

Reasons for the economic instability in the 1930s politics essay



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Abstract: This paper examines the reasons for the instability in the world economy in 1930s. First, the main causes are listed and given brief overview of the explanations. The most detailed attention is paid to the Hegemonic Stability Theory, as I believe it provides one of the most comprehensive answers for all the issues of the specified period. I also directly quoted the vision of R. Keynes regarding some of those issues. In conclusion I tried to draw up a parallel with the current realities and point out main lessons from the history and their reflections of the events of 1930s.

The reason why I chose this essay title is the fact that most of the issues of the specified period are not just still relevant, but they also directly reflect current realities. As the old Kazakh proverb says: “ Tamyry zhoktyn - erten bolmas” (Those who have no roots [do not treat heritage], have no future). Therefore, it is vital to study the origins of the world crisis of 1930s, as it is often referred to as one of the worst turmoil in the modern world history for its spread, length, and depth. The recent protracted crisis is often compared to it lately.

As any river has lots of springs to start from, the instability of world economy of 1930s started from many fragmented issues and events. The most commonly accepted causes are: the end of the Pax Britannica epoch, the World War I and its consequences, the lack of hegemony from US, the collapse of the gold standard, the chaotic international economic relations in the Interwar period, crash of the liberal approach in economy, the switch to intensified technological advancement in production and etc. The list of the causes can go on and on, due to the variety of visions and approaches to the issue.

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There are as much explanations and theories as much causes as listed above and even more. In my opinion, the Theory of Hegemonic Stability (main theorists: C. Kindleberg, R. Gilpin, and S. Krasner) gives the most comprehensive answer for all the issues of the specified period. Under this theory the world order is secured in terms of stability only under a dominant rule of one leading state. Kindleberg directly states that the main reason of the interwar crisis was the lack of will from United States to replace the Great Britain as the hegemonic power. (Kindleberg, 1973).

As it is directly stated in the core books on IPE, throughout the whole nineteenth century Great Britain possessed economic hegemony over the most of the world. According to Kindleberg, not until 1931 was it clear that Britain could not provide the leadership. (1973)

Great Britain's supremacy leadership was closely associated the openness of international trade and capital movements, with the beginning of globalization of the markets, the rise of first multinational corporations, and the general economic and political stability of that period. World War I resulted in the end of British hegemony and most of the conditions that it had promoted. Soon there was an increase of the protectionism all across the world and further uprising of regional blocs. Foundations of the global economy were eroded by the decline in capital mobility, which finally resulted in the growing economic instability and the depression. So, the overall situation was not so positive for the new hegemon.

' The cause of this tragic chain of events has often been laid at America's doorstep. The United States was, at the end of World War I, the world's

strongest economic power. But it steadfastly refused to take on the leadership role that Britain could no longer play. This “irresponsibility” was most vividly exemplified in the minds of many people by the infamous Smoot-Hawley Tariff (1930), which raised the average tax on imports to the United States by about 40 percent. At the beginning of the depression, the United States shut its markets to foreign goods and thus helped propel the world economy into its worst swoon ever. The unwillingness of the United States to coordinate its monetary and currency policies with other countries merely exacerbated the situation. This isolationist posture on the part of the world’s economic hegemon had negative consequences for most other countries and the United States itself.’ (H. Milner, 1998)

As stated above the chaotic economic relations that arose in that period contributed significantly to the destabilization of the world economy. As states Kerry A. Chase, international relations theorists attribute the collapse of the world economy into protectionism and rival trading blocs to global causes such as hegemonic decline, problems of collective action and free riding, or the macroeconomic disturbance of the Great Depression (Kerry A. Chase 2004).

We find that the different currency blocs of the 1930s had very different implications for trade. Sterling area countries traded disproportionately among themselves and with the rest of the world. Gold bloc members, in contrast, did not trade disproportionately with one another or with the rest of the world, reflecting their indiscriminate use of tariffs and quotas to prop up increasingly overvalued currencies, which neutralized any stimulus derived from exchange rate stability. Countries applying exchange controls, despite <https://assignbuster.com/reasons-for-the-economic-instability-in-the-1930s-politics-essay/>

stabilizing their exchange rates, traded less with one another than their economic characteristics would predict, due to the trade-inhibiting effects of those policies. (Kerry A. Chase 2004).

Also, within the Interwar period happened a crash of former liberal approaches in economy. The economy proved to be incapable to regulate itself under a new circumstances and it finally led to government intervention and creation of new economic model under the theories of R. Keynes, or so called Keynesian revolution. He was among first researchers that stressed on principal difference of new order and incapability of prompt readjustment to it. As he stated in his *Economic Possibilities for our Grandchildren* (1930): " We are suffering ... from the growing-pains of over-rapid changes, from the painfulness of readjustment between one economic period and another. The increase of technical efficiency has been taking place faster than we can deal with the problem of labour absorption; the improvement in the standard of life has been a little too quick; the banking and monetary system of the world has been preventing the rate of interest from falling as fast as equilibrium requires." (R. Keynes, 1930).

