Title: *Friedrich Hayek's Fleeting Foray into 1940s Colonial Development*

Abstract:

Herein we examine recommendations made in 1944 by Friedrich Hayek for the Government of Gibraltar, regarding Gibraltar's future economic prospects. In keeping with Hayek's ideas in *The Road to Serfdom*, he proposed reducing state-led economic planning in Gibraltar alongside proposals to lift restrictions upon the operation of a free market in rents and labour. Hayek's proposals were rejected by both governments in Gibraltar and London because they were not compatible with the economic planning of colonial economies, inspired by Keynes, and provision of welfare systems in the empire inspired by Beveridge, both dominant ideas during the mid-1940s in government circles.

Key Words:

Hayek, colonial development, *The Road to Serfdom*, Gibraltar, British Empire

JEL Codes: B25; B31; P11

Word Count: 9170, including references

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Disclosure statement: I have no financial interest or benefit arising from the direct applications of this research.

Introduction

In 1944, just three months after the publication of *The Road to Serfdom*, Friedrich Hayek accepted a commission to undertake a series of reports on the economy of Gibraltar that were intended to form the basis of imperial and local government policy towards post-war reconstruction in the British colony. In *Hayek on Hayek* (Hayek, et al 1994), Hayek outlined his differences with Lionel Robbins over whether or not economists should act as consultants to governments. Whilst expressing a belief that they should not, he nevertheless reflected on his own experiences working in Gibraltar, ‘I went for six weeks to Gibraltar, which was extraordinary – don’t tempt me to tell you anecdotes about this, it would be endless’ (*Ibid*, p. 83). As Hayek seldom accepted work from governments, the reports he produced in Gibraltar are a rare example of his undertaking practical consultancy. Having served in the Austro-Hungarian army in the Great War, Hayek was not eligible for war work in Britain during the Second World War. *The Road to Serfdom* was, therefore, a form of war work on Hayek’s part and given his reluctance to undertake work for government throughout his career, it can only be assumed that he proceeded to Gibraltar on the same basis.

Initially, the Colonial Office in London had been happy simply to commission a cost of living index to assist with readjusting wages in the light of war-time inflation. But the colonial authorities in Gibraltar were keen to enlist an academic to prepare something ‘more in the nature of a sociological and economic investigation which would tell us not only what it costs the people to live but the conditions under which they live, how these can be best improved and what is the future scope for employment’.¹ The Colonial Office were prevailed upon, and so Hayek produced for the Government of Gibraltar four reports: a cost of living index; a report on wages and salaries; a proposal for a statistical survey of

¹ Gibraltar National Archive [GNA], Book File 0001-0300. ‘Letter from Miles Clifford, Colonial Secretary, Gibraltar, to A. B. Acheson, Assistant Secretary, Colonial Office’. 20 June 1944.

demography; and a report covering Gibraltar's long-term prospects entitled 'Some Economic Problems of Gibraltar'.² However, as we shall see, the latter two proved controversial. One colonial official went so far as to describe them, Sir Humphrey Appleby-like, as 'daring'.³ The statistical survey was attacked for being unworkable and unnecessary. Meanwhile, Hayek's proposals in 'Some Economic Problems of Gibraltar' were suppressed, not least of all because he proposed using market forces to relocate the working-class population of Gibraltar into neighbouring Spain; at the time a dictatorship under General Franco.

An exploration of Hayek's work on Gibraltar serves to answer the call to examine his ideas in their political context (Mirowski 2013). Hayek envisaged a post-war economy for Gibraltar based upon free market principles and a small state, in-keeping with his ideas outlined in *The Road to Serfdom*. But, as we shall see, his recommendations were rejected as unacceptable because they ran contrary to the prevailing political economy in the Colonial Office at that time which focussed upon the provision of social welfare programmes and the planning of imperial economies, both of which owed much to the influence of Sir William Beveridge and John Maynard Keynes. This episode illuminates many of the political and economic forces at work in the 1940s, and in subsequent years, and throws Hayek's own ideas into sharp relief.

This account draws upon archival evidence from The National Archives in London and from the Gibraltar National Archives (formerly known as the Gibraltar Government Archive), much of it previously unexploited (with the exception of Grocott 2015). A copy of Hayek's reports is also available with Hayek's papers at the Hoover Institution Archive at Stanford, California. Sadly, beyond a couple of marginal comments on the report, Hayek's papers have nothing to say on the subject of his time in Gibraltar. However, and as we have

² A copy of the cost of living index, wages and salary report, and 'Some Economic Problems of Gibraltar' can be found in The National Archives/Public Record Office [TNA], Colonial Office [CO] 91/522/1 and in the Hayek papers at Hoover Institute Archive. The proposal for a statistical survey of the population can be found at TNA, CO 91/522/2.

³ TNA, CO 91/522/1. 'Note by LBW (identity unknown)'. 7 March 1945.

seen, even if Hayek's papers are silent, the experience did leave an impression on Hayek himself.

Hayek Assesses the Gibraltar Economy

Hayek visited Gibraltar between 14 August and 27 September 1944. There he found two main challenges facing the colonial authorities. First, in 1940, the civilian population (with the exception of men of working age) had been evacuated. Around 16,000 people were relocated to camps in Madeira, Northern Ireland, Jamaica and London (Finlayson 1990; Grocott and Stockey 2012; Stockey 2009). The Gibraltar colonial authorities tentatively began planning repatriation of the evacuees almost immediately upon evacuation but in 1943, with the war in the Mediterranean having turned in favour of the Allies, planning accelerated. The challenges were almost insuperable, not least of all because the Colonial Office and the authorities in Gibraltar guaranteed that all those who wanted to return would be accommodated on the Rock.⁴ Colonial officials were keenly aware of the effects of the evacuation. Major St. John Granville Orde Brown, labour advisor to the Secretary of State for the Colonies,⁵ noted that the evacuation of women and children had been particularly problematic, 'a general change to bachelor conditions has been most unwelcome to the Gibraltarian, who has suffered both mentally and physically from this inevitable interference with his normal life'.⁶ Before the war, substantial amounts of Gibraltar's housing stock had been overcrowded and run-down (Constantine 2009, pp. 332-337). And after being occupied by allied troops during war time, the condition of the accommodation had deteriorated further. Moreover, in re-housing the evacuees the colonial authorities in Gibraltar had to take into account increases in the population during the evacuation alongside potential population

⁴ GNA, Book Files, 0957-1200. 'Report on Repatriation and Welfare in Gibraltar'. February 1946.

