Impact of the wars on britain's economy

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British Economic Performance Assignment

In Britain in the interwar years the government faced a number of key economic challenges. Identify the causes of any 2 of these problems and evaluate the government's responses to them.

The interwar years of (1918-1939) is an era that begins with the aftermath of World War I and ends with preparations for World War II. In recent years, economic historians have displayed extensive interest in studying this historic phase. With the recent availability of comprehensive statistical data like Gross Domestic Product figures, economists have now been able to better understand, review and evaluate Britain's economic performance. Before World War I, Britain was the world's largest industrial and economic superpower. It had the largest empire with both strong financial and trading powers. Britain was also the world's main exporter of manufactured goods. However, the impact of the First World War left Britain's economy to suffer from severe recessionary pressures *(Alford, 1972; Thorpe, 1994).*

The interwar years are renowned to be one of the most controversial periods in economic history. There are contrasting views regarding whether the interwar years were characterised by overall economic growth or stagnation. During these years, there were constant fluctuations in the economic cycle as there were both periods of boom and bust. For many, the era is reflected by worldwide depression and a deep economic crisis. In contrast, economists like *Feinstein (1963)* claim that the interwar years observed long-term economic growth, with rises in earnings, house building, new industries and the growth of welfare benefits. In this essay, I will examine the various economic challenges of the interwar years such as mass unemployment, poor housing, deteriorating exports and the collapse of staple industries. In doing so, I will explain and evaluate the government's responses to the various economic challenges of the entire period *(Alford, 1972).*

The interwar years observed structural transformation in the economy, with a shift from the dependence of old industries like textiles, towards new expanding industries like electrical engineering. In the interwar period, Britain started to face key economic, social and political challenges. The years were characterised by *' cyclical depressions of 1921-22, 1929-32 and 1937-38' (Aldcroft, 1983: 135).* These depressions had a worldwide impact on the economies of countries like Britain which faced an acute unemployment problem and Germany which faced problems of hyperinflation. Each country sought different approaches to deal with the economic crisis. In Britain, there were structural problems with the major staple industries including cotton, textiles, coal, iron, steel and shipbuilding which were all massively depressed. A major cause of this decline was Britain's inability to compete in overseas markets, and more importantly her delay in industrialisation. This triggered the economic problem of mass unemployment *(Aldcroft, 1983; Alford, 1972; Pollard, 1983)*

One of the worst affected industries was The Lancashire Cotton Industry, which struggled immensely to keep itself going. Prior to the war, it was Britain's leading exporter of cotton textiles and held the title of being the *' capital of the world's textile industry'* . However, Hall asserts that in the interwar years, it could no longer be stated *' that Britain's bread hangs by*

Lancashire’s thread’ (Hall, 2004: Online). This is because the Lancashire Cotton Industry, like many others was underperforming and no longer contributing to economic growth *.* There were also regional disparities in unemployment as the declining staple industries were located in the North whereas; the new expanding industries were situated in the South. Therefore, the North experienced severe depression. In 1934, the government introduced a Special Areas Act to provide grants and direct help to depressed areas. However, the policy failed to entirely eradicate the unemployment problem in such areas *(Alford, 1972; Heim, 1983; Pollard, 1983)*

Unemployment remained a persistent problem throughout the interwar years and *‘ rarely fell below 10% of the insured labour force’.* In 1932, at the peak of the depression, it *‘ rose to nearly 23%’ (Aldcroft, 1983: 133).* This equates to over three million people out of work *.* During the entire period, there were numerous protests such as the 1936 Jarrow March which was organised by the National Unemployed Workers Movement. It was specifically aimed at drawing attention to the heavy unemployment problem of the North East of England. In response, the government made an attempt to encourage its main industries to form cartel like arrangements. This was a government attempt to restrict competition and help strengthen the production of key industries. However, Britain’s rough economic circumstances pushed many people into, rather than out of unemployment. There has also been recent debate on whether the adoption of Keynesian policy could have helped solve the unemployment problem *(Aldcroft, 1983; Collins, 1982; Thorpe, 1994).*

It has been argued that if the government had utilised its resources more effectively, it could have contributed to a reduction in the decline of the basic industries, leading to enhancement in the growth performance of the economy. On the contrary, in 1931 the government made cuts to the salaries of all public servants by 10%. This made financial matters worse for the people. In the same year, the government’s Unemployment Act established both an Unemployment Insurance Statutory Committee and an Unemployment Assistance Board, with the purpose of recommending changes and managing the distribution of welfare benefits. *Benjamin and Kochin, (1979: 474)* assert that *‘ the persistently high rate of unemployment in interwar Britain was due in large part not to deficient aggregate demand but to high unemployment insurance benefits relative to wages’.* This implies that benefits were too generous and that government policies failed to relieve the crisis of unemployment *(ibid).*

In the early 1920’s, Britain’s economy benefitted from a boom that was sparked off by the government’s abandonment of war time controls and the implementation of more flexible monetary and fiscal policies. Such policies increased consumer spending on electrical appliances like radios, cookers and refrigerators. However, in 1921 with the collapse of consumer spending, the boom came to a sudden halt, and as a result Britain was forced to leave the gold standard. At the time, the economy was in desperate need of stimulation to increase consumer spending and production capacity. Advocates of Keynesian economics proposed a need for extra government expenditure. However, the government had rejected these suggestions and instead, adopted deflationary policies such as high interest rates and big cuts in public expenditure to help balance the budget and strengthen the value of sterling *(Aldcroft, 1983; Alford, 1972).*

