

Susan Howson & Donald Winch

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# The Economic Advisory Council 1930-1939

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A Study in Economic Advice  
during Depression  
and Recovery

# THE ECONOMIC ADVISORY COUNCIL 1930-1939

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DURING DEPRESSION  
AND RECOVERY

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THE ECONOMIC ADVISORY COUNCIL  
1930-1939

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Numbers in the text refer to Notes (pp. 382–404)  
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## CHAPTER 1

# INTRODUCTION

One of the dominant themes of twentieth-century political and economic history has been the assumption by the state not merely of an increasingly wide range of social and economic obligations but of explicit responsibilities in the field of economic management. Connected with this have been changes in the machinery of government, the most significant of which have been the creation of special organs of economic appraisal and advice. There has also been a succession of attempts to establish regular means of collaboration between government and the representatives of industry on matters of economic policy. Since the second world war the official employment of economists in government in this country has become commonplace; and it is no accident that all the important early milestones in the history of economic management in the post-Keynesian sense of the term – the main ones being the creation of the Central Economic Information Service within the Cabinet Office in 1939, the Kingsley Wood budget of 1941, and the White Paper on Employment Policy of 1944 – belong to the second world war. These developments also have an interesting pre-history which belongs to the inter-war period, and the Economic Advisory Council, the subject of this volume, played an important part in that pre-history.

The Economic Advisory Council was established by the second Labour Government in January 1930, and was widely regarded as the brainchild of the Prime Minister, Ramsay MacDonald. According to the Labour Party's election manifesto it was to be the Prime Minister's 'eyes and ears on economic questions'. More formally, but no less ambitiously, it was intended to advise the government on all matters of economic policy and to 'make continuous study of developments in trade and industry and in the use of national and imperial resources, of the effect of legislation and fiscal policy at home and abroad, and of all aspects of national, imperial and international economy with a bearing on the prosperity of the country'.<sup>1</sup> The Council was in fact the first attempt in Britain to recruit economists into government service on a full-time basis, and to create a mechanism whereby the government could call upon a wide range of outside experts for advice on a regular and formal basis.

The Council came into existence at a particularly difficult period in the political and economic history of Britain. When the minority Labour Government took office in 1929 it was pledged 'to deal immediately and

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practically' with the problem of chronic unemployment from which Britain had suffered throughout the 1920s. Not long after taking office, however, the government found itself faced with a severe intensification of unemployment as a result of the world-wide depression. Later, in 1931, it was overtaken by an international financial crisis which led to a split within the Cabinet over measures to deal with the crisis, the replacement of the Labour Government by a National Government under the leadership of MacDonald in August, and the abandonment of the gold standard in September.

Although individual members of the Council continued to give advice throughout the crisis period, the Council itself was in abeyance over the summer of 1931, and was never revived in the same form again. Partly, no doubt, as a result of the association of the Council with Ramsay MacDonald and the dramatic events which led to the break-up of the Labour Government, the verdict passed on the experiment so far by most historians has been one of failure.<sup>2</sup> The Council certainly did not live up to the claims made on its behalf when it was first created; and it cannot be said to have exercised a major influence, for good or ill, on the policies actually pursued by the government which brought it into being. But the precise nature of the failure of the original Council idea cannot be established by reference to the events and personalities of the unfortunate Labour Government alone. It should be seen against a wider background of hopes and experience throughout the 1920s which led many to advocate the creation of some kind of economic advisory body as an essential part of the machinery of government. Chapter 2 of this study attempts to provide this wider perspective, while Chapters 3 and 4 deal with the role of the Council in the policy-making machinery of the government against the background of world depression which conditioned its work and eventually led to its demise.

Another, more serious, defect in comment on the Economic Advisory Council by both contemporaries and historians has been a tendency to overlook or underestimate the accomplishments of its more modest successor, the Committee on Economic Information, which carried on many of the essential functions of the Economic Advisory Council throughout the 1930s.\* It has rightly been said of this Committee that 'it was the first body at the centre of the government consisting preponderantly of economists and concerned exclusively with economic advice'.<sup>3</sup> As such, it served as an essential stepping-stone towards the more ambitious advisory system devised during the early stages of the second world war, when it was transformed first into Stamp's Survey of War Plans and then, via the Central Economic Information Service, into the Economic Section of the Cabinet

\* A. J. P. Taylor manages to deal with the Committee in one sentence: '[The Council] remained theoretically in existence and even circulated some papers' (*English History 1914-1945*, p. 409n).

