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Autor(en): **Aldcroft, Derek H.**

Objekttyp: **Article**

Zeitschrift: **Traverse : Zeitschrift für Geschichte = Revue d'histoire**

Band (Jahr): **4 (1997)**

Heft 1

PDF erstellt am: **24.09.2024**

Persistenter Link: https://doi.org/10.5169/seals-12437

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DEPRESSION AND RECOVERY IN EUROPE IN THE 1930S

DEREK H. ALDCROFT

By 1932, after three years of precipitous decline and financial crises, no one could be in any doubt about the gravity of the economic situation in Europe and the world at large. At that point in time the burning question was when was recovery going to take place for few, if any, countries emerged unscathed from the worst depression in recorded history.

DIMENSIONS OF THE CRISIS

Some idea of the magnitude of the depression and the diversity of its incidence can be gained from the data in Tables 1 and 2, which show the fluctuations in GDP and industrial production over the cycle 1929–37/38 for all countries for which information is available. The figures are best used for interpreting the broad dimensions of change since not all the estimates are equally reliable. Virtually all countries suffered declines in output and industrial production during the early 1930s, the major exception being the USSR which by that time had isolated herself from the ravages of the capitalist system. There output moved forward smartly under the impetus of the first Five Year Plan providing a sharp contrast to what was happening elsewhere in Europe and the rest of the free world. Outside the United States, the most serious declines in economic activity occurred in Austria, Germany, France, Belgium, Spain and Czechoslovakia. In the case of Britain, Sweden, Denmark, Bulgaria, Greece and Portugal the impact was milder, though few countries apart from Greece, Portugal and Denmark actually managed to record a positive movement in GDP. Other indicators of economic activity tell a similar story; commodity prices, share prices, exports and imports all fell sharply, while unemployment rose to alarming levels. Wholesale prices and share prices fell by one half or more, while the value of European trade declined from $ 58 billion in 1928 to $ 20.8 billion in 1935, and even by 1938 it had only recovered to 41.5% of its former peak. Socially perhaps the worst aspect of the crisis was the high levels of unemployment, since at least for those in work there was some compensation in so far

Table 1: ***Fluctuations in GDP and Exports 1929–1937/38***

	Gross domestic product			Export volume		
	1929–1932/33	1932–1937/38	1929–1937/38	1929–1932	1932–1937	1929–1937
Exchange control						
Austria	-19.0	25.8	-2.5	-47.2	35.3	-28.6
Bulgaria	-7.1	53.4	42.6			
Czechoslovakia	-12.9	12.9	-1.6			
Germany	-15.8	65.8	39.6	-50.1	37.3	-31.5
Greece	36.7	22.4	67.4			
Hungary	-3.7	16.4	12.0			
Italy	-5.5	20.8	14.2	-67.9	87.6	-39.8
Romania	-5.2	15.4	9.4			
Spain	-8.0	-5.9	-13.4			
Yugoslavia	-9.4	15.9	5.0			
Gold Bloc						
Belgium	7.1	9.8	2.0	-31.4	51.4	3.8
France	-14.7	13.5	-3.1	-47.9	-2.3	-42.9
Netherlands	-9.4	16.6	5.5	-33.4	31.8	-12.2
Switzerland	-8.0	10.1	1.3	-50.1	39.4	-30.4
Poland	0.1	15.0	15.1			
Sterling Bloc						
Australia	-6.7	26.5	18.1	31.4	1.1	33.2
Canada	-29.5	37.9	-2.8			
Denmark	4.3	14.1	19.0			
Finland	-4.0	39.7	34.1			
Ireland	-4.3	1.5	-2.9			
Norway	-7.8	29.2	19.2	-12.0	46.3	28.8
Portugal	30.6	-7.4	20.9			
Sweden	-6.2	29.3	21.3	-37.0	60.8	1.3
UK	-5.1	23.3	17.0	-37.6	28.8	-19.7
Other Countries						
Japan	-7.3	38.9	28.9	1.3	145.7	149.1
United States	-29.6	39.7	-1.7	-48.6	54.4	-20.5
USSR	20.5	32.9	60.1			

Notes: Italy was originally in the gold bloc but imposed exchange control in May 1934 and devalued October 1936. Greece and Turkey, along with Bulgaria, Hungary, Romania and Yugoslavia, formed part of the Reichsmark bloc. Japan devalued early and the United States late.

Sources: P. Bairoch, "Europe's Gross National Product: 1800–1975", *Journal of European Economic History* 5 (1976); A. Maddison, *Dynamic Forces in Capitalist Development*, Oxford 1991.

