

# CRISIS, COALITION

## THE LIBERALS AND THE NATIONAL GOVERNMENT

In the coalition negotiations of 2010, the Liberal Democrats' commitment to rapid deficit reduction was a key factor facilitating agreement with the Conservatives. There was a historical precedent for Liberals insisting on tough spending cuts in the context of a crisis of financial confidence. Britain's last peacetime coalition government, the National Government formed in 1931, had come into being partly because of the Liberal Party's insistence on the importance of sound finance. **Peter Sloman** examines the parallels between 1931 and 2010.



**T**HE CONSERVATIVE-LIBERAL Democrat coalition government formed in May 2010 rests on several foundations, including the parliamentary arithmetic thrown up by the general election and the cordial working relationship between David Cameron and Nick Clegg. Perhaps its most important

political foundation, however, is the coalition partners' shared commitment to eliminating the structural deficit over the lifetime of the present parliament. Indeed, the Liberal Democrats' willingness to support in-year spending cuts, as a first instalment of deficit reduction, was crucial in facilitating the formation of the coalition.

# ION AND CUTS

## TIONAL GOVERNMENT, 1931

The 2010 Liberal Democrat manifesto stated that the party's 'working assumption' was that deficit reduction would start in the financial year 2011–12, with the aim of at least halving the deficit by 2013–14, and that any cuts made in the 2010–11 financial year – such as the ending of government contributions to Child Trust Funds – would be used to finance a 'jobs and infrastructure package'.<sup>1</sup> Nick Clegg insisted during the televised debates that it would be crazy to begin cutting public spending before economic growth was restored. However, some senior Liberal Democrats evidently believed that earlier and sharper cuts would be needed if the British government was to retain the confidence of the financial markets. Chris Huhne argued strongly in internal party meetings that the need to reduce the deficit made a coalition arrangement in a hung parliament a more attractive and more viable option than a looser arrangement, such as 'confidence-and-supply'.<sup>2</sup> Nick Clegg seems to have been convinced of the need for early cuts during the election campaign itself by the developing crisis of confidence in the Eurozone.<sup>3</sup> It was largely because of concern about the budgetary situation that the Liberal Democrat negotiating team – Chris Huhne, David Laws, Danny Alexander and Andrew Stunell – entered the post-election negotiations willing to entertain the possibility of a full coalition with the Conservatives. Laws has written that the risk of the Greek

debt crisis spreading to Britain 'if a credible government with a credible deficit reduction package could not be agreed' was 'the spectre which loomed over' the coalition talks.<sup>4</sup> In due course, the negotiators signed the party up to George Osborne's plan for £6 billion of spending cuts in 2010–11, as a first step towards eliminating the structural deficit within five years.<sup>5</sup>

The Liberal Democrats' commitment to rapid deficit reduction came as a surprise to senior Labour figures, who had expected that they would prefer Alistair Darling's more modest target of halving the structural deficit over five years.<sup>6</sup> Perhaps, though, they should not have been so surprised. Not only had there been definite hints that leading Liberal Democrats favoured deeper spending reductions – most obviously, Nick Clegg's reference to 'savagely cuts' in a *Guardian* interview the previous September, a comment which had featured prominently on Labour leaflets in Lib–Lab marginals – but there was also historical precedent for Liberals insisting on tough spending cuts in the context of a crisis of financial confidence.<sup>7</sup> Britain's last peacetime coalition government, the National Government formed in 1931, had come into being partly because of the Liberal Party's insistence on the importance of sound finance.

Of course, there were important differences between the processes of coalition formation in 1931 and 2010. In 1931 the National Government was formed after

Ramsay MacDonald's minority Labour government, which had been in office since 1929, failed to agree on a programme of economies and tax rises to eliminate the growing deficit, and MacDonald and his Chancellor of the Exchequer, Philip Snowden, retained their posts in the new administration. The National Government was intended to last only as long as was necessary to ride out the immediate financial crisis, and – in contrast to the detailed programme for government negotiated in 2010 – the only written coalition agreement which existed was a set of manuscript notes, written by Sir Herbert Samuel in the meeting at Buckingham Palace at which the government was formed.<sup>8</sup> Moreover, the economic situations which confronted the politicians were far from identical, with the National Government facing a smaller budget deficit than the present coalition but rather higher unemployment and a sterling crisis which was not merely threatened but actually underway. The parallels between the two episodes are nonetheless striking, and an examination of the Liberal role in the formation of the National Government provides an illuminating perspective on the Liberal Democrats' behaviour in 2010.

