The Conceptual Roots of Contemporary Austerity Doctrine
A New Perspective on the British Treasury view.

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Abstract

This essay looks at the "Treasury View" as a historically-situated and multifaceted body of knowledge that should be recognized as an important forerunner of contemporary austerity. In order to recognize the affinity with present-day discourse, it is necessary to overcome the idea of the Treasury view as comprising only the crowding out argument. I interpret the Treasury view as an holistic doctrine, a wholesale ideological vision of how the economy worked, where economic beliefs intermingled with ethical and political elements. In particular, Treasury officials regarded themselves as incorruptible guardians of technical truth, preferred free markets to state intervention, and used a return to balanced budgets and the gold standard to impose austerity at a time when the First World War had aroused expectations of social reform. Hence the reconstruction of the conceptual basis of the Treasury view goes hand in hand with the historical background of the role of the Treasury as a governmental department and ideological tradition. The paper expands upon the underlying assumptions that ground the Treasury's doctrine. They are identified as: 1) Idealization of the free market 2) Skepticism of the role of the state in economics (retrenchment of the State), in particular the refusal of its social and welfare function, 3) Policy of fiscal and monetary rigor 4) The virtue of savings. The analysis is conducted by considering the Treasury's archival records of the most important senior officials of the 1920s.

Introduction

Since the sovereign debt crisis, austerity has come to affect the socio-economic reality of most EU countries. Yet, surprisingly few scholars have investigated its historical and theoretical origins. Much economic discussion assumes the ahistorical narrative of austerity as a product of neo-liberalism.[2] A few historical studies (Bridel 2014, Konzelman 2014, Blyth 2013) *do* recognize the

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2 "Neoliberalism represents a set of ideas that caught on from the mid to late 1970s, and are famously associated with the economic policies introduced by Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States following their elections in 1979 and 1981. The 'neo' part of neoliberalism indicates that there is something new about it, suggesting that it is an updated version of older ideas about 'liberal economics' which has long argued that markets should be free from intervention

British "Treasury view" of the 1920s as an important forerunner of contemporary austerity. Scholars usually understand the "Treasury view" in a very limited sense, as a means of indicating the Treasury's theoretical opposition to the expansionary proposals to combat unemployment. In this interpretation, the Treasury view is essentially identified with the so-called "Crowding Out Argument," an economic reasoning that was developed in reaction to public intervention programs of the time.[3]

This essay analyses the "Treasury view" in a wider framework, in order to grasp its relevance for the understanding of the conceptual roots of contemporary austerity. The "Treasury view" is here acknowledged as a full-blown "austerity doctrine": it is a regime of truth[4] in which economic theory is indistinguishable from practice, encompassing the moral, the economic and the political. In this interpretation, the Treasury view is extended beyond a belief in crowding out, as it was a wholesale ideological vision of how the economy worked, where economic beliefs intermingled with ethical and political elements. In particular, Treasury officials regarded themselves as incorruptible guardians of sound economic principles, preferred free markets to state intervention, and used a return to balanced budgets and the gold standard to impose austerity at a time when the First World War had aroused expectations of social reform. Hence the reconstruction of the conceptual basis of the Treasury view goes hand in hand with the historical background of the role of the Treasury as a governmental department and ideological tradition.

The first section of this essay reviews existing scholarship regarding the Treasury. Section two considers relevant background facts: the drastic changes from post-war expansionary fiscal policies in the name of social reforms to a clear-cut agenda of austerity. A deeper analysis of the Treasury's institutional position shows that the Treasury had a central role in the enactment of

by the state. In its simplest version, it reads: markets good, government bad," (Campbell, Parker and Ten Bos 2005, 100).

3 The interpretation of the "Treasury view" as concerning specifically public works and unemployment is characteristic of the main secondary literature on the Treasury, in particular Bridel (2014), Peden (1984, 1993, 1996), Clarke (1988), Middleton (1997), Hawson and Winch (1977), and Trevithick (1992). There is no element of this scholarship that would in principle deny a broader interpretation of the Treasury, yet, until now, students of the field have not explored such a path. My contention is that this narrow interpretation undermines the historical significance of the Treasury view in critically analyzing present day austerity discourse.

4 See Foucault (2008).

austerity. Section Three considers the cultural heritage of the Treasury to argue that, grounded in Victorian roots, the Treasury view of the 1920s was nonetheless uniquely embedded in the challenging socio-political relations of the post-war decade. Indeed, the ensuing theoretical contestation between senior treasury officials and their progressive opponents brought about a strengthened Treasury view. In section four, I describe the process of refinement of the Treasury's ideas in the face of expansive unemployment policies. It is this set of arguments against public works that are considered the quintessence of the Treasury view.[5] Yet this topic does not in itself unravel the full nature of the Treasury view as a precursor of contemporary austerity. In the final section I propose a wider set of conceptual building blocks that form the essential basis of the Treasury's austerity doctrine. In this discussion, ideas that today are so familiar, such as the invocation of economic competitiveness and the enforcement of "apolitical" economic truths, will emerge in their constitutive historical moments.

I. Literature Review and Debates on the Treasury

Existing literature on the British Treasury and the so called "Treasury view" is not extensive. The experts in the field can almost be counted on the fingers of one hand (G Peden, P. Clarke, R. Middleton, D. Which, S. Hawson, R. Skidelsky). The majority of these authors' works on the matter were written in the 1980s, when the release of new documentation from British public records gave evidence of the context in which the Treasury view was formulated.[6] The exception is the latest important scholarship, from G.C. Peden (2000 and 2014). I will briefly highlight the main points of concern and debate between students of the subject.

Since the 1980s, a new strand of scholarship arose that wished not to merely dismiss the Treasury view on a Keynesian basis, but to re-evaluate it. In the words of R. Middleton, one of the leading exponents of this trend:

> The history of interwar Treasury policy on unemployment has hitherto been largely a Keynesian history...Recently however, the condemnation of the "Treasury view" as theoretically untenable, easily discredited and unworthy of further serious study, has undergone revision. Two developments have

5 This holds true for the main secondary literature on the Treasury, in particular, Peden (1984, 1993, 1996), Clarke (1988) R. Middleton (1997), Hawson and Winch (1977).

6 "The crucial document is a bound Treasury file, 'cure for unemployment memoranda of 1918 and 1929', T 172/ 2095, which had been kept in the library of the Treasury instead of the archive and was therefore not recognized as a public record for release under the thirty-year rule until 1986," (Clarke 1988,47).

> been responsible for this. First, in the early 1970s there became available in the Public Records Office, the Treasury Internal Papers, making possible a proper study of Treasury thinking. Second, the end of the Keynesian Era, with the current crisis in Keynesian economics and politics, initiated an increasingly comprehensive process of questioning the Keynesian filters through which the interwar period has traditionally been viewed. (Middleton 1987, 109)

Apart from discussions about to what extent Treasury policies were necessary or harmful for the British economy in the interwar years (which entail complicated empirical examination in the absence of counterfactuals) the debate of greatest notice regards the assessment of the fundamental drive of the theoretical-political stance of the Treasury. Was the Treasury view the upshot of economic theory or rather of practical knowledge?[7] Amongst the interpretations of those who emphasize the importance of orthodox economic theory, there is the significant work of Hawson and Whinch (1977). The authors point out that Ralph Hawtrey, the "in-house economist" of the Treasury, provided the main theoretical justifications of the Treasury policies in the 1920s: "The basic theory was the quantity theory of money, whereby the supply of money determined the general level of prices in the long run, and the real forces of productivity and thrift determined the levels of income and employment," (Hawson and Whinch 1977, 27) Occupying the other extreme are J. Tomlinson (1981) and R. Middleton (1985, 1987), who stress the Treasury view as a pragmatic stance that took into consideration the political and administrative constraints of the time, factors that a Treasury official could not ignore. The influence of economists and economic ideas are considered secondary or even irrelevant to practical concerns that shaped the thinking of Treasury officials. Peter Clarke (1988) and George Peden (1983a, 1984, 1996, 2000, 2004) seem to adopt an in-between opinion, which appears most plausible based on the complex archival evidence. This stance is summarized by Peden's words: "The Treasury view was as much a product of policy and public administration as of economics," and again "The Treasury view of 1929 was as much a product of public finance and of the City as of Hawtrey's economic theory.

