Reappraising the Controversy between the Liberal Free Trader and the Conservative Tariff Reformer*

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I

On the tradition of economic policy in modern Britain, there exists an influential thesis that the tide of international or cosmopolitan policy driven by financial interests competed with another tide of national and imperial policy driven by industrial and agricultural interests. According to this thesis, the high light of the battle between those two policies came with the Tariff Reform controversy caused by Joseph Chamberlain in the Edwardian age and as a result the internationalist camp (the free traders) was victorious over the imperialist and nationalistic camp (the tariff reformers). This thesis was pioneeringly advocated by Bernard Semmel and thereafter its basic essence has been supported by many scholars and recently refined by Peter Cain and Anthony Hopkins as the theory of the gentlemanly capitalism.

Admittedly the simple binarity of this thesis has been criticized by Anthony Howe, Martin Daunton or Andrew Morrison, so it is exaggeration to say that this thesis has been unchallenged until now. Especially Howe recently presented a strong argument against the idea of the City’s dominance in the Edwardian age. Therefore it might be possible to say that there does not exist a complete consensus at least about the view that the City financiers or the gentlemanly capitalists exerted monopolistic influence upon the making of economic policy.

* I should like to thank, Professor Anthony Howe, Professor Geoffrey Searle, Dr. Frank Trentmann, Professor Peter Cain, for their kind advice with this paper.


3 A.C.Howe, ‘The Liberals and the City of London’, in R.Michie and P.Williamson eds., The Government and the City in Twentieth Century Britain, Cambridge, forthcoming. The draft of this paper was distributed at the seminar at Kumamoto University in December 2002.
Nevertheless there is a consensus concerning the view that not the Liberal free traders but the Conservative tariff reformers earnestly urged resurrection of industry. In that sense, even if the above thesis has not been irrefutable, the essence of it has still a dominant influence.

In this paper, I do not necessarily aim to upset the foundation of that thesis completely. Instead I will suggest a rather new perspective indicating the existence of a paradoxical twist. That is to say, through turning attention to successive phase between the Edwardian age and the inter-war years, I will demonstrate that generally the Liberal free traders continued to support the industrial interests far more fervently than the Conservative tariff reformers, and that the industrial elements were consistently marginalised by the Conservative policymakers.

II

There has already been much accumulation of studies about the origin and the characteristics of the Tariff Reform movement. Although, as Cain or Ewen Green describe, the movement was a 'multi-faceted' one, it is indisputable that one element of that movement was industrial protectionism which tried to resurrect Britain's industrial power. This strategy of industrial protectionism aimed to build producers' alliance between industrial capitalists and industrial labourers. This producers' alliance was expected to be forged through high prices under protective tariffs. That is to say, high prices promised high profits to capitalists and high wages to labourers. Thus, as long as industrial protectionism presupposed high prices, the core industries which were expected to support it were home market oriented industries primarily concentrated in the Midlands. As a result Chamberlain's movement was often identified with expression of interests of Birmingham, and it was not groundless, even if it could not explain all aspects of the movement that was multi-faceted.

But this industrial aspect of the movement contradicted the other aspects of the movement in some points. First, the imperial element of the movement turned out to be a blockade to realisation of the industrial protectionism. In the Tariff Reform programme the protective tariffs for industry were always accompanied by imperial preference which required agricultural tariffs or the 'food taxes', at least until 1913. As expected from the beginning, the pledge of agricultural tariffs functioned as the most burdensome obstruction to gain support for Tariff Reform in the General Elections. Therefore, as long as the Conservatives set their priority in winning the General Elections, their pledge of imperial preference should have been given up as soon as possible. Nevertheless the Conservatives adhered to the food taxes till 1913 despite three consecutive losses in General Elections.

In those days Britain's agricultural population had already decreased to around 10%, which was

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an abnormally low figure in comparison with other industrial countries.\textsuperscript{5} Accordingly, in contrast to other countries, British protectionists could not rely on support of the agricultural population. Although this fact has not received much attention, the exceptionally low population in agriculture was undoubtedly one of the main factors that contributed to the exceptional strength of free traders in Britain. Therefore the Conservatives’ adherence to agricultural tariffs implied that they prioritised imperialism over industrial protectionism. In fact Richard Jay indicates that Joseph Chamberlain’s main concern in his later days was an imperial matter rather than an industrial matter.\textsuperscript{6} In 1913, Andrew Bonar Law also stated: ‘I have looked back some of my old speeches on this subject, and I find that I have always said that the Food Duties were not proposed by us for the sake of Protection, but solely for the sake of Preference; and obviously if they are not necessary for Preference then they would not be imposed. This is not only the view which I have always advocated, but so far as I can remember it was the view invariably taken by Mr. Chamberlain himself.’\textsuperscript{7}

Second, advocacy of industrial protectionism contradicted the character of the Conservatives to a great degree. According to several studies, the difference in economic interests between the two major parties became clearer from 1886. While within the Conservatives landed and financial interests were still dominant, for the Liberals industrial interests became dominant.\textsuperscript{8} According to Y. Cassis, mainstream City financiers tended to favour the Conservatives, or the Unionists.\textsuperscript{9} As for industry, interests of heavy industries such as the steel industry tended to be included in the Conservatives, while interests of light industries such as the textile industry tended to be included in the Liberals.\textsuperscript{10} Of course we should beware of simple classification, but it is not senseless to discern a general tendency.

Recognising this general tendency, one can say that the Tariff Reform movement had a serious contradiction from the beginning. As far as the interests of Birmingham (heavy industries) were nationalistic in demanding domestic protection, inevitably they could not help falling foul of the financial interests that were fundamentally cosmopolitan. That is to say, the original coexistence of the City with Birmingham in the Conservatives had a serious contradiction.

On the surface this contradiction was resolved by 1909, when the tariff reformers succeeded in uniting the Conservatives under their programme. But it is simplistic to interpret it as a victory of

\textsuperscript{5} Even the US and Germany had agricultural population amounting to over 30\% in those days.
the industrial element in the Conservatives. In fact, as Cain and Hopkins argue, the disagreement between the nationalistic elements (Birmingham) and the cosmopolitan elements (the City) was overcome, not through the victory of Birmingham, but through the emergence of an agreement on the desirability for indirect taxes.\textsuperscript{11} That is to say, the financial and social policies of the Liberal Government had directly threatened gentlemanly elites through an increase in direct taxes mainly targeted at uneared income, with the result that gentlemanly elites including a majority of City financiers converted to Tariff Reform. Therefore the contradictory alliance between Birmingham and the City continued as well after 1909.

As for the abandonment of imperial preference in 1913, it is possible to suggest two different hypotheses. On the one hand, one can say that it implied ‘
\textit{embourgeoisement}
\textsuperscript{12}' of the Conservatives.\textsuperscript{12} According to this view, under the new leader Bonar Law, who had been an iron merchant, the Conservatives became more identified as a party of middle class through forsaking landed interests, one part of gentlemanly elites. On the other hand, one can also say that it implied rather the victory of mainstream gentlemanly elites (financial interests) over the die-hard tariff reformers.\textsuperscript{13} Conforming to this view, the former decided to prioritise the purpose of winning elections over the imperial ideal held by the latter. Accordingly, the forsaking of landed interests meant that relative density within gentlemanly elites had inclined decisively towards financial interests as a consequence of a sharp increase in disposition of lands since 1910.

Of these two hypotheses, the latter one is far more persuasive. For example, in 1912 in his diary Austen Chamberlain referred to Lord Lansdowne, Lord Londonderry, Lord Derby and Walter Long who were traditional gentlemanly elites as sceptical about the pledge of the food taxes, for they recognised it as being the main obstruction to electoral victory.\textsuperscript{14} On the other hand, Chamberlain’s die-hard comrades who resisted abandonment of that pledge to the last were, W.A.S.Hewins, Leopold Amery, Henry Page Croft, George Lloyd, Leo Maxse, George Wyndham, Henry Chaplin and Lord Selborne.\textsuperscript{15} Ironically, except for the last two they belonged to the middle class. Therefore it is possible to say that paradoxically through abandonment of agricultural protection the traditional gentlemanly elites overcame the imperialistic strategy mainly driven by the middle class and kept their hegemony in the Conservatives.

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\textsuperscript{11} Cain and Hopkins, \textit{op.cit.}, p.199.
\textsuperscript{12} Green, \textit{op.cit.}, pp.317-319.
\textsuperscript{13} Cain, ‘Political Economy’,p.59.; Cain and Hopkins,\textit{op.cit.}, p.199.
\textsuperscript{14} Chamberlain, \textit{op.cit.}, pp.432-433. J.L.Garvin was very exceptional among the radical tariff reformers in that he recommended not to push the food taxes. \textit{Ibid.}, p.298,300.
\textsuperscript{15} Letters from and to Chamberlain. \textit{Ibid.}, pp.509-520.
Now I turn to the situation concerning the Liberal Government. It is true that the Liberals stubbornly pursued the free trade policy that corresponded with the interests of the City as an international financial centre. However the domestic economic policy of the Liberals strikingly continued encroaching upon the City’s interests. The Liberal Government, especially under the premier Herbert Henry Asquith since 1908, carried out consecutive social policies represented by the Old Age Pensions Act and the National Insurance Act. In turn these social policies were mainly financed by increase in taxes upon rentier class or gentlemanly elites. As B.K.Murray demonstrates, while the industrial middle class was given the greatest preference as to taxation, the labour class gained the effect of redistribution of income through social policies.\textsuperscript{16} Therefore, in a sense, it is natural that many financiers showed definite hostility towards the Liberal Government. In fact Anthony Howe has clearly verified the City’s hostility to the Liberal Government.\textsuperscript{17} I will add some findings to his observation.

