Ladies and gentlemen, my last lecture finished with the collapse of the General Strike, which was also a collapse of the attempt to achieve socialism by direct action. After the collapse of the strike, in 1926, the Labour movement became absolutely committed to parliamentary action, and I now want to talk today about the parliamentary road to socialism between the Wars, which ended in events which perhaps have some contemporary resonance. There were two minority Labour Governments between the Wars: the first one, in 1924, lasted for just nine months and was not able to contribute very much; the second one was elected in 1929 and lasted until 1931, but had to deal with the slump. It was in fact a minority Government and dependent on the Liberals, and part of the price the Liberals demanded for supporting the minority Labour Government was legislation to bring in the alternative vote.

There was no referendum at that time – the referendum was not used in Britain. Actually, a Bill did pass through the Commons in favour of the alternative vote, but it was wrecked by the Lords and under the Parliament Act that then existed, it would have to go through the Commons twice more before it became law, but before it could do that, the Government collapsed in 1931 with the slump. There were some interesting debates in 1931 on the alternative vote and the Conservatives, at that time, were strongly against it. Winston Churchill called it “the child of folly and the parent of fraud”. One other leading Conservative, Sir Austen Chamberlain, said that the alternative vote reminded him of what Oscar Wilde had said about Bernard Shaw, that he had no enemies, but all his friends thoroughly disliked him.

The second Labour Government, as I will describe, took the view that if they were going to deal with the slump, they had to cure the budget deficit by public expenditure cuts. That led to a split in the Labour Party and the formation of a national government which was primarily a Conservative/Liberal coalition, though in fact it had a Labour Prime Minister, Ramsay MacDonald.

When the General Strike collapsed, some people thought, and some people hoped, that it might accentuate class warfare, because, after all, you cannot find a greater symbol of class conflict than a General Strike. Extraordinarily, it produced the opposite: it inaugurated a period of, class collaboration, as the left would certainly have called it, whereby the workers and the employers began to cooperate together rather than being in conflict. The Strike, most people in the Labour movement came to think, had been a tactical mistake, and there was a tendency after the Strike towards industrial peace.

Now, many trade union leaders thought that the failure of the General Strike would lead to a general employers’ attack on wages, and one of the reasons why solidarity was so great was that people in trade unions other than the miners thought that if the miners’ wages were forced down, then their wages would also be forced down, so they thought they had a self-interest in helping the miners. The Conservative Prime Minister, Stanley Baldwin, by a slip of the tongue, gave credence to that view by saying that “All the workers of this country have got to take a reduction in wages to help get the country on its feet.” Now, the unions were gravely weakened of course by the failure of the General Strike, and you would have expected the employers to push down wages, but in fact, for some reason that is not wholly clear, they did not. There was no employers’ offensive, as many people on the left had feared. It is not clear why that was so, but perhaps the best answer is this: that the employers had got used to the machinery of collective bargaining and preferred a quiet life to a fight with the unions.

Now, on the union side, there was a considerable change in attitude, led by the leader of the largest union, one of the leaders of the General Strike, Ernest Bevin. He was the Secretary of Transport & General Workers Union which was by far the largest union, and the dominant figure on the General Council of the Trade Unions through most of the inter-war period, and then course he became a Minister in the War and, famously, Foreign Secretary in the post-War Labour Government. At this time, he was the leading union leader in the country, and he said that they should start talks with the employers not because he thought the employers were particularly charitable people, but because he thought they might have a common interest in securing conditions of industrial peace to assist production.

These talks began in 1928. They were called the Mond-Turner talks. Sir Alfred Mond was the head of ICI, and Ben Turner was that year’s President of the Trade Union Congress. In fact, the leading figure was Bevin and they should have been called the Mond-Bevin talks. That was the first occasion on which employers and the unions got together to talk about anything other than simply wages and hours. They discussed how they could improve industrial conditions in general.

The left denounced it as class collaboration, and the leader of the miners, a man far to the left, A. J. Cook, denounced it, but, significantly, he was repudiated by his members. The miners voted to support these talks.
In 1929, a German Social Democrat, a journalist, who came to look at British conditions, wrote a fascinating and

great audience. The Labour Party were fairly humdrum speakers and not particularly remarkable, MacDonald could really strike a

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certainly, he was a remarkable speaker and the one person in the Labour Party who had what you might call

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benefit, as it did, from the "first past the post" system. So that too is either to his credit or debit, depending

MacDonald thought the Labour Party would one day be one of the large parties of the state, and therefore would

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The movement of the trade unions was paralleled on the political front. The Labour Party was moving away from

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methods came as a result of the Leader of the Labour Party in those years, who was Ramsay MacDonald.