Table 2: ***Fluctuations in Industrial Production 1929–1937/38***

	1929–1932	1932–37/38	1929–1937/38
Exchange Control			
Austria*1	-34.4	53.9	1.0
Bulgaria	8.9	25.6	36.9
Czechoslovakia	-60.6	58.7	-3.9
Germany	-40.8	106.7	22.4
Greece	0.9	60.0	61.5
Hungary	-18.2	58.7	29.9
Italy	-22.7	48.5	14.8
Romania	-11.8	49.3	31.6
Spain	-16.0	2.4*2	-14.0*3
Yugoslavia*1	-17.1	63.8	35.7
Gold Bloc			
Belgium	-27.1	42.3	3.7
France	-25.6	20.0	-7.4
Luxembourg	-32.0	40.2	-4.7
Netherlands	-9.8	22.9	11.0
Poland	-37.0	72.4	8.7
Switzerland	-20.8	29.8	2.8
Sterling Bloc			
Australia	–	–	–
Canada	-32.3	68.3	14.0
Denmark	-5.6	45.6	37.5
Finland	-20.0*4	92.3	53.8
Ireland	-9.0	54.0	40.3
Norway	-18.2*4	58.7	29.9
Portugal	–	–	–
Sweden	-10.8	70.7	52.3
UK	-11.4	52.9	35.4
Other Countries			
Japan	-3.3*4	100.0*5	93.3
United States	-44.7	86.8	3.3

Notes: *1 Manufacturing only; *2 1933–1940; *3 1929–1940; *4 1929–1931; *5 1931–1937.

Sources: Organization for European Economic Cooperation (OEEC), *Industrial Statistics 1900–1959,* Paris 1960; League of Nations, *Statistical Yearbook 1935/36,* Geneva 1936, Table 107; United Nations, *Statistical Yearbook 1948,* New York 1949, Table 36; I. T. Berend and G. Ranki, *Economic Development in East Central Europe in the 19th and 20th Centuries,* New York 1974, 298–300; B. R. Mitchell, *European Historical Statistics 1750–1970,* London 1975, 357; A. F. Freris, *The Greek Economy in the Twentieth Century,* London 1986, 90; T. David, "Indices de la production industrielle suisse", in H. Ritzmann (ed.), *Statistique historique de la Suisse,* Zurich 1996.

as prices tended to fall faster than wages and salaries. In this respect Germany had one of the worst records; between 1929 and the end of 1930 unemployment more than doubled to 4.5 million, two years later it had crept up to six million. Britain's peak figure was in excess of three million, or over a fifth of the insured labour force. For Europe as a whole it is difficult to estimate the precise total of unemployment because of statistical under-recording and the presence of under-employment, but at a guess it was probably not far short of 20 million.[1] During the course of the depression many firms, banks, financial and commercial institutions went out of business altogether. In 1931, the year of the famous Credit-Anstalt crash, 17'000 enterprises closed down in Germany.

Bald statistics fail to do justice to the dramatic events of the depression and its social repercussions, but they do provide some indication of the scale of the cataclysm. Nor is it easy as Landes has observed, to give a coherent analysis of the crisis "that does justice to the rush of disasters, tumbling one upon the other; or to give a narrative account that illuminates the confusion of events".[2] In any case, it is doubtful whether a blow-by-blow account would serve any useful purpose in an essay of this sort.

WAS IT UNIQUE?

It could be argued that, apart from its unusual severity, the depression of the early 1930s was no exception to the long-run historical sequence of cyclical activity and hence requires nothing more in the way of explanation than a general theory of the business cycle. After all, it did occur at a logical sequence in time on the basis of past business cycle history and some of its characteristics had been repeated in previous downturns. The war did not break the previous cyclical pattern of business cycle periodicity. In 1914 most industrial countries were about to move into recession but the outbreak of hostilities disturbed the pattern and instead produced a distorted or muted continuation of the upswing culminating in the speculative boom of 1919/20. A sharp reaction in 1920/21 was then followed, with minor interruptions, by another major upswing through to a peak at the end of the decade. Thus the nineteenth-century Juglar pattern of cycles averaging 7–8 years in duration was maintained and a depression could have been expected around 1929/30. Moreover, one should also note that the amplitude of the 1929–1932 slump was less severe in some countries, for example the UK, Sweden and Switzerland, than that following the postwar boom, while its duration had been matched in some crises in the nineteenth century, though perhaps not simultaneously with the same intensity. Even the world-wide scope of the depression was not especially unique; the immediate

postwar depression fell not far short in this respect, while international recessions were not unknown in the nineteenth century.

