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A Study of the Economic Development
of Great Britain

A Research Paper
Presented to
Professor David Johnson
Ouachita Baptist University

In Fulfillment
of the Requirements for
H490 Special Studies

Honors Paper #68

by
Dan Gaske
January, 1968

FOREWORD

The purpose of this paper is to present with briefness, and yet I hope clarity, a history of the economic development of Great Britain. I have attempted to take each period in British economic history, present the economic phenomenon that occurred during the period, and show the causes and results of such phenomenon. I want to thank my wife for her help in the preparation of this paper, and Mr. David Johnson for getting me started on it. I enjoyed working on it; I hope you will obtain as much enjoyment from reading it.

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I

ECONOMIC GEOGRAPHY OF BRITAIN

In order to properly study or analyze the economic development of a nation, one must first look into the natural resources that nation has at its disposal. For this reason, this first section will be a discussion of the geography of the British Isles.

The greater portion of the British Isles, and from an economic standpoint, practically the entire economy, is on the island of Great Britain. This island contains what is today England, Scotland, and Wales. Since it is in these three areas that the major part of the economy of Great Britain has rested, we will consider primarily this island. The island contains 88,755 square miles, and lies about 21 miles from the continent of Europe. In the earliest days, Great Britain was attached to the continent across the North Sea. When this land bridge disappeared, "the island attained the fortunate position of being close enough to the Continent for trade, but defended from invasion by the intervening sea." ¹

Physiography

The island is also fortunate in its land forms. It has no real extremes; its highlands are not too high, and its lowlands are still high enough not to need protection from the sea. There are two distinct areas to the island.¹ The first and most

¹ "Great Britain and Northern Ireland", The Encyclopedia Americana, Americana Corp., New York (1967), Vol. 13, p. 173.

¹ A map of Great Britain can be found on page three.

important is the lowlands. The lowlands area is composed of several different soils. They are as follows:

1. The London basin area has a great variety of soils which support a considerable amount of mixed farming.
2. The Salisbury plain is a chalk plateau which seems to be one of the earlier sites of occupation.
3. East Anglia is a lowland area in the northeast of Britain which has a loamy soil well suited to arable farming and the raising of dairy cattle. East Anglia also contains a number of small ports well suited as harbors for fishing boats operating on the North Sea.
4. The Hampshire basin is noted for containing perhaps the best natural port in England - Southampton.

In summarizing the lowlands, "one sees a section of England which is possessed with no little wealth, both agriculture and industry. Although the chalk lands have never been very valuable, the rich soils of East Anglia and the clays of the Midlands, as well as the fertile plane of Lancastria and the Vale of York, have formed the basis of the country's agriculture. At the same time, it must be remembered that in the early days none of these areas was really accessible, since they lay under water or heavy forests. The high, unwooded chalk lands were the earliest scenes of economic activity. Once the forests had been removed, however, not only did agriculture begin to improve, but coal and iron became important economic assets."²

The highland zone runs along the western coast of England and then spreads out over the greater part of Scotland. In the south this zone is mainly moors; however, in the early days it was a principal source of copper and tin. In Wales is a large amount of sheep raising. Also in Wales are rich iron and coal

² Stanford W. Reid, Economic History of Great Britain, The Ronald Press Co., New York (1954), p. 23.

PHYSICAL ASPECT OF THE BRITISH ISLES



3 Source: Ibid, p. 9.

deposits. It is near these deposits that the industrial area around Birmingham arose. The remainder of the highland zone is quite rugged and is only of midly significant economic importance. The lowlands are by far the more important economically.

Minerals

Britain has been blessed with a large accumulation of vital minerals, especially iron and coal. The large part of Britain's coal is of Carboniferous Age. The main coal fields lie in South Wales, in a line from Kent across England to the southeast corner. There are other major fields in north England. Iron is found, as iron ore of low quality, scattered through southeast England. Higher quality ores are found in Scotland and South Wales. Other minerals in Britain are of minor importance, although the fine china clay and quality building stones became raw materials for export items.

Location

However, of perhaps greatest importance is the fact that Britain, for many years after the opening of the New World was located at the cross-roads of the world. Next to Europe, and yet facing the Atlantic, placed Britain in a very advantageous position in relation to trade.

Climate

As a rule, it can be said that Britain's climate is mild and moist. However, the British weather is quite changeable, and the winters are usually quite severe. The rainfall is usually adequate for agriculture purposes. Temperature throughout the year is small. "A broad summary of the British climate

can be taken by taking as coordinates the meridian of 4° W. and latitude 54° N., which cross at a point in the Irish Sea west of Lancaster, England. Of the quadrants thus marked out the northwest has cool summers and mild winters, and the northeast has cool summers and cold winters. Of the other two, the southeast quadrant has warm summers and cold winters and the southwest has warm summers and mild winters." ⁴

Summary

Geographically, Britain is really an island of two separate periods. The first period runs from prehistoric times until a point where her population begins to out-strip her resources. During this period Britain was a prospering nation, producing by some estimates as much as ninety percent of the food she consumed. Her minerals were adequate enough to enable her to produce manufactured goods to an extent that she could compete very favorably on the world market. But then there came a point where she could no longer produce cheaply enough to even supply her own consumption needs, and since that time Britain has slipped further behind the world powers in the area of world commerce.

⁴ "Great Britain and Northern Ireland", p. 176.

II

BEGINNINGS OF ECONOMIC DEVELOPMENT

The English culture, which was differentiated from that of the rest of Europe, had its beginning when the British Isles became cut off from the rest of Europe by the sinking of the land bridge across the English Channel. Most of the changes up until 48 A.D. were not because of internal situations, but because of invasions. That is, the changes in the economic system came about by an invading people bringing its own customs and traits to Britain.

There were, of course, changes occurring in the culture of Britain from prehistoric time on, but it was the arrival of the Mid-Stone Age invaders that marked the start of cultural inbreeding and the beginning of a specifically insular way of life for Britain. The first revolution in the prehistoric economy occurred with the arrival of the Neolithic people. These were a group of invaders which arrived in Britain during 2500-2000 B.C. Most authorities feel that they came from southern France and Spain. They introduced the first organized culture as evidenced by the large stone shrines found in western England. These were followed by several invasions, each of which had its effect on the customs, traits, and the economy of Britain. "Thus, when we come to the beginning of the Roman period, we find that the British Isles were inhabited by a very complex ethnological group. Invaders had entered from practically side,

although the main pressure had usually come from across the Channel, particularly upon the Kentish coast. The Lowland Zone was largely dominated by the Brythonic peoples who had fused with the earlier Stone and Bronze Age inhabitants. At the same time, they were gradually spreading northward and westward, dominating and mixing with the Gaelic inhabitants of the Highland Zone. Although from time to time new strains have been added, it is upon this basic mixture of peoples that Britain has built her history. Even at that early date, a culture really different from those of the Continent was beginning to appear. The British, . . . , were by now truly an insular race."⁵

In the early British economy, as in all young economies, the problem of obtaining food was primary. At first, the primary means was hunting, but gradually the peoples learned they could grow foodstuffs. This farming had its beginnings with the Neolithic peoples. The farming they practiced was a nomadic farming, which simply means that they would farm a certain area for a few months and then move their camp to some other area. This practice was probably due to the fact that they still followed the game. However, with improvement in metals, and therefore in tools, these peoples were able to raise more and better foods from the earth. As a result, there was a greater tendency for the people to stay in one place. The final episode in prehistoric agriculture came with the appearance of the Belgae peoples about 250 B.C. They introduced

⁵ Stanford W. Reid, p. 21.

the heavier plow which could effectively cultivate both the loam of the river valleys and the clay of the Midlands. So, by the time of the Roman conquest farming had become the chief occupation of the British Isles.

Earliest Industries

Due to the lack of development of science in the world at this time, the industry of Britain at this time was not too prolific. However, there were two industries which had developed to an extent to be worthy of mention. One of these industries was the textile industry. Perhaps the word industry is a bit broad, as the textile production was usually done by individuals; however, evidence shows that in each village certain huts were devoted entirely to the manufacture of textiles. This evidence seems to indicate that certain people specialized in the making of textiles. This fact shows that there also must have been some sort of a barter system developed with the textiles makers trading their goods to the other villagers for the food they produced.

The dominating industry of this period was the manufacture of bronze. The tin for this industry came from Cornwall, with the copper being imported from Ireland. There is evidence to indicate that there was one group making all the bronze manufactured; since all the bronze from this period has the same percentages of tin and copper. This bronze was one of the leading exports as it had favor on the Continent. It was usually exported as some finished item, such as tools, shields, or personal effects.. Thus, we see that even in this early period

Britain had the beginnings of trade.

Trade

Trade had its beginnings as a barter system, in which goods were traded directly for other goods with no medium of exchange involved. Internal trade was necessary for most of the villages because they were not entirely self-sufficient. It was necessary for most of the villages to trade for metals, and the wealthy of the villages naturally wanted to trade for luxuries. There were many points of evidence which indicate that there was trade. The main one is the growth of towns. These grew up jointly as a result of, and as a benefit for trade. The close grouping of the people in a town provided the merchants with a market place and security for his goods. It was also convenient for the people to have a merchant in their midst who could obtain outside goods for them. The earliest trade was with flint and stones and later progressed to bronze and textiles. The trade routes followed the line of least resistance. That is, they went along rivers, over flat areas, through the passes of mountain ranges.

There was also external trade, primarily to the Continent. As has been previously stated, the bronze was much in demand on the Continent, and in return Britain imported many luxury items. When the Iron Age arrived, the export of bronze fell off; however, the export of raw materials took its place. The extent of trade forced the development of a money economy, for barter quickly become unwieldy. The first monies to be introduced were iron bars and coins with the imprint of Philip of

Macedonia.

