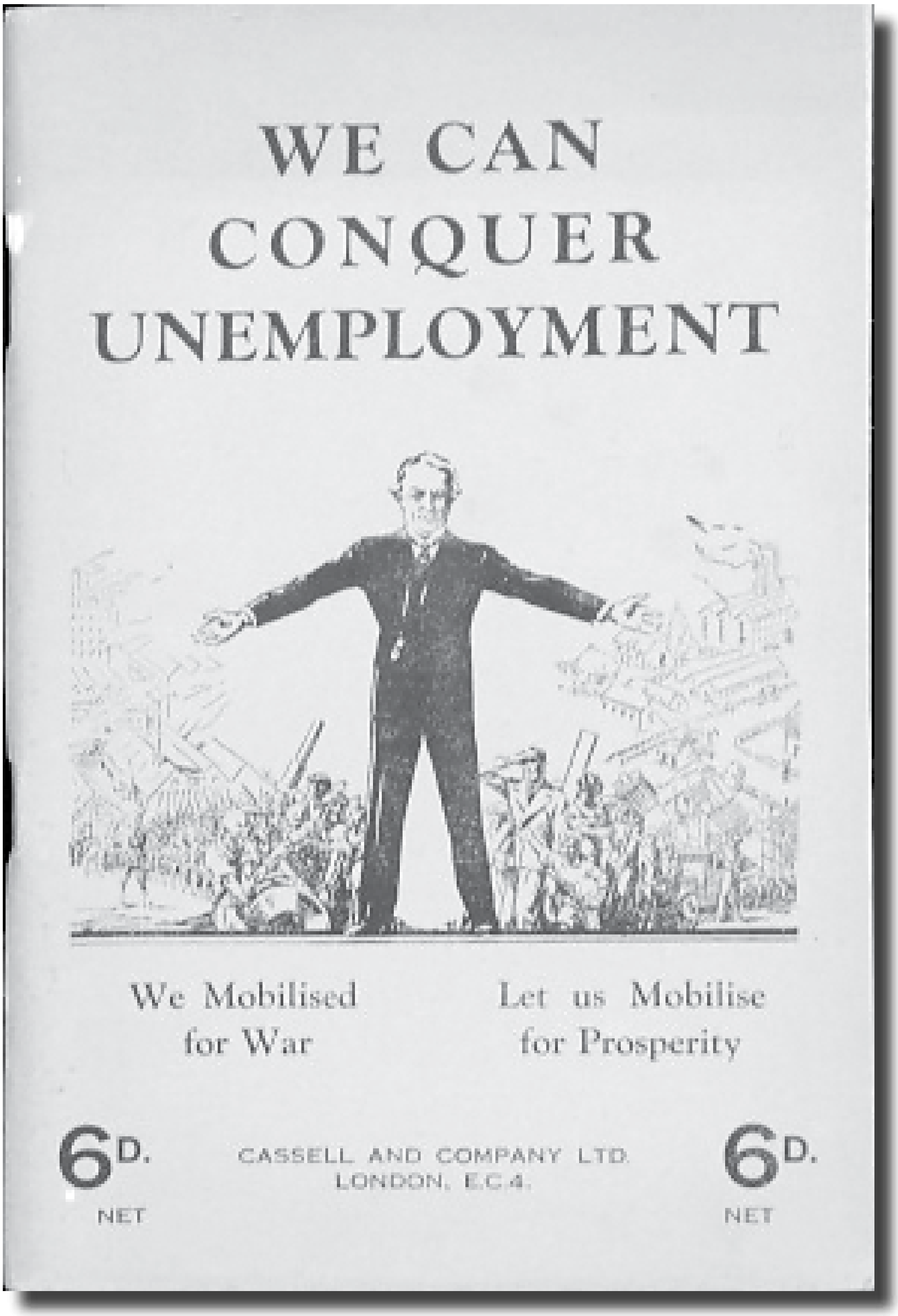
'WE CAN CONQU
LLOYD GEOR

When Winston Churchill, speaking in the House of Commons as Prime Minister of the wartime coalition government, paid his well-wrought tribute on Lloyd George's death in March 1945, he did not simply hail a fellow war leader. Instead he singled out the significance of his old colleague's career in opening up a social and economic dimension for Liberal politics. 'The stamps we lick, the roads we travel, the system of progressive taxation, the principal remedies that have so far been used against unemployment – all these to a very great extent were part not only of the mission but of the actual achievement of Lloyd George,' so it was claimed. And claimed with good reason. It is natural, then, that Lloyd George's name should be linked with an agenda for twentieth-century politics that we now customarily describe as 'Keynesian'. **Peter Clarke** examines the relationship between David Lloyd George and John Maynard Keynes.