7 This debate also entails a different interpretation of the successive evolution of the Treasury view in the thirties: was the difficulty to accept the Keynesian insights a matter of theoretical convictions or rather of administrative constraints? See Middleton (1985, 1987), Howson and Whinch (1977).

The latter position is in line with my interpretation of the "Treasury view" as an austerity doctrine. Since a close interrelationship between theory and practice is inescapable, taking into consideration only one or the other neglects theory's socio-economic embeddedness (Granovetter 1985). Economic knowledge is never pure or neutral, but, as Lemke puts it "an element of government itself which helps to create a discursive field in which exercising power is 'rational'" (Lemke 2000, 8).

Another point of discussion lies in the relationship of the Treasury's standpoint to other institutional interests of the interwar period. To some scholars, the Treasury primarily represents the financial concerns of the City and the Bank of England.[8] As Peden (2004a) and Howson (1974) demonstrate, there are good grounds for showing that both the City and the Bank had influence on the Treasury. Connections between the Treasury, the City and the Bank cannot be doubted, especially given the Bank's management of the State's debt by means of loans raised in the City. Furthermore, post-war monetary policy involved the Treasury acting in partnership with the Bank of England (see Section II). Nonetheless, Peden and Daunton (2002) emphasize the autonomous theoretical and political stance of the Treasury. In particular, the Treasury had an independent institutional concern in maintaining its position in Whitehall, involving control of public expenditures as well as financial policy. The authors show that the three institutions (Bank, Treasury, and the City) shared many common interests, in particular in making financial decisions outside of party politics and in pursuing monetary rigor. In this view, however, the Treasury had separate reasons for pursuing ideas and policies of sound finance, even when these met with the approval of the City. Peden (2000, 158) specifies that one of the reasons for support of the gold standard was that it meant a check of public expenditure that would therefore strengthen Treasury control in Whitehall. Daunton writes: "Some historians would argue that the greatest power was held by finance, by the interests of the City of London expressed through the common culture and social background of Treasury officials and City bankers. The position adopted here is more cautious, placing the Bank and the City within a complex balancing of

8 "In his work called "The Treasury and the City," Geoffrey Ingham, in an influential sociological work described the links between the City, the Bank of England and the Treasury as the 'core institutional nexus' of British society'. The idea of a 'City-Bank-Treasury nexus' has been taken up by Peter Cain and Anthony Hopkins, whose concept of 'gentlemanly capitalism' rests on a belief that metropolitan finance dominated British politics, to the detriment of the interests of the manufacturing industry," (Peden 2004a, 117) See G. Ingham (1984); Cain and Hopkins (1993).

interests, and arguing for mutual suspicion between the City and the Treasury" (Daunton 2010, 21).

In his recent, comprehensive study on the Treasury, Peden states that the degree and the direction of influence between these three institutions is not yet certain (2000). Nonetheless, this essay stands independent of this still-contentious point. It is sufficient to appreciate that the guiding principles of the Treasury went beyond sheer financial interests. Pushing Peden's and Daunton's argument further, I show how Treasury officials thought of themselves as spokesmen of a higher moral and economic truth that had to be guarded against "vulgar" political interests: the austerity doctrine. Indeed, austerity was the common socio-economic paradigm of most of the governing elite of the time.[9] Occasions for intellectual exchange were not lacking. It was common for a former Treasury civil servant to continue his career through work at the Bank of England. Bankers, Treasury officials and economists were acquainted and participated in collective social events. This surely led to a convergence of thinking amongst these institutions. The Tuesday Club is the emblem of this practice:

> Falk had in 1917 founded a small dining club, known as the Tuesday Club, which brought together City men, financial journalists, academic economists and Treasury officials to discuss economic questions. Its most regular members in the interwar period included Blackett, Brand and Niemeyer, as well as Keynes, who had served in the Treasury during the war and was active in the City as well as in academic life. According to one Treasury official who attended its meetings, the club's purpose was to educate the civil servants in financial matters and to give the City men some off-the-record tips about government policy. (Skidelsky 1981, 169)[10]

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9 The term "austerity" did not have the same connotation in 1920s Britain as it does I here refer to austerity doctrine as the set of common beliefs, to be analyzed in the following sections, that include: 1) Idealization of the free market; 2) Skepticism of the role of the state in economics (retrenchment of the State), in particular the refusal of its social and welfare function; 3) Policy of fiscal and monetary rigor; and 4) The belief in the virtue of savings. The term "austerity" was first publicly used in 1937 by J.M. Keynes in an article in *The Times* (13 January). Keynes famously affirmed: "The boom, not the slump, is the right time for austerity at the Treasury." The doctrine of austerity was a point of convergence.

10 On the Tuesday club see also Leith-Ross (1968,147-148); Skidelsky (1995, 22-3, 197).

The intellectual affinity between the members of the institutional elite was also grounded in common reading material. The Treasury files include popular newspapers *The Economist*, *The Financial Times*, *The Statist* and *The Times.*[11]

Before considering the content of the austerity doctrine, some relevant historical background will be useful. I investigate the Treasury's functions in order to briefly consider the ideological tradition of which it was part.

II. Austerity in Action and the Treasury's Role

This section provides basic factual background of the post-WWI austerity trend as a means of demonstrating that the Treasury *did* have significant impact on the austerity measures of the 1920s.

A widespread anti-waste campaign[12] and the "Geddes Axe" of 1922[13] marked the end of the expansionary phase of postwar social reform and the beginning of the austerity drive that

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11 See Peden (2000, 25).

12 The Geddes Committee was called for by L. George in order to "take the sting out of the anti-waste agitation" (London Times, 4 August 1921, 8). The anti-waste agitation began in 1919 with the Northcliffe and Rothermere press (Daily Mirror, Daily Press and The Times) and had a large constituency in England. "This campaign, the most vigorously prosecuted and most sustained of its kind since the inception of the mass popular press of the 1890s, employed tactics which were well attuned to the communications of certain basic ideas to the mass electorate" and again, "few contemporaries seem to have questioned the popularity of the anti-waste campaign...the relentless press attention elevated public economy until it became the common language of all politicians" (McDonald 1989, 646). The objective of the campaign was to denounce the evils of growth of state bureaucracy and high taxation. Values of prudence and thrift were constantly invoked. Enhanced Treasury control of expenditure was also called for. Various anti-socialist and anti-waste coalitions achieved considerable success in local elections in 1922-1923. This diffused and popular drive of austerity in public opinion surely facilitated the Treasury's economy policy. However, as Mc Donald tells us, the Treasury officials were not the natural allies of this campaign, as they deemed it simplistic and "political."

