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The Significance of 1931 for British Imperial and International History

Robert Boyce

Continuity and discontinuity in British interwar history

The twenty years that separate the First World War from the Second are almost invariably treated as a unity by scholars of British and British Imperial history, for reasons that on the face of it seem compelling. Britain was the only major European power to escape invasion or defeat in the First World War. Almost uniquely it entered the inter-war period with its institutions strengthened by the ordeal and survived the post-war upheavals largely unscathed. Its economic performance in the 1920s was disappointing, being marked by slow growth and high unemployment, features aggravated by the world economic slump which began in 1929. Yet the slump in Britain was briefer and less severe than almost anywhere else, and while unemployment rose to new heights in the 1930s, by most other criteria the economy performed relatively well. Meanwhile Britain's relations with its Empire and the rest of the world underwent only modest incremental change. Imperial relations were altered by, among other things, the Montagu-Chelmsford reforms and the Government of India Act of 1919 which extended limited self-government in India, the 1931 Statute of Westminster which confirmed the Dominions' right to self-government, the introduction of general tariff preferences in 1932, and the long-awaited 1935 Government of India Act. Aside from the general tariff preferences, each step marked a loosening of Imperial ties. Yet British governments scarcely considered retreating from Empire, and aside from the Irish Free State the Dominions' readiness to join Britain in war in 1939 encouraged the impression that inter-war developments had scarcely weakened the bonds of Empire.[1] As for Britain's relations with the other great powers of the world, these too remained little changed. In 1920 Britain was the first major power to resume commercial relations with Bolshevik Russia, and aside from a brief period between 1927 and 1929 it maintained formal, if distant, relations with the Soviet regime. Similarly, from the Armistice in November 1918 until the very eve of the Second World War, Britain's relations with France, the United States, Germany, Italy and Japan remained broadly stable. For

[1] J. Callaghan, *Great Power Complex: British Imperialism, International Crises and National Decline, 1914-51*, London, Pluto, 1997, p. 50-52, p. 57; N. Mansergh, *The Commonwealth_Experience*, vol. 2, *From British to Multiracial Commonwealth*, 2nd ed., Basingstoke, Macmillan, 1982, p. 90-93; R. F. Holland, *Britain and the Commonwealth Alliance, 1918-1939*, Basingstoke, Macmillan, 1981, p. 205; R. Ovendale, *'Appeasement' and the English Speaking World: Britain, the United States, the Dominions and the Policy of 'Appeasement', 1937-1939*, Cardiff, University of Wales Press, 1975, p. 320.

these reasons, historians such as Edward Hallett Carr, John Grenville, Norton Medlicott, Charles Mowat and Alan John Percival Taylor treat Britain's inter-war years as a single unit of history, while Paul Johnson, Niall Ferguson and others subsume these years within a larger unit.[2]

Clearly the inter-war years display important elements of continuity. Yet for at least three reasons 1931 deserves to be regarded as a major turning-point in interwar British, Imperial and indeed world history. In the first place, so severe was the financial crisis that year that for the only time in modern peacetime history Britain set aside party government and for the next fourteen years leaders of the three main political parties united in non-party National Governments. Secondly, in the crisis Britain abandoned both the gold standard and free trade and embarked upon a unique experiment in Imperial protectionism.[3] Free trade, adopted a century earlier, had become much more than merely a commercial policy. As the economic keystone of liberalism, it shaped attitudes towards the scope of government, the role of competition in the economy and society, and Britain's exposure to external influences.[4] Its abandonment marked a watershed which would have been more controversial had it not already been the subject of debate for at least six years beforehand. Abandonment of the gold standard was scarcely less remarkable. While largely mysterious to the general public, merchants and bankers regarded the gold standard as an essential constraint upon government spending and necessary underpinning for Britain's international credit-worthiness and global influence.[5] Its abandonment thus widened the break with Britain's liberal past. Yet arguably more important than either of these reasons was the fact that 1931 marked a turning-point in Britain's world role. For, as the following pages explain, after the Armistice Britain immediately resumed the leading role it had performed in the preceding century, but in the financial crisis of 1931 it retreated into narrowly national and Imperial policies which contributed modestly to Empire unity, but constituted a major setback for the rest of the world. Put differently, until 1931 Britain served as the lynchpin of a globalised world economic system. However, in the crisis of that year it abandoned its international role and contributed to ending the second great era of globalisation that had begun more than a century earlier.

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2 E. H. Carr, *The Twenty Years Crisis, 1919-1939*, Basingstoke, Palgrave, 2001; J. A. S. Grenville, *A World History of the Twentieth Century*, vol. 1, *1900-1945*, Brighton, Harvester, 1980; W. N. Medlicott, *Contemporary England, 1914-1964*, London, Longmans, 1967; Charles L. Mowat, *Great Britain since 1914*, London, Hodder and Stoughton, 1971; A. J. Percival Taylor, *English History, 1914-1945*, Oxford, Clarendon Press, 1965; Paul Johnson, *A History of the Modern World*, London, Weidenfeld, 1983; N. Ferguson, *War of the World*, London, Allen Lane, 2006.

3 R. F. Holland, *Britain…*, *op. cit.*, p. 138.

4 A. Howe, *Free Trade and Liberal England, 1846-1946*, Oxford, Clarendon Press, 1997, especially p. vii, p. 275-276; F. Trentmann, *Free Trade Nation: Commerce, Consumption and Civil Society in Modern Britain*, Oxford, Oxford University Press, 2008, *passim*.

5 R. Boyce, 'Government-City of London relations under the gold standard 1925-1931', in R. Mitchie and P. Williamson (eds.), *The British Government and the City of London in the Twentieth Century*, Cambridge, Cambridge University Press, 2004, p. 215-19.