Economic Theory

First of all, before analyzing the economic theory of this time, one must realize that due to the strength of the church, even economic theory was governed by the ethics and creeds of the church. However, through its great strength, the church aided economic development in some areas. It did this primarily in two ways. The first was that the church was the leader in development of advanced farming techniques. The second, and probably the more important, was that due to the growing wealth of the church colonies, they imported foreign goods and labor, thus stimulating trade and immigration. However, the church did have a profound effect on economic thought, as can be seen from the following points.

1. There was a strict stratification of men. In this period, there were two main groups or classes of society. First, there was the men of the church; these men were probably the most powerful group in Britain during this era. The second was composed of the peasant stock. As a rule they had little wealth, although the rising merchant were beginning to create a middle class.
2. Land was to be individually owned. This ruled out state ownership.
3. While one could produce what he needed, to produce a surplus would considered improper. This general point specifically affects both of the following points.
4. As to trade and commerce, the merchant was regarded with mistrust and lack of respect; for he did not own his land and he made his livelihood by exploitation. However, as trade developed, this attitude was forced to change. In its place came the 'just price' doctrine. Here, a just price for every good was to determine itself from the cost of labor put into it. Supply and demand were to have no bearing. In many cases, this doctrine was to carried to the point of having the set price affixed by law.

5. Along the same lines as point number four, was the demeaning of interest. While it was all right to charge fees for changing money, for this was service to which a man was entitled payment; it was quite improper to charge interest on loaned funds. The theory on which this restriction was based was quite logical in earlier days, for then loans were made only in times of need or emergency. Therefore, it would not seem right to charge a person who is already in financial problems interest on a loan. However, this doctrine changed when it became obvious that the primary reason for getting a loan was to make a profit. Naturally, in a case like this, the lender wanted to make a little money also. He felt that if the borrower was getting use of his money to make a profit, then he, the lender, was in actuality performing a service by loaning the borrower the money. Therefore, he rightly felt he should be allowed to charge a fee for his service in the form of interest. Eventually, the charging of interest came to be widely accepted.

Effects of Early Government

About 850 A.D. England came under the rule of one king. This placed England under one rule for the first time, and at the same time the local governments began to obtain a sufficient amount of organization to be effective.

As has been previously stated, trade had progressed to such an extent, so a medium of exchange was a necessity. The Anglo-Saxons had progressed already with a well-developed coinage. The king merely reserved the right to control coinage. Hence, a standard money system for England came about.

Taxation in this period was quite piecemeal. One of the primary taxes was the one levied to buy off invaders. Actually this tax was more of a collection taken up whenever invasion was imminent. Another tax was an annual levy which went to pay kings' salary and other government expenses. A third

tax was court fines which arose out of criminal and civil law cases. Also, since fundamental to this system was the theory that the king owned all the land, it was only natural that the land be taxed.

The local sheriff doubled as tax collector. Actually, the position of tax collector was a very lucrative one to have. This position was a profit-making one if the collector wanted it to be, for he had only to give to the king the amount levied for that area. Anything he could collect above that amount was his. Of course, this system did insure full collection for the king.

Summary

This period saw the foundations laid. It was during this time the people which make up the British culture came to Britain. While there was both emigration and immigration in later years, it was the Celts, Anglo-Saxons, and the Normans which invaded Britain during this period that formed the basis for the British culture. Economically, foundations had also begun to be laid. Farming had established itself as the leading occupation. The few external trade routes were to the Continent. Also during this period, the beginnings of a truly national government began to occur. However, as the period of beginnings draws to a close Britain, economically, was still quite young, and the theories which guided her economic development were also quite young and restrictive.

III MEDIEVAL ERA

As what is known as the Medieval Era began in Britain, agriculture was still the primary industry. In fact, it remained the primary industry through-out the period as evidenced by the fact that there was a large rural population increase. There were wide differences in the variety of farms in Medieval Britain. There was also a migration of people from southeast England to Scotland. Our discussion of Medieval farming will take place in this setting.

Organization of Farms

The system used in this time was the manor system. Its basis was the Anglo-Saxon village. The village during Medieval times was an entity; it was a political unit, ~~a~~ social unit, and most importantly, an economic unit. While it was necessary and desirable for some trade to go on between villages, for the great part, each manor was independent of the other. It was very much as a small nation is today. Each manor had an economy of its own, its members paid taxes through their lord, they worked within the boundaries of their manor. In essence, the manor was as self-sufficient as it could be, making or growing most everything it needed, and going outside only through necessity or to obtain luxury items.

The organization of the land was vastly different than

what we are accustomed to. "The people lived in the villages, not on the lands they worked. They worked primarily not on the land around their huts (although each hut usually had an adjoining garden) but in the great open fields beyond the village. Nor did each man hold and work a block of land in one of the great fields. Rather these fields were split up into smaller units, of eight or ten or more acres. Each of these cultures usually had a name of its own, and it in turn was subdivided into long narrow strips often about an acre in size.

"Each strip was usually separated from its neighbor by balks or narrow pieces of unplowed turf. At the ends of the strips were headlands, or places for the plow and team to turn. . . . The strips in each culture ran in the same direction, but since there might be dozens of cultures in one of the great fields, such a field was like an enormous patchwork quilt. . . .

"A villager did not hold a whole culture. He might have two adjoining strips, or his holding might consist of ten or thirty or forty strips, some in each of the great fields, with no one strip lying next to another. The most acceptable explanation of this peculiar system of landholding seems to be that it arose from an effort to give each landholder some of each kind of land; but it may have come about through cooperative plowing, or through inheritance custom, or through gradual clearing of land field by field." ⁶

At any rate, the result of this system was to force the

⁶ S. B. Clough and C. W. Cole, Economic History of Europe, D. C. Heath and Company, Boston (1966), p. 8-9.

the villagers to work together to raise their crops. Due to the fact that each villager's land was so scattered, it would have been almost impossible for him to work his land properly. Therefore, it became the practice for the villagers to work together and work a field at a time. This way each villager's land still got worked, but much more efficiently. In fact, it came to the point where most of the equipment was owned by the village and not individuals.

Not all lands in Britain used the manor system. In the Celtic areas, a totally different tribal system of land ownership was used. Under this system, the chief owned the land occupied by that tribe. Each member of the tribe was required to work the chief's land. In Scotland, a cross between the manor and tribal system was in use. This was a tenant system in which the tenant used the owner's land and then shared the proceeds with him.

Principal Crops

In the lowland areas, the principal crops raised were wheat, barley, and rye. All of these grains were ground into flour, with barley also being used for brewing. Wheat and barley required good, well-cared for land, while rye could be sowed in poorer soils. In the most part, the ratio of bushels produced to bushels of seeds sowed was four to one. In the Celtic areas, oats were more popular, primarily because they would grow better in Scotland and Wales. Fortunately for the peasant, he wasn't dependent on the products of the field; for as has been mentioned, each family had a small garden of

their own in which they raised much of their food. Some of the main foods they grew were peas, beans, cabbage, and onions.

Animals were very valuable during this period. They provided not only meat and hides, but also milk. Cattle were also favored to pull plows because of their lower cost and docility. Sheep were of great value, and when wool became popular as a cloth, the sheep industry became the most profitable part of agriculture. This demand for sheep caused their population to rise to around eight million in England alone during the fourteenth century. From the small farmer's viewpoint, the pig was the most valuable animal. It served as a scavenger, cost almost nothing to raise, and when killed, provided the owner with meat, hide, lard, and bristles. Also, each farmer usually had some poultry.

Changes in Farming

The beginning and rise of a money economy stimulated farm production. The easiest way to increase production would be to obtain a general increase in the overall efficiency. However, this goal proved elusive since the workers were men bound to their land and forced to work. So someone came up with the idea of allowing the peasants to pay the manor lord a certain fee in lieu of their services. He could then hire workers to tend his land. The result of this idea was the 'commutation' system. This system varied from rents being paid in produce with certain services continued to whole manors being rented out for a fixed sum each year. This process was speeded up by

an outbreak of plague in 1348. There were two main results of the plague. The first was an increase in the wage rates of labor, due to the drastic decrease in supply. The second, really a derivative of the first, was that many farms were turned into sheep ranches. This action came because the increased labor costs made it unprofitable to farm plus the fact that there was an increased demand for wool. In summary, by 1500 there had been a considerable change in the landholding system in Britain. It had gone from the manor system to a system that had begun to go commercial, that is, to produce products for profit.

Trade

In feudal England, there was little trade and no towns as such, the largest settlements having no more than 8000 people. The merchant guilds changed this. The earliest guilds were groups of wealthier citizens who bonded together in order to promote and protect trade. "No two guilds were exactly alike. At first, however, they seem to have been composed of most of the businessmen in the town, including craftsman. The latter, working in their little shops and selling their goods directly to the consumer were regarded as merchants. But before long the specifically trading element, particularly in Scotland, tried to force the craftsmen out of the guild. The association was governed by an alderman and two or four assistants, who, along with twelve or twenty-four guild members, formed the guild court. Possessed of authority to enforce guild regulations,

this body usually directed the whole of the town's business life." ⁷

Due to pressures on them by the merchant guilds, and their own desire to leave, the craftsmen left the merchant guilds and set up their own craft guilds. The earliest examples of these organizations came about the twelfth century around London. The craft guilds were organized very similar to the merchant guild. The duties of the guild was primarily to supervise the craft within the town. The 'just' price was administered. There was also the problem of wage regulation. The craft guild along with the merchant guild began to lose influence around 1350 and soon passed from the scene. However, they had served the valuable purpose of showing that trade could be profitable.