Ramsay MacDonald, on the whole, gets a bad press for what he did in 1931. It is fair to say that, without

MacDonald, there would not have been a Labour Party because he helped build up the Labour Party by getting

an electoral pact with the Liberals, when the Labour Party was very weak. MacDonald fought a weak hand, very

skillfully, because he did not have much to offer but he tried to pretend to Liberals, unless they agreed, that trade

unionists would put up candidates right across the country, so the Liberals had better agree with him and form a

pact. Bevin said, "The strike is a weapon of last resort." He did not think it could be used to bring about a change of

Government or socialism, but neither could it be used, as the General Strike showed, to defend the position of

trade unionists, except perhaps in extreme conditions. "Why can't we fight," Bevin asked, "by intelligence, instead of the strike weapon?" Bevin began, as it were, groping towards a new relationship, whereby the trade

unions were not merely bargaining for a share of a fixed cake but trying to work together with the employers to

increase efficiency. That marked a very great change in the role of the trade unions and the Trade Union

Congress in general. They became much less an instrument of resistance to the state and more of a

policymaking body. Bevin and the other trade unionists told the employers and the Government to stop treating

working people as if they were just instruments of production and to bring them into the discussions and

negotiations, so that together they could help improve industrial conditions.

Now, Bevin's philosophy was absolutely fundamental to the future history of Britain, and in 1940 the year after

the War broke out, Churchill formed a coalition, bringing in the Labour Party, and Bevin became Minister for

Labour and National Service. He then adopted this philosophy that saw the trade unions as part of the realm

and which ought to be consulted by Government on any policies affecting working people.

That became a dominant theme in post-War Governments, not just the Attlee Labour Government, but the

Conservative Governments of the 1950s, which were very careful. The first Prime Minister then, Churchill, had

been a Conservative Minister at the time of the General Strike, and was very concerned there should not be

trouble with the unions. They too adopted that philosophy, and it continued until it became a hideous caricature

in the famous Winter of Discontent of 1978/9 because the trade unions took the Bevin position to extremes and

said that they had a veto on policies. It relied on Margaret Thatcher to restore a balance. However, Bevin was

enormously influential, as from 1940 to 1979 his philosophy was the key one governing industrial relations. He

famously said, in 1940, when he became Minister of Labour National Service: "They said that Gladstone was at

the Treasury for 50 years," in other words, Gladstonian doctrines dominated finance for 50 years, "I want to be

at the Ministry of Labour for 50 years." He did not manage 50 years, but he managed almost 40 – it went on till

1979, till Mrs Thatcher took power, but it was very important.

The movement of the trade unions was paralleled on the political front. The Labour Party was moving away from

the doctrine of trying to replace one form of society called capitalism with another form called socialism, and

they were coming to be involved on managing the capitalist state, though some critics would say they had not

thought enough about how to manage the capitalist state. So, the labour movement was ceasing to be an

instrument of resistance and becoming part of the state. It was marked in the mid-1930s, when the Secretary

of the Trade Union Congress, Walter Citrine, whose views were very similar to Bevin's, though in fact they did

not get on personally, was offered a knighthood by the National Government and accepted it along with Arthur

Pugh, who had been President of the Trade Union Congress at the time of the General Strike. This was symbolic

of the trade unions becoming part of the machinery of the state and part of the Establishment.

We often see the inter-War years too much through the eyes of extremists. We think of the Jarrow marchers,

the hunger marches, the General Strike and the black shirts but the extremists, remarkably perhaps during a

time of high unemployment, had very little support. The Communist Party never had more than about 30,000

members, the Fascists, never more than about 60,000 or 70,000. The BNP gets a much higher vote today than

the British Union of Fascists did between the Wars which is remarkable. Extremism was of no political

importance between the Wars. The real trend was towards moderation but, because it is less exciting, people

have not written about it, so I think there is a very good book to be written about the trend towards moderation

between the Wars.

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pact.

