Britain Great Depression

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History 105

What were the Causes of Great Britain Economic Depression in the 1930s?

The *Great Slump* or the Great Depression was the worst economic situation in the history of the world. The UK's national economic downturn worsened in the 1930s due to the global Great Depression. Studies indicated that the Great Slump was the largest and most economic depression in Britain.[1] It emerged that the problem began in the US and swiftly spread worldwide. In 1920, the United Kingdom had never experienced the economic boom like other economies such as Canada, the United States, Australia, and Germany in the 1920s. To this effect, the United Kingdom reported a less severe impact of the depression compared to other economies.[2] During the depression (1929-1933), the UK's world trade dropped by about fifty percent, and the output of heavy industries declined by about thirty percent. Unfortunately, the employment rate also plunged across all sectors. By 1932, the country reported about 3.5 million people to be registered unemployed, without considering the part-time job. Undeniably, the economic problem had hit the mining and industrial areas, especially in the Northern Ireland, Scotland, Wales, and the North of England. In the early 1930s, the unemployment rate stood at 70 percent as about three million people losing their jobs nationally.[3] In most cases, many families depended on the dole, local government payment, for survival. The Labor Party was severely hurt compared to the Conservative Party that was dominating the period. Given the significance of the great depression, the paper provides the causes of Great Depression regarding the Great Britain.

Background of Great Slump

The Great Slump began in the late 1920s and spread up to late 1930s. It started at a time when Britain was still struggling to overcome the impact of the World War I. The First World War had seen the UK's economic output fall by about twenty-five percent. Unfortunately, the country never recovered from the situation until the end of the significant slump.[4] The United Kingdom suffered greatly from the economic depression as it to withstand the problem for over twenty years. Unlike other great economies, the United Kingdom saw its economic output decline in the late 1920s until the mid-1930s. The Great Slump started in the United Kingdom due to various factors than minor depression, but because of the failed Australian Credit Anstalt Bank. The Australian bank had frozen the accounts because the foreign countries failed to repay their debts. Interestingly, the foreign exchange controls only served the interest of preventing war.

The European countries were the cause of the financial instability. These countries had accumulated huge debts because of the First World War involvement. With the huge debts, the European economies could rarely destabilize and rebuild their economies in the 1920s. However, for the United Kingdom, it had opted to finance its wars through the selling of its foreign assets. The country knew that it had overcome the financial trap that affected other economies. Unfortunately, the United Kingdom reported £300 million as a net loss of its foreign investments.[5] For example, the UK lost its British Merchant Navy that saw it lose forty percent of the merchant fleet. The U-boat attacked leading such unimaginable loss of the merchant fleet. As a result, the UK replaced the merchant fleets after the war. By 1918, the British had lost its foreign investment by twenty percent due to enemy actions.[6]

The country lost its foreign exchange earnings. The move exposed the UK's economy as it only depended on exports. Indeed, the United Kingdom became more vulnerable to any crises in the global markets. The First World I had eroded the country's trading position permanently in the markets.[7] Indeed, the war disrupted trading activities as British lost its ships. British also lost its overseas customers because the country could not produce its traditional exports including coal, steel, and textiles.[8] The United Kingdom depended on the heavy industries that supported its export trade such as steel, shipbuilding, and coal mining. These trading products appeared concentrated in certain areas including South Wales, Northern England, Central Scotland, and Northern Ireland. The United Kingdom also introduced new industries found in the Central and Southern England. In the early 1920s, the British industrial output was about 80-100 percent.[9] The exports also stood at about eighty percent during the pre-war levels.[10] Therefore, the UK had insignificant resources to restore the overseas investment position.

Causes of Great Britain Economic Depression in the 1930s

The Great Depression caused panic in various economies around the world. Indeed, it posed difficult situation even in the leading economies such as the United States and Russia. With the significant economic losses, the faith of people seemed shattered because many economies could not run smoothly with minimal interventions. There are various causes of the Great Slump.[11]

The Gold Standard Collapse

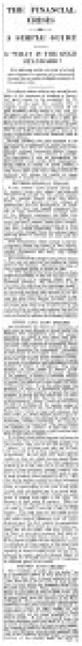

Figure 1: A historical paper about the Gold Standard

The standard gold puzzle has proved difficult to explain as it underscores the floating-exchange-rate system and fixed-exchange-rate system. Under the flexible-exchange-rate system, the exchange rate depended on the supply and demand conditions present in the foreign exchange market. On the other hand, the fixed-exchange-rate system allows other stakeholders to determine or fix the exchange rates at a particular level.[12] The gold exchange or standard meant that the international communities maintained the value of currency on gold by agreeing to sell and buy gold in exchanging for money at a fixed rate. The gold standard formed the basis of a fixed-exchange-rate system. However, it had appeared that interwar gold standard seemed mismanaged, thus causing deflation leading to the banking panic.

