

THE ECONOMY AND THE STATE: ALTERNATIVES OF THE 1920s

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The events and processes of the 1920s are usually drawn aside in the works of many historians writing on the first half of our century. Quite naturally they concentrate their attention on both World Wars, the Great Depression, powerful social revolutions, — on the events which shook and transformed the contemporary world. Against such a background the 1920's seem to be a peaceful island, a short rest between the two storms.

Recently the interest of historians (and not only of them) to the period has been increasing. One of the main reasons for it is, perhaps, the aspiration to come to the roots of present processes, to complete the understanding of the entire variety of historical alternatives revealed in times of radical changes in world development. Undoubtedly, the period of the 1920s in this respect is a wide field for scientific research.

This paper is an attempt to make a brief review of the main problems and trends of economic development in the 1920s based on materials of British history. Yet the author hopes that at least in some aspects the specific British experience of those years may be of more universal interest.

The 1920s played an intermediate, transitional part in British history, being a sort of historical cross-roads. Its general background was

formed by a long gradual process of Britain's losing world industrial and colonial supremacy, which took over 50 years from the end of the 19th century up to the 1950s. The atmosphere of the period was mainly coloured by its interwar position. And the basic economic characteristic of the period consisted in its role on the eve of the world economic crisis — the Great Depression.

The peculiarities of the social and economic processes of the 1920s were greatly determined by the results of World War I. The war had deeply distorted the entire system of the world economy. The traditional world market structure had been practically destroyed. First, the free trade system ceased to work: most of the countries protected their internal markets by tariff walls, and in the 1920s the walls kept growing. Secondly, the belligerent states during the war left the gold standard of national currencies, and it was not restored till the second half of the 1920s.

Clearly, both mentioned factors were especially damaging to the British economy, for its former power had been primarily founded on the exports of its highly developed staple industries (coal mining, metallurgy, engineering) and on the income from «invisible exports» (vast capital investments overseas, international finance operations, marine freight).

Almost complete victory of protection and the reduction of world trade evoked the constant crisis of Britain's export industries. The crisis was accompanied by the general slackening of the pace of economic growth. Thus, only by 1929 Britain reached its pre-war level of industrial output. But probably the worst consequence of the staple industries' crisis was exceptionally high and long-lasting unemployment. The rate of unemployment during the 1920s was not less than 10 per cent, and with the beginning of the Great Depression it grew rapidly.

Serious damage was also inflicted on the «invisible exports». During World War I Great Britain lost about a quarter of its capital investments overseas. The City experienced growing competition on the international money market from the stock-exchanges of New York and Amsterdam. Hard times had come for British marine transport as well as for the shipbuilding industry.

Additional difficulties were created by the absence of the gold standard. Though it furthered, to a certain extent, the development of export trades, it diminished at the same time the «invisible exports» revenue and so aggravated the balance of payments. This was the main reason for the restoration of the gold standard carried out by the conservative Chancellor of the Exchequer W. Churchill in April 1925. Notably, the exchange rate of the pound sterling was established at the pre-war level of 4.86 US dollars, which actually made the pound sterling overvalued by approximate

10 per cent. As a result the positions of British finance got much stronger, the positions of British industry and trade grew slightly weaker.

There was yet another reason for Britain's ruling circles' aspiration to restore the gold standard system, and it was closely connected with the problem of relations between the economy and the state in the 1920s.

For the first time in British modern history and as a result of World War I — state intervention in the economy was wide-spread. It reached its climax in 1917-1918, after the formation of the second war coalition government headed by D. Lloyd George. But as soon as the war was over the enormous mechanism of state economic controls was quickly demobilized. In fact, there was practically no state intervention in Britain during the 1920s, and only the Great Depression necessitated a new wave of state regulation. This seems to be a generally accepted picture of the state-economy relations for the two decades after World War I.

Two main approaches to the new role of state in the economy became apparent at the final stage of World War I. They were based on the real experience of people involved in the day to day practice of state control and management of the war economy. Most of the workers welcomed «nationalization of the means of production» (the corresponding resolutions had been adopted by all the leading trade unions). Many of them associated nationalization with the establishment of workers' control over production and distribution, directly opposing bureaucratic control from the top to democratic control from below.

The business world, on the other hand, criticized rigidity and high costs of the state economic administration. The centralization of economic controls was considered to be of special danger because as «The Economist» put it, the control levers «could fall an easy prey to any political influence». So, the post-war goal of British businessmen was to get rid of the state controls as soon as possible in order to restore the former power of the country. «Back to 1914!» — was the slogan of those days.

The process of post-war dismantling of the state economic control institutions in 1919-1921 was accompanied by acute strife between advocates and opponents of control. The coal mining industry became the centre of this economic, social and even political struggle, and the core of the conflict was precisely reflected in «The Times» remark, that the strikers were not demanding «mines for the state», but «mines for miners». The defeat of the miners on «Black Friday» of April 15, 1921 marked the end of the post-war rise of the working-class struggle in Britain, as well as the final step in the abolition of war-time economic controls.

The pre-war conditions seemed to be restored at the beginning of

1920s, at least in the sphere of state intervention. The only area, where the positions and responsibility of the state remained strong was in finance. Without the gold standard system the state retained the functions of a controller-in-chief of the issue of bank notes, and that is why the restoration of the gold standard was considered the final step on the road «back to 1914».

Even such a great social and economic conflict as the General Strike of 1926, which actually continued the main lines of the miners' struggle in 1919-1921, could not change the course. After the Strike was over the conservative cabinet of S. Baldwin enforced the state suppression of workers' organizations. The severe Trades Disputes Act of 1927 was a result of this policy. On the other hand, some leaders of the business world tried to get in contact with the TUC General Council in order to substitute eventually confrontation for class partnership. These tactics, named «Mondism» after its principal supporter Alfred Mond, included some ideas of the «Wheatley scheme» and some of the Italian corporative «Charter of Labour» of April 1927, but contrary to these projects «Mondism» rejected any state intervention in the internal relations between employers and employees.

So, in 1920s Britain traditionalist aspirations were realized in the elimination of new structures, in the abolition of state economic controls and in the senseless quest for the past. But at the same time new ideas emerged, and the concept of regulated capitalism was by no means the least among them.