The changing role of the state in the British economy between 1914 and 1921

Javier Agudo
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The First World War represented the first high profile war that took place after the developed world had experienced the Industrial Revolution, and the international economic relations between countries had never been so strong. Based principally in the work by R. H. Tawney "The abolition of economic controls, 1918-1921" (Tawney; 1943), I am going to try to explain in this essay the role of the state during the conflict and how the Government reacted to the different problems that aroused in this period.

With a hindsight, it is nowadays believed that serious mistakes where taken in the economic policy during the war, most of them caused by the lack of economic preparations. Government lagged in the first years of the conflict to take measures in order to control the war economy. But a bigger mistake, as Tawney points out, is that these measures were not taken as a whole systematic plan, but as improvised solutions to each concrete problem. And then we come to the most important and controversial question, that if the de-control of the economy took place too fast, as the economic problems that appeared in the 20s seem to show.

In fact these three aspects are related and have their origin in the “Business as usual” principle: state intervention was considered as an evil per se, so its application was delayed until the circumstances of war obliged to. But when this measures where taken, they were conceived as temporary measures that will only last until the end of the conflict. When the war ended, returning to the pre-1914 situation was considered as the ideal objective: but what men of that time did not realize is that world had changed and it would never be the same.
I. The building up of the system

At the beginning of the war, authorities believed that the conflict was going to end up soon, and that the main role of Britain was going to stop the German ships and to provide the allies with the provisions they will need. This perception didn’t last long, and the volunteers that went to combat with Lord Kitchener meant a point of inflexion.

As pointed out by John Singleton in his analysis of the cotton industry during the British war (Singleton; 1994), in wartime the main function of the Government is to manage national economic resources so that it can guaranty military success. When Government realised that First World War was an open conflict in which Britain had to take part actively, it was clear that urgent measures had to be taken. Market economy was proved insufficient to provide the army all the material they needed for the combat due to the rapid increase of demand.

The creation of the Ministry of Munitions in May of 1915 was one the first steps that were taken. Created after the great shell scandal, this department progressively increased controlling more than 2 million workers by 1916. The controls soon spread to other areas of the economy, such as the control of food supply by the mass imports of the state and the fixing of maximum prices. Guarantying food supply to the population was a vital necessity, because the pessimism of the civilian population could have a very negative effect in the war result.

As I mentioned before, the main characteristic of this state intervention was that the measures where not taken in accordance with a previous drawn up plan but as a series of exceptional measures to specific emergencies. In this point I think it’s interesting to mention again the work by Singleton. What the author argues is that there is no rational logic in the fact that Government allowed cotton factories in Lancashire to continue with almost full level production for the whole war. Only around 30 percent of the production was destined to the war effort and raw cotton imports were getting more and more expensive. In addition, labour was needed in other sectors more important for the war such as shells fabrication or coal mines. But
the fear of the Government for an unemployment crisis in the region and the absence of a plan to reallocate the labour perpetuated the situation in Lancashire.

In the areas of the economy where intervention took place, it was characterized by its perishable nature. Business men allowed government interference just because of national and patriotic necessity, but once the war was over, government should move out of the place. I would like to quote, as Tawney does, the words of Lord Inchcape, chairman of P&O qualifying the state control as “the irritating and wasteful interference” of the Government.

This view contrasts the vision of other business men such as Alfred Herbert or E. W. Moir. Julian Graves points out that these business men were taken from engineering firms and to develop important roles in the Ministry of Munitions, so “the controlled were in fact the controllers” (Greaves; 2007)

Nevertheless the truth is that when the war ended in 1918, all the special departments set up the previous years were condemned to extinction. “De-control (…) required only inaction” (Tawney; 1943) and it was the job of those who believed that controls shouldn’t be abolished in a sudden to convince the Parliament. They didn’t succeed: by 1921 almost all the system created in the war had disappeared.
II. De-control and “the return to normalcy”

For analysing the way de-control took place, we have to take into account the perspective. From the eyes of Lloyd George’s cabinet at the end of the war, the main preoccupation was to re-insert the almost 5 million servicemen and reallocate all the other war workers in private work, without causing a massive unemployment crisis. Businessmen were keen on returning to the normal production scenario and Government thought that the quickest and smoothest way for solving the problem was leaving the industries work alone again, so that they could reabsorb the labour forces.

The fact that rapid de-control finally took place doesn’t mean that all voices agreed in this process. In the Report of War Cabinet for 1917 it is stated that the action taken by the Wool Control Board has had a very positive effect in the stabilization of the production. Winston Churchill advocated for nationalization of the railways and Lloyd George reminded that lessons learned from the war on how to manage the economy should be reminded. However these voices weren’t strong enough to convince the Parliament that state intervention should be prolonged in some areas.

Tawney admits that this de-control process was not exclusive to Britain. The United States and France followed the same pattern, abolishing all the controls in the early 20s. What is even more serious is that all the international organizations created for the war, such as the Allied Maritime Transport Council were also dismantled. This meant also a lost opportunity, as proven by the numerous global trade organizations that aroused in the following decades.
III. The economic legacy

The years 1919 and 1920 are characterized for what we can call the post-war boom. Demand rose sharply after all the consumption constraints were removed, but output couldn’t keep up with this increasing demand. Inflation became then a serious problem in the eyes of the Government, who decided to correct the economy starting a deflationary policy, with the aim also of returning to the gold standard. The rise in interest rates and the cut of state spending resulted in a major slump for British economy from 1921 onwards, with its consequent unemployment problems. The economists tend to agree that the lax policy of the Government fuelled the boom of 1919 and on the other hand the excessively hard measures taken after worsen the slump.

The action of Government has also been criticised in other spheres of the economic policy. For example related to the state financiation during the war, Julian Greaves argues that Government didn’t rise taxes enough to face the increase of public expenditure. This meant that almost all the war effort (70 percent) had to be met by borrowing, resulting in inflationary problems during the war.

The unemployment benefit system established for the war has also been criticised as a negative factor for the economy that worsened the unemployment problems. But S.N. Broadberry argues that the loss of competitiveness was due more to the fall in hours worked that to the benefit system (Broadberry; 1990). Salaries were fixed per week, and they didn’t diminish on pair with the reduction of hours worked per day. This leaded to a rise in real salaries not compensated by an increase in production per worker, thus inflation arose.
IV. Conclusions

The First World War supposed a brutal shock for the European economies. British international position, which was declining since the end of the XIXth, had to leave the place definitely in favour of the United States, which emerged as the first world power of the XXth century.

After the analysis I have done in this pages, it’s clear that British Government commit important mistakes in the economic planning of the war and the subsequent years. But it’s too easy to judge the action of men with the privileged position that time gives us. Decisions are taken in a concrete moment, and war is specially a difficult moment.

When Government advocate for the de-control of the economy, they thought that they were taking the right decision, assuming that the system that worked before the war would work afterwards. But the structure of the society and the industry had changed. Labour market was way more unionised, rigidities were stronger and the viability of traditional industries was starting to fade. Britain had lost its prominent position as word trader and investor.

The world was changing and economic science was not advanced enough to respond to this changes. Macroeconomics was still a primitive tool and wasn’t developed enough to provide an answer to the problems that were arising while private firms still regarded government control as the worst of the evils. But is undeniable that the study of the First World War experience has been very important for the economic science, and gave the governments the knowledge required to confront the crisis to come.

Javier Agudo
Bibliography