⁵ Throughout, the 'Secretary of State for the Colonies' refers to the political head of the Colonial Office, whilst the 'Colonial Secretary' refers to the head of Gibraltar's civil administration.

⁶ GNA Book File 0001-0300. 'Labour Conditions in Gibraltar, Report by Major Orde Brown'. November 1943.

growth in peacetime. It was for these reasons that Hayek proposed a statistical survey of the population, examined below.

In addition to the problems of housing, a second challenge was the rising cost of living. Gibraltar's constrained surface area of two and a half square miles, much of which was unusable because of the topography of the Rock itself, limited housing supply, pushing up rents. This had the effect of limiting the quality of housing which Gibraltarians could afford and combined with rising prices caused by the war escalated the cost of living in Gibraltar. Over fifty per cent of workers in Gibraltar were employed by either colonial or imperial departments and were shared between the colonial government (principally the City Council), the War Office and the Admiralty. The result was that wage levels were very much a concern of the colonial authorities. Because wages in the private sector tended to follow those in government employment, in times of economic distress it was the government that needed to take the lead through, for example, making wage increases in order to stave off discontent.

Before any attempt could be made to address the problem of the rising cost of living caused by the war, the Gibraltar colonial authorities needed to know the extent to which the cost of living had altered between 1939 and 1944. Hayek made short work of the cost of living index and the wages and salaries reports he was asked to complete.⁷ Both were signed-off on 20 September 1944. The colonial government, under pressure from the Association for the Advancement of Civil Rights (AACR), a local body formed initially to campaign for the quick return of evacuees which increasingly took an interest in broader political causes (See Grocott and Stockey 2012, pp. 70-74), decided to publish these initial reports. In so doing, the colonial government hoped that the AACR would be satisfied that the government was willing to consider properly the wages and conditions of workers in

⁷ TNA, CO 91/522/2. Minute by Andrew B. Acheson. 24 January 1945.

Gibraltar. As to the contents of the reports, they demonstrated what Gibraltarians already knew. The prices of essentials had grown enormously during the war, indeed by over 70.5% of their 1939 levels.⁸ By contrast, increases in wages had lagged behind, as the budgets of government departments were extremely tight due to war-time restrictions on spending. As a result, increases in wages no-where near matched increases in prices, leading a government-established wages and salary committee to recommend increasing the minimum amount paid to workers from 32 shillings and 9 pence per week to 60 shillings for Gibraltarian workers and 70 shillings for British workers; a proposal the AACR and its trade union partner, the Gibraltar Confederation of Labour, took-up vociferously, threatening strike action were it not met.⁹

Rising prices and stagnant wages were not the only problems facing Gibraltarians. In 1937, the Medical Officer of Health, Major Reginald Anson Mansell had produced a report on over-crowding in Gibraltar which argued that high rents, caused by high population density, were causing families, often of four or five people, to live in overcrowded one or two room apartments. Mansell's report persuaded the governor to force a Rent Restriction Ordinance (ordinances being Gibraltar's form of a Government Act) past his Executive Council. This was a significant development given that the unofficial, Gibraltarian, members of the council had been fighting a rear-guard action against rent restriction since 1923. In October 1940, in order to stop war profiteering, the government of Gibraltar restricted rents further, fixing them at one-third of their 1 May 1940 price. But for Hayek, rent restriction was precisely the problem. As we shall see, he argued that restricting rents allowed people who would otherwise leave Gibraltar to remain, rather than move to cheaper accommodation in Spain. Moreover, he argued that rent restriction equated to the expropriation of private property on the Rock. However, before examining these ideas on rents, we turn to Hayek's

⁸ TNA, CO 91/522/3. Letter from the Governor of Gibraltar to the Secretary of State for the Colonies and enclosure. 30 June 1945.

⁹ *Ibid.*

proposal for a statistical survey of the population which, he argued, was essential in order for the government to plan the repatriation of Gibraltarians in the months and years following the end of the war in Europe.

Hayek and the Demographers

Given the importance of knowing just how many people would have to be accommodated in Gibraltar upon repatriation, Hayek proposed that a statistical survey of the population be undertaken. In his opinion, the survey was necessary because the data included in the 1931 census was not detailed enough for the purposes of repatriation planning. Moreover, he viewed the data as defective inasmuch as he could not reconcile it with subsequent records of births and deaths collected by the Gibraltar authorities. Given that the population of Gibraltar was dispersed throughout various parts of the empire, a full census was impracticable. Yet Hayek's solution to this seemed equally as onerous as a full census, and was rejected for reasons we shall see. He proposed synthesising: forms filled in by evacuated Gibraltarians upon leaving Gibraltar; registers of births and deaths held by the colonial government and religious institutions on the Rock; the manpower register for Gibraltar (which had been maintained during the war); and Mansell's housing survey, undertaken as part of his 1937 report on housing conditions in Gibraltar. By taking these various data sets together, Hayek proposed that a profile of each Gibraltarian, incorporating age, occupation, nationality, income, and place of abode prior to the war could be constructed. So too could the composition and location of every household in Gibraltar prior to the war. To collate the dataset, Hayek proposed that a card reading machine be sent from London to Gibraltar and that 25,000 index cards be hole-punched with the various pieces of information required.

Over a period of four to five months, the card reading machine could then tabulate the results into a survey of the Gibraltar population.¹⁰

At first, Hayek's proposal was met with enthusiasm. Almost straight away Gibraltar's governor, Lieutenant General Sir Ralph Eastwood, wrote to the Colonial Office in support of Hayek's scheme and pressed for money from the Colonial Development Fund to undertake the work.¹¹ The colonial authorities were concerned at the potential for growth in Gibraltar's population, the problem of finding work for greater numbers of Gibraltarians, and the possibility that they might not be able to rely on the frontier being open in order to make use of workers living in the Campo.¹² The presence of several hundred Republican refugees in Gibraltar, who were unable to return to Spain for fear of execution by the Francoist authorities, underscored this point. Eastwood was keen to get to grips with the demographic challenges offered by the repatriation and in a meeting held at the Colonial Office in January 1945 pressed his desire to see the survey undertaken upon the Secretary of State for the Colonies, Oliver Stanley.