JER UNEMPLOYMENT'
RGE AND KEYNES

The linkage between Lloyd Georges and Keynesian ideas was never more important than in the Liberal campaign promising to 'conquer unemployment' in the general election of 1929: an episode in Lloyd George's later career that is clearly worth closer examination. 'His long life was, almost from the beginning to almost the end, spent in political strife and controversy', Churchill went on to acknowledge in his obituary speech. 'He aroused intense and sometimes needless antagonisms.'[1] Here, too, the general comment has a particular pertinence to the complex relationship that developed, over the course of a couple of decades, between David Lloyd George and John Maynard Keynes.

It was indeed political controversy that first linked their names in the popular consciousness. The publication at the end of 1919 of Keynes's polemical tract, *The Economic Consequences of the Peace*, made its author a public figure. Still under forty, he emerged at a bound from his academic background as an economist at Cambridge into the spotlight of international political attention, and was determined to stay there. A crucial transition, of course, was his wartime service as a civil servant in the Treasury, a role which, at the end of the war, provided his ticket for a front-row seat at the peace conference in Paris.

Keynes had joined the Treasury in January 1915. His initial appointment was at a junior level, while Lloyd George was still Chancellor of the Exchequer; but there had been little significant interaction between them in the months before the formation of the First Coalition in May, which took Lloyd George to the Ministry of Munitions. Instead, Keynes's rise to a position of influence within the Treasury came under Reginald McKenna, like himself a Liberal who naturally gravitated towards Asquith. McKenna upheld the traditional Treasury orthodoxies, established in Gladstone's day: balanced budgets, free trade, the Gold Standard and as little interference as possible in the market. Moreover, he had no more ardent supporter than Keynes, at the time more of a Treasury insider than he always cared to admit.

Left:
Cover of *We Can Conquer Unemployment*, the booklet published by Lloyd George in March 1929.

The young man's wartime captivation by the atmosphere of the Treasury was as much cultural as it was purely intellectual. He reacted with the sensibility of a connoisseur to his surroundings. He regarded the traditional Treasury ethos with some awe and quickly developed an appreciation of its austere charms. 'Things could only be done in a certain way, and that made a great many things impossible, which was the object aimed at', he wrote after the war. 'And supported by these various elements, it became an institution which came to possess attributes of institutions like a college or City company, or the Church of England.' Passages like this remind us that, although Keynes's family background was rooted in nonconformity, he was himself the product of a privileged education at Eton and King's College, Cambridge, where he had become a Fellow, imbued with what could be called ingrained common-room loyalties. Little wonder that Lloyd George, with his totally different Welsh background, felt so little affinity – social, academic, traditional or whatever – for this milieu, and, as Keynes put it, 'had no aesthetic sense for the formalisms, and no feelings for its institutional aspects'.[2] Lloyd George was simply not a man to be put down by what he saw as the condescension of an alien elite.

In 1915–16 the Treasury was inevitably at the heart of an intense conflict over what sort of war to fight, how to fight it, and how to pay for it. In a total war, as Keynes was later to argue from a position of great influence during the Second World War, the whole resources of the nation could and should be mobilised towards a single end. After 1940, he thus helped redefine the question of how to pay for the war within a command economy that temporarily departed from the norms of peacetime finance. Currency controls became an integral part of this system.

But in the First World War, as he saw in retrospect, exchange control 'was so much against the spirit of the age that I doubt if it ever occurred to any of us that it was possible'. The Gold Standard set 'the rules of the game' for a fixed exchange rate, and the Treasury unblinkingly supported the Bank of England's commitment to back it. 'They had been brought up', Keynes wrote, as though admiring officers who dutifully went over the top in the trenches, 'in the doctrine that in a run one must pay out one's gold reserve to the last bean.'[3] So Britain did not formally go off gold until 1919 and meanwhile clung to a sort of shadow Gold Standard, financing its military effort by loans from the United States within the parameters of market imperatives. This meant satisfying Wall Street that all the bills could be met on the due dates.

