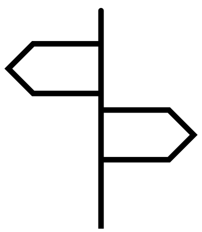
ECONOMIC AND BUSINESS HISTORY 23/24

LECTURE 12: HOW (NOT) TO SOLVE A GREAT DEPRESSION

PLAN



1. Pre-GD Policies

Liberal Policies (pre-1930s)

- Before 1929, crises were seen as temporary, as V- or U-shaped ‘automatic’ recoveries had been the norm (1883, 1891, 1921)
- Trust in market and ‘classical economy’ price mechanisms:
  - Price changes corrected scarcity or excess production, matching supply and demand with no need for special state policies or incentives

Liberal Policies (pre-1930s)

- The role of the State was twofold:
  - 1. Keep balanced state budgets (deficit zero)
  - 2. Provide monetary stability (typically, by adopting the gold standard)
- By doing so, investors and businesses could regain confidence to find the new ‘smart’ investments and growth would resume

2. Interventionism

New policies

- The 1930s were a period of experimentation of new policies
- While WWII cut these experiments short, they proved very influential in the way econmic agentes behaved after 1945 (see Text 8)
- Unlike the liberal policies, these alternatives were concerned not only with growth but also with the social impact of growth (especially, unemployment)

GD changed liberal policies for...

- The US public, like everywhere else, started to look for alternatives
- It was well-known that some countries had weathered the GD without typical liberal policies (Sweden, URSS)
- With its central planning system, the URSS, in particular, proved very resilient

Distribution of the World Industrial Output in 1913, 1926-9 and 1936-8 (%)

	1913	1926-9	1936-8
USA	35,8	42,2	32,3
Germany	14,3	11,6	10,7
GB	14,1	9,4	9,2
France	7,0	6,6	4,5
URSS	4,4*	4,3	18,5
Sweden	1,0	1,0	1,3
Japan	1,2	2,5	3,5
India	1,1	1,2	1,4
Rest	21,1	21,2	18,7

Kenwood e Lougheed 1999: 173.

´Big Push' Industrialisation and Central Planning

- ✓The URSS, after experiences with 'war communism' and New Economic Policy (which included some private property in agriculture), propagated the idea that Socialism as an economic system to promote development
- ✓Need for a 'Big Push'
  - ✓ Total state ownership of the means of production (factories and agricultural lands)
  - ✓ Output levels decided by central planning.
  - ✓ Priority was given to capital-intensive sectors and in terms of economic growth

✓ idea that Socialism as an economic system to promote development
✓ Need for a 'Big Push'

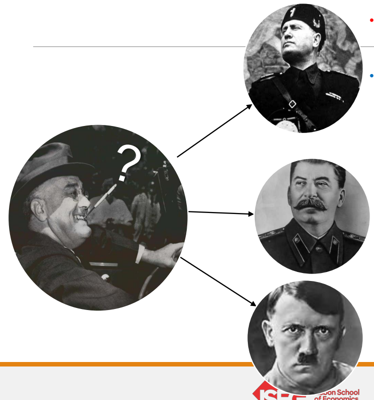
FDR and the ND

- Franklin D. Roosevelt was elected by an landslide victory in late 1932 with the (very vague) mandate of "reforming" the economy
- He run on the verdict by public opinion that Markets and Capitalism had 'failed'
- Immediately after being, FDR started his *New Deal* (March 1933)
- In the words of Keynes, FDR's "priority was reform not recovery"
- That is, ND was about creating a new set of institutions that recovered employment

1930s: the era of policy experimentation

Léon Blum (French prime-minister and leader of the left coalition (*Front Populaire*) in 1936-8

New Deal distant cousins



- Capitalism leads to the struggle between workers and capitalists, weakening nations
- Government should balance these antagonics groups (or ‘corporations’, hence ‘corporativism’)

- Capitalism leads to the oppression of workers by capitalists
- The state should concentrate all factories and capital goods and set the ‘necessay’ level of production

- Capitalism leads to the oppression of the *people*
- States should direct private business according to the interest of the *people*