Britain's return to economic internationalism after the Great War

The second era of globalisation, when obstacles were progressively removed from the international movement of goods and services, capital, people and knowledge or technology, began in 1815 and continued until August 1914 when it was abruptly interrupted by the First World War. All the belligerent countries hastily introduced controls on foreign exchange, capital exports, trade and migration, and imposed strict censorship until after the Armistice. Britain was no exception, for it found itself dependent upon overseas sources for many essential commodities, including a quarter of its total food supplies and fully half its cereal requirements.[6] More remarkably, seventy years of free trade had left it dependent upon Germany for a range of strategic goods including dyestuffs, drugs, aeroplane engines, timing devices and precision instruments.[7] Meanwhile the City of London faced withdrawals that threatened to bankrupt its institutions and destroy the pound sterling. The government swiftly intervened to halt the run on the pound, shored up its banks, assisted domestic manufacturers to make up the shortfall in imports, and introduced a 'ploughing up' policy to increase domestic food production. Along with rationing and imports largely from the United States and the Empire, these measures enabled Britain to survive. Nonetheless the precariousness of its situation encouraged support for making the protection permanent and strengthening Imperial ties in order to limit Britain's vulnerability in future crises. In 1916 the British Empire Producers' Association, a commercial pressure group, was formed, and the government instituted an Empire Resources Development Committee. In 1917 the Imperial War Cabinet agreed in principle to assist emigrants to settle in British settlements overseas.[8] That year David Lloyd George, the Prime Minister and Liberal Party leader, affirmed in the House of Commons, 'The war at any rate has taught us one lesson, that the preservation of our essential industries is as important a part of national defence as the maintenance of our Army and Navy'.[9]

Following the Armistice, Britain's intra-Imperial trade remained at an historically high level, helped by the establishment of the Empire Parliamentary Development Committee in 1921, the Empire Development Committee in 1922, the Empire Industries Association in 1924, and Government bodies such as the Empire Settlement Committee in 1919 and the Empire Marketing Board in 1926. In 1924 Britain created its first national airline, Imperial Airways, and held a great Empire Exhibition at Wembley in north London. Frequent tours by the king, the crown

[6] R. W. D. Boyce, *British Capitalism at the Crossroads, 1919-1932: A Study in Politics, Economics, and International Relations*, Cambridge, Cambridge University Press, 1987, p. 7.
[7] *Ibid*.
[8] I. M. Drummond, *Imperial Economic Policy 1917-1939: Studies in Expansion and Protection*, London, George Allen & Unwin, 1974, p. 51.
[9] *National Farmers Union*, No. 1, 'The Nation's Food Supply', March 1920.

prince and other members of the Royal Family in subsequent years helped to strengthen Empire unity.[10]

Yet official support for a strategy of assisted emigration to British territory overseas, protectionism and Imperial preference – Imperial protectionism for short – swiftly diminished once the war ended. Having created the Overseas Settlement Committee, the government provided only modest funding and the expected surplus population failed to materialise.[11] Dyestuffs imports continued to be protected by quota restrictions, and in 1921 certain 'key industries' such as chemicals, precision instruments and wireless valves also received protection through the Safeguarding of Industries Act, with Empire imports receiving preferential treatment. But these exceptions aside, the only major industry to remain protected was auto manufacturing, which had benefited from the McKenna duties since 1915. Already the government had abandoned its promise of a floor price for domestic cereals when the post-war collapse of commodity prices increased the liability to the Exchequer.[12] And as early as December 1919 the chancellor of the exchequer, Austen Chamberlain, confirmed the government's acceptance of the recommendations of the Committee on the Currency and Foreign Exchanges after the War, or Cunliffe Committee. The Committee's chief recommendation was to restore the pound sterling to the gold standard at the first opportunity, and implicitly to do so at the pre-war rate of exchange.[13]

Advocates of the gold standard believed that returning to gold would create a virtuous circle by reducing the risk premium on sterling-denominated assets and attracting foreign balances to London, which in turn would enable the expansion of foreign credits and loans to the benefit of British industry and employment. They also believed it would serve the essential political function of constraining governments from the temptation of 'bribing' the electorate with its own money, with inevitable inflationary consequences. Indeed, it would enable liberalism to be carried much further, since the gold standard removed the need or justification for any other form of state interference in the operation of markets, including foreign lending controls or trade restrictions. Under the gold standard, the Bank of England, Britain's central bank, could maintain the external accounts in equilibrium merely by adjusting interest rates upwards or downwards. And once Britain returned to gold, other countries would follow, opening markets everywhere to international competition. The government's endorsement of the Cunliffe Committee's recommendations thus

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[10] D. Judd, *Empire: The British Imperial Experience from 1765 to the Present*, London, Fontana, 1997, p. 285-286.

[11] S. Constantine (ed.), *Emigrants and Empire: British Settlements in the Dominions between the Wars*, Manchester, Manchester University Press, 1990, p. 1-3.

[12] E. H. Whetham, 'The Agricultural Act, 1920, and its Repeal – the 'Great Betrayal'', *Agricultural History Review*, 22 pt1, 1974, p. 36-49.

