Week 3. The Recovery.

Analyse the importance of real wages, housebuilding, cheap money and protectionism in the recovery of the 1930s. To what extent was recovery 'natural' rather than induced by policy?

Readings.

Worswick, G. D. N., 'The Sources of Recovery in the United Kingdom in the 1930s,' *National Institute Economic Review* (1984). A good, concise overview.

Richardson, H. W., *Economic Recovery in Britain, 1932-39*. [Chapters 7 (housebuilding), 8 (cheap money) and 10 (protectionism)]. This is the standard, comprehensive text on these issues.

Humphries, J., 'Inter-war Housebuilding, Cheap Money and Building Societies: the Housing Boom Revisited,' *Business History* (1987).

Kitson, M., and S. N. Solomou, *Protectionism and Economic Revival: the British Inter-war Economy*. [p31-42; 51-63; 67-83]. Attempts to regenerate the role of tariffs. Also offers a very useful critique of earlier authors.

Note: you should be able to discuss real wages on the basis of your previous work on unemployment.

THE RECOVERY.

Cheap Money.

1. Cheap money introduced from February 1932 (not *immediately* after devaluation). Depended on successful conversion of the War Loan.

2. Building societies substantially increased their advances (small reductions in interest rates have a large impact on the total repayments of a fixed rate mortgage). If societies really *made* the market (Humphries) then cheap money was more than merely permissive.

3. Bank advances did not increase greatly. But this does not imply a banking "failure" (no evidence of credit constraints; Keynes argued that total advances would initially fall).

4. Cheap money in the banking sector exercised its influence through the securities market rather than through the loans market:

Share prices rose as people moved out of bonds (this enabled increased borrowing for firms and more profitable share issues, particularly for small companies, thereby replacing debt finance with equity).

Debentures and other securities rose in price as the commercial banks sought a remunerative outlet for their excess cash reserves. Firms which had been holding their liquid reserves in securities were able to resell them at a higher price and therefore boost investment. Local authorities were able to sell bonds easily and expand public works (e.g. housebuilding and roads).

5. But cheap money only causes a movement along the marginal efficiency of capital curve. It is likely that the greatest boost to investment came from a shift in the entire curve itself (due to higher profitability as the economy started to pick up). In addition, the growing tendency of firms to finance expansion from retained profit tended to reduce the effectiveness of cheap money (although the rise in security prices boosted the value of retained profits - see above).

House Building.

1. The timing of the housing boom fits quite well with the advent of cheap money. The initial boost came from residential building (particularly spec builders); non-residential and local authority building activity accelerated after 1936 (particularly in response to rearmament and the Housing Acts).

2. Although the overall importance of building in the economy was modest a much larger proportion of the *increase* in activity can be attributed to building. (The number of houses completed per annum rose by 605 between 1928-32 and 1932-36; the number of building workers employed rose from 850 000 in 1932 to 1050 000 in 1935). Knock-on effect in

ancillary trades.

3. Other factors which expanded housing demand are: the rise in real wages (Nevin versus the permanent income hypothesis); financial innovation (lower deposit, longer repayment); falling costs (materials and productivity); changes in tastes and aspirations; increase and redistribution of population; demand backlog; rent decontrol on new houses.

Real Wages.

1. Real wages rose from 1929 to 1932/3 and fell thereafter (due to changes in import prices).

2. The effect of real wage changes on the recovery is ambiguous. There was no improvement in exports due to the collapse of world trade, so the main benefit which would normally flow from lower real wages was much reduced.

3. The overall impact on economic activity therefore depended crucially on changes in domestic aggregate demand (particularly given the role of real wages in stimulating the housing boom). Maximising the total wage bill would maximise demand but it is unclear whether real wages would need to rise or fall to achieve this aim.

Protectionism.

1. The benefits of tariff protection are not obvious under a floating exchange rate (Mundell; retaliation; push up wage demands). Implementation can be explained by a desire to avoid a spiral of depreciation - wage push - inflation - depreciation (Eichengreen, 1981).

2. The benefits are difficult to quantify (especially if the intention was as Eichengreen suggests). Various methods of quantification have been adopted (Richardson; Foreman-Peck; Capie; Kitson and Solomou).