Should we therefore regard the 1929–1932 downturn as unique or just another phase in the business cycle sequence? On balance, given the combination of duration, intensity and world-wide scope the crisis may be seen as something of a special case worthy of particular attention. Moreover, if we ignore the relatively minor recession of 1937/38 it can be regarded as the grand culmination of trade cycle history, for after the second world war the growth cycle became the established norm, at least until the 1970s. However, this does not mean that the downturn can be explained specifically in terms of unique causation. For instance, it would be difficult to argue that the first world war and its aftermath was the chief causal factor in the crisis. Certainly the war created maladjustments and elements of instability within the world economy which thereby made it more vulnerable to shocks of one sort or another, but the turning point cannot be attributed directly to the war itself. Indeed, though the war imparted a severe shock to the economic mechanism, it did not, as already noted, upset the former cyclical periodicity. It distorted the economic system in several ways and rendered it more unstable, while it probably also aggravated the amplitude of subsequent cyclical movements, but it did little, if anything, to destroy the traditional pattern of cyclical activity.

ORIGINS OF THE SLUMP

The origins of the world-wide slump are usually located in the United States. It is quite possible however that several European countries would have experienced at least a moderate recession in the early 1930s even had conditions not deteriorated so badly in America. But events in the United States, together with that country's strong influence over the world economy, determined to a large extent the timing, the severity and the duration of the depression throughout the world. Though some of the possible means of transmission effects relating to gold stocks, trade flows and rules of the gold standard game have been disputed,[3] the fact remains that the United States administered three powerful shocks to the world economic system at a time when it was least able to withstand them. The initial shock came with the cutback in foreign lending in 1928/29; the second with the peaking of the American boom in the summer of 1929; and the third comprised the imposition of tighter import control by the Hawley-Smoot Tariff of 1930.

The first of these had serious implications for debtor nations. Many countries, both in Central and Eastern Europe, Latin America and elsewhere, were in a

precarious financial position in the latter half of the 1920s. They had borrowed freely and accumulated massive obligations which for the most part were not self-liquidating. These fulfilled their purpose in the short-term but inevitably they aggravated the debt burden and concealed the basic disequilibrium between creditors and debtors. The process could not continue indefinitely and any adverse reaction on the part of the creditors was bound to throw the burden of adjustment onto the debtors.

The initial reaction came from France whose foreign lending (much of it short-term) was curtailed sharply in 1927/28 and eliminated altogether in 1929. But in sheer magnitude it was dwarfed by the collapse of US lending from the summer of 1928, prompted by the domestic boom and the action of the Federal Reserve to check it by raising interest rates, both of which attracted funds into the home market. Capital issues on foreign account fell by over 50% between the first and second halves of 1928; there was a slight revival in the first half of 1929 but this was followed by a further sharp drop, giving a total of $ 790 million for 1929 compared with $ 1336 million in 1927. Altogether the net outward capital flow (both short- and long- term) from the major creditors fell from $ 2214 million in 1928 to $ 1414 million in 1929 and to as little as $ 363 million in 1930.[4]

This dramatic curtailment in foreign lending exercised a powerful deflationary impact on the world economy and was sufficient to undermine the fragile stability of many countries. The position of many debtor countries deteriorated sharply between 1928/29 as capital inflows declined. Net capital imports into Germany, the largest borrower, fell from $ 967 million in 1928 to $ 482 million in 1929 and $ 129 million in 1930. Schuker stresses the precarious position of that country which "was singularly vulnerable to the reverse flow of capital. It had overborrowed in the 1920s and squandered much of the proceeds on public and private consumption, and it had persistently failed in the early years to adjust tax, budgetary, labour and trade policies to take account of reparations requirements added to a growing commercial debt."[5] Similarly, capital inflows into Bulgaria, Hungary, Poland and Yugoslavia were virtually wiped out in this period, declining from $ 246 to $ 8.1 million between 1928–1930.[6] Other borrowers in Latin America, the British Dominions and along the periphery also experienced similar setbacks. The cessation of lending affected these countries directly in that it led to a curtailment of domestic investment and economic activity. However, it was in the balance of payments that the impact was first felt since most debtor countries depended on capital imports to close the gap in their external accounts. Hence once capital imports ceased to flow the only way of adjusting their balance of payments was to draw upon their limited reserves of gold and foreign exchange to cushion the impact. When

these were exhausted more drastic measures were required, including domestic deflation and external protection.

The initial shock to the system might possibly have been overcome had it not been for the subsequent course of events. For a time debtor countries could meet temporary difficulties by drawing on their reserves and taking measures to ease the strain on their external accounts. But this type of adjustment could not cope with prolonged strain following a permanent reduction in lending at a time when primary product prices were falling. Nor could it cope with further pressures, namely the breaking of the American boom. The reasons for the reversal in US activity have been the subject of much debate, but it seems very likely that it was partly a reaction to the over-hectic expansion of the 1920s leading to temporary saturation of markets, especially in consumer durables and residential construction.[7] Restraint on the growth of real incomes and consumer spending due to the skewed distribution of income gains in the boom also dampened business prospects.[8] A tightening of interest rates to curb excessive stock market speculation had a similar effect, though monetary factors probably played a relatively minor role in the initial breaking of the boom. However, once the downswing was underway it was aggravated and prolonged by the severe monetary contraction initiated by the Federal Reserve System.[9] The rapidity of the American slide into depression was further assisted by the collapse of business confidence following the stock market crash of October 1929.