13 The term "Geddes Axe" comes from the Committee of National Expenditure known as the "Geddes Committee," from the Chairman Eric Geddes. The committee of businessmen was appointed by Prime Minister Lloyd George and Chancellor Horne. The committee was supplied and guided by Treasury briefs. It recommended severe measures of economy: 87 million in cuts of which 52 million were put

characterized British economic policy throughout the 1920s.[14] From that moment onward, the objectives of British financial policy were clear: 1) to balance the budget; 2) to reduce the debt; and 3) to decrease public expenditures and, in consequence, to remit taxation (Clarke 1988, 31). The results were tangible. Impressive are the figures for the cut in health insurance, which from 1921-1922 to 1922-1923 fell from 9.2 million to 5.8 million. Defense expenditure was also cut.[15] In that same financial years housing expenditure fell from £9.1 to £8.0 million. (Mallet and George 1933, 556-59). Central Government expenditure was 26% of real GDP[16] in 1921, it fell to 22% in 1922 and again to 21% in 1923, remaining slightly below this level for the whole decade.[17]

Financial austerity went hand in hand with monetary austerity. Moggridge (1972) and Howson (1975) extensively document the policies of dear money during all the steps toward a return to the gold standard at the prewar parity (4.86 dollars to the pound) achieved in 1925. The prewar parity overvalued the pound by about 10% at the price level that prevailed in 1925 at the time of resumption (Friedman 1963). As early as March 1920, a 7% Bank rate was imposed; it exemplified the commitment to a deflationist policy, pursued from the slump of 1920-21[18] until the end of the decade. Wholesale prices fell drastically in 1926 as compared to 1920 (Mitchell 1992, 842). Also, money wages in industry in 1922 diminished by one third from the 1920 level (Mitchell

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into place. See Interim Report (Cmd, 1581), Second Interim Report (Cmd, 1582), and Third Report of the Committee on National Expenditure (Cmd. 1589, PP 1922, ix. 1-146). Also see Cobin (2009); Cline (1974); Mc Donald (1989).

14 The post-war decade opened with the most violent economic fluctuation in British history. A short-lived boom was followed by the severe slump of Spring 1920-1921. The rest of the decade was characterized by heavy unemployment, stagnation in industry falling prices, and slow rates of growth of income and output. Most scholars agree with Pigou's diagnosis: "The Slump...did not so much end as peter out...The ending of the slump was the beginning of the Doldrums-In these we might say the country remained more or less—not of course completely—becalmed until the Wall Street crash in 1929 heralded a second and greater slump" (Pigou 1947).

15 See figures in Peden (1985, 76).

16 Measured at 1900 prices. Central government expenditure adjusted for the calendar year

17 From figures of £1,188 million in 1919/1920 and £1,070 million in 1920/1921, central government expenditure fell to £812 million (1921/1922); £749 million (1922/1923) and remained in the £700 million range throughout the whole century (Mitchell 1992, 801).

18 Together with deflationary budgetary policy, and a collapse of exports, scholars see dear money policy as one of the main factors that made the post war slump so severe. See Hawson 1975, 25. Tooze (2014) holds a stronger view: the deflationary policy was the primary source of the British post-war slump.

1992, 184). The deflationary wave brought about soaring unemployment. Between July 1920 and July 1921 unemployment among trade union members shot from 1 percent to 23.1 percent and remained in the 10 percent range for the whole of the decade. The balance of power in industrial relations had reversed (Tooze 2014, 359).

Austerity policies marked a drastic change of direction with respect to the immediate postwar years, a time of great potential for social reform, in which a transformation of the market economy society seemed imminent. Scholars discuss a "near-revolutionary effect of the Great War upon the state, upon public finances and the political system," (Cronin 1991, 64). The war had induced the government to intervene in all areas of the British economy, from price controls to labour relations, modifying workplace practices to national wage bargaining.[19] Government also became involved in wider social provisions. The Ministry of Reconstruction was set up in 1917 with instructions to draw up programs for postwar 'social amelioration' and economic improvement. The general expectation was of greater economic justice in compensation for the enormous war sacrifice of soldiers and civilians (Peden 1985, Wrigley 1993). Trade Unions and the Labor party had gained followers and political influence. Their demands came from a position of strength during the post-war economic boom.

Immediately after the war, progressive social action was sought. For example, in the public housing sector, the 1919 Addison Housing Act proposed an ambitious popular housing program, while expansive reforms were announced in public education and health (Bowley 1945; Malpass 2005). Nonetheless, after 1920, with austerity in action, they were "consigned to the waste paper basket" (Tooze, 359).[20] The question to ask is: what role did the Treasury play in such policy turnover?

During the interwar period, the Treasury was considered the central department of government (Peden 1983a), the Cabinet Office being less important than it is today. The Treasury's crucial

19 See Cronin (1991, 65-92).

20 Secondary school for all was not fulfilled (Andrews 1976), no major development for health services happened. (See Gilbert 1970, 77, 151-2, 158-9). Between 1918 and 1923 the number of houses was only about half the figure the government had promised to build in three years. Central government expenditures on education and health remained far below the 1921-22 level for the rest of the decade. See Peden (1985, 45-52); Mallet and George (1933, 556-59).

role in British administration has a long historical tradition.[21] After the First World War, the Treasury gained ever-greater political strength.[22] It represented a reaction to the loss of Treasury control during the war and the subsequent extension of public expenditure and inflationary government borrowing.

> When the Cabinet decided to strengthen the Treasury in 1919, what seems to have been uppermost in ministers' minds was the need for a powerful central department to control the government machine and cut out waste. The Permanent Secretary of the Treasury was designated Head of the Civil service, and in 1920 an order-in-council consolidated the Treasury's authority over the civil service by stipulating that the Treasury could make regulations for controlling the conduct of departments. (Peden 1983, 376)

From 1919, the Treasury was divided into three departments,[23] of which the financial department was by far the most important:

> The Chancellor's annual budget was prepared by the Treasury's Finance Department, headed from 1919 to 1922 by Basil Blackett. The Finance Department was responsible, in conjunction with the Boards of Inland Revenue and Customs and Excise, for estimating revenue in the coming financial year, and therefore for the level of central government expenditure that could be afforded within a balanced budget at given rates of taxation...The Finance Department was also responsible for the management of the National Debt and for banking and currency, but relied heavily on the technical skills of the Bank of England in carrying out these responsibilities.

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21 Since the 1860s, the annual estimates of all central government had to be submitted to the Treasury for approval before being presented to Parliament. Moreover, the Chancellor of the Exchequer, in his budget, was required to make a statement of account to Parliament that the funds had been spent on the purposes for which Parliament had voted them (Daunton 2002, 18-19).

22 In August 1919 the Cabinet agreed not to discuss proposals from departments involving expenditure until the Treasury had had the chance to study and criticize them. If the Treasury opposed a proposal, the spending department concerned had to notify the Treasury that an appeal to the Cabinet was pending.

23 For a detailed account of the reform: Peden (1983a, 376). For the relationship between treasury officials and the various ministers: Peden (2000, 132-140).

