
**By Tomoari MATSUNAGA †**

**Book Review**

This book deals with the development of economic thought in the British Liberal Party from 1929 to 1964. It covers the 1929 general election in which the Liberals, led by David Lloyd George, fought for the proto-Keynesian expansionary unemployment program to the 1964 general election in which the Liberals showed a relative revival under the leadership of Jo Grimond. While there has been an accumulation of studies dealing with the political and economic thought of the Liberals up to the 1920s, this period has been a relatively unexplored field mainly because of the Liberals’ dramatic fall in electoral fortune. However, the significance of this book is not merely attributed to its elucidation of this under-explored field. Peter Sloman successfully describes how, in this period, the modern Liberal economic thinking leading to the present Liberal Democrats’ one was formed through the complex interaction between the occasional haphazard strategies of various politicians and the various policy proposals of theorists. As a result, a fresh and nuanced picture of the development of the Liberal economic thought is presented.

Former studies, including my own in Japanese, have adopted a simple dichotomy between laissez-fair classical Liberalism and interventionist social Liberalism when describing the development process of Liberalism in the 20th century. There have been two different streams of studies, one describing the victory of social Liberalism over classical Liberalism in the early stage, and the other emphasizing the tenacious survival of the elements of classical Liberalism up to the later stage. Either way, the studies depend on that simple dichotomy. But as opposed to this dichotomy, Sloman presents a new perspective that describes a more complicated, non-linear process of the development of Liberalism, based on his own classification of Liberalism into four categories: classical Liberalism, Georgism, New Liberalism, and constructive Liberalism. In this classification, Georgism is characterized by its focus on land problems and is regarded as closer to classical Liberalism. On the other hand, both New Liberalism and constructive Liberalism constitute interventionist Liberalism. New Liberalism is characterized by its emphasis on ethics, while constructive Liberalism has more pragmatic and technocratic tendency.

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The first phase in this book is the period around 1929 when the celebrated Liberal manifestos, *Britain’s Industrial Future* or the Yellow Book (1928) and *We Can Conquer Unemployment* or the Orange Book (1929) were issued. Criticizing scholars who have insisted that Liberals’ support of those ambitious plans was merely expedient, Sloman argues that most Liberals sincerely supported the public works project and the moderate plannism elucidated in the Yellow Book until they faced the severe policy constraints and changing political circumstances in 1931. He regards this proto-Keynesian economic policy mainly to be the product of constructive Liberalism. Therefore, this period is characterized by the predominance of constructive Liberalism.

The second phase is the 1930s (1931-1939). During this period, the Liberals were divided into the Samuelite mainstream, and the National Liberals led by Sir John Simon, and the Lloyd George group. Even Michael Freeden, who is a precursor in analyzing inter-war Liberalism, regards this period as the ‘decade of dormancy’. However, Sloman re-evaluates the creativity of the Liberal economic thinking in this period. Under the leadership of Herbert Samuel, the Liberals began to dissociate themselves from a plannist position embodied in the Yellow Book and consolidated their faith in free trade against the tide to protectionism since 1931. Especially since 1933, when the Samuelite Liberals crossed the floor, they severely criticized the National Government for both its protectionism and restrictive plannism. At the same time, the Labour Party radically moved leftward and strengthened their plannist tendency. In this political climate, the Liberals recognized a dangerous aspect of planning, because they regarded it as inevitably involving socialism and being interconnected with a protectionist policy which threatened international peace. An electoral strategy to differentiate the Liberals from both the National Government and the Labour also contributed to the Liberals’ turning away from plannism. As a result, the classical element within Liberalism was restored in the 1930s.

Sir Archibald Sinclair, who replaced Samuel as the Liberal leader in 1935, drove this new tendency further, and established a new synthesis between Keynesian demand-management policy and neo-liberal pro-market policy. Sloman calls this synthesis the liberal Keynesianism. Although most Liberals did not give up their support for the policy of public works in the macroeconomic field, they recognized a strong point in the classical or neo-liberal economics represented by Lionel Robbins and other LSE scholars in the microeconomic field, and adamantly kept their faith in free trade on both economic and ethical grounds. Neo-liberal Walter Lippmann’s argument that a microeconomic interventionist policy was a threat to liberty and that a macroeconomic demand-management policy was not such a threat also contributed to this combination. Elliott Dodds’ idea of ‘ownership for all’, which aimed to diffuse property ownership through various means including tax reforms and profit sharing, was congruent with this new synthesis, and was adopted as an official Liberal policy. Sloman regards the Keynesian demand-management policy as belonging to the tradition of constructive Liberalism, so that this new synthesis was mainly a mixture of constructive Liberalism and classical Liberalism or neo-liberalism.

The third phase is the period of the Second World War (1939-1945). During this period, the support for planning within the Liberals was revived because of the development of wartime planning. Free trade also lost its significance. William Beveridge, who was newly recruited into the Liberal Party, represented this stronger interventionist tendency. His book *Full Employment in a Free Society* (1944), which advocated a strong interventionist policy, was accepted by the official Liberal Party. This meant that liberal Keynesianism was replaced by a more statist interventionist Keynesianism. In other words, constructive Liberalism
regained its predominant position. However, Sloman carefully notes that this predominance of interventionist Keynesianism was not so firmly grounded because of deep-rooted anti-statism among the Liberals.