Following Eastwood's meeting with Stanley, Stephen Luke, a Colonial Office official who dealt with several aspects of Hayek's various reports, sent the proposal first to the principal secretary, Mr. Baxter, and then, on Baxter's recommendation, to Dr. René Kuczynski, the demographic advisor to the Secretary of State for the Colonies. Initially, Kuczynski was diffident to Hayek's proposal. On a technical level, Kuczynski argued that Hayek's proposal was convoluted and would need to be simplified. He also argued that to be carried out properly the scheme would have to be overseen by Hayek himself.¹³ This was

¹⁰ TNA, CO 91/522/2, 'Proposal for a Statistical Survey of Population'. 8 September 1944.

¹¹ TNA, CO 91/522/2, 'Letter from Governor to Secretary of State for the Colonies'. Exact date of composition not recorded, but marked as having received by the Colonial Office on 21 September 1944.

¹² The problem of finding work was underscored by a memorial to Stanley, GNA, Book Files 701-809, 'Letter from M. Rodriguez and fifteen others to the Secretary of State for the Colonies'. 15 January 1945. And the difficulties posed by the frontier situation, including refugees from Franco, was outlined by Dawe, GNA, Book Files 701-809, 'Letter from A. J. Dawe to Sir John Stephenson'. 6 March 1945.

¹³ TNA, CO 91/522/1, 'Memorandum by R. R. Kuczynski'. 26 February 1945.

impossible given that Hayek's tour of the United State of America to promote *The Road to Serfdom* was to take place in early 1945.

In a follow-up meeting at the Colonial Office, Kuczynski seemed to have moved from diffidence to disdain. He persuaded Luke that the scheme was not only impracticable but also unnecessary. At Luke's request, and in the hope of dissuading the enthusiastic Eastwood, Kuczynski then wrote a memorandum outlining his objections for the Government of Gibraltar.¹⁴ Kuczynski questioned Hayek's assumptions about the fertility rate in Gibraltar. Hayek argued that rate was particularly high. Kuczynski pointed out that it was consistent with Spain - and dropping. The point was important; as we shall see, Hayek's proposal to relocate Gibraltar's population into Spain rested, in part, on the assumption of ever increasing population density. Turning to the problem of reconciling the number of births and deaths with the 1931 census and later Police censuses, Kuczynski suggested that he could solve the problem using existing sources. 'It would take me, I think, two weekends and I estimate the cost of clerical assistance at £10', something of a contrast to Hayek's grand scheme.¹⁵

That Kuczynski opposed Hayek's scheme is not surprising. In 1943, Kuczynski was appointed as advisor to the Colonial Social Science Council's new Demographic Advisory Group. As part of that body, he pushed for census collection in the empire to be standardised and co-ordinated from London, somewhat in contrast to Hayek's proposal for Gibraltar. Not only did Kuczynski object on technical grounds to Hayek's proposals but Hayek's ideas also ran contrary to the very philosophy underpinning developments in colonial demography. As Karl Ittmann notes, in the 1940s demography as an academic discipline was becoming increasingly well respected and established (Ittmann 2013, pp. 31-32). Kuczynski was at the forefront of this movement. In 1933, he was appointed by Sir William Beveridge as the first

¹⁴ TNA, CO 91/522/3, 'Memorandum by R. R. Kuczynski'. 25 March 1945.

¹⁵ *Ibid.*

reader of demography at the London School of Economics. Kuczynski was granted access to the Colonial Office library from 1937 onwards, facilitating his work *Colonial Population* published that year (Kuczynski 1937). In 1944, he was appointed Chief Demographic Advisor to the Secretary of State for the Colonies. Throughout the 1940s and 1950s, demography tended to be a progressive discipline, whose practitioners felt that an interventionist state, operating scientific approaches to population studies, could usefully improve the lot of people living under colonial rule. Such faith in planning differed greatly from Hayek's belief that the existence of incomplete knowledge in attempts to plan led to people deferring to one person, who, in turn, increasingly took to themselves greater powers for deciding the fates of others.

In addition to professional differences to Hayek, Kuczynski's distinctly progressive politics were in sharp contrast too.¹⁶ In the 1920s, Kuczyinski had been involved in the politics of the Weimar Republic. Indeed, in 1926 the so-called 'Kuczyinski committee' campaigned for the disinheriting of the German aristocracy and the deprivation of their titles. Such politics marked him out, and upon Hitler's appointment as Chancellor in 1933, Kuczynski fled Germany for London. Hayek, of course, was Austrian and in Austria the post-imperial republic had abolished the titles of the Austrian aristocracy. Nonetheless, in the 1940s Hayek was still referred to by many as Von Hayek and indeed was so addressed in much of the correspondence relating to his work in Gibraltar. Concern over the details of Hayek's scheme, combined with political tensions, and perhaps even a personal dislike of Hayek's minor aristocratic background, no doubt played a significant role in Kuczynski's rejection of Hayek's statistical survey.

¹⁶ At the time of Kuczynski's interactions with the Hayek report, his daughter was spying for the Soviet Union using codebooks supplied, it was alleged, by Kuczynski himself. Kuczynski's son, Jurgen, an economist, relocated to the GDR in 1947 and was a member of the People's Chamber, the GDR parliament. (See, Hobsbawm (2002), p. 145.)

On 4 April 1945, Luke wrote to Sir Arthur Dawe, the permanent secretary at the Colonial Office, outlining that in the light of Kuczynski's memorandum, 'the proposal made by Professor Hayek for working out a sort of census on the basis of material collected in connection with the evacuation plan would be unnecessarily cumbrous and expensive...I think we have no alternative but to drop the idea'.¹⁷ But this was a minor dispute by comparison to the disagreement over 'Some Economic Problems of Gibraltar', to which we now turn.

