What happened during the great depression of 1929-32 and the subsequent recovery? What was the role of government policy in bringing about the recovery? How did conditions and policies in Britain differ from those in other industrialized countries? These are some of the key issues discussed by Dudley Baines in this review of recent research on the economic history of the 1930s.

Recovery from the Depression in Great Britain, 1932-39

The most serious depression that the international economy has so far experienced started in 1929. All countries suffered, but not equally. In the worst affected countries, (e.g. the United States and Germany) the characteristics of the depression included a fall in the price of food and raw materials; a fall in business profits; a disastrous fall in investment; a reduction of industrial output; a rise in unemployment; a fall in the standard of living and the collapse of financial institutions including many high street banks. The depression also had profound political consequences, leading, in many countries to increased government intervention in the economy. In Germany and Japan it was followed by the rise of fascism.

Measuring employment poses some problems. For example, the frequently quoted statistic that 22.1% of the labour force was unemployed in 1932 is misleading. It includes only the two-thirds of the labour force who were covered by unemployment insurance. For a variety of reasons those covered by insurance were more likely to be unemployed. Economic historians have had to re-estimate the amount of employment and unemployment (taking account of part-time working), using as far as possible, the same criteria as we do today.

Britain and the world depression

The '1930s'ln Britain is often thought of as a disastrous decade dominated by unemployment. In recent years, however, economists and historians, of whom the most influential has been Charles Feinstein, [11 have created far better data about the economy than were available at the time. These data show that output and employment fell less in the 1929-32 depression in Britain than in most other countries, and amazingly, most people in Britain did not suffer a fall in their standard of living. The recovery from the depression was also exceptionally fast. The total output of the economy [GNP] had regained its 1929 level by 1934. The United States reached its 1929 output in 1937 - only to fall again. France did not recover until after the Second World War. [Figure 1]

There was no 'radical' political change in Britain, compared with Germany and the United States, for example, nor was there any serious move towards the management of the British economy before the Second World War. [2]

From 1929 there was a sharp fall in the value of international trade, leaving the British export industries no option but to cut output. By 1932, unemployment which had been about 1.5 million in 1929, had risen to 3.4 million, or 15.6% of the labour force. [Table 1] However, employment losses were larger in the export industries export and the regions where the exported industries were located. (South Wales, Lancashire, North-East England and Central Scotland.) Employment in iron and steel, coal, shipbuilding, cotton textiles, and mechanical engineering fell by 713,000 between 1929 and 1932. The fact that the decline in the export industries was relatively so large shows that the 'knock on' effect of the depression in exports was limited. There must have been some powerful countervailing force which kept many domestic industries reasonably profitable.

There were two main reasons for the relative mildness of the depression in Britain.

(a) Britain was the world's largest importer of food and raw materials.

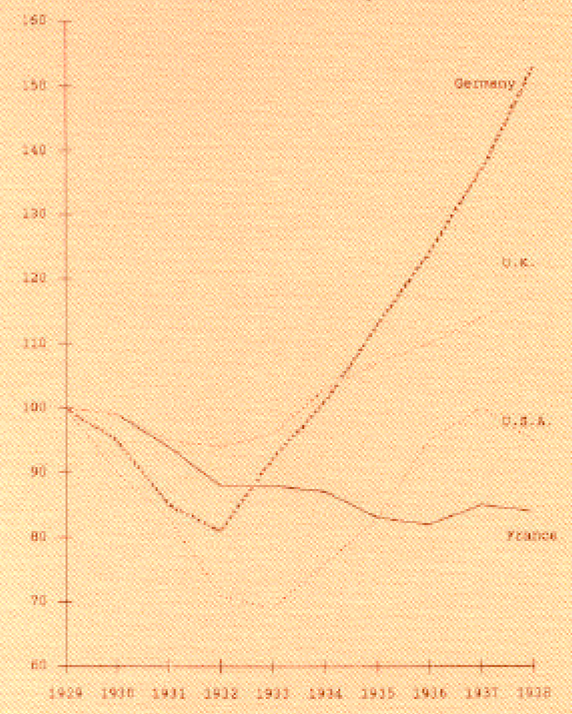
(b) There was no financial collapse.

There was a sharp fall in the price of food and raw materials in the early 1930s. The industrial depression meant that demand for raw materials - although not for basic foodstuffs - fell. Another factor was that in the 1920s, large quantities of food and raw materials had been held back from the market because prices were low. Obviously, if the goods were not sold borrowing had to increase. The financial crisis meant the collapse of loans and, consequently, large stocks of food and raw materials were dumped on the world market.