The American downturn was accompanied by a further reduction in foreign lending and by a sharp contraction in imports, especially following the tariff legislation of 1930, the consequences of which were a severely reduced flow of dollars to Europe and the rest of the world.[10] The process of attrition in the debtor primary producing countries was completed as commodity prices fell dramatically (by 50% or more through the course of the depression). These countries faced severe deterioration in their trade balances as export values fell faster than import values, while external interest obligations, which were fixed in terms of gold, rose sharply as a proportion of export receipts. Attempts to make up the deficiency by releasing stocks of commodities onto the market only made matters worse since it aggravated the fall in prices. Thus with dwindling reserves and an inability to borrow further, debtor countries in Europe and overseas were forced to take drastic measures to staunch the loss of funds. The way out of the impasse was sought through deflation, devaluation, default on debts and restrictive measures to protect external accounts, though not necessarily in that order.

Initially deflationary forces were quickly transmitted through the links forged by the fixed exchange rate mechanism of the gold standard.[11] As Temin notes: "The single best predictor of how severe the Depression was in different

countries is how long they stayed on gold. The gold standard was a Midas touch that paralysed the world economy."[12] But if policymakers became boxed in by the constraints of the restored gold standard[13] some countries recognised that deflation could never be more than a temporary expedient, since to meet external obligations would have required politically intolerable levels of compression. Consequently the easiest solution was to jettison the straitjacket of the gold standard which Australia, New Zealand and several Latin American countries did at an early stage (1929/30). This then imposed a greater burden on the countries still on gold and hence intensified the deflationary spiral automatically as well as through deliberate government action. Industrialised countries in Europe felt the impact directly from America and indirectly via the periphery as demand for their industrial goods declined, while in turn declining demand for raw materials and foodstuffs on the part of the industrialised countries fed back to the periphery. Once started therefore, the deflationary process became cumulative and eventually it led to a general collapse of the gold standard and the adoption of a wide range of restrictive measures to protect domestic economies.

Though the role of the United States is seen as crucial in determining the worldwide slide into recession, it should be noted that the sequence of events in that country came at a bad time as far as the international economy was concerned. For one thing cyclical forces were reaching their peak in a number of countries, notably Britain, Germany and Poland, in the later 1920s and in some cases independently of the United States. Britain for example experienced sagging demand for her exports to primary producers a year or so before the turning point in American activity. At the same time, the incomes of primary producers in Eastern Europe and elsewhere were being squeezed as a result of the weakness in many commodity prices stemming from oversupply problems in some cases. Secondly, the cyclical developments of the period must be set against the background of an unstable international economy arising partly from the legacies left by war. Thus the cyclical downturn came at a time when many countries were still struggling with postwar distortions to their economies which left them inherently unstable. Though Europe, along with the rest of the world, had enjoyed rising prosperity in the later 1920s, the international economy remained fragile and vulnerable to shocks. Structural or sectoral deflationary tendencies were common in both industrialised and primary producing countries and these were reflected in excess capacity problems and external account imbalances arising from reparations and war debts, tariff protection and the distortions produced by the ill-conceived currency stabilisation process during the 1920s. The structure of banking and financial institutions was particularly precarious in some countries, especially the United States and in Central and Eastern Europe.

The position was also exacerbated by the transformation of economic power relationships due to the war and the lack of strong and enlightened leadership on the part of the new creditor powers which might have helped to stabilise the international economic system.[14]

These disequilibrating forces may not have been crucial to the initial downturn but they were sufficient to ensure that the system exploded once the initial shocks had been imparted, thereby producing a depression of unusual severity. The structural weaknesses in particular came to the fore in 1930/31 when financial crisis led to a wave of bank failures in both the United States and Central Europe, culminating in the spectacular crash of the Credit-Anstalt in May 1931, the repercussions of which spread throughout the continent and contributed to forcing Britain off the gold standard in September 1931.[15]

The financial panic of 1931 effectively signalled the end of the old regime. As the panic spread from one centre to another, hurried measures of national economic defence were taken and these eventually resulted in further damage to economic activity. During the next two years many countries abandoned the gold standard and proceeded to shield their domestic economies with a battery of protective restrictions including tariffs, import quotas and licensing, exchange controls and clearing agreements. This spelt the end of the prewar system of multilateral trade and payments and the free movement of resources across national boundaries. Instead nationalistic economic policies and managed currencies became the order of the day. The finishing touch to the previous system came with the breakdown of the World Economic Conference of 1933 which effectively put paid to any general attempts at international action in the economic field for the rest of the interwar period.