McKenna sternly defended this view, which Lloyd George derided at the time and later mocked in his *War Memoirs*. His account there of the arguments in the autumn of 1915 identifies Keynes as 'more alarming and much more jargonish' than even the Permanent Secretary to the Treasury, the austere Sir John Bradbury. Their case, that it was only just possible to struggle on until the end of the financial year, 31 March 1916, did not impress Lloyd George as Minister of Munitions, nor subsequently as Prime Minister. In his *War Memoirs,* he invoked Churchill's satirical rendering of the Treasury position: 'Put the British Empire at one end of the scale and the 31st of March at the other, and the latter would win every time', he jested. 'That was Mr McKenna's view.' Naturally Lloyd George felt vindicated when 'the hour of indicated doom struck' in 1916 and the British economy survived.[4] Though McKenna faced political exile in December 1916, once the Second Coalition was formed under Lloyd George, Keynes stayed at the Treasury, as gloomy as ever in his forecasts. On 31 March 1917, the hour of doom struck again, and Britain again survived (this time with the aid of the German U-boat campaign that brought the United States into the war).

To Keynes, this seemed like sheer uncovenanted good luck. He continued to think that his own caution had been justified at the time. His view of Lloyd George was inevitably coloured by the Treasury spectacles through which he had looked at such issues, defining them rather narrowly as those in which canons of financial prudence should prevail – the strain of small-c conservatism in Keynes's complex make-up. Personally he got on surprisingly well with the two Unionists who subsequently served as Chancellor under Lloyd George: first Bonar Law and later Austen Chamberlain. Keynes thus went to Paris in January 1919 as Chamberlain's principal assistant, and was himself to resign in June – and in disillusionment.

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Bamboozled?

Keynes's time in Paris had given him a privileged vantage point on the process of peace-making: on the economics, of course, but also on the politics. What he subsequently wrote distilled his views on both. As his book's title sufficiently proclaimed, it was the *economic* consequences of imposing heavy reparations on Germany that primarily concerned him. As an economist, he could see that making Germany responsible for the costs of the war was easier said than done. For this was not just a financial transaction, still less a simple question of shaking the money out of German pockets, or squeezing the Germans till the pips squeaked, or finding some stash of German gold that could handily be shipped to the Allies. In all the subsequent controversies about Versailles, although there have always been some writers who stoutly maintain that Germany had a greater capacity to pay than the tender-minded Keynes alleged, the central thrust of his original case has never been successfully refuted. For this was that the rhetoric of 'making Germany pay' lacked a grasp of the processes of the real economy, in which all transfers are ultimately made in the form of flows of goods and services, not merely through the book-keeping of financial transactions.

It was not the exposition of this economic logic, however, that made *The Economic Consequences* into a bestseller on both sides of the Atlantic. Instead, it was the human interest of its third chapter, which, in fewer than twenty pages, depicted the machinations of the Big Four at the Paris conference. And whatever the reaction in France to Keynes's half-admiring aphorisms about the world-weary cynicism of Clemenceau, or the offence created in the United States by the author's feline characterisation of Woodrow Wilson as a naïve Presbyterian preacher, the main impact on British public opinion came through what the book said about Lloyd George's role. It suggested that 'the poor President would be playing blind man's buff in that party. Never could a man have stepped into the parlour a more perfect and predestined victim to the finished accomplishments of the Prime Minister.' With mordant disdain, Keynes thus went on to attribute the puncturing of Wilson's idealistic New World innocence to the Old World wiles that ensnared him. So that in the end, when Lloyd George made a belated pitch for 'all the moderation he dared', he found it 'harder to de-bamboozle this old Presbyterian than it had been to bamboozle him' over the previous long weeks of the conference.[5]

These were phrases with a deadly sting. They were often repeated and long remembered by readers who never struggled through the seventy-page chapter on reparations. And in the book's indictment of the iniquity and folly of the treaty, Wilson could be seen as victim as much as perpetrator, Clemenceau could likewise be largely excused as a loveable rogue from Central Casting, but Lloyd George was revealed as the truly culpable figure. All this, of course, played to the stereotypes of the progressive left in Britain, whether Asquithian or Labour, equally susceptible to this nicely updated dose of Gladstonian moralising. Keynes's rise to fame thus came at the expense of a Prime Minister whose own wickedness had naturally led him into coalition with the Conservatives. In blighting relations between them, all that was lacking – for the time being – was the publication of Keynes's draft of an even more biting personal sketch of Lloyd George, omitted from *The Economic Consequences* in 1919 on the prudent advice of the author's mother.