The fall in prices after 1929 raises a problem of analysis. For every seller there had to be a buyer. When prices fell, people would not increase their purchases of food and other necessities to any great extent. What they would do was spend more on other goods. The demand for industrial goods should *have increased*, helping investment and industry. Why then did the international depression spread so fast? There are several possible answers to this problem, including the financial crisis which we will deal with below. Another is that the reaction to the depression, particularly by governments, meant that there were few gainers. [3] For example, the response of many governments to falling prices was to increase tariffs. This made people pay more for imports, which in turn reduced domestic demand. It also led to retaliation and further falls in exports.

Dudley E. Baines is Senior Lecturer in Economic History at the London School of Economics, and the author of *Migration in a Mature Economy: Emigration and Internal Migration in England and Wales, 1861-1901*. He is the honorary director of the project, sponsored by the Economic History Society, entitled "Economic Change and Society"; this has been developing a new A.S. paper for schools and colleges.

Figure 1
REAL GNP, 1929-1938 (1929 = 100)



Britain was the world's largest importer of food and raw materials. Tariffs were not imposed during the depression itself and even when they were in 1932, they did not seriously increase the price of food. Free trade was an article of faith for the Labour government which was in office in 1929 and there could be no tariffs before their demise in 1931. The farm lobby was also very weak compared with today, largely because two-thirds of Britain's food was imported.

The change in the terms of trade (see box) had a profound effect. The real income (i.e. their money incomes adjusted for the change in prices) of the majority of the population actually rose between 1929 and 1932. The effect of the depression was *to redistribute* income from the unemployed to the employed, which was quite different to its effect in most other countries. The total amount paid in wages and salaries seems to have fallen by about 10% between 1929 and 1932, which was the same as the fall in prices. Hence, total consumption must have remained broadly the same. (The usually accepted estimate is that consumption rose by 2%.) The greatest losses were suffered by the new unemployed, of course. But the standard of living of the 19 million or so who did not lose their jobs must have risen. This meant that demand held up, and businesses that did not depend on exports could continue to prosper moderately.

The second advantage that the British economy had was that there was no financial collapse. In contrast to many other countries, the British banks were never put under serious pressure from falling domestic business. The main threat to financial stability came from overseas, particularly during the international banking crisis of the summer of 1931 (see box). The crisis came about because the central European banks were heavily indebted to banks in the United States [and to some extent to French banks]. These loans were recalled because of demands from within the U.S.A. Foreigners then began to withdraw their holdings of sterling in London (i.e. there was a run on the pound). The run was stopped when the Bank of England took the pound off the Gold Standard, allowing the exchange rate to fall, to a level which made it attractive to hold sterling again. This crucial decision had very important implications for interest rates and money supply which will be discussed below.

The depression in Britain bottomed out in the autumn of 1932. Output reached its 1929 level in 1934. Several explanations of the recovery have been offered.

Recovery and government policy

There has been no reduction in scholarly interest in government policy in the period in recent years. The reason for this interest is, of course, the light that can be shed on controversies about current policy. This was shown very clearly by the different contributions to a study of the depression recently commissioned by the Bank of England. [4]

Keynes' *General Theory,* which is often taken as a turning point in the history of economic policy, was published in 1936. An implication of Keynes' work was that governments could intervene in the economy to maintain employment. The history of economic policy in the recovery, when the budget was balanced (I 932 to 1937), has been seen as a story of an obdurate Treasury resisting attempts by economists and others to introduce more radical economic policies.

Terms of trade: This is a measure of the relationship between the price of imports and the price of exports. If, for example, the price of goods imported into Britain falls more rapidly than the price of exports (as happened in 1929-32) then Britain gains at the expense of her trading partners in the sense that a given volume of British goods will buy more from abroad after the change than before.

The gold standard and the crisis of 1931: Under the gold standard countries were required to allow the free conversion of their currencies into gold (or approved foreign currencies). Thus after Britain returned to the gold standard in 1925 any foreigners holding money in Britain (for example, in the form of bank deposits or British government securities) could convert those assets into gold and withdraw the gold from Britain. For various reasons, the pressure to do this was increasing. In September 1931 it became evident that Britain no longer had sufficient means to meet these demands and she was forced to abandon the gold standard.

These attacks on government or monetary authorities are unhistorical. We may be able to establish to our own satisfaction what the British government should have done. But this does not mean that it was likely that they would have done it, nor that they can be blamed for not doing it. No country recovered from the depression of the 1930s through an increase in government spending, except where it was associated with armaments, as in Japan and Germany. Even in the United States where in 1932 a government was elected that was committed to intervention in the economy (the 'New Deal' programme), Keynesian policies were not understood, and government spending was strictly limited before the onset of re-armament in the late 1930s. [5]

It is not surprising that it took so long for fiscal policy - in the sense of a deliberate attempt to boost demand by cutting taxes and/or raising government spending - to be accepted in Britain and in most other countries. As we have seen, the *General Theory* was not published until 1936. The implementation of fiscal policy would have required the government to accept responsibility for the management of the economy, which they had never really done even in wartime. In turn, this would have required agreement among economists, a change of view in the business community (who had long thought intervention to be disastrous) and profound changes in the way that the government did its day-to-day business.