[13] *British Parliamentary Papers*, 1918, Committee on the Currency and Foreign Exchanges after the War, 'First Interim Report', Cd.9182, p. 5.

confirmed that for Britain at least the war had constituted merely a hiatus in its commitment to globalisation.[14]

On the face of it, this commitment was surprising, since all three of Britain's major political parties favoured the maintenance of the British Empire and only the Liberal Party unreservedly endorsed economic internationalism. The Conservative Party was too divided to adopt an unambiguous position on economic policy. Throughout the nineteenth century Britain had thrived largely from mercantile-financial activities, and many Conservatives especially in London and the south-east of England who shared in this wealth were predisposed to favour policies of economic internationalism. But many others in the party, especially from centres of manufacturing, continued to draw inspiration from Joseph Chamberlain, the former mayor of Birmingham, who twenty years earlier had encouraged hope of uniting the disparate parts of the British Empire into an Imperial Federation, its economy integrated behind a common external tariff barrier. Tariff Reform, the euphemism for Chamberlain's campaign, was shunned after the Conservative's disastrous defeat in the 1906 general election, and in the 1920s sympathisers spoke only of Safeguarding and Imperial preference. Behind the rhetoric, however, Imperial protectionism remained popular among much of the party's leadership and rank and file.[15] In December 1923, Stanley Baldwin, aware that unemployment was the key electoral issue and fearing that his great rival Lloyd George would seize the initiative on protectionism, went to the country on a platform of expanded Safeguarding. Baldwin, however, had done little to prepare the ground, and the Conservatives' poor showing in the election allowed the Labour Party to form its first government. Thereafter Baldwin set his face against further experiments in commercial policy.[16]

The Labour Party's first constitution in 1918 called for 'the common ownership of the means of production, distribution and exchange', and Ramsay MacDonald, the party's dominant personality from 1911, sought to distinguish Labour from the Liberals by insisting that it favoured neither free trade nor protectionism but socialism.[17] In fact, party leaders and rank and file alike opposed trade protection as an attack on working-class living standards, and favoured free trade for the further reason that it complemented their commitment to the League of Nations and international workers' solidarity.[18]

Britain's foreign and economic policies remained closely aligned in the post-war period, its reintegration into a globalised world economy pursued along with efforts to restore a harmonious states system. In October 1918 Britain broadly accepted the principles set out by president Woodrow Wilson in his Fourteen Points and elsewhere as the basis of peace. These included the establishment of a league of nations to help keep the peace, and abjuring 'annexations... contributions [and] punitive damages'

[14] R. Boyce, 'Creating the Myth of Consensus: Public Opinion and Britain's Return to the Gold Standard in 1925', in P. L. Cottrell and D. E. Moggridge (eds.), *Money and Power. Essays in Honour of L. S. Pressnell*, Basingstoke, Macmillan, 1988, p. 189.

[15] A. Marrison, *British Business and Protection, 1903-1932*, Oxford, Clarendon Press, 1996, p. 290.

[16] *Neville Chamberlain papers*, Birmingham University Library, 2/21, 10 October 1923; *Ibid.*, 2/22, 7 October 1927; Lord Baldwin, 'A Memoir', *The Times*, 15 December 1947, p. 8.

[17] *House of Commons Debates*, 5th series, vol. 180, columns 703-720.

[18] A. Howe, *Free Trade...*, *op. cit.*, p. 284-285.

from the defeated Central Powers.[19] Briefly Britain departed from these principles by participating in stripping Germany of its overseas colonies and leased territories, its submarine cables and coaling stations, its navy and much of its merchant fleet. It also joined in large-scale reparation demands after government ministers politicised the subject in the December 1918 general election. Yet at the peace conference Lloyd George delayed a decision on the total reparation bill, and by the time it was fixed in May 1921 Britain sought to minimise the burden on Germany. Britain also firmly resisted French efforts physically to weaken Germany by territorial transfers or encroachments upon German sovereignty. In large part this reflected the assumption that Britain's economic recovery depended upon a stable and prosperous Europe of which Germany was the central component.

With the exception of France, whom British statesmen identified as the main obstacle to European stabilisation, Britain sought good relations with all the major powers in the post-war world.[20] To maintain the interested friendship of Japan, it favoured the renewal of the Anglo-Japanese Alliance when it expired in 1921. However, it placed an even higher value on friendly relations with the United States, and when Washington signalled its opposition to the Alliance, Britain allowed it to lapse and instead relied upon the three treaties adopted at the Washington conference in 1922 to forestall a naval arms race and maintain stability in East Asia. Britain also led the way in restoring Russia to the international states system. Lloyd George attempted to bring Red and White leaders to Paris in 1919 during the peace conference. Clemenceau ruled this out. However, in May 1920, while the Russian civil war continued, Lloyd George invited a Bolshevik delegation to London, and in March 1921 he oversaw the negotiation of a trade treaty, making Britain the first Western country to normalise relations with Soviet Russia.

British support for globalisation in the 1920s

The speed with which Britain reverted to economic internationalism and resumed relations with former enemy states after the war was unique among the major powers. Equally impressive was the contribution that British individuals and institutions made to the international promotion of globalisation. The first Secretary-General of the League of Nations was a British diplomat, Sir Eric Drummond. The Economic, Financial and Transit Section of the League, which began its work in July 1919 in temporary offices in Westminster, was also headed by a British civil servant, Sir Arthur Salter. When Salter resigned in late 1919 to become Secretary-General of the Reparations Commission, he was replaced by Walter Layton, a former Cambridge academic who had served on British missions to Russia and the United States during the war. When Layton left to become editor of the *Economist* in 1921,

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[19] T. A. Bailey, *Woodrow Wilson and the Lost Peace*, New York, Macmillan, 1944, p. 240.

[20] R. Boyce, *The Great Interwar Crisis and the Collapse of Globalization*, Basingstoke, Palgrave-Macmillan, 2009, p. 58.