He also played another, more controversial, role. It was largely due to him that the Labour Party did not come,

like most West European socialist parties, to support proportional representation. The reason for that was

MacDonald thought the Labour Party would one day be one of the large parties of the state, and therefore would

benefit, as it did, from the "first past the post" system. So that too is either to his credit or debit, depending

what you think of it.

In his later years MacDonald was a very rambling and almost incoherent speaker, and I suspect he was suffering

in the 1930s from some form of dementia which was not recognised. However, at his best, in the 1920s

certainly, he was a remarkable speaker and the one person in the Labour Party who had what you might call

'star quality' or charisma like Aneurin Bevan after the War or Lloyd George for the Liberals. Whereas many of

the Labour Party were fairly humdrum speakers and not particularly remarkable, MacDonald could really strike a
great audience.

In 1929, a German Social Democrat, a journalist, who came to look at British conditions, wrote a fascinating and
remarkably prescient book in 1929 called “Portrait of a Labour Party”. His name is Egon Wertheimer, and his book is still worth reading and remarkably prescient because he said at one point you could imagine MacDonald, Thomas and Snowdon joining a National Government, but never Arthur Henderson, which turned out to be true. He wrote about MacDonald that: “In the slums of the manufacturing towns and in the hovels of the countryside, he has become a legendary being, the personification of all that thousands of downtrodden men and women hope and dream and desire. He is the focus of the mute hopes of a whole class.” I think that was a fair point; it was how he was seen.

As I said, the first Labour Government was not able to do very much. The second Labour Government, elected in 1929 was also a minority Government but had much stronger support, and they were a little short of a majority. They had 288 seats, the Conservatives had 260, and the Liberals, the only other party, had 59. The Conservatives had more votes than Labour, but Labour, through the work of the electoral system, had more seats. They governed for over two years, for much of that time with the agreement of the Liberals, under Lloyd George. However, the Liberals were coming to be split - and here perhaps there are also resonances with the present day - between those left-leaning Liberals, who said they should support the Labour Government, and the right-leaning Liberals, who said that the enemy of liberalism was socialism and that they should not support the Labour Government.

Now, when the slump came, shortly after the Government took office, in October 1929, it put considerable strain, as you would expect, on the public finances, and in particular on the money devoted to employment insurance. The Liberals had introduced a system of unemployment insurance in 1911, the first in the world, and it was one of the reasons why, although the slump hit Britain hard, it did not cause so much poverty and disaffection as in, for example, America and Germany, which did not have unemployment insurance. Workers were, to some extent, cushioned by that system of social security. Perhaps that is one reason why extremism was so weak in the inter-War years.

However, the unemployment system was based on the insurance principle, and it was based on what Churchill, who was the Minister concerned, rather grandiloquently called “the magic of averages”. That meant that the unemployment fund would balance at an average unemployment rate. The average unemployment rate before the War, they said, was 8.3%, and at that rate, the fund would balance. The great advantage of that system, Churchill said, was that there was point in people malingering or seeking to claim unemployment benefit when they were really able to work because they were just using up their benefits for when they really needed them, so they were cheating themselves, in a way, because it was insurance fund, so it was a protection, they said, against malingering.

Now, the problem in the inter-War years was that there was mass unemployment at a much higher level. From 1921 to 1939, the level of unemployment was at least 10% and often much higher - in 1932, it reached about 26%. So, clearly, the fund would no longer balance, and the problem was that unemployment was no longer temporary or seasonal but structural or permanent, so that people would run out of their entitlement to benefits fairly quickly. Traditionally, they would then be forced onto the poor law, into the workhouse, which was humiliating - that is what had happened, for example, after the Boer War, before there was a system of unemployment insurance.

Now, no Government could allow that, particularly as many of the unemployed in the early Twenties were soldiers who had been demobilised. Lloyd George, who was Prime Minister after the War said that no Government could hope to face the opprobrium which would fall upon it if extreme measures had to be taken against starving men who had fought for their country and were driven to violent courses by the desperation of their position. The Lloyd George Government faced the problem that around 800,000 people were running out of their unemployment benefit, not from any fault of them simply because of the high level of unemployment.

