

THE ECONOMIC ADVISORY COUNCIL 1930-1939

A STUDY IN ECONOMIC ADVICE
DURING DEPRESSION
AND RECOVERY

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CONTENTS

<i>Acknowledgements</i>	<i>page vii</i>
1 INTRODUCTION	I
2 ORIGINS AND BACKGROUND	5
Post-war reconstruction and the Committee of Civil Research	5
The second Labour Government and the formation of the Council	17
3 THE COUNCIL AND THE SLUMP	30
The early meetings and reports	33
The Prime Minister's questions	39
The Committee of Economists	46
Council deliberations and Cabinet decisions in the light of the Economists' report	73
4 ECONOMIC ADVICE DURING THE CRISIS	82
The crisis	85
The reorientation of policy after September 1931	95
5 THE COMMITTEE ON ECONOMIC INFORMATION 1932-9	106
The Committee on Economic Information and the cheap money policy 1932-5	109
The Keynes-Henderson plan and the World Economic Conference of 1933	114
The Committee on Economic Information and budgetary policy 1932-5	121
Trade policy 1934	132
Recession and the measures to combat it	134
The economic problems of defence	148
<i>A note on the Committee on Scientific Research</i>	152
6 CONCLUSIONS	154
<i>Selected reports</i>	
Reports of Committee on Economic Outlook, April and May 1930:	
'The Economic Outlook'	165
Report of Committee of Economists, October 1930	180
First Report of Committee on Economic Information, September 1931:	
'The Balance of International Payments'	243
Committee on Financial Questions, report on sterling policy, March 1932	254

CONTENTS

Fourth Report of Committee on Economic Information: 'Survey of the Economic Situation, July 1932'	<i>Page</i> 263
Fifth Report of Committee on Economic Information, November 1932, sections III and IV	281
Sixth Report of Committee on Economic Information: 'Financial Policy, February 1933'	287
Thirteenth Report of Committee on Economic Information, October 1934: 'The Co-ordination of Trade Policy'	292
Eighteenth Report of Committee on Economic Information, July 1935: 'The Economic Outlook for the Next Few Years'	319
Twenty-second Report of Committee on Economic Information, February 1937: 'Economic Policy and the Maintenance of Trade Activity'	343
APPENDIX 1 LIST OF COMMITTEES	354
APPENDIX 2 DRAMATIS PERSONAE	371
<i>Notes</i>	382
<i>Bibliography</i>	405
<i>Index</i>	414

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'.¹ 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

INTRODUCTION

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.² 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'.³ 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).

INTRODUCTION

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.⁴

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).

INTRODUCTION

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.