Chapter 2: From the Great Depression (1873 - 1896) to the Inter-war period (1918-1939)

I. The Great Depression

At the beginning of the period, Britain was still considered as the workshop of the world. It was still the world leader in textile, shipbuilding and coal production, as well as in finance with the City of London (the district) being the center for world investment funds and interests. Yet, as Britain approached the last quarter of the 19th century, this dominance in economic and financial matters was coming under attack. The US experienced rapid economic growth following the end of the Civil War (1865).

Another major rival of Britain was Germany. Quite clearly the economies of the new industrial countries were growing a lot faster than Britain’s. According to one estimate, the average growth rate of the British economy between 1873 and 1913 was 1.3%, that of Germany was 3.9 and that of the USA was 4.8%. In the period 1970 to 1910, Britain also seemed to be a serious agricultural producer. It could not compete with the USA, where the opening up of the prairies boosted agricultural innovation. In Britain, on the contrary, income from agriculture had fallen by 25% in less than two decades. Therefore, by the end of the century, British politicians had begun to question the foundation stone of British economic policy (=laissez-faire = free trade [Smith]) since the 1840s.

On the eve of the war in 1914, 92% of the land in Britain was owned just by 10% of the population. The plight of the working classes was made worst by the decline in many traditional industries, who suffered from the arrival of new protectionist competitors, who were willing to protect their young industries. Indeed many European countries such as France, Germany, America made it more and more difficult for Britain to export to them. All these different reasons explained why people spoke about “the Great Depression”.

The Great Depression was characterized by a cycle of slumps which ended in 1810. Contemporaries confidence in continuing growth had been badly shaken (p. 38).

Despite sluggish economic growth (= lente) and productivity rates, compared to its rivals, Britain’s wealth was nevertheless on the rise. Example given, between 1900 and 1930, GDP rose by about 7% a year. Also, Britain still built about 60% of the world’s merchant’s ships. Stable industries continued to sell strongly abroad, particularly textile and steel amounted to 66% of British exports between 1911 and 1913. New industries were also developing, reflecting technological advances, for example in chemicals, rubber, fertilizers, aircraft and electronic engineering.

II. The Great Depression as a myth

The figures for foreign investment rose from 50 million pounds in 1901 to 100 million pounds a year between 1911 and 1913. While the balance of trade was in the red with imports exceeding exports, the massif profit earned by the City of London for banking, insurance and shipping (=invisible earnings) boosted the balance well into profit.

Actually, most of the evidence supports the view that the economy continued to grow. But its lead of the Americans and the Germans were being constantly eroded. Moreover, the role of the empire in the development of Britain was very important. By the closing days of the 19th century, this relatively small country controlled 1/5 of the globe and almost ¼ of the world population.

When recessions slumped hit (?) Britain, it turned to the colonies for financial support, for example by 1900, India was the largest market for British exports. It took up almost 10% of Britain’s output. All in all for many historians, the period known as the great depression was in fact characterized by a slowing down rather than by absolute decline. Despite being inelastic, coal for instance was still massively exported. The shipping industry also remained successful as well as the financial services, though the City of London was increasingly challenged by New York as a financial center.
III. The inter-war years (1918 -1939)
As a result of WWI, Britain's role in international trade had diminished, which affected the British economy.
First, Britain had accumulated one billion pounds of debt, owed mainly to the US.
Second, during the war, the disruption of trade had led overseas customers to reduce the amount of imports that they bought from Britain.
Third, in the Far East, traditional markets for British exports / goods had been inverted by new competitors such as Japan. In the post-war years, the problems of British exporters worsened as many industrial countries protected their economies with tariffs (taxes douanières) and government's subsidies. This made it harder for Britain's old industries such as cotton, coal, shipbuilding, iron and steel. These older industrial sectors were already available as they were dependent on ageing mills and inefficient managerial methods and working practices.
After a brief postwar boom in 1920, a slump set in as world demand contracted. When prices started to fall in 1926, the main exporters (Australia, Latin America) could no longer afford to buy the products of the US and Europe. Wages lagged behind profits and so it was impossible to build strong domestic markets. Capital was not available to invest and diversify and the damage caused by the war meant that financial institutions were sitting on their hands. The result = large scaled unemployment in the regions where the old factories mines and shipyards (site de construction navale) were concentrated: primary in North England and in South Wales and South West Scotland.
So far, Britain has been in favor of free trade. However, faced with the crisis, the government decided to grant protection to British industries. This was the case of Mc Kenna Duties in 1915; they introduced a 33 and 1/3 levy on luxury imports, notably on cars and components (pièces). That was meant to help to pay for the war. Though it was intended as a temporary measure it lasted well until the last 50s and gave a significant blow to free-trade. This situation was made even worse with the beginning of the Great Depression in October 1928 following the Wall Street crash (Black Thursday) = collapse of US stock market. Prices and wages fell and world trade dropped to just 35% of its pre-1929 level. Employment persisted in Britain's traditional industrial centers concentrated in the North, but at the same time a number of new industries and services managed to escape the effects of the depression. They kept exploiting the home market and expanded in the 30s, generating new jobs; this was the case on chemicals, electrical engineering, motor vehicle manufactures which were based essentially in the South, the South East around cities like London which were opposed to the heavy industries in the North.

