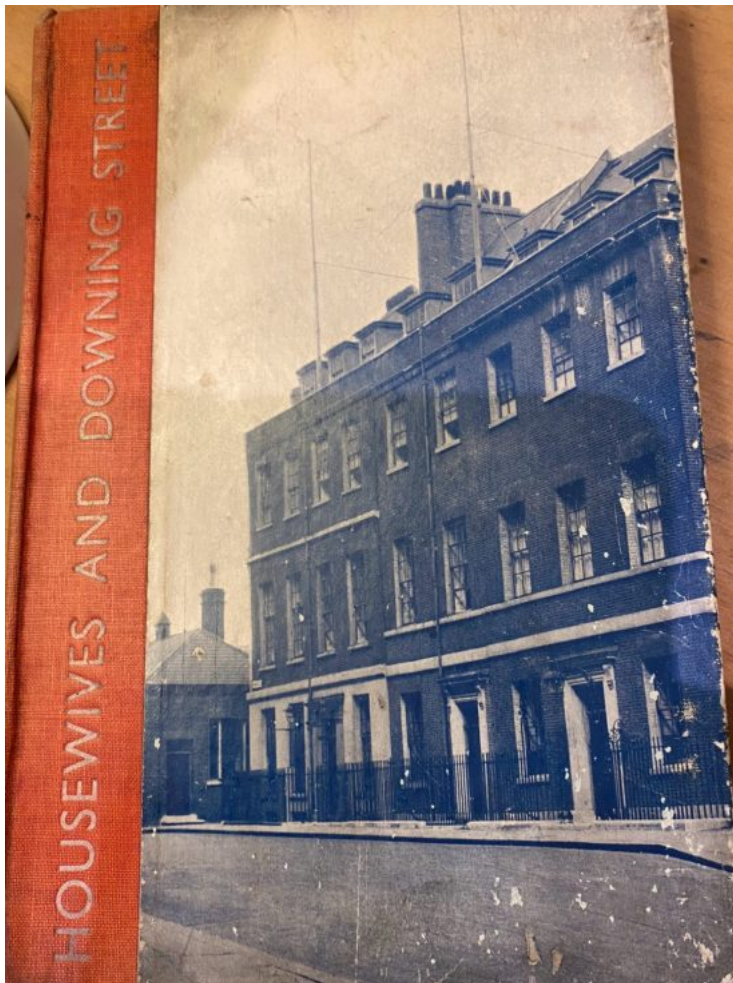


Funding the Future

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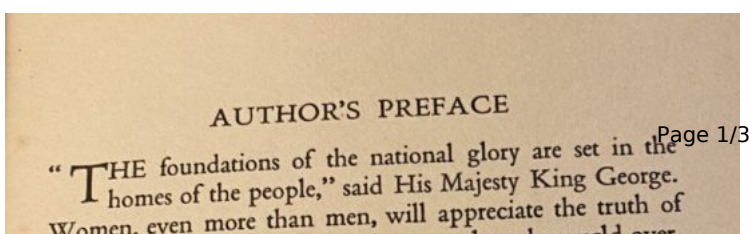
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On the recommendation of blog-reader Nigel Mace I acquired a copy of this book recently:



The book was published in 1935 to justify the actions of the then National Government whose policies had in fact delivered the Great Depression and the disaster of both disarmament and appeasement.

There is though, from a current perspective, something deeply significant about the book. This is the author's preface:



Note the reference to the term 'household'. Its relevance to the argument within the book is elaborated in the first chapter, from which I exert as follows (I can find no evidence that the book is still in copyright now):

HOUSEWIVES AND DOWNING STREET

CHAPTER I

WHY WE HAVE A NATIONAL GOVERNMENT

I

A WHOLE nation, if we look at it through the small end of a telescope, is just—a man and his wife.

Suppose the husband comes home and tells his wife that he is on the verge of ruin! He would be ruined indeed if she were to say, "Oh, nonsense! Let's forget about it, and go on as if nothing had happened." Fortunately for everyone, women do not say that sort of thing. It sometimes needs the threat of disaster to bring out the best that is in a woman, and since ruin for a man must mean ruin for his wife and family also, a woman can be trusted to face that sort of situation.

Her reply—if I know her as I think I do—would be, "Well, what can we do about it?" The husband has to make drastic economies on every hand in his business. The wife, on her part, has to "set to" and make sacrifices in their home. Small luxuries have to go; housekeeping bills, dress bills, even education bills, important though they are, have to be cut down. The family has to prepare to meet some lean years as courageously and cheerfully as possible.

I

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If the husband finds that, thanks to rigid economy, and to his methods of reorganisation, he has been saved from bankruptcy, that his family fortunes are once again on a sound financial basis, then the whole family has good reason to pat itself on the back.

Just such a situation as this had to be faced, not by one family, but by hundreds of thousands of families in this country in August 1931. Put in domestic terms, we, the national family, were spending far more than the head of the family was getting, and were drawing dangerously on our savings. The State, as a firm, was finding that its expenditure was far and away in excess of the firm's takings, and in order to keep business going, such inroads had been made, and were still being made, on capital that the firm's finances had got into a precarious position and the firm itself was faced with the prospect of closing down.

The finances of the country had been examined by a Commission under Sir George May. The Commission showed that if things continued in the way they were going, the country would find itself, in the years 1932-33, with bills to the amount of two hundred million pounds, and no money with which to pay them.

A country's budget, like a family budget, should have no bills left unpaid at the end of the year. Budgeting for a great country cannot be done as exactly as budgeting for a family and a household, and a little shortage in one year need not cause alarm. But the threatened shortage for the

The idea is quite specifically proposed that the government is akin to a household and must budget its affairs in a similar fashion. It should balance its books, and not borrow. That is the message.

And to some extent this was right at the time: the choice to be on the gold standard (because from 1925 until 1931 that was the choice made by successive Chancellors from Winston Churchill onwards) did mean that the UK government did have to constrain its spending to that which gold reserves permitted. And those gold reserves could be depleted by deficits.

But what is not said is that the imposition of this constraint was quite explicitly why use of the gold standard was chosen by those who wanted to limit the scope of government intervention in the economy or, alternatively, by those lacking the courage to be rid of it (which was the case with the failed Labour government to which the author refers). The change in the fortunes of the UK after 1931 was partly due to the abandonment of this constraint.

The book does not make this point. Its whole purpose is to reinforce the idea that government is a user of money, just like a household.

This need not have been true in 1931. It is emphatically untrue now. Our government is now the sole creator of sterling, albeit it licences private banks to share in that activity.

Despite this fact (for fact it is), both the Tories and Labour still promote economic policy as if the money supply is a matter over which they have no control. It is their suggestion that they must still run the economy as if it is that of a household when the reality is that it is their job to run the economy as if it is that of a country.

This book was promoted to promulgate what was already a lie at the time it was written - as the wartime economy that followed it so soon afterwards proved.

That lie is still being promulgated now by politicians from both Labour and the Tories who see it as their job when in office to reduce the impact and power of the state to undertake action on behalf of the people who elected them and the country who put them in office so that the people of this country are worse off than they need to be. And that is very depressing.