2. There are severe problems with Capie (bad data and invalid assumptions such as perfect competition, full employment and small country). See Kitson, Solomou and Weale (1991) for data and Foreman-Peck (1981) for methodology.

3. The analysis by Kitson and Solomou is the most comprehensive. Generally, exports were stagnant in all industries but import substitution was more marked in protected industries. The manufacturing sector benefitted most from tariffs (this is not surprising, given the emphasis of the tariff). The firms which benefitted most were those dependent on scale economies (see Foreman-peck, 1979) and those which were labour intensive (forcing up the price of imports offsets the high UK real wage).

The macroeconomic analysis of Kitson and Solomou (looking at the pattern of trade with different trading blocs) is suggestive, although not particularly rigorous.

RICHARDSON, "The New Industries Between The Wars,"
***Oxford Economic Papers* (1961).**

1. The received view before Richardson was that the growth of the New Industries (mechanical engineering, cars, rayon, electrical engineering) was poor prior to 1914 and lacklustre during the inter-war period - contributing to the high unemployment of the inter-war years. (p265).

2. The export record of the new industries is often cited as an example of their failure - we imported far more than we exported. Richardson points out that during the 1930s we exported more than we imported in virtually all new industries (by value or volume). (p266). [Note: the 1930s are hardly a fair test of the import/ export position of the new industries. The UK had protected Empire markets for its sophisticated products (p267) but imposed tariffs on imports from other industrialised nations such as Germany. Richardson points out that when foreign firms moved into the Australian car market the UK firms were whipped]. British firms did increase their share in many world markets, however. For example, the share of UK goods in the world trade of electrical goods rose from 2.4% (1913) to 4.7% (1937), and for transport goods the rise was from 3.3% to 9.4% in the same period. (p285). This trend accelerated in the 1950s, although the reasons for this are obvious.

3. UK productivity was lower in the new industries. This was largely due to their small scale and consequent failure to reap scale economies. (p269). (Richardson is keen to apologise for low UK productivity, pointing out that UK productivity growth was higher in the 1930s than in Germany or the US. Of course, Britain was starting from a much lower base and had a much shallower recession).

4. The new industries undermined the viability of old industries by providing substitute products (rayon for cotton, electricity for coal). The price of the new products fell over time with better technology, larger scale and learning by doing; this accentuated the severity of the competition. (p270). Hence the price of motor cars fell from 100 in 1913 to 51 in 1924 and 42 in 1936; the price of rayon yarn fell from 9 shillings in 1923 to 2.5 shillings in 1938. (p280). These price reductions expanded demand and permitted further reductions. [Richardson also claims that there was competition for labour and the higher pay of the new industries forced up real wages in the old industries - but surely not in the inter-war period?]

5. The new industries are criticised for not growing sufficiently fast to absorb all of the labour released from the staple industries (p270). This is hardly a valid criticism, however. There is no logical reason to suppose that the expansion of new industries would happen exactly concurrently with the collapse of the old. The difficulties of transferring resources (labour and capital) were also very large. This was accentuated by the distances between expanding and contracting regions, lack of labour mobility, rational hysteresis, et cetera (see Richardson on over-commitment).

6. There was lower R&D spending in the UK in the inter-war years (p271). However, it may have been used more effectively. [If real wages were lower in Britain then the quantity of R&D purchased in Britain would not lag behind as much as spending suggests]. Britain was also very quick at obtaining patent licences and following the technological leaders into production (p272). In addition, it may be that due to factor prices Britain was correct to specialise in following rather than innovating (for example, cheap unskilled labour but expensive investment funds due to high real interest rates). (p275).

7. Some firms demonstrated excellent technical progress (for example, Napier the engineers) and sometimes this was even combined with entrepreneurial spirit (Napiers abandoned the car business and went into aero engines because they could not make the jump to mass production technology). However, managerial skill and market research were often lacking. (p275).

Many firms, such as Seimens and Dunlop, exhibited sound judgement and successfully diversified in the inter-war period. At the same time, so did many of the old industries (see Weir, 1989).