Frank Nixon of the Board of Trade took his place until 1922 when Salter returned. Initially the Economic, Financial and Transit Section could do little in face of the revolutionary turmoil that engulfed most of Central Europe after the war. This changed, however, when the League created the Financial and Economic Committees in October 1920 to promote the League's internationalist agenda.[21]

British members played a prominent part in both committees. The Financial Committee was initially the more important of the two because currencies had to be stabilised before countries would agree to reduce their trade barriers. Two of the seven members of the Financial Committee were British: Sir Henry Strakosch, a City financier, and Sir Basil Blackett, controller of finance at the Treasury, who was succeeded in 1922 at the Treasury and on the Committee by Sir Otto Niemeyer. Strakosch, Blackett and Niemeyer, all highly competent and energetic, were actively assisted by Salter. But their greatest asset was their close association with the Governor of the Bank of England, Montagu Norman. Norman wielded extraordinary influence over the financial institutions of the City of London, which in turn enabled him to project his influence as far as Wall Street, the financial capital of America. The war had left Britain with sharply reduced wealth and lending resources, whereas the United States emerged with colossal lending resources. For several years American bankers preferred to avoid strife-torn Continental Europe and instead concentrated on the burgeoning demand for capital in the Americas. When they did turn to Europe after the Ruhr crisis in 1923-1924, their limited knowledge of the region led them to take their lead from London. Norman, aware of the advantages to be gained, assiduously cultivated relations with colleagues at the Federal Reserve Bank of New York and leading bankers on Wall Street.[22] Together they helped restore financial stability to much of Europe. Meanwhile Norman or other British experts assisted South Africa, Australia and later Canada in creating reserve banks. And in 1925 Norman helped persuade the Chancellor of the Exchequer, Winston Churchill, to return sterling to the gold standard at the pre-war rate of exchange (£1 = $4.86).[23]

By 1926, with the world's main trading currencies stabilised and restored to convertibility, British experts turned to the challenge of reducing trade barriers which had risen sharply since the war. Britain's commercial position was now weaker, yet British negotiators found this an advantage. As the world's largest importer, Britain's markets were hugely important to nearly every other trading nation, and its massive deficit on visible trade meant that other nations depended critically upon Britain for their own prosperity and stability. British negotiators could thus wield the implicit threat that if foreign countries refused to cooperate on opening markets, Britain would abandon free trade.

One category of trade barriers that British experts focused upon was quantitative trade controls including embargoes, import and export quotas, import licensing systems and barter arrangements, which had almost vanished before the war but re-emerged during the conflict. British experts regarded them as particularly undesirable since they constrained trade to rigid bilateral channels, which limited

[21] *Ibid.*, p. 145.
[22] *Ibid.*, p. 145-148.
[23] R. Boyce, *British Capitalism…*, *op. cit.*, p. 71-78.

growth and took no account of dynamic changes in international competitiveness. Most such restrictions were unilaterally removed by October 1927 when the first League of Nations conference on import and export 'prohibitions' convened in Geneva. There, Sir Sydney Chapman, a former dean of the Faculty of Commerce at Manchester University and the Permanent Secretary at the Board of Trade, worked tirelessly for the adoption of a convention outlawing prohibitions. Britain was the first country to ratify the convention, but added a reservation on dyestuff quotas, and as practically all signatories added reservations affecting other signatories, it remained in suspension.[24]

British experts placed even greater importance upon the universal adoption of the most-favoured-nation principle in its unconditional form because, as a free trade nation, Britain had almost nothing with which to bargain if most-favoured-nation treatment was granted only in exchange for reciprocal concessions. More generally, British experts regarded unconditional most-favoured-nation treatment as essential to trade liberalisation, since it ensured that tariff reductions adopted through bilateral negotiations were automatically extended to all countries that enjoyed most-favoured-nation treatment and locked into the global trade system. The Board of Trade made unconditional most-favoured-nation treatment the first item in practically every bilateral commercial treaty it negotiated before and after the war. The British delegation to the League-sponsored World Economic Conference in May 1927 also made it a priority.

The conference was the initiative of Louis Loucheur, as French representative to the sixth Assembly of the League of Nations in September 1925, and at the conference French delegates actively supported trade liberalisation. However, the British delegation, which included Walter Layton, now editor of the *Economist* magazine, the shipping magnate Sir Norman Hill, and the former Permanent Head of the Board of Trade Sir Herbert Llewellyn Smith, were joined by the ship-owner and former Liberal minister Sir Walter Runciman, representing the International Chamber of Commerce, Sir Arthur Salter from the League Economic Section and delegates from India and the British Dominions in opposing the French approach to trade liberalisation. This included 'counterbalancing duties' to offset 'unfair' national advantages, or what in present-day parlance would be called fair trade rather than free trade, and 'industrial ententes' or market sharing agreements that would in theory encourage industrial 'rationalisation' – investment in the modernisation of plant and equipment – and make trade protection unnecessary. Layton denounced these proposals as 'impracticable and... unworkable', and warned that Britain would turn to protectionism unless the European countries demonstrated their commitment to classic free trade principles.[25] Eventually the conference adopted a series of resolutions which the British press presented as a decisive victory of Britain's liberal approach to commerce over France's dirigisme. Since the conference was only semi-official, the resolutions were not binding on the participating countries. Nevertheless the League of Nations Council endorsed them and British officials at Geneva actively

[24] *Ibid.*, p. 126, p. 223-224.