RECOVERY EXPERIENCE

The beginnings of recovery can be detected in some countries late in 1932, but it was not until the following year that it took firm hold on a wider front. Even then the process was by no means rapid and universal. Some countries, notably France and Czechoslovakia, continued to experience further declines in economic activity, while in the United States the pace of revival was slow and faltering initially due partly to the late departure from gold.[16] During the next two years the momentum strengthened so that by the middle of the decade many countries were reporting at least modest gains in activity compared with the previous cyclical peak of 1929. Recovery was temporarily interrupted in 1937/38 when several countries experienced a mild recession, but this was soon reversed because of the influence of rearmament for war.

What is most noticeable is the great diversity of experience among countries in the 1930s. It can be seen from the data in Tables 1 and 2 that some countries made very little or no headway through the cycle, 1929–1937. These included Austria, Czechoslovakia, France, Belgium, Spain, Switzerland and Ireland. Others such as Bulgaria, Germany, Finland, Norway, Portugal, Sweden and the UK recorded substantial progress. The two most successful countries were Germany and the USSR but under regimes which imposed severe social costs. Generally speaking, those countries which left the gold standard and devalued did better than the countries where retention of the gold standard until the mid-1930s led to domestic deflation to compensate for overvalued exchange rates. Leaving gold and devaluing removed constraints on both the domestic and external fronts. International competitiveness improved, investment opportunities became more attractive, while policy stance, both monetary and fiscal, could be relaxed. The performance of exchange control countries was somewhat mixed. Some did very well, especially Germany, Greece and Bulgaria, whereas Austria, Czechoslovakia and Spain faced complete stagnation. Much depended upon the extent of the overvaluation of the official exchange rates under exchange control and the use which was made of premium rates for exporters, as well as the benefits arising from trade links with Germany.

Spain is an interesting case since she had one of the worst records in the 1930s, much of the setback being due to the impact of the Civil War and its aftermath. It is sometimes argued that Spain avoided the depression because of its flexible exchange rate.[17] This is not strictly correct. Though Spain initially fared better than many countries due to her depreciating currency, the early 1930s still saw a considerable decline in industrial activity though good weather favoured agricultural output. Once devaluation became widespread Spain lost the advantage of never having returned to gold. However, the depression was prolonged by the Civil War and the emergence of the Franco regime which erected an extensive system of bureaucratic controls that led to a seizing up of the economic system. Thus there was no real recovery in the 1930s and it was not until 1950 that industrial output regained the level of 1929.[18]

Several writers have noted the advantages for those countries which released their "golden fetters" early on.[19] One should not however exaggerate the benefits derived from this action. There was in fact widespread exchange instability in 1932–1934 following the general abandonment of the gold standard which only served to complicate the economic situation initially. Fluctuating exchange rates aggravated by speculative and non-economic capital movements, the prospects of competitive depreciation of currencies and restrictive measures of defence thrown up by this threat, together with renewed deflationary policy measures, banking crises and rigid exchange controls to protect weaker currencies,

created a thoroughly unstable situation. These uncertainties were not only a serious impediment to early recovery, but they presented a constant threat of further deterioration. It was not until after 1933/34 that there was a slow approximation towards exchange rate stability as the majority of trading currencies gradually moved into a stable relationship with sterling, the dollar and the franc.[20] Yet even by the spring of 1935 the Bank For International Settlements could complain that the world still suffered "without relief from the unrest and uncertainties caused by moving currencies" and that "no fundamental, durable recovery can be hoped for unless and until a general stabilization at least of the leading currencies has been brought about".[21] Secondly, while countries going off gold early secured temporary relief, the benefits reaped by the leaders soon evaporated as other countries followed suit. No doubt a coordinated programme of devaluation would have produced wider benefits than the sequential approach adopted at the time, but failing international action the second best solution was better than none at all. Thirdly, trade expansion was certainly not the engine of recovery in the 1930s even for those countries which devalued early. One or two countries, notably Finland and Norway, did quite well on the export front through the complete cycle, but for the most part exports failed to regain their previous cyclical peaks.

