The UK economic recovery in the 1930s

Note of a meeting of the Bank's Panel of Academic Consultants

The Bank's Panel of Academic Consultants met on 27 January to consider the period of recovery in the UK economy from the recession of 1929–32. Two papers, the first by Mr David Worswick, the second by Professor Michael Beenstock, Dr Forrest Capie and Professor Brian Griffiths, were prepared for discussion at the meeting, and a third, by Mr Peter Sedgwick, was presented as additional background material. All three papers, somewhat revised in the light of the discussion, will shortly be issued as Panel Paper No. 23, available from the Bank at the address given on the reverse of the contents page of this *Bulletin*.

A great deal of statistical material is surveyed by all three papers, some of it being common ground, but there are important differences of emphasis between them. In particular, Worswick tends to stress demand-side influences, while the paper by Beenstock, Capie and Griffiths focuses on supply-side changes, in particular the influence of real wages. Sedgwick's paper, like Worswick's, discusses the demand side extensively, and incorporates some new research on changes in various measures of monetary aggregates.

Worswick's paper assesses the contribution of a wide variety of policy changes. He concludes that the recovery was essentially based in the domestic private sector, but was not spontaneous. Depreciation (and perhaps protection) insulated the economy to some extent from the vicissitudes of world demand so facilitating low real interest rates. This, together with rising real incomes and easier mortgage arrangements offered by the building societies, played a significant role in the surge in housebuilding in 1933–4, which led to a more general rise in investment.

The importance of the exchange rate depreciation in 1931 is given emphasis by considering the parallel experience of France, which only departed from the gold standard in 1936, and suffered far more severely (in output terms) during the 1930s than did the United Kingdom. Beenstock, Capie and Griffiths did not ascribe a major role to protection. Their paper suggests that the structure of UK tariffs may have held back sectors with particularly rapid growth, although Worswick questions the basis of these calculations. Worswick's paper, indeed, discusses a number of popular hypotheses critically. He suggests that wages were not unusually rigid during the inter-war period; and also concludes that, in so far as 'new' industries were important, their importance derived from straightforward multiplier effects on demand because they employed primary resources.

Beenstock, Capie and Griffiths pursue a supply-side approach; and while agreeing with the other papers that a decline in world demand was the shock that brought about the recession, they contend nevertheless that its impact was transmitted by lowering UK prices, hence raising real wages and lowering profitability. The recovery in the 1930s was fostered, it is claimed, by a sharp decline in the growth rate of own product real wages. 'Cheap money' may have been of assistance to the extent that prices were higher and real wages lower than they would otherwise have been, but the real wage is seen as the essential transmission mechanism.

Sedgwick's paper pays particular attention to the role of domestic economic policy. He concludes that while external policy (exchange rate depreciation and protection) may have given a stimulus at the beginning of the recovery these factors were probably less important in sustaining it and may even have been hindering it by the end of the decade. In contrast, he concludes that 'cheap money' was of crucial importance in both initiating and sustaining the recovery. He traces the growth of three newly-constructed monetary aggregates monthly through the recovery. He notes, however, that external circumstances were particularly helpful in preventing the strong recovery from resulting in an unacceptable inflation rate; in particular, wage demands may have been restrained by the marked improvement in the terms of trade which occurred during the recession, and perhaps because inflationary expectations had largely disappeared after the significant fall in the price level during the depression.