Recent studies have indicated that Great Depression has resulted in the emergence of blame regarding the international gold standards.[13] The interwar gold standard structural flaws and the policy responses seemed to have followed the rule of the game. The move led to the global monetary deflation and contraction that turned inevitable.[14] The interwar gold standard became substantially broken down and disappeared by 1936.[15]

The breakout of the First World War was a great setback in the international trade. By 1921, the United Kingdom was already experiencing a slow economic recovery. The slow recovery later led to the slump. By 1925, the Winston Churchill, who was the Chancellor of the Exchequer, opted to restore the pound sterling following the Bank of England advice. The restored value was to the gold standard to make the exchange rate of the one pound to be equivalent to $4.86.[16] The move was beneficial as it made the UK's currency convertible to its equivalent gold value. Nonetheless, the British exports remained more expensive on the international markets. Keynes had argued that the pound would get overvalued and would not be good for the country's economy. Due to overvaluation, the country experienced significant gold outflows and trade deficits upon returning to the gold market. In response, the UK tried to restrain the gold flow by raising the interest rates significantly.

By 1931, the UK suspended the gold standard thus allowing the country to recover. Unfortunately, in the world markets, the value of gold had remained over-estimated by about 14 percent.[17] The inflated value of gold made the British's primary exports such as steel and coal less competitive. The impact of the reduced value of exports products led to a slowed economic recovery. The high exchange rate required a swift effort to restore the UK's economy. There was a need to offset the effects. The export industries opted to cut costs by reducing the wages of the workforce. However, the situation never improved as the industrial areas remained stuck in recession throughout the 1920s.[18] The industries as mentioned earlier received the minimal investment and modernization in the world markets. As a result, the economy experienced the worst unemployment rate that saw over one million people lose their jobs.

The 1931 crisis saw the European financial crisis become inevitable thus threatening the Britain's financial system. With the economy stuck in the deep depression, the country's unemployment was soaring. Additionally, the country's membership of the gold standard was under threat. Different stakeholders felt that the United Kingdom seemed overvalued. To this effect, the UK's currency, Sterling remained under pressure. The UK wanted to keep the value of its currency to the gold standards. As such, the government opted to cut budget deficit using the fiscal consolidation. The government also increased the bank rates so that it could attract money into the country's economy. The government had believed that the strategy would help in keeping the Pound within its pegged rates in the gold standard.

German war reparations and global financial imbalances

In 1919, the parties involved in the war assembled at the Palace of Versailles, Paris. The parties wanted to discuss the armistice political terms. The parties engaged in the discussion included the Austro-German Alliance and the Entente. However, it emerged that both sides lost their economic grip because they had suffered greatly from the war. For example, both sides reported shattered economies, high unemployment, massive debts, high inflation, and depreciated and devalued currencies. Indeed, Russia owed Britain and France money that Russia only paid back in the 1980s.[19] The Britain government also borrowed money from the United States. The victors including the United States, Argentina, and Canada, seemed concerned about how they could recover debts. With the war destructions, the countries rarely had the guts to repay their debts.

The British treasury became depleted, thus reducing the country's economic capacity and size. Indeed, the borrowers never expected the losers to pay, for example, where reparations exposed were high. The reparation exposed imposed on some losers was greater than their sizes. The economic advisor to the British Prime Minister and Lloyd George, John Keynes, saw the real problem approaching. Keynes prophesized the stumbling blocks in reviving the international trade. For instance, he identified the lack of individual country's credit abroad to purchase the industrial raw materials, disorder currency system, and maladjustment between international and internal prices.[20] With lacking the capital to buy raw materials abroad, the United Kingdom was already facing difficulties meet the global market demand. As such, the country started experiencing depression.

Stock market crash


BROOKLYN DAILY EAGLE

WALL ST. IN PANIC AS STOCKS CRASH

Attempt Made to Kill Italy's Crown Prince

Hollywood Fire Destroys Films Worth Millions

High Duty Group Gave $700,000 to Coolidge Drive

Figure 2: A newpaper article on Wall street stock crash.