True, the sequel that Keynes published in 1922, *A Revision of the Treaty*, tartly acknowledged that the 'revisionists' now included the British Prime Minister. 'The deeper and the fouler the bogs into which Mr Lloyd George leads us, the more credit is his for getting us out.'[6] This background helps in understanding some of the difficulties that beset later dealings between Lloyd George and Keynes. It is the reason why there were so many raised eyebrows when the two men joined forces in the mid-1920s in making unemployment into a salient political issue. To partisan contemporaries, we must remember, it seemed remarkable that the author of *The Economic Consequences* should now indulge in his own peacemaking with a man whom he had recently excoriated. As one old-fashioned Liberal put it, Lloyd George's willingness to rethink party policies had 'undoubtedly interested, occupied, propitiated – dare I add, bamboozled? – a large number of able Liberals who liked neither his record nor his ways.'[7] So there were some sharp questions that Keynes could not avoid during the 1929 general election campaign. 'The difference between me and some other people,' he responded, 'is that I oppose Mr Lloyd George when he is wrong and support him when he is right.'[8]

'A drastic remedy for unemployment'

This personal détente was a significant development, not only in giving Lloyd George momentum in his leadership of a reunited Liberal Party but in prompting Keynes to formulate his economic ideas. There have been many attempts to explain Keynes's own sudden concern with the problem of unemployment at this juncture. It has often seemed intellectually plausible to point to his opposition to Britain's return to the Gold Standard in April 1925, since the effect of an over-priced pound was indeed to make British exports (like coal) too expensive abroad, thus making workers in the export trade (like miners) unemployed. Keynes repeatedly made such links himself – but only subsequently. For the fact is that it was not in 1925, but instead fully a year *before* the return to gold, that Keynes first broached his characteristic arguments about the need for an economic stimulus. He did it in an article in the Liberal weekly paper, the *Nation*, under the title: 'Does unemployment need drastic remedy?' He was prompted to do so, moreover, in response to an initiative by Lloyd George in April 1924, thus inaugurating their period of cooperation.

Why, then, had Keynes decided in 1924 that Lloyd George was now on the right track? It was not because either of them, at the time, had worked out detailed proposals for job creation. Nor was it because of any sudden surge in the level of British unemployment. This was actually falling rather than rising at the time, though it was admittedly stuck around 10 per cent of the registered labour force, as compared with a norm of about half that before the war. Yet both men now agreed that unemployment needed 'a drastic remedy', even though they were floundering when they tried to say exactly what this might comprise, as Keynes's own contribution to the discussion revealed. In particular he got into trouble for hinting that the Chancellor of the Exchequer might find a role for the Sinking Fund in 'replacing unproductive debt by productive debt'.[9] As Keynes quickly recognised, such talk excited alarm among believers in the traditional axioms of sound public finance – so this time he had the moral force of the Gladstonian tradition against him.

Keynes retreated on this particular issue but failed to clarify exactly what he proposed. Since he was usually such a master of lucid exposition, the best explanation is that he was not really quite sure himself – or not yet sure. As an economist, it should be remembered, he was still writing with a strong sense of his intellectual inheritance from the great Alfred Marshall. In the Marshallian system, there were certainly many allowances for imperfections in the workings of the economy, but its tendency towards an equilibrium, with full employment of all factors of production, was a basic assumption.

It was in *A Tract on Monetary Reform* (1923) that Keynes had uttered one of his most famous phrases, endlessly repeated and misrepresented ever since. Yes, he conceded, there were indeed self-righting forces in the economy, provided that market forces were allowed free play – and allowed also enough time to do their job. 'But this *long run* is a misleading guide to current affairs', Keynes suggested. '*In the long run* we are all dead.'[10] The moral is, of course, not that (irresponsible) short-term policies should prevail but that the true irresponsibility is to abstain, on doctrinal grounds, from remedial action that can do good. In principle, Keynes thus declared himself a pragmatist, refusing to rule out government intervention where the case could be made for its social benefits. Yet at this point, as regards unemployment, he was not in a position to offer Lloyd George either practical blueprints or theoretical cover for the 'drastic remedy' that each considered necessary.

Theirs was essentially a temperamental affinity in favour of action, rather than timid quietism or doctrinaire inertia. Like Franklin Roosevelt when he later launched his 'New Deal', an instinctive belief that there was nothing to fear but fear itself can be seen as the defining political ingredient in policies that were in some respects incoherent. As with Roosevelt in the mid-1930s, so with Lloyd George in the mid-1920s, Keynes was equally ready to take a cue from a political leader whose extraordinary powers he recognised. It was the benign aspect of the non-rational gifts, already reluctantly acknowledged in the portrait printed in *The Economic Consequences*, which had observed 'the British Prime Minister watching the company, with six or seven senses not available to ordinary men'.[11] Keynes was himself never a prisoner to formal logic, instead prizing intuition and creativity in his own trade of economics, and *a fortiori* in the field of politics.