> Collectively the Treasury and the Bank of England were known as the "monetary authorities." (Peden 1993, 226)

In sum, financial authority was a prerogative of the Treasury. Daunton (2002) specified that the Treasury had enormous fiscal power even compared to other nations. In comparison to the USA, for example, no external intrusion from lobbies occurred, as "the annual budget is drawn up in conditions of secrecy by the leading officials of the Treasury and revenue departments, in consultation with the chancellor of the Exchequer and his junior ministers" (18) Daunton continued, "British officials have immense authority compared with their American counterparts who lack such a high level of continuity both in terms of personal career and identity with a departmental ethos which went back to the creation of the Gladstonian fiscal constitution" (18).The Treasury also had monetary authority, which it shared with the Bank of England (Peden 2004, 6). In fact, until 1921 the Treasury controlled the Bank rate.[24]

Clearly, the actual policy impact was the outcome of political debates and bargaining between departments. Nonetheless, many case studies of the 1920s show how the Treasury *did* have enormous impact in the overall line of financial and monetary policy, especially with regard to constraints on social reform (housing and education) and unemployment works.[25]

The historical facts of the austerity measures constitute indispensable background for this study. Yet I am primarily interested in reconstructing the ideological drive behind these policies. In this sense the words of Churchill, the chancellor who held the longest position during the interwar years (from 1924 to 1929) are very telling. He referred to the power of the Treasury's advice as "based upon knowledge and on systematized and organized currents of opinion,"(368 HC Deb.,

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24 Until 1921, the Bank of England was still dependant on the Treasury's cooperation for rising the bank rate. Hawson specifies: "During the period of cheap money the important rate of interest in the money market was the Treasury bill tap rate. During the war and until April 1921 Treasury bills were on sale only on tap. Bank rate was ineffective, because if the Bank tried to raise market rates above the Treasury bill rate by open-market sales of securities, the banks could run off their large Treasury bill holdings, forcing the government to borrow on Ways and Means from the Bank", (Howson 1975, 10).

25 An especially important case study is Peden (1993) in which the author shows how there were important alternative strategies to austerity (discussed at Gairloch with L. George) that were drastically blocked by the Treasury dictats. On the Treasury's strong impact on monetary policy see Howson (1974). Peden (1983a,380-82), also speaks of Treasury's "encroachment on the preserves of hitherto fiercely independent departments," such as the Ministry of Labour, in which investigators were limited. See Lowe (1974)

5s, 1940-1, col. 258). It is exactly the nature of such doctrine that I would like to investigate in greater detail.

The voices of the Treasury's doctrine are embodied in the words of the "select group of senior officials" (Clarke 1988, 29) who were the official advisors of the Chancellor of the Exchequer (Peden 2000, 17). As the Permanent Secretary was the confident of the prime minister, the Controller of Finance held a crucial post for advising the Chancellor on all financial matters.[26] These few senior officials had a forceful influence on policy. In constructing the well-grounded Treasury view, they were much more influential than the Chancellor himself, who was usually in office for a very short period and was rarely a financial expert (Peden 2000, 137). Their notes while in office will be the basis of my theoretical analysis.

III. A Refined Entrenched Tradition

The Treasury's rationale was based on a longstanding socio-political tradition. The Victorian and Edwardian legacy founded the Gladstonian rules of public finance, including the balanced budget convention. Indeed, the main aim of the Victorian budgetary policy was to balance the annual accounts of the central government at the lowest possible figure. In line with laissez-faire policies, the market economy was the considered best way of allocating goods and services and the best means of matching labor and jobs.[27]

Traditionally very austere, the Treasury's view was nonetheless refined and gained even greater theoretical sturdiness when challenges arose, especially during the First World War. Treasury officials had to face radical proposals for wealth redistribution and a social role of the State,

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26 From 1919 to 1922, Basil Blackett was Controller of Finance, then from 1922 to 1927 Sir Otto Niemeyer, followed by Sir Richard Hopkins. Niemeyer had been deputy controller from 1920-1922. He was succeeded by Leith-Ross, who held the position until 1932. For a concise biography of Blackett, Niemeyer, Hopkins, Leith-Ross see Hawson and Whinch (1977 Appendix 2, 371-381); Peden (2004, 351-356).

27 Daunton (2002, Ch 1-3) speaks about a "Gladstonian fiscal constitution". On the Victorian Legacy, see also Peden (1985, 1-12).

coming in particular from Fabian ideas[28] such as the capital levy,[29] from the Labour party,[30] and new liberalism.[31] Social demands mirrored the emerging disruption of pre-war elitist *status quo*. Skidelsky illustrates this point:

> The war had also brought about a considerable change in social attitudes and class relations, which worked against any easy return to pre-war conditions. It had weakened the hold of Puritanism in all classes, and of deference in the working class. The middle and upper classes found it more and more difficult to get servants after the war. It had greatly strengthened the position of the trade unions in industry, and of the labour movement in politics. Capitalism and bourgeois rule were both felt to be under threat. Finally the war, precisely because it had produced an active state, greatly strengthened the disposition to look to the state to improve economic conditions, especially on the part of the left. The Treasury View was thus designed as a defense not just against 'abnormal' wartime expedients, but against new and disturbing pressures arising from the social system. But in this last function lay a great difficulty. War might be merely an unpleasant interlude, but democracy and powerful trade unions could not be got rid of so easily. 'Normalcy' now included

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28 On the Fabian movement: Cole (1943).

29 *How to Pay for the War* was written by Sidney Webb and published by the Fabian research department in 1916. The pamphlet gave shape to the demand of the "conscription of riches" and incorporated the capital levy in a bold program of socialist advance. "As such, it marked a major advance in the theoretical and programmatic sophistication of the labour movement," (Cronin 1991, 63). The program involved the expansion of the activities of the post office and the extension of public ownership into new fields such as railway, coal and insurance that would generate greater public revenue which was needed to meet the enlarged post-war budget. The claim for capital levy had an appeal in a large constituency, also of new liberals. See Cronin (1991, Ch. 4); Snowden (1920) and Webb (1916). Beatrice Webb was theoretically and politically involved in imagining the state as an active agent for social transformation. She was part of the 1918 Haldane Committee on the Machinery of Government under the Ministry of Reconstruction. See Parliamentary papers (1918). For an extensive account of the Webb's progressive social thought and political action see Radice (1984).

30 On Labour see: Ross Mckibbing (1974); Cronin(1991, Ch. 3-7), and Wrigley (1993).

31 On new liberalism see Freeden (1978).

features which had not existed or existed to the same degree, in 1913. (Skidelsky 1983, 168)

Hence one can argue that, grounded in ancient roots,[32] the "Treasury view" was definitely a refined and strengthened doctrine, embedded in the specificities of the post-war decade: it had to confront unprecedented political and theoretical challenges, which surely informed its theoretical changes. Skidelsky agrees when he writes: "The Treasury view, like conservatism, became identifiable as such only when it began to be contested," (Skidelsky 1988, 167). The next section will show this dialectical refinement by analyzing the formation and the content of the "Treasury view." Starting in the mid 1920s, a main point of theoretical contestation was represented by an ex-member of the Treasury: J.M. Keynes. Many books have been written on the subject (to cite a few: Peden 2004, Clarke 1988, Skidelsky 1995, Middleton 1985); I will leave the matter as background.

IV. The Treasury View

The "Treasury view" is unusual in being an economic theory associated with a government department rather than a professional economist (Peden 1996, 69). It is commonly understood as the Treasury's theoretical argument against the expansionary proposals to combat unemployment of the 1920s. The first occasion for the formulation of the Treasury occurred when the 1920-21 deflationist policies and economic crisis brought about large-scale unemployment (two million were unemployed in 1921).[33] When unemployment rose drastically, the means of providing jobs, such as the relief works organized by local authorities including the

32 Churchill's words stress the point, "The classical doctrines of economics have for nearly a century found their citadels in the Treasury and the Bank of England. In their pristine vigor, these doctrines comprise among others the following tenets: Free imports, irrespective of what other countries may do and heedless of the consequences to any particular native industry or interest. Ruthless direct taxation for the repayment of debt without regard to the effects of such taxation upon individuals or their enterprise or initiative. Rigorous economy in all forms of expenditure whether social or military- Stern assertion of the rights of the creditor, national or private, and full and effectual discharge of all liabilities. Profound distrust of State-stimulated industry in all its forms, or of State borrowing for the purpose of creating employment. Absolute reliance upon private enterprise, unfettered and unfavoured by the State," Churchill (1932,176).