[25] League of Nations, *Report and Proceedings of the World Economic Conference held at Geneva, May 4th to 23rd*, 1927, 1927.II.52i.4, p. 48.

promoted them. The following year a League committee set up to encourage their implementation confirmed that the corner had been turned in the fight against trade protection.[26]

The decline of economic internationalism in the slump

By the summer of 1929 Britain's post-war aim of restoring a globalised world seemed to have been nearly realised. Although tariff barriers and restrictions on migration remained greater than before the war, Britain had contributed to the restoration of the international gold standard through which nearly all the major trading currencies were stabilised and made fully convertible, and to the reversal of the trend towards trade protection which had been the feature of the immediate post-war years. The results were impressive. By the second half of the 1920s, international trade and capital movements were again growing faster than physical output. As early as 1924 world trade exceeded the value (in constant terms) reached in 1914; by 1929 it was 40 per cent greater.[27] Similarly, the volume of new international loans and investment had exceeded pre-war levels and was growing rapidly.

Yet signs were proliferating of disillusionment with economic internationalism in Britain itself. Within two months of returning to the gold standard in 1925, Britain had confronted the threat of a strike in the coal fields, followed nine months later by a general strike, the first in nearly a century. When subsequently the Bank of England maintained historically high interest rates, spokesmen for manufacturing, agriculture and organised labour became outspoken in their criticism of the Bank, which made it increasingly difficult for the Bank to take the steps necessary to defend the gold standard. Meanwhile, deep divisions emerged within the Conservative government over trade policy. The Prime Minister, Stanley Baldwin, managed to hold the line against pressure for Imperial protectionism. Despite the government's assurances of a broader application of the Safeguarding of Industries Act, requests from major industries such as woollen textiles and steel-making were rejected, and only a few secondary industries gained protection. Even at the end of the government's nearly five years in office safeguarded or protected industries employed barely 1 per cent of the workforce.[28] Their popularity dwindling, Conservative leaders conceded that trade policy would be reviewed after the next general election on 1 June 1929, and hardly had the results confirmed the Conservatives' defeat than Lord Beaverbrook and Lord Rothermere, proprietors of Britain's largest circulation newspapers, launched individual campaigns to convert the party to Imperial protectionism.

The press barons' challenge to the Conservative Party intensified in February 1930 when Beaverbrook merged his 'Empire Crusade' with Rothermere's United Empire

[26] R. Boyce, *Great Interwar Crisis…*, *op. cit.*, p. 175-178.
[27] *Ibid.*, p. 3-4.
[28] A. Howe, *Free Trade…*, *op. cit.*, p. 281.

Party. With the slump deepening and unemployment soaring, an Empire Crusade candidate won a by-election against a sitting Conservative in October, and in a second by-election in February 1931 another Empire Crusade candidate split the Conservative vote which allowed the Labour party to take the seat. The following month the challenge practically ended when the Empire Crusade candidate was soundly defeated in a third by-election.[29] But by this time support for free trade had faded even in traditional strongholds such as Lancashire and the City of London.[30] With Neville Chamberlain, Joseph Chamberlain's younger son now the Conservatives' leading authority on economic policy, it was certain that the party would abandon free trade in favour of Imperial protectionism when it next took office.

The Labour Party had formed its second minority government with the support of the Liberals in June 1929 on the promise that it would act to reduce unemployment. But it had no programme, and its spokesmen on economic policy, while professing to be socialists, were in fact liberal internationalists who opposed unilateral external action for political as much as economic reasons, and immediately found themselves on the defensive. In September, at the height of the Wall Street boom, which forced the Bank of England to raise its base rate to 6 ½ per cent, the Chancellor of the Exchequer, Philip Snowden, deflected criticism of the Bank and the gold standard by instituting a wide-ranging enquiry into the relationship between finance and industry, which was bound to take months if not years to report.[31] Meanwhile the Prime Minister, Ramsay MacDonald, formed a committee of ill-assorted ministers to investigate solutions to the unemployment problem. James Henry Thomas, who chaired the committee, secured parliamentary approval of the Colonial Development Act, but to be effective it required capital which the government did not have.[32] A member of his committee, Sir Oswald Mosley, advanced an ambitious scheme aimed at the management of domestic demand through the abandonment of the 'fetish of exports' and large-scale government borrowing to finance temporary public works projects.[33] But other committee members baulked at the audacity of Mosley's scheme and seized the offer of help from Norman of the Bank of England. Norman had already begun to take an interest in industrial 'rationalisation' on account of the difficulties facing William Armstrong, the arms manufacturer, and some of the Bank's other private clients. Apprehensive that the Labour government might otherwise turn to more radical solutions, he encouraged the committee to hope that the Bank's rationalisation schemes would restore Britain's industrial competitiveness. This was consistent with the internationalist principle of relying upon unilateral domestic adjustments to maintain economic stability. But in view of the severity of the current economic slump, it was all too likely to result only in further unemployment.

29 A. J. Percival Taylor, *Beaverbrook*, Harmondsworth, Penguin Books, 1974, p. 400-401.

30 A. Marrison, *British Business…*, *op. cit.*, p. 397-400.

31 R. Boyce, *British Capitalism…*, *op. cit.*, p. 215-216, p. 280-282.

32 I. M. Drummond, *British Economic Policy and the Empire, 1919-1939*, London, George Allen and Unwin, 1972, p. 50-51.

33 R. Skidelsky, *Oswald Mosley*, London, Macmillan, 1975, p. 199-207.

The government devoted much of its time to the domestic consequences of the slump, while relying mainly on multilateral action to counter the slump itself. Meanwhile it sought to maintain confidence in the post-war settlement by further appeasing Germany. At the diplomatic conference at the Hague in August 1929, it secured agreement on the Young plan, a supposedly final settlement of reparations, and on accelerating the withdrawal of all Allied troops from the Rhineland from 1935 to 1930. The following month at the tenth League of Nations Assembly in Geneva it discouraged support for Aristide Briand's European Federation proposal, which it regarded as dangerously narrow, discriminatory and anti-American, and secured approval for a conference on concerted economic action, which aimed to secure an international truce on tariff building, followed by multilateral negotiations on tariff reductions. In January 1930 it hosted an international Naval Conference in London where agreement was reached among the world's three leading naval powers, the United States, Japan and Britain, to extend the terms of the 1922 Washington five-power treaty limiting the possession of capital ships to cruisers. In February 1930 it actively participated at the first tariff truce conference, as the conference on concerted economic action was generally known. All these initiatives were intended to maintain harmony among the Great Powers and keep open the markets of the world. None was to prove effective.