Before 1400, trade was primarily interurban. Each town was an economic unit in itself. The primary places of trade were the market places or the trade fairs." These fairs were of great aid in the promotion of trade, for in addition to giving exposure to the goods, it also gave the merchant protection. Most foreign trade was done by foreigners who came to England. Most of them came from Germany or Flanders. They usually bought their way in by loaning money to the king and in return paying reduced custom duties and getting the right to retail anywhere in the country. Even though they were in the favor of the king, they met opposition from the local merchants who wanted to protect their home markets.

⁷ Stanford W. Reid, p. 96.

Paralleling the development of trade was the beginning of accumulation of money for investment, or capitalism. The earliest capitalists were foreigners, soon followed by home investment. There were two main types of capitalist: the industrialist and the merchant. "The first type was either a gildsman or someone involved in cloth production. The members of the goldsmiths gild for instance, from the nature of their business accumulated substantial amounts of bullion in their coffers. They were also willing to keep on deposit, for a fee, other peoples money. Soon they discovered that it might profitable to loan this money out at interest. Here was the beginning of banking based upon industry or trade and bringing large profits. On the other hand, in the country districts the entrepreneur, or 'enterpriser', was hiring weavers to work for him in their own houses. . . . In these ways industrial capitalism had its medieval beginnings.

"Trade, however, was the most important source of accumulated wealth. Therefore, the masters of the gilds who had obtained control of their industries tended to give up working themselves in order to become merchants. In Scotland before they could take this step they had to publicly surrender their craft tools. Out of this group came the livery companies. The members were primarily interested in trade and, in fact, often belonged to two or three livery companies at one time. Allied with them were the wool and cloth merchants. By 1350 they had all become involved in private and public finances. In Scotland, although the merchants were not nearly so wealthy,

by 1500 the same thing was taking place. . . . Thus by 1500 through the growth of industry, the expansion of trade, and the increased opportunity for investment in Britain, especially in England, one finds a well-developed capitalism." ⁸

Changing Times

Above all, the period of 1485-1715 was one of change. It saw England and Scotland move from a Medieval to a modern economy. There were many forces involved in this change. The Renaissance caused more emphasis on man as an individual. The discovery of the New World opened new doors for investment and gave the economy of Britain new areas to expand into. Lastly, the great outburst of new and brilliant men in the natural sciences enabled the development of better machinery.

During this time, capitalism had its beginnings in wool trade and manufacture of cloth. These merchants who had accumulated money began to look for places to invest. The money invested in trade and industry brought more and better goods to Britain. This increase in supply brought an increase in consumption. However, the increase in capitalism made demands on business, for with too little specie, everyone wanted gold and silver. One answer to this problem was simply more specie. This was provided by exploiting the silver deposits at Tyrol. Of greater importance was the influx of Spanish-American gold and silver. As prices rose in Spain because of importing of bullion from the Americas it drew goods from Britain. With the payment being in bullion, the result was a rise of price level in Britain which acted as a further stimulus to business.

⁸ Ibid, p. 111-112.

Also of great importance was a better understanding of the credit process. By this time, joint-stock companies, exchange markets, and full-bodied representative money was becoming common. These things led to the development of mercantilism, which is defined as "the system of public economic policy that developed in the states of Europe following the decay of the feudal states. It was broadly characterized by the fact that its policy in the government regulation of industries, trade, and commerce, esp. with foreign countries, was determined rather by national aims than by local or industrial interests, seeking to build up the national strength and prosperity by securing a favorable balance of trade¹, the development of agriculture and industry, the creation of a merchant marine, and the establishment of foreign trading monopolies." ⁹ By the sixteenth century, England had embarked upon this course. She was placing stress upon the selling of completed goods, as these brought more profit. This theory sparked a desire for colonies to supply raw materials and to serve as a market. Therefore, foreign trade was stressed with prices kept high. The consequence was that capitalism and mercantilism became dominant.

¹ A favorable balance of trade in classic economics is when a nation exports more goods than she imports.

⁹ William A. Neilson (Ed.), Webster's New International Dictionary, G. & C. Merriam Co., Springfield, Mass., (1961), p. 1537.

Summary

This period was probably the greatest period of economic change in Britain's history. When the period began, Britain was primarily an agrarian nation. Any trade which was done was primarily inter-urban and was done in order to secure items not available locally. Industry was almost non-existence with most manufactured items being produced on a local level. As far as having an economic effect, government was non-existence. Contrast the above with the Britain of 1600. While Britain was still a largely farming nation, the feudal system had passed away and the farms were on a profit system. Industry had begun to spring up, and government was subsidizing some industries in the interest of the nation's economy. But the greatest change was in trade. In 1600 Britain was actively pursuing trade; indeed, it was around the theories of mercantilism that the entire economy was geared, and it would be on this theory that Britain would begin building the largest trading and commercial country in the world.

IV

BRITAIN'S RISE IN WORLD COMMERCE

By 1700 Britain had truly entered modern times. Economically, she was run basically just as she is today. Politically, Parliament had become the powerful body it is today. Also, in 1707, Britain had come common rule with Scotland. Thus, by 1715, the establishment of modern Britain was nearly complete.

Economically, Britain was undergoing some changes. It has estimated that the wealth of England increased from £17 million in 1600 to £88 million in 1688. The national income of 1700 was estimated at £43 million. Regardless of the accuracy of these figures, they do show that Britain underwent considerable economic expansion during the seventeenth century. And at the same time, the price rise had stopped because of a decline in Spanish-American gold production. England was also growing population-wise with a twenty percent increase over the same period.

Trade

As has been previously stated, the dominant factor of the seventeenth century was trade. It was based on the mercantilistic theory. The following table shows the results of trade.

In this paper (£) will represents the symbol for pounds sterling. Also, the credit for these figures should go to Davesant, an economist of this time.

	Exports	Imports	
1613	2.5	2	
1622	2.33	2.67	
1663	2	4	
1700	6.5	6	
1710	6.33	4	
1720	7	6	10

Above figures are in millions
of pounds sterling.

The exports were dominated by cloth. The primary markets for cloth were the Baltic, Russia, France, and the northern colonies. As a result, the cloth industry was well organized. Also, the export of raw wool was prohibited in order to aid this industry. Other major exports were coal, machinery, small metalwares, and other items. Another area where Britain was doing well export-wise was in the 'invisibles'.

Invisibles are things like insurance or carrying charges on your nations ships, and with her large merchant marine and Lloyd's of London, Britain was in good shape here.

British imports came from three main areas. From Europe came grain, iron, shipping materials, and luxuries. France was her biggest trading partner, and incidentally a nation with whom Britain had a chronic adverse balance of payments. The second major nation with whom Britain traded was the East Indies. From here came many items for re-export, especially cloth materials such as cotton and silk. Finally, the American colonies and the West Indies were the primary source of sugar, tobacco, and naval stores.

¹⁰ E. Lipson, Introduction to Economic History of England, London (1939). Vol. II, p. 187.

Agriculture

During this period agriculture also underwent a marked change. This change was one which was forced upon Britain by the expanding industrial-commercial complex of Britain. The main ways British agriculture changed was through improved methods such as better crop rotation, fertilizers, and crops. Also the process of enclosure aided agriculture. This was simply a process of consolidating the small farms into larger ones.

Although the first third of the nineteenth century had been a depressed period for farming, by 1837 it was about to embark on the greatest prosperity of its history. "There were many reasons for this. One was British industrial supremacy with ever expanding foreign markets, bringing a rise in the national income. This, coupled with the growth of population by some 4.5 million during the period, meant an even greater demand. Moreover, this was market in which the British farmer even after complete reversal of the Corn Laws in 1846, had no strong competitor. . . . On the other hand, increased returns invited improvement, which in turn, stimulated further production. Throughout the period, the farmer was better off and agriculture was booming." ¹¹ Another aiding factor was a steady price level. On the whole the British agriculture community was in good shape. However, the repeal of the Corn Laws, while not spelling immediate ruin, would some years later

¹¹ Stanford W. Reid, p. 217.

cause the British harm. This would happen when the Grain Belt of North America would come under full production, and when steamships could carry the grains cheaply across the Atlantic. Portents of this coming problem were the rising percentage of imported food which rose from 26% in 1852 to 48% in 1870.

Expanding Industry

The rapid expansion of British trade meant that industry must grow to keep pace, and with the increased demand for manufactured goods coupled with the development of new processes, British expanded rapidly. The domestic system had outgrown its medieval jacket. Now it was a vibrant mass producing, efficient system of production. However, it deprived individual producers of protection from exploitation and freedom of ownership. This expansion in industry forced changes in policy, relating both to home and foreign markets. One of the changes in the domestic market was the factories taking over the duties of middlemen. Rather than have a distributor buy their goods and then resell them to retailers, the industries began to sell their products directly to the retailers. Along with this went the rise of non-price selling. Due to the increase in the size of industry, the increase in competition meant that a manner of competition other than price cutting would have to be found. Advertisement was that answer.

Although the middleman passed out in the heavier industry, he increased in the sale of farm products. This was due to the increased separation of the producer and the market.

On the foreign market, private trade dominated. That is, rather than the government protected trading companies of earlier periods, the predominance of foreign trade was done by private companies. The changes in the form of industry also brought about a change in government policy. With the young industries abounding in Britain at the first of this period, the government became quite protective. Entire industries were protected, through tariffs, favorable legislation, and in many cases the complete prohibition of the import of certain goods. Also, in order to keep the advanced processes the British had to themselves, the export of processes or the emigration of skilled craftsmen was prohibited.