33 Between July 1920 and July 1921 unemployment among trade union members shot from 1 percent to 23.1 percent (Tooze 2014, 359-360).

Development Fund and the Road Fund, did not differ much from the Edwardian period.[34] Many policymakers questioned the utility of such orthodoxy. L. George set up a cabinet committee on unemployment under Sir Hilton Young to consider counter-measures. Undoubtedly an important motive for action was fear of political and social unrest, as a significant Minute from the Treasury documents.[35]

In October 1921, the committee drafted proposals for state assistance to keep as many workers as possible in their existing occupations. Their recommendation was for the Treasury to guarantee sinking funds on loans raised by local authorities, public utilities and private enterprises for capital works that would be of 'ultimate benefit' to the community and provide employment, the money to be raised by non-inflationary borrowing from the non-bank public."[36].

The Finance Department of the Treasury was thrown into the defensive by these proposals. Sir Otto Niemeyer is known as one of the principal architects of the Treasury view. In his draft for the Chancellor of the Exchequer he wrote: "Government spending cannot permanently increase employment. If the spending were properly funded, i.e. covered by taxation or by genuine borrowing, it would merely diminish private spending and thus decrease employment elsewhere." (T 172/1208, in Skidelsky 1981, 171).

The core economic idea rested on the assumption that all capital and labor resources were fully utilized in the market economy: "There was a fixed and fully employed lump of capital in existence at any given time, such that increases in any direction implied diversion from 'normal' channels" (Winch 1969, 110-112). The assumption on the nature of savings was crucial: private savings were the sole and *direct* basis of investment.[37]

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34 See Peden (2000), Fraser (2003 Ch. 6 and 8) and Harris (1972).

35 "There is no doubt that the situation in regard to unemployment is grave, especially in view of the activities of the Communist Party...When the Cabinet Committee last considered the matter they were concerned to take steps to prevent the Communists from exploiting the hungry man," (Treasury Minute, 1921, T.172/1208). In Skidelsky (1981, 170).

36 See Peden (2000,180). For a full account:"Draft proposal of Commander's Hilton Young committee,"(2 October 1921, T 172/ 1208).

37 Until 1924, Keynes himself thought in terms of a "pre-Keynesian theory of investment": When starting work on his *Treatise on Money*, Keynes states: "A supply of new capital can only come into existence in so far as those who have claims on the community's flow of income are willing to defer their claims, i.e. out of savings. The expenditure, on the production of fixed capital, of public money which has been

It followed that any government expenditure, which would borrow money in order to invest, could either be inflationary or diversionary. The two consequences varied according to where the borrowed money came from. If the government had to create new money, without a "natural" increase of demand to justify it, a wage-price inflationary spiral would be inevitable. Alternatively the government could decide to raise an investment loan by borrowing from existing private savings (what Niemeyer calls "genuine savings"), but this would dramatically divert funds from private enterprise, that is, from the only source of real wealth.

This economic rationale remained intact throughout all the 1920s and was tenaciously reasserted in the event of the most famous attack to the Treasury's economic policy: the 1928 Yellow Book of the Liberal electoral program, which Keynes helped draft. It advised a scheme of loan-financed public works for a reduction of unemployment to "normal proportions within a year." From the Public Record 172/2095, it appears that Treasury officials were very keen in confronting controversies that arose as a result of Keynes' critical articles, especially in order to convince the doubtful Chancellor of The Exchequer Churchill of the objectivity of the orthodox doctrine that had to be followed.[38] Their arguments were surely influential since it was exactly Churchill's Budget speech of 15 April 1929 that provided the most clear-cut statement of the crowding out argument: "The orthodox Treasury view is that…when the government borrows in the money market, it becomes a new competitor with industry and engrosses to itself resources which would otherwise have been employed by private enterprise, and in the process raises the rent of money to all that have need of it," (227 House of Commons Debates, 5s,1928-29, in Peden 2004, 57). The central idea persisted: any additional expenditures must be at the expense of already existing economic activity, unless it is inflationary.

Now that their policies were challenged, rather than be assumed implicitly, Treasury officials explicitly stated that there is no evidence that savings *do* exceed investments. Leith-Ross repeated this idea in his notes. For example, on 9 August 1928, in a note to Churchill in response to Keynes' article in the Evening Standard of 31 July 1928:

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raised by borrowing, can do nothing of itself to improve matters; and it may do actual harm if it diverts existing working capital away from the production of goods...". (Keynes, 1971, XIII, 19-23). For an account of the evolution of Keynes' ideas see Moggridge (1976) and Howson (1973).

38 The frankest and most spelled out crowding out argument is by F-W Leith-Ross (3d April 1929, T 172/2095, in Peden (2004, 80-81).

> Now it seems to me definitely untrue to say that we have "more savings than we are using at home" On the contrary, we have, during the past three years, lived to a great extent on borrowings from abroad. The amounts we have invested in new foreign loans in recent years are certainly less than our regular income from past lendings: and there is every reason to believe that we have in recent years greatly increased our short-term indebtedness to foreign countries. Moreover what we invest in foreign loans must sooner or later be exported, and insofar as it is sunk in development schemes from the empire, is probably exported all at once in the form of capital goods. In these circumstances, it is really absurd to suggest that we have savings which are available and are not being used. (T 172/2095, fol. 15, in Peden 2004, 65)

The Treasury Memoranda for Unemployment (15 April 1929) represented the official governmental reply to the Liberal program.[39] Arguments against public works were also of a practical kind: government loans would diminish the confidence of private investors who would

39 House of Commons, *Memoranda on Certain Proposals Relating to Unemployment*, May 1929, His Majesty's Stationery Office. There is debate amongst scholars over the degree by which in this document the position of the Treasury is theoretically weaker. In fact, the financial memorandum stated that: "In the circumstance of that year a very large proportion of any additional government borrowings for public works could only be procured, without inflation, by diverting money which would otherwise have been used 'soon' by private industry, and that therefore the net addition to employment resulting from the Liberal scheme would not be large." Peden (2004) and Skidelsky (1981) show that, by 1929, the Treasury did admit that money accumulated in time deposit banks represent "a slackening in the circulation of money." However, the idea was that, if not all savings were invested, they were still not to be considered as technically "idle" and thus were not available for Government borrowing. In his detailed study, Clarke disagrees that by 1929-1930 the Treasury view had changed in any fundamental way. He argues that documentation shows how the crowing out argument proved to be a very resilient principle that had enormous impact on policy until the war (Clarke 1988, 154).

withdraw money from the county.[40] Also, they were difficult to implement and experience had shown how they would be largely ineffectual and wasteful.[41]

Undeniably, the Treasury view shows influence by economic theory: it is Hawtrey's 1925 article in *Economica* that was considered the theoretical basis of the Treasury view.[42] It is very important to keep in mind that officials were generalists; they received very little formal instruction in economics. Most Treasury officials had studied humanities at Oxford and Cambridge, and the

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40 In "National debt and state borrowing: a Note prepared by the Treasury, July 1930,": "It is a matter for serious reflection whether, if a great Government loan had to be raised in such circumstances...many investors would not come to the view that this country was a bad country in which to invest; there might arise something in the nature of a flight from the pound with all its serious reactions upon the exchange, upon short-term money rates in this country and upon the prospects of a trade revival," (Skidelsky 1981, 182).