Office. Here again, though, the verdict passed by one of its members leans towards failure. Sir Arthur Salter wrote:

All the relevant information was at our disposal. We were able over a great range of controversial questions to make unanimous recommendations which would, if adopted, have profoundly changed the policy of the time. In retrospect they can, I think, be seen to have anticipated much that later became orthodox in Whitehall as elsewhere. But in fact we had little practical effect. Our reports were secret and could be and were rejected and ignored by any department which disliked them, without explanation in public, or even in private to ourselves.<sup>4</sup>

The purpose of Chapter 5 of this study is to provide an account of the work of the Committee on Economic Information by tracing its influence on those Treasury and Cabinet deliberations which form part of the history of economic management in this period. The study concludes with a chapter principally devoted to an evaluation of the successes and failures of the Economic Advisory Council in the light of the foregoing material. It is one of the main conclusions that the influence of the Committee on Economic Information on official attitudes and policies during the 1930s, as represented by the verdicts cited above, has been seriously undervalued.

Any account of bodies like the Council and the Committee must be more than a study in administrative history; it must deal with the economic situation faced by those being advised, and the possibilities thought to be available. One of the virtues of the reports produced by the Council is that they provide a clear picture of the situation as seen by contemporaries concerned with the formation and implementation of economic policies. Since we believe that the influence of the reports on policy-makers, notably in the Treasury after 1932, was by no means negligible, we hope that this study will throw light on the history of economic policy in the 1930s. Moreover, since the Council and later the Committee provided a forum and one of the channels through which the views of a number of leading economists – notably John Maynard Keynes – were made available to ministers and civil servants during a crucial period in the history of economics, we also hope that the material presented here will be of interest to historians of economic thought, and to those generally concerned with the application of social scientific expertise in government. The events and deliberations described here provide the relevant policy background to the writing of *The General Theory of Employment, Interest and Money*.

In common with some other recent studies, ours relies heavily on the wealth of official material now available at the Public Record Office.\* Indeed, this study was undertaken in the belief that a selection of the con-

\* Here we have in mind D. E. Moggridge, *The Return to Gold, 1925* (1969) and *British Monetary Policy 1924–1931* (1972); I. M. Drummond, *British Economic Policy and the Empire, 1919–1939* (1972) and *Imperial Economic Policy 1917–1939* (1974); W. H. Janeway, 'The Economic Policy of the Second Labour Government, 1929–31', unpublished Cambridge Ph.D. thesis, 1971; and S. K. Howson, *Domestic Monetary Management in Britain, 1919–38* (1975).

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fidential reports and memoranda written by economists for the Economic Advisory Council would be of sufficient interest to warrant its being made more readily and widely available. Its present form is the result of finding that publication of the documents would have to be accompanied by more than a brief editorial introduction.\*

\* Another consequence of the weight of relevant material among the government records is that we have had to concentrate on this evidence. For an account of economic policy in the inter-war years based on other evidence, see Donald Winch, *Economics and Policy: A Historical Study* (1969; revised paperback edn, 1972), Chs. 4–10.

## CHAPTER 2

# ORIGINS AND BACKGROUND

As it finally emerged the Economic Advisory Council represented a compromise between two ideas which were first articulated during the latter half of the first world war as part of the general interest in 'reconstruction'. The first of these ideas found expression in arguments for establishing what later became known as an economic general staff within the machinery of government, consisting of economists and statisticians acting as a regular organ of economic intelligence and advice. The second idea was more diffuse in character: it was advocated in several different guises during the inter-war period, but can be clearly recognised in its most influential form as a case for creating a national council composed mainly of employers' and trade union representatives drawn together in a deliberative assembly which could also serve as an advisory channel to the government on all matters affecting industrial relations as well as the wider issues of industrial and economic policy. While the former idea was largely administrative and technocratic in inspiration, though not, of course, without political significance, the latter entailed a combination of technocratic and representative elements.

### *Post-war reconstruction and the Committee of Civil Research*

There is a long history of involvement by economists in the processes of official policy-making in Britain which goes back to the first half of the nineteenth century. For the most part this took the form of *ad hoc* advice given by economists acting as members of, or expert witnesses before, Royal Commissions and parliamentary select committees; it did not extend to full-time employment of economists *as such* within government until the Economic Advisory Council was established. Before the first world war there was an optional paper on political economy in the Civil Service Commissioners' examinations, but as Sir John Anderson pointed out,

Up to the beginning of the first European War, the idea of employing professional economists in the business of government in any sphere seemed hardly to have occurred to anyone. It was, of course, only to a very limited extent that government and government departments had until then found occasion to concern themselves with economic problems. To the extent that they did, they produced their own experts.<sup>1</sup>

In this way a number of senior civil servants achieved prominence as internal economic and financial experts. This was true, for example, of Sir Hubert

Llewellyn Smith and Sir Sydney Chapman at the Board of Trade. The Treasury produced a succession of such figures, the leading examples before and after the war being Sir John Bradbury, Sir Basil Blackett, Sir Otto Niemeyer, Sir Frederick Leith-Ross, Sir Richard Hopkins (originally with the Board of Inland Revenue), Sir Frederick Phillips, and Sir Ralph Hawtrey. Hawtrey had entered the civil service on an ordinary basis before the war, and from 1919 onwards was Director of Financial Enquiries at the Treasury. During this period he published numerous works on economic theory, and was appointed Professor at the Royal Institute of International Affairs upon his retirement in 1944. He had earlier been Visiting Professor at Harvard in 1928-9.