It is not so easy to choose the most representative opinion in the City, because, as Daunton has argued, City financiers involved in various occupations.\textsuperscript{18} However undoubtedly one representative figure was Sir Frederick Banbury. He was a stockbroker as well as a director of the London and Provincial Bank, and was the Conservative M.P. from the constituency of the City from 1906 to 1924. Unlike another member of the City constituency, Arthur James Balfour, he was a rather unknown backbencher, so he needed to be sensitive to a majority opinion of the constituency in order to keep his position. Banbury always actively joined disputes on financial matters and as a financial specialist consistently argued against every financial and social policy of the Liberal Government. That is to say, he was fiercely opposed to the income tax reform in 1907 in which differentiation between unearned and earned income was introduced, the Old Age Pensions Bill in 1908, the ‘People’s Budget’ in 1909, the National Insurance Bill in 1911, and the Finance Bill in 1914 in which the principle of increasing direct taxes on unearned income was further developed.\textsuperscript{19}

Banbury’s fierce hostility towards the Liberal financial policies was shared by mainstream financiers in the City. For example, according to Lord Avebury, the City petition that opposed introducing the Old-Age Pensions collected some 2,000 signatures in only a week.\textsuperscript{20} The hostility


\textsuperscript{17} Howe, ‘The Liberals and the City of London’.


\textsuperscript{20} \textit{Parliamentary Debates (House of Lords)}, 4\textsuperscript{th} ser. vol.192, cols.1402-1403.

\textsuperscript{21} Howe, ‘The Liberals and the City of London’.
reached a climax with the open letter signed by representative City figures and the City meeting attended by about one thousand people to protest the People’s Budget. As a consequence in the 1910 January General Election the constituency of the City overwhelmingly voted for the Conservative candidates Balfour and Banbury who pledged to introduce Tariff Reform, and defeated the Liberal free trader candidate, Sir Hugh Bell.

Admittedly, as Cain and Hopkins argue, the City’s positive attitude towards fiscal change should be regarded as mere opportunism rather than a sincere expression of support for protectionism. But as long as a triumph of the Conservatives in the General Election meant the realisation of Tariff Reform, it is an exaggeration for them to say, ‘the two main parties still represented a solid wall of opposition to any fundamental changes in Britain’s internationalist economic policy. It was a wall which the Tariff Reformers could neither scale nor demolish.”

In fact there was a little possibility to realise Tariff Reform even after the Election, for there remained some room for the Conservatives to negotiate with the Irish Nationalists because of the latter’s antagonism against the People’s Budget. Therefore it is instead possible to say that Britain’s internationalist economic policy, or free trade policy, was in danger due to nothing other than the opposition by the City, even if that opposition was a reluctant one.

Of course, as Howe also admits, the City’s opposition towards the Liberal Government was not unanimous. While the Bankers’ Magazine, the Financial Times and the Times were consistently hostile to the Liberal Government, the Economist and the Statist continued to support the Liberals. The following article from the Economist criticising the bankers’ open letter was probably the typical opinion of the City Liberals.

Briefly put, the complaint is that the principle of graduation has been carried too far both in the income-tax and the death duties, and that on the higher reaches, both of income and of accumulated wealth, the Chancellor of the Exchequer has fallen with excessive severity. · · · We agree, but what is the alternative? · · · We cannot imagine any sort of new taxation for unproductive purposes which would not, in the words of the signatories, “prove seriously injurious to the commerce and industries of the country.” But we know — and they know — of proposals for discouraging and even suppressing the foreign trade of the country, which would very speedily ruin the Port of London, and put an end to our banking and mercantile supremacy. There is this all-important advantage about Mr Lloyd George’s Budget, that the bulk of his proposals do not touch or impede the operations of commerce, though they exact larger contributions from those members of the community who have profited most from their operations.

Besides, the Free Trader established by the Free Trade Union carried the free trade manifesto

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22 Cain and Hopkins, op. cit., p.199.
23 Ibid.
24 Howe, ‘The Liberals and the City of London’
signed by many financiers in July 1909.27 However the line-up of the free trade manifesto was rather pale in comparison with that of the bankers’ letter to the Liberal Government. Even the Economist and the Statist could not help admitting the strong inclination to the support of Tariff Reform among the City financiers.28 For example, the Economist stated, ‘It seems almost incredible that any Londoner with experiences of the conditions of trade and business in London should waver for a moment in his allegiance to Free-trade. · · · Nevertheless, it must be admitted that London opinion on Free-trade is not as whole-hearted and unanimous as it should be, and that, partly owing to their dislike of the alternative proposals, and of the variegated eloquence with which they have been put forward, many from whom a sturdier attitude might have been expected are inclined to bow down before the golden images of Tariff Reform.’29

The Free Trader also carried an article titled ‘The City and Tariff Reform’ after the Election, and admitted, ‘The majority of City men call themselves Tariff Reformers because the majority of City men belong to the Conservative party, and Tariff Reform, was through the agency of Mr. Chamberlain, made a plank in the platform of the Conservative party.’30

Thus the City Liberals or the City free traders were apparently a minority group as they themselves admitted. In fact even Lord Avebury, who was chairman of the City of London Free Trade Committee, and who was first on the list of the free trade manifesto, stated at the House of Lords, ‘No doubt a subsequent meeting was held to support the Budget, but with one or two exceptions, easy to account for, those responsible for the trade and commerce of the country were conspicuous by their absence. I believe, for instance, that not a single chairman of a bank, of an insurance company, or, indeed, of any great commercial institution attended to support the Prime Minister.’31

As a result he voted for the amendment which practically rejected the Finance Bill. Strikingly as well, former Liberal Prime Minister Lord Rosebery who was a son-in-law of Lord Rothschild fiercely attacked the budget,32 with the result that he abstained in the division.

27 Free Trader, July 15, 1909, pp.188-189.
28 According to The Statist, ‘Mr. Lloyd George’s Budget was very distasteful to exceedingly powerful parties, individuals, and groups. It united against it the great majority of the landed interest, the great financial interests, and the liquor interests, while it appealed strongly to Free Traders and the more intelligent of the working classes’. (underlined by Matsunaga) Ibid., January 15, 1910, p.113.
29 The Economist, January 1, 1910, p.3.
30 Free Trader, May 15, 1910, p.124.
31 Parliamentary Debates (Lords),vol.4, cols.898-899. Avebury exaggerated in that he failed to mention E.H.Holden, chairman of the Midland Bank. It should be also noted that Avebury was not a Liberal but a Unionist free trader.
In a sense it is very natural that gentlemanly elites including City financiers were opposed to the Liberal financial and social policies, as the burden of taxes was mainly imposed upon them and they had no direct interests in the welfare of labourers. If so, is it possible to argue in turn that the Liberal economic policy was mainly determined by consideration for industrial interests? Howe has eschewed such a view that smacks of the economic determinism, instead he proposes the view emphasizing the political motive. However I will try to proceed with an economic interpretation below.

As above mentioned, in the early 20th century industrial interests were predominant in the Liberals, and the greatest stronghold of the Liberals was, except for the ‘Celtic Fringe’, northern England which was the base of export industries. But during the term from 1895 to 1903, their popularity in northern England was successfully eroded by the Conservatives partly due to the unpopularity of the Home Rule and partly due to the Conservatives’ commitment to free trade. Especially Lancashire and Cheshire, the centre of the cotton industry, held the keystone in General Elections because of their huge industrial populations. Accordingly, as Peter Clarke has argued, the electoral success of the Liberals depended to a great degree upon whether they could recapture this original stronghold or not. Therefore the inauguration of the Tariff Reform campaign in 1903 presented a unique opportunity for the Liberals to recapture Lancashire. Naturally the Liberals squarely rebutted the tariff reformers’ claim that Tariff Reform was a producer’s policy and that Free Trade was a rentier’s policy. Conversely the Liberals insisted that Free Trade was a producer’s policy, as it assured labourers of cheap bread and assured industrialists of high industrial competitiveness. Moreover the Liberals insisted that Tariff Reform was a rentier’s policy, as it assured landlords of high rents. That is to say, ‘Tariff Reform means happier dukes!’