One reason for the desultory export performance was of course the restrictive policies taken to protect external accounts despite some modest relaxation later in the decade. To an increasing extent trade of the major European countries gravitated towards "economic blocs", the UK, France, Belgium, the Netherlands and Italy with their dependent territories and Germany with South-Eastern Europe and Latin America. One feature of the latter was the increasing importance of bilateral clearing agreements which had been unknown in 1929. By 1937 they accounted for about 12% of world trade, though in the case of Reichsmark bloc countries of Germany, Bulgaria, Greece, Turkey, Hungary, Romania and Yugoslavia the proportion of trade passing through clearing agreements exceeded 50%.[22]

POLICY STRATEGY

One common factor of the period was the increased role of government in economic matters. Given the severity of the depression it was almost inevitable that this would be the case, though governmental intervention had been increasing since the war. The methods varied widely, as did their impact, though rarely can policy factors be said to have been a significant force in the recovery process. Initially much government intervention tended to be a defensive response

to crisis events. Public budgets were cut back, taxes increased and varying degrees of restriction were imposed on trade, payments and capital movements. The latter were designed to insulate domestic economies from unfavourable external influences. In some cases, notably Germany and much of Eastern Europe, the "planning" of foreign trade came to be widely accepted as a normal function of the state, and the weapons originally forged as an emergency defence of prices, production and currencies were not discarded but tended to be pressed into service as permanent elements of trade regulation, dovetailed into programmes of national economic development.[23]

Such policies tended to be income destructive overall and did little to assist the recovery of international trade.[24] More positive was the move to expansionary monetary policies in countries which abandoned gold and devalued; in some cases, for example Britain and Sweden, this was quite effective in stimulating activity in certain sectors such as residential construction. But direct action was generally limited and inadequate. It is true that, once the initial crisis had passed, most countries eventually inaugurated public works and other relief programmes to relieve unemployment, though for the most part these were wholly inadequate given the scale of the task, and in time they came to be associated with rearmament plans. However, the role of the latter should not be underestimated. Most countries, including Holland and Switzerland, embarked on substantial defence spending from the middle of the 1930s and in many cases this contributed to maintaining the recovery momentum and moderating the impact of the American downturn of 1937/38.[25]

On the other hand, much of the interventionist policy was often concentrated on bolstering up and protecting producers in ex-growth industries rather than promoting development of newer growth sectors. General expansionary fiscal policies accompanied by deficit financing were notable for their absence. Fear of rekindling inflation (the memory of the early 1920s was still close at hand), adherence to the time-honoured principle of balanced budgets, coupled with a general ignorance of the role of state spending in a depression, inhibited governments from taking enlightened fiscal action. There were a few exceptions, notably the Scandinavian countries and of course the United States, though even here the measures left something to be desired.

Given the narrow scope of government policies in the 1930s it is not surprising that their impact in terms of recovery was fairly limited. With the exception of the special case of Germany, to a lesser extent Sweden and possibly one or two East European countries which attempted to foster industrialisation by autarkic planning measures, national economic development policies made only a limited contribution to recovery from depression. Even in Sweden, often seen as an exemplar of fiscal policy, the impact of budgetary policy can easily be

exaggerated.[26] Yet at least policy was not positively detrimental to recovery as it was in those countries, notably Belgium, France and Switzerland, which remained wedded to gold until the mid-1930s.

The gold bloc was in fact a formal response to the imminent collapse of the World Monetary and Economic Conference in London due to failure to agree on immediate measures in the currency field. On 3 July therefore, France, Belgium, Italy, the Netherlands, Poland and Switzerland issued the following statement: "The undersigned governments, convinced that the maintenance of their currencies is essential for the economic and financial recovery of the world and of credit and for the safe-guarding of social progress in their respective countries, confirm their intention to maintain the free functioning of the gold standard in their respective countries at the existing gold parities and within the framework of existing monetary laws. They ask their central banks to keep in close touch to give the maximum efficacy to this declaration."[27]

In point of fact the gold bloc was to have very little significance in terms of actual cooperation between member countries and inter-country financial assistance was conspicuous by its absence. Members were more concerned about husbanding resources for defence of their own currencies than coming to the rescue of their partners. In fact as Einzig noted: "What was established originally to develop into a monetary and economic union became eventually a small group of members who watched each other jealously, half hoping and half fearing that their fellow-members would be the first to devalue."[28]

More significantly however the deflationary policies pursued by the gold bloc members effectively precluded measures to stimulate recovery. Adherence to the former gold values made it difficult to adopt any sort of reflationary action to promote recovery, since in order to maintain the old parities in the face of depreciation elsewhere, deflationary policies were unavoidable because of the continued pressure on their balance of payments.[29] In the end such policies proved intolerable because of the disastrous effect on domestic economies and the gold bloc crumbled in 1935 and broke up entirely in September 1936, with France, the Netherlands and Switzerland the last to go as international pressures on their exchanges led to capital flight.[30]