Therefore, in 1919, the Lloyd George coalition passed a measure called the Out of Work Donation, which applied just to those who had fought in the Armed Forces. It stated that, when their benefit ran out, they could still claim unemployment benefit from the state, and not on the insurance principle. In 1921, in a very important Act, this was extended to people who had not been soldiers. It was called, at that time, uncovenanted benefit, and throughout the Twenties, it was given different names such as temporary benefit, but the key principle on this was that it was getting away from the insurance principle, and therefore, the state had to find a way to prevent people claiming unemployment benefit when they were not entitled to it. During the inter-War period, there were two methods found to prevent that happening. Incidentally, the unemployment benefit not covered by insurance was nicknamed the dole.

An important point is that it was not just or even primarily the Conservatives who said that there should be means to deal with malingering. People on the left in the Labour Party felt equally strongly, if not more strongly, because they said, and there is some evidence this was true, that they got lots of letters from people in work who were not earning very much money, who claimed that there were lots of other people who were malingering and claiming unemployment benefit which they were not entitled to do. They particularly said, in those days, that unemployment benefit was being claimed by married women, who, in their view, were not entitled to it because their husbands were at work. MacDonald said that he had lots of letters from people claiming to have seen married women in fur coats, driving in cars to the unemployment benefit offices to claim their benefit, and perhaps there are similar stories today about people claiming disability benefit.
J. R. Clynes was Labour Home Secretary in the second Labour Government. He said sometime in 1921 that: “There must be closer attention to the administration of the payment of benefit, on lines which make it impossible to encourage idleness. Organised labour, I am certain, could be of very great assistance in locating the shirker and in making it impossible to get money when work could have been got.” There is a book published, which is very good, called “In Search of the Scrounger”, by a man called Alan Deacon which is well worth reading.

Two methods were designed to stop malingering. The first was the infamous, means test which declared that someone could not have unemployment benefit if they had the means to do without it. This was adopted in 1921 when the Lloyd George Government introduced this uncovenanted benefit. It was ended by the first Labour Government, but reintroduced in 1925 by the Conservative Government. Now, under the means test, a very small number of applications by men were rejected, about 3%, but 15% by women. The problem with the means test was it was highly demeaning because people did an inventory of someone’s furniture. If they had a luxury, like a piano, it had to be sold before they could get unemployment benefit. Even worse, there would be an inquiry into their personal circumstances – whether or not they were illegitimately cohabiting with someone who was working. It was very humiliating, and the post-War Labour Government, when it introduced its national assistance policies, was determined to avoid all that and give people claims as of right.

The second test adopted was the so-called “genuinely seeking work” test, and that meant the claimant had to prove that he or she had actually sought work. Now, this was a bit absurd, because everyone knew that there was not work available in many communities. If, for example, someone was a miner in South Wales, they had to have shown that they had walked to the next town in the valley and got to a Labour Exchange to try and seek work. The onus of proof, nevertheless, was on the applicant to show that he or she had actually sought to get work.

Now, remarkably, this was introduced again in 1921 by the Lloyd George Government, but extended by the first Labour Government. The Minister of Labour, the first female Cabinet Minister in Britain, Margaret Bondfield, a trade unionist, said: “The person in receipt of benefit after 26 weeks has to come under the microscope.” In other words, when someone ran out of what they got from the insurance, after 26 weeks, their claims would have to be examined very carefully.

The second Labour Government, in 1929, abolished the “genuinely seeking work” clause, but what is significant is that the extension in 1924 caused no opposition in the Labour Party – it was unanimously agreed. The abolition of the test in 1929 almost broke the Party in two because people said that this would lead to claims by these married women in fur coats and all sorts of other people, and really, they could not have this.

MacDonald, in 1931, told the TUC: “There is a very large and growing section of my letters protesting against the way in which insurance is being used coming from our own people.” One Labour backbencher said he resented “...more bitterly even than our political opponents any wrangling on the dole”.

Now, the 1920s was a remarkable period because it’s one of the few periods in British history at which prices were falling through deflation, and therefore, the value of the dole was automatically increasing. If the 1921 value is counted as 100, by 1931, it was worth 240. Now, I hasten to add, I am not pretending it was in any way generous or enabled people to live in any sort of luxury – it was not; but the value had increased, and therefore, when we come to talk, as we will in a moment, about a cut in the rate of unemployment benefit, we are talking a cut in the rate of something that had increased simply through the fall in prices over the 1920s, and that is an important point.