Labor

As in most cases, when the productivity of a nation increases, labor wants its share. Britain was no exception. Before 1840, however, their efforts met with little success. However, "in the 1840's the character of trade-unionism, particularly among the skilled laborers began to change. Instead of adopting a 'class warfare' attitude, under the influence of the current laissez faire philosophy they turned to co-operation with the employer, avoiding strikes like poison. Another reason for their changed point of view was that they also emphasized the friendly society aspect of the unions. They opposed paying out funds as strike benefits when the same money might be used as sickness or unemployment relief.

"It was not long before the well-organized unions began to draw together. As a result of a building-trades dispute in

London in 1859, this trend was accelerated. The Amalgamated Society of Engineers contributed some &3000 to the builder's strike fund; and throughout the countryside trade union representatives began to consult together on common action. These meetings soon became permanent local trade councils. Moreover, they were all directed from London. . . . To all intents and purposes, by 1870 trade-unionism had achieved a very favorable position." ¹² In conjunction with labor's efforts, the standard of living of the middle class had risen steadily. However, there was still the problem of child labor and of almost intolerable conditions in the factories. Also primarily due to enclosure, the employment in agriculture had fallen considerably.

Investment

Because of the increase in the economy, opportunities for investment increased. Money was invested in new plants and in the development of new lands, mainly for trading purposes. This money went into colonies, plantations, and trade in general. Investment was encouraged by the growth of credit. However, this emphasis on credit did give rise to a new economic phenomenon, the business cycle. This cycle appears to have four main parts - expansion, recession, contraction, and revival.

1. In expansion, there is an increase in the physical volume of production, greater employment, rising prices, and greater consumption. The mood of business is generally optimistic. Investment is heavy.
2. In recession, it follows expansion and occurs when expansion reaches such a point that business can no longer expand profitably. As a result, the makers of industrial equipment have to cut back production.

¹² Ibid, p. 328.

This rebounds to other industries and causes wide-spread unemployment. Business becomes pessimistic, and investment declines.

3. In contraction, there is a fall in the price level, production declines, profits are decreased, unemployment rises.
4. In revival, it begins when prices and interest rates sink low enough to encourage to begin investment and production again. It is characterized by slowly rising prices, increasing inventories, and a returning confidence of business.

These cycles were quite violent in nature, largely because of the speculative nature of the period. It seems, however, that in the earlier part of the period, the movements on the cycle were caused partly by external factors, such as poor harvests, wars, pestilence, and tampering with the money standard. At any rate, there were several crises during this period. The first in 1797 found the Bank of England having to suspend of its notes in gold. This grew out of the European Wars. Economic troubles in the 1840's were due to famine, margin calls on railway stock, and a drop in wheat prices. The authorization of a note issue in excess of reserves averted a crash, but it is estimated the British economy suffered a \$100 million loss.

The next economic problem was caused by investment in American railroads. Overinvestment caused British banks not to meet demands with the result being a panic. Many banks folded. Britain was helped through this crisis by the import of gold from Australia. This speculative fever was brought to an abrupt halt in 1866 when Overend, Gurney & Co. fell due to Germany pulling out its money. A raise in the bank rate and issuance of more notes stopped a crash, and this time the

lesson of over-speculation took. From this time on, the British public would restrict itself to sounder investments.

Government

The changing economic system began putting increased demands on government. Government had to take more and more responsibility in the fields of defense, public services, and the like. As a result, the present revenues derived from the present taxation system were inadequate. Therefore, a new system had to be set up. Robert Walpole, the minister of finance at the time had the responsibility for revamping the tax system. He set up three main taxes. The first was simply a land tax, similar to our property tax of today. The others were excise and customs tax. Walpole's tax system helped trade as he did away with prohibition on imports of certain goods, substituting in their place import duties.

The major finance problem which faced the government was the national debt, which by 1783 had risen to \$273 million. However, most of the debt was funded in bonds which were payable at the government's option. This problem eventually came to the point where the government had to institute an income tax. Even this did not completely solve the government's finance problems. In the early 1800's, due to Pitt withdrawing too much from the Bank of England, Britain goes off the gold standard, but within thirty years they are back on.

Economic Theory

The economic theory upon which the era of Britain's rise can be summed up in the ideas of one man, Adam Smith. These

ideas were expressed in famous book, Wealth of Nations. His book did two things. It undermined the intellectual backing of mercantilism and also consolidated laissez-faire thought into a system which would be dominant in Britain for more than a century. Smith's argument against mercantilism was basically that a nation should not try to build great trading balances in all industries, but should specialize in that area where it is best suited and should trade for other goods. However, "Smith did more than tear down the old; he also built up the new. He gave laissez-faire theory a firm basis by his description of economic life as a self-starting, self-adjusting mechanism which operated best when left severely alone. The great motive force which started the machine and kept it going was man's self-interest. Thus, for example, the saving of capital arose from man's natural desire to better his circumstances. It was the free play of self-interest that regulated all economic life and kept it in adjustment." ¹³

This was a statement of Smith's invisible hand theory which leaned heavily on the laws of supply and demand. This theory stated that there was no need to have a 'just' price set, for the operation of the economic system would adjust itself to the price where supply and demand for a particular commodity are equal. Britain would move into putting this theory into practice during this period and would operate her

¹³ S. B. Clough and C. W. Coles, p. 367.

economic system under its guidelines until after World War I.

Summary

During this period we find Britain building on the foundations laid in the period before. Moreover, we find that she has built well, but with some necessary changes. Farming has become commercialized, industry has multiplied many times, investment is commonplace. "Thus, by 1870 the economic development had succeeded in greatly altering the whole social structure. Industrialization was supreme in Britain, bringing numerous intellectual, social, and political changes. Materialism grew apace in all classes. Social divisions became deeper and wider, while everyone sought increasingly for freedom to do as he pleased. It was in accordance with the philosophy of laissez-faire that the trading element sought free trade, the laborers desired labor and factory legislation, and the industrialist, with all their strength, opposed government intervention in industry. . . . By 1870, Britain had reached the peak of her economic development, dominating the world like an economic master." 14

¹⁴ Stanford W. Reid, p. 334.

V

BRITAIN'S PLACE IN THE CHANGING WORLD

As the 1870's got underway, Britain was at the peak of her power. She had colonies around the world and was still the largest industrial nation in the world. However, soon she would no longer be dominant as the younger industrial nations, especially the United States and Germany would begin to catch up with Britain.

The fundamental cause for this change was that the other nations were taking in the spread of industry beyond the borders of Britain, and were building industrial complexes of their own. These nations were able to industrialize rapidly because they were able to profit from the mistakes Britain had made in her earlier industrialization. Another reason that Britain was so quickly over-taken in industry and commerce was that she was competing with nations of superior natural resources. The United States and Germany were both nearly self-sufficient. Both nations had plenty of raw materials which aided the start of industry.

The period of 1868-73 is especially important in this turn-about of the world economic situation. It is important because it saw the economy and politics of three nations become stable - the three nations which would give Britain her greatest

challenge. First of all, the civil war in the United States had ended, and the westward expansion gave rise to investment. Secondly, Germany became unified as a nation from the Prussian States, and in addition received five billion francs from France in reparation for the Franco-Prussian War. This money gave Germany a tremendous amount of capital with which to build her industry. Thirdly, although France had just lost a war, she came out of it with more political stability which would enable her to devote herself to economic development.

Although Britain had some problems, there was also a new set of opportunities which she could exploit. Some examples are:

1. While, with the expansion of European industry, much of Britain's old markets might be lost, the expansion of trade should open up new ones.
2. The expanding industries of the world should mean even greater demand for the raw materials Britain produced.
3. The great expansion of trade should mean more income than ever for the invisibles of shipping and insurance, both of which Britain was well established in.

This was the setting of the world economic picture when the last quarter of the nineteenth century began. While having problems, Britain also had some advantages. However, by the start of World War I, Britain was in a very different position. While still the largest trader, Britain had lost her dominance, and the large part of her balance of payments were the invisibles of services and capital exports which could have violent fluctuations because of war or change in the money standard.

Agriculture

In 1870, agriculture was quite efficient, having been quick to adapt new methods. "English agriculture, . . . , in the 1870's showed many signs of recent progress and looked well in comparison with that of nearly all other countries. But it had its vulnerable points: undue conservatism, the lack of alternative leadership if landlords should some how fail in their responsibility, the wasteful use of inadequately trained workers, the rather small provision for the collection, enlargement, and diffusion of technical knowledge." ¹⁴

Into these conditions, trouble came quickly. At first the problems seemed only bad luck with the weather and harvests. Poor harvests in seven years of the 1870's culminated with the harvests of 1878 and 1879, which were the worst of the century. However, soon signs began to show that more permanent influences had begun to operate. Primarily, the fact that prices steadily fell in the face of falling supply showed that there were other factors.

Thus, by the end of the nineteenth century it was obvious that British agriculture was in a state of decline. Imported goods had begun to make serious inroads into British markets. For instance, imported wheat rose from fifty-eight million centuryweight in 1875-77 to ninety-nine million in 1893-95. Other imported grains rose proportionately, so that by 1914 British agriculture had declined to the point where it was a secondary industry.

¹⁴ W. Ashworth, An Economic History of England, 1870-1939, Methuen and Company, Ltd., London (1960), p. 53.

There were several reasons for this decline.

