

# Reports

---

## A new economic policy for the Liberal Party?

Liberal Democrat History Group evening meeting, 30 June 2025, with Professor Peter Sloman and Richard Walker. Chair: Daisy Cooper MP

Report by Peter Truesdale

The title was, perhaps intentionally, ambiguous. Was the new economic policy one for us now? For Tariff-magedon? Or was it to do with John Maynard Keynes, Lloyd George, the Yellow Book, 'We Can Conquer Unemployment', the 1929 general election and all that?

Our speakers were Richard Walker, an expert on Keynes, and Professor Peter Sloman, author of *The Liberal Party and the Economy, 1929–1964*. The content was certainly to do with then rather than now.

Richard Walker spoke on the shaping of Keynes' thinking up to the beginning of the thirties. Within his enlightening narrative four matters were particularly striking.

The first was that Keynes was an economist who had not had an economist's education. He studied economics for only one term at Cambridge. Although, in 1906, he passed the civil service open examination, he came second because he had turned in a very poor paper in economics. His first material engagement with economics came during his

time at the India Office. Here he wrote a book on the banking and currency system. Through writing the book, he concluded that the system didn't need the gold standard to operate effectively.

The second was his being summoned on Sunday 2 August 1914 to give advice to Chancellor of the Exchequer David Lloyd George. Europe's slipping towards war had led to a run on the Bank of England. £340 million was owed to London clearing houses; it could not be paid. Yet, without payment, the clearing houses could not meet their own debts. Equally, the City of London was Europe's premier financial centre. The growing crisis was leading to other countries not meeting their payment schedules.

Adherence to the gold standard meant that individuals and organisations could present their sterling notes and exchange them for gold. But only £25-million-worth of gold remained in the Bank of England's hands. As a consequence, Lloyd George had already acted. On Friday 31 July 1914, he closed the London Stock Exchange. He raised interest

rates from 3 per cent to 10 per cent. The crisis had been halted but not averted.

Apprised of the situation, Keynes advised that all international obligations on the part of the Bank of England should be honoured in full. London's international reputation as a monetary centre must be preserved. To show signs of panic would wreck trust in the future and corrode the position of the City. By way of contrast, domestic demand for gold by banks or individuals holding sterling should be settled in person at the Bank of England. Finally, given that there was a shortage of currency, Keynes recommended an emergency printing of £1 and 10-shilling notes. All in all, a remarkable contribution from a 31-year-old.

The third was Keynes' abhorrence of what he considered to be unduly burdensome and counterproductive war reparations imposed on Germany in 1919. He clearly and forcibly set out his views in *The Economic Consequences of the Peace*.

The fourth was the development of opinions in the 1920s. Here

he displayed a growing concern about high unemployment. The orthodox economics of Keynes' youth was that a pool of unemployed people was necessary to make the economy work smoothly. He shifted to rejecting that view. Not only was he an opponent of Churchill's 1925 decision to return to the gold standard at the 1914 rate of \$4.86, but he came to think that the government should use public works to stimulate economic activity (and consequently stimulate demand and reduce unemployment). This became a centre piece of the 1929 Liberal manifesto.

The 1920s turned out to be a time of transition in British party politics. The twenties were a decade of effervescence in Liberal thought but also a decade of decline in Liberal electoral fortunes. Peter Sloman focused his contribution on this. In particular, he sought to put the focus on the Liberal Party and put the 1929 unemployment pledge in context.

He picked out three key factors as regards the Liberal Party in the 1920s. The first factor was the bitterness of the divisions that had emerged from David Lloyd George's rise to the premiership in December 1916 and his decision to fight a 'coupon election' with the Conservatives at the end of the First World War. The second was Labour's speedy break out from the subordinate position it held in the pre-First-World-War progressive alliance.

And the third factor was a more positive one. Many people were willing to invest time and energy into trying to prevent the Liberal Party being sidelined. Here Keynes, albeit a heavy hitter, was just one among many.