Now, when the slump hit Britain, the Labour Government was looking to balance its budget. One natural way of balancing it would be to cut what they thought were excessive claims on unemployment benefit. In February 1931, the Minister for Labour, Margaret Bondfield again, proposed a 15% cut in the standard rate of benefit. The Cabinet rejected this, and some left-wingers in the Cabinet were so horrified, they demanded that the paper proposing the policy be destroyed and not be minuted. Now, Margaret Bondfield was strongly supported by the Labour Chancellor of the Exchequer, Philip Snowden, who took the view that the Government was like a household and had to balance its budget and could not cope with excessive claims on public expenditure.

In February 1931, the Conservative Opposition produce a motion in Parliament saying that the Government deserved censure for extravagant public expenditure. The Liberals, then, perhaps to help the Chancellor, put forward an amendment to that motion, saying that a committee should be set up to look at this problem. The Chancellor, Philip Snowden, who very much wanted to convince what he thought were his spendthrift colleagues to cut expenditure, hit upon the idea of a committee and hoped, as was the case, the committee would recommend drastic reductions. The committee was chaired by Sir George May, the head of the Prudential Insurance Company, and it reported, at the end of July 1931, in the famous May Report, which Keynes said was the most foolish document he had ever read. There were two Labour Members on the May Committee – they signed a minority report and no one really took much note of that. The majority report was the key issue.

Now, meanwhile, while all this was happening, the slump was spreading fast to Europe: in May 1931, a major Austrian bank collapsed, and in July, German banks started to fail. There was then a feeling amongst people holding Sterling that Britain, because of her extravagant public expenditure, might also be in some danger of financial collapse similar to the Greek situation as was said last year. Thus, people started withdrawing money
Snowdon timed the publication of the May report for when Parliament had set off for the summer holidays, July 31st. It created a huge stir because it said that Britain faced a budget deficit of £120 million, and that then was a very large sum indeed. They said that £24 million could be met by new taxation, but also that there was no alternative to reducing expenditure. Two-thirds of the budget deficit should be met by a reduction in expenditure, primarily by a reduction in unemployment benefit. They said there should be a 20% reduction in the standard rate, which was 36% higher than it had been in 1924. Now, Philip Snowdon, the Chancellor, said that the May Committee had actually underestimated the deficit, and he said that the deficit was actually £170 million, not £120 million, and that drastic action had to be taken. With that, Ministers went away for their summer holidays, and they set up a Cabinet Committee to look, perhaps in a leisurely way, at the May Committee proposals.

However, at this point, money started really leaving the country more hurriedly, as a result of all this, and it was said that Britain’s financial position was highly unstable. Ministers had to break off their summer holidays in the middle of August and get to work as to how they were going to balance the budget. The situation was complicated because, such was the outflow of money, the Government thought they needed a loan from bankers to sustain the value of the pound.

We were then on a fixed exchange rate under the Gold Standard, and the general view was you could not devalue the pound – there had been no peacetime devaluation since the 18th Century, so that was ruled out. Keynes at one point favoured it, but by the time of the crisis in 1931, ironically, he had changed his mind. Someone said that there were five different answers to the crisis, six of which were those of John Maynard Keynes. Ernest Bevin of the TUC favoured devaluation.

Anyway, when MacDonald met the bankers, they said to him - this has all sorts of resonances - that the country was on the edge of a precipice and, unless the situation changed rapidly, they should be over it directly. Then the bankers told MacDonald, you may think with some impertinence, that the cause of the trouble was not financial, but political, and lay in the complete want of confidence in His Majesty’s Government existing among foreigners, and that the remedy was in the hands of the Government alone to balance the budget. All this, again, made people feel London was not safe to keep their money.

Now, MacDonald was the leader of a minority government, so any measures he was going to get through Parliament needed the support of at least the Liberals, but it would be helpful perhaps if all the parties would support it. The bankers then asked MacDonald if they could talk to the other parties, and he agreed. The other parties said that the Government was being feeble in not cutting the public expenditure and that they would not support it. The bankers then asked MacDonald if they could talk to the other parties, and he agreed. The other parties said that the Government was being feeble in not cutting the public expenditure and that they would not vote for anything in Parliament which did not balance the budget and that must involve, they said, a cut in unemployment benefit.