1. One reason was simply fluctuations in the world market. World unemployment in 1879 had decreased demand, and this had lowered prices in general, including Britain.
2. Also, it is true that British farmers did get some bad breaks from the weather during this period.
3. Rising costs was another factor. The emigration of men from Britain had decreased the labor supply and thus forced wages up.
4. But the primary reason for the decline was the competition from the United States, Russia, South America, and Australia. The farm industry in these areas had grown by leaps and bounds. They produced far more than they consumed, with the result being that much of the excess was exported. This exported naturally increased the supply in the areas that imported it, thus causing lower prices and more competition in these areas.

So, by 1914, British food markets were dominated by foreign producers, and although this competition forced British agriculture to improve enough so that it was able to hold its own after 1914, the main supply of British foodstuffs would come from imported goods.

Industry

There was also much change in industry during this period. one of the main changes was in the increased use of mechanization. This occurred because of the increased productivity it gave industry and was pushed along by the rising wages of labor which made it necessary for industry to find cheaper ways to produce. Along with mechanization went increased use of the steam engine. Another change, one which was slow to be adopted was the growing use of electricity. This was fought by the gas industry, and at first was expensive. However, by

1914, the use of electricity had increased considerably.

Coal was still a thriving industry. With new techniques and labor-saving devices, coal was being mined as cheaply as possible. While Britain was behind the United States and Germany in some of her techniques, there seemed little need to change since coal exports were up forty percent during the period from 1903 to 1913. There also had been an increased production over the same period of over 120%. Coal in 1914 was still a thriving industry.

The iron and steel industry was a different story. While much ore was still being mined, this ore contained phosphorous which made it unusable in the Bessemer process. Therefore, much of the iron used in the making of steel had to be imported. Also, the British steel industry was slow to adapt to the more efficient processes used in Germany and the United States, and when processes were discovered whereby the phosphoric ores could be used, Britain fell further behind in steel production because due to the capital sunk in the present plants it would have been overly expensive for Britain to change her plants. So, Britain, who had in 1870 produced fifty-five percent of the world's steel, by 1913 was responsible for only about fifteen percent of the world's production.

Yet Britain did hold her own in one industry, that of shipbuilding. The main reason for this is that Britain was able to go from sail to steam and wood to steel easily because of the long experience in working with ships and steel. In

fact, Britain had almost a monopoly in shipbuilding, building eighty-two percent of the world production in 1893. This large production of ships also enabled Britain to have a large portion of the world merchant marine, even though she was exporting 350,00 to 500,000 tons of shipping a year. This large percentage gave Britain a strong position in world shipping, and helped greatly the British balance of payments through the freight charges derived from the use of British ships.

Also, the textile industry was doing better than steel. The cotton industry was more enterprising in the adoption of new machinery and processes, and although Britain did not go in for all the new processes, her cotton industry in 1900 still produced more than all of Europe. However, by 1914, this lead was diminished considerably; for although British production had increased greatly, it could in no way match the increasing production of Europe and America. The result was a gradual contraction of British cotton markets. Wool fared better than cotton, primarily because the other countries were unable to match the quality of British wool. Although, the overall demand for woolen goods seemed to have fallen, the value of wool exported rose from \$21.1 million in 1894 to \$35.7 million in 1914, a substantial increase.

Also of growing significance was several new industries. One of these, and eventually of the greatest importance, was the auto industry. This industry got a slow start in Britain with the first cars being imported from France and Germany. This position quickly changed, and aided by the moving of the

Daimler auto works from Berlin to England, the British grew rapidly, and by 1913 reduced the ratio of cars imported to cars exported to two to one from a previous ratio of eight to one. Closely allied to the increase in autos was the growth in the rubber industry which supplied cars for the autos. Before 1880, Britain imported about 7500 tons of raw rubber a year, and re-exported half of this. However, with the increased demand for rubber, this industry became a prospering industry, importing some 21,000 tons in 1913.

The dominant industry, employment wise, in 1914 was the transportation industry, including both transport and communication. It was estimated that 750,000 were employed in this field.

The primary means of travel was the railroad. There was 23,701 miles of roadway with the greatest percent of multiple track in the world. Along with this went great improvements in quality. However, with all this size, there were no new lines, the trend being toward 'alliances', or large groupings of small railroads. Railroads were able to obtain favorable legislation in the years 1900-07, and along with the increased demand, these factors helped railroads to be prospering by the outbreak of war.

Finance

Even though Britain was in a commercial decline, she remained the financial capital of the world until 1914. There were several reasons for this. The primary one was that Britain, despite her decline, still traded more than any other

nation. Also, with a longer industrial history than most other nations, Britain had to come to have a world investment outlook. This outlook came about primarily because of the large number of opportunities found in the world for investment. As a result, the amount of capital drew those who needed financial backing to London.

However, while British finance was booming, by its very size, it created danger; for a crash could ruin millions. Therefore, a sound financial organization was of the utmost importance. The foundation of the entire British financial structure was its banking system. In turn, the center of this system was the Bank of England. It was still the banker's bank, and held a large portion of the nation's gold reserves. However, it was still dependent on commercial banks as it was they who made loans, dealt in securities, discounted bills and in short handled the financial transactions which determined the direction of credit in the country.

Most of the long-term investment was handled by investment banks; and as for stocks, the London Stock Exchange was the major one in the world. On this exchange were listed stocks from Britain and other parts of the world, and although other nation's investments were rising, still much of those seeking financial backing came to London, and as late as 1914 London was still the financial capital of the world.

Labor

Labor was restless in the earlier part of this period, especially, around 1886. The primary cause of this unrest

was the fall in money wages. Actually, however, real wages had risen because of a greater fall in prices. Still, the average worker looked only at money wages, and since these wages were falling, he was discontented.

From 1886-91 things were better for the worker as wages in general rose, with industrial wage rates going up about twelve percent in this period, while prices remained fairly constant. This trend continued until 1900 and even though prices had begun to rise, the position of labor was better than ever before. The year of 1900 was a peak year for labor, either in terms of a money wage or of real wages. However, from 1900 to 1911 the wages were on an uneven plateau, with the wages in some industries falling. Also, during this period prices were rising, with food prices going up nine percent and clothing twelve percent. The result of this was that by 1912 the real wages of the British worker were not even on a level with 1900.

Trade

As has been previously stated, when this period began, British trade was dominant in the world. However, the seeds had already been planted which would cause Britain to lose her dominance, and during this period her percentage of world trade went steadily downward, as the following chart shows.

Percentage Share of World Trade

Year	United Kingdom	United States	Germany	France
1840	32	8		10
1860	25	9		11
1880	23	10	9	11
1900	21	11	12	8
1913	17	10	12	7

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This losing of trade was characteristic of most of the older industrial nations as the new industrial states of the United States, Germany, and Japan began to get their industries into full swing. Also, the fact that Britain had begun to lose trade meant that her balance of payments was not so favorable any more, as the following chart shows.

Trade Balances for the United Kingdom

	1860	1870	1880	1890	1900	1913
Imports	210	303	411	420	523	768
Exports	165	244	286	328	354	634

The above figures are in
millions of pounds sterling. 16

Britain was able to finance this deficit from the money received from the invisible exports of services and the surplus built up during the mercantile period when Britain had a favorable balance.

Government

As in the previous periods, government's biggest problem was the national debt which had risen to £708 million in 1914. What with government increased responsibility and rising prices, government expenditures grew each year. As a result, several changes were necessary in the tax system. Basically, they were

¹⁵ S. B. Clough and C. W. Coles, p. 605.

¹⁶ Ibid, p. 614.

an increase in income tax, new land taxes, and an increase of property taxes. However, in 1914 the government was still running a deficit.

Summary

This was period in which the rest of the world caught up with Britain. Due to the expanding knowledge of production, many nations, especially the United States and Germany, were able to put their resources to use and start industrial complexes of their own. Coupled with their rapid growth was the slowness with which the British industries adopted new processes. The result was that soon Britain no longer dominated the world industrial scene. She was only one nation of several that had advanced industries. In agriculture, the large fertile lands of the Americas began to make strong inroads into the British markets, and by 1914 had pushed British agriculture into the position of a secondary industry. However, in the field of finance, London remained prominent. The primary reason for this was the large sums of capital available in Britain for investment. However, even this would soon be gone, for over the past half-century Britain had run a chronic deficit in her balance of payments. This was steadily taking away Britain's capital stock, and the day would soon come when Britain would no longer be a creditor nation but a debtor nation.

VI

WORLD WAR I AND ITS CONSEQUENCES

Since this section involves a war economy and then the period after the war, and since so much of the period following was a result of the war, this section will be dealt with a little differently. First, the war economy will be discussed as a whole, and then the effects of the war on the different parts of the economy during the following period will be covered.

The initial economic ~~alarm~~ caused by the war was a financial crisis. Although it was caused partly by a heavy public demand for cash, a large part of the crisis stemmed from difficulty of maintaining liquidity in London's foreign commitments. Since Britain's economy was bound up largely in the working of an international economy, when the world was split into two opposed groups, it was certain to have an effect on Britain. This financial crisis was settled by certain emergency measures.

"But the international economy, to which the British economy was so closely attuned, was not restored to anything like its former state. There were many signs of this. One was the absence, in practice, of a common worldwide monetary standard. Some countries, Britain among them, remained nominally on the gold standard. Even the new currency notes were legally con-

vertible into gold (though most people using them were probably unaware of this) and there was nothing illegal in the use of gold for external payments. But the physical difficulty of moving gold in wartime and the impracticability of arranging transfers of its ownership without the assistance of the Bank of England or the Treasury (given only in special cases) meant that the old arrangements were effectively suspended. Another symptom of change was the failure of the acceptance and discount houses in London, despite the maintenance of their solvency and the restoration of their credit, ever to recover their former volume of business. A third was the drying up of the recent immense stream of long-term commercial investment flowing abroad from Britain. Yet another was the change in the direction and gradual shrinking in the volume of British foreign trade." 17

The effect that these conditions would have on the British economy would be ones which would have a lasting effect. However, this effect will be discussed later. For the present the actual war economy will be discussed.