Thus the 1906 General Election (to a lesser degree, the 1910 General Elections as well) was fought as the battle between the tariff reformer producers’ alliance and the free trader producers’ alliance at least in rhetorical terms, because the producer population had far more significance than the tiny gentlemanly capitalist population at the time of an election. As a result the 1906 General Election ended as the overwhelming triumph of the Liberals that succeeded in recapturing northern England. In other words, this was the victory of Manchester, and at the same time the defeat of Birmingham, and at least not unreserved victory of the City. Balfour’s defeat at Manchester and his return to seat at the City was symbolic.

The Liberal social policies can be also understood from the standpoint of industrial interests. It is true that many industrialists showed definite hostility towards the Liberals’ social policies, for those

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32 The Statist, September 18, 1909, p.642.
33 Howe, ‘The Liberals and the City of London’.
policies were often regarded as a kind of socialism. But, as Roy Hay has argued, some progressive industrialists supported those policies on the ground that they contributed to employers' interests. In fact it is possible to argue that social policy contributes to employer's interests as well as employee's interests in theory. Firstly, improving the purchasing power of labourers through social policy would enlarge home market with the result that especially sheltered industries would gain. Secondly, social policy might improve labour productivity through strengthening labourers' morale. Although these effects were most frequently mentioned, it seems to be not enough on their own to persuade most employers. Therefore I emphasise a third point, the possibility to enable employers to control wages. It is understandable that this point was rarely argued openly, for a mention of the purpose of wage control would have aroused the antagonism of labourers against social policy.

There were mainly two ways to control wages. One way which was adopted by the Conservative government from 1900 to 1905 was to weaken trade unions through upholding the anti-labour decisions by the House of Lords. In fact, Lord Halsbury, Lord Chancellor in the Conservative government, was a radical anti-unionist. The Liberal Government adopted another way, in which they placated labourers and shared wage costs through social policies. In fact, as President of the Board of Trade, Winston Churchill argued at the conference with the employers that the State contribution to the Unemployment Insurance scheme was 'a direct subvention' to industry and that the scheme was 'wages spreading'. He also confided this view to the officials of the Board who were responsible for the scheme.

The potential of social policy to enable the control of wages was particularly significant under free trade policy and the fixed exchange rate of the gold standard, because under such conditions controlling wage levels was indispensable in order to keep industrial competitiveness. Under a protectionist policy that postulates high wages to a certain extent, wage control is not so indispens-

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36 This was the main ground the Board of Trade based on. William Beveridge wrote, 'Employers would derive benefit from the scheme, in so far as it keeps workmen from starvation during their idle moments. Employers will gain also through the better discipline of their men, who will be unwilling to risk forfeiting their unemployed benefit by misbehaviour.' 'Unemployed Insurance, Objections and Answers', in Beveridge Papers at the LSE Library, III. 37, A. 3, p.3.

37 One friendly society argued against social policy on the ground that the proposals of middle class politicians were means of evading the just demands of the working class for higher wages. P. Thane, 'Non-contributory versus Insurance Pensions 1878-1908', Thane ed., op.cit., p.94.


able. In fact Joseph Chamberlain finally could withdraw the promise of old-age pensions, insisting that high wages under the protection would give labourers enough welfare. Therefore, in a sense, it is possible to argue that the Liberal free trade policy required social policy to control wages in order to keep Britain’s industrial competitiveness.

Thus, at least from the standpoint of the export industries, the combination of free trade with social policy under the Liberal Government corresponded with their interests. If one accepts this view, the division in the Manchester Chamber of Commerce over the pros and cons of National Insurance can be interpreted as the division between those who supported the Insurance from the viewpoint of the longer term and those who opposed it from the viewpoint of the shorter term. In other words, the latter (the rebel led by Sir Charles Macara) emphasised the increase in productive cost due to the employers’ contribution to the insurance fund, while the former (the mainstreamer in the Chamber) expected that that cost would be compensated by strengthening the negotiating power of employers over wages.

In trying to understand the Liberal economic policy from the standpoint of industrial interests, the Board of Trade under the Liberal Government should be regarded as a key actor. In other words, the Board of Trade was the citadel of the Liberal producers’ alliance. As is widely known the Board of Trade was a traditional stronghold of free trade, and played a major role as a propagandizer in opposing the Tariff Reform campaign. After 1905, under David Lloyd George and Churchill, the Board of Trade unfolded dynamic activity above all on the aspect of social and industrial policies. In addition, the energetic Permanent Secretary Hubert Llewellyn Smith succeeded in taking the initiative in commercial policy from the Foreign Office. According to J.A.M.Caldwell, in terms of expenditure, while the civil service as a whole increased its outlay by 124 per cent from 1900 to 1914, the comparable figure for the Board of Trade was 595 per cent. Its increase in establishment between the same years of 821 per cent was equally abnormal.

Thus the Commercial, Labour and Statistical Department at the Board of Trade unfolded social policy (such as the Unemployment Insurance) and industrial policy (such as the Trade Boards and Labour Exchanges Acts) as well as commercial diplomacy. And this dynamic activity of the Board of Trade can be regarded as the main part of the Liberal industrial strategy in which free trade policy was organically connected with domestic economic policy.

Roger Davidson has interpreted social and industrial policies of the Board of Trade under the

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41 As to the revolt by Macara, see Hay, op.cit., p.440. As to the view of W.T.Stubbs, President of the Manchester Chamber of Commerce, see The Manchester Chamber of Commerce Monthly Record, July 31, 1911, pp.195-196.
43 Cited in ibid., p.227.
framework of ‘social control’, and has verified that basically civil servants at the Board pursued the controlling of wage levels.\textsuperscript{45} This view corroborates my thesis that the primary purpose of the Liberal economic policy was to keep Britain’s industrial competitiveness.

If one accepts that the industrial interests were a priority for the Liberals, the next question will emerge. That is to say, was the combination of complete free trade with free capital export under the Liberal Government really beneficial to industry as a whole?

Firstly, if the Liberals prioritised industrial interests, it would be more natural that they adopt retaliatory tariffs for industries, not complete free trade. Retaliatory tariffs that were not accompanied by agricultural tariffs would be congruent with the interests of export industries as well as those of home industries, as retaliation would enable British government to negotiate reduction of other countries’ tariffs. In fact Frank Trentmann has verified that a majority of industrialists supported retaliation, the middle way between complete free trade and the full Tariff Reform in the Edwardian age.\textsuperscript{46} Therefore, it is certainly difficult to interpret the motive for the Liberal free trade policy in terms of economic interests alone.

To understand this point, rather we should turn to Trentmann’s other argument that Britain’s free trade in those days should be interpreted from the perspective of Britain’s political culture. In short, the political culture of free trade was so dominant that free trade was regarded as a symbol of social progress while Tariff Reform was regarded as a symbol of plutocracy. In other words, free trade symbolised a kind of Weltanshauung rather than a mere expression of economic interests.\textsuperscript{47}

Undoubtedly this argument is successful in explaining the reason why the Liberals adhered to unreserved free trade policy to the end. However his thesis that the consumer politics of Free Trade defeated the producer politics of Tariff Reform in the battle of political culture is disputable, if not deniable. For, as I have already argued, the Liberal free trade can be interpreted as not only consumer’s policy but also as producer’s policy. In fact, J.A.Hobson, whose vision of the ‘citizen consumer’ is used as a keyword by Trentmann, argued in his article analysing the 1910 General Election that the Election had been the battle between ‘a Producer’s England’ (northern England) supporting the Liberals and ‘a Consumer’s England’ (southern England) supporting the Conserva-

\textsuperscript{44} Above all, Llewellyn Smith not only authored the draft of the Unemployment Insurance scheme from 1908 to 1909, but also practically negotiated the Anglo-Japanese Commercial Treaty on his own from 1910 to 1911. FO 881/9873, at the PRO.


tives.\textsuperscript{48} In the context of this article, the term of ‘consumer’ was clearly used with a negative nuance. In addition, through his life Hobson consistently pursued the vision of the producers’ alliance that competed against rentiers. In that sense, his free trade ideology was also connected with producer’s interests as well as consumer’s interests. Thus, the aspect of the Liberal free trade as a producer’s policy should not be overlooked, even if this aspect was not the whole but the part.

Now I will turn to the second point, skyrocketing capital export under the Liberal Government. Originally the increase in capital export had already begun under the Conservative government since the beginning of the 20th century. Major turning point was the Colonial Stock Act in 1900 introduced by Joseph Chamberlain. And forerunners of criticism of capital export were the Liberal radicals such as Hobson and Leo Chiozza Money as well as the tariff reformers.

Hobson had already written the article about the effect of capital export in 1891. In this article he argued that Britain’s capital export would enable Asian countries to develop their own industries with the result that Britain would be deindustrialised (though he did not use this expression) in the near future. Accordingly in conclusion he proposed taxation on foreign investments to prevent such a situation.\textsuperscript{49} This critical opinion against capital export was repeated in his masterpiece, \textit{Imperialism} in 1902.\textsuperscript{50} Although Hobson has been known exclusively as a typical internationalist, we learn from this argument his another aspect as an economic nationalist.\textsuperscript{51} In fact, in a theoretical level it is possible to argue that his underconsumptionist theory was a kind of economic nationalism, because that theory inclined to emphasise the significance of a home market, not a foreign market. In other words, his underconsumptionist theory aimed to build a self-sustained national economy through enlarging a home market. This strange coexistence of economic nationalism with an internationalist free trade ideology would be succeeded by John Maynard Keynes, a representative ideologue of the Liberals in 1920s. Moreover Keynes would succeed Hobson’s vision of the producers’ alliance competing against rentiers.