Now, the Labour Government had been in this position before and people had objected to cuts in public expenditure. In the end, Snowdon got his own way; MacDonald eventually came down on his side along with Margaret Bondfield. It looked, at first sight, as if this was going to happen again. The other Cabinet Ministers did not like it, but they were seeing no alternative.

At that point, there was a crucial meeting between the leaders of the Labour Party and the TUC General Council on 24th August that broke the party. MacDonald and Snowdon put, in a rather arrogant, take it or leave it, way, the proposals they were working on, which included not a 20% cut in unemployment benefit, as the May Committee had suggested, but a 10% cut in unemployment benefit. The Cabinet had agreed, it appeared, on all the cuts, except that 10% cut. I should add, the 10% cut was not in the dole but it was in the insurance part of the benefit, so, in other words, you were reducing the value of what people had actually contributed – it was not just the dole they were going to cut. It is fair to say they were going to cut 10% cuts in all public salaries as well – that is what happened with the National Government.

The salaries of all public servants, teachers and the like, were reduced, with just one exception, the judges, who said that any cut in their salary would be a breach of the Act of Settlement, which prevented any political interference with the judges. Snowdon, the Chancellor, made the TUC’s flesh creep. He said that if Sterling went, the whole international financial structure would collapse, and there would be no comparison between the present depression and the chaos and ruin that would face Britain in that event – there would be millions more unemployed and complete industrial collapse.

Now, the Trade Union Congress said they did not accept this diagnosis, and they said not only were they against any cuts in unemployment benefit, but they were also against any cuts in salaries and wages, and they said the only cut they would favour would be a cut in the salaries of Ministers. There was a long discussion, and no agreement. MacDonald, sadly, ended the meeting in this way: he said, if a Cabinet took any other course, the situation would rapidly worsen, and unemployment would rapidly increase, far more rapidly than Britain had known it, even during that terrible time of depression. He said, “Nothing gives me greater regret than to disagree with old industrial friends, but I really find it absolutely impossible to overlook dread realities, as I am afraid you are doing.”

Those who were in favour of the cuts left the meeting more determined than ever to implement them, and MacDonald said, “If we yield now to the TUC, we shall never be able to call our bodies or souls or intentions our own.” Sidney Webb, another Minister, put it slightly more cruelly to his wife: “The General Council are pigs.
They won’t agree to any cut of unemployment insurance benefits or salaries or wages.” Bevin, on the other side, said, “This is like the General Strike – I am prepared to put everything in to resist the Government’s cuts.”

Now, the Trade Union Congress, the trade unions, and Bevin particularly, who seemed a rather dictatorial figure, were accused, after the National Government was formed, of having dictated to the Labour Government, because this meeting was crucial in altering the mind of one very important person who’d hitherto remained quiet through most of these debates. That was the de facto number 2 in the Labour Party, the Foreign Secretary, Arthur Henderson.

Henderson probably had not thought very much about economics or these matters, and he seemed to be inclined to be going along with the cuts, but when he heard the TUC opposition, he said to himself, if the cabinet made the cuts, it would split the Labour movement in two. The Labour Party was not here for this purpose. He did not know what was right but he said, “We’re here to defend working class standards of living and not to cut benefits from people who are already struggling and not doing well.” Henderson then began to lead a group of Ministers opposed to the cuts, and this converted a financial crisis into a political crisis. Until then, it looked as if the cuts might get through.

As I say, people said that the trade unions dictated to the Labour Government, and I think that is an unfair accusation, because the trade unions were asked their view, and they gave their view, which was hostile to the Government. They took no further action throughout the crisis. Now, MacDonald made an appeal to them. He said that this was a national crisis and that the Trade Unions had to subordinate their own sectional interests to the wider interests of the country; they could not just think of organised labour. The trade unions did not take the view that there was a national crisis. They said that this was a bankers’ ramp and the working class were being asked to pay for it; the bankers had made errors and misjudgements, the workers were being asked to pay the price and that was not right.

Now, at other times when people appealed to the trade unions, they took a different view. In 1915, Asquith asked them to support the Coalition Government and then support conscription, and they did so, and they supported the Lloyd George Government in 1916. In 1940, when Churchill asked them to join the Government and support the War, they did. On those occasions, they did agree there was a national crisis and although there might be a restriction of trade union rights and working class rights they thought that that could not be helped as there was a genuine national crisis. In 1931, they said that it was not a national crisis. Now, you may think they were right or you may think they were wrong, but it seems to me they had every right to take that view, just as MacDonald had the right to take his view. I think it is unfair to say that they were dictating to the Government. Nevertheless, MacDonald said that the cabinet could not subordinate itself to a non-parliamentary body and that Labour had to be a national party. Now, Henderson said, “United we stand, divided we fall, one of the first things I learnt in the trade union movement 48 years ago when I became a member of it.”