Despite the concessions to Germany at the Hague conference, Hitler effectively exploited the 'tribute payments', as he called reparations, once Germany entered the world economic slump. Britain's concessions at the London Naval Conference brought a *rapprochement* with the United States, but failed to reconcile France and Italy who rejected the cruiser limitation agreement. Anglo-American relations again came under strain in September 1931 over the appropriate response to Japanese aggression in Manchuria. The tariff truce initiative was scarcely more successful. Eighteen countries signed the convention drafted at the first conference on concerted economic action. But it did little more than register current tariff levels and was so hedged about with reservations that the signatory countries refused to ratify it.[34] Nor did the negotiations on tariff reductions that were intended to follow the truce ever take place. Even more unfortunate was the fate of the 'prohibitions' convention for outlawing quantitative trade controls. The Labour government promoted a second prohibitions conference to remove the national reservations attached to the 1927 convention.[35] But by the time the conference convened in December 1929 the slump was well under way, and the British delegate was obliged to insist upon an exception for Britain's own dyestuff import quotas. This led the German, Polish and other national delegates to maintain their own reservations, thus blocking ratification of the convention.[36]

In June 1931 Germany faced a massive flight from the Reichsmark which threatened to drive its currency off the gold standard and destroy its banking system. From Washington, Herbert Hoover responded by proposing a one-year moratorium on all inter-governmental debt payments. When this failed to halt the run on the

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[34] R. Boyce, *British Capitalism…*, *op. cit.*, p. 239.
[35] *Ibid.*, p. 126-127.
[36] *Ibid.*, p. 223-226.

Reichsmark, Germany turned to France which possessed huge financial balances and was as yet only marginally affected by the slump. This prompted the Labour government to convene an international conference in London to address the German crisis.[37] Once again the results were negligible. British ministers were chiefly concerned to keep France from gaining influence over Germany by exchanging political concessions for financial assistance. However, they had no resources of their own to offer Germany and could merely appeal to private short-term creditors to accept a temporary German moratorium on repayment. They had thus already exhausted multilateral efforts to address the slump when that same month the financial contagion spread to sterling. Still committed to economic internationalism, the government sought to restore confidence in sterling by promising unilateral action to address the budget deficit. In the event, however, ministers failed to agree on the huge economies necessary, and on 23 August MacDonald, the Prime Minister, dismissed his cabinet and submitted his resignation to the King.[38]

The following day leaders of the three main political parties formed a non-party National Government in order to implement the retrenchment ostensibly needed to halt the run on the pound. With an assured majority in Parliament and the promise of massive spending cuts, government agents soon negotiated a large credit facility through J. P. Morgan in New York and the Bank of France. On 10 September, Snowden, still Chancellor of the Exchequer, delivered his emergency budget which included a cut in pay for service personnel. Ironically the economies failed to reassure the markets, and reports on 16 September of a mutiny by sailors in the Royal Navy's Atlantic fleet, angry at their loss of pay, further undermined confidence.[39] On Monday, 21 September, sterling was forced off the gold standard.

Britain's retreat from economic liberalism

In the climate of fear that prevailed, the National Government called a general election to secure a 'doctor's mandate' in order to save the pound from collapse. For four weeks government candidates accused their Labour opponents of grave fiscal irresponsibility, while Labour candidates accused their former colleagues of betrayal. Yet the outcome was never in doubt. With the former Labour ministers MacDonald, Snowden and Thomas, and two fractions of the Liberal Party led by sir Herbert Samuel and sir John Simon siding with the Conservatives in support of continued National Government, the Labour and Liberal opposition was fragmented and ineffectual in challenging claims that only national unity could save the currency. In the ballot on 27 October National candidates won a landslide victory gaining 556 of

[37] *Cabinet papers*, National Archives, CAB 23/67, 36(31)2, 1 July 1931.
[38] *Ibid.*, CAB 23/67, 46(31)1, 23 August 1931.
[39] *Ibid.*, CAB 27/462, F.S.C.(31) 2nd Meeting, 17 September 1931.

the 616 seats in the House of Commons.[40] This in effect meant a victory for the Conservative Party whose candidates occupied 473 of the National seats; a feat it was to repeat in the 1935 general election, which kept it in control until after the Second World War.