### The formation of the National Government

The course of events which led to the formation of the National Government is relatively well

Left:  
unemployment  
march during the  
Great Depression

known. The 1929 general election had returned Labour to office as a minority administration under MacDonald, technically dependent on the support of fifty-eight Liberal MPs led by David Lloyd George.<sup>9</sup> Lloyd George spent most of the parliament's first year trying to force MacDonald to acknowledge his reliance on the Liberals, and much of its second year trying to construct an agreement by which the Liberals would keep the government in office in return for the introduction of the Alternative Vote and the implementation of some of the proposals for public works on which the party had fought the election.<sup>10</sup>

Ballooning unemployment in the wake of the Wall Street crash made the Labour government's task a difficult one, not least because falling tax revenues and the rising cost of unemployment benefit placed great strain on the public finances. In February 1931, the Liberals secured the establishment of a special committee, chaired by Sir George May of Prudential Assurance, to propose economies in public spending. When the May Committee reported in July 1931, it projected that Britain faced a budget deficit of £120 million in 1932–3, and recommended that a package of measures to eliminate the deficit should focus on reducing the cost of the unemployment insurance system, including a cut of one-fifth in benefit rates. Early action on the deficit was made imperative by a pan-European crisis of financial confidence, which began in Austria in May, spread to Germany in July, and threatened to drive sterling off the gold standard. Between 12 and 23 August, MacDonald and Snowden held a long series of meetings in an attempt to gain the agreement of their Cabinet colleagues for a deficit-reduction package which satisfied the leaders of the Conservative and Liberal parties and which the Bank of England believed was sufficient to restore the confidence of the markets. When it became clear that the Labour Cabinet would not agree to the 10 per cent unemployment benefit cut which MacDonald and Snowden proposed, MacDonald formed a National Government on 24 August to carry through the cuts, against the opposition of almost all his former Labour colleagues.

The process by which the minority Labour administration was replaced by a National Government depended on the conjuncture of a number of factors, including the determined refusal of several Labour ministers and the Trades Union Congress to support benefit cuts and the willingness of the Conservative leaders, especially Neville Chamberlain, to serve in a National administration under MacDonald.<sup>11</sup> The Liberal Party nevertheless played a pivotal role in the political crisis. Until the early summer of 1931, Lloyd George seemed to be preparing to lead the Liberals into a Lib–Lab coalition, a move which he justified to most of his colleagues by arguing that, if the Labour government fell, the Conservatives would take office and introduce protection.<sup>12</sup> However, Lloyd George was taken seriously ill in July, and spent August recovering from an operation to remove his prostate gland. Samuel, his deputy, took over as leader, and chose North Cornwall MP Sir Donald Maclean to accompany him to the meetings with MacDonald, Snowden, and Neville Chamberlain and Sir Samuel Hoare for the Conservatives (the Tory leader Stanley Baldwin being absent on holiday in Aix-les-Bains). During the three-party negotiations, Samuel and Maclean declared that a 10 per cent unemployment benefit cut was an 'indispensable' component of an economy scheme, lining up with the Conservatives and increasing the pressure on MacDonald and Snowden to win their Cabinet colleagues over to this course of action.<sup>13</sup> Later, when the Labour government fell, it was Samuel who was the strongest advocate of a National Government with MacDonald at its head, so that political responsibility for the cuts should be spread as widely as possible – though subsequent scholarship has suggested that Samuel's advice did not have quite as much influence on King George V as Samuel himself believed.<sup>14</sup> Moreover, since the Liberals held the balance of power in the Commons, and the vast majority of Labour MPs refused to support the new government, a National Government without Liberal participation would not have had a secure parliamentary majority. Sixteen Liberals received government office, including

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Samuel (who became Home Secretary), Maclean (President of the Board of Education), Lord Reading (Foreign Secretary), Sir Archibald Sinclair (Scottish Secretary) and Lord Lothian (Chancellor of the Duchy of Lancaster). A meeting of Liberal MPs, peers, and candidates at the National Liberal Club on 28 August endorsed participation in the National Government with only one dissenter.<sup>15</sup>

It is instructive to compare the scale and scope of the economy programme agreed by the party leaders in August 1931 – and announced by Snowden in his September 1931 emergency budget – with that enacted by the present coalition government. Though alarming to contemporaries, the prospective deficit of £120 million identified by the May Committee represented only 3.1 per cent of 1931 GDP, and even this figure was swollen by the inclusion of a sinking fund (which the National Government partially suspended) and the £40 million deficit on the Unemployment Insurance Fund (which was not normally included in assessments of budgetary balance).<sup>16</sup> By contrast, the Conservative–Liberal Democrat coalition which took office in 2010 was confronted by an overall deficit amounting to 7.5 per cent of GDP and a structural deficit estimated at 5.3 per cent of GDP; it is committed to eliminating the structural deficit over five years, and is trying to do so over four.<sup>17</sup> The fiscal consolidation undertaken by the National Government was therefore smaller than the present coalition's, but was implemented much more rapidly. Snowden divided the burden of deficit reduction roughly evenly between tax rises and spending cuts, but the cuts were concentrated heavily on unemployment benefit and public sector pay: along with the 10 per cent cut in unemployment benefit, insurance contributions were raised, a means test for transitional benefit introduced, and the salaries of ministers, judges, civil servants, teachers, the police and the armed forces reduced by 10–15 per cent.<sup>18</sup> The incidence of the present coalition's economies is rather different, with spending cuts accounting for roughly three-quarters of the deficit reduction programme and falling more heavily than the 1931 cuts on

the number (rather than merely the pay rates) of public sector workers.

