

# Policy Report

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## An Imminent Rehabilitation for Philip Snowden?

For some time past a ghost has been standing behind Alistair Darling sardonically monitoring his every action and thought with the expertise that comes from having lived through the United Kingdom's last encounter with the dilemmas that are posed by the onset of a World Depression. And it is not John Maynard Keynes, who during the 1930s was little more than an observer and commentator. It is of course the Labour Party's first and probably most formidable Chancellor of the Exchequer, namely Philip Snowden.

In so many ways Darling is confronting a re-run of 1929-1931 and has already had to recognise, like his distinguished predecessor, that mere Chancellors cannot prevent economic tsunamis inflicting great suffering on many humble people,

whom both men undoubtedly came into politics to serve. But Snowden had an unusual clarity of mind that led him to rule out mere drift and to drop all pretence that the United Kingdom was so powerful and so influential that she did not need in the dire circumstances in which she found herself to court the good opinion of foreign governments, foreign investors and, above all, foreign bankers. For, though a life-long progressive and socialist with roots in the West Riding's Labour Churches, in the early ILP and in the anti-war movement, he had from the onset of the global economic crisis set his face against Lenin's 'the worse the better' approach. For example, to John Strachey, then a left-wing Labour MP known for his closeness to Sir Oswald ('Tom') Mosley, he addressed these words:

I am very sorry to have to say that I cannot introduce into a Finance Bill proposals for the abolition of capitalism. I shall have to leave that for somebody else. I have often told my friends...that any attempt to abolish capitalism – I mean any catastrophic attempt – will bring far greater conditions of disaster to the people than those under which we are suffering.

Snowden was thus inexorably led in the emergency of 1929-1931 to try to prop up the prevailing order in the United Kingdom and that, he thought, meant retaining the confidence of important foreigners whose help might be and eventually was needed to prevent national bankruptcy. Above all, he attached importance to retaining international confidence in sterling, which he saw was vital to a country that needed to be able to import food and raw materials. To prevent a ruinous run on the pound he was accordingly willing in a deepening recession to cut various items of public expenditure; to raise the standard rate of taxation; and to acquiesce in increases in bank rate (which eventually peaked at six per cent!). And in all this the hyper-inflationary German experience of the early 1920s was never far from his thoughts. Moreover, his passionate commitment to protecting the interests of the weaker members of society is plain from the words he addressed to the House of Commons on 11 February 1931:

I say with all the seriousness I can command that the national position is so grave that drastic and disagreeable measures will have to be taken.

Expenditure which may be easy and tolerable in prosperous times becomes intolerable in a state of grave industrial depression.... Schemes involving heavy expenditure, however desirable they may be, will have to wait until prosperity returns. This is necessary – I say this particularly to my Honourable Friends behind – to uphold the present standard of living, and no class will ultimately benefit more by present economy than the wage-earners. I have been in active political life for forty years, and my only object has been to improve the lot of the toiling millions. That is still my aim and object, and, if I ask for some temporary suspensions, some temporary sacrifice, it is because that is necessary to make future progress possible.

As is well known, matters came to a head in August 1931 when the Labour Cabinet split on the relatively narrow question about whether or not to cut unemployment benefit in pursuit of across-the-board measures designed to show foreign holders of sterling that the United Kingdom could balance its budget. It was Ramsay MacDonald who led some Labour ministers into a coalition administration that subsequently won a landslide victory in a general election two months later. But it was Snowden, not MacDonald, who was the inspiration behind the crusade to save sterling.

Ironically, even the coalition's success in passing an emergency budget involving unemployment benefit cuts proved insufficient to stop the currency run despite the belated provision of generous

international loans; and Snowden himself, still Chancellor, then had to abandon the gold standard and accept in effect a twenty per cent devaluation against the dollar. But thereafter the pound stabilised. Beatrice Webb famously said that nobody had told the Labour Cabinet they could do this. But the truth is surely that they could not have done so. For without accompanying financial rectitude the devaluation would not have worked. Instead, one currency crisis would have followed another, as happened during the late 1930s to France, which had to devalue on three separate occasions.

So what would the ghost of Snowden make of Darling's handling of a not dissimilar British crisis? He would of course be aware that since at least 1945 he has been widely condemned by all right-thinking followers of Keynes for saying (and believing) that 'a nation, like an individual, cannot go on increasing expenditure when income is falling, unless it wants to be landed in bankruptcy'. And he would know that failings by him and by fellow 'deflationists' in the United States and in Germany are said to have 'proved' that the way to tackle today's problems is to run deficits, to spend our way out of recession, to 'save' all financial institutions in trouble, to cut interest rates to ever lower levels, to largely disregard inflationary risks and to assume that currency relativities matter little. But Snowden's ghost, if I understand him, is not persuaded that he was so far wrong in the Great Depression even if he was at times somewhat over-zealous and especially so in his handling of less gifted colleagues. And he is

expecting soon to be largely vindicated by British events, even if not in the near future by developments in the Eurozone and the United States. For he cannot believe that a country with the limited 'clout' of the United Kingdom (now markedly less even than in 1931) can successfully disregard the fate of the pound or posture as if it is a Great Power (or a pivotal power, as Tony Blair revealingly described it) fully qualified patronisingly to lecture others

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**'Even the coalition's success in passing an emergency budget involving unemployment benefit cuts proved insufficient to stop the currency run'**

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and can behave in economic matters with at least as much bravado as the essentially inexperienced and unsophisticated Uncle Sam.

Snowden's ghost has been much struck by the fact that the United Kingdom now has only one per cent of global population, though it seems blissfully unaware of it. What a contrast with his own era when one third of the map of the world was coloured red! And he is also bemused by evidence on all sides that the United Kingdom has apparently set its face for the foreseeable

future against abandoning sterling in favour of the heavyweight euro that was not even in contemplation in his lifetime. Moreover, Snowden's ghost knows that sterling has already fallen by more than 20 per cent from recent peaks against both the dollar and the euro; and so he cannot understand why Darling (and his highly irresponsible predecessor who left the national cupboard bare) should have seen fit to pressurise the Bank of England into slashing bank rate below its counterpart in the Eurozone and ever closer to that of the United States itself.

Do they not see, asks Snowden's ghost, that foreign investors will soon be asking why they should keep money in a country that has variously been characterised as a mega-Hungary and the world's largest hedge fund. And he wonders how long it will be before bank rate has to be raised again in a probably vain attempt to stave off a further visit from the IMF, which, for all its own impoverishment, still appears to stand for the kind of rectitude he himself deployed in order to save a large proportion of the British people from the Hungry Thirties of popular myth?

My expectation is that Darling's United Kingdom will indeed come an early cropper. But I fear that Snowden's ghost will not get any credit for prescience. For all right-thinking Britons already have a fallback position ready. If another IMF-style crucifixion materialises the blame will not be attributed to Darling. Instead, it will fall on the hapless Monetary Policy Committee for not cutting bank rate much sooner and much deeper!







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