Most of the gold bloc countries were affected very badly by the restrictive policies. Industrial production in these countries (excluding Italy) declined on average by 13.94% between 1929–1936, whereas in the sterling bloc countries and other countries with devalued currencies it rose by some 27%.[31] Switzerland suffered equally with the rest of the gold bloc. Negative rates of growth were recorded for most of the 1930s and only in 1933, 1937 and 1939 was there any worthwhile expansion. By the end of the decade output and production levels were little better than they had been at the previous cyclical peak in 1929. The

export industries and the Swiss tourist trade were especially hard hit by the overvaluation of the currency, whereas industries producing for the domestic market fared somewhat better as a result of protection of the home market and the relatively high floor to real incomes through the depression.[32] The Swiss banking system was also in a fragile state during the first half of the 1930s due largely to the heavy loan commitments to Germany and other Central European countries which became immobilised following the 1931 financial crisis and the accompanying payments moratoria and standstill agreements.[33]

Thus one can argue that recovery eventually took place in most countries despite rather than because of domestic policy action which, if not actually harmful, was generally too little and too late to have much impact on the recovery effort. Again there are exceptions to the rule. One should not underestimate the indirect effects of cheap money and even tariff protection in say Britain, nor should one belittle unduly the fiscal novelty in Sweden and other Scandinavian countries even though it fell short of the ideal. Moreover, one should bear in mind that by abandoning gold and devaluing there was greater scope for manoeuvre in domestic monetary policy in many countries and for raising the general price level in order to restore business profitability.

By and large it was real or spontaneous forces rather than induced (policy) factors that were instrumental in bringing about recovery. And to a large extent that recovery was based on home markets rather than exports. The outstanding example in this context is Britain where the demand for the products of the newer industries and the strong upsurge in building activity did much to get the recovery going. In this case it was the high floor to real incomes coupled with the gains from a favourable shift in the terms of trade that were instrumental in stimulating consumer spending. In part it also reflected a process of structural transformation which many Western European countries were experiencing to a greater or lesser degree in the interwar years, partly because of the impact of wartime changes on markets and new technological developments. Svennilson was correct to stress the severe structural transformation problems of this period which in the industrialised countries were characterised by a shift of resources from older staple industries to newer lines of endeavour, while in Eastern and Southern Europe it was largely a question of effecting a transformation from predominantly agrarian structures to economies based more firmly on manufacturing activities.[34] In neither case was the transformation completed during the period under consideration.

Structural factors also explain why so few countries, apart from Germany, were able to eliminate unemployment during the 1930s. The continued presence of high unemployment does not necessarily denote an abortive recovery however, since in several cases the cyclical indicators, measuring from peak to peak

(1929–1937), suggest otherwise. Much of the remaining unemployment at the peak of the cycle in the 1930s probably consisted of structural unemployment which is to be expected at a time of structural transition due to a mismatch of resources, limited mobility of labour, skill deficiencies and other factors. Such unemployment is not easily eradicated in the normal course of cyclical recovery since it requires long-term specific measures to deal with the underlying causes. Only the extreme exigencies of war, which gave a new lease of life to some of the ex-growth industries, would mop up the excess reserves of labour.

EUROPE IN DECLINE

The interwar period taken as a whole was for Europe one of chequered growth, crisis, political tension and latterly the threat of war. Some economic advance was made during the period but at a slower pace than before 1914. Not only was progress severely interrupted by war and the slump of 1929–1932, but most countries faced important structural problems which were not resolved before war once again intervened. Recovery from the depression was slow and patchy and even by the end of the 1930s many economies were operating at less than full capacity.

But perhaps the most significant change was the decline in Europe's position in the world economy. The first world war had seriously weakened Europe and provided opportunities for other countries, notably the United States and Japan, to strengthen their economic power. Western Europe was no longer strong enough to dictate the pattern of world development as she had more or less done in the nineteenth century. America now assumed that role and with fateful consequences in the depression. Of even greater concern was the political disintegration of Europe and the loss of the former balance of power following the geographical fragmentation of the Continent as a consequence of the post-war peace settlements. It was the resulting political vacuum in East-Central Europe that paved the way for the second world war.