However, scarcely was the election over than expert observers recognised that sterling would not collapse, and by February 1932 confidence in sterling had so far recovered that the Bank of England, yielding to Treasury advice, reduced interest rates rather than lose the international advantage of a depreciated exchange rate.[41] Leading Liberals such as Sir William Beveridge, John Maynard Keynes, Sir Walter Layton, Sir Herbert Samuel and David Lloyd George argued strenuously that with sterling freely floating Imperial protectionism had become an irrelevance and instead the government should seize the opportunity to promote an international solution to the world economic slump.[42] Since other leading powers were clearly fearful of Britain retreating into protectionism or permanently abandoning the gold standard, the National Government enjoyed a unique opportunity to secure multilateral support for international economic reform. In Keynes's words,

> 'The immediate question for attention is not a tariff but the currency question. (...) It offers immense opportunities for leadership by this country. We are probably in a position to carry the whole of the Empire and more than half of the rest of the world with us, and thus rebuild the financial supremacy of London on a firm basis'.[43]

Senior officials in the Foreign Office similarly appealed to the cabinet. Britain, they advised, faced 'a series of inter-locking problems', of disarmament, European security and above all international commercial and monetary relations, which could be solved only by approaching them together. To underline the point, they quoted from a recent pamphlet by the trade unionists Ernest Bevin and Walter Citrine: 'The tariff and the pound are our two trump cards in the game of foreign politics. We have only lately drawn them; and we must consider very carefully when and how they are played'. Aware that the Conservative majority in the Cabinet were impatient to adopt a narrowly national or Imperial policy, they appealed for restraint:

> 'People in this country seem to be unaware of the extent to which the future of 'civilisation' depends on what happens in Germany in the course of the next six months and of the grave doubt as to whether the upshot will be peace or war, recovery or collapse'.[44]

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[40] P. Williamson, *National Crisis and National Government: British Politics, the Economy and Empire, 1926-1932*, Cambridge, Cambridge University Press, 2003, p. 445-456; R. Boyce, *Great Interwar Crisis*..., *op. cit*., p. 326-327.

[41] *Treasury papers*, National Archives, T175/57, Part I, Hopkins minute, 16 February 1932; *Ibid*., T175/58, Hopkins minute, c.5 March 1932.

[42] *Liberal Magazine*, October 1931, p. 464-465; *Ibid*., November 1931, p. 504-505; *News Chronicle*, 13 October 1931, p. 6, p. 10; B. Wasserstein, *Herbert Samuel, a Political Life*, Oxford, Clarendon Press, 1992, p. 341; *Economist*, 17 October 1931, p. 696-697.

[43] *The Times*, 29 September 1931, p. 15.

[44] *Cabinet papers*, National Archives, CAB 24/225, C.P.301(31), 26 November 1931.

This, as events were to demonstrate, was a remarkably accurate warning. But Conservative ministers, who now dominated the government, were not prepared to listen. Neville Chamberlain, who had succeeded Snowden as Chancellor of the Exchequer, was determined to implement a version of his father's Tariff Reform. In November, with sterling fluctuating and imports rising in anticipation of possible tariff action, Chamberlain easily persuaded the Cabinet to accept an Abnormal Importation Act, enabling the Board of Trade to impose 50 per cent duties on 23 classes of goods.[45] In December, the Cabinet extended import restrictions with a Horticultural Products Act that affected a range of fruit and vegetables and agreed in principle to a home wheat quota.[46] In late January 1932, Chamberlain completed his 'salami-slice strategy' by introducing a 10 per cent general tariff, with an exception for most basic foodstuffs and imports from within the Empire, pending the outcome of the Imperial Economic Conference scheduled for the summer, and an Import Duty Advisory Committee (IDAC) empowered to recommend to the Treasury additional duties or reductions. The Samuelite Liberals in the Cabinet along with Lord Snowden, now Lord Privy Seal, strenuously protested. But eventually they agreed to abstain in the Parliamentary vote rather than bring down the government by resigning.[47] The bill, introduced in the House of Commons on 4 February, came into effect on 1 March and almost immediately the IDAC recommended a range of important duty increases. The establishment of the Exchange Equalisation Account (EEA) in June 1932 marked a further step away from internationalism. Certain public statements encouraged foreigners to suspect that the EEA was intended to keep sterling below its equilibrium rate in order to secure an exchange advantage for British exporters.[48] In fact, the Treasury, which operated the Account, identified much more closely with the bankers and financiers of the City than with manufacturers and exporters, and intended it only to smooth out short-run fluctuations in the sterling exchange.[49] Nevertheless the transfer of monetary policy from the Bank of England to the Treasury betokened the government's acceptance that sterling was unlikely to be restored to the gold standard at any time in the foreseeable future.

In July 1932 the Imperial Economic Conference convened in Ottawa. Chamberlain in particular had invested enormous political capital in the outcome of this conference. As he explained to cabinet colleagues, the Dominions, Britain's largest Empire partners, were not a substitute for global markets, 'but some day they will number hundreds of millions and if we can lay the foundations properly now the effect on our

[45] *Ibid.*, CAB 23/69, 78(31)2, 16 November 1931.

[46] *Ibid.*, CAB 23/69, 81(31)4, 25 November 1931; *Ibid.*, CAB 23/69, 84(31)7, 2 December 1931; *Ibid.*, CAB 27/478, C.P.39(32), 26 January 1932.

[47] *Ibid.*, CAB 23/70, 5(32) Appendix, 21 January 1932; *Ibid.*, CAB 23 23/70, 7(32)1 and 2, 22 January 1932; *Papers of Herbert, 1st Viscount Samuel*, House of Lords Record Office, A/87/7, minute, 25 January 1932; *Papers of James Ramsay MacDonald*, National Archives, 30/69/8/1, diary 22 January 1932; Sir Keith G. Feiling, *The Life of Neville Chamberlain*, London, Macmillan, 1946, p. 201-202.

[48] *House of Commons Debates*, 5th series, vol. 264, column 1508; *Ibid.*, vol. 265, columns 79, 1578-1579.

