

The economic history of Britain - part 4

The post war world

The collapse of the Central Powers in the autumn of 1918, and the subsequent peace treaties brought about major frontier changes, the emergence of several new states and the enlargement of those who had been on the winning side. The Austro-Hungarian

Empire was dismembered and Germany forced to pay huge reparation sums and to this must be added the arrival of what was to become the Soviet Union.

Despite its defeat Germany was still the most populated country in Europe and it possessed the greatest industrial potential. If its neighbours were to live in peaceful coexistence with this potential economic and political giant then they would need to seek treaties with a defeated and injured nation. France signed some treaties but Britain turned more towards its colonies and the US simply 'went home'. In 1928 the restoration of peace seemed complete when a number of nations signed the Kellogg-Briand Pact, which outlawed aggressive war. But political stability seemed impossible amongst a growing number of states. Italy, which had lost 600,000 men in the war soon fell into civil strife and looked to be ungovernable. Many of the eastern countries suffered countless regime changes and when the Great Depression started in 1929 the continent of Europe was thrown into economic chaos. Needless to say the strains imposed by such a lack of economic success further reduced people's belief in parliamentary democracy. Most of us know that in the coming years Hitler would gain power in Germany and set Europe and much of the world on a course for World War 2. But we need to look in more detail at the depression, its causes and the effects it had on the economy of Britain.

Just where to begin our analysis is difficult to decide but let's take October 1917 as a convenient point in time. The revolution which Marx and his disciples had forecast came into being in Russia, which was probably not their intended destination for the experiment in socialist economics. Lenin was to emerge victorious, even though we sent troops to oppose him and an entirely new way of tackling the problems posed by economics was about to get its first airing. Britain meanwhile had other problems to resolve. It had been given a mandate to rule Palestine and that meant an opportunity to re-examine the stormy subject of a homeland for those Jews who wanted one. In the early days of the century part of what is now Uganda had been offered and rejected. The most zealot of Zionists wanted their biblical home back. Britain also inherited other territories in the Middle East, including what is now known as Iraq. Such was the cost of administering these vast lands that in the early 1920's we spent more on running Iraq than we did on UK health care. In India we seemed to rule supreme, though some nationals were growing rather tired of being 'occupied' and as we shall see later India was to set a fashion that would quickly fan out to engulf other corners of the Empire. In Africa we managed large parts of the continent with apparent ease. But at home trouble was brewing. Governments came and went with a regular monotony and the working masses were not too amused with 'a home fit for heroes'. It is interesting to dip into the world of literature for a few moments, especially that which was emerging from the more radical school that centred on Bloomsbury in central

London. One of its members was H G Wells. He produced a more wide-ranging interpretation of history and not one based simply on the advancement of European-

Atlantic peoples. His broader approach meant that he saw other factors in perspective and called for a form of new enlightenment. This would be based on science, a common stock of knowledge that would transcend traditional kinships and patronage, so allowing a universal religion to emerge. To us this may seem to have been little more than the idealistic dreams of a comparatively young man but he was adding an 'internationalist' dimension to what had traditionally been a 'Daddy knows best' attitude of the British.

Perhaps, in a strange and possibly not intended way Wells and some of the others who would shape values in the inter-war years were beginning to think of a world and its attendant economies post colonialism? The advanced industrialised state would have to adapt to the economic reality of not having cheap resources and ready-made markets.

The temporary boom of the immediate post war period could not mask the underlying structural problems of Britain's economy. As ever demand was falling for the very products that paid the wages of much of our workforce. The empire was beginning to develop its own industries and that hurt textiles in particular. Exports of textiles in the late 20's were half their pre-war level. Coal exports in 1913 were 73 million tons but even as early as 1921 they were just 25 million tons. As British manufacturing output fell so Japanese figures and US grew. Productivity was, with the benefits of hindsight the best route out of this but we selected wage cuts, shorter hours which led to industrial unrest.

Not for the first time a certain Winston Churchill entered the political fray. He despised communism, socialism and anything that resembled a 'left of centre' leaning. Churchill, much against the advice of Keynes, returned us to the gold standard, which we had suspended in 1914. Keynes felt that such a move would be 'a monetary

disaster with huge macro-economic implications'. He had also warned that the size of the payments required of Germany would lead to tensions and ultimate disaster - so, perhaps economists do sometimes get things right! The pound entered this new phase of its life at the value of \$4.86. Within weeks of this costs were increasing, unemployment moving upwards and wages downwards. In Barrow, in what we now know as Cumbria, 49% of working age men were unemployed. In the coalfields the long-running battle was lived out with employers wanting lower wages and longer hours, whilst the miners unions called for more money and cheaper coal for their families. A General Strike loomed and the once invincible British economy seemed to be on the brink of a major collapse. When it came it lasted just nine days but the bitterness it left lasted well into the youth of this writer and possibly beyond. A new Trades Dispute Act was passed in 1927, which outlawed strikes that were intended to coerce government.