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Chancing his arm in 1924, Keynes already outlined an approach to policy-making that retains its cogency. Admittedly, we can find loose ends and inconsistencies in the economic detail. But we also find propositions that were to become central to his agenda, not only in economic policy but in theory too. He had not yet come up with a formal analysis that we would recognise as Keynesian in the sense of his *General Theory*, not published until 1936. Instead, we see his policy hunches outrunning his theoretical thinking, leading him to conclusions that he could only later justify with the requisite academic rigour.

We can see this in his 1924 response to Lloyd George, urging the 'drastic remedy'. What is central to Keynes's approach is 'the principle that *prosperity is cumulative*', and he reiterates it as the merest common sense. 'There are many examples of cumulative prosperity, both in recent and in earlier experience,' he says, citing alike the nineteenth-century British railway expansion and the French post-war reconstruction programme and the current American boom in the motor industry. The problem is thus to supply the initial impetus. 'We have stuck in a rut', he says. 'We need an impulse, a jolt, an acceleration.' Now we should not jog Keynes's elbow by supplying his later theoretical concept of the 'multiplier' to define and specify the dynamic effects; but the line of thinking is suggestive in a pragmatic vein. It is thus common sense to see that there are 'stimulating medicines which are wholesome', and to recognise that 'there is no way in the world of achieving these better alternatives but by confidence and courage in those who set enterprise in motion.'

Public investment, in short, must come to the rescue when the market fails to do so. Keynes accordingly proposes that the Treasury should promote expenditure of the order of £100 million a year – about 2.5 per cent of current GDP – for 'the construction of capital works at home, enlisting in various ways the aid of private genius, temperament, and skill'. Then, confronting the obvious question of where the money is to be found, he goes out on a limb: 'Current savings are already available on a sufficient scale – savings which from lack of an outlet at home, are now drifting abroad to destinations from which we as a society shall gain the least possible advantage.' The priority is currently for 'capital developments at home'. Such a programme, Keynes asserts, 'will inspire confidence', thus reinforcing 'the stimulus which shall initiate a cumulative prosperity'.[12] The circular nature of the argument is thus its strength – once the political courage has been shown to provide the stimulus.

The discussion to which Keynes contributed in 1924 was published in the Liberal weekly, the *Nation*, and some of the themes were then developed through the Liberal Summer Schools. Both of these served as institutional means through which Lloyd George was to become reconciled with many Liberal intellectuals in the mid-1920s, with Keynes playing a prominent role in each forum, as he did subsequently in the Liberal Industrial Inquiry. The Inquiry's eventual report, *Britain's Industrial Future* (1928), became known as the 'Yellow Book'. It articulated, albeit at ponderous length, the rationale for the ambitious policy that Lloyd George, now Liberal leader, made the basis of his own big push for power.

Lloyd George succeeded to the extent of determining the agenda in the general election of 1929. The publication of his manifesto, *We Can Conquer Unemployment*, made a great impact. Drawing upon the Yellow Book, it seems to have been drafted mainly by the businessman and philanthropist Seebohm Rowntree, then working at Liberal headquarters and today remembered chiefly for his ground-breaking studies of poverty. Keynes wrote none of it himself but offered immediate polemical support in March 1929, contesting the 'Treasury View' that no large-scale stimulus of the economy was possible. In May, three weeks before polling day, Keynes and his colleague Hubert Henderson published their own pamphlet, *Can Lloyd George Do It?* Their answer was a resounding Yes. The answer of the electorate, however, was a faltering No, with only 59 Liberal seats to show for a vote of 23.6 per cent. There was to be no return to office by Lloyd George, no British New Deal, no bold experiment with a Keynesian agenda.

Can we conquer unemployment?

Was it ever reasonable to suppose that Lloyd George could 'do it'? The pledge that he gave in 1929 was to put in hand an ambitious programme of public works which would, within a year, reduce unemployment to the level normal before the First World War. What was then considered normal was a level of about 5 per cent, whereas the unemployment figures in 1929 (before the world slump hit Britain) stood at about 10 per cent. So was it possible to create nearly 600,000 jobs?