The fourth phase is the period during the leadership of Clement Davies (1945-1956). This period has been known as the lowest point of Liberal political influence due to their miserable performance in elections. Naturally, the characteristics of Liberalism in this period have generally been a neglected field. However, Sloman demonstrates that Liberalism did not completely lose its vitality even during this period. Nationalization of industries and price controls driven by the Labour Government ignited the controversy within the Liberals over the pros and cons of nationalization and planning. Although die-hard libertarians, led by Oliver Smedley, were finally defeated, mainstream moderate Liberals withdrew their support for strong interventionism. As a result, liberal Keynesianism that was predominant in the 1930s regained its hegemonic position. That is, facing the reality of nationalization and planning, a more market-friendly approach was revived.

The final fifth phase is the period during the leadership of Jo Grimond (1956-1964), when the Liberal electoral fortune began to be restored. During this period, Britain’s slow economic growth relative to other Western countries began to cause a sensation. At the same time, increasing inflationary pressure raised doubt over the effectiveness of a demand-management policy through monetary fine-tuning that had been adopted by the Conservative Government. Hence, the plannist approach to strengthen industrial competitiveness and to tackle inflation was restored within the Liberals. While liberal Keynesianism pushed Liberals closer to the Conservatives, this new interventionist tendency pulled Liberals closer to the Labour. This left-turn taken by the Liberals, as driven by Grimond, would prepare them for the later alliance with the Social Democrats, although, after his retirement as the Liberal leader, Grimond himself became skeptical of that alliance.

Thus, Sloman describes the development of the dominant element within Liberalism to be zigzag process as it is influenced by social, economic, and political circumstances in each period. Though, in reality, the story he tells is far more nuanced than is roughly summarized here. His argument firmly builds on both politicians’ and theorists’ vast archival records, and persuasively presents a fresh perspective on the analysis of economic thought of the Liberals in the 20th century. Other than its main scope of the analysis of Liberal economic thought, this book also presents some stimulating views on the field of the traditional political history. Among those, the argument related to the reason why the second Labour Government collapsed in August 1931 is especially interesting. At a critical point, Herbert Samuel, who was the acting leader of the Liberals because of Lloyd George’s illness, selected Sir Donald Maclean, who held a conservative economic opinion, as his partner to discuss with the Labour leaders how to achieve budgetary balance. Deferring to the opinion of the Bank of England, both men insisted that an unemployment benefit cut would be indispensable, resulting in the Labour cabinet falling due to resistance from the cabinet ministers. On the grounds that ‘some Liberals – such as the chief whip, Sir Archibald Sinclair – seem to have been willing to accept a relatively modest austerity package in order to keep Labour in office’ (p.71), Sloman suggests that the fall of the Labour Government might not have been inevitable.

Finally, there are two points to dispute. The first point is about the content of constructive Liberalism. This constructive Liberalism is basically tantamount to centrist-liberalism named by Michael Freeden. According to Sloman, ‘the “older, capitalist, commercial and more individualist” tradition of classical economics was refracted through a concern to develop “institutional and technical solutions” to
economic problems’, and ‘constructive Liberalism drew momentum from developments in mainstream economic theory’ (p.34). In other words, constructive Liberalism is a practically revised or transformed version of classical Liberalism. The most representative constructive Liberal, John Maynard Keynes, certainly fits in this categorization. However, in Sloman’s argument, constructive Liberalism was always the most powerful driving force behind strong state intervention and plannism, even compared to New Liberalism. That is, within Liberalism, constructive Liberalism is the closest to socialism, at least in regards to economic policy. So, why and how did moderate pragmatism that had originally characterized constructive Liberalism transform into the most radical interventionism? This is a question that Sloman leaves unanswered. This puzzle might be partly solved by the following interpretation. On the one hand, pragmatic theorists and technocrats did not adhere to economic orthodoxy and resorted to radical measures during emergencies such as mass unemployment and the Great War. On the other hand, many left-leaning Liberals, who did not necessarily fit in the category of constructive Liberals, supported these constructive measures due to their anti-capitalism sentiments. The strength of constructive Liberalism was a result of this combination between centrists’ pragmatism and left-wingers’ anti-capitalism.

The second point is about how to position the neo-liberal influence on British Liberalism. Sloman emphasizes Lippmann’s influence on the Liberal economic thinking in the 1930s. Certainly, as Ben Jackson has demonstrated, neo-liberals including Friedrich Hayek were far more moderate in the early stage than they are known at present. However, it should be noted that from the early stage, there was already a critical difference between Lippmann’s neo-liberalism and Hayek’s version that would become mainstream, although Lippmann and Hayek personally maintained a good relationship until the 1940s. Under the tradition of progressivism, Lippmann’s main enemy was corporate monopolies and holding companies, so he fiercely criticized NIRA under the New Deal on the ground that the collusion between the federal government and corporations would destroy price mechanisms and in so doing threaten liberty. However, for Hayek, the greatest threat to normal price mechanisms was trade unions as well as state intervention. For him, the power of rising corporations was not problematic in itself, as long as it was not promoted by state intervention. He also did not share Lippmann’s positive support for the Keynesian demand-management policy. Therefore, it seems that Hayek’s more mainstream neo-liberalism did not have much influence on the mainstream British Liberalism.

These are not necessarily arguments against Sloman’s main thesis, and would not diminish the great value of this book. It is hoped that this excellent book will have a broad readership.

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