[49] *Treasury papers*, National Archives, T208/156, Hawtrey memorandum, n.d.; *Ibid.*, T188/235, Hopkins memorandum, 6 April 1932.

future exports may be much greater than we have any idea of'.[50] Over half the British Cabinet travelled to Ottawa, hoping the Dominions would agree to clear away most barriers to trade within the Empire so as to increase Imperial unity without further damaging international trade.[51] To their dismay they found the Dominions were unwilling to offer preferences to British imports except by raising their external tariff barriers rather than reducing or removing barriers to intra-Imperial trade. The Dominions also insisted that Britain introduce a quota system for meat, bacon, milk products and other imports, which would adversely affect British consumers and foreign producers.

In the aftermath of the Ottawa Conference, Empire produce rose as a proportion of Britain's total retained imports: from 27 per cent in 1931 to 35.5 per cent in 1933 and over 39 per cent in 1938.[52] It was therefore possible to claim that the Ottawa agreements were successful in strengthening Empire unity. British statesmen, however, appreciated the hollowness of this claim. Other factors, not least exchange rate changes, had influenced this outcome. And among the principal Dominions, imports from Britain scarcely rose at all as a fraction of their total imports in the six years after Ottawa. The aggregate result of the Ottawa agreements was thus merely to divert rather than create trade.[53] Indeed, they meant additional trade barriers and forms of discrimination which were bound to have an adverse effect on world trade and antagonise Britain's foreign trading partners, not least the United States. The British government nevertheless acquiesced in them out of fear that to do otherwise would damage its own credibility as well as Imperial relations.[54] Moreover, after Ottawa they exploited their protectionist tariff as a weapon to demand concessions from France and other trading partners, thus further driving commerce into narrow bilateral channels.[55]

The end of Britain's global leadership

Britain's suspension of party government and its abandonment of the gold standard and free trade in 1931 constituted nothing like so brutal a departure from liberal internationalism as occurred around the same time in Japan, Italy and presently Germany. Britain continued to participate in the League of Nations and League-sponsored events such as the Disarmament Conference which opened in February 1932 and the World Economic Conference held in London in June/July 1933, as well as the Lausanne Conference that ended reparations in

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[50] *Cabinet papers*, National Archives, CAB 27/467, B.T.(31)8, 2 January 1932.
[51] *Cabinet papers*, National Archives, CAB 27/473, O.C.(31).1st Cons, 16 November 1931; *Ibid.*, CAB 23/69, 84(31)2, 2 December 1931.
[52] T. Rooth, *British Protectionism and the International Economy: Overseas Commercial Policy in the 1930s*, Cambridge, Cambridge University Press, 1993, table 8.2, p. 229.
[53] On Dominions imports, see T. Rooth, *op.cit.*, table 9.8, p. 254.
[54] *Cabinet papers*, National Archives, CAB 23/72, 46(32)1, 27 August 1932.
[55] T. Rooth, *British Protectionism and the International Economy…*, *op. cit.*, p. 307-308.

June 1932. Despite the introduction of the general tariff and Imperial trade preferences, Britain's rapid economic recovery – due largely to currency depreciation and cheap money – meant that its imports from foreign countries declined only in 1932-1933 and rose substantially over the next four years.[56] Nevertheless a corner was turned, with consequences for the whole world. After 1815 Britain had led the world in liberalising trade relations and providing the credit and capital that sustained the process of globalisation until the outbreak of the Great War. After the Armistice in 1918 it again provided world leadership, albeit with diminishing enthusiasm. It re-opened the capital and credit markets of the City to assist Europe's monetary and financial reconstruction and revive international trade. It hastened the restoration of sterling to the gold standard and assisted other countries to follow suit. It allowed its current account to remain in deficit which increased the availability of sterling as a reserve asset, and used its visible trade deficit to encourage other countries to return to non-discriminatory multilateral trade and discourage regional trade arrangements. Meanwhile it actively appeased Germany and supported disarmament and other measures intended to restore harmony among the powers. In 1931, however, it abandoned its world leadership. Thereafter, not only did Britain do little to resist the breakdown of world order, it resorted to unilateral external action and Imperial protectionism which accelerated the collapse. Eventually, after the Second World War, the United States assumed the leadership of the non-Communist world. Meanwhile, however, the collapse of globalisation produced the gravest economic and political crisis the world has ever experienced.

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Abstract

Historians of Britain commonly treat the inter-war period as a single unit. There are nonetheless three reasons for regarding 1931 as a major turning-point in British history. In the first place, the financial crisis of that year led Britain to abandon party

[56] I. M. Drummond, *Imperial Economic Policy…*, *op. cit.*, p. 287.

government for the next fourteen years. Secondly, it abandoned the gold standard and free trade that year, ending a century of liberal economic policy. Thirdly, Britain not only abandoned its leadership of the globalised economy but turned against it by pursuing Imperial protectionism. This latter reversal of roles had grave consequences for Britain and the rest of the world.

Résumé

Les historiens de la Grande-Bretagne traitent traditionnellement de la période de l'entre-deux-guerres comme d'un tout. Trois raisons néanmoins plaident pour faire de l'année 1931 un tournant majeur de l'histoire britannique. Tout d'abord, l'ampleur de la crise financière qui met fin à l'alternance politique et impose des gouvernements d'union nationale durant les quatorze années suivantes. Ensuite, l'abandon, cette même année, de l'étalon or et du libre échange, qui clôt un siècle de politique économique libérale. Enfin, la Grande-Bretagne n'a pas seulement renoncé à son rôle de gardien de l'ordre économique mondial, mais y a contrevenu en poursuivant une politique de protectionnisme impérial. Ce dernier retournement aura de graves conséquences pour la Grande-Bretagne et le reste du monde.

Keywords: Liberalism; Free trade; Gold standard; Globalisation; Imperial protectionism.

Mots-clés *: Libéralisme ; Libre échange ; Gold standard/étalon or ; Mondialisation ; Protectionnisme impérial.*

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