As a result, inter war Britain was a country of strong regional and economic contrast.

The government had to react, so besides introducing protectionism in the case of the old industries as early as 1925, the royal commission recommended the amalgamation of small mines.
So the government interventions took the form of the Coal Mines Act in 1930, which increased coal output by creating compulsory owners' cartels. This was inspired by work organization. The problem was that government intervention tended to be piecemeal (= patchy) (compte-gouttes) and could hardly be described as a real policy. Laissez-faire -> Interventionism
At the beginning of the 30s, more than 4/5 of imports were still allowed in free. In spite of high unemployment and industrial stagnation, the interwar period and the government remained faithful to a collection of ideas knows as the treasury view (T.V). This treasury view was derived from Victorian ideas on public finance. It placed great emphasis on the importance of the balanced budget.

The aim of this policy was to keep taxation at a (relatively) low level so as not to ruin (gâcher) the spirit of free enterprise.
This, of course, placed limits on the level of government expenditure (dépense) as the treasury view ruled out the idea of running a deficit to finance extensive programs of state intervention.

The treasury view played great importance in the balance voting. Taxation was to be cut at a relatively low level. Idea of running a deficit. In condition of depression, the natural tendency of governments was to abstain from large-scale manipulation of the level of demand in the economy. Interventionism was believed to be counter productive and likely to create a contraction of the economic activity. The post-war generation was nevertheless highly critical of this approach and believed that the government should have undertaken an ambitious program of public investment. According to them, such a policy would have increased the purchasing power of consumers and encouraged a revival of the economic activity and employment. This expansionary policy was associated with Keynes whose ideas found a favor with governments after the second world war but at the same time,, they were largely excluded from the corridors of power (p10-11). Keynes' solution was that recessions should be overcome by government intervention. He argued that the government should direct investment into new economic activity which would stimulate the economy.

III. The British economy since 1945

By the end of WWII the leaders of the western world had learnt the lessons of the 30s. They started to organize together and a united nation monetary and financial conference commonly known as the Breton Woods conference was held in the US in July 1944. The delegates from 44 nations met to discuss the postwar recovery of Europe as well as a number of monetary issues. The conference was meant to regulate the international monetary and financial order and to set up joint bodies so as to prevent major international crisis. The delegates reached an agreement (the Breton Woods agreement) and established an international monetary system of convertible currencies, fixed exchange rates and free trade. For a lot of people, the Breton Wood agreement marked the end of economic nationalism. To facilitate these objectives, the agreement created 3 international institutions:

1/ The International Monetary Fund (IMF) - initially created in 1944 at the time of the conference to encourage international collaboration in monetary matters. It aimed at stabilizing exchange rates and developing a multicultural system between member states who contribute to the funds and draw on it if needed.

2/ The International Bank for Reconstruction and Development, better known as “the world's bank”, set up in 1945. It was also meant to help the recovery of post-war reconstruction. For example, the first act to help this recovery was a loan of 250 million pounds to France in 1947.

3/ The General Agreement of Tariff and Trade (GATT), 1947: an international organization promoting the expansion of international trade through the removal of restrictions (or tariffs) on cross frontier trade.

Worth noticing is the fact that the leader of the British delegation was no other than Keynes, who also became chairman of the world bank. Following Keynesian lines governments attending the Breton Woods conference also accepted that they had a duty to intervene more in the running of national economies. As far as Britain is concerned, two main stages can be distinguished:

1/ the rebuilding of British economy: 1945 - 1955. In 1945, Labour experienced a landslide election victory. Clement Attlee, the new prime minister, was determined to rebuild the country and fight against the combine evils of high unemployment and slow economic growth. He was responsible for the nationalization of 1/5 of the British economy including steel, coal, railways and shipbuilding. Both Attlee government and its Conservative successor Churchill were largely successful in reaching rapid growth, low inflation and full employment. Moreover, the creation of a
welfare state guaranteed better living conditions and health standards for everybody rich and poor. In the UK, the term welfare state was introduced opposed to the German warfare system. In 1942, a man called William Beveridge was appointed by Attlee to investigate on how to help those who were in need of assistance or poverty. Beveridge emphasized 5 giant evils in his report: want (besoin), disease, ignorance, squalor, idleness. To fight against this, Beveridge stated that "all people of working age should pay a weekly national insurance contribution: in return, benefits would be paid to people who were sick, unemployed, retired, widowed". The Beveridge report also established the national health service (NHS), a publicly funded system of free and universal health care that was finally set up in 1948. Everybody had to be covered by a system of national social insurance, "from cradle to grave". However, although the British received aids worth 2.7 billion dollars from the American European Recovery Program called Marshall aid, which was the largest amount obtained by any other recipients, there were considerable problems on the way:

1/ the American put an end to the lend-lease system that had supported the British war effort since 1941: arrangement whereby the US government supplied military equipments and weapons to the UK, in return of British owned military basis for instance in the British West Indies. After this system ended, British had to negotiate an extra loan which emphasized its weak economic position on the international level.