During the war a number of economists and statisticians entered government service on a temporary basis. The most distinguished of these was John Maynard Keynes, who began his career as a civil servant at the India Office (1906-9) and served on the Royal Commission on Indian Finance and Currency in 1913 under the chairmanship of Austen Chamberlain. It was partly through Chamberlain that Keynes was drafted into the Treasury in 1914, where he came to take charge of a division concerned with external finance and subsequently became the principal Treasury adviser at the Peace Conference at Versailles. He resigned in 1919 in disagreement over the reparations question and the general peace terms.<sup>2</sup> Keynes later featured prominently as a member of the Economic Advisory Council alongside Josiah Stamp, another economist who began his career as a civil servant, though in the humble capacity of boy clerk. By the time Stamp left the civil service in 1919 to enter business, he had become Assistant Secretary at the Board of Trade, and was soon to be acknowledged one of the country's leading experts on taxation and the statistical problems connected with national income estimates.<sup>3</sup> According to Sir John Anderson, who was Stamp's official chief at the Board of Inland Revenue,

the proof that [Stamp] gave of the need for expert advice on economic problems, together with a realisation of the inconvenience and danger . . . of undue dependence on one man, even of the stupendous energy and resource of Stamp, must have stimulated consideration of possible alternative methods of organisation, particularly at a time when the progressive extension of Government activity in the economic field was seen to be inevitable.<sup>4</sup>

Other economists in war-time government service and later members of the Economic Advisory Council were Hubert Henderson (Secretary of the Cotton Control Board) and Arthur Salter (Director of Ship Requisitioning).

With the greatly expanded role of the state in coordinating and directing the national productive effort during the war came an increased awareness of the need to strengthen the machinery of economic intelligence at the departmental, if not Cabinet, level. The earliest effort in this direction was the establishment of a General Economic Department inside the Board of Trade in 1917. The prime mover was Llewellyn Smith, then Permanent

Secretary to the Board, whose aim, as he later explained to the Haldane Committee on the Machinery of Government, was to establish a body which would 'anticipate, watch and suggest means of dealing with, important questions and movements likely to arise in commerce and industry, and which from their generality or novelty did not fall within the scope of any specialised Department'.<sup>5</sup> It was to be staffed by civil service secondments and temporary appointments of students with degrees in economics. The Haldane Committee had been set up by the Ministry of Reconstruction; the report which it produced in 1918 commented favourably on the Board of Trade experiment, while making a general recommendation 'that in the sphere of civil government the duty of investigation and thought, as a preliminary to action, might with great advantage be more definitely recognised'. It also noted with favour the existence of the Medical Research Council and the establishment of the Department of Scientific and Industrial Research in 1916 under the direction of the Lord President of the Council; it considered the latter body might provide a model for a specialised research organisation concerned with economic questions, though it also recommended that every existing department should make provision for research, and envisaged the possible need for a separate Department of Intelligence and Research to work on problems outside the range of the other departments.<sup>6</sup>

The origins, therefore, of the case for an economic general staff, at the departmental level at least, can be traced back to the reconstruction movement which flourished briefly towards the end of the war; and its fate during the first half of the 1920s follows that of the movement generally. The mood of optimism concerning the possibilities of economic planning and national cooperation which prevailed at the end of the war soon evaporated in the face of pressures for dismantling war-time economic control.<sup>7</sup> The desire to return to pre-war methods of doing business was accompanied by an almost obsessive concern with ways of reducing government expenditure, particularly on administration, symbolised by the appointment of the powerful Geddes Committee on National Expenditure in 1921. Little or no action was taken to implement the findings of the Haldane Committee, and by 1922 the embryonic developments within the Board of Trade had fallen victims to the Geddes axe, leaving as their only residue the post of Chief Economic Adviser to the Government, a post which Llewellyn Smith occupied after his retirement as Permanent Secretary.<sup>8</sup> The main duties of this post in the 1920s and 1930s were connected with international and inter-imperial matters, preparatory work for international conferences, and attendance as British delegate on such bodies as the committees of the Economic Organisation of the League of Nations.<sup>9</sup> The next holder of the post, from 1930 to 1932, was Sir Sydney Chapman, also previously Permanent Secretary to the Board of Trade. His successor was a Treasury official, Sir Frederick Leith-Ross, who continued to carry out the original functions

as delegate to various standing international committees, but retained many of his Treasury duties connected with international finance. He was also involved in the work of the Economic Advisory Council. Leith-Ross regarded his title as a misnomer, and his attitude is perhaps best summed up by his comment that while some ministers took the title literally and asked his advice on domestic economic problems, 'happily, [such requests] were not frequent'.<sup>10</sup>