Modern estimates of what was feasible, of course, enjoy the benefit of applying the Keynesian 'multiplier'. They differ mainly over the value specified for the multiplier, that is, over how much an initial investment would increase final income. Keynesians were once hopeful – too hopeful – that the multiplier might be 2 or higher; modern scepticism suggests a range between 1.25 and 1.75. The statistics that emerge from such analysis are fairly clear and consistent. With a floating exchange rate, like sterling today, the upper estimate of new jobs might be as high as 744,000; but not even Keynes was contemplating leaving the pound to float in 1929, and it was not until 1931 that Britain was forced off the Gold Standard. With a fixed exchange rate, then, the number of jobs likely to be created by a programme on the scale proposed by the Liberals in 1929–30 would have been in the range 346,000 to 484,000.[13] So, even if elected, Lloyd George could not have done it.

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This is the econometric answer. But another sort of answer is more relative, more disputable, more contentious, more temperamental, and more political than simply economic. If as many as 600,000 new jobs proved impossible, how about 400,000 or so? Supposing Lloyd George was more than half right about what could be achieved – and maybe three-quarters right – was it still worth doing something rather than nothing? Keynes's own answer had been laid out at the start of this argument, back in 1924, when he had concluded his initial plea for a drastic remedy for unemployment: 'Let us experiment with boldness on such lines – even though some of the schemes may turn out to be failures, which is very likely.'[14]

The nub of the argument, in many ways, was not about the impact of public works on job creation but about where the money was to come from in financing such a programme. Some of it might come from abroad, by somehow diverting the net outward flow of British investment, which only created new British jobs 'in the long run'. So this was one possible short-term expedient. Nobody at this time talked of simply running a budget deficit. Despite his subsequent reputation, Keynes believed in the principle of balancing the budget, certainly in good times when it was proper that all current government expenditure should be covered by current taxation. In bad times, however, a loan might be necessary to finance public works; so the question was whether such a loan could indeed be raised and whether the net effect upon the economy of the new investment would be positive.

The Conservative claim was essentially the traditional Treasury View: that any new spending on public works could only be found at the expense of private enterprise elsewhere in the economy. This model postulated a zero-sum game, which robbed prudent Peter in order to pay profligate Paul. Its force was essentially as a moral argument masquerading as an economic law.

We Can Conquer Unemployment offered the Liberal riposte, denying that all resources were at present being utilised for investment, and instead talking about the 'frozen savings' that accumulated in a depression. The most prominent advocate of this view was actually Reginald McKenna, now chairman of the Midland Bank (and an unlikely recruit to Lloyd George's cause). He was concerned about the idle deposits in bank accounts. But this encouraged the notion that there were piles of money lying in the vaults that could, with some juggling of the balance sheet, 'pay' for public works – a sort of economic fallacy all too like the simple arguments for German reparations.

Keynes's own argument was different. Admittedly, he tried to minimise any differences with his Liberal allies for tactical reasons, once he was directly drawn into the partisan debate, but he never used the term 'frozen savings'. Instead he reframed the whole argument about where the money was to come from by pointing, with increasing confidence, to the fallacious nature of the Treasury View itself. And he first developed this analysis not in his theoretical writings but on the hustings.

Keynes's newspaper article entitled 'Mr Lloyd George's Pledge' appeared in the *Evening Standard* on 19 March 1929. 'The orthodox theory *assumes* that everyone is employed', Keynes contended. 'If this were so, a stimulus in one direction would be at the expense of production in others. But when there is a large surplus of *unused* productive resources, as at present, the case is totally different.' Here was his knock-down argument against the Treasury View, as he put it a couple of months later, that it 'would be correct *if everyone were employed already,* but is only correct *on that assumption*'.[15]

Thus we see a fully reciprocal process, in which Lloyd George's political campaign did not simply draw upon Keynes's economic ideas but actually stimulated their gestation in significant respects. For in 1929 Keynes, amid the day-to-day pressures of an election campaign, clearly identified the central flaw in the argument that government spending always displaces equivalent private resources. Moreover, in 1924 he had already developed his view that, since prosperity is cumulative, an initial stimulus can produce a dynamic impact upon the economy. Put these two concepts together and the implications are surely significant, with a force that

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has not diminished some eighty years later. For, on this analysis, the real priorities are hardly just financial. If the economy fails to produce its full potential, there will indeed be shortfalls, not only in production and in employment but in government revenue too.

'Intense and sometimes needless antagonisms'?

The period in office of Ramsay MacDonald's minority Labour government from 1929 to 1931 was to prove frustrating. Lloyd George persistently explored opportunities for policy initiatives on which he thought Labour and Liberals had common ground; Keynes exploited his status as an economist to channel economic advice to government, through both the Macmillan Committee on Finance and Industry and the Economic Advisory Council. But the inherent weakness of the government made it into an all too compliant victim of the mounting world depression that overtook it.