8. The new industries formed many cartels in order to protect the domestic market and raise prices (for example, in tyres, electric lamps, sulphuric acid, radio valves, electric cable, fertiliser). (p277). Concentration and rationalisation also proceeded apace (AEI, Dunlop, Fisons and others). (p278). This is in stark contrast to the staple industries, where rationalisation and trade agreements proved impossible to implement (p279) - were the younger firms managed more often by professional managers?

9. There was some direct investment in the UK from American firms (many subsidiaries were opened to circumvent tariff barriers). (p281).

HUMPHRIES, "Inter-war Housebuilding, Cheap Money And Building Societies: The Housing Boom Revisited," *Business History*, (1987).

1. Everyone agrees on the major role of housing - and therefore cheap money - in the recovery. The only point of debate is whether cheap money actually precipitated the boom (Howson, 1975) or whether it merely sustained the building expansion (Feinstein, 1965). Humphries joins Sedgewick (1984) and Broadberry (1984) in arguing that building societies had a more active role and *promoted* recovery through their active accumulation of funds and their eagerness to lend. (p325).

2. It is usually thought that the reduction in interest rates caused investors to switch their money from bonds into building societies (who were much slower to reduce their interest rates). The demand for loans was simultaneously raised by lower rates, longer repayment

terms and 90% mortgages. (p326).

3. In fact, the growth in building society deposits was as large in the 1920s as in the 1930s (p326). This was due largely to the special tax advantages offered by building societies which shifted the overall the tax burden of large depositors onto small depositors (the latter could not leave the society because there was nowhere else to invest modest amounts of money, especially if you wanted a mortgage in the future). (p331). As a result the after-tax return on building society deposits was higher *throughout* the 1920s (p332). The massive inflow of funds is demonstrated by the building societies' advertising (p334). In the 1920s they had emphasised their tax-free status in order to attract large depositors; but in the 1930s that kind of advertising rapidly diminished, suggesting that the building societies had enough funds to feel secure.

4. Similarly, advances net of repayments (i.e. outstanding assets of the society) also grew as fast in the 1920s as in the 1930s, particularly around 1928 when there was a housing boom of equal size to that experienced during the recovery. (p327).

5. The result of this investment pattern is that the primary source of building society funds in the 1930s was the *repayments made on mortgages taken out in the 1920s*. (p328). In fact, "hot" money from the stockmarket was often rejected by the building societies because it was too risky (p329).

6. Housing demand rose in the 1920s and 1930s for many reasons (rising real incomes, falling mortgage costs, et cetera). The rent control of the private sector did not apply to new houses and consequently rents were quite high in many areas - making the purchase of a house more attractive. (p337). However, the building societies were also active in raising demand further. This did not occur through substantial falls in interest rates [although on a fixed rate mortgage even a small fall has very large cumulative effects]. There was some increase in the length of mortgages (p338) and there was a move towards larger mortgages (measured as a percentage of the purchase price). This was achieved covertly through the "builders' pool", whereby the builder guaranteed the extra 15% of the mortgage (if, for example, the mortgage offer rose from 75% to 90% of the purchase price). (p341). In many instances the builder merely "borrowed" the money from the society and "deposited" it back in the society for a specified period as a guarantee.

7. The building societies thus "made the market" by skillfully acquiring funds and lending wisely to prospective homeowners (the rate of repossessions was very low throughout the 1920s and 1930s). The building societies certainly furnish a counter-example to the hypothesis of managerial and entrepreneurial failure. To that extent we can doubt Keynes' argument that loosening monetary policy is like "pushing on a piece of string": in the inter-war period it was more like releasing a jack-in-the-box.

KITSON and SOLOMOU, *Protectionism And Economic Revival: The British Inter-war Economy*.

Chapter 4.

1. Kitson and Solomou set out to discover whether tariffs were effective in reducing the marginal propensity to import and - if so - whether demand for domestic production rose significantly as a result. This involves disentangling the effects of devaluation, cheap money and tariffs, three polices which were imposed simultaneously. (p42).

2. The analysis has three stages. Firstly, examine the changes in tariffs and exchange rates and analyse their likely impact on competitiveness. Secondly, estimate a model of manufacturing imports and use it to demonstrate how policy changes acted to reduce the propensity to import. Thirdly, examine Britain's bilateral trading links with four groups of countries in order to compare different polices (i.e. Empire countries who faced neither devaluation nor tariff; gold bloc countries who faced devaluation and tariffs; "core competitor" countries which devalued with Britain but faced tariffs; countries which did not devalue but did not face tariffs). (p42).