In 1905, in turn, Chiozza Money published \textit{Riches and Poverty}, in which he severely criticised


\textsuperscript{50} J.A. Hobson, ‘Can England Keep Her Trade?’, \textit{National Review}, No.97, 1891.


\textsuperscript{52} In fact Hobson stated, ‘The true friend of internationalism, as distinguished from the more amorphous cosmopolitan, most urgently desires the maintenance of nationalism…Free Trade is essential to this nationalism, and thence derives much not only of its economic, but of its ethical validity.’ Do., ‘The Inner Meaning of Protectionism’, \textit{Contemporary Review}, vol.84, 1903, p.372.
capital export on the ground that decrease in domestic investments was responsible for the prevailing poverty.\textsuperscript{52}

Thus, arguably there was a common recognition between the Liberal radicals and the radical tariff reformers or the Constructive Imperialists in that both of them championed producer’s interests and at the same time were antagonistic towards cosmopolitan financiers indifferent to interests of national economy.\textsuperscript{53} In fact Hobson sometimes uttered that a defect of protectionism consisted in its inability to reach the goal rather than in the goal of protectionism itself.\textsuperscript{54}

In the meantime the pace of capital export accelerated since the Liberals had come to office in 1905. Since then, criticism of capital export became rather a patent of the Conservatives, as the accelerating capital export gave them an expedient pretext to attack the Liberal Government. In the backdrop of abnormal increase in capital export since 1910 was the onslaught on landed interests by the Liberal Government through the tax policy. In short, landowners vended their lands one after another, in turn returns gained by disposition of lands were converted into stock investments, especially foreign investments. As long as investments on lands were converted into stock investments, industrial interests were not necessarily disadvantaged. Rather it is possible to say that one important factor causing the unprecedented export boom since 1910 was this skyrocketing capital export. Therefore it is also possible to say that export industries, which were the greatest power base of the Liberals, also gained by the increase in capital export at least for the time being. However it is also true that there was a clear gap between foreign investments and export trades, as British foreign investments were not accompanied by the condition that ensured purchase of British goods. Therefore there is also the possibility that stagnation or decrease in domestic investments inflicted a loss upon home industries while excessive foreign investments were no longer so advantageous for export industries.\textsuperscript{55}

As a result a fierce controversy came about on the effect of capital export. In February 1909 at the House of Commons the controversy was ignited by Balfour who accused the government of ignoring the bad effect caused by capital flight. According to him, the free trade policy and the extravagant finance pursued by the government was driving capital abroad. This opinion was seconded by Banbury.\textsuperscript{56} In the following month the controversy was developed by the motion moved by Stanley Baldwin who was known as a committed tariff reformer. This motion says, ‘That, in the

\textsuperscript{52} L.Chiozza Money, \textit{Riches and Poverty}, London, 1905, Chapter 12.


opinion of this House, the feeling of insecurity, due to the policy of His Majesty’s Government, to the unfair competition of foreign producers in British markets, and to the high tariffs of foreign countries, has caused capital to be employed abroad which might have been used at home to the great advantage of the wage-earning population of the country.\footnote{Parliamentary Debates (Commons), 5th ser., vol.1, cols.31-32, 78-79.}

On the surface it seems that the dispute was fought between the Conservative tariff reformers supporting industrial interests and the Liberal free traders supporting financier’s interests. But such a view is simplistic. The purpose of Baldwin’s motion can be regarded as dual. Firstly, it aimed to justify Tariff Reform through the argument that unfair competition with foreign industries necessitated capital export. Secondly, it aimed to check radicalisation of financial policy through the argument that such a radical policy would cause more capital flight. In fact Baldwin said, ‘the English investor during the last year has gone abroad, not for the purpose of increasing his income or surplus capital, but because he is uncertain as to what extra taxation may be or will be put upon his security, and he is alarmed at prospective legislation which may come or must come, because he is afraid that the Government of this country is coquetting with the Socialistic influence at the other end of their party.’\footnote{Ibid., vol.2, col.1145.}

Seconding this motion, Austen Chamberlain also insisted, ‘The Government refuse to take, it is part of their principles that they do not take, any direct Governmental action which may increase our trade, which may add to our security, and which may promote our industrial supremacy. On the other hand they are not stinted of Governmental means by which they can spread unrest and uncertainty, and by which they can check the investment of capital and drive investors to put their money elsewhere.’\footnote{Ibid., col.1148.}

Eventually, Baldwin’s motion was overwhelmingly defeated, instead the motion by the Liberals was carried. That is to say, ‘That this House regards both the steady increase in the amount of British capital invested in British Colonies and foreign countries, and the character and distribution of such investments, with satisfaction as being a consequence and an evidence of the fundamental stability and prosperity of the domestic industries and the commerce of the United Kingdom’\footnote{Ibid., col.1180.}

The Conservatives’ above argument against capital export or capital flight is characteristic in that they targeted only at the government, and that they never targeted at investors. Regulation of capital export was by no means proposed. Rather, the activity of investors was regarded as understandable by the Conservatives. In that point the Conservatives’ criticism of capital export was substantially different from that of the Liberal radicals. Therefore the Conservatives’ criticism of capital export

\footnote{Parliamentary Debates (Commons), 5th ser., vol.1, cols.31-32, 78-79.}
\footnote{Ibid., vol.2, col.1145.}
\footnote{Ibid., col.1148.}
\footnote{Ibid., col.1180.}
should be regarded as an expediency rather than the expression of sincere concern about domestic industries. In fact Churchill sharply rebutted, ‘What a situation! What an exhibition of patriotism! At a moment when, according to the right hon. Gentleman [Austen Chamberlain], supreme exertions are needed to maintain the safety of this country, persons who have fortune, and whose wealth is great in this world, are engaged in rapidly making investments in foreign countries in order that they may thereby be able to dodge the income tax Commissioner.’

In short, he indicated that the true motive of the Conservatives was to defend the interests of gentlemanly elites rather than the interests of domestic industries. His criticism would be corroborated by the House at Lords.

At the House of Lords Lord Rothschild, and Lord Revelestone, partner of Baring Bros., were in the vanguard of criticism of capital export or capital flight. Naturally both of them defended the activity of investors and at the same time insisted that capital flight had a bad influence on industries. Thus, as far as the tariff reformers dared not to attack financiers, they made a fatal compromise with the financial power of the City.

On the other hand, it might be possible to argue that the Liberals also betrayed the industrial interests, as far as capital export was divorced from export trades to a certain extent. Therefore it is certainly difficult to insist that the Liberals prioritised industrial interests in any case. However we should not overlook the fact that finally the Liberals changed the course and undertook regulation of capital export.

In 1914, Chiozza Money resumed the attack on capital export. The Liberal Government introduced taxes on foreign investments in the same year. Although the amount of the tax was only 20,000 pounds in the first year, the amount was planned to increase to 500,000 pounds after years. Suggestively, the Conservatives were fiercely opposed to this policy. Austen Chamberlain also seconded the amendment that colonial investments should be allowed the deduction. We learn

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61 Ibid., col.1157.
62 On this point I do not agree with Howe, as he accepts their sincere intention. Howe, ‘The Liberals and the City of London’. Hobson’s and Keynes’s argument for capital export at this time should be considered under their intention to defend the Liberal Government, not to defend investors. See Hobson, An Economic Interpretation of Investment, London, 1911.; J.M.Keynes, ‘Great Britain’s foreign investments’, New Quarterly, 1910, reprinted in The Collected Writings of J.M.Keynes, vol.15, London, 1971. In fact, in his article Hobson targeted at the argument of the Banker’s Magazine (pp.81-83.) As far as his underconsumptionist theory was realized by the Liberal Government, it was natural for him to defend the Liberal policy at any cost. Young Keynes was also a fervent Liberal, and already revealed a critical view on the City financiers in those days. See the letter from Keynes to Basil Blackett in June 1914, in The Collected Writings of J.M.Keynes, vol.16, p.5.
63 Parliamentary Debates (Commons), 5th ser., vol.2, col.1181.
from this fact that he did not hesitate to victimise industrial interests in order to pursue imperialism. In the division the Conservatives unitedly voted against the provision and voted for the amendment, while the Liberals unitedly voted for the provision and voted against the amendment.\textsuperscript{67} It should be also noted that the opponents of the provision included the die-hard tariff reformers such as Hewins, Page Croft, George Lloyd, and Halford Mackinder. One Liberal MP struck home, ‘all these hon. Gentlemen [the Conservatives] will talk about money invested abroad. We want to bring it back and have it invested here. Have you any objection to that?’\textsuperscript{68} Eventually, the provision was carried and the amendment was rejected. Probably this case is the best example to demonstrate the view that generally the Liberal free traders were more earnest than the Conservative tariff reformers in pursuing industrial or producer’s interests.