It cannot be doubted that for a huge number of this country's ordinary citizens the 1920's were a terrible decade. Poverty was rife and as someone from Liverpool I grew up on tales of brave souls who worked for child benefits (Helena Rathbone), decent pensions and other facts of economic life that we now take for granted. True, for the middle classes things were rather nice. The motor car had arrived and Sunday drives to the country became fashionable. For those who lived and worked in the Empire life styles included servants, private clubs and a social life of variety and taste. But for the working class families of London, the Midlands, the North and other industrial areas life was far from easy. By 1932 official unemployment stood at 2.5 million. Its distribution was hideously uneven. In pleasant Middlesex, which in theory did not survive an early post WW2 boundary change it stood at just 4% whilst in the northern industrial regions it regularly reached 45% and more.

Orwell (Eric Blair) wrote of life in Wigan, Lancashire in the early 1930's as 'wake at 3.45am and walk to pit. Then crawl half-naked along four feet passages to the coalface, which could be several miles away. Only when they reached the coalface and started to dig were they paid. The shift ended at 2.30pm and they returned to old, damp houses to drink tea, stewed fish or boiled potatoes, a bit of bread and jam.' Britain was a land of very different people and economic conditions. It was losing its status in world trade and its poorest members were paying the price for this. Again governments came and went but little changed. Moseley and his 'black shirts' began to grow in popularity. The seminal work of Keynes 'Towards full employment' was published in 1936 and immediately became a target for the extreme right. In Spain Franco seized the opportunity to use military power, including the infant German air force, to impose a dictatorship that would last till 1975.

In India a man named Ghandi was taking on the greatest power on earth and slowly defeating it without lifting a finger in anger. Ghandi undermined the cotton trade and 'marched' to make salt then a British monopoly. Though he was to be assassinated by a fellow countryman his homeland would receive independence in 1947 but at a terrible cost in human life - a cruel turn of fate.

Many of you will be aware of the appeasement movement of the 1930's, which was partly forced on the country by its virtual bankrupt state. You will have read of Neville Chamberlain and his 'piece of paper' waved triumphantly at Heston Airport in 1938 and of course we all know that in September 1939 another war started and the world was never again to be the same place. The cost of six years of conflict would leave this country almost broke and in need of considerable financial assistance from North America.

Let's end by trying to put in just a few words what happened to the economy of what had been on the eve of Victoria's funeral the most successful economy ever known to man. The chaos of the post war world first impacted on pure economics in 1926, when commodity prices started to fall. The main exporters of these commodities, such as Australia and Latin America could no longer afford to buy the products of the US and Europe. Within the latter wages lagged behind profits and so it was impossible to build strong domestic markets for the goods they exported. Capital was not available to diversify and the damage done by war between 1914 and 1918 meant that financial institutions did not have the means to subsidise investment. Capacity outstripped demand and fixed exchange rates gave way to the less certain gold standard. Post the Wall Street crash funds flowed out of Europe and into the US and with them went much of the fledgling prosperity of many European economies. As many as one-quarter of all workers lost their jobs. Price and wages fell dramatically and world trade fell to just 35% of its pre 1929 level. The US imposed high tariffs on imports and Britain signed the Ottawa

Agreement, which protected colonial trade at the expense of others. We left the Gold Standard in 1931 and much of the world entered a closed currency era - not normally associated with economic growth. Ironically, only Russia continued to expand its production.

Economic nationalism was the forerunner of political nationalism. The erosion of middle class standards of living led some to accept extreme right-wing politicians as the best way of restoring economic hope. In 1931 Japan became more openly hostile to its neighbours, especially China. Hitler came to power in Germany in 1933 partly in response to the deflationary policies of his predecessors. On the eve of his election victory unemployment stood at 6 million. Some democratic regimes did remain intact and with the election of Roosevelt in 1932 the US embarked on its 'New Deal' era.

Nevertheless, in 1934 20 million working days were lost in the US because of strikes and as late as 1938 its economy could not find work for over 10 million potential workers.

For many it would be the threat of war and its eventual arrival that would put them back to work.

The inter war years had seen Britain struggle to support a colonial system that it could no longer afford. At home domestic industries were not competitive and tensions, if not divisions within society left little room for a swift response to the emergence of world economic forces. When peace arrived the first test of public opinion saw Atlee elected Prime Minister of what was to be an historic Labour government. They would nationalise the 'commanding heights' of the economy, introduce the National Health Service and begin the process of dismantling the Empire. Meanwhile, beyond our own boundaries the 'Cold War' was taking shape and an 'Iron Curtain' had been drawn across Europe. Berlin would be blockaded as Stalin failed to return his Soviet Army to its pre-war positions and further afield Laos and Korea would be the final resting ground for young English military men. The world and its economies was changing but more on this next time.