The war debts and associated issues are also constantly mentioned in the literature. Yes, there were winners and there were losers. The contradictory reparation payment system resulted in strive for " justice", which further pre-set conditions for escalating into World War II. But were war debts really affecting the economy within the specified period?

' At the conclusion of World War I, war- related debts were about \$12 billion, an amount greater than total U. S. private long-term foreign assets, and

equivalent to perhaps 15% of U. S. national income. Every major western country owed something to someone, but on net most of the war debts were owed to the United States by France, Great Britain and Italy; these four countries in turn, were to receive most of the payments by Germany on the reparations account. The largest single net creditor was the United States. The largest single net debtor was Germany. The heated and lengthy economic debate about war-related debts, conducted in the context of passionate moral and political disputes, produced two distinct strains of thought: one was the well-known discussion of transfer; the other, less adequately incorporated into the literature, held that the war-related debts critically disrupted the international financial system, possibly started the depression, and probably aggravated it.

No simple, direct line can be drawn, however, from war-related debts to world economic activity: payments on war-related debt were made in the 1920's with no obvious adverse effect on economic activity; payments were cancelled in the 1930's with no obvious beneficial effect on economic activity. Accordingly, most accounts of the world depression center on elements other than war-related debts (H. Fleising),

The failure of the gold standard was also one of the reasons for the world crisis of 1930s. Why? Natalia Chernyshoffa, states that gold had emerged as the dominant monetary regime of its time and as a robust nominal anchor. She goes further and states: " The claim was made that it helped to promote international trade and investment, and the data now back it up. Small wonder, then, that after the violent disruptions of World War One the world anchored again to gold in the 1920s. Unfortunately, despite its past record <https://assignbuster.com/reasons-for-the-economic-instability-in-the-1930s-politics-essay/>

for stability, the reconstituted gold standard failed; it is now generally thought to have exacerbated volatility and contributed substantially to the Great Depression" (N. Chernysheva, 2009).

In conclusion I would like to draw a parallel to nowadays. For the past ten years there were constant " prophecies" regarding the so-long expected decline of US hegemony and glorious emergence of China as a new world leader. Recent crisis made those claims sound louder, because China is the only country that maintained comparative stability and gradually started turning into the largest creditor. It actively acquires assets worldwide (mostly energy sources, but interested in finance investment as well), plays more dominant role in regional and more active role in international organizations. With some discrepancies, but nevertheless, we might see the New China just as the world saw New US at the beginning of XIX century.

There are also non-stop debates regarding the final emergence of unified Europe, which might overshadow the current US and proposed Chinese dominance. And there is a " smart combination" of all propositions proclaiming the New Order by the triangular US-Europe-China dominance. The same way, back in 1970s there were precautions regarding the rapid rise of Arab OPEC-states backed up by rapid growth of oil prices. As there were precautions regarding the Japan, backed up by its miraculous economic achievements in 1980s. Now the whole fuss is about whether it be China or Europe that would step into US left vacuum...

So, the history teaches us a good lesson: that time passes and all of those propositions regarding the New Ruler of the World either prove in reality or

die in dust on the book shelves. Another lesson that was learned well from the history is: that none of the Empires of the Past had repeated their successful fate twice. So, if US would decline sooner or later, and its place gets occupied by the New Hegemon, it is doubtful that US would rise again like Phoenix. And the final and the most relevant to this essay lessons are: a) that the throne never stays vacant for long... b) the period between two rulers (hegemons) is characterised by instability, anarchy and chaos (the worst curse in Chinese is: " I damn you, may you live in chaotic period")... Therefore, I would conclude that it was natural for US to step forward and replace Great Britain as soon as it was no longer acting as a hegemon in world affairs. But, not willing to bear the full burden of the obligations of the new ruler US did not act like a " real hegemon". It did not use all of its available " muscles" to stabilize the situation neither in Europe nor in other parts of the world, and in fact, it was not really interested in it. Therefore I would say that the " bad hegemon" is worse than no hegemon at all.

At the end, going back to our days, I would say that regardless of who is going to be a lead nation in future or would US somehow recover soon, it is crucial for my country (Kazakhstan) and for the rest of the world to maintain positive political and economic relations with all of the candidates for the Hegemone's throne as good as with the existing leader - US (proverb " The old lion can still roar" is still actual). Hegemons rise and fall, crisis come and leave, but life goes on and we have to be flexible under any circumstances...

Economic Possibilities for our Grandchildren

Source: Scanned from John Maynard Keynes, *Essays in Persuasion*, New York: W. W. Norton & Co., 1963, pp. 358-373. <http://www.marxists.org/reference/subject/economics/keynes/1930/our-grandchildren.htm>

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(Natalia Chernyshoff a, David S. Jacks b, c, Alan M. Taylor, Stuck on gold:

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