As World War I broke out, initially most people did not want controls. However, some were soon necessary. A few of these were:

1. Government took control of railroads and twenty percent of the shipping.
2. There was government control of some prices. This was necessary to prevent the increasing demand for certain war-oriented materials from pushing prices too high.

¹⁷ W. Ashworth, p. 266-67.

3. The government began making bulk purchases of foodstuffs.

The aim of these controls, and of any steps taken by government was to convert from a peacetime to a war economy as smoothly as possible without disrupting civilian life.

One of the first needs in the war economy was an increase in agriculture production. The taking much of Britain's manpower into the army lowered agricultural production which was low to begin with. To overcome this, government is empowered to control agriculture, with the result being that much of the grazing land is changed to arable farm land. While these efforts by no means completely solved the problem, there was a pronounced increase in the production of agriculture.

Wartime Agricultural Production
(million quarters)

Crops	1918	1916	1913
Wheat	10.5	6.8	6.6
Barley	6	5.1	6.2
Oats	14.3	10.4	10.5
Mixed Corn	.6	-	-
Potatoes(tons)	4.2 mil.	2.5	2.6

18

Although the efforts to increase the production of food were successful, the industrial sector of the economy fell down during the war. For instance, the production of coal fell steadily during the war, despite that the government took the extreme step of seizing the mines in 1916. By the end of the war, the production of coal had dropped some sixty million tons from its production in 1913. Other forms of industry also suffered. Textiles were hit hard. The production of cotton and flax both dropped from their pre-war figures. Wool,

¹⁸ Stanford W. Reid, p. 439.

however, was able to maintain its level of production, since it was used in the production of uniforms.

"It is hard to estimate exactly what happened to Britain's balance of trade, owing to factors such as rising prices, exports to forces overseas, and the like, but a general calculation seems to point to the fact that British imports rose from £696 million in 1914, to £1316 million in 1918, while her exports rose from £526 to £532. The trouble in all of this was, owing to her curtailment of production, she lost many of her best customers. . . . Added to this, Britain's inability to supply her old customers meant that either they themselves or a neutral nation attempted to supply the goods. Factories were built in India, Canada, Australia, and South America. At the same time, American productive capacity was greatly expanded so that it was able to supply former British markets such as South America, where, in ten years time United States volume doubled. Britain not only had to fight, to turn her industrial potential to profitless production, but she also lost many of best markets to those remained out of the war." ¹⁹

One of the major economic problems of any war is its finance. As had been the case in earlier wars, there were only two ways to finance it, by loans and taxes. Initially, the British government chose the easier way, that of loans. It soon became obvious however, that if any semblance of stability was to be achieved the taxes would have to be raised, and by the end of the war, taxes were four times what they were in 1914. Still,

¹⁹ Ibid, p. 440-41.

government spending far outstripped its income. This was the case because of the increase in the cost of the war and due to higher prices. Thus, much of Britain's spending had to be financed by borrowing. This placed the nation in serious financial straits when the war ended, for although taxes were at an all-time high the national debt had been increased 1000 percent during the war. Much of this debt was in loans from the United States. Britain had also arranged with J. P. Morgan to peg the price of the pound sterling at \$4.765. So, when the war ended, and especially when the European nations defaulted on their debts to Britain, she found herself in the position of being a debtor of the United States, and as a result London's position as the financial center of the world had to a large extent been taken over by New York.

This concludes the discussion of Britain's war-time economy. For the rest of this section we will see how Britain's economic position has been altered by this war, and how the British economy was conducted in the years between the two world wars.

Post-war period in general

For Great Britain the post-war period was one in which she was constantly forced to adapt to new situations. First of all, immediately following the war, Britain was in the position of having her trade and industry dislocated. "Tariff barriers, new industries, rival producers, and similar phenomenon had all appeared in such great force that throughout the 20's Britain never really recovered her old position.

Before she could become accustomed to these changing conditions, the early 30's brought a depression which effectively wiped out any success at adaptation to the new situation. Once again a new environment had to be faced, but hardly was it well understood before there appeared over the horizon the menace of Nazi Germany and Fascist Italy. Rearmament was now added to other problems. British trade was not nearly as prosperous as it had been before World War I, yet, in spite of rising prices and costlier weapons, for self-preservation, Britain had to turn much of her income to the making of munitions. Rearmament helped to meet the problem of unemployment, but it also gave rise to many others. With these unsolved, Great Britain was plunged in September 1939 into another holocaust of war." 20

Agriculture

The war changed nothing for the British farmer, for in the period after the war, he faced as much difficulty as in the one before the war. Because of the state action during the war, the acreage under the plow was 1.3 million more than before the war. As a result, many thought that Britain would become agriculturally self-sufficient. However, their hopes were doomed to failure. In 1921 farm prices began to fall rapidly, and by 1931 they were only six percent of what they were in 1921. Although some factor prices fell, wages went up, and farming fell back into its hand-to-mouth rut. At first all government did was to offer encouragement and to help through education and research. The slump in the early 30's hit the farmers hard. He was unable to meet the low priced foreign competition, and as a result the government

²⁰ Ibid, p. 449.

had to take action in the Agricultural Marketing Act. The core of the act was a provision which would set up marketing boards which would fix prices, limit production, and later to control imports through tariffs and quotas. While the system had its faults, it did help the farmer's situation.

Thus, this seems to be the time in British history when the farmer had to call on the government for help. Before 1931, we see that farming finds itself in serious trouble. The reasons are foreign competition and the depression that hit most of the world in the early 30's. At any rate, in 1931 farming was in such a situation that it took government aid to keep it from going under altogether. After that date, with the government help, things improved. However, farming, even with the rising prices brought on by rearmament, was still dependent on government help when World War II began.

Industry

One of the most damaging results of the war was the dislocation of Britain's trade. Also, when the war ended it found Britain with a large part of her industrial plant obsolete. Another thing which affected British industry was the change in the nature and volume of the demand for her products. The major part of this change was that the concentration of industry was no longer in Europe, as the following chart shows.

Share of world industrial production

	1913	1928	1938
United States	36%	45%	40%
Russia		5	10
Japan	1	3	4

The result of the above conditions culminated in the slump of the 30's, which was the low point in a hundred years for British industry.

One of the characteristics of this period was a growth in the size of industrial corporations. Along with this came public corporations, most of which were organized by the government to administer public utilities. The government also encouraged combines which were groups in each industrial group empowered to regulate prices, limit production, and otherwise regulate the industry in order to increase profits.

However, there were two types of industry during this period. First of all, there were the old staple industries, such as textiles, machinery, and mechanical equipment. These industries as a whole lagged behind the growth of industry in general during the interwar period. On the other hand, the newer industries, autos, durable goods, and utilities, experienced a period of expansion. The bad part about this situation is the fact that with Britain dependent on trade, it was her trading industries which lagged.

The most vivid characteristic of the post-World War I was the speed with which *lassiez faire* was cast out. This philosophy, which dominated after World War I, was completely gone by 1939, replaced by government control of the economy, following the doctrine and economic thought of John Maynard Keynes.

Finance

Immediately following World War I, Britain took steps to

stabilize her currency. The plan used called for a reduction in the debt, use of the bank rate to restrain credit, and for a return to the gold standard. "Following this plan, in 1919 the pound was unpegged so that it could find its own level. It promptly dropped to \$3.22. At the same time, the bank rate was raised to 7 percent, cutting credit drastically. The result was deflation, so the price index fell between March, 1920 and December, 1921, from 323 to 168. Many feel that this helped to bring on the depression of 1922. . . . The bank rate then dropped to between 3 and 5 percent, and on April 28, 1925, England went back on the gold standard."²¹

In the years following 1921, Britain enjoyed, along with most of the rest of the world, a period of prosperity. However, with recessionary factors already on the boom working, the boom came to an abrupt halt in 1929 with the American stock market crash. This crash rebounded around the world, causing stocks in Europe to fall. Wholesale prices fell, production declined, unemployment rose, there was a collapse of foreign trade, and new capital investment was very low. The main financial of the slump in Britain was that she was forced to go off the gold standard. This was directly the result of foreign investors removing their capital from Britain, thus leaving Britain with not enough insufficient gold to redeem her currency in gold. The effect of the slump was generally adverse. There was only one year before the start of World War II in

²¹ Ibid, p. 478-79.

which she had a favorable balance of payments. Thus, as this period draws to a close, Britain finds her going into increasing debt, a debt brought on by the fact that returns from her exports were falling while her import costs were rising. Also, the goods that British industry was producing were for the large part war goods, which did little to build her capital stock. While prosperity had returned, it turned out to be not so good as it appeared on the surface.

Summary

This period was one in which Britain was forced to adapt to a new position in the world economy. World War I wiped the last remains of Britain's days as the dominating world power. The expenses of the war made it necessary for her to borrow large sums of money, most of it from the United States. As a result, when the war ended Britain was a debtor nation, a complete reversal of her position of before the war. Also, her trade was dislocated with a drastic effect on Britain's industry. With Britain forced to take up a war economy, many of her customers turned to other nations to supply them their goods. When the war ended, many of these nations did not return to Britain. At the same time, many nations were even able to make inroads into the British home market because of better production methods. As a result, the balance of payments deficit grew worse after the war.

The big change that occurred economically during this time was the growing rôle that government was taking in the operations

of the economy. As a result, this period saw the death of laissez-faire. It was out of this period that John Maynard Keynes arose. It was he that gave us the theories which Britain and the rest of the Western world would begin to base their economies on, and when this period ended in Britain the government had controls in almost all sectors of the economy.