In 1929, there was the worst stock market crash that precipitated into a global recession. The United States was hit harder than any other nation in the world.[21] It followed the increasing credit just before the crash. However, for the United Kingdom, the country had never reported any real credit boom by the early 1920s. The country's economy seemed to have insulated against the crash. Undeniably, the United Kingdom was already facing a prolonged economic stagnation. The economic growth was weak because the Britain's economy had depended on trade. Therefore, the declined global demand affected the country's international business activities. Similarly, the UK's reduced exports saw it went into recession. The situation worsened in 1931 when UK reported the worst GDP that was falling at 5 percent per annum.[22]

Labor government and economic crisis

Figure 3: People protesting about losing their home.

The Labor government ascended to power in 1929 with the support of the liberal party. The minority Labor government never understood to fix the economy. In 1924, when the Labor government ascended to power for the time, the leadership expressed their lack of in-depth knowledge on how to handle and run the economy. It emerged that the government lacked the radical thinking about the economy thus opting for a classical economics. The orthodoxy economics compelled the Labor party to emphasize a balanced budget at all costs.[23] Four months into office, the Labor Party experienced the effect of Stock Market Crash that led to Great Depression. With Keynes failing to predict the direct consequences in London, everything seemed pretty for the government.[24] With the American economy collapsing, the world trade completely contracted. The governments experienced a financial crisis as prices dropped in the international markets. The American credit supply dried up completely. In response to the financial crisis, many countries including Britain opted for trade tariffs and barriers. The emergency response only worsened the situation as it hindered global trade.

The British government later introduced the lower tariffs, in particular among its constituent states such as Scotland, Ireland, and Wales. Nonetheless, the country raised tariffs against the goods from foreign countries including the United States.[25] Unfortunately, the impact on the country's industrial area was adverse and devastating. For example, the UK's product demand collapsed. As a result, the unemployment rate doubled to 2.5 million by the end of 1931.[26] The exports dropped by fifty percent. The mass unemployment forced many Britons into poverty. Similarly, the government revenues contracted while the costs of helping the jobless escalated with the national income falling. The coal mining districts were hit hardest compared to southeast England and London. The severe decline in the industrial areas increased the unemployment by thirty percent in 1933.

Consequences of Great Slump

The British people including the returning servicewomen and men and working class were against the pre-war Conservative economic policies.[27] The British had blamed these policies for the hardship they experienced in the 1930s. The mood was evident as many people pushed for social change. Immediately after the Second World War, the British people voted out Winston Churchill and replaced him with Labor Party. The Labor Party introduced major reforms including tax-funded National Health Service.[28] Through the service, the government treated the population based on the need. The new administration also adopted the Keynesian economic policies that led to full employment by creating artificial economic demand. The post-war consensus accommodated all the stakeholders.

The British communities differed on the involvement of government in the steel industry. According to the government, the steel industry was a state-owned enterprise. It was unfortunate that the Labor government had previously re-nationalized the steel industry after the Conservative government had sold it to the private sector. Undoubtedly, the post-war consensus lasted up to the late 1970s. In fact, many people agreed that the country needed radical changes in addressing the economic crisis. Importantly, the great depression exposed the British government as it affected the economy leading to high rate of unemployment.

Conclusion

The Great Depression was the worst economic shock the world experienced in its history. Every country, including the superpower countries, was never spared. The British economy also fell because of the significant slump. The UK's unemployment rate hit its highest level as the exports prices declined. The country responded through emergency efforts, but in vain. It had found the country already experiencing economic stagnation. The article has provided the background of the situation and the principal causes of the economic turmoil. The paper has highlighted the gold standard, global financial imbalance, stock market crash, and the weaknesses of the Labor government in handling the crisis. It further provides the consequences of the slump.

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Primary Source Date limiter: 1929-1950

Historical Question: What were the causes of Great Britiain Economic Depression in the 1930s

Illustrations:

Figure
1:
http://find.galegroup.com/ttda/infomark.do?action=interpret&source=gale&prodId=TTDA&userGroupName=pull21986&tabID=T003&docPage=article&searchType=AdvancedSearchForm&docId=CS253437268&type=multipage&contentSet=LTO&version=1.0&finalAuth=true

Figure
2:http://www.telegraph.co.uk/finance/comment/9322687/Spooky-parallels-between-Great-Depression-and-euro-crisis.html

Figure 3:http://www.historic-uk.com/HistoryUK/HistoryofBritain/The-1920s-in-Britain/