In order to repay war time debts, Britain had to massively export. The following slogan was used by successive governments: "export or die". As a way of making foreign revenue, some industries, e.g. the car industry, were forced to export by the UK government through quotas. Britain was helped by the fact that apart from the USS, all economic competitors were still rebuilding after the war. Yet, in concentrating on manufacturing for export, the country failed to modernize its industry. Finally, the support of Britain to the United Nations at the outbreak of the Korean war (1950 - 53) was accompanied by a massive rearmament program introduced by government in 1951. This had 2 consequences:

1/ cuts were made to the welfare state to pay for the program
2/ it slowed down Britain's economic recovery by taking resources away from the export drive to the armament industry. Britain thus lost important export markets that were difficult to recapture. It also led to a sharp increase in inflation as the price of imports rose (p 14 tableau 2).

3.2. Smooth growth or relative decline (1955 - 1973)
Between 1955 and the beginning of the oil crisis (1973), the British economy in terms of GDP grew at a rate of 2.78% per year, ie a third higher than in the inter war period. Yet the picture wasn’t rosy (doré) at all because the economy of Britain’s rivals grew much faster. Britain’s share of the world trade declined from a quarter in 1950 to just over 10% in 1970. This slow decline caused great anguish (=anxiety) and the poor economic performance of the country was a dominant theme of political debate. Appointed as Prime Minister in 1957 (until 1963), Conservative Harold McMillan came up with the following slogan: "we’ve never had it so good". In 1961, he set up the National Economic Development Council, also known as NEDDY, which was a committee which gathered management, trade unions and government and it was appointed to draft (rédiger) a 5-year plan to boost economic growth both in the private and public sector. => it was the first British attempt to plan economy. Though McMillan managed to reach high growth and low unemployment to a mix economy, an important element was the inevitable decline of industry that has traditionally been strong in Britain, for instance shipbuilding declined from a 37% share of the world market in the 50s to only 3.7% in 1974. This was mainly due to a reluctance by companies to specialize or expand to meet international competitors. Similarly, the car industry started to have serious problems at the end of the 60s, when productivity felt well behind that of European countries as well as Japan. For management, due to a lack of trained staff at that level of competence, poor labor relations
and the strength of the trade unions have also been pointed out to explain this decline. Major strikes were organized in Britain in the 60s., notably of the London dockers. Of course this created delays in shipping for companies that were exporting, which further worsened this situation. Another major strife was that of car industry. Both these strikes received wide media coverage. Small businessmen were often cautious and unwilling to invest in new projects which is why the Labor government of Harold Wilson (1964 - 1970) encouraged the merger (fusion) of smaller companies into larger ones through an agency called the industrial reorganization corporation, particularly in the car, computer, electrical engineering industries. Las but not least, another important was the stop-go cycle of the 50s. In the go phase, the domestic economy grew, reducing unemployment and increasing spending, which, in term, increased demand and fueled inflation. Then, to control inflation, the government used tax increases and credit restrictions to curb demand which slowed economic growth and increased unemployment = stop phase. Sometimes called the stop-go policy, this phenomenon created an unstable climate that prevented long term economic growth. It was difficult for industry to plan ahead and make the necessary investment to increase productivity. As a result, British goods were overprices compared to those produced in neighboring countries. This therefore stimulated imports at the cost of export ans creates a downward spiral in British economy. Another consequence of this stop-go policy has only been visible in the long run = stagflation appeared in the late 60s in Western economies, especially in GB. A particular feature of this period was nevertheless low unemployment (about 2%) -> this had an impact in two ways on people's lives :

1/ for the working class : since, it became very easy to switch jobs and force wages up, as employers competed for workers
2/ the increase in the number of women inserting the job market : before the 60s, there was a gap between working class women and middle-class women. The former (working-class) were often compelled to work after marriage as their families needed the extra income. By contrast, middle-class women were usually expecting stop their work and enjoy a good life. This situation changed in the 60s, where middle-class women started to go back to work, sometimes also to part-time work. In 1951, 20% of women worked part time. By 1972, they were 44%.

Some things didn't change :
1/ women were still paid less than men, sometimes for the very same job. Pressure for equal pay mounted during the 60s, ans the Equal Pay Act was finally introduced in 1970.
2/ women were still concentrated in lower-status, poorly-paid, white-color jobs, as well as blue collar occupations.