It was in this context that the Conservatives climbed back to power. Taking office in 1931, they lured not only MacDonald but also most of the Liberals into a coalition government. Its ostensible rationale was to serve the national interest amid a great crisis that demanded stern financial rectitude and unpopular policies. Its tenure of office more obviously served the interest of the Conservative Party itself. Neither Lloyd George nor Keynes was numbered among the supporters of the National Government from 1931; but their own moment of common sympathy and activity was now to close – quite soon and quite abruptly.

In March 1933 a new book by Keynes appeared: no economic treatise but his much more popular *Essays in Biography*. Many of these piquant essays had been previously published, including that on the 'Council of Four', taken from his *Economic Consequences*. But Keynes then exhumed the half-dozen pages that he had originally composed on Lloyd George, cut from the original edition. Admittedly, Keynes still refrained from publishing a comment from the 1919 draft, referring to 'those methods of untruthful, indeed shameless, intrigue which must lead to ultimate ruin of any cause entrusted to him; his incapacity for loyal leadership and control of the instrument of government itself …'. But the rest of the 1919 draft was now published as 'a fragment', with a footnote explaining that, although the author still felt 'some compunction' over what had been written 'in the heat of the moment', he now took a different view about publication – 'These matters belong now to history.'[16]

Lloyd George initially took a similarly lofty view. Keynes's book had hit the headlines in such papers as the *Daily Mail*, naturally sensing a partisan opportunity to stoke the quarrels of two prominent Liberals. Lloyd George at first scornfully told a reporter that all this had been written in 1919; but then he evidently read the new version in print. The phrase that the press seized on was the image of 'this syren', with its dictionary derivation from Greek and Latin myth as one who 'charms, allures or deceives', which was hardly likely to inspire political trust. 'Lloyd George is rooted in nothing; he is void and without content', Keynes's fragment continued, in a vein that was damaging, not because such things had not been said often before, but mainly because they now came from an ostensible supporter.

The real offence lay elsewhere. Keynes's development of his image – 'this goat-footed bard, this half-human visitor to our age from the hag-ridden magic and enchanted woods of Celtic antiquity' – had the timbre not of any classical allusion so much as an ethnic slur. There followed other phrases, identifying 'that flavour of final purposelessness, inner irresponsibility' and his 'cunning, remorselessness, love of power', that were more politically charged. But it was surely Lloyd George's alleged 'existence outside or away from our Saxon good and evil' that again slyly reverted to the stereotype of a Welsh outsider, conveyed with a sneer of over-educated English condescension.[17] It was the culture clash of the wartime Treasury arguments all over again.

How could Keynes not have foreseen the public impact of such words? He found out soon enough when, in October 1933, the relevant volume of Lloyd George's *War Memoirs* was published. His dispute with the Treasury over war finance was inevitably discussed. Lloyd

George did not minimise the role of Keynes, who had been 'for the first time lifted by the Chancellor of the Exchequer into the rocking chair of a pundit', but had proved 'much too mercurial and impulsive a counsellor for a great emergency'. Lloyd George made the most of his privileged opportunity to quote a 1915 memorandum by 'the volatile soothsayer who was responsible for this presage of misfortune'.[18] He duly mocked Keynes's prophecies of doom. True, the fact that Keynes was officially forbidden to quote from the same memorandum led him to complain in *The Times* of sharp practice; but Lloyd George was surely entitled to defend his own record and his own honour, as Keynes conceded in publicly acknowledging their exchanges as 'perhaps as inexcusable on the one side as on the other'.[19]

Yet a highly significant point was missed in these personal polemics. For the real reason why Lloyd George had been proved right by events in supposing that Britain could survive the strains imposed on it in 1915–17 was surely that the full capacity of the economy had been crucially under-estimated by the Treasury mandarins. They had supposed too readily and dogmatically that the limits on domestic production had been reached, without realising that the cumulative force of expansion itself created further resources by taking up the slack in the economy. Why else did the raising of great conscript armies still allow the economy to expand by ten per cent? In short, what was needed to comprehend this process was a Keynesian multiplier effect – a concept of which, in the days when he was McKenna's rocking-chair pundit, Keynes himself was oblivious.

In this perspective, some of the gratuitous gibes in Lloyd George's *War Memoirs* read very ironically. Keynes is described as 'an entertaining economist whose bright but shallow dissertations on finance and political economy, when not taken too seriously, always provide a source of merriment for his readers'. This dart was thrown at just the moment when Keynes had specifically formulated the concept of the multiplier, in arguments that supported key aspects of Roosevelt's New Deal. Lloyd George concluded his indictment of Keynes: 'It seems rather absurd when now not even his friends – least of all his friends – have any longer the slightest faith in his judgments on finance.'[20] Thus Lloyd George scored his point against Keynes in 1933 by implicitly siding with financial orthodoxy.