Hayek Confronts Colonial Development Planning

Hayek's failure to persuade the Gibraltar and imperial authorities of the efficacy of his statistical survey owed much to the clash between Kuczynski's professional notions of colonial administration and to Hayek's more amateurish proposals. The reasons behind the rejection of 'Some Economic Problems of Gibraltar' went deeper. Hayek's proposals - principally to use market forces to relocate Gibraltar's civilian population into Spain, and also to suppress wage levels in Gibraltar - flew in the face of economic planning, social security, and imperial preference, all of which became increasingly entrenched in British policy-making circles as the late 1930s and 1940s moved on. Indeed, that Hayek had been commissioned at all to write his report was a sign of the times, in the past the Government of Gibraltar had relied upon its own officials, rather than outside expertise, to produce policy recommendations. Hayek's very presence in Gibraltar was a symptom of the age of planning. So it was that Hayek's proposals faltered in the face of ideas that were in part inspired by, and in part associated with, Keynes and Beveridge, the latter of which, after all, had negatively inspired the thinking that went into *The Road to Serfdom* (Caldwell 1997, pp. 39-40; Caldwell 2007, pp. 14-15). On a micro level, Hayek's experience in Gibraltar forced him

¹⁷ TNA, CO 91/522/1, 'Memorandum from S. E. V. Luke to Sir Arthur Dawe'. 4 April 1945.

to confront just how entrenched the ideas of his intellectual rivals were in British policy making.

Planning was already a theme in colonial development by the 1940s. In 1929 and 1940 Colonial Development and Welfare Acts had put aside £20 million and £5 million respectively to be spent in the colonies, though only £3 million of the former sum was actually spent (Porter, 1996). But after 1940, planning of colonial economies was taken-up in earnest. Whilst Hayek was undertaking his work on Gibraltar, the Colonial Development and Welfare Act of 1945 was under preparation. Inspired by Keynes, the Colonial Office discarded its traditional view of the grant of welfare and development funds – that they were counter-productive because they were inflationary – and embraced legislation that would see £120 million distributed throughout the empire on a range of infrastructure and development schemes (Porter, 1996). Planning was, therefore, fully in vogue at the Colonial Office as Hayek came to his work in Gibraltar (see Hyam, 1999, p. 275-6 for the links to trusteeship).

In addition to planning, the Colonial Office was interested in the ideas of social security offered in the Beveridge Report, going so far as to issue, in 1944, a supportive circular to all colonial governors entitled ‘Social Security in the Colonial Territories’.¹⁸ The circular even used one of Beveridge’s turns of phrase, characterising the goal of social security as being to provide ‘freedom from want’ and describing its provision as being ‘a national obligation...of Government, employers, and employees’.¹⁹ Yet, the circular also contained a cautious tone ‘in some territories there has perhaps been a leaning towards a popular belief that social services on the lines of what may be a somewhat inaccurate picture of the Beveridge proposals can speedily be put into effect in the Colonies’.²⁰ Given the sensitivity shown to the particular circumstances of each territory, monolithic top-down

¹⁸ Gibraltar’s copy, and the Gibraltar colonial authorities’ response to the report, can be found at: GNA, Book Files 0401-0440, ‘Letter from Secretary of State for the Colonies to Eastwood and enclosure of “Social security in the Colonial Territories”’. 29 September 1944.

¹⁹ *Ibid.*

²⁰ *Ibid.*

economic planning was clearly not the intention. Nevertheless, Hayek took issue with the way in which Colonial Office thinking had begun to set out economic planning in Gibraltar.

The first major proposal offered by Hayek in ‘Some Economic Problems of Gibraltar’ related to housing. As we have seen, in 1937 Gibraltar’s medical officer of health, Mansell, argued that the Rock’s housing problems stemmed from there being too little housing in too small an area. The result was to force up the price of accommodation and, by extension, cram poorer families into unsuitable one or two room tenements. For Mansell the answer seemed obvious; government should intervene with the forces of supply and demand and use legislation to restrict rents to a level affordable to the average worker in Gibraltar. Hayek flipped Mansell’s argument on its head. To Hayek’s mind, the mistake had been the introduction in 1939 of the Rent Restriction Ordinance.²¹ Without legislation on rents, the price of housing in Gibraltar would rise and force the working class population to relocate into Spain. There, Hayek argued, they could take advantage of lower rents, lower cost of living, and market gardening. Those unable to find employment in Gibraltar could more easily relocate within Andalucía. Hayek even pointed out that across the frontier, away from the unusual micro-climate created by the rock itself, workers would even enjoy better weather. And, by happy coincidence, he pointed out that one side effect of the proposal would be that landlords would be able to charge higher rents.

If Hayek’s plan were to work then not only would rents have to be allowed to rise but also wages would have to be more in-keeping with levels in Spain than in Gibraltar. This then was Hayek’s second substantive proposal.²² Traditionally, wages paid to Gibraltarians were higher than those paid to Spaniards and, in turn, contractors from Britain working in Gibraltar were paid more than both of those groups. During the war, the latter caused considerable resentment because an additional war ‘danger’ bonus was paid to British

²¹ The following analysis of Hayek’s proposals draws upon, TNA, CO 91/522/2. ‘Some economic problems of Gibraltar’. See pp. 10-13 for housing in particular.

²² *Ibid.*

workers but not others. As representatives from the AACR pointed out, the war was equally dangerous to all in Gibraltar. It might have been true that British workers had additional costs to bear whilst working overseas, but the name of the war bonus was clearly provocative and Hayek picked-up on this. He used the resentment over the war bonus to drive a wedge into the wages debate, arguing that the bonus should be abolished and Gibraltarian workers preferred over British workers. Hayek also argued that wages for Gibraltarians be forced down towards the level of that in the surrounding hinterland, though he conceded as permissible the award of a small bounty designed to compensate for the long commute across the frontier from the Spanish hinterland. Conveniently, it would not only be colonial government employers who would benefit from this arrangement, a decline in government wages would also force down the wages offered by private employers.