Governments and monetary authorities did have some idea about monetary policy in the 1930s. It was accepted that, if

recovery. ıe to allow money supply to increase. In fact, money supply did increase in Britain after 1931, in contrast to the United States and France where recovery was very slow.

Recovery and the International Economy

In the early 1930s it was necessary for the British economy partly to be insulated from the rest of the world. The general problem is fairly easy to see. Britain was less depressed than most countries and was recovering faster. If the economy had remained tied to the international economy at the old exchange rate ($4.86 = £ l), Britain, as she recovered, would have suffered serious balance of payments crises and runs of the currency. This is why the fall in the exchange rate in 1931 was important. If Britain had not left the gold standard in 1931 (see box), gold or foreign currency would have to have been supplied to anyone who wanted it at a fixed rate. To avoid a crisis it would have been necessary to persuade people to hold sterling assets by offering them high interest rates. But this would have been incompatible with the low interest rates and the expansion of the money supply which actually occurred, and which were helping recovery. It is also possible that public expenditure would have had to be cut. (Public expenditure cuts were minimal in Britain, although there were a few well-known examples in 1931.)

The scenario is not unrealistic. It is what happened in France. France did not devalue the franc until 1936, and so until then the government was forced to maintain high interest rates and to deflate the economy. The French were poorer, on average, in 1939 than they had been in 1929.

There has been some controversy about the effect of the fall in interest rates which echo similar arguments at the present time. For example, was the fall in interest rates a sufficient cause of recovery? There is evidence that business expectations were rising from 1932 - i.e. at the same time as interest rates were falling. The main reason was the behaviour of wages. As we have seen, money wages did not fall by very much in the depression. Nor did they rise by very much in the recovery. This meant that profits were minimal in 1929-32, but rising from 1932.

We might doubt, however, whether the government had an economic policy, at least in the crucial early stages of the recovery. What frequently happened was that the government did the right thing for the wrong reasons. For example, Britain did not leave the gold standard in order to aid recovery but because the run on the pound gave the Bank of England no choice. It was predicted (in Cabinet) that this would be a disaster. But once Britain had left the gold standard foreign currency began to flow into Britain. Then the Treasury was afraid that the inflow of funds would mean an increase in the money supply and so would be inflationary - a bad thing. However, it was then realised that falling interest rates would reduce the amount the government had to pay to holders of the national debt. (The debt had increased dramatically during the First World War, and ever since then it had been a major aim of Treasury policy to reduce the burden of interest payments.) Only after some time were low interest rates seen as a way out of the depression.

We must be a little careful here. It is clear that Britain recovered from the depression without the active intervention of the government. It is also clear that they did not make any disastrous policy mistakes, in contrast to the governments of several other countries.

Tariffs

The introduction of general tariffs in 1932 was a ma

point in the development of the British economy. international trade was no longer open to reasonable competition. A large proportion of world trade was becoming dependent on bilateral negotiations. In these circumstances the final objections to tariffs were removed. Britain was the only country with a relatively open market and since unemployment remained high it seemed prudent to replace some imports with home production. The advantages of the policy are less clear, however. Companies that were in competition with imports (for example, steelmakers) benefited through import substitution, of course. The rest of the economy lost income and employment. (The argument is essentially the same as we have used regarding cheap food imports.) Whether the costs outweighed the benefits is a technical question, but the most careful analysis to date suggests that the costs of tariffs did exceed the benefits and on balance hindered recovery. [6]

The introduction of general tariffs was followed by an attempt to negotiate an Empire trading bloc. This was an idea that had been first suggested in the early twentieth century. The expectation was that the Empire countries - particularly Australia and Canada - would be willing to exchange privileged access into their markets for British manufactures, in return for privileged access to the British market for their food and raw materials. This arrangement was proposed at the Ottawa Conference in 1932 but was very difficult to negotiate. The Empire countries wanted the opposite of what Britain was proposing: they were anxious to reduce their dependence on food and raw material exports and to increase their output of manufactures. Nor was the British market big enough to solve their export problems.