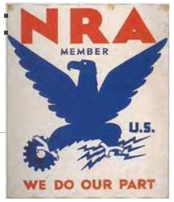
Interest groups influenced ND policies

Big Gov
- Diagnose: market system does not work
- Response: Increase Public Expenditure and introduce Planning

Big Business
- Intense competition lowered prices and affected firms
- Regulation restrincting competition; Nacionalization of banks

Small Agro
- Low incomes in the farmer families due to low prices
- State should increase prices

Example of New Deal policy: National Industry Recovery Act:



- Diagnose:
  - Markets were the problem: competition → excess production → falling prices → unemployment
- Solution:
  - Balancing the interests of workers and corporations (a la European “Corporativism”)
    - NRA shielded companies from competition (by allowing cartels and trusts to set favourable prices for firms)
    - AS A COMPENSATION, companies protect their workers with minimal wages, better working conditions and unions)
- Effects:
  - A step in the wrong direction: led Price increases abd suppressed competition
  - Small businesses reacted and law revoked as unconstitutional (although minimal wages and working conditions remained)

A Balance of the 1st ND (pre-1935)

1st ND *(also Hundred Days*) was about “Reform” not “Recovery” policies

Interest rates charges remained high

Like the NRA, most measures were from the Supply Side
- Industries wanted to increase prices, in exchange for firms keeping jobs
- Likewise, farm prices were higher because of state intervention

And ignored the trouble with Aggregate Demand

New Deal II (post-1935)

Also, it was fiscally conservative (zero deficit was still the main principle; New expenditures were funded by cuts on charities, pensions and public servants' positions)

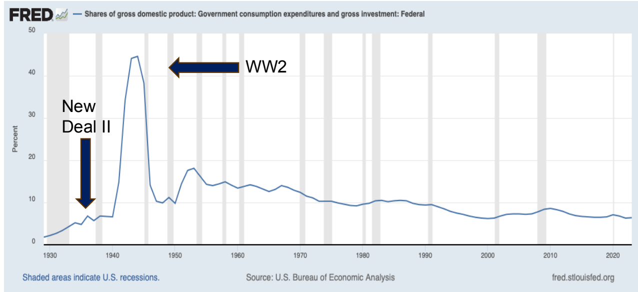
From 1935, the budget started to show deficits
- Farmers' subsidies & public works led to increasing expenses
- Little economic recovery led to falling revenues

Gov justifies the expenditure as a temporary solution, as a strategy

Yet, not enough jobs were created and recoveries did not last.

Then, WW II came along….

New Deal II (post-1935)



WWII solved GD

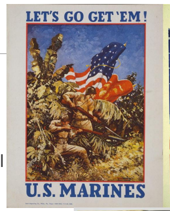
Like with WWI, with WWII, the state mobilized **labour** and **capital**, in a way that markets did not during the 1930s.

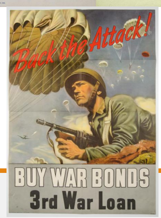
War effort absorbed the workforce, either through military service or work in the factories to supply military operations

The war effort also meant that private capital was lent via public debt (the FED contributed with low interest rates)

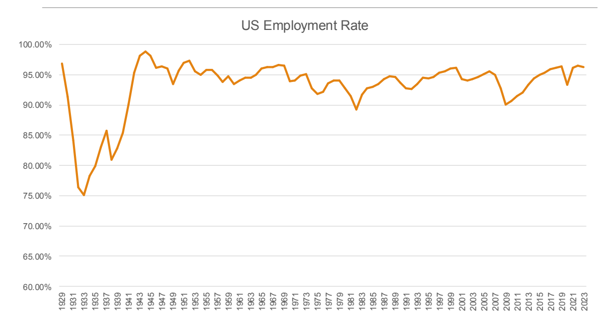
The result of WWII was an abrupt fall in unemployment and a high level of (state) consumption and investment

As Keynes had explained, public expenditure followed different rules from private:
- The state spent without concern for profitability and hence was able indifferent to expectations





Employment Rate in the US (1929-2023)



Source: US Labor Stats Dept