This period was one of repeated financial crisis for Britain. The crises culminated in the slump which forced Britain, along with most of the other nations in the world, off the gold standard. Britain would never return to the gold standard. As the period draws to a close, Britain is found on the brink of entrance into another world conflict. She has had to rearm, and this has helped her solve the employment problem that was an aftermath of the decreased production of the slump. Still, this production was of war materials, and would do little to help Britain build up her capital stock. Thus, as we enter the next period, we find Britain as a nation with many economic problems. How she has handled them up to the present time will be the concluding section of this paper.

VII
WORLD WAR II AND RECOVERY

This section will be quite similar to the previous one. It will first of all deal with the British war-time economy during World War II, and then for the remainder of the section will cover the British economy through its recovery until the 1960's.

When World War II struck in 1939, Britain was by no means unprepared; however, the immensity of the war forced her to change her economic position radically. "To create a siege economy, Britain has produced more, consumed less, sacrificed her domestic capital, and devoured her assets abroad. Power has been centralized in the government; materials and tools, manpower and shipping have been strictly allocated. Not only total output, but output per man-hour has increased, so that Britain's economy is now one of great striking power."²² The accompanying chart shows how Britain was forced to reallocate her expenditures.

	(millions of pounds of 1938 purchasing power)			
	1938	1940	1941	1942
1. Government Expenditures	&845	&2660	&3355	&3545
2. Consumption	4035	3551	3408	3408
3. Maintenance and Increase of Domestic Capital	762	395	220	232

²² "British Balance Sheet: I, Fortune, Time Inc., Jersey City, N.J., Vol. 28:11 (November, 1943). p. 121.

	1938	1940	1941	1942	
4. Overseas					
Disinvestment	55	658	638	485	
5. Gross National					
Product	5587	5948	6345	6700	23

This dramatic increase of production was possible through the willingness of the British people to sacrifice and also through the coordination and controls that the government had set up. There were three main groups of these controlling agencies. They were:

1. A Ministry of Production
2. A Ministry of Labor
3. A Ministry of the Treasury.

"The pattern that emerges from this inter-mixing of government, business, and labor has its inherent dangers. It is a pattern abhorrent to all theoretical liberals, and yet, . . . the acid test has been output. And not only has total British output leaped forward during the war, but output per man-hour has increased. Before the war Britain's output per worker was about equal to that of Germany, and both countries ranked far below the United States. In the manufacturing industry the ratio between Britain and the United States was about 1 to 2; in all industry (including agriculture) it was about .7 to 1. Recent evidence goes to show that Great Britain has pushed her output per man-hour in shipbuilding above the United States output, and her record in bomber production is almost as good.

"Meanwhile output per citizen has pushed up even more than output per worker, owing to a continuing rise in employment.

In 1938 there were about 18 million men and women in work in

²³ Ibid, p. 123.

Great Britain. . . . Today the comparable figure is 23.5 million or about fifty percent of the total population." 24

Another major problem which Britain faced during World War II was inflation. Britain was unable to completely halt inflation during the war, for inflation usually goes with wars. The inflationary pressures were controlled by two main factors. The first was taxation. Since taxation takes money out of the hands of the public, an increase in taxes will reduce the public's demand and thus lower the inflationary pressures. The increased taxes cut disposable incomes in Britain by from 10% to 82%. The second measure was the stimulation of savings which also served to decrease demand for consumer items.

This look at Britain's war economy has been brief, but in summary on the war years, we have found the British economy geared totally for war. Through decreased consumption and capital investment she pushed her production to limits no one thought possible. However, although her economy has become very efficient, when the war ends it is a perplexing situation. The economy has produced more efficiently than any time before, and yet now Britain must its production from war material to profit-making goods. It would be how Britain adjusted to these new conditions and how she could continue to adjust that would determine how she would fare in the world economy.

Britain post-war recovery

After World War II, many felt that Britain would be unable to pull herself out of the ruins of war and become again a commercial power. Because of the necessity of concentrating

²⁴ Ibid, p. 270.

on war manufacture the exports of Britain had fallen to 1/3 of the pre-war levels. Over &one billion of overseas investments had been spent for war supplies. Also, the purchasing power of the pound had decreased so that it took 1/5 more exports than in 1938 to pay for the same amount of imports.

However, Britain did not dally in its recovery. "The index of production outlines Britain's post-war recovery: it was 62 in 1913, 100 in 1938, 98 in 1946 (but most production in 1946 was geared for war needs and had to be reconstructed for peace). By the 1950's the index had risen to 126, and by 1961 to 172. The index of the volume of exports shows the greatest fall in the interwar years, from 173 in 1913 to 100 in 1938. In 1946 the index stood at 99, but here again a substantial part of these exports were geared to war-time allied requirements. By 1950 the index had risen to 174 - that is, in the four immediate years after the war, Britain achieved a level of exports actually one point higher than the pre-World War I level, which she had not remotely approached in 1919-1938. Britain broke even in 1948-1949, but the pressure on domestic resources and the expansion of imports led to a serious loss of dollar and gold reserves, which fell to \$1.4 billion in September, 1949, when the pound was devalued from \$4.03 to \$2.80. Factors in the British recovery in the crucial years of 1947-1950 included United States and Canadian loans and grants which financed most of her imports. United States' aid to Europe also speeded recovery of international trade, in which Britain shared." 25

25 "Great Britain and Northern Ireland", The Encyclopedia Americana, Americana Corp. New York (1964), Vol. 13, p. 188.

Britain was able to maintain this growth because she quickly adapted to the changes in the world economic scene. Britain made many changes both in the kinds of goods she produced and in her methods of production. These new industries produced a progressively larger share of Britain's total industrial output, and it was also the newer industries that led the revival of Britain's exports, as we shall see in the next part of this section.

Trade

British exports increased faster after World War II than most observers thought likely. One of the big reasons for the rapid increase in exports was the growth of new industries. This change in the type of products went away from the older, staple industries like coal, textiles, and steel to the newer petroleum and electronic industries. There was also a marked change in the destination of British exports, with the principal market for British exports becoming by 1960 the United States, followed by Canada and Australia.

However, even though exports showed large gains, Britain was to have a recurring balance of payments problem during the post-war period, for imports rose about as fast with an even more pronounced price rise. This was to cause a move in the terms of trade against Britain. All of these things placed a strain on the British balance of payments, particularly in relation to the dollar area, to which Britain had come to depend on greatly for imports, but which she could export neither goods nor capital to get dollars to pay for the imports. The balance of payments problem reached such a dangerous point in 1949 that

Britain was forced to devalue the pound from \$4.03 to \$2.80.

"During the 1950's, different forces were at work. The terms of trade now moved in Britain's favor, ending up near the pre-war level. It should be noted, however, that it carried with it a loss in dollar earnings due to the slump in prices of raw materials exported from the sterling area to the United States, which followed the stockpiling of these materials in connection with the Korean War. There was a strong decline in invisible earnings, and the deficit in the visible trading account increased strongly, reaching nearly \$400 million in 1960. Monetary reserves, however, increased in the mid 1950's so that Britain internal position was quite strong. The speculative move against sterling in 1957 was effectively checked by a rise in the bank rate to seven percent and firm internal financial measures which served to improve the balance of payments. However, there was another deterioration in 1959, reflecting the continued drastic fall in invisibles earnings (due largely to dwindling earnings from shipping and external investment) and the spontaneous increase in the excess of visible imports over exports. Stringent measures were again taken (the bank rate was again put up to seven percent), and 1961 showed a marked improvement. " ²⁶

Industry

Following the war, British industry had to start almost from scratch. Its plants were either bombed out or geared for war-time production. Still, by 1950 Britain was well on her

²⁶ Ibid, p. 233.

way to becoming an industrial power again. Much of this production was in the afore-mentioned newer industries, as it became that the staples of steel, coal, and textiles could no longer favorably on the world markets. In the new industries, however, there was for example a five-fold increase in the production of electronics, which by 1958 was second only to the United States in world production. Also almost non-existent in the pre-war days was the chemical industry, which in 1958 had also become the second largest producer in the world, and whose net output of plastics was nearly as high as sheet steel and tin plate together.

The overall trend in the organization of industry was toward nationalization. This had its origin in the victory of the Labor Party in the 1945 elections. They were determined to keep production at a maximum through cheap money policies and control of the nation's key industries; and by 1950 the Bank of England, civil aviation, coal mines, railway and road transport, electricity, gas, iron and steel were all nationalized.

The result of this nationalization of industry and the full production at all costs policy was complacency on the part of British industry. The system produced the industrial state of mind that no firm could fail to profit, and thus, few improvements were made. Prices also edged steadily upward, except for prices in the nationalized industries. These were controlled so as to prevent embarrassment or to threaten unemployment in these industries through a decreased demand for their goods. This inability of the nationalized industries to pay their way was a primary reason for the inflation because it forced the

government to obtain their investment needs through expanded credit rather than from the tax revenues these industries should have provided.

Labor

Britain's labor and unions were another source of trouble to the economy. One reason for the weakness of British labor was its disorganization. Sometimes as many as a score of unions would be trying to negotiate contracts with one firm with each trying to outdo the other. There were many strikes during the 1950's and 1960's in Britain with each one slowing up production and causing Britain's customers abroad to seek markets where they could obtain their products without holdups. Also harmful to the economy was the fact that because of fear of another depression, British labor clung to restrictive policies to spread work among as many as possible, prevented the use of labor-saving devices, and through use of its influence in polls and elections obtained the passage of protective tariffs and subsidies to keep declining industries alive. However, labor weakened the British economy the most through its continuing demands for higher wages. The resulting wage-price spiral caused a cost-push factor to appear in the inflation which pushed British prices higher and higher.