41 In 1932, Hopkins states, «My own belief is that the answer to this [controversy on over-saving or under-saving] is purely empiric but quite conclusive. We have tried this policy [of public works] pretty vigorously for a period of ten years or more. We have at all times found it hedged round with practical limitations. Schemes that can be put in hand at once are small and unprofitable. The difficulties of moving labour to the proper point and housing it there are extremely great. With an immense expenditure both of money and of labour, and never at the speed which was intrinsically desired, we have now managed to do pretty nearly everything that was worth doing, and in the process we have never succeeded in touching more than the fringe of the problem of unemployment then existing. Rightly or wrongly, the borrowing of large sums for public work has come to depress the community as being a wasteful process. It has never done any visible of calculable good, and it certainly could not at the present time make any but the most negligible impression upon the figures of unemployment with which we are contending," (PRO: T 175/17. 14 March. 1933).

42 A proof being that on the 2nd of March 1929, Grigg (Churchill's private secretary) sent Churchill a copy of Hawtrey's article to prove that "relief works were an absolute delusion unless they were accompanied by an expansion of banking credit, which would relieve unemployment without any intervening relief schemes," (T 172/2095). Hawtrey envisaged unemployment as a monetary phenomenon that could be solved only through monetary means. Hawtrey's economic theory did not completely preclude the possibility, in exceptional circumstances, of the use of loan-financed public works in order to increase demand for labour. However, the author concluded that it was quite useless as a counter-cyclical measure since the creation of credit alone would be equally effective to create unemployment. For a detailed account of Hawtrey's theory concerning unemployment see article in file with the author, "The eyes of the Treasury View" Ralph Hawtrey and British Austerity 1919-1929".

civil service examination was a test of intellectual ability rather than administrative competence.[43] For the whole post-war decade, the in-house economist Ralph Hawtrey was the main point of reference for theoretical knowledge.[44] Nonetheless, Peden (1996, 71) makes a very important comment: it is logically wrong to say that the Treasury sustained the Treasury view *because* of Hawtrey's article. It indeed becomes clear that the Treasury view encompasses various levels of assumptions at different degrees of complexity. Economic principles intermingle with practical, political and moral beliefs.

In order to recognize the holistic nature of this doctrine, and especially the affinity with preset-day discourse, the outlook of research must be broadened.[45] It is necessary to overcome the idea of the Treasury view as comprising only the crowding out argument, and expand upon the underlying assumptions that ground the austerity doctrine. The Treasury officials consider it as a system of truth, so obvious to be "unanswerable" and should the government object, it would be liable of entering into a gamble "which is nothing but a council of despair," (Leith-Ross, 3 April 1929, T 172/2095).

I will examine these conceptual components separately, keeping in mind that they are closely knit together. I identify them as: 1) Idealization of the free market 2) Skepticism of the role of the state in economics (retrenchment of the State), in particular the refusal of its social and welfare

43 Latin, Greek and mathematics were the subjects with the greatest weight in the higher civil servant examinations (Peden 2000, 19). For a contemporary reader, the "Treasury view" may show points of convergence with the Wicksellian marginalist framework. However, Treasury papers never refer to Knut Wicksell or to the works of other marginalist economists. The Treasury papers reveal that Ralph Hawtrey was the theoretical point of reference for senior officials. A self-taught economist that achieved international academic stance, Hawtrey himself only cites Fisher in his influential *Good and Bad Trade* and *Currency and Credit*. .

44 Hawtrey had been Treasury official since 1904. From 1919 to 1947 Ralph Hawtrey held the post of director of Financial Enquiries and had great influence in setting the economic concerns of the Treasury. For a detailed account of Hawtrey's doctrine and his influential role at the British Treasury, "The eyes of the Treasury View: Ralph Hawtrey and British Austerity 1919-1929", on file with author.

45 Bridel (2014) brilliantly demonstrates that the crowding out argument, with the exclusion of government interventions to smoothen the cycle, is repeated in the logic of current DSGE models, especially in the Chicago Cannon-Cochrane-Fama (CCF) model, which was very influential in the 2008-2009 debate. This paper shows that affinities with present public and academic discourse are detectable in economic and moral beliefs that are more extensive than the crowding out argument. I choose not to explicitly state parallels with the present, rather to leave the comparison to the sensibility of the reader.

function, 3) Policy of fiscal and monetary rigor 4) The virtue of savings. This analysis is conducted by considering the Treasury's archival records of the most important senior officials (reprinted in Peden 2004). I look, in particular, at the voices of Sir Frederick Leith-Ross and Sir Otto Niemeyer, who have proven to better express the common austerity doctrine.

IVA. Idealization of the Free Market

The Treasury records indicate that officials had a very optimistic view on unemployment and the economic crisis in general. Their diagnosis resembled the following: unemployment is a temporary phenomenon caused by higher real wages than the competitive level. Unemployment is not a structural flaw of the market economy, but rather the result of inefficient behavior of some of its agents, the guilty parties. The theoretical assumption was that monetary wages would be flexible downward as prices fell and that workers would price themselves into jobs.[46] Nonetheless, Treasury officials recognized that economic agents of the postwar years acted against sound economics: wage deflation[47] did not follow general price deflation because of the obstructionism of the unionized and politicized working class. In Leith-Ross's note to Sir Richard Hopkins:

> There is after all a great deal of humbug in the sudden outcry that unemployment is running the morale of the people and that, at all cost, it must be ended. The remedy is easy enough to find. If our workmen were prepared to accept a reduction of 10 percent in their wages or increase their efficiency in 10%, a large proportion of our present unemployment could be overcome But in fact, organized labour is so attached to the maintenance of the present standard of wages and hours of labour that they would prefer that

46 Skidelsky and Peden show that Treasury's orthodox adherents believed in the automatic equilibrating force of deflation also of labor prices. Keynes' first criticisms of the Treasury are against this view. See Skidelsky (1981, 178-180).

47 "Traditional quantity theorists who regard the price level as a purely monetary phenomenon, determined by the quantity of money in circulation, use the word deflation both in the sense of a fall in prices and money incomes and of a reduction in the money supply, since the latter would cause the former. Some quantity theorists, for example Hawtrey, would include in the term "monetary deflation" a reduction in the volume of bank credit: the modern monetarists use the term to describe a reduction in the money supply or its rate of growth. The Treasury knights of the 1920s used 'deflation' in the traditional quantity theory senses,"(Hawson 1975, 32).

> a million workers should remain in idleness and be maintained permanently out of the Employment Fund, than accept any sacrifice...until labour is prepared to contribute in larger measure to the process of reconstruction, there will inevitably be unemployment, (3 April 1929, T 172/2095, in Peden 2004, 83).

