

Imperial Schemes: Empire and the Rise of the British Business-State, 1914–1939

Ian Kumekawa

Abstract

During and after World War I, British businessmen made major inroads in political, administrative, and policymaking circles. In so doing, they forged a nexus of power, the business-state, that aligned the interests of big business with the state's imperial aspirations. Well before the widespread acceptance of the concept of the national economy, there was a common understanding in London that what was good for British business, especially industry, was good for the economic health of the country and empire. The result was that after World War I, the state aggressively helped British commercial interests.

Keywords: business-government relations, networks, UK, imperialism

In 1920, an adviser to the British government called for loaning British heavy manufacturers several million pounds to establish themselves in foreign markets. "A few millions," W. L. Hitchens declared, "were neither here nor there in comparison with the risk we were running of being excluded from. . . [overseas] markets to the benefit of American and other competitors."¹ At a time of economic downturn, when factory workers earned £200 a year, Hitchens's tone was flippant. But the sentiment that he expressed was increasingly widespread among British industrialists and policy makers. In fact, for over a year, the state had been offering British firms millions of pounds to guarantee contracts overseas. Just months before, it had agreed to advance the Metropolitan Carriage, Wagon and Finance Company £600,000 to facilitate the sale of railway cars to the Czechoslovakian government. It authorized loaning arms maker Armstrong-Whitworth £750,000 to sell locomotives to Yugoslavia and motorboats to Chile. It guaranteed the Saunderson Tractor company half a million pounds "to get a British made tractor established in Poland."² Later, it would authorize advancing

1. DOT Advisory Committee, Minutes of 6th Meeting, April 2, 1919, BT 90/2, TNA.

2. Export Credits Committee, Minutes of 15th Meeting, December 20, 1920, ECG 1/1, TNA.

Cammell Laird, the company Hitchens himself ran, over a million pounds in guarantees for contracts to build steamships for foreign clients.³

Transactions like these effectively transformed the state into a trade bank and thrust it deep into the business operations of British industry. Made under the state's brand new "Export Credit Scheme," these loans and advances were unambiguously exercises in commercial imperialism. They relied on a global network of British industrialists, international arms dealers, and financiers. They were equally unambiguously the products of a rapidly growing British state, administered by friendly civil servants eager for the state to take a more active role in the British Empire's economic life. The Export Credit program was just one of many such schemes that administrators deployed to accomplish this goal. *Imperial Schemes* tells their story.

Such schemes emerged against a backdrop of crisis: World War I and its immediate aftermath. During the war, British industry strained to meet the daily needs of the war effort. War was a permanent emergency. To guarantee production of necessary war materiel, the British state collaborated, to an unprecedented degree, with private industry.⁴ At new the ministries of munitions and of supply, officials depended on the cooperation of factory and coal mine owners. The minister of munitions, David Lloyd George, filled his staff with a mix of industrialists and civil servants, a model that spread throughout government. The minister of food was a grocery store magnate; the minister of shipping, a shipping tycoon; the minister of transport, a railway man.⁵ With ministries and committees determining industrial policy filled with businessmen from the private sector, the line between public and private blurred. That line stayed blurry far after the end of the war as the wartime entanglements of state and private business proved remarkably durable.

In the early twentieth century, the size and scope of the British state grew to unprecedented levels.⁶ So too did the wealth and power of British business, especially heavy industry. These two developments were linked. During and after World War I, British businessmen made major inroads in political, administrative, and policymaking circles. In so doing, they forged a nexus of power that aligned the interests of big business with the state's geopolitical aspirations. No meaningful bright line separated business and state with regard to personnel, goals, or behavior. Industrialists and merchants were more than state contractors; they were key nodes of the state, and policymakers in their own right.⁷ The state proactively assisted business, often making use of techniques, personnel, and modes of thinking drawn from the corporate world. One result was what James Kwak has called the state's "cultural capture."⁸ The state was activist in its business-friendly interventions. This entailed large-scale growth of

3. Exports Credit Committee, Minutes of 115th and 174th Meetings, May 22, 1923, and March 17, 1925, ECG 1/2 and 1/4, TNA.

4. See Broadberry and Howlett, "United Kingdom during World War I"; Lloyd, *Experiments in State Control*. On the war's effect on labor, see Gregory, *Last Great War*, Chapter 6.