The vast majority of Liberals at all levels of the party – in government, in parliament, and in the country – offered support to the general thrust of Snowden's emergency budget and the National Economy Bill which followed from it. Indeed, in the general election which followed in October, most Liberal candidates insisted that the economy measures had been necessary and just, whilst many also criticised the late Labour government for its profligacy or warned that a Labour victory would lead to national bankruptcy.<sup>19</sup> The division of the Liberal forces into Samuelite, Simonite and Lloyd Georgeite camps basically reflected divergent attitudes to free trade and to the Cabinet's decision to call an early election, rather than disagreements over spending cuts. Among Liberal MPs, only the young Frank Owen voiced outright opposition to the economy programme, describing the unemployment benefit cut as 'iniquitous and inequitable' and declaring that he was 'amazed' at Liberal ministers' support for the means-testing of transitional benefit.<sup>20</sup> Owen felt that the party's complicity in these measures represented a betrayal both of its social reforming heritage and of the commitment it had made at the 1929 election to use the resources of the state to conquer unemployment.

Although Owen's hostility to the benefit cut was not widely shared, Liberals inside and outside government did seek to change the government's economy package in two ways. Firstly, they sought to ensure that the government's rhetoric of 'equal sacrifices' was borne out by the measures it enacted. Before the National Government was formed, prominent Liberals including Sir Walter Layton, Ernest Simon and Ramsay Muir had taken an interest in the idea of a 'national treaty', involving simultaneous (and agreed) cuts in all wages, salaries, benefit payments, rents, dividends and retail prices, which had been suggested by Keynes and implemented in Australia in June 1931 as a solution to that country's financial crisis.<sup>21</sup> Although it soon became apparent that an across-the-board reduction of private sector wages was not politically practicable, Liberals remained determined that

the sacrifices required to reduce the deficit should be spread as broadly and evenly as possible.<sup>22</sup> This concern led Liberal MPs to press for teachers' salaries to be cut by 10 per cent – in common with most other public servants – rather than the 15 per cent originally proposed, a concession which the government granted on 21 September in the wake of a vocal campaign by teachers' unions, the naval mutiny at Invergordon, and the enforced departure of sterling from the gold standard.<sup>23</sup> It also led them to seek further sacrifices from the rich. Lord Lothian advocated a capital levy to cancel £2 billion of Britain's war debt, which would 'permanently balance ... the budget' (by reducing the burden of interest payments) and facilitate some targeted tax reductions 'or an expanded programme of national development to absorb the unemployed'; he believed that such a measure was essential to show 'that the rich as well as the poor are going to bear their fair share of the burden'.<sup>24</sup> Lothian's proposal was taken seriously by Samuel and Chamberlain, but the Bank of England warned that a capital levy might provoke a new flight from sterling and would also create a precedent for Labour to introduce a capital levy in the future. The government settled instead for increasing the differentiation between earned and unearned income in the tax system and reviving plans to convert £2 billion of war loan from 5 per cent to 4 per cent interest.<sup>25</sup>

A second focus of Liberal concern about the National Government's economy package was its treatment of the government's capital investment programmes, many of which had been set in train by the Labour government under pressure from Lloyd George and his party. Commenting from his sickbed shortly after the National Government was formed, Lloyd George told Samuel that he had no objection to the unemployment benefit cut, but he was furious at the proposed reductions in capital spending, especially on smallholdings, land reclamation, and other agricultural projects.<sup>26</sup> Lloyd George's attitude was shared by others: Lothian urged Samuel to try to maintain capital investment, which would alleviate unemployment and help increase domestic

production of food and raw materials, whilst Philip Oliver, MP for Manchester Blackley, lamented that the need 'to go slow with schemes of national reconstruction' was the Liberals' 'part of the sacrifice'.<sup>27</sup> Ernest Simon, who represented Manchester Withington, agreed to take junior office at the Ministry of Health only on the condition that the government maintained the existing system of house-building subsidies.<sup>28</sup> This concern to minimise cuts in public investment suggests that the proposals for public works which had formed the basis of the party's campaign at the 1929 general election continued to influence Liberals' thinking about the relationship between government spending and unemployment.

### Explaining Liberal support for cuts

The Liberals' insistence that the government should respond to the financial crisis in August 1931 with a stringent package of measures to close the deficit, including a cut in unemployment benefit, still requires explanation. After all, the proposed benefit cut was sure to split the Labour movement and destroy the opportunity for Lib-Lab cooperation to be consolidated into a progressive coalition which could pursue Keynesian reflationary measures, introduce the Alternative Vote, and defend free trade. 'On no plausible assumptions', David Marquand has argued, 'did the Liberals stand to gain more from an alliance with the Conservatives than from their existing alliance with the Labour Party.'<sup>29</sup> Why then did the Liberals, led by Samuel and Maclean, make this shift? Three main reasons may be identified.