In the 1920's and 30's unemployment was rife. The government's policies were criticised for delaying recovery as high interest rates deterred modernisation and investment whereas, cuts in government spending increased levels of poverty and inequality. In 1925, Prime Minister Winston Churchill decided to return to the gold standard at a pre-war parity rate of *$4. 86* to *£1* . This led the pound to be overvalued by 10%. Churchill made a major mistake in deciding to join at such a rate. This is because the pound was worth extremely less during the interwar period. Moreover, *Alford* claims *' it is attractive to depict this episode as one in which villainous bankers led by Montagu Norman, Governor of the Bank of England, dictated policy to successive governments regardless of its broader economic consequences, which they did not understand, and heedless of its social costs, which they considered to be unavoidable' (Alford, 1972: 30).* A consequence of this overvaluation meant that imported goods were cheaper to buy, whereas exports became much more expensive *(Aldcroft, 1983; Alford, 1972).*

A key economic challenge of the interwar years was experienced by worldwide economies in The Great Depression of 1929-32, also known as the American Wall Street Crash. This crash had severe repercussions on worldwide balance of payments. Like other nations, Britain imported the crisis and observed a sharp downturn in numerous sectors such as its export market which had a negative impact on its economic performance. In 1931, the government abandoned the gold standard. This devalued the pound. Alternatively, a sterling zone was created wherein sterling was a free floating currency that was regulated by the Bank of England. This was a significant policy of its time because it still operates in contemporary Britain. Furthermore, in the 1930's the government pursued fiscal policies that involved increasing interest rates, taxation and cutting public expenditure for example, cutting benefits by 10%. This was an attempt to help protect the currency, raise revenue and promote economic growth. Overall, there is an association between a strong currency and a strong economy *(BBC, 2014: Online; Murphy, 1973; Thorpe, 1994).*

During the interwar years, Britain was subject to social problems like poor housing and living conditions which were blamed on the governments tight fiscal policies. After some time, the government introduced a cheap money policy to help reduce debt levels and increase consumer spending. Towards the end of the 1930's, the Fillip of Rearmament Programme was introduced to help Britain prepare for the Second World War. The need for rearmament created jobs for many people and in World War II there was near to full employment. The 1930's cheap monetary policy brought with it a reduction of interest rates to 2% by the Bank of England. This helped generate cheaper mortgages as more money became available for lending. Also, the ability to borrow cheaply helped promote business investment and encouraged more people to buy homes. It may well be argued that the governments low interest rate policy proved effective in preventing an ill housing situation from arising in the future *(Alford, 1972; Murphy, 1973; Pollard, 1983)*

Following cheap money policy, living standards had greatly improved and there was an increasing demand for more house building. Consequently, the government subsidised a huge house building scheme to help tackle housing issues. As part of the programme, *‘ local authorities built 1. 4 million new homes … and a further 0. 5 million privately built houses were also subsidy aided, constituting between them 42% of all houses built over the period’ (Murphy, 1973: 761).* Ultimately, government policy triggered a housing boom, which helped provoke vigorous economic recovery. Following the boom there was an increase in the purchase of consumer durables like, household appliances such as furniture. The increased the demand for goods and services and also brought about high employment gains in the building industry *(Murphy, 1973)* .

During the interwar years, Britain’s economy suffered from severe balance of payment problems such as deteriorating exports in its staple industries. This was because less developed countries like Japan had started challenging her dominance of world trade. Such countries paid their workers lower wages which attacked Britain’s ability to compete in overseas markets. In the interwar years, *‘ Britain’s share of total world exports declined from 13. 9% in 1913 to 10. 8% in 1929 and 10. 2% in 1937’ (Aldcroft, 1983: 74).* To help boost British exports, the government established the British Trade Corporation. It also tried to encourage trade via a series of bilateral contracts with countries with which it was an important customer. Additionally, in the 1920’s an Overseas Trade Act was established to help regenerate British overseas markets and improve Britain’s international trade position to its pre-war level. However, the government’s policies did succeed in temporarily boosting Britain’s export performance (*Aldcroft, 1983; Murphy, 1973; Pollard, 1983)*

Nevertheless, Britain’s trade position could not be improved entirely because of the deep depression of the old industries. In contrast, imports were much higher than their pre-war level. This is explained by Britain’s lack of self-sufficiency to produce its own foods and raw materials. In 1932, Prime Minister Neville Chamberlain introduced the 1932 Import Duties Act to protect Britain’s position in the overseas market. Subsequently, imports were subject to a 10% tariff on entry. To a certain extent, this helped tackle trade problems. In addition, an Import Duties Advisory Council was set up to oversee, monitor and provide advice on tariff levels. This policy was beneficial in raising revenue for the government to modernise the new industries such as the motor vehicle industry. However, the revenue raised was very limited because British imports were highly expensive. Therefore, the government’s tariff policy proved less effective in improving Britain’s economic performance *(ibid).*

In conclusion, during the interwar years Britain’s economic performance suffered considerably in comparison to its pre-war economic superiority. The economy suffered from both internal and external challenges. Many economists have argued that the nature of economic policy taken by the governments of the interwar years lacked an understanding of the causes of the economic challenges it was attempting to deal with. For instance, the government neglected the decline of its staple industries which caused high unemployment, and also drastically affected the export performance. On the other hand, as the economy did not witness complete economic stagnation, it could be argued that the government was not completely unsuccessful in dealing with the economic challenges of the interwar years.

During the interwar period, there were also periods of high economic growth and increased consumer spending. However, past economic history statistics are increasingly questioned and have been criticised for fabricating the true economic picture. Moreover, many of the statistics have now been revised. Overall, there are arguments both for and against the government's success in dealing with the economic challenges of the interwar years. In addition, the economic history of the interwar years and the government's policy making has led many economists to question the extent to which future governments should intervenes in the market economy and whether the economy should be left to entirely to market forces of supply and demand.

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