However it should be admitted that the pursuit of industrial interests by the Liberals did not necessarily mean that they aimed to destroy financial interests. (As for landed interests or landowner’s interests, arguably the Liberals aimed to destroy them.) Although the Liberals tried to redistribute resources from rentiers to producers with the result that they aroused the rage of the City, they presupposed prosperity of the financial sector. The Liberals fully recognised that British economy highly relied upon the financial sector. Accordingly they did not dare to attack the basic frame of the British financial empire.

In other words, if the Liberal free traders attacked financial interests as plutocracy, they did not attack the function of the financial sector as such. Conversely if the radical tariff reformers or the Constructive Imperialists tried to attack the function of the financial sector at least in rhetorical terms, they did not attack financial interests as plutocracy because of their alliance with gentlemanly elites. In that sense, it is difficult to answer which camp was more radical on their attitude towards the City in rhetorical terms. But undoubtedly the Liberal free traders were more radical in practical terms.

\textbf{III}

The hegemony of the Liberals was destroyed by the First World War. The formation of the Lloyd George Coalition Government raises a suggestive case study. With the ousting of Asquith, most central members of the Liberal Imperialists left the government while the Liberal radicals were divided. The Liberal radicals such as Churchill, Chiozza Money, T.J.Macnamara, and Christopher Addison followed Lloyd George. Meanwhile the Conservatives unitedly supported Lloyd George for the time being, although there was difference in the degree of loyalty. Interestingly, the Conserva-

\textsuperscript{67} So far as I know, only Offer has noted its significance. Offer, op.cit., p.138.
\textsuperscript{68} Parliamentary Debates (Commons), 5\textsuperscript{th} ser., vol.65, cols.382-385.
\textsuperscript{67} Ibid., vol.64, cols.1641-1646; Ibid., vol.65, cols.401-406.
\textsuperscript{66} Ibid., vol.64, col.1635.
tive engineers of the Coalition were rather the radical tariff reformers such as Alfred Milner, J.L. Garvin, Lord Beaverbrook, F.E.Smith, and Amery. Especially, ‘Milner’s entry to the War Cabinet in December 1916 is generally treated as one of the most surprising events of the whole strange crisis’\(^69\), for he was a maverick within the Conservatives. Thus, with the inauguration of the Coalition, a strange alliance between the Liberal radicals and the radical tariff reformers emerged. According to Robert Scally, Lloyd George and those tariff reformers agreed on the vision of dynamic and organised capitalism that was expressed by the word, the ‘National Efficiency’\(^70\). In other words, they regarded the War as a unique opportunity to attain this vision. If it is true that the tariff reformers always prioritised the purpose of imperialism over industrial interests, it would be an exaggeration to say that their concern about industrial conditions was always mere hypocrisy. Therefore one can say that the alliance between the Liberal radicals and the radical tariff reformers was enabled due to their common recognition which I have formerly mentioned.

Strictly speaking, the reaction among the radical tariff reformers to the Coalition was polarised into two extremes. Some radical tariff reformers such as Maxse and Page Croft were hostile towards the Coalition, although they acknowledged themselves as enthusiastic supporters of industrial interests. We can interpret this polarisation as follows. On the one hand, those tariff reformers who regarded anti-imperialism among the Liberals as surmountable loyally supported the Coalition. They also regarded the alliance with the Liberals as beneficial in order to overwhelm the hegemony of gentlemanly elites within the Conservatives whom Milner despisingly called ‘Mandarin’\(^71\). On the other hand, those tariff reformers who regarded the alliance with the Liberals as a mere obstruction to the creed of imperialism or the political right were hostile to the Coalition.

Eventually, the expectation of both Liberal and Conservative Coalitionists who pursued the vision of progressive industrial capitalism did not come true\(^72\). The Whitley Committee appointed by the Asquith government, whose member included J.A.Hobson, undertook the construction of the producers’ alliance by institutionalising capital-labour-cooperation through state intervention\(^73\), but the Report of the Committee was ignored by both industrialists and labourers who preferred the approach of the voluntarism. In addition, the National Industrial Conference from 1919 to 1921 that

\(^69\) P.A.Lockwood, ‘Milner’s Entry into the War Cabinet, December 1916’. *Historical Journal*, vol.7, 1964, p.120.

\(^70\) Scally *op.cit.*, passim. He traces the origin of the Coalition back to the Constitutional Crisis in 1910. See also, Cain and Hopkins, *op.cit.*, p.198n.; G.R.Searle, *The Quest for National Efficiency*, Oxford, 1971, Chapter 6. But sagaciously Searle indicates that in reality not the National Efficiency movement but the Liberal radicals had the initiative over policies in the pre-war years. Strangely, it seems that Lloyd George tended to overestimate the radicalism among the Conservatives as well as underestimate the radicalism among his Liberal colleagues.

\(^71\) Milner wrote in 1916, the only thing that could save the situation would be ‘the consistent display of qualities which are the absolute antithesis of what we know of Asquith, McKenna, Simon, *et hoc genus omne*, and I fear I must add of A.J.B., Lansdowne, and most of their Unionist colleagues’. Cited in Lockwood, *op.cit.*, p.120.
also tried to institutionalise capital-labour-cooperation got nowhere. As Rodney Lowe argues, as long as actors in industries were antipathetic, those plans would have been realised only by the compelling initiative of leading politicians. However Lloyd George himself seemed to lose his original enthusiasm about industrial problems temporarily, partly because of his concentration upon foreign policy, and partly because of the necessity for maintaining the relation with the Conservatives.\textsuperscript{74} As for the later years of the Coalition, traditional elites in the Conservatives succeeded in taking an initiative as a whole, as indicated by the deflationary policy from 1921. In other words, gentlemanly capitalists were rehabilitated.

But the rehabilitation was not yet complete, for the Coalition Government was still regarded as being too radical by them. And this remaining radicalism of the Coalition was, as Kenneth Morgan says, mainly attributable to the Coalition Liberals, or ‘Lloyd George’s Stage Army’.\textsuperscript{75} In the end, with the fall of the Coalition, gentlemanly elites regained full hegemony.

In fact, the makeup of the Bonar Law government that replaced the Coalition was unique in that no fewer than seven out of 16 Cabinet ministers were peers including a duke, two marquesses, an earl, and three viscounts.\textsuperscript{76} This makeup was basically succeeded by the Baldwin government in the following year. Moreover, through the inter-war years the radical tariff reformers or the Constructive Imperialists were efficiently shut out from the axis of power of the Conservatives, whether they were the Coalitionists or the anti-Coalitionists.\textsuperscript{77} Rare exception were Amery and Austen Chamberlain. But even they, respectively as Colonial Secretary and Foreign Secretary, had little influence upon economic policy. Afterwards in the 1930s, Amery would complain about the imperial preference system, arguing that it was far from the realisation of the Constructive Imperialists’ original ideal.

The anti-Coalitionists such as Page Croft and Maxse were also completely marginalised. Croft founded the National Party in 1917 and advocated ultra-nationalism and at the same time continued attacking ‘international moneylenders’ who, he insisted, were virtually ruling the Coalition. He also insisted that only the National Party was a real partner of industry and proposed the organised

\textsuperscript{72} The undertaking of the Export Credits scheme by the Board of Trade since 1921 was one of the exceptional cases, though its scale was strictly constrained. BT 65/8/2326, at the PRO.

\textsuperscript{73} RECO 1/265, MUN 4/5169, at the PRO.


\textsuperscript{77} Milner wrote in 1923, ‘Separated from one political party by my advanced views on social questions, still more widely separated from others by my faith in the Empire and my attachment to national rather than cosmopolitan ideals, I often seem to myself to be “ploughing a lonely furrow”’. Lord Milner, \textit{Questions of the Hour}, London, 1924, preface. Garvin would advocate another coalition headed by Lloyd George in 1930 as a consequence of his despair at the Conservatives. R.Skidelsky, \textit{Politicians and the Slump}, London, 1967, pp.278-279.
production and the expansion of production, although his argument was rather 'schizophrenic' in that he enthusiastically defended the privileged class at the same time. At last the National Party was practically absorbed into the Conservatives again by 1922.

However it should be also admitted that the die-hard libertarians such as Lord Hugh and Robert Cecils were also marginalised within the Conservatives partly because of their commitment to free trade and partly because of the unpopularity of libertarianism among the majority of voters. Therefore, strictly speaking, mainstreamers in the Conservatives were moderate libertarians or superficial collectivists.