3. *Competitiveness.* Between 1924 and 1931 the import propensity of the manufacturing sector rose from 10% to 12%, but from 1932 to 1938 it fell back to 8% (despite a substantial increase in demand and output). This suggests an important role for tariffs or devaluation.

At the same time there was also a reduction in the propensity to import at the aggregate level which appears to have been driven largely by the reduction in imported food and beverages. But this is largely a statistical manifestation caused by their substantial fall in price, which meant that in *value* terms the ratio of imports to GDP had fallen significantly even though in *volume* terms the reduction was much more modest. The modest fall in volume is partly due to tariffs on non-Empire countries and partly due to the low income elasticity of demand for food, which over time would reduce its importance in overall GDP. (p43).

4. To examine the impact of *devaluation*, Kitson and Solomou use a manufacturing exchange rate to track the changes in the relative price of sterling, which seems reasonable since they are concentrating on manufacturing output. (p46). This index shows a sharper decline than most 1931-2 by also a more rapid appreciation 1932-3, suggesting that the effect was very short-lived. The same argument holds if we calculate the *real* exchange rate by adjusting the nominal exchange rate for changes in the domestic price level (for Britain and her international competitors). (p48). [It is interesting to note that the real exchange rate *fell* after 1925, indicating that the overvaluation of sterling was more than offset by the fall in UK domestic prices as the Treasury et al predicted. The only argument can be whether the fall was worth the cost in terms of temporarily reduced output].

5. To assess the macroeconomic impact of the tariff they calculate an average tariff based

on the levels of duty on each product weighted by its proportion in the value of manufactured imports *before tariffs were imposed*. (p47).

6. The two series can be merged to find the change in import competitiveness (including the price effect of the tariff) and export competitiveness. (p48). The net result is that the devaluation appears to have been largely offset by a change in prices, so that the real exchange rate does not fall for very long. [Question: is this due to a fall in the domestic price level of our competitors, or a rise in our own domestic price level? We can only say that devaluation was really *offset* by changes in the price level if the devaluation itself caused those changes. Otherwise it would be equally valid to say that the tariff effect was offset by the change in prices and the devaluation was doing all the work!]

7. *The Model*. A regression of imports on (changes in) income, relative prices and the level of tariffs finds that income and tariffs had a much more significant effect on imports that relative prices. This suggests that devaluation was not important (because it merely changes relative prices). It also suggests that the effect of tariffs did not work through price effects, but rather through the effect on domestic output and investment. (p53).

8. *Trading Blocs*. The various blocs can be ranked in terms of how much the growth in UK imports from each of them declined after 1931. From the smallest reduction to the largest reduction the ordering is: Empire (nt, nd); core competitors (t, nd); trade agreement countries (nt, d); gold bloc (t, d). (p56). Clearly, those countries which suffered no devaluation effect performed better than those which did suffer the devaluation, whereas the tariff seems to have been of secondary importance (compare the core competitors and the trade agreement countries).

However, the situation is reversed if we examine only manufactured imports. This is exactly what we would expect, given that food and raw materials will inevitably be inelastic in demand and tariffs were predominantly imposed on manufactured goods. The adjusted rank ordering is: Empire (nt, nd); trade agreement countries (nt, d); gold bloc (t, d); core competitors (t, nd). The non-tariff countries do considerably better than the rest and devaluation appears to have been of secondary importance (so much so that the core competitors rank below the gold bloc, despite the fact that the core countries devalued at the same time as Britain). (p58).

This is confirmed if we look within categories. For example, raw materials were seldom subject to tariff and relative prices dominated, so that those countries which devalued did much better than those that did not. (p63).

Chapter 5.

1. We would expect newly-protected industries to increase their output faster than other industries due to import substitution. This can be used as a check on the macroeconomic model of chapter 4; it also allows us to see what other factors accentuated or offset the impact of the tariff in various industries. (p67).

2. A breakdown of the Harrod multiplier for twelve industrial sectors reveals that the increase in the growth rate of domestic output after 1932 resulted primarily from a reduction in the propensity to import rather than an increase of the growth of exports. (p73). [What a surprise].