If Hayek's two substantive proposals were to work, two additional schemes would be required by government. First of all, in order to forestall complaints that the colonial authorities were abandoning Gibraltarians, Hayek proposed that a government subsidised private company be established in the Campo in order to provide housing, education, and healthcare.²³ This would also negate the need for a housing programme in Gibraltar that would have driven rents down rather than up, as Hayek desired. Second, Hayek took considerable umbrage with the Admiralty in Gibraltar and accused them of exploiting workers in Gibraltar by not providing them with adequate education in order that they might take the jobs currently being given to imported British workers.²⁴

Hayek's proposals were clearly influenced by the ideas he grappled with in *The Road to Serfdom*. Government's role in providing education was part of the book's message, whilst the proposal for a private company would negate the need for state housing programmes; reduce the number of people employed by the colonial administration by

²³ *Ibid.*, p. 12.

²⁴ TNA, CO 91/522/2. 'Some Economic Problems of Gibraltar', p. 15.

shrinking the remit of the government itself; allow the market to operate in terms of rents and wages; and introduce a new market for the provision of services in Spain. The proposals also foreshadowed neoliberal ideas of using the state to create new markets, rather than harking back to the classical principles of laissez faire which Hayek had lambasted in *The Road to Serfdom*. Yet despite the popularity that Hayek's ideas would enjoy towards the end of the twentieth century, his proposals for the economy of Gibraltar were categorically rejected in 1945.

We now examine several distinct reasons why, whatever the merits of Hayek's proposals, they were nevertheless rejected. Hayek's first barrier to the acceptance of his proposals was that the officials whose conclusions he disputed were well respected. Whilst not consulted directly on Hayek's proposals, Mansell's reputation in Gibraltar and with the Colonial Office meant that his proposals for rent restriction still carried weight when Hayek's report was under consideration. Having received his medical degree from the University of Cambridge, Mansell served in the Balkans during the Great War and was awarded by the Serbian Crown the Order of the White Eagle for his service there.²⁵ Thereafter he served in the Royal Army Medical Corps and was chief medical officer in Gibraltar in the 1930s. In 1939, when his service in Gibraltar ended, Mansell was promoted to Lieutenant Colonel and took a role at the Army School of Hygiene, whilst in 1940 he was awarded the OBE for his work in Gibraltar. The path which Mansell had set-out, continued monitoring and possible intervention in the setting of rents, combined with a building programme for new housing, was one which the colonial authorities and the Colonial Office stayed faithful to. And, of course, a new housing programme would also, via increased supply, have forced down rents, hence, Hayek's argument that a private company could be charged with providing housing over the frontier, in Spain. But in addition to Mansell's conclusions, the Government of

²⁵ This account of Mansell's career draws upon, Carey (1921); the Army List 1939; and the *London Gazette* of 30 December 1941.

Gibraltar had already laid out its plans for a housing programme. As far as it was concerned, 'the only remedy is town-planning together with the prosecution of a comprehensive re-housing programme'.²⁶ From the very starting point, therefore, Hayek's proposals were outwith what was considered the realm of possibility. In February 1945, in the spirit of town planning and as Hayek's report was being circulated round the various departments of the Colonial Office, Sir Findlater Stewart was despatched to Gibraltar to survey housing conditions with a view to initiating a substantial housing development programme.²⁷ Reporting in March 1945, Stewart's recommendation to proceed with a housing programme carried considerable weight because of his reputation as an effective colonial administrator. In 1935, when under-secretary of state in the India Office, Stewart's reputation as a diplomat and colonial official was secured by his drafting of the Government of India Act (1935).²⁸ During the Second World War, he chaired the Home Defence Executive which was responsible for co-ordinating home-front ministries, and in the immediate aftermath of the war he was charged with a reorganisation of MI5. Stewart's recommendation to proceed with the government-led housing programme was, therefore, warmly received by the Government of Gibraltar which was desperate to increase housing stock in order to start repatriating evacuees.²⁹

The weight of Mansell's reputation, combined with Findlater Stewart's endorsement of the proposal that the Gibraltar authorities set about building more accommodation in order to relieve over-crowding, not only restricted the possibility that Hayek's relocation proposal would be taken seriously, it indicated a totally different way of thinking. Rather than allowing markets to do the work of economic planning, the Colonial Office and Gibraltar

²⁶ GNA Book File 0001-0300, 'Labour Conditions in Gibraltar, Report by Major Orde Brown'. Undated memorandum on Orde Brown's report, written between November 1943 and June 1944.

²⁷ GNA Book File 701-809.

²⁸ For details of Stewart's career, see his entry in the *Oxford Dictionary of National Biography*.

²⁹ TNA, CO 91/522/1. 'Governor Eastwood to Secretary of State for the Colonies Oliver Stanley'. 26 April 1944.

government were undertaking projects designed both to bolster the economy of Gibraltar and to relieve the crowded and unsanitary conditions many of its inhabitants were forced to live in. Such projects would, by increasing the supply of housing, drive down rents and property values for private landlords, in stark contrast to Hayek's proposition that rents be allowed to rise.

Hayek's proposals on housing and the relocation of the working class population of Gibraltar had implications not just for housing policy proper, but also for the general scope and nature of social security which the Gibraltar government would, or would not, offer. In addition, his proposals on wages would have had very real consequences for the cost of living, which Hayek's own cost of living index indicated had already increased by around 70% between 1939 and 1944.³⁰ Given the implications of the aspects of Hayek's report that dealt with wages, Luke asked for the opinion of Orde Brown, whose comments on the effect of the evacuation on Gibraltarians we saw above. Orde Brown's star rode high in the Colonial Office.³¹ He had experience of colonial government, having been senior officer of the government of the British Cameroons, a territory mandated to Britain by the League of Nations after the Great War. During that time he had honed his grasp of labour issues and in 1938, having been despatched in the previous year to Jamaica to report on living conditions after riots in the colony, he was appointed as the first permanent labour advisor to the secretary of state for the colonies. He travelled extensively throughout the empire, producing recommendations for London and for colonial governments on labour matters. Indeed he had visited Gibraltar in 1943, reported on labour conditions there and made a number of recommendations for future industrial relations policy in the colony.³²

³⁰ TNA, CO 91/522/3. 'Minutes of Standing Wages Sub-Committee'. June, 1945.