Firstly, Samuel was clearly influenced by a concern to maintain party unity. Lloyd George's strategy of supporting the Labour government had caused serious unrest among right-wing Liberals, culminating in the resignation of the Liberal whip by Sir John Simon, Sir Robert Hutchison and Ernest Brown in June 1931 in protest at the agreement which Lloyd George had reached with the government over Snowden's plans for a land tax.<sup>30</sup> Simon hoped to lead a large body of disaffected Liberals into the Conservative fold on the basis of a twin commitment to cut

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public spending and accept the need for tariff protection, and had been assured by Chamberlain that he would receive office in a future Tory government if he pulled this manoeuvre off; though his repudiation of free trade hampered his ability to cultivate a following among Liberal MPs and activists, he remained a threat to Samuel and Lloyd George.<sup>31</sup> Most susceptible to Simon's appeal was the party's Asquithian old guard, which clustered around the anti-Lloyd George Liberal Council and the Friends of Economy campaign launched by Walter Runciman and Viscount Grey of Fallodon in January 1931 to champion strict retrenchment.

From the beginning of 1931 onwards, it was clear that Lloyd George and Samuel would have to take a firm line on retrenchment if they were to keep the traditionalist Asquithians on board. In this effort, the leadership found a valuable ally in Sir Donald Maclean, who was respected on the party's right for his commitment to fiscal orthodoxy but whose fear of 'the probable result of an early Tory victory on Free Trade and disarmament' led him to support Lloyd George's strategy of keeping the Labour government in office.<sup>32</sup> It was Maclean who moved the motion in February 1931 which brought the May Committee into being, and Samuel chose Maclean to accompany him to the negotiations at Downing Street in August partly because of his reputation as a fiscal hawk.<sup>33</sup>

Maclean's presence in the negotiations over the Labour government's economy proposals was highly significant. Even before the negotiations began, he had signalled that he was inclined to work with the Conservatives to ensure that the government made the necessary cuts.<sup>34</sup> By contrast, the Liberal chief whip, Sir Archibald Sinclair, told Samuel that the party should take 'an absolutely independent line' and try to support the Cabinet's proposals for reducing the deficit provided they were reasonably sound.<sup>35</sup> Maclean was also more sensitive than many other Liberals would have been to City opinion, and conceived his task during the negotiations partly as one of 'communicating the Liberal point of view to the Bank of England' and keeping the Bank in touch with 'the real position'.<sup>36</sup>

The crucial decision to join with the Conservatives in pressing for an unemployment benefit cut on 18 August, confirmed on 21 August when Samuel and Maclean rebuffed MacDonald's efforts to detach them from the Conservatives, reflected the strategy which Maclean had favoured from the outset.<sup>37</sup> Although Samuel's biographer, Bernard Wasserstein, contends that he 'was constricted by an almost Gladstonian financial orthodoxy that dictated his actions in 1931', Samuel showed himself willing to support Keynesian reflationary projects in other political and economic circumstances, especially in 1929 and after the Liberals resigned from the National Government in September 1932.<sup>38</sup> It seems more plausible to suggest that Samuel's orthodox inclinations were reinforced during the August negotiations by Maclean's influence and by the need to retain the confidence of the party's right wing.

Samuel succeeded in maintaining Liberal unity in the short term. Indeed, Asquithians were delighted at the way in which Samuel and Maclean had 'concentrated on economy as the keystone': Viscount Grey attended the National Liberal Club meeting on 28 August to pronounce his blessing on the new government, and even Sir John Simon sent a message of support.<sup>39</sup> As Williamson notes, 'the Liberal Council now moved back into the centre of Liberal party politics'.<sup>40</sup> However, this rapprochement did not last. Simon himself was not considered for office, and Lloyd George vetoed the appointment of some of his lieutenants, including Ernest Brown; Samuel intended that Walter Runciman should take the War Office, but, when Runciman could not be contacted, the post was given to Lord Crewe, leaving Runciman to fume at Samuel's failure to pursue the matter further.<sup>41</sup> By mid-September 1931, Simon had resumed his efforts to construct a separate group of Liberals who were willing to support a tariff, and found a receptive audience among MPs who feared losing their seats to the Conservatives in an election fought on the trade issue.<sup>42</sup> The split was formalised on 5 October by the formation of the Liberal National group, with its own election fund, committed to supporting MacDonald in 'any measures found

to be necessary for national recovery without regard to fiscal theories and prepossessions'.<sup>43</sup> Nevertheless, those Asquithians who were still committed to free trade, such as Maclean, the veteran journalist Francis Hirst, and (more tenuously) Viscount Grey, remained in the ranks of the official Liberal Party under Samuel's leadership.