Inflation

As you have probably deducted from the previous parts in this section, this period was one of many problems for the British economy. One of the main problems to face Britain was the one of inflation. It has already been mentioned that one cause

of it was the wage-price spiral accented by labor's continual demands. Another cause was the high tariffs which were a legacy from the depression days. These tariffs which prevented foreign goods from competing equally with the British firms reinforced inflation by keeping prices up. This inflation, along with the balance of payments problem, caused periodic monetary crises as in 1949, 1951, 1955, 1956, 1957, 1961. The government met these by sharp raises of the bank rate. These had, hopefully, a three-fold effect.

1. It was hoped that through the credit restriction it would curtail domestic spending and thus slow down the price spiral.
2. This in turn would force the firms who were relying on the home markets to begin exporting. This would help the balance of payments.
3. Finally, the increased return of invested money would pull foreign funds to Britain, thus relieving pressures on the pound.

As can be seen from the recurring monetary crises, this was only a stop-gap measure. It would stabilize prices for a while and enable Britain to strengthen the pound. But soon inflation would begin once more and there would be another money crisis.

Summary

This period was one of growing crisis for Britain. Although following World War II Britain was able to rebuild her war-damaged industry and economy at a fairly rapid rate, her economy still had several fundamental weaknesses. Basic, of course, was the balance of payments problem. While it was the mid 1950's before Britain's balance on current account became

adverse, her policy of exporting large amounts of capital for investment and foreign aid placed a large burden on currency. Added to this was the fact that the invisibles in which Britain had been strong for so long were not returning the revenue that they once did. Thus, when the imports began to exceed the exports it posed a significant problem for the monetary authorities. Of overwhelming importance during this period would be the efforts of Britain to stop the depletion of the nation's monetary reserves.

Another characteristic of this period was the growing number and severity of labor problems. This was also to spell trouble for the British economy. With its upward pressure on prices and the further adding of industrial costs through the numerous strikes was a distinct weakness in the British economy.

A third characteristic was the ever-present inflation. The trend of prices in Britain during this period was steadily upward. It was pushed up by labor, pulled up by the consumer's demand for more and better goods, and held up by the government's policy of nationalization and protective tariffs. Thus, as we come to Britain's place in the present economic world, we find that Britain is in the position of being a nation which has in years before has built up a large monetary reserve, but since the turn of the century has run up progressively deficits with other nations, particularly with the United States. In order to meet her payments she has had to borrow heavily from such organizations as the International Monetary Fund and to take out loans directly from nations who were willing to help Britain in its struggle to prevent further devaluation of the pound.

As the British economy finds itself today, the all-important problem seems to be to find a way to improve her balance of payments and to improve the position of the pound in the world monetary market. The steps that Britain has taken recently to achieve this and their results will be the subject of the concluding section.

VIII
BRITAIN'S FUTURE ECONOMICALLY

At the present time, Britain has just undergone one of the more embarrassing episodes in her economic history, that of the second devaluation of the pound in less than twenty years. This devaluation lowered the price of the pound in American dollars from \$2.80 to \$2.40. The subject of this final section will be the recent events which led to the British decision to devalue and how this decision can be expected to affect British economic conditions in the future.

The preceding section gave the primary causes of the problems with the pound. The non-improvement of British industry caused her to be outstripped by the other nations of Europe in rate of growth of productivity. There was a large demand in Britain for goods, and much of this demand went to these foreign nations which through their greater productivity could undersell the British domestic producers. This, coupled with the higher prices of Britain's exports which caused a drop in them, brought a chronic balance of payments deficit, which in turn meant steady pressure on the pound. And while the government took steps to prevent panics each time a crisis point was reached, it did little to find and correct the fundamental weaknesses in the economic system. The result was

that the economy developed a very unhealthy pattern: "a period of expansion leading straight to the brink of bankruptcy for sterling at \$2.80, then a rescue loan to buy time while the government dampened down the economy. Once a spell of austerity built up Britain's reserves anew, governments invariably felt politically impelled to relax restrictions and let the whole expansion-to-the-brink process begin again." ²⁷

When Harold Wilson became Prime Minister as his Labor Party took power in 1964 the pound was in one of its deeper crises. While many felt that Wilson should have devalued then, blaming the need for it on the Tory government he succeeded, he simply kept the same cycle of monetary management of the government he succeeded. The following should show very well the things that have occurred in the British economy during Wilson's reign that led up to the devaluation of the pound.

Sterling's Marathon Crisis

1964

- January - Conservative government easy money policy spurs import boom, creates a \$2-billion payment deficit.
- October - Labor party wins election with narrow Parliamentary majority. Government puts 15% tariff surcharge on imports
- November - Labor spending plans undermines confidence abroad, starts run on sterling. Foreign central banks extend a \$3-billion sum in credits to bolster the pound.

1965

- April - Wilson government boosts taxes, curbs investment outflow, sets up Price and Income Board to curb wage-price spiral.

²⁷ "Devaluation of the Pound", Time, Time, Inc., New York, November 24, 1967, p. 31.

September - Pressure on sterling continues. France holds aloof from new central bank credits.

1966

February - To curb exports, government freezes bank lending volume at 105% of March, 1965 level.

March - Full employment and air of prosperity help Labor Party win general election with hefty margin.

May - Lengthy seaman's strike hits foreign trade.

July - Wilson announces wage freeze and drastic austerity measures to halt inflation.

September - United States gives Britain new credit for \$1.35 billion.

1967

January - Impact of austerity raises number of jobless to 600,000.

June - Mid-East War and Suez closure cause flight of Arab funds from England, raise British oil import bill by \$1-billion.

September - Dock strikes cut British exports.

November - Announcement of \$300-million October trade deficit triggers new run on the pound. Pound devalued from \$2.80 to \$2.40.

28

The lower exchange rates should work a two-fold effect to aid the British balance of payments. First of all, it should spur exports by making British goods cheaper on the world market. Conversely, it should decrease the import of foreign goods by making them more expensive. Of course, in order for the devaluation to work, it was necessary that the other large nations not make an off-setting devaluation of their own. This was accomplished by consultation by the monetary authorities of the world's major financial powers, with the result being that only a few small nations followed

28 "Wilson Tries to Wrest Victory from Retreat", Business Week, McGraw-Hill, Inc., New York, November 25, 1967, p. 35.

Britain's devaluation with their own.

Prime Minister Wilson instituted another austerity program to reap the maximum benefit from the devaluation. Contained in the program are the following elements:

1. There will be a cut in defense spending by more than \$240-million. This, along with the next step, is designed to cut back government demand in order to cut down on inflationary pressures.
2. There will be a reduction in other public spending, including capital investments by nationalized industry, totaling another \$240-million.
3. There will be curbs on bank loans, except to 'priority borrowers' such as exporters, in an effort to reduce the expansion of credit.
4. Certain tax rebates for manufacturers, except in economically depressed areas, will be withdrawn.
5. There will be an abolition of the tax rebate on exported goods.
6. Installment plan terms are to be raised on purchases of automobiles to a minimum of 1/3 downpayment with the balance within 27 months.
7. Corporate income taxes are to be increased from 40% to 42.5%.
8. There will be a strict watch to prevent excessive dividend payouts. This measure is an effort to encourage firms to use their profits to better their plants and equipment rather than paying it out as dividends.

The austerity program is designed to enable Britain to get the most from the devaluation, for the devaluation is only a measure to provide some breathing space. If Britain is to solve the real causes of her economic problems, then there are many other things which she must do. "Medium-term, Wilson will have to hold down wages and prices in Britain in the face of growing opposition by both labor unions and businessmen. If

he fails, Britain will price itself out of world markets again, spiraling wages will stimulate imports, and the gains from devaluation will be eroded quickly.

"Even if he succeeds in holding the line on wages and prices, there is no guarantee that British businessmen will actually exploit their competitive advantage with a successful sales push in foreign markets. To provide the pound with a safe cushion against future runs, the government figures that the trade balance must be improved by \$1.2-billion annually by early 1969.

"Long term, Britain still faces the task of overhauling its economy if it is to achieve an adequate growth rate and permanent relief from recurrent sterling crises. British industry must modernize, and British labor unions must find some means of curbing the endless wildcat strikes that shackle productivity. Devaluation only provides breathing space for a new attempt at solving these problems; in itself, it is no solution." ²⁹

So, as we take a look at Britain's probable economic future, we find her economic system with many weaknesses. The problems with sterling are only symptoms of the real problems, that of poor productivity on the part of industry, inflation, and a chronic disregard by workers of the effects of their wildcat strikes on the economic system. It is hoped that the austerity program, especially the cuts in government spending and the clampdown on consumer spending, will encourage

²⁹ Ibid, pp. 34-5.

exports. Priority on bank loans will be given to enterprises which can either increase exports or replace imports. It is figured that the increase in production necessary to do this will increase Britain's growth rate to 4 or 5% annually.

It is this growth rate that Britain must achieve if she expects to even hold her own in the world. If she does not revamp her industries to where they can allow Britain's balance of payments to become balanced, the sterling will again and again come under pressure and will very probably have to be devalued once more. The future of Britain's economy will depend then upon whether or not she can once again compete on the world market. If she can then Britain can again become a nation with a strong economy and a sound money. Whether or not the recent devaluation has given Britain the time and incentive to rebuild the weaknesses in her economic system remains to be seen, but it is on the success of these changes that her economic future lies.

The End

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