³¹ This outline of Orde Brown's career is drawn from: Home (2013), p. 123; Ittmann (2013), p. 58 & 95; and Hansard Parliamentary Debates, HC Deb 23 March 1944, Vol. 398, cc1011-3.

³² GNA Book File 0001-0300. 'Labour Conditions in Gibraltar, Report by Major Orde Brown.' 15 October 1943.

Orde Brown's practical experience of labour issues in colonial territories made him a very different character to the more bookish and unworldly Hayek. The contrasts did not end there, however. During part of the time in which Hayek's report was doing the rounds in the Colonial Office, Orde Brown formed part of the British delegation at the International Labour Organisation's (ILO) 1944 conference in Philadelphia. At the conference, the delegations considered what role the ILO should play in the post-war world and the philosophy that should underpin industrial relations. The ILO adopted into its constitution the belief that 'all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity'.³³ Crucially, in sharp contrast to *The Road to Serfdom* and to Hayek's Gibraltar proposals, such ends were to be achieved by promoting international economic planning.

In May 1945, following on from the charge levelled by one civil servant, Grossmith, that Hayek's proposals were 'indefensible', Orde Brown characterised Hayek's thinking as 'bloodless'.³⁴ He recommended that the question of wages and cost of living be directed to Gibraltar's Labour Advisory Committee, which had been established on Orde Brown's recommendation following his visit there in 1943. In part, this was subjecting Hayek's proposals to death by committee; Orde Brown himself admitted that the Labour Advisory Committee was 'a plant of somewhat tender growth, and is hardly likely to develop enough initiative and experience to settle the thorny problems which are involved'.³⁵ But in part, Orde Brown's suggestion indicated that he saw the answer, not the problem, to be economic planning. Later, in July 1945, a conference at the Colonial Office considered Hayek's proposals. Orde Brown pointed out that 'Professor Hayek's remarks about [the cost of]

³³ The ILO's declarations can be accessed at: <http://www.ilo.org/public/english/bureau/leg/declarations.htm> [accessed 6 October 2015].

³⁴ TNA, CO 91/522/1. 'Note by C. A. Grossmith'. 22 May 1945; TNA, CO 91/522/1. 'Note by Orde Brown'. 24 May 1945.

³⁵ TNA, CO 91/522/1. 'Note by Orde Brown'. 24 May 1945.

Spanish labour were based on presumed cost of living in Spain' but 'wages in Spain are certainly rising and the rate of exchange is tending to depreciate'.³⁶ As a result, 'he suggested that Service Departments should not be duly influenced by Professor Hayek's report'.³⁷ Orde Brown was supported by M. A. Bevan, a labour advisor to the Government of Gibraltar (a position created at Orde Brown's suggestion). Bevan argued that he could not see that 'there would be any justification for keeping the standards of living of Gibraltarians below a fair and reasonable level because Spanish labour with a lower standard of living was available as an alternative'.³⁸ Present also was Luke, who had already characterised Hayek's proposals to allow wages to fall in order to contribute to the removal of Gibraltarians from the Rock as a 'harsh doctrine'.³⁹ The conference rejected Hayek's proposals outright and, given the controversial nature of proposals to reduce wages and relocate Gibraltarians into Spain, officials accepted that the report was not publishable.

Meanwhile in Gibraltar, governor Eastwood and his colonial secretary, Stanley, had reluctantly come to the same conclusion as their colleagues in London. Initially, the colonial government in Gibraltar had welcomed Hayek's commission. Yet the product itself was extremely problematic. Whilst the cost of living index was useful, it seemed to colonial officials that the implication of the index was that wages needed to be increased, not forced down to match those in the surrounding hinterland. And whilst officials had considered that it might be desirable to drive down the total population of the Rock for strategic reasons, the best method for doing this was seen as emigration programmes.⁴⁰ The idea of forcing the working class population into Spain, which would have easily solved the military problems posed by overcrowding, was rejected outright. Eastwood was concerned that using market

³⁶ TNA, CO 91/522/3. 'Minutes of Conference on Wages in Gibraltar'. 19 July 1945.

³⁷ *Ibid.*

³⁸ *Ibid.*

³⁹ TNA, CO 91/522/1. 'Note by S. E. V. Luke'. 2 March 1945.

⁴⁰ TNA, CO 91/522/1, 'Governor Eastwood to Secretary of State for the Colonies Oliver Stanley'. 26 April 1944; GNA Book Files 701-809, 'Letter from Dawe to Governor Eastwood'. 7 March 1944.

forces to relocate poorer members of the community would be ‘deeply and justifiably resented by Gibraltarians’.⁴¹ Whilst Eastwood also felt that if Gibraltarians were to learn of Hayek’s proposals, they ‘would provoke unfavourable criticism of the writer’s view’.⁴² Moreover, Eastwood held an in-principle belief that if Gibraltarians were to be relocated then they should be given opportunities to move within the empire, in keeping with their British nationality.⁴³ Whilst Hayek was comfortable with the Gibraltarian population being assimilated into Spanish culture, the government of Gibraltar had just appointed Dr. H. W. Howes as its first director of education with a specific brief to encourage a sense of British identity amongst Gibraltarians.⁴⁴ Worse still, Hayek’s visit heightened the desire of the AACR to see reform of wages and living conditions. Hayek himself had told AACR representatives that he would be making proposals to the colonial government that would improve conditions for workers. Given that the only part of Hayek’s work to be published, the cost of living index, demonstrated that workers were facing a cost of living crisis, the AACR assumed that Hayek’s report had recommended dramatic wage increases. Refusal to publish the report was taken, wrongly, as evidence of this, leading Eastwood to lament ‘I am afraid that, in view of the general disappointment at the failure of Professor Hayek’s visit to produce any concrete advantages for workers...the non publication of his report...will result in the accusation that we do nothing but bring in experts who fail to solve our problems’.⁴⁵

At the level of political economy, there was an obvious objection to Hayek’s proposals. This was that they would require the majority of Gibraltar’s population to relocate into a country the economy of which was run along autarkic principles (and indeed, continued to be until 1959) (Grocott 2015). Beyond this, Hayek’s proposals were

⁴¹ *Ibid.*

⁴² *Ibid.*

⁴³ *Ibid.*

⁴⁴ See, Howes (1993) and (1946).