Now, there was a series of Cabinet meetings, and it appeared that there was a small majority for the cuts, but the minority included such important figures, particularly the Foreign Secretary, Henderson, and the Home Secretary, Clynes, that it was clear the cuts could not be carried through. The final dramatic meeting was held on a Sunday evening, on 23rd August, and it ended at 10 o’clock without agreement. During that meeting, MacDonald had cabled the bankers in New York and asked whether they would sustain Sterling if the cuts were agreed. The bankers replied that they would. MacDonald threw everything he could – he begged his colleagues to be responsible, to support the cuts – but the final vote was 11 to 9 in favour of the cuts, but not enough to enable them to be put through. Of the 11, almost all of them were middle-class members of the Cabinet; of the 9, almost all were the working class members.

MacDonald left the Cabinet at 10 o’clock to see the King who had been called back from Sandringham. He passed a journalist on the way, who said he looked scared and unbalanced, because, it is fair to say that people were much more frightened than they would be today. They had seen what had happened in Germany in 1923, when savings had been wiped out overnight in with hyperinflation, and they thought that the British currency would collapse. Indeed, during the election campaign that followed, MacDonald held up over a billion worthless German Marks, which were worth about sixpence and said that this is what would happen in Britain. People were very frightened.

The journalist said MacDonald looked scared and unbalanced, and he said to the journalist, “I am going to the Palace to throw in my hand.” The King said to him, “I’ve had discussions with the opposition leaders, and they think the best answer in this circumstance would be a Coalition Government and I want you to think about that, because they think that you are the best person to carry through these cuts in an emergency situation.” MacDonald at first dismissed this and said he was finished as he would have no support in the Labour Party. The King replied that he would have much support in the country and MacDonald disagreed. The King asked him to at least come back the following morning and meet with the other party leaders.

It was not clear what happened or why he changed his mind - the most important decisions are often the most difficult to explain - but when he arrived at the Palace on the Monday morning, the King met the three Party leaders and said, “I’ve got the Government’s resignation in my pocket, but I hope there’s no question of the Prime Minister resigning. The country needs to be held together, and I’d like you all to meet in conference here and come to a solution.” The King went out and the three met, and a couple of hours later, they issued a statement saying it had been decided to form a government of national emergency, a National Government, to
carrying through the cuts, just for a short period of time, and when that happened, it would not be a permanent coalition. The members of the National Government would return to their parties as they originally were, party battles would be resumed and it was going to be a small Cabinet of 10 whose sole purpose was to carry out the cuts.

MacDonald then went back to his Cabinet. He had told them he was going to see the other party leaders and would inform them of what had happened. He said that there were going to be three other members of the Labour Cabinet who were going to be in the National Government Cabinet – it was going to be a small Cabinet, so there could not be many in it. They were going to be the three closest colleagues, including the Chancellor, Philip Snowdon. Therefore, four out of 10 of the ministers would be Labour, four would be Conservative, and two would be Liberal.

Now, when this Government was formed, it passed a National Economy Act, which implemented slightly less of the cuts than the Labour Government would have done, and also raised slightly more in taxation than the Labour Government would have done, but, broadly speaking, it put forward the policies which the majority in the Cabinet had discussed.

However, the Labour Party, and not only the dissidents in the Cabinet, but the rest of the Cabinet, came out against both the National Government and the cuts. Of course Labour MPs came out against them. The Labour Party said there was no question of MacDonald and the others coming back to the Labour Party after all this had been done, and indeed, anyone who was associated with the National Government was immediately expelled. MacDonald, one of the founders of the Party, simply received a stamped postcard from the Hampstead Labour Party saying that he had been expelled from the Labour Party.