A second reason for the Liberals' insistence on a severe retrenchment programme was the party's economic analysis. As is well known, Lloyd George had fought the 1929 election on a pledge to reduce unemployment to 'normal proportions' within two years, without additional cost to the taxpayer, by means of a £250 million programme of loan-financed public works. Lloyd George's pledge drew heavily on advice from John Maynard Keynes, who argued that the mass unemployment which had persisted throughout the 1920s resulted largely from a deficiency of investment, and that deficit spending by the government on projects such as road-building, housing, electricity infrastructure and telephone development would reduce unemployment by bringing investment into line with savings. As Peter Clarke has shown, Keynes felt his way during the 1929 election campaign itself towards the idea of the multiplier effect, whereby an initial government investment would itself generate new resources for consumption and investment through successive rounds of spending.<sup>44</sup>

Most historians have suggested that the Liberals' behaviour in 1931 showed that their conversion to a Keynesian approach was shallow or insincere. Wasserstein has claimed that 'Lloyd George no more believed in Keynesianism on principle than the Celt in him believed in leprechauns', and that Samuel's thinking 'remained fundamentally unaffected by Keynes'; the late Duncan Tanner argued that, 'unhappy with proposals for increased expenditure, most Liberals dropped Keynes as quickly as possible after the 1929 election' in order to return to a more orthodox approach.<sup>45</sup> In fact, the reality was more complicated than this. Loan-financed public works enjoyed quite wide support within the party at the 1929 election, since even those Asquithians who doubted whether Lloyd George's *pledge* was

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achievable agreed that the *policy* on which it was based was sound; and, after the election, the Labour government's failure to tackle unemployment became the main ground for Lloyd George's criticism of it.<sup>46</sup> As the Liberals' attempts to spare public investment from the full rigours of the National Government's cuts showed, the idea that national development projects could stimulate demand and reduce unemployment was quite strongly embedded in Liberal political economy by 1931.

What happened after 1929 was that, as the economic climate deteriorated, Liberals began to question whether loan-financed public works would create as many jobs Lloyd George had claimed, and to consider the possibility that they might damage private sector employment. The case for a public works programme had been premised on the assumption that it would create an atmosphere of expansion, encouraging businessmen to invest and expand production in anticipation of future profits, but by the summer of 1930 even Keynes was no longer confident this would be the case; instead, it was feared that the extra borrowing involved would damage business confidence and discourage private investment.<sup>47</sup> Lord Lothian argued strongly that public investment should ordinarily be financed by taxation rather than by borrowing, and that government policy should focus mainly on stimulating a recovery in the private sector:

A programme of public works, however well devised, cannot save or vitally improve the position unless at the same time the main-springs of private enterprise are functioning freely. Public works can act as a balancing wheel and can improve the general national equipment in certain important and well defined fields. But the vital thing is the buoyancy of the great machine of private enterprise, which can absorb or throw out of work hundreds of thousands of men and women in a few weeks, according to whether it is active or stagnant.<sup>48</sup>

The October 1930 policy document *How to Tackle Unemployment*, based on proposals which Lloyd George submitted to the government during the summer, combined revised public works plans with proposals

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for tax reforms, government assistance for industrial rationalisation, the extension of export credits, and a 10 per cent cut in government spending. Clearly, Liberals were increasingly thinking of national development as only one part of a strategy for recovery, and were moving towards the view that cuts in public spending and taxation represented the best way of encouraging job creation in the private sector.<sup>49</sup>

The financial crisis of the summer of 1931 exacerbated Liberals' existing doubts as to whether a Keynesian strategy would work in the prevailing economic circumstances. Retrenchment became not merely desirable but *essential* to restore the financial markets' confidence in British government policy, keep sterling on the gold standard, and facilitate a revival of trade and employment. The most plausible alternative courses of action, such as voluntary departure from the gold standard, the abandonment of free trade, and the imposition of controls on capital movements and currency exchange, were largely ruled out by the Liberals' ideological commitment to the idea and institutions of an integrated global economy. The parallel with 2010 is instructive. On both occasions, Liberal politicians who were sympathetic to Keynesian reflationary measures in principle found their ability to apply them constrained by the instability of the financial markets, and judged that attempts to use public borrowing to mitigate a slump were likely to be counterproductive in the context of a crisis of financial confidence.<sup>50</sup>

Samuel and Maclean's insistence that the 10 per cent cut in unemployment benefit was an essential element in any economy scheme stemmed partly from an awareness that foreign financiers regarded this cut as symbolic of the government's ability to contain social welfare spending, and partly from a determination to avoid the revenue tariff which some Labour ministers had proposed as an alternative means of making good the shortfall.<sup>51</sup> However, it also reflected an attitude to state welfare provision and the idea of social justice which contrasted sharply with that held by most of the Labour movement. This may be regarded as a third reason why the Liberals backed the National Government's cuts. The

Labour ministers who rejected the proposal to cut unemployment benefit broadly approached the issue from the perspective of distributive justice and citizens' rights to a certain living standard. From this perspective, any reduction in the living standards of the least well-off members of the community was inherently unjust. The Liberal approach to social reform was more ameliorative. Whilst Liberals were generally strongly committed to the elimination of poverty, they tended to take the market distribution of incomes as their starting point, to regard unemployment insurance as a contractual arrangement which should be put on an actuarial basis, and to regard non-insurance forms of state welfare, including transitional benefit, as desirable in themselves but ultimately conditional on the nation's ability to generate sufficient wealth to pay for them.