In terms of the economy, many desired to turn the clock back to before 1914. Among their number were Liberals with a strong connection with the City of London. However, unemployment jumped in the early 1920s recession. It remained above one million for the rest of the decade. The pre-1914 economic order had been broken by the war: trading relationships had broken down; Britain and other countries had accumulated heavy war debts; and trade unions in many industries had become more powerful in a wartime context. The orthodox solution was to try to put the pre-war economic system back together again. The return in 1925 to the gold standard at its pre-war parity was the acme of this effort. It failed.

Keynes proposed a different solution, which he set out in his 1924 lecture on 'The End of Laissez Faire'. This was, firstly, to accept that large firms and strong trade unions were now a permanent feature of the UK's economic structure and, secondly, to build on some of the forms of government intervention that had developed during the First World War (whilst continuing to reduce trade barriers where possible).

Shunning a return to the gold standard at the pre-war level, Keynes asserted that the government should actively manage the currency in order to stabilise prices and gain the freedom to pursue a cheap money policy. And, as noted above, that the government could use public works to stimulate economic activity and combat unemployment.

The Yellow Book on *Britain's Industrial Future* was the culmination of Liberal economic thinking. It was deeply indebted to the work of the post-war Liberal Summer Schools. It called for an economic general staff to advise the government on policy, closer public control of the Bank of England, a national investment board, a complex system of works councils and trade boards, and measures to bring utilities into public ownership.

It also proposed a large programme of public works. These were central to Lloyd George's 1929 election pledge: to reduce unemployment to 'normal proportions' within one year through a £250-million programme of investment in roads, housing, telephones, electricity generation, land drainage, and London transport. All to be financed by borrowing, without adding a penny to taxation.

In the election, the Liberal share of the vote rose by 5.8 per cent to 23.6 per cent. The net gain of seats, however, was a mere

nineteen. MacDonald formed a minority Labour government. He did not offer progressive collaboration with the fifty-nine Liberal MPs.

The Wall Street Crash of October 1929 transformed the political landscape. The election pledge had been designed for a world economy that was doing pretty well. By autumn 1929, that was no longer the case. British unemployment rose sharply, to about two and a half million in 1930. This meant not only that the task of getting unemployment down to 'normal proportions' was bigger, but also that economists

became more worried about the impact that significant government borrowing would have on business confidence.

The 1929 policy was to borrow in order to invest. In the recession following the crash, the government was borrowing to cover current budget spending, particularly the ballooning cost of unemployment benefit. The May Committee (set up in response to a Liberal motion) reported and asserted that Britain faced a £120-million deficit if nothing was done. It called for spending cuts including a reduction in unemployment

benefits. We all know what followed: irremediable splits in Labour and the Liberals; the formation of the National Government; the carnage of the 1931 general election.

No direct read-across from then to now emerged from the questions and debate at the end of the meeting. Though references to budget deficits and benefit cuts did resonate uncomfortably. ■

Peter Truesdale was a councillor and Leader of Lambeth Council. He is a member of the History Group's executive.

## Liberals, Europe and the People

Liberal Democrat History Group fringe meeting, 21 March 2025, with Robert Saunders, Morgan Jones and Nicholas Alderton. Chair: Tony Little

Report by Peter Truesdale

**T**he occasion of this meeting was the fiftieth anniversary of the June 1975 referendum. It was the first United Kingdom-wide referendum. The question on the ballot paper read:

The Government has announced the results of the renegotiation of the United Kingdom's terms of membership of the European Community.

Do you think the United Kingdom should stay in the

European Community (the Common Market)?

Of those who voted, 67.2 per cent voted 'Yes'. The turnout was 64.6 per cent. The result had never really been in doubt.

Two of the speakers addressed the meeting regarding the 1975 referendum. The first was Dr Robert Saunders, Queen Mary University of London and author of *Yes to Europe! The 1975 Referendum and Seventies Britain*. The second was Dr Nicholas Alderton, Welsh historian and author of

*Emlyn Hooson and the Welsh Liberal Party, 1962–1979*.

The third speaker addressed the meeting about the aftermath of the 2016 EU referendum. She was Morgan Jones, a journalist and author of *No Second Chances*, the inside story of the campaign for a second referendum.

Saunders reviewed Liberal engagement with the campaign and the consequences of that engagement. 1975 was a time of hope for the Liberal Party. The jokes about being able to get