Thus, the reign of Bonar Law, Baldwin, later Neville Chamberlain over the Conservatives in the inter-war years was characterised by the supremacy of the gentlemanly elites in spite of those leaders' superficial commitment to protectionism. Generally they preferred the laissez faire approach advocated by mainstream financiers and neglected collectivist approach to relieve the predicament of industries. It is difficult to answer to what extent they deliberately championed financial interests. It is highly probable that their essential negativism to state intervention and the strong Treasury control since 1919 coincided with financial interests. But it is also certain that they heavily relied upon the support of financiers, or gentlemanly elites. As political historians argue, the pledge of protectionism by Baldwin in the 1923 General Election should be interpreted from the viewpoint of his political motive to cut off the prospect of another coalition with the Liberals, for his leadership had originally arisen from his successful instigation against the Coalition.

In turn the City opportunistically supported protectionism again. As for Baldwin’s pledge in 1923, City’s attitude to it was genial. According to the Times, 'The firmness of the exchange, as well as stock markets, was attributed to growing confidence that the Conservative Party will be returned to power to-day. The City, of course, has always stood for the principle of free trade as the soundest foundation of this country’s economic policy, but it recognizes that Mr. Baldwin, in asking the electors to give his Government a free hand in finding a solution for an exceptional unemployment problem, under wholly abnormal circumstances, is doing a straightforward thing. The City, therefore, has decided to help him in trying the expedient of protection as a remedy for our trade troubles.'

In fact, the Conservative candidates got unopposed return in the constituency of the City in the Election. It is clear that the regressive effect of tariffs attracted the City again. Unlike the situation

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77 As to Neville Chamberlain, it is certainly difficult to regard him as a mere superficial collectivist, for his work at the Ministry of Health in the 1920s was outstanding. But in the inter-war years the focus of economic policy shifted from social policy to industrial policy, and as Chancellor of the Exchequer he was quite negative concerning the industrial policy in the 1930s.
in the pre-war years, there were few heated arguments in the City. Therefore one can say that by this
time the City, or at least a majority of financiers, had fully overcome their antipathy to tariffs. In
other words, they had nearly completed preparation for the Ottawa system long before its advent.

Now I will turn to the situation for the Liberals in the post-war years. After the War those
conditions which had supported their strategy of producers’ alliance were almost completely lost.

In political terms, the Labour’s abandonment of the pact for electoral cooperation with the
Liberals destroyed the ‘Progressive Alliance’ that had been the political power base of the Liberal
producers’ alliance. What is more, the Liberals were divided by the personal feud between Lloyd
George and Asquith, although this rift was overcome in 1923.

In economic terms, export industries in northern England that were the largest supporting base
of the Liberals fell into a perpetual depression. As for the unemployment rate, northern England
showed a far better performance than southern England and the Midlands which were the supporting
base of the Conservatives in the Edwardian age. In contrast, after the War, industries in southern
England and the Midlands showed a far better performance than those in northern England.\(^{81}\)
Undoubtedly this was one factor in the Conservative hegemony in the inter-war years.

In addition, the Board of Trade, the citadel of the producers’ alliance under the Liberal
Government, was vastly weakened, partly due to the strengthening Treasury control, partly due to the
transfer of the energetic Permanent Secretary, Llewellyn Smith. But probably the main reason was
that the charge of social policy and industrial policy was transferred to the Ministry of Labour.
According to Rodney Lowe, ironically the foundation of the Ministry of Labour had a rather negative
effect on the pursuit of dynamic industrial policy in the inter-war years.\(^{82}\)

Thus, it was essential for the Liberals to search for an entirely new strategy. The first movement
for the new industrial strategy was generated in Manchester by the members of the New Manchester
School, such as Ernest Simon and Ramsay Muir. Originally they belonged to the Asquithian
Liberals, and founded the Liberal Summer School in 1921.\(^{83}\) After the reunion of the Liberals, Lloyd
George succeeded in taking the initiative of this movement. The movement was vastly stimulated by
the entry of J.M.Keynes.

Although Keynes and Lloyd George had been estranged over the Versailles treaty, they were
reconciled through the agreement on the new industrial policy. That opportunity was given due to

\(^{80}\) The Times, December 8, 1923, p.18.
the article on the *Nation and the Athenaeum* written by Lloyd George in 1924. In this article, Lloyd George insisted that the depression of export industries was mainly attributable to structural problems rather than transitory problems, and that only government intervention could enable those industries to be revived. That is to say, ‘It is no avail to spend time on distribution if production lags behind the common need. The best means of achieving production seems to be the most urgent task of our industrial and political leaders at this hour.’

In short, Lloyd George declared that the Liberal new strategy would be aggressive industrial policy to rescue industries, although the concrete contents of that policy were not yet so obvious. Keynes, one of the directors of the *Nation*, supported Lloyd George, and wrote the article which put forward more concrete proposals. That is, ‘The Chancellor of the Exchequer should devote his sinking fund and his surplus resources, not to redeeming old debt with the result of driving the national savings to find a foreign outlet, but to replacing unproductive debt by productive debt. The Treasury should not shrink from promoting expenditure up to (say) 100,000,000 pounds a year on the construction of capital works at home, enlisting in various ways the aid of private genius, temperament, and skill.’

Although their proposals bore no fruit due to the catastrophic defeat of the Liberals in the 1924 General Election, Keynes gradually became the central figure of the Liberal brains thereafter. In fact his proposals would soon be adopted by the Liberals. As for his ideology, *A Tract on Monetary Reform* in 1923 is suggestive. In this book, Keynes presented his own tripartite classification of classes, the investing class, the business class, and the earner. He argued that inflation was beneficial to the business man and the earner, and at the same time was injurious to the investor. As for deflation, vice versa. He concludes, ‘Thus Inflation is unjust and Deflation is inexpedient. Of the two perhaps Deflation is, if we rule out exaggerated inflations such as that of Germany, the worse; because it is worse, in an impoverished world, to provoke unemployment than to disappoint the *rentier*.‘ (italic in the original)

Keynes implied that the Liberals were a representative of the business class and the earner (or producers’ alliance) while the Conservatives were a representative of the investing class (or gentlemanly elites). It should be noted that in this respect Keynes’s understanding was basically common with Hobson’s one in the pre-war years.

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84 *Nation and the Athenaeum*, April 12, 1924, pp.39-40.
The target of *A Tract on Monetary Reform* was the movement towards the restoration of the gold standard at the pre-war par that would bring about deflation. Since the Cunliffe Report in 1919 this movement was advancing steadily. As a result, the Baldwin government decided to press forward in 1925.

There were some negative opinions over the return to the gold standard. For example, as witnesses for the Chamberlain-Bradbury Committee in 1924, the representative of the Federation of British Industries and Sir Robert Horne, leader of the Conservative industrial group, suggested rather pessimistic view which noticed deflationary impact on industries, although they did not oppose return to gold as such. As for Horne, it should be noted that he had been recruited by Lloyd George into the Coalition Government as the Minister of Labour thereafter the Chancellor of the Exchequer and that as an earnest Coalitionist he continued to remain a dissenter within the Conservatives. Moreover, according to Robert Boyce, Baldwin abandoned the idea of selecting Horne as the Chancellor, as he learned that the City would not welcome his reappointment.

On the other hand, in fact few people dared to flatly oppose return to gold. Of the witnesses at the Committee, only Keynes and Reginald McKenna opposed return to gold practically. They were Liberal or ex-Liberal. McKenna, chairman of the Midland Bank, ‘was the only banker who had opposed an early return to gold’ However he used to belong to conservative group in the Liberals in the pre-war years, and seemed to prefer financial orthodoxy in those days. Presumably, the main factor in his conversion was his status as chairman of the Midland Bank since 1919.

Originally his predecessor E.H.Holden, the Liberal MP (1906-10), was also known as a heretic in the City. Holden was a heretic especially in that he eagerly defended industrial interests. For example, he attacked the Bank of England and demanded that they increase the gold reserve in case of a financial panic. According to his opinion, such a financial panic would cause serious damage to industry. In fact his prediction would be realised in 1931. Doubtless this Holden’s stance was concerned with the interest of the Midland Bank itself. The Midland Bank was ‘the only one of the great joint-stock banks which could fairly claim to have close links with industry’. Under Holden’s powerful management the Midland Bank grew into the largest bank in Britain through perpetual amalgamation. During that process the Midland Bank gained a stronghold in Lancashire.

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89 Boyce, *op.cit.*, pp.72-73.
90 Moggridge, *op.cit.*, p.42.
91 Boyce, *op.cit.*, p.53.
92 E.g. he publicly opposed the income tax reform in 1907. *Parliamentary Debates (Commons)*, 4th ser., vol.177, cols. 768-769.
93 Address at the General Meeting of the Shareholders of the London Joint City and Midland Bank Ltd. T/185/1, at the PRO.
Therefore the name of the bank was confusing. In addition, Holden himself was from Bolton and the MP for Heywood, Manchester, and was a unique banker in that he rose from an accountant. Thus, it might be possible to say that the Lancashire connection of both Holden and his bank enabled him to become a Liberal free trader. In 1920s the Midland Bank accumulated bad debts mainly due to the slump of the Lancashire cotton industry and the South Wales coal and steel industry. Accordingly, it is also possible to say that McKenna’s view reflected his concern about the condition of export industries.