5. See Barnett, *British Food Policy*; Kumekawa, "Meat and Economic Expertise"; Salter, *Allied Shipping Control*.

6. See, for instance, Edgerton, *Rise and Fall of the British Nation*; Tomlinson, *Managing the Economy*.

7. Barreyre and Lemerrier, "Unexceptional State."

8. Kwak, "Cultural Capture and Financial Crisis."

the administrative state, effected by a dense imperial network of businessmen, financiers, and public servants: a network I term the business-state.

Imperial Schemes narrates state growth from the perspective of the business-state. It shows that expansion in both personnel and scope of operations was especially pronounced in areas related to economic activity. This was not macroeconomic management, as after World War II, but instead an earlier—though no less sweeping—engagement with finance, industry, and trade. Policy makers and unelected administrators demonstrated an increasing appetite for involving the state in the lives of its citizens, specifically by subsidizing and fostering British business. Well before the widespread acceptance of the concept of the national economy, there was a common understanding in London that what was good for British business, especially industry, was good for the economic health of the country. The result was that after World War I, the state aggressively helped British companies and commercial agricultural interests. As one key government report concluded, “if industry is to be extended it is essential that British products should be *pushed*.”⁹ This entailed new hires, new departments, new ministries, new committees. It meant new state-led initiatives or, in the parlance of the day, new schemes.

In interwar London, the word “scheme” did not carry a negative connotation. It was merely used to refer to a program, an initiative, or a project. Interwar Britain was not a state that “planned” in the socialist sense, but it was certainly one that schemed. In the archives of 1920s and 1930s British state administration, the word scheme is ubiquitous. There were schemes for everything, from pensions and travel allowances to police actions. While to the modern eye each appearance of the word is a little jarring, in most cases its use was not intended to convey underhandedness. That said, it is striking how frequently the state schemes of the early twentieth century were also schemes by the standards of the twenty-first century, with all the attendant negative connotations. The 1920s and 1930s were full of sweetheart deals, particularly when it came to ventures overseas. There was a scheme for a state trade bank to be run at a profit by key government advisers. There were research schemes that benefited connected companies. There was a secret scheme to guarantee Britain’s largest arms firm a yearly income. Seen collectively, schemes expanded and reshaped how the state engaged with economic life in Britain and across the empire. State-run banks, insurance programs, commercial intelligence networks, public research and development (R&D) facilities, and new departments focused on overseas trade bloomed during this period. The semistate Bank of England owned and ran the country’s second-largest armaments firm and engineered a way to control South African gold reserves. New Export Credit schemes expanded the state’s contingent liabilities by £100 million in the mid-1920s, a time when total British gross domestic product was around £4.3 billion. These liabilities drew the state deep into the affairs of British industry and tied it to industry’s economic fortunes. At the urging of big business, policy makers encouraged cartelization, subsidies, and protection. In so doing, they helped forge a consensus as to the importance of exports and export markets as guarantors of economic stability.

9. Emphasis original. *Report to the Board of Trade by the Committee Appointed to Investigate the Question of Financial Facilities for Trade* [Cd. 8346].

For decades, the term “business-friendly” has been understood to be synonymous—or significantly overlapping—with “laissez-faire.” In the 1940s, the political scientist H. D. Lasswell used the term “business state” to connote liberal laissez-faire democracies.¹⁰ But in the 1920s and 1930s, the actual British state was business-friendly in a different way. Guided by unelected administrators, it actively intervened to promote business interests in the purported interest of the polity. Britain, a liberal democracy par excellence, was also an exemplary business-state in which there was no bright line between public and private.

The story told in *Imperial Schemes* unfolds between the world wars. Elements of the business-state were slowly developing before World War I, as administrators considered helping British businesses face rising American and German competition.¹¹ The British state had long assisted British interests overseas and made use of private firms like the shipping company P&O as informal agents of the empire. As German critics noted for nearly a century, British policy redounded to the interest of British commerce.¹² But it took World War I to arrange these tendencies of collaboration and protection into a powerful and durable set of institutions. War forged networks linking imperial businessmen with state officials. These networks, in turn, worked to align business and state interests. Overall, however, the story of the business-state after World War I is one of continuity rather than disjuncture. The war generated a new social and institutional order, whose structures and ideas rehearsed and facilitated rearmament, World War II state management, and social transformations in the postwar. In fact, the legacies of World War I persist to this day.

