the causes we have discussed, were still more seriously hurt, and these districts began to be described as the "distressed areas." At the same time, the increase in the value of the pound made it possible to get more foreign goods for a pound, especially as the foreign producer was not forced, as his British rival was by the working of the Gold Standard, to raise his prices. Imports therefore increased out of all proportion to exports, and this continued to be the case until we were driven off the Gold Standard. Protectionists attributed this growing disproportion between imports and exports to the system of free imports that still existed in Britain. They were wrong. The disproportion was due to the excessive value which had been given to the pound, and this would have operated in precisely the same way even if Britain had been a protectionist country. This tremendous blunder, for which Mr. Baldwin and Mr. Winston Churchill were responsible, not only prevented Britain from getting her proper share in the growing trade of 1924-9; it not only fostered unemployment; it not only penalised exports and put a premium upon imports; in the end it was the main factor that made Britain unable to resist the storm when it burst upon her in 1931.

A third blunder, almost as serious in its consequences, was the way in which unemployment relief was handled.