The case for employing economic experts within government has usually gone hand in hand with arguments for improving the collection and presentation of official statistics. In November 1919 a petition on this subject organised by a committee of the Royal Statistical Society and signed by an impressive list of statisticians and economists was presented to the Prime Minister. It drew attention to various major defects in the collection of official statistics and urged the need for a central statistical office to be established with adequate funds to supervise and coordinate the statistical work of all the departments with economic responsibilities. It pointed out that no general information on wages had been made available since the 1906 census; that home production figures were incomplete; that no figures existed on household consumption of food and clothing; and that the census returns on population had never been amalgamated with figures of national production and wages. Finally, the petition requested that a Royal Commission be appointed to consider this range of questions. The belated official response came in 1921 in the form of a report by a committee under the chairmanship of Sir Alfred Watson which denied the need for a Royal Commission or any general supervision of the collection of statistics; the committee also questioned the value, especially at a time when economy in public expenditure was at a premium, of extra-departmental data, such as that on national income and wealth, which had no direct relevance to the needs of day-to-day administration. As a concession to the petition, however, the committee recommended that an inter-departmental consultative committee should be set up to advise the Cabinet and the departments on statistical matters.<sup>11</sup>

The second idea to emerge in the immediate post-war period, and to figure later in the minds of some proponents of the Economic Advisory Council, was that of establishing some form of representative national industrial council.\* One of the more influential committees set up by the Ministry of Reconstruction was that which sat under the chairmanship of J. H. Whitley to consider remedies for industrial unrest. The recommendations of this

\* The idea has an earlier history which can be traced back to the Industrial Union society of the 1890s, a National Federation proposal of 1900, and an actual Industrial Council set up by the government in 1911 on the advice of Sir Charles Macara. On this, and for a detailed history of the episode considered in the text, see E. Halévy, 'The Policy of Social Peace in England', in *The Era of Tyrannies* (English edn, 1967); and R. Charles, *The Development of Industrial Relations in Britain 1911-39* (1973), pp. 36-74, 229-59.



committee in favour of sponsoring an elaborate network of joint industrial councils at the national, district, and works level were, of course, intended as a means of reducing conflict between capital and labour on an industry-by-industry basis; and the limited successes of 'Whitleyism' were achieved in specific industries which offered propitious circumstances for joint consultation. For a brief interlude after the war there was also considerable interest in the possibility of establishing a single national body which could be placed, albeit somewhat precariously, at the apex of the Whitley industrial relations pyramid. The interest focussed on the proceedings of the National Industrial Conference attended by eight hundred representatives drawn from both sides of industry which had its first meeting in February 1919. The conference was called into being by the Prime Minister, Lloyd George, and presided over by the Minister of Labour, Sir Robert Horne. A Provisional Joint Committee consisting of thirty representatives from each side of industry was charged with a brief to produce reports on wages, hours of work, unemployment, and all the major current sources of disagreement between unions, employers, and the government. One of the chief recommendations of this body was that a permanent elected National Industrial Council should be established which would meet bi-annually to consider industrial questions. Between meetings a standing committee under the chairmanship of the Minister of Labour would carry on the functions of the council, which were to intervene in industrial disputes where normal conciliation procedures had failed, and to act as the official consultative body to the government on all legislative matters affecting industry.

For a time high hopes centred on this proposal; and the whole report of the Provisional Joint Committee was adopted unanimously at the second meeting of the National Industrial Conference held in April. It subsequently became clear, however, that the government was mainly interested in using the conference as a temporary peace-making device, and had no intention of implementing the recommendations of the report of the Provisional Joint Committee. As a result, the trade union representatives resigned and the whole conference was finally disbanded in 1921. In spite of this failure the episode provided a precedent which some felt worth recalling later in the decade, particularly when reinforced by the more positive experience of the Mond-Turner talks held in 1928-9.<sup>12</sup>

The first signs of a revival of interest in questions of economic inquiry and intelligence came during the election campaign at the end of 1923. This election was fought by the Conservatives on the single issue of tariff protection as a means of reducing unemployment, and economic issues remained well to the fore throughout the campaign. There was a considerable measure of bi-partisan support for the publication of more and better information on industrial and economic matters.<sup>13</sup> For Labour supporters there was an added interest derived from an assumption that all such disclosures would