Economic Thinking and the State

Imperial Schemes traces the interplay of two kinds of economic thinking: thinking *about* the state and thinking *of* the state. The first kind is familiar: it is macroeconomic theory, proposals for stimulus and taxation, calls for expanded social services, and critiques of state overreach. The second kind of economic thinking is less visible. The state gives rise to its own logics; its own economic thought. Its agents have their own *modi operandi*; their own ideological commitments to action. Those agents must be understood as members of the business-state network.

Imperial Schemes examines the economic life and thought of the state in a new way by exploring the thoughts and actions of the mid-level officials of the business-state. By following bureaucrats and businessmen, the project narrates a sweeping change in the state neither from below nor from above, but instead from the middle. It focuses not on how state growth affected citizens (as in social history) or on political decision making (as in political history). Rather, by focusing on mid-level administrators and businessmen, it unites business history with the

10. Lasswell deployed the term as a shorthand for liberal democracy, in which business was free and competitive. He juxtaposed the “business state” with the party, military, and garrison states. H. D. Lasswell, “What Business Must do to Survive,” *Business Week*, October 10, 1938, 18; Lasswell, “Garrison State”; Glickman, *Free Enterprise*.

11. Beckert, “American Danger.”

12. See, e.g., List, *National System of Political Economy*, Chapter 4. Fisher, Pedaliu, and Richard Smith, *Foreign Office*; Fisher, *Outskirts of Empire*.

history of economic ideas and bureaucracy. It attends to how the state actually grew, what the state did, and how the state actually did it.

It does so by focusing on individual people and the links between them. Such a focus requires following those connections in dozens of public, academic, and corporate archives. It means reading archival files—especially the humble memorandum—with special attention to language and individual authorial intent.

The mid- and upper-echelons of the British administrative state lend themselves to prosopography.¹³ Mid- and top-level civil servants went to the same schools, not just with each other but also with financiers, lawyers, and businessmen. They dined in the same restaurants, read the same papers, belonged to the same clubs.¹⁴ They were related by blood and, more importantly, by marriage. They were each other's mentors and protégés.¹⁵ They belonged to the same race and, generally, class; they adhered to the same unwritten codes of conduct. The business-state depended on entrenched privilege and prejudice, built largely on imperial domination. Its operators moved and remained linked over the course of their careers, from department to department, from state to private industry, from Britain to India to Egypt to South America. Theirs was an interconnected world.

In one sense, it was a large imperial world in which careers spanned continents and took sharp turns. British trade officers were recruited from merchant houses. Attachés came from careers in imperial sales. Cambridge University academics became Middle Eastern bankers became London administrators. Henry Babington Smith, for example, taught classics at Cambridge before investigating the finances of Natal, managing Ottoman debt in Constantinople, and then becoming head of the General Post Office in London. Austrian-born Henry Strakosch made his fortune in South African mining before becoming John Maynard Keynes's confidante and a key adviser to the Bank of England. By the 1930s, he was an official representative of the Government of India and involved in the League of Nations. Simultaneously, the world of the people running the British imperial state was incredibly small: a world in which everyone was connected to everyone else.

Understanding the operation and the role of the British state in the early twentieth century requires reconceptualizing its organizational structure. "The state" was not a monolith. Nor was it a collection of siloed, hierarchical departments. Rather, it was a dense network with interconnected branches, subgroups, and hubs. Vitality, many of the people—or, in the language of network theory, nodes—in the network of the state were government employees.¹⁶ Personal interconnections bridged government departments to industrial concerns and banks.

The state was not apart from society; it was porous. Bankers and merchants financed electoral campaigns. The country's most important employers' organization, the Federation of British Industries, was run by veterans of the Foreign and Colonial Offices. Its first director

13. This approach followed here is inspired by classics including Syme, *Roman Revolution*; Rothschild, "Isolation and Economic Life"; and Hoffman, Postel-Vinay, and Rosenthal, *Des marchés sans prix*. On networks in history, see *Visualizing Historical Networks*, Center for History and Economics, Harvard University, <https://histecon.fas.harvard.edu/visualizing/index.html>; *Humanities + Design*, Stanford Center for Spatial and Textual Analysis, <https://hdlab.stanford.edu/>.