As Keynes pithily asserted in a radio broadcast in January 1933: 'Look after the unemployment, and the budget will look after itself.'

Consciously or not, each had reversed his earlier position. It was Lloyd George who had first intuitively grasped the fact that real resources are what matters; it was Keynes who had come to abandon the classical doctrines in which he had been schooled. The affinities between the outlook of Keynes and Lloyd George were thus often eclipsed in their own era by immediate, and often transient, political developments. Each coined memorable phrases about the other, with a mutual talent for polemics that we can all relish. It would be a pity, however, if such gibes were all that is remembered of their relationship, which was unusually fruitful in generating a policy agenda that surely still has relevance today.

By 1933, as his new pamphlet, *The Means to Prosperity*, shows, Keynes had a confident grasp of the analysis that was formally elaborated three years later in his *General Theory*. Since investment is the motor of the economy, he saw that an initial stimulus could create the necessary savings to finance it. The new resources are precisely those that are not being used so long as unemployment persists. As a remedy for unemployment, drastic cuts in government spending are thus counter-productive – not because deficits are a good thing but because economic growth is the way to cure them. As Keynes pithily asserted in a radio broadcast in January 1933: 'Look after the unemployment, and the budget will look after itself.'[21] The real deficits that should worry us may thus be those created by self-fulfilling processes of financial stringency, which can drag the economy into a downward spiral, with little promise of early respite. And under such conditions, it may be prudent rather than irresponsible to remember that in the long run we are all dead.

Peter Clarke is Professor Emeritus of Modern British History at Cambridge University and former Master of Trinity Hall, Cambridge. He is a Fellow of the British Academy. His books include The Keynesian Revolution in the Making, 1924–36 *(Oxford University Press, 1987),* Keynes: the twentieth century's most influential economist *(Bloomsbury, 2009) and* Mr Churchill's Profession: statesman, orator, writer *(Bloomsbury, 2012).*

1 Winston S. Churchill, *Victory* (Toronto: McClelland and Stewart, 1946) pp. 114, 116 for the quotations from his speech of 28 March 1945.
2 Donald Moggridge (with Austin Robinson), *The Collected Writings of John Maynard Keynes*, 30 vols. (Cambridge University Press, 1971–89), vol. xvi, pp. 299–300 (hereafter citations in the form, *JMK* with vol.) This magnificent edition is indispensable, as is Moggridge's, *Maynard Keynes: an economist's biography* (London: Routledge, 1992) and Robert Skidelsky, *John Maynard Keynes*, 3 vols. (London: Macmillan, 1983–2000). My own arguments can be followed up in my scholarly study, *The Keynesian Revolution in the Making, 1924–36* (Oxford University Press, 1988) and my more accessible recent book, *Keynes: the twentieth century's most influential economist* (London and New York: Bloomsbury, 2009).
3 *JMK*, xvi, pp. 210–11.
4 David Lloyd George, *War Memoirs*, popular edition, 2 vols. (London: Odhams Press, 1938), vol. i, pp. 409–10.
5 *JMK*, vol. ii, pp. 26, 34.
6 JMK, vol. iii, p. 115.
7 Charles Mallet, *Mr Lloyd George: a study* (London: Ernest Benn, 1930) p. 306.
8 Thomas Jones, *Lloyd George* (Oxford University Press, 1951) p. 229.
9 *JMK*, xix, p. 222.
10 *JMK*, iv, p. 65.
11 *JMK*, ii, p. 26.
12 *JMK*, xix, pp. 219-223.
13 See Roger Middleton, *Government versus the Market* (Cheltenham: Edward Elgar, 1996) p.388.
14 *JMK*, xix, p. 223.
15 *JMK*, xix, pp. 807, 823.
16 *JMK*, x, pp. 20–21 n.; and see n. 5 above.
17 *JMK*, x, pp. 23–4; and see R.F. Harrod, *The Life of John Maynard Keynes* (London: Macmillan, 1951) pp. 440–41.
18 Lloyd George, *War Memoirs*, vol. i, pp. 409–10.
19 *JMK*, xxx, pp. 18–19.
20 Lloyd George, *War Memoirs*, vol. i, p. 410.
21 *JMK*, xxi, p. 150.