The Liberals defined the fairness of the deficit reduction package by the way it spread the burden of the cuts and new taxation across the community as a whole. Like MacDonald and Snowden, Samuel and Maclean held that the cut in unemployment benefit was justified because prices had fallen sharply over the previous two years, so that the *real* incomes of the unemployed were merely restored to the level they had been at in 1929.<sup>52</sup> Samuel also believed that the benefit cut was necessary in the interests of equity and social harmony, arguing that 'the other classes who were to be called upon to make heavy sacrifices would be indignant if no change were made'.<sup>53</sup> Whereas Arthur Henderson and the TUC contended that sacrifices should be apportioned according to ability to pay, Samuel and Maclean – along with the other party leaders – interpreted the concept of 'equal sacrifice' to mean an equivalent contribution from citizens in each income group. Not all Liberal MPs and activists were comfortable with this notion, but the party as a whole proved willing to accept it in the midst of the economic crisis.

## Conclusion

The consequences of the Liberal Party's participation in the National Government for its future political development are well known, though they have sometimes been

obscured by the fall-out from the split into Samuelite, Simonite and Lloyd Georgeite groups during the October 1931 general election.<sup>54</sup> Although the total number of Liberal MPs rose in that election, mainly as a result of local pacts with the Conservatives, the Liberal share of the popular vote more than halved, and the Samuelites – who left the National Government in September 1932 in protest at the protectionist Ottawa Agreements – would lose seats at every general election for the next two decades.

The Liberal National secession and the breach with the National Government over Ottawa hit the Samuelite Liberals hard on the right, but among left-wing activists and supporters it was the party's involvement in the economy programme which did the most damage. A steady stream of young radicals – most notably Harry Nathan (MP for Bethnal Green North-East), Ronw Moelwyn Hughes, and Michael Foot – defected to Labour during the 1930s, despairing of the Liberal Party's ability to act effectively as a progressive force; some older Liberals, such as Ernest Simon, took the same view.<sup>55</sup> White-collar public-sector workers, especially teachers, seem to have drifted away from the party in view of its perceived failure to stand up for their interests.<sup>56</sup> The most emotive issue in the constituencies, however, was the imposition of the means test on transitional benefit, which Labour campaigned against unceasingly; the unpopularity of the means test appears to have been a major cause of Liberal losses to Labour in borough and county council elections, especially in London in 1934, and also contributed to the loss of Samuel's own seat of Darwen to the Conservatives in the 1935 general election, as working-class voters peeled away to Labour.<sup>57</sup> Liberal involvement in the National Government's economy programme therefore accelerated the party's loss of radical and working-class support.

The temptation to draw exaggerated parallels between historical experiences and contemporary events is one which the historian must avoid. In its composition, the circumstances of its formation, and its intended lifespan, the present coalition differs significantly from the National Government.

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Moreover, some of the considerations which shaped Sir Herbert Samuel's conduct in 1931 did not apply in 2010. Whereas the National Government took shape during a period of exceptional fluidity in the party system and endemic disension within the Liberal ranks, the 2010 coalition was formed by two parties negotiating on equal terms, with little immediate risk of party splits. Equally significantly, contemporary Liberal Democrats have pressed much harder than their interwar predecessors to ensure that the burden of deficit reduction falls most heavily on those citizens who are most able to bear it.

It is on the economic rationale for balancing the budget that the parallels between 1931 and 2010 are clearest. Certainly, no contemporary Liberal Democrats are as enthusiastic about reducing the size of the state as Maclean and the Friends of Economy were, and the coalition does not share the rigid commitment to Gladstonian principles of sound finance which led the National Government to insist on balancing the budget year-on-year. However, both in 1931 and in 2010, it was the turbulence of the financial markets which convinced Liberals that the task of deficit reduction could not be delayed, and that the national interest required the party to join with the Conservatives (and, in 1931, with MacDonald and Snowden) to implement unpleasant cuts. There is also a significant parallel between the present government's attempts to stimulate a private-sector-led recovery through an expansionary monetary policy, along with the export opportunities opened up by a weak pound, and the policies pursued by the National Government following the September 1931 departure from the gold standard.<sup>58</sup>

The irreconcilability of the Liberal free trade position with the Conservatives' belief that protection would assist economic recovery meant that the Samuelites remained in the National Government for only thirteen months. The Conservative–Liberal Democrat coalition has already lasted longer than that, and Liberal Democrat ministers have shown themselves adept at shaping government policy across the board – from the citizen's pension and NHS reorganisation to Trident renewal and House of

Lords reform. It remains to be seen whether these policy successes, or the results of the government's economic policies, will enable Nick Clegg and his colleagues to survive the experience of coalition in better shape than the Samuelites managed in the 1930s.