We can add the name of J.A. Hobson to the list of tough-minded opponents to return to gold. In the article in the Nation (in the US), he supported Keynes and stated: ‘experience and statistical research have made it evident that the old notion that quantity of gold regulated the total volume of money and so the level of prices, by a reliable automatic operation, was never true, and that the acceptance of the falsehood was responsible for grave errors in banking policy reflected in needless fluctuations of prices and industrial activity.

Thus, Hobson’s stance was certainly coherent from the pre-war years in that he defended producer’s interests against rentier’s interests.

As for the mass media, there were the opponents such as pro-Conservative the National Review edited by Maxse, St Loe Strachey’s the Spectator, pro-Labour the New Statesman, and pro-Liberal the Nation and the Athenaeum edited by Hubert Henderson. Besides, as a press baron Lord Beaverbrook, who had been one of the main Conservative engineers of the Coalition, was another opponent to return to gold.

However opposition to return to gold was very feeble as a whole. As a result, Conservative Chancellor Churchill, ex-Liberal radical, reached the final decision after a long hesitation. In the parliamentary debate Sir Alfred Mond, a Liberal industrialist, was the only outright opponent to the decision. From this situation, we can say that the opposition to return to gold was marginalised not only among the Conservatives but among the Liberals. As long as the Conservatives were ruled by gentlemanly elites as I have argued, their stance is understandable. But how should we interpret the stance of the Liberals?

As regards this question, we can approach it from three aspects. First, there were rightwing Liberals led by Sir John Simon, successors of the Liberal Imperialists. Since the pre-war years they

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94 Cain and Hopkins, op.cit., p.140.
96 Ibid., pp.83, 108.
97 Ibid., p.174.
98 The Nation, April 29, 1925, p.488.
100 Ibid., op.cit., p.77.
were generally antipathetic to the radical policies. Accordingly they tended to be loyal to economic orthodoxy, so naturally they welcomed return to gold. But of course this explanation does not cover the attitude of the majority of other Liberals.

Second, originally the attitude of industries was ambivalent. While return to gold at the pre-war par was expected to have a deflationary impact on export industries, stabilisation of the exchange rate and import of cheaper raw material were expected to have a good effect on those industries. For example, the cotton industry is, if anything, regarded as having been favourable to return to gold. The F.B.I. never attacked the decision severely either. Arguably this ambivalence of export industries was reflected by Lloyd George’s stance. He kept silent through the debate at the House except for one question, ‘One thing I was going to ask was as to the effect in the view of the Board of Trade of the restoration of the gold standard upon our export trade, and the prices paid for foreign investments.’ The answer by P. Cunliffe-Lister, President of the Board of Trade, was, ‘I should say at once that it had been all to the good.’

When it became clear that the deflationary impact upon export industries was serious, Lloyd George began to attack the government and his former partner, Churchill. Lloyd George shouted at the address in July 1925, when two months had passed since return to gold: ‘the action of the Government which has had the most disastrous effect upon British trade is their premature and precipitate restoration of the gold standard before our credit was ripe for that departure. It has made the sterling dearer, and thus artificially put up the price of British goods in the neutral markets where we were already competing on very narrow margins with our trade rivals. At this very hour coalowners and miners have been driven to the brink of a yawning chasm of strife, largely through this deed of egregious recklessness by the Chancellor of the Exchequer.’

However it remains unknown to what extent this Lloyd George’s campaign was supported among the Liberals. The report of the Liberal Industrial Inquiry in 1928, the Yellow Book, mentioned that they failed to reach an agreement on the effect of return to gold.

Now it is necessary to take the third approach. As I have already mentioned, the Liberals basically considered that the prosperity of the financial sector could fully coexist with industrial interests. Accordingly they consistently pursued harmonization of both elements rather than prioritising one element over another element one-sidedly. Probably the disagreement on the effect of return to gold reflected such a character of the Liberals. But if that coexistence proved to be difficult

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101 Though Simon himself belonged to the group of the old Gladstonean rather than the Liberal Imperialists in the pre-war years.
102 Parliamentary Debates (Commons), 5th ser., vol.186, col.83.
103 Liberal Magazine, August, 1925, p.477.
to maintain, the Liberals, or at least the centrist and left Liberals, tried to restore the coexistence through aggressive regulation. In this regard, the stance of the Liberals was largely different from laissez faire of the Conservatives. And this stance of the Liberals could attract the City Liberals or the City progressives such as Walter Layton, R.H.Brand, Hugh Bell, Thomas Jacobsen, Sir Josiah Stamp and Sir Arthur Salter, although they were a minority in the City.\footnote{According to Howe, Jacobsen was ‘a nice reminder of the City’s own industrial interests’. Howe, ‘The Liberals and the City’. As a witness for the Cunliffe Committee, Bell also gave the pro-industry evidence. \textit{Minutes of evidence for Cunliffe Committee}, pp.559-569. T/185/1, at the PRO.} The City Liberals seem to have believed that the regulation of the activity of the City would be beneficial to the City too in the longer term even if it might damage the City’s interests in the shorter term. Next, I will take up the Liberal industrial strategy aiming to reach that goal.

The forrunner of the new industrial strategy by the Liberals was \textit{Coal and Power} published in 1924. In this book, the enquiry chaired by Lloyd George recommended the compulsory organisation of the coal industry through the nationalisation of royalties. Lloyd George’s preface made clear that the proposal aimed to prevent the deterioration of relation between capital and labour.\footnote{Lloyd George Enquiry, \textit{Coal and Power}, London, 1924.}

In 1926 Asquith retired and was replaced by Lloyd George as leader of the Liberals. In the same year Lloyd George organised the Liberal Industrial Inquiry. Leading figures of the Executive Committee which consisted of thirteen members were newly recruited Liberals after the war such as Layton (chairman), Ernest Simon (vice-chairman), Keynes, Hubert Henderson, and Ramsay Muir. But the committee also included several leading and longstanding Liberal radicals such as C.F.G. Masterman (though he died before the publication of the Report), Sir Herbert Samuel, B. S. Rowntree, and Lloyd George. Therefore, to a certain extent it is possible to find a continuing element from the pre-war years in the activity of the Inquiry. In addition, Philip Kerr (later Lord Lothian), who had been a member of the ‘Milner Kindergarten’ thereafter had been a Lloyd George’s secretary, joined the Executive Committee. The Special Committees of the Inquiry included R.H. Brand, Josiah Stamp, Laurence Cadbury, T.J.Macnamara, D.H.Robertson, and L.T.Hobhouse who had been one of the representative ideologues of the Liberal radicals in the pre-war years.\footnote{M.Freeden, \textit{The New Liberalism}, Oxford, 1978, passim.} On the other hand, Sir John Simon, a member of the Executive Committee, declined to sign the final report.\footnote{Lord Samuel, \textit{Memoirs}, London, 1945, p.}

The Inquiry published the final report, \textit{Britain’s Industrial Future}, or the Yellow Book in 1928 after much research. The Yellow Book consists of five parts, Book I, ‘the Condition of British
Industry', Book II, 'the Organisation of Business', Book III, 'Industrial Relations', Book IV, 'National Development', and Book V, 'National Finance'. As a whole, the Inquiry aims to restore traditional key industries at depression through drastic structural reform: First, the formation of capital-labour-cooperation through the corporatistic state intervention. Second, the large-scale public investments financed by government loan. Third, the control of foreign investments into domestic investments. Thus, the Inquiry aimed to revise Britain's industrial structure, which was excessively dependent on foreign markets, through control of investments.109

According to Michael Freeden, the Yellow Book became the 'Bible' for the Liberals.110 Keynes' influence is obvious especially about the plan of the public investment. But we should not overestimate the personal influence of Keynes. According to Roy Harrod, 'Keynes was primarily responsible for the composition of Book II and of Book V, chapters 18 and 19'.111 That is to say, the part of 'National Development', which deals with the public works for the unemployed, was not attributable to the idea of Keynes alone. The argument especially in 'National Development' was deepened and developed into the Liberal electoral programme, We Can Conquer Unemployment, or the Orange Book in 1929, which proposed the large-scale public works financed by government deficits.112 The Orange Book was made by the committee led by Lloyd George, Rowntree, and Kerr. But the draft was written by R. Wallace, Rowntree’s secretary.113

In the meantime, the Independent Labour Party made their own programme, the Living Wage, which was based on Hobson’s underconsumptionist theory, to resolve the industrial depression. While the Liberal programme emphasised demands for domestic investment, the ILP programme emphasised demands for domestic consumption. As a result, the authors of the Living Wage concentrated upon raising wages through state intervention. Besides they proposed control of investments similar to the Liberal plan. But they were more radical than the Liberals in that they proposed nationalisation of the Bank of England.114 Although in many respects this programme was different from the Liberal programme, both programmes pursued Britain’s industrial revival through state intervention which had a basically non-socialistic character. In fact, four co-authors of the Living Wage included representative pro-Liberal Hobson and H.N. Brailsford who had been one of the editorial staff of the Nation in the pre-war years.115 Later the ILP would struggle jointly with the Liberals in demanding an aggressive financial policy from the Labour Government.