14. Thévoz, *Club Government*; Cannadine, *British Aristocracy*; Cassis, *City Bankers*; Hennessy, *Whitehall*.

15. On patronage networks, see Xu, "Costs of Patronage."

16. On networks in history, see Lemerrier and Zalc, *Quantitative Methods*, Chapter 5.

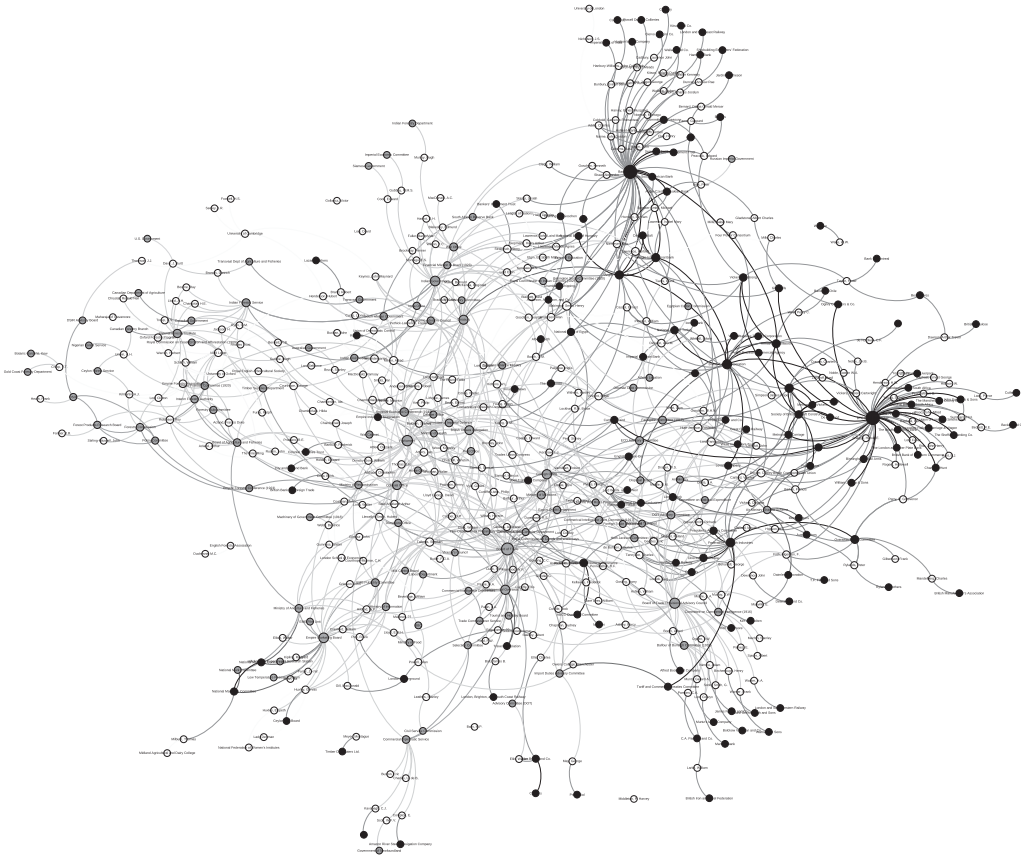


Figure 1. A Depiction of the Business-State.
The nodes rendered in white represent individuals.

was simultaneously employed by the Federation and the Foreign Offices. Industrial interests lobbied Parliament and worked closely with administrative agencies. Ever more of Parliament came from business backgrounds. Officials' family members were economists, executives, investors. They themselves moved between public and private employment. And they brought business thinking and pro-business thinking to statecraft.

This network spanned government departments and dissolved lines separating public from private. This network constitutes the business-state. By exploring the interconnections and dark corners of the business-state, *Imperial Schemes* reconstructs both the network and its economic thinking. Here, I show the 300 individuals and 260 other entities, mentioned by name in this dissertation, and the ways in which they were connected. As a whole, the graph depicts a principal contention of *Imperial Schemes*: that business entities (in black) and state entities (in gray) were closely bound together (Figure 1). These interconnections mattered because they influenced the ideological orientations and personal commitments of state administrators and they guided the state to grow, particularly in assisting British businesses operating in Britain and overseas.

Empire—formal and informal—was at the heart of both state administration and state self-imaginary. Supporting British economic health, especially through export industries, was an imperial task, undertaken by a global empire. Imperial and commercial power were closely linked. Exports were geopolitical tools. The state's support for export industries went hand in hand with ambitions to capture new overseas markets and secure old ones. In the wake of German, Austrian, and Ottoman imperial collapse in 1918, British officials and businessmen sought to extend British influence and power, not only through formal territorial acquisitions but also through a softer sort of imperialism: commercial conquests, often using techniques inspired by the Germans. At the frontiers of Britain's economic empire—South America, the Middle East, Central Europe, the Balkans, and the Baltic—imperial power and domestic business protection were two sides of the same coin.