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- 1 Liberal Democrat manifesto, *Change That Works For You* (London: Liberal Democrats, 2010), pp. 97–8. See also Nick Clegg's speech on deficit reduction to the IPPR on 16 March 2010, available online at <http://www.libdemvoice.org/nick-clegg-winning-people-over-for-deficit-reduction-18388.html>.
- 2 David Laws, *22 Days in May: The Birth of the Lib Dem–Conservative Coalition* (London: Biteback, 2010), pp. 17–19, 29–32.
- 3 Rob Wilson, *5 Days to Power: The Journey to Coalition Britain* (London: Biteback, 2010), p. 168.
- 4 Laws, *22 Days in May*, pp. 109–10.
- 5 *Ibid.*, pp. 105–13. For a critique of the approach taken by the Liberal Democrat negotiators, see David Howarth's review of Laws and Wilson's books in *Journal of Liberal History*, 70 (Spring 2011).
- 6 Andrew Adonis, review of Laws, *22 Days in May* in *New Statesman*, 2 Dec. 2010; Anthony Seldon and Guy Lodge, *Brown at 10* (London: Biteback, 2010), pp. 453, 457–8.
- 7 *The Guardian*, 19 Sept. 2009.
- 8 This may be found in Parliamentary Archives, Samuel papers, A/77/11, 'Memorandum written at the Conference at Buckingham Palace', 24 Aug. 1931.
- 9 Fifty-nine Liberal MPs were elected in 1929, but their number was reduced almost immediately when William Jowitt accepted appointment as MacDonald's Attorney-General.
- 10 The most detailed recent account of the crisis is Philip Williamson, *National Crisis and National Government: British Politics, the Economy and Empire, 1926–1932* (Cambridge: CUP, 1992).
- 11 Williamson emphasises Chamberlain's role: see *ibid.*, pp. 299–303, 322–5, 336–7.
- 12 Frank Owen, *Tempestuous Journey: Lloyd George, His Life and Times* (London: Hutchinson, 1954), p. 717; *Manchester Guardian*, 16 May 1931.
- 13 Samuel papers, A/77/7, 'Course of Events – August 20<sup>th</sup>–23<sup>rd</sup>, 1931', memorandum by Samuel, 23 Aug. 1931.
- 14 Williamson, *National Crisis*, pp. 335–6.
- 15 *Manchester Guardian*, 29 Aug. 1931. The dissident was not an MP.
- 16 Roger Middleton, 'British monetary and fiscal policy in the 1930s', *Oxford Review of Economic Policy*, 26 (2010), p.