109 Liberal Industrial Inquiry, op.cit.
110 Freeden, Liberalism Divided, p.
Yet it should be noted that the Liberals were still moderate in comparison with the ILP. As Howe aptly says, 'the Liberals at their most radical proposed no dramatic structural alterations to the City of London and its part in the economy'. That is, 'only minor changes were envisaged to the constitution of the Bank of England, stopping well short of nationalisation'. And in turn the City Liberals such as Layton, Salter, and Stamp pushed for the international monetary reform to stabilise prices side by side with the Liberal industrial strategy, but to no avail. In that point, generally the City Liberals who were free traders tended to be more radical than the City Conservatives who occasionally supported protectionism, for the latter seemed to be indifferent to both the aggressive industrial strategy and the international monetary reform.

The Conservative Party's reaction to the Liberal plan was also cool, except for a handful of the Young Tories led by Harold Macmillan who published *Industry and the State* in 1927. Baldwin's remark at the parliamentary debate in which the Liberal Yellow Book was disputed is as follows: 'There is an encouraging aspect when you consider, along with the one in ten out of work, the present day lot of the nine out of ten who are in work. The standard of life is appreciably better than it was in 1914.' 'If we want to maintain the standard of life which we have, with infinite difficulty, achieved in this country, first of all we want to be relieved from losses caused by disputes... Another way in which we may maintain our standard of living is by attaining a higher level of efficiency in our industries, by examining our industrial organization, bringing it up to date in method, in machinery and in management. I rejoice to see the symptoms in this country in many industries to-day that these are the very things that are being looked into and looked into on all sides.'

Thus, Baldwin emphasised cheerful aspects of the economy and practically contradicted the necessity for the aggressive state intervention. Moreover, anomalously the Baldwin government made the Treasury announce 'the Treasury View' practically attacking the Liberal programme.

Robert Boyce argues in his distinguished book mainly covering 1920s that industrial interests represented by the imperialist and nationalist camp or the protectionist camp fought against financial interests represented by the internationalist camp or the free trader camp. As long as there were some die-hard protectionists such as Maxse, Garvin, and Beaverbrook, and as long as there were some libertarian free traders such as F.W.Hirst and Cecils, it is not possible to contradict that view completely. However Boyce seems to overlook the general tendency in which protectionist policy was used as an opportunistic expediency and the Liberal free traders were more earnest about the

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115 Before the 1929 General Election, Hobson already supported the proposal to cure unemployment by public works financed by State loans. See *Nation and the Athenaeum*, March 30, 1929, pp.903-904.

116 Howe, 'The Liberals and the City'.


118 *Parliamentary Debates (Commons)*, 5th ser., vol.213, cols.608, 610-611.
resolution of industrial problems, though he himself indicates such tendencies in his book in several
points as I have cited.

In this respect, Cain and Hopkins are persuasive in their argument on the introduction of
protectionism and imperial preference since 1932.\textsuperscript{119} As they insist, the transformation of economic
policy since 1932 should be interpreted from the standpoint of financial interests rather than industrial
interests, for it is difficult to presume that the character of the Conservatives drastically changed in
a very short time.

On the other hand, it should be also taken into account that the strategy of the Liberals had a
serious contradiction. As long as they stuck to free trade, raising domestic demand would cause a
deterioration of balance of payments. In other words, the economic nationalist strategy concentrat-
ing on the home market inevitably contradicted the internationalist free trade policy at least under the
fixed exchange rate. As a result, the Liberals lost some important members such as Keynes and
Ernest Simon.\textsuperscript{120} Therefore the Liberals’ die-hard loyalty to free trade cannot be explained from the
standpoint of economic interests alone. Rather, as Trentmann and Howe indicate, ideological factors
should be emphasised. But the logical contradiction does not necessarily mean that the Liberals’
intention was not serious.

Then, is it possible to insist that the Liberal industrial strategy in 1920s was solely due to Lloyd
George’s unique leadership? Mainly for two reasons I can argue against this view. First, originally
the movement towards the new industrial strategy was generated by the Asquithian Liberals before the
reunion of the Liberals. Second, after Lloyd George had become the Independent Liberal in 1931,
many remaining Liberals participated in the Next Five Years group, who proposed an aggressive
industrial policy and management of banking and finance similar to the Yellow Book.\textsuperscript{121} It is true
that the group called themselves nonpartisan, and in fact one of the core members was Harold
Macmillan. However, as Freeden indicates, the Liberal tendency of the group was obvious as a
whole. Geoffrey Crowther and Salter, both Liberals, were responsible for the first section of the
book dealing with domestic affairs.\textsuperscript{122} The signatories included Layton, Rowntree, Cadbury, Isaac
Foot, H.A.L.Fisher, Gilbert Murray, J.L.Hammond, and Hobson, other than several Liberal MPs.
Therefore, it is difficult to accept the above assumption.

\textsuperscript{119} Cain and Hopkins, op.cit., pp.464-470.
\textsuperscript{120} On the other hand, the conversion of the rightwing Liberals led by John Simon to protectionism is another evidence
for my thesis that protectionism was always an expediency rather than a means to collectivism.
\textsuperscript{121} The Next Five Years : An Essay in Political Agreement, London, 1935, part I.
\textsuperscript{122} Freeden, Liberalism Divided, pp.356-360.
IV

As I have argued, there was clearly a general tendency that the Liberal free traders were more collectivistic and more earnest supporter of industrial interests than the Conservative tariff reformers. Of course, both the Liberals and the Conservatives were not unanimous at any time. However the most important point is that within the Liberals collectivistic elements who championed industrial interests continued to have the initiative over economic policy. Conversely, within the Conservatives collectivistic elements who championed industrial interests continued to be marginalised. Green, who emphasises collectivistic elements within the Conservatives, himself indicates that even Arthur Steel-Maitland, a quite moderate collectivist, ended his political life as 'a disappointed man'.123 On this point, Matthew Fforde is very persuasive in his argument that the essential character of the Conservatives in the Edwardian age was 'non-interventionist party'.124

Then, what caused such a paradoxical situation? Presumably the most important factor is that the British protectionism in those days was always the ideology of the right, not the left. One main reason of this is that the protectionism was always connected to the imperialism. Another main reason is that tariffs have the effect as regressive taxes. So far as the Conservatives’ identity was in maintaining the existing class order, the Conservative tariff reformers could never overcome the rule by gentlemanly elites. And so far as protectionism was held by the Conservatives, they could never overcome the people’s natural suspicion that tariffs were mere expediency to decrease the tax burden on the propertied. In that sense, protectionism could have succeeded, only if it had been held by the Liberals, the party of the left. But the Liberals never adopted protectionism. As a result, the political left was monopolised by the free trade ideology.125 In turn, the Liberals’ as well as Labour’s loyalty to free trade cannot be explained by economic interests alone, and should be considered from the viewpoint of the political culture too.

As for the theory of the gentlemanly capitalism by Cain and Hopkins, my argument is unfavourable concerning the Edwardian age, but is favourable concerning the inter-war years. But concerning the Edwardian age too, there might remain room for Cain and Hopkins to argue that their theory does not necessarily fail, as the Liberal Government did not attack the function of the financial sector per se. However, as Green aptly argues, the issues at stake are 'how far this [the rapid growth of

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123 E.H.H. Green, *Ideologies of Conservatism*, Oxford, 2002, p.72. Green argues that libertarian elements within the Conservatives were drawn from the Liberals on the ground that Conservative libertarians such as A.V.Dicey and St. Loe Strachey were ex-Liberals. Do., *The Crisis*, pp.316-317. But it is also possible to argue that collectivistic elements within the Conservatives were drawn from the Liberals on the ground that Conservative collectivists such as Joseph Chamberlain and Milner were ex-Liberals.


125 After the decolonization, British protectionism was divorced from imperialism at last. It was not until 1970s that British left adopted protectionism.
Britain's service sector economy] was traceable to the influence of Britain's service sector elite in the corridors of power.\textsuperscript{126} Accordingly, if they regard economic policy as a mere expression of interest of the dominant economic sector, it is nothing other than the crude economic determinism that they themselves criticise. Nevertheless it should be admitted that the theory of the gentlemanly capitalism is successful as a whole in interpreting the modern British history, for the modern British history from 1886 to 1997 was entirely characterised by the unique dominance of the Conservatives.

\* In this paper, I did not mention the Liberal agricultural policies at all. But, as Ian Packer argues, the Liberal land campaign was a significant part of the Liberal domestic policies. If the Tariff Reform movement was \textit{Sammlungspolitik} in the British version, the Liberals unfolded counter-\textit{Sammlungspolitik} in the Edwardian age, and the Land Campaign by Lloyd George was an indispensable part of this counter-\textit{Sammlungspolitik}. \textit{The Land and the Nation}, or the Green Book, in 1925 was the successor of it.