It was the high costs of production (both in their labour and capital components) that were the true cause of the British economic crisis. Deflationist reforms were necessary in order to re-conquer the leading international economic position as exporter. However, the successful recipe in the long-run was higher efficiency in labor and industry.[48] In the same note, Leith-Ross is clear:

> The main trouble with our industrial situation at the present time is that our costs of production are not yet at a fully competitive level. This is admitted by all economists, however much they may differ with regards to the remedies. Only last year Keynes wrote that "the fundamental blunder of the Bank of England has been due to their belief, that if they looked after the deflation of prices, the deflation of costs would look after itself." If this diagnosis is correct, what we have to do is to reduce costs by improving the organization of our industries, the efficiency of management and the output of labour. Anything that tends artificially to expand the volume of internal expenditure at the wrong price level merely makes matters worse by encouraging British capital and labour to continue content with their existing defects instead of seeking a remedy. What we have to do is to increase exports and reduce imports, whereas any program of increased expenditure at home must have the effect of stimulating imports and discouraging exports. The government may perhaps be criticized for having gone too far already, through the lax administration of unemployment benefit, in supporting an uneconomic level of costs. (*Ivi*, 82-83)[49]

48 In Leith-Ross' words: "What we must aim at is a cautious credit policy, a bold industrial concentration policy, and a reduction, as and when possible, of the labour costs. Though the situation still looks gloomy we will be nearer to the end of our troubles than appears on the surface". Note of Leith-Ross (9 August 1928, T172/2095, fol 15, in Peden 2004, 67).

49 See also T 176/5, Niemeyer Memorandum on Deflation, no date but position in file dates 1921.

The last part of this dense statement brings about the second conceptual building block of the Treasury's austerity doctrine: the refusal of an active economic role to be held by the state.

IVB. Skepticism of the Role of the State

Public works and social welfare policies were invoked to solve the economic crises, but they were in truth a chimera: they supported the uneconomic state of the British economic structure. Expansion of internal demand caused price inflation and a deficit in the balance of payments. An artificial domestic boom hampered any long-term recovery, as a rise in consumption diminished private savings, the only source of capital for investment. Leith-Ross wrote:

> The result of high labour costs and social services is to encourage consumption and reduce savings so that the margin of capital available for production and development schemes tends to be inadequate...there might in theory be something to be said for taxing wages or articles of prime necessity such as food, with a view to restricting consumption, and using the proceeds for development schemes. (Leith-Ross, 9 August 1928, T 172/2095, Fos 24-28, in Peden 2004, 65-66).

Another reason why a boost of the domestic economy by governmental credit expansion was considered myopic is the connection between fiscal policy and monetary policy, which I will explore below. The gold standard was favored as a drastic check on expansion of credit and thus on public expenditures. This is clear in Leith-Ross's words that predict what will happen after a brief boom due to domestic credit expansion:

> But, in fact, the process would be very short lived. With sterling hovering around the gold export point, any expansion of credit here and any increase in the flow of money to America, would put the exchange definitely wrong and force out gold...the Bank would have to protect itself by raising its rate of discount and would have to keep it up till the expansion of credit (and improvement of industry) that had occurred, had been nullified. We should therefore be precisely where we were, except that we should have lost more gold (T172/2095), Peden 2004,73).

IVC. Fiscal and Monetary Austerity

The two primary and parallel aims of the Treasury's post war economic policies were to balance the budget and restore the "automatic gold standard." The relationship between the two was reciprocal: "Restoring a stable currency required the elimination of inflationary government spending; the restored gold standard in turn would automatically prevent inflationary government spending," (Leith-Ross, 9 August 1928, T 172/2095, in Peden 2004, 65-66).

The doctrinal point of reference was surely the 1918 Report of the "Committee on Currency and Foreign Exchanges after the War" (known as the Cunliffe report). Lord Cunliffe (chair and Governor of the bank of England), Professor Arthur Cecil Pigou and the Joint Permanent Secretary of the to the Treasury John Bradbury formed the commission; the latter was surely a very influential member. The constituency of the committee proved that the austerity doctrine was not favored only by Treasury officials: it was endorsed by the wider ruling class of industrialists, bankers and professors. The theoretical framework of this report echoes that of the Treasury records of those years: their recommendations represented a long-sighted and impartial perspective. It was scientific expertise that endorsed true economic principles that had to be put into practice.

The "sound" economic measures of monetary and financial rigor were of "vital necessity for the financial stability and well being of the country," (First Interim Report 1918, 1). As they enhanced the self-righting forces of the market economy: "If economic forces were allowed free play they would undoubtedly be employed for purposes of the most pressing economic necessity." The re-enactment of the gold standard would put into action the automatic international equilibrating mechanism that would assure a stable exchange rate, a stable balance of trade, and thus the flourishing of the real economy.[50] Bradbury agreed with the rest of the committee that dearer money (limitation of the note issue) was necessary to restore the gold standard at prewar par.[51]

50 See Committee of Currency and Foreign exchanges after the war, First interim Report, 1918, par 4 p. 1.

51 See T. 185/1, Cunliffe committee minutes, 95.Hawson (1975) well documents that both the Treasury's and The Bank of England's aim was a return to the gold standard. The contention that arose between the two in 1920-1923, Hawson explains, was about means, not ends. She writes: "The disagreement was over the methods of achieving an agreed end. When opposing any Bank rate increase in 1923 on the grounds that it might well increase unemployment, Niemeyer pointed out that the agreed gold standard policy did not at that time necessitate a rise in Bank rate since a rise in American prices, which he suggested

If the re-establishment of the gold standard was deemed the 'essential prerequisite' for economic reconstruction, the 'first and essential steps' in achieving this goal were to balance national budgets by contraction of expenses rather than by increase in taxation, to stop inflation by ceasing to cover budget deficits by recourse to paper money, and to cease borrowing for "unproductive" purposes. Financial retrenchment had to be radical: "It is essential that as soon as possible the Government should not only live within its income but should begin to reduce its indebtedness," (First Interim Report 1918, par 17, 6). The priority was thus a sinking fund to be provided out of revenue:

> We should remark that it is of the utmost importance that such repayment of debt should not be offset by fresh borrowings for capital expenditure. We are aware that immediately after the war there will be strong pressure for capital expenditure by the state in many forms for reconstruction purposes. But it is essential to the restoration of an effective gold standard that the money for such expenditure should not be provided by the creation of new credit, and that, in so far as that expenditure is undertaken at all, it should be undertaken with great caution. The necessity of providing for our indispensable supplies of foods and raw material from abroad and for areas of repairs to manufacturing plants and the transport system at home will limit the savings available for new capital expenditure for a considerable period. This caution is particularly applicable for far-reaching programs of housing and other development schemes. (*Ibidem*)

The quote is crystal clear: even if reconstruction and social programs would become necessities, these had to be sacrificed in the name of economic normalization.

Still seven years later, the ideas put forth by Treasury officials[52] mimicked those of the Cunliffe Committee. In 1925, the most prominent senior officials were called upon to advise the dubious

might perhaps be assisted by gold shipments from the Bank to the U.S.A., might bring the exchanges to par," (Hawson 1975, 36). See also T 176/13, Niemeyer to Norman 23 June 1923.

52 Niemeyer, Norman, Bradbury and Hawtrey write many notes to give motivations in favor of returning to a gold standard. See Treasury file, T 172/1499b, reprinted, in part, in Peden (2004) ch.1. Once more, it is monetary orthodoxy that is considered a primary instrument to overcome the economic crisis.52 Hawtrey writes: "The injurious effects of unstable exchanges on international trade in the past years is

Chancellor Churchill about the return to a pegged currency on gold. On such occasions, Ralph Hawtrey made clear that the gold-based pound sterling was crucial for the safeguard of the hegemonic role of Britain as the world financial center.[53]

In the reports, Treasury Officials gave various reasons for the propitious timing for a return to gold (higher prices in the US, good state of the economy etc), Sir Otto Niemeyer also put forth an argument based on economic expectations:

> So great is the expectation of a return that a decision to continue the export prohibition would not be a continuation of the present state but would start us immediately in the opposite direction to that in which we are now travelling...the immediate consequence would be a considerable withdrawal of balances and investment (both foreign and British) from London; a heavy drop in Exchange; and, to counteract that tendency, a substantial increase in bank rate. We might very easily thus reap all the disadvantages which some fear from a return to gold without any of the advantages. (T 175/9 2 February 1925, in Peden (2004), 27-28)

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generally recognized...exchange stability cannot be obtained at present by any other method than the gold standard. R. Hawtrey," "The gold Standard," T 172/1499b, 2 February 1925).