At the same time, the state's enlarged role in economic life facilitated and responded to efforts to bind the formal empire into a more cohesive economic and political unit; defending British market share in the formal empire, especially in Canada and India, was a key priority after World War I. The 1920s and 1930s saw the institution of regular state-sponsored imperial economic conferences and the formation of imperial scientific and trade associations. The Bank of England sought to build an association of imperial central banks to control monetary policy. Moreover, the British state launched an unprecedented program of peacetime propaganda aimed at increasing the sales of raw goods produced in its overseas empire, and it funded a vast network of imperial agricultural and industrial research. After the crash of 1931, the business-state turned even more sharply toward consolidating its hold over markets and resources within the formal empire. Most strikingly, in the early 1930s, Britain abandoned its nearly century-long commitment to free trade. Largely at the urging of domestic industrial interests, Britain's leaders cordoned off the empire with a tariff wall, leaving a committee largely selected by industrialists and the Federation of British Industries to determine and administer the country's granular tariff schedule. The watchword became protection, not just through tariffs but also through arms. A few years later, the state expanded its economic role again, this time to oversee rearmament and imperial defense. Again, it turned to industrialists to produce materiel and manage war production.

State power in the early twentieth century was dynamic and uneven, especially in colonial empires.¹⁷ The schemes through which the British state grew during this time affected certain people, regions, and forms of economic life more than others. Many of the schemes were not designed to directly control or manage populations. They were instead meant to open and secure markets, guarantee the supply of resources, and streamline the production of vital goods. Through these schemes, the state extended its reach into the economic lives of imperial subjects both inside and outside of the British Isles. But the growth of the state, even if profound, was often undramatic or invisible from the perspectives of those subjects. This was the underhanded appeal of a "scheme." Industrial subsidies and tariffs raised the prices of key goods, but only by a few pennies at a time. The expansion of contingent liabilities pushed taxes higher, but these effects were gradual and diffuse. State-sponsored research brought new products to market, but consumers rarely knew that the state was responsible for them. For the

17. In Frederick Cooper's turn of phrase, empires had long arms but weak fingers. Cooper, *Colonialism in Question*, 197.

majority of British subjects, the immediate effects of the growing business-state on daily life were subtle, especially compared to colonial violence, or even the expansion of the Royal Mail or the BBC.

That said, for a significant minority, the growing business-state ushered in dramatic changes. British armament and steel workers felt the state's mounting involvement in their industries. So too did British farmers, from beet cultivators to egg producers. For civil servants—an ever-growing portion of the population—the changes were understood as revolutionary. Perhaps the group most dramatically and immediately impacted by the expanding British business-state were industrialists. Businesses and businessmen, especially those in heavy industry, were both principal agents and principal beneficiaries of state growth.

The state, as a category, is always in flux. Its proper role and responsibilities are contested and open to reinterpretation. This was especially true in early twentieth-century Britain. The state evolved rapidly; what was normal in 1914 had not been the year before. Between 1914 and 1939, the British state passed through a whole series of “new normals.” Officials and businessmen were not simply debating what the state *should* do; they were also pushing the imagined boundaries of what the state *could* do. Over the same period, economists and political thinkers, social theorists, and informed voters all experienced a rapid evolution in their thinking about the state's role. Not for nothing was macroeconomics born during this period. This was state growth, not just measured in terms of fiscal expenditure or number of employees but also in more qualitative, psychological terms. The state directed industry more proactively, it engaged with new technologies, it reached deeper and more durably into the marketplace than ever before. There was export promotion, including huge agricultural subsidies supporting a new sugar beet industry, trade shows, and vast new advertising campaigns to “buy British” organized through a purpose-built Empire Marketing Board. In the 1920s, the state granted huge subsidies to struggling industries, it conducted R&D through the new Department of Scientific and Industrial Research, it bailed out banks, and it reorganized the entire steel trade. With the arrival of the Great Depression, it embraced protective tariffs and then embarked on a public-private rearmament program. All these developments came from the business-state nexus. By World War II, the British state itself had become what German critics had long accused it of being: a *Geschäftsstaat* in which the interests of business were the interest of the state.