⁴⁵ TNA, PRO CO 91/522/3. ‘Governor Eastwood to Secretary of State for the Colonies, Oliver Stanley’. 24 May 1945.

significantly out of step with Colonial Office policy. Even the government of Gibraltar, traditionally a paragon of *laissez faire* virtue, could not accept the proposals. And in both cases, officials simply could not see their way to Hayek's thinking because in various ways his proposals either offended their sensibilities or else their sense of professionalism. More practically, Dawe, the colonial office permanent secretary, was committed to the continuation of the British Empire (post-war, for example, he worked tirelessly for the retention of Cyprus, despite the controversial nature of this proposal). For Dawe, the method by which colonies would be maintained, was via planned, strong, economies, full employment, and close ties with Britain (Lewis, 1996, pp. 205-7). Such thinking chimed nicely with that of Oliver Stanley, the Secretary of State for the Colonies. As Luke had pointed out, Hayek's thinking 'was wholly contrary to the general policy to which the Secretary of State is committed for improving the welfare of Colonial peoples'.⁴⁶

Whilst there were occasions upon which officials tried to revive the Hayek report in the hope that something could be salvaged, even on a day-to-day level Hayek's report met officials who were unsympathetic to his views. In 1945, a new principal officer, Mary Fisher, was appointed in the Mediterranean department of the Colonial Office. She handled papers and proposals relating to many of the aspects of Gibraltar's post-war reconstruction but did not offer forward Hayek's report as a way forward. This is hardly surprising; a few years later, in reference to another inquiry, Fisher expressed herself to be of the opinion that 'it is more important to find a system that...is acceptable to the population than one which is neat and logical on paper' (McIntyre 2014, p. 51). Moreover, as the daughter of H. A. L. Fisher, Mary moved in high society circles (she later went on to be principal of St. Hilda's college, Oxford). Sir Isaiah Berlin was a close family friend and in 1945, Berlin had read,

⁴⁶ TNA, CO 91/522/1. 'Note by S. E. V. Luke'. 2 March 1945.

and been disappointed by, *The Road to Serfdom* written, as he put it, by ‘the awful Dr. Hayek’ (Caldwell 2007, p. 2).

Conditional Support and Rejection

Despite the above, there was some praise for Hayek’s report. One official, Acheson, felt that a similar report would be useful for Malta.⁴⁷ Luke commented that, ‘I do not suppose that a more acute and illuminating analysis of the civilian community in Gibraltar has ever been made’.⁴⁸ Luke was charged with arranging a meeting between Hayek and the Duke of Devonshire, the parliamentary under-secretary of state for the colonies, who was pleased to have such a prominent name working for the Colonial Office. However, as departments and individuals began to return negative opinions on Hayek’s work, enthusiasm for the meeting evaporated and it did not occur. Moreover, the purposes to which Luke and Acheson felt that the analysis could be put to would not have met with Hayek’s approval. They suggested that the wealth which Hayek had identified in Gibraltar could be subject to an income tax to support a system of social security and house building.⁴⁹

Curiously, there exists only one extant example of not only unconditional support for Hayek but also support which clearly proceeded from the same view of political economy. This came from an official at the treasury, Sydney Caine, soon to be Sir Sydney, Vice-Chancellor of the University of Malaya and then, from 1957, Director of the London School of Economics. Caine sought out a copy of Hayek’s report and in an analysis of which Hayek would have been proud, Caine argued that ‘On the question of rent policy [i.e. the Rent Restriction Ordinance]... This is one of the cases in which humanitarian sentiment has resulted in the adoption of a course which in fact defeats its own object’.⁵⁰ Caine therefore

⁴⁷ TNA, CO 91/522/1. ‘Note by A. B. Acheson’. 25 January 1945.

⁴⁸ TNA, CO 91/522/1. ‘Note by S. E. V. Luke’. 2 March 1945.

⁴⁹ *Ibid.*

⁵⁰ TNA, CO 91/522/1. ‘Memorandum by Mr. S. Caine’. 8 March 1945.

agreed with Hayek that rent restriction was the cause of, and not a remedy for, overcrowding. And in-keeping with Hayek's own views he argued that 'rent control is always particularly subject to, and liable to lead to, many undesired results, but rent control in one part of what is essentially a single economic community is peculiarly open to objection'.⁵¹ In addition, Caine was firmly of the belief that the colonies should rely upon economic links with their surrounding regions, and not support from the imperial government, to develop and sustain themselves (Martin 1981, p. 74). On that basis, Hayek's conception of a 'greater Gibraltar' which included the Spanish hinterland would have been very tempting. Yet even Caine recognised that the proposal would need the backing of the Government of Gibraltar. Moreover, much like Hayek, Caine was out of kilter with the views of other officials. Indeed, Caine's move to Malaya occurred precisely because his neo-classical view of economics was no-longer welcome in the Treasury.⁵²

Caine's support aside, the finality of the decision to shelve Hayek's proposals, taken at the conference of July 1945, rested upon the fact that Hayek had refused to alter any part of his report. In June of 1945, Dawe and Stanley had met with Hayek to discuss the report's proposals. Having had, 'a fairly full discussion about the substance of his supplementary on "Some Economic Problems of Gibraltar"', Dawe and Stanley found that Hayek was not 'in any way inclined to depart from his general view that he had set out in his report as being the only effective solution of the overcrowding problem'.⁵³ With no room for compromise and serious doubts in the minds of both the Colonial Office and the Government of Gibraltar, the report was put by.

The Road to Serfdom and the Gibraltar Reports

⁵¹ *Ibid.*

⁵² *Ibid.*

⁵³ TNA, CO 91/522/1. 'Note by S. E. V. Luke', 2 July 1945.