53 For Hawtrey the injuries effect of unstable foreign exchange on trade" is particularly valid for countries like Great Britain that are great financial centers, that is, that acquire "the special force of financial strength" by being a short term lender to its neighbors. Since stability of exchanges is attainable only with gold, England's pre-war financial power can be restored only through the gold standard. Hawtrey was explicit: "Before the war, it was the special function of London and the special source of its financial strength, not only imports to England, but imports to all other countries all over the world, were financed by bills drawn on London, which were sold in the London discount market. That business has shrunk very seriously and the reason is that foreign traders cannot assume sterling liabilities without running an exchange risk...the prewar system cannot revive unless the exchange risk is eliminated by a stabilization of the exchanges" (T208/54). And again, in another memo called "the gold standard and the balance of payments" 3/2/25: "The exchange standard presupposes the existence of financial centers (which under the scheme would be free gold markets) and it is certain that there will be one and only one [London] financial center of the first rank". (T208/24)

It must be stressed that, notwithstanding the importance of debt reduction for monetary stabilization, repayment of debt was an objective in itself. The latter was considered a fundamental scheme to boost the economy since it rewarded the virtuous agents of society: savers. Moreover, the Treasury's austerity doctrine clearly implied a notion of what today we call contractionary expansion: during a recession, a balanced budget was supposed to ease the recovery by freeing resources for private investments, thus strengthening the private sector's confidence.

Hence, financial austerity stood on its own right, on par with monetary orthodoxy. Proof comes also from the fact that, traditionally, together with free trade, the balanced budget and gold standard were two distinct but united pillars of the Gladstonian convention.

IVD. Of Virtuosity of Savings and Purity of the Economic Expert

In 1923, Niemeyer stated that, besides currency stabilization, "The only permanent remedy to recreate the losses of war" is to "encourage thrift and the accumulation of capital in industry...especially by repaying debt and by encouraging a belief that currency will not lose value. Other methods may give for a year or so a hectic prosperity...but it won't give a permanent cure," (Sir Otto Niemeyer, T 172/ 1499B, in Peden 1983). His words put forth a key austere idea: budgetary and monetary stabilization safeguard the interests of citizens who undergo thrift and thus save. Saving had a crucial economic role to play on account of its deflationist impact on prices, as well as its being conducive to new capital formation, and, from there, expanded production and economic progress. Only through savings could an economy optimally function. For this reason, safeguards and incentives to save had to be the central goal of wise economic policy. Servicing the debt would propel savings on two fronts. Regarding the common individual: "Taxation...will certainly have resulted in some enforced saving which would not have been effected if the individual taxpayer had been free to spend his money as he liked," (T.172/1272, Blackett "Budgeting for a deficit", 24 March 1922). But most importantly, it would benefit the saving-inclined portion of society: "When debt is repaid out of money collected by taxation from the citizens at large it is used to pay off loan holders, that is the portion of the community that is more inclined to save than the rest and the tendency will be for the investor who is paid off to reinvest his money in other securities." (T 172/1208)

Leith-Ross argued that the lack of savings in the British economy must also be tackled with drastic cuts in public and private consumption:

> The result of our high labour costs and social services is to encourage consumption and reduce savings so that the margin of capital available for production and development schemes tends to be inadequate. All that Keynes' policy would achieve would be the transference of labour and capital from exports of internal development works. It would tend, therefore, to increase imports and restrict exports-about the last thing that we want. There might in theory be something to be said for taxing wages or articles of prime necessity such as food, with a view to restricting consumption, using the proceeds for development schemes; but there is no point whatever in trying to finance such schemes by diverting our inadequate capital resources from economic to uneconomic schemes of development. (Leith-Ross 9 August 1928, T 172/2095, in Clarke 1988, 50)[54]

From 1924 onwards Treasury officials clung to this view even if Keynes challenged their assumptions on the nature and function of savings. For Keynes, at levels of less than full employment, it was not savings that determined investment but vice versa. Furthermore, idle savings were a real problem for the British economy.

In sum, the balanced budget, the gold standard and free trade were all means to secure the independent and "automatic" functioning of the market economy, the only scheme that accorded the reward to savings as the ultimate virtuous economic behavior.

This conceptual analysis based on Treasury memoranda calls for an observation of the consciousness of the senior officials regarding their professional mission. It is clear that they perceived themselves as technicians of society, the only professionals who held a long-term, scientifically correct view of how society should function and what its practical priorities should

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54 Concerning Niemeyer's position Peden writes: "Indeed, Niemeyer claimed, the best employment policy, apart from minimum assistance to prevent starvation, was for the state to reduce Its expenditure and to repay its debts. This claim rested on the assumption that, if the state reduced its expenditure and balanced its budget. it would cease to compete with the private sector for loanable funds, thereby encouraging private investment. It was established Treasury wisdom that taxation extracted money from the community in general, most of whom were not likely to save or invest, while debt repayment made money available to that part of the community which was likely to save and invest. Rather than relieve poor Law guardians of the costs of unemployment relief, Niemeyer preferred to see local rates rise. thereby supplementing the savings enforced by taxation," (Peden 1993, 241).

be. In this perspective, they operated above political interests to avoid waste and partisanship that was typical of the political sphere. A moral dimension to their economic purity is undeniable. To fully grasp the Treasury view as an austerity doctrine, these individuals' self-perception as *superpartes* moral ad technical guide must be kept in mind. The combination of a technical and moral understanding of the Treasury's role is identified by Peter Clarke:

> The Treasury and the Bank of England saw themselves as guardians of sound finance - a Gladstonian heritage which they invested with moral rectitude as well as economic rationality. Budgets had to be balanced; the parity of the pound sterling had to be maintained so that it was 'as good as gold': Free Trade had to be preserved. Only by elevating these interlocking policies into matters of principle could they be rendered knave-proof - that is, made safe from the meddling of opportunistic politicians and from short-sighted attempts to snatch illusory benefits. For sound finance depended on taking a long view and giving the market mechanisms time to adjust (Clarke 1988, 27).

It is scientific objectivity that imbued the austerity doctrine with moral virtue. In turn, moral virtue strengthened the doctrine's policy aims. Treasury officials thus felt wholly legitimized to put the austerity doctrine into practice.

Conclusion

This essay looks at the "Treasury View" as a historically-situated and multifaceted body of knowledge that should be recognized as an important forerunner of contemporary austerity. An analysis of the Treasury memoranda of the 1920s brought about a set of interconnected economic assumptions with different degrees of complexity: the idealization of the free market, the skepticism of the role of the State, monetary and fiscal austerity and the economic virtue of savings. These ideas are grounded in the Treasury officers' self-awareness as incorruptible guardians of a technical truth. This historical examination documents that the austerity doctrine incorporated and entailed practical actions: surely the political challenges in favour of economic redistribution and active unemployment policies invigorated the Treasury's doctrine, while fiscal and monetary austerity concretely shaped the British economic policies of the 1920s.

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