It is fair to say, at the meeting at which these decisions were made; Henderson was the only one to vote against it, a rather kind gesture perhaps. At the meeting, very remarkably for a meeting of the Parliamentary Labour Party, the General Council of the Trade Unions, led by Ernest Bevin, also came along. This massive figure was there, glowing at the MPs, and I would not like to have been a Labour MP who had voted against anything that Ernest Bevin wanted at that meeting because the trade unions were absolutely determined to have nothing whatsoever to do with the National Government and to really get rid of any Labour MP who had the slightest bit of sympathy for them.

Now, the National Economy Act, in effect a budget, produced by the Chancellor, Philip Snowdon, had a majority in Parliament of 61. There were 250 who opposed it, primarily Labour MPs, and 311 who supported it. Of the 311, the vast majority were Conservatives – 243. There were only 12 Labour MPs who went with MacDonald and they called themselves the National Labour Party. There were 53 Liberals who supported it and three Independents, so it was primarily a Conservative/Liberal Government. However, the Snowdon budget, the Economy Act, did not resolve the problem because, by one of those unfortunate things that happen, the 10% reductions applied to people in the Armed Services, and because they were introduced in a rather haphazard way in the Navy, there was a revolt amongst naval ratings in Invergordon Naval Base, the so-called Invergordon Mutiny. That too led to perhaps hysterical feelings on the part of financiers and encouraged further withdrawal of Sterling. The National Government, contrary to what it had promised, was pushed off the Gold Standard and devalued, which the Labour Government had not been able to do.

Now, at that point, the Conservatives began to say that there ought to be a general election, as the government needed the endorsement of the public. They thought the government should stand as a National Government. Now, the problem was that the Conservatives said that their main remedy for unemployment was the old Joseph Chamberlain remedy of a protective tariff to keep out imports and favour home production. This was strongly opposed by the Liberals, as you would expect, and also by Philip Snowdon, the Labour Chancellor, who was a committed free trader – although MacDonald was not. The problem for the National Government was how there could be a National Government when they disagreed on a very fundamental item of policy - a bit like student fees.

Eventually, a rather clever solution was found because they said each of the parties comprising the National Government should issue its own manifesto on what policies it favoured, but there would, in addition, be a National Government Manifesto, written by MacDonald, who was a master of ambiguity and imprecision. This said that the National Government was seeking only a doctor’s mandate and was going to look at the situation after it was elected, decide what was best, and then implement it. Well, as you would expect, that fell apart fairly rapidly, and in 1932, the Liberals and Snowdon resigned from the Government when it abandoned free trade, but it papered over the election.

Now, the election was held in an atmosphere of some hysteria. One other minister supporting the Government said that, because the Labour Government had been in debt, it was thinking of raiding people’s Post Office savings and that if the Labour Party got back, their Post Office savings would be in danger because of the high amount of borrowing.

The National Government won the largest landslide in British electoral history. It had a roughly 2:1 majority over Labour, but the work of the electoral system gave it no fewer than 552 seats, and the Labour Party won just 46, and so it gave you, throughout the 1930s, a highly unbalanced Parliament.
The election of 1931, contrary to what people thought – it had two contrary effects to what people thought. The first was it marked the beginning of the end for the Liberals, because although there was a Coalition Government, that Coalition, as had the Lloyd George Coalition, ruined the Liberals. 1931 was the last election at which the Liberals really mattered until February 1974. The National Government, as it were, converted what had been a three-party system in the Twenties to the two-party system of the Thirties, in which someone was either with the Conservatives in the National Government or the opposition, which was the Labour Party. The Liberals did not seem anymore to be relevant, and indeed, they split. One group of Liberals became more sympathetic to the Labour Party, and the other group called themselves the National Liberals and eventually merged with the Conservatives.

Now, the second remarkable feature of the National Government was that while it was being formed in September 1931, something happened that hardly anyone noticed. The Japanese used the excuse of a frontier incidence in Mukden to attack Manchuria, and they were later going to attack the whole of China in 1937. This was the first act of an aggressive militaristic government on the other side of the world, which people did not notice and the first challenge for the League of Nations. Everyone in Britain was concerned with domestic affairs and getting out of the slump and they did not notice what was happening in the Far East.

However, the main problem that the National Government, which was elected to deal with the domestic, economic crisis, had to face was in foreign affairs – the challenge from Japan, from the Italians under Mussolini, and of course, primarily, from Germany under Hitler. It was a government elected because it was thought to be effective in domestic affairs, and its main challenges came in foreign policy. It is that challenge and their efforts at dealing with it that I shall be talking about next time.

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