- 431.
- 17 See HM Treasury, *Budget 2010* (London: The Stationery Office, June 2010), p. 89.
- 18 Middleton, 'British monetary and fiscal policy', p. 431; Robert Skidelsky, *Politicians and the Slump: The Labour Government of 1929–1931* (London: Macmillan, 1967), p. 379.
- 19 Andrew Thorpe, *The British General Election of 1931* (Oxford: OUP, 1991), pp. 220–1.
- 20 Hansard, H.C. Deb., fifth series, 257, 28 Sept. 1931, cols. 83–7, at col. 84.
- 21 *News Chronicle*, 1 and 22 Aug. 1931; Trinity College Library, Cambridge, Layton papers 101/4, Sir Walter Layton to Philip Snowden (copy), 11 Aug. 1931.
- 22 A group of Liberal activists and economists led by Norman Crump and E. A. Lessing attempted to revive the national treaty idea in September 1931, as a means of staving off an election fought on the tariff issue: see National Archives of Scotland, Edinburgh, Lothian papers, GD40/17/144/57–67, 'Liberalism and the Crisis of the £', undated but probably 16 Sept. 1931.
- 23 *News Chronicle*, 3 Sept. 1931; Williamson, *National Crisis*, p. 424.
- 24 British Library, Reading private papers (Eur. F118), 112–7, Lord Lothian to Sir Herbert Samuel, 25 Aug. 1931.
- 25 Williamson, *National Crisis*, p. 364–5.
- 26 Samuel papers, A/77/12, David Lloyd George to Sir Herbert Samuel, 25 Aug. 1931.
- 27 Lothian papers, GD40/17/143/12, Samuel to Lothian, 21 Aug. 1931, and GD40/17/143/26–28, Lothian to Samuel (copy), 31 Aug. 1931; Churchill Archives Centre, Cambridge, Thurso papers, III 3/5, Philip Oliver to Sir Archibald Sinclair, 27 Aug. 1931.
- 28 Manchester City Archives, Ernest Simon papers, M11/11/5, Diary, 1929–35, entry for 21 Sept. 1931.
- 29 David Marquand, '1924–1932', in David Butler (ed.), *Coalitions in British Politics* (London: Macmillan, 1978), p. 61.
- 30 Williamson, *National Crisis*, pp. 249–50.
- 31 Bodleian Library, Oxford, MSS. Simon, 249 fos. 45–6, Note by Sir John Simon, 1 Dec. 1930. For the continued attachment to free trade of most of Lloyd George's critics, see Thurso papers, THRS I, Sir Archibald Sinclair to C. E. Taylor (copy), 26 May 1931, and *Huddersfield Daily Examiner*, 29 June 1931.
- 32 MSS. Simon, 249 fos. 5–8, memorandum by Sir John Simon at meeting of leading Liberals, 20 Nov. 1930.
- 33 Thurso papers, THRS III 3/5, Sir Herbert Samuel to Sir Archibald Sinclair, 18 Aug. 1931. Maclean had led the independent Liberal opposition to the Lloyd George Coalition in 1919–20, following Asquith's defeat at East Fife; a solicitor by profession, he had become a company director when out of parliament in the 1920s. See Philip Williamson, 'Maclean, Sir Donald (1864–1932)', *Oxford Dictionary of National Biography* (Oxford: OUP, 2004; online edition, Jan. 2008).
- 34 *The Times*, 13 Aug. 1931.
- 35 Thurso papers, THRS III 3/5, Sir Archibald Sinclair to Sir Herbert Samuel (copy), 14 Aug. 1931.
- 36 Bodleian Library, Maclean papers (dep. c. 468), 121–2, Sir Donald Maclean to Lady Maclean, 24 Aug. 1931, and 127, Sir Donald Maclean to his family, 24 Aug. 1931.
- 37 For MacDonald's attempt to persuade the Liberals to accept a smaller cuts package than the Conservatives demanded, see Williamson, *National Crisis*, p. 325.
- 38 Bernard Wasserstein, *Herbert Samuel: A Political Life* (Oxford: OUP, 1992), p. 312. For Samuel's support for public works programmes after 1932, see Hansard, H.C. Deb., fifth series, 274, 16 Feb. 1933, cols. 1242–56.
- 39 Maclean papers (dep. c. 468), 143–6, Walter Runciman to Sir Donald Maclean, 25 Aug. 1931; *Manchester Guardian*, 29 Aug. 1931.
- 40 Williamson, *National Crisis*, p. 354.
- 41 Reading private papers (Eur. F118), 131–3, memorandum by Lord Reading on meeting with David Lloyd George, 11 Sept. 1931; Wasserstein, *Herbert Samuel*, pp. 320–1.
- 42 Williamson, *National Crisis*, pp. 394–7, 413, 433–6.
- 43 MSS. Simon, 68 fo. 163, Sir John Simon to Ramsay MacDonald (copy), 5 Oct. 1931.
- 44 Peter Clarke, *The Keynesian Revolution in the Making, 1924–1936* (Oxford, 1988), pp. 95, 99.
- 45 Wasserstein, *Herbert Samuel*, p. 312; Duncan Tanner, 'The strange death of Liberal England', *Historical Journal*, 37 (1994), p. 975. A similar argument appears in Ross McKibbin, *Parties and People: England 1914–1951* (Oxford: OUP, 2010), pp. 66–7.
- 46 *The Times*, 28 March and 11 April 1929. The distinction between the pledge and the policy was coined by Maclean.
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- 48 Lothian papers, GD40/17/134/88–116, memorandum by Lothian on the unemployment problem, 10 June 1930.
- 49 Skidelsky, *Politicians and the Slump*, pp. 220–7; G. C. Allen, 'Economic Advice for Lloyd George', in G. C. Allen, *British Industry and Economic Policy* (London: Macmillan, 1979), pp. 196–207. Skidelsky understates the centrality of the proposed reduction in current government spending to the Liberals' new policy.
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- 51 Samuel papers, A/77/7, 'Course of Events', Maclean papers (dep. c. 468), 116, Sir Donald Maclean to Lady Maclean, 18 Aug. 1931.
- 52 Samuel papers, A/77/7, 'Course of Events'. Lothian urged Samuel to emphasise this argument in public: Lothian papers, GD40/17/143/37–8, Lord Lothian to Sir Herbert Samuel (copy), 7 Sept. 1931.
- 53 Samuel papers, A/77/1, 'The Budgetary Situation', memorandum by Sir Herbert Samuel, 3 Aug. 1931, and A/77/7, 'Course of Events'.
- 54 These issues are explored in David Dutton's article.
- 55 Ernest Simon papers, M11/16/32, Ernest Simon to Ramsay Muir (copy), 2 Feb. 1934.
- 56 For an example of teachers' disaffection with the Liberals, see Parliamentary Archives, David Lloyd George papers, G/33/3/74, Haydn Jones to David Lloyd George, 12 Oct. 1932. Jones sat on the executive committee of the National Association of Schoolmasters.
- 57 On London, see Sir Percy Harris, *Forty Years In and Out of Parliament* (London: Andrew Melrose, 1947), p. 90, and *Manchester Guardian*, 6 March 1934; on Darwen, see Wasserstein, *Herbert Samuel*, pp. 370–1. A useful overview of local election trends in the 1930s appears in Chris Cook, 'Liberals, Labour and Local Elections', in Gillian Peele and Chris Cook (eds.), *The Politics of Reappraisal, 1918–1939* (London: Macmillan, 1975).
- 58 Middleton, 'British monetary and fiscal policy', pp. 436–8.

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- 29 *Ibid.*, 12 Oct. 1915, *Lloyd George: a Diary*, p. 68.
- 30 French, *British Strategy and War Aims*, pp. 220–43.
- 31 National Archives, Cabinet papers 37/159/32, Lord Lansdowne, 'Terms on which a Peace might be considered', 13 Nov. 1916.
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- 34 House of Lords Record Office, Bonar Law papers 53/4/27, Asquith to Lloyd George, 1 Dec. 1916 (copy).
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