The Road to Serfdom marked the beginning of the latter half of Hayek's career. With the book's publication, Hayek moved away from the study of economics and towards an engagement with political philosophy and political economy. Hayek's reports on the economy of Gibraltar come, therefore, at the moment where he was making the transition from a reasonably well-known economist based in Britain, to a United States-based public intellectual who went on to win, in 1974, the Nobel Prize in Economics and, in 1991, the US Presidential Medal of Freedom.

Hayek faced two intellectual challenges in the latter half his career which are thrown into sharp relief by his work in Gibraltar and upon which, briefly, we reflect on here. In particular, these challenges were the planning of economies implied by the economic ideas of Keynes, and the prevalence of social democratic welfare systems which, in the British and imperial case, were inspired by Beveridge. Both issues invited the question of where Hayek would draw the line between the state and the market, which he later addressed in *The Constitution of Liberty* (Hayek, 1960).

In the 1930s, Hayek had a number of points of disagreement with Keynes over economic theory and, to some extent, practical government policy towards the Great Depression (Gamble, 1996, pp. 151-2). The theoretical point made by Hayek, 'that the market was capable unaided of adjusting to structural shifts in demand' was underpinned by the suspicion that 'Keynes and the Cambridge school were seeking theoretical justification for expanding the role of government and abandoning traditional policies of non-intervention' (Gamble, 1996, p. 152). In Gibraltar, Hayek found just that – the colonial authorities who had maintained a near free trade economy for the colony since the Rock's capture in 1704, had in the 1930s and 1940s moved more towards a planned economy. Estate duties, which Hayek used to calculate the overall wealth of the population for his report, were introduced in 1934 to support extra expenditure by government; housing, financed and built

by the Government of Gibraltar, was first occupied in 1936 with further programmes following thereafter (Constantine, 2009, p. 335); and, as we have seen, rents were restricted in 1939 and yet further in 1940. Whilst Hayek's Gibraltar reports did not address the imposition of estate duties, they nevertheless did challenge the expansion of the colonial state and its expanding role in controlling the housing market. The proposal to remove rent restriction and to direct the working class population into Gibraltar would have returned the Rock's housing market to a fully marketised state with little government regulation. In this sense, we can draw back one year earlier Gamble's argument that Hayek dedicated his efforts after 1945 to 'trying to reverse the influence of Keynes on economic and social policy' (Gamble, 1996). Such efforts were extant in Hayek's programme for Gibraltar, small scale though they were.

We have seen the way in which the Gibraltar government considered the extension of social security to the Rock that took place in the light of Beveridge's 'Social Insurance and Allied Services' report. In particular, wages were of central concern to the Government of Gibraltar, not least of all because of the rising cost of living which Hayek identified. For Hayek's proposal to relocate the working class population of Gibraltar into Spain, the government would have had to allow wages in Gibraltar to fall to those of the surrounding Spanish hinterland. This ran in sharp contrast to previous practice where, because of the significant proportion of work that was created by the municipal authorities the armed forces, it was in fact the imperial government who by default set something akin to a minimum wage because employers needed to track their wages comparatively in order to recruit workers. By setting the wage level of the hinterland as the natural level for Gibraltar, Hayek's plan would have unencumbered the Gibraltar wages market from significant state interference. Hayek's proposals were not simply a bureaucratic suggestion, as with his population survey. The

architecture of wages and rents which Hayek proposed clearly owed much to his thinking around *The Road to Serfdom*.

Related to the architectural structure of the state and the economy, upon reading *The Road to Serfdom*, Keynes by letter, challenged Hayek to ‘draw the line’ as to the role of the state in the economy (Caldwell, 2004, p. 289). Where the line was to be drawn was not fully worked out until *The Constitution of Liberty*. But we can see in the case of Hayek’s Gibraltar reports some early indications of where, from an ideological point of view, the line was to be drawn. When faced with the practical task of organising which organisations should run what, Hayek made it clear that his preference for the provision of municipal services for those Gibraltarians displaced over the frontier by rising rents in Gibraltar should fall to a private company established specifically for the task. Likewise, Hayek’s advocacy of the abolition of rent restriction was made on the basis that its retention effectively represented the ‘confiscation without compensation’ of private property in Gibraltar.⁵⁴ These positions suggest that in 1944, Hayek was erring to the belief that the extension of the state into the market was an inevitable start down the road to serfdom.

Conclusion

Hayek brought back from Gibraltar a barrel of sherry and, in late 1944, held a cocktail party in order to empty its contents.⁵⁵ Celebrations of his time in Gibraltar were to turn sour, however. As we have seen, Hayek’s ideas on the post-war Gibraltar economy proved to be unacceptable to the Gibraltar government and to the colonial office. Unfortunately, Hayek’s silence over his time in Gibraltar leaves unanswered the question as to how it was that Hayek came to write such a problematic report. In regards to some aspects of Hayek’s work in Gibraltar, we might well assume that personal prejudices against Hayek played a role in

⁵⁴ TNA, CO 91/522/2. ‘Some Economic Problems of Gibraltar’, p. 11.

⁵⁵ I am grateful to Robert Leeson for drawing this interesting detail of Hayek’s Gibraltar visit to my attention.

preventing his ideas gaining traction. But more broadly, Robert Skidelsky outlines how, in the light of *The Road to Serfdom*, ‘Keynes accused Hayek of putting ideology ahead of statecraft’ (Skidelsky 2006); a charge similar to which, as we have seen, a number of officials in the Colonial Office and Government of Gibraltar also put when they received Hayek’s Gibraltar reports.

The fact that Hayek’s proposals were unacceptable to policy makers might be dismissed as reflecting political naivety on Hayek’s part, and certainly upon occasion Hayek was accused of such naivety later in his career. But the way in which Hayek’s ideas for the Gibraltar economy map on to his ideas in *The Road to Serfdom* suggests that the report represented a small scale attempt to counter the movement towards greater state organisation of economic affairs; one which was so outwith the dominant political wisdom of the time that it made the proposals unsupportable.

Acknowledgments

I would like to thank Stephen Dunne, Jo Grady and Gareth Stockey for helpful comments made on an earlier draft of this paper. I would also like to thank the journal’s two anonymous reviewers for their helpful comments made during the review process.

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