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ZUSAMMENFASSUNG

DEPRESSION UND AUFSCHWUNG IM EUROPA DER 30ER JAHRE

Obwohl die zyklische Störung von 1929–1932 hinsichtlich der historischen Folge von Konjunkturzyklen nicht unbedingt einzigartig war, verdient die grosse Depression der frühen 1930er Jahre, in Anbetracht der Verbindung von Dauer, Intensität und globalem Ausmass, besondere Aufmerksamkeit.
Trotz der Heftigkeit der Wirtschaftskrise waren die Erfahrungen, welche die europäischen Länder mit der Depression sowie mit der nachfolgenden Aufschwungsphase machten, sehr mannigfaltig. Solche Unterschiede lassen sich teilweise auf die Verschiedenartigkeit der politischen Antworten der Regierungen zurückführen. Zum Beispiel waren die Erfahrungen während der Aufschwungsphase teilweise vom Typus des Wechselkurssystems bestimmt. Alles in allem haben Länder, welche die Goldwährung aufgegeben und ihre Währungen entwertet haben, einen heftigeren Aufschwung erlebt als devisenkontrollierende und Goldwährungsländer. Tatsächlich haben die meisten der letzteren

Staaten (Frankreich, Belgien, die Schweiz, Polen und die Niederlanden), welche die Goldwährung bis Mitte der 30er Jahre beibehalten haben, überhaupt keinen Fortschritt zwischen dem einen Höhepunkt des Zyklus und dem nächsten gemacht, währenddessen die meisten der Sterlingblock-Abwerter Gewinne im «Output» und in der industriellen Produktion verzeichnen konnten. Die Erfahrungen der devisenkontrollierenden Länder waren differenzierter. Deutschland, Griechenland und Bulgarien haben sehr gut abgeschnitten, währenddem Österreich, die Tschechoslowakei und Spanien völlig stagniert haben.
Die Beziehung zwischen Wechselkurssystem und wirtschaftlichem Aufschwung verlief jedoch nicht überall ähnlich. Zum Beispiel haben die Vereinigten Staaten und Kanada überhaupt keinen wirklichen Aufschwung erlebt, obwohl sie den Goldstandard verliessen und ihre Währungen abgewertet haben. Dies deutet darauf hin, dass jüngste Versuche, die Rolle der Regierungspolitik neu zu beurteilen, einerseits den starken realen oder spontanen Aufschwungkräften, die in einigen Ländern vorhanden waren, und andererseits den strukturellen Problemen und einzelnen Erschütterungen (z. B. spanischer Bürgerkrieg), die den Aufschwung anderswo verhinderten, vielleicht nicht gerecht werden. Ausserdem war nach einem Sturz solchen Ausmasses ein gewisser Aufschwung zu erwarten, auch wenn er mehr auf dem Inlandmarkt als auf dem internationalen Handel basierte.

(Übersetzung: J. Schaufelbühl)

RÉSUMÉ

CRISE ET REPRISE EN EUROPE DANS LES ANNÉES '30

Bien que la dépression cyclique de 1929–1932 ne fut pas unique, si l'on considère la suite des cycles économiques, la crise du début des années trente, du fait de sa durée, de son intensité et de sa dimension mondiale, mérite une attention particulière.
Malgré la sévérité de la crise économique, il y eut d'importantes différences parmi les pays européens, tant pendant la dépression que pendant la période de reprise qui s'ensuivit. De telles différences peuvent être en partie attribuées aux réponses des gouvernements sur le plan politique. Par exemple, l'évolution durant la période de reprise fut partiellement déterminée par le système de taux de change choisi. Tout bien considéré, les pays qui abandonnèrent l'étalon-or et qui dévaluèrent leur monnaie connurent une plus forte reprise que les pays

qui instaurèrent le contrôle des changes ou ceux du Bloc-or. En fait, la plupart de ces derniers (France, Belgique, Suisse, Pologne et Pays-Bas) qui maintinrent l'étalon-or jusqu'au milieu de la décennie, ne connurent pratiquement aucune croissance entre les deux pics du cycle alors que, dans le même temps, la plupart des pays du bloc sterling qui avaient dévalué enregistrèrent des gains appréciables dans l'«output» et dans la production industrielle. L'évolution des pays ayant instauré le contrôle des changes fut plus variée. L'Allemagne, la Grèce et la Bulgarie traversèrent une phase de croissance, alors que l'Autriche, la Tchécoslovaquie et l'Espagne stagnèrent complètement.

Toutefois, la relation entre politiques des taux de change et relance économique ne fut pas partout similaire. Le Canada et les Etats-Unis, par exemple, ne connurent aucune véritable amélioration, même s'ils abandonnèrent l'étalon-or et dévaluèrent leur monnaie. Ceci suggère que les récentes tentatives pour réévaluer le rôle des politiques gouvernementales dans le processus de relance ne rendent pas vraiment justice aux forces, réelles ou spontanées, de reprise présentes dans certains pays, ainsi qu'aux problèmes structurels et aux errements de l'Histoire (par exemple la Guerre civile espagnole) qui entravèrent la reprise ailleurs. En outre, après une crise d'une telle intensité, une certaine amélioration était prévisible, même si elle reposait en premier lieu sur les marchés domestiques plutôt que sur le commerce international.

(Traduction: Thomas David)