IAN KUMEKAWA is a Prize Fellow in Economics, History, and Politics at the Center for History and Economics at Harvard University and a visiting lecturer at MIT. Email: kumekawa@fas.harvard.edu

Bibliography of Works Cited

Books

- Barnett, L. Margaret. *British Food Policy during the First World War*. London: Routledge, 1985.
- Cannadine, David. *The Decline and Fall of the British Aristocracy*. New Haven, CT: Yale University Press, 1990.

- Cassis, Youssef. *City Bankers, 1890–1914*. Cambridge: Cambridge University Press, 1994.
- Cooper, Frederick. *Colonialism in Question*. Berkeley: University of California Press, 2005.
- Edgerton, David. *The Rise and Fall of the British Nation: A Twentieth-Century History*. London: Penguin, 2019.
- Fisher, John. *Outskirts of Empire: Studies in British Power Projection*. Abingdon, UK: Routledge, 2019.
- , Effie G. H. Pedaliu, and Richard Smith, eds. *The Foreign Office, Commerce and British Foreign Policy in the Twentieth Century*. London: Palgrave Macmillan, 2016.
- Glickman, Lawrence. *Free Enterprise: An American History*. New Haven, CT: Yale University Press, 2019.
- Gregory, Adrian. *The Last Great War: British Society and the First World War*. Cambridge: Cambridge University Press, 2008.
- Hennessy, Peter. *Whitehall*. London: Secker and Warburg, 1989.
- Hoffman, Philip T., Gilles Postel-Vinay, and Jean-Laurent Rosenthal. *Des marchés sans prix: Une économie politique du crédit à Paris, 1660–1870*. Paris: EHESS, 2001.
- Lemercier, Claire, and Claire Zalc. *Quantitative Methods in the Humanities: An Introduction*. Charlottesville: University of Virginia Press, 2019.
- List, Friedrich. *The National System of Political Economy*. London: Longmans, Green, and Co., [1841] 1909.
- Lloyd, E. M. H. *Experiments in State Control*. Oxford: Clarendon Press, 1924.
- Salter, Arthur. *Allied Shipping Control: An Experiment in International Administration*. Oxford: Clarendon Press, 1921.
- Syme, Ronald. *The Roman Revolution*, rev. ed. Oxford: Oxford University Press, [1939] 2002.
- Thévoz, Seth Alexander. *Club Government: How the Early Victorian World Was Ruled from London Clubs*. London: I. B. Taurus, 2018.
- Tomlinson, Jim. *Managing the Economy, Managing the People*. Oxford: Oxford University Press, 2017.

Articles, Chapters in Books, and Dissertations

- Barreyre, Nicolas, and Claire Lemercier. “The Unexceptional State: Rethinking the State in the Nineteenth Century (France, United States).” *American Historical Review* 126, no. 2 (June 2021): 481–503.
- Beckert, Sven. “American Danger: United States Empire, Eurafica, and the Territorialization of Industrial Capitalism, 1870–1950.” *The American Historical Review* 122, no. 4 (October 2017): 1137–1170.
- Broadberry, Stephen, and Peter Howlett. “The United Kingdom during World War I: Business as Usual?” In *The Economics of World War I*, edited by Stephen Broadberry and Mark Harrison, 206–234. Cambridge: Cambridge University Press, 2005.
- Kumekawa, Ian. “Meat and Economic Expertise in the British Imperial State During the First World War.” *The Historical Journal* 62, no. 1 (March 2019): 171–194.
- Kwak, James. “Cultural Capture and Financial Crisis.” In *Preventing Regulatory Capture*, edited by Daniel Carpenter and David A. Moss, 71–98. Cambridge: Cambridge University Press, 2014.
- Lasswell, Harold D. “The Garrison State.” *American Journal of Sociology* 46, no. 4 (January 1941): 455–468.
- Rothschild, Emma. “Isolation and Economic Life in Eighteenth-Century France.” *American Historical Review* 119, no. 4 (October 2014): 1055–1082.
- Xu, Guo. “The Costs of Patronage: Evidence from the British Empire.” *American Economic Review* 108, no. 11 (November 2018): 3170–3198.

Newspapers

Business Week

Parliamentary Command Papers

Report to the Board of Trade by the Committee Appointed to Investigate the Question of Financial Facilities for Trade. Cd. 8346. London: HMSO, 1916.

Archives

The National Archives (TNA), London.

Cite this article: Kumekawa, Ian. “Imperial Schemes: Empire and the Rise of the British Business-State, 1914–1939.” *Enterprise & Society* 23, no. 4 (2022): 928–937.