Almost every country in the world reduced its dependence on overseas trade in the 1930s. Britain was no exception. The proportion of industrial output that was exported fell from 22% to 16%. There is a view that the recovery came about partly because of this shift. The hypothesis is that growth accelerated because the old staple industries were increasingly replaced by 'new' consumer industries, such as motor vehicles, which sold in the home market. This view presents serious difficulties. In the first place, it is difficult to define a 'new' industry. (Motor vehicles would not be one, for example.) More importantly, if recovery was related to structural changes in the economy, those changes would have to be particularly rapid in the 1930s. In fact, the changes were occurring just as rapidly in the previous decade. Nor had they reached the stage when the economy depended on 'new' industries. In other words the recovery depended on 'old' and ‘new' industries. [5]

Re-armament

Re-armament was an important source of growth in Britain in the 1930s but, as every political historian knows, it came very late. Re-armament was not a significant part of the economy until 1938 (9% of national income). 1938 was a good year to increase government spending because there was further depression in the international economy, but that is really another story. Britain managed to recover from the 1929-32 depression without rearmament, which was not true of many other countries.

Table 1

Employment and Unemployment, 1929–1938

	Labour force (millions)	Numbers in employment (millions)	Number unemployed (millions)	Unemployed as % of total labour force (%)	Unemployed as % of insured labour force (%)
1929	21.0	19.5	1.5	7.3	10.4
1932	22.2	18.8	3.4	15.6	22.1
1938	23.6	21.4	2.2	9.3	12.9

Housing

The history of housing in the 1930s is a good example both of the forces that were making the British economy grow, and of the complexities of relating this to the depression. Nearly 3 million dwellings were built in the 1930s, of which two-thirds were for owner occupiers.

Both supply and demand factors had been favouring an increase in the rate of housebuilding for some time. Family formation was exceptionally high and the wartime shortage of houses had not been made up in the 1920s. Rent control was progressively abolished, which allowed rents to rise and made it profitable to build houses to rent. Supply had increased because the motor vehicle allowed houses to be built in the suburbs where land was cheap and because technological change was reducing the price of materials.

On the other hand, the increase in housebuilding was also a consequence of the depression rather than a cause of recovery. Most people depended on credit to purchase (and also to construct) houses. When interest rates fell in 1932, building societies' rates initially failed to follow the market down. This had the effect of swelling the funds that the building societies had to lend, and they took advantage of the situation to boost their position. They began to lend a larger proportion of the purchase price and for longer periods than hitherto which reduced weekly repayments. It is hardly surprising that there was a housebuilding boom.

Unemployment

Our description of the economy in the 1930s has been rather 'optimistic'. How can this view be reconciled with the persistence ofvery high unemployment and its associated social problenis?The causes of unemployment in the ititcr-war period have recently been discussed in *ReFrcsh.* 171 We will consider only one question. If the depression was relatively niild and the recovery relatively rapid, why did more than 2 million people remain unemployed in 1938? Table i shows that there were 3.4 million unemployed in 1932. The vigorous recovery meant that 2.6 million jobs (many in quite different industries) had been created by 1938. Unfortunately, this performance was insufficient to eliminate unemployment because the number of people looking for work in the same period rose by 1.4 million. The rapid growth of the labour force throughout the inter-war years was largely because there was an exceptional number of young adults in the population. Families before the First World War had included larger numbers of children. Because child mortality had fallen, a larger proportion of the children had survived to enter the labour force after the war. On the other hand, the number of married women in the labour force was not high. Only some 10% of married women were working in the 1930s.

It is sometimes said that unemployment in the 1930s was ‘structural'. The assumption is that it was largely confined to the export industries. Hence, Britain could have prosperity in one part of the country (the South East and Midlands), and depression in another (the North and West). There is some truth in one view. Unemployment was higher in 'outer Britain' than in 'inner Britain'. But we have to ask, if the economy was really divided between a fully employed South and an unemployed North why did the unemployed not move from North to South? Part of the reason is that the unemployed did not have the skills that were required. The more important reason is that there were few vacancies in the industries of the South and Midlands. In other words, it did not matter that the majority of the unemployed were living away from the areas where the newer industries were being set up, since those areas also had unemployment and firms could recruit locally. To eliminate unemployment, the growth rate of the economy as a *whole* would have to have been higher.

Conclusion

The depression in Britain was very serious for a great many people; but not for the majority of the population. The factors that made one family poorer made another family richer. It was the unfairness that made the depression so difficult to bear. Consider the effect of the changes in the terms of trade. As a direct con- sequence of the depression in the international economy the terms of trade improved between 1929 and 1932 by 10%. (Each product that could be exported paid for 10% more imports.) As a consequence, the standard of living of most people who kept their jobs rose. On the other hand, fewer goods could be exported which was the main reason why two million people lost their jobs. Each of those people suffered very severely and to a far greater extent than anyone who kept their job gained. Many of the unemployed had little chance of getting their jobs back, for reasons that we have seen. In these respects the 1930s had some things in common with the 1980s.

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