3. Kitson and Solomou undertake a comparison of newly-protected and non-newly-protected sectors in the vein of Richardson (they include data for 1924, whereas he was limited to 1930 and 1935). They find (like Richardson) that the newly-protected industries improved their import performance after 1932 much more than non-newly-protected industries. The export performance of the newly-protected industries also suffered a more modest decline. In addition, the improvement in growth, employment and productivity of the newly-protected industries was much higher. (p75).

4. Industries can be categorised according to whether they are intensive in resources, labour, scale or raw materials. (p78). Generally, those industries which were scale or labour-intensive gained most from protection (since the former enjoyed lower costs and prices as output increased, and the latter could afford to utilise underemployed resources as the price of overseas producers was forced up). The other sectors also gained from protection (i.e. newly-protected industries grew faster) but the differential was less pronounced. (p83).

RICHARDSON, *Economic Recovery In Britain, 1932-39.*

Chapter 8 (Cheap Money).

1. Monetary policy used to be the premier method for controlling the level of activity in the economy. The money supply and interest rates were controlled through changes in Bank rate and open market operations. This could influence activity through investment (mainly) and consumption expenditure. (p182). Monetary policy is generally more effective at stopping booms than promoting recovery, however. Hence it is widely viewed as a permissive rather than causal influence, secondary to fiscal policy and business confidence. (p183).

2. The government was loath to expand the money supply for fear of inflation. But the continued deflation after the abandonment of gold and the inability of the international community to promote reflation convinced the government that domestic reflation was essential. Looser monetary policy would raise prices and output in the short term and could then be stabilised in the medium term. (p185).

3. A managed currency would further permit the government to insulate the domestic economy from the fluctuations of the world economy. The importance of this is demonstrated by the failed attempt to introduce a cheap money policy in 1931, which had

to be abandoned when capital flowed out to New York. (Hence after 1932 the government placed additional restrictions on the outflow of capital to prevent a recurrence. See p187). The failed attempt also demonstrates that cheap money was useless in the absence of favourable underlying conditions. (p186).

4. Bank rate was reduced from 5% in February 1932 to 2% in June 1932. The government achieved this by buying bonds from the banks and increased their liquidity. The lowering of interest rates also discouraged inflows of foreign capital and led to further downward pressure on interest rates. (p189). All this made it easier for the Bank to persuade the public to hold the new 3.5% stock which it sold to replace the old 5% stock, and the whole process was achieved without putting excessive downward pressure on bond prices. (p190). From 1932 to 1935 the cost of servicing the national debt fell from 8% of national income to only 4%.

5. The conversion put downward pressure on other interest rates (commercial loans and overdrafts, debentures, Treasury Bills, et cetera). This was accentuated by the inflow of funds from overseas governments and firms as prosperity returned somewhat, and the Bank was gradually able to increase its gold reserves. (p191).

6. Despite the expansion of the money supply, bank advances actually *fell* until 1934 and the expansionary effect of more money was offset by a fall in its velocity of circulation. The banks were forced to buy more government bonds because there were too few outlets for their deposits. (p193). However, we must not conclude from this that the banks were failing in their role as financial intermediaries (as *The Economist* claimed).

Firstly, there is no evidence to suggest that anyone was credit constrained. Indeed, the banks began to lend to less credit-worthy customers in order to get rid of some of their funds (p198). Secondly, Keynes pointed out that in the early stage of a recovery we would expect total advances to fall (since a rise in prosperity would see many people paying off outstanding loans before taking on others). (p194). Thirdly, many of the government securities purchased by the banks came from firms - who were therefore provided with the liquidity which they required for expansion. Fourthly, the loans which the banks made were of strategic importance - in particular, to small builders and local authorities. (p195).

7. We would expect cheap money to be particularly important in the capital market and therefore industrial investment. The price of shares will rose as investors moved out of (expensive) bonds into industrial securities and also because profit expectations rose. This promoted new issues and thereby increased the availability of investment funds. (p196). This was particularly important given the growth requirement of small firms in the new industries in the 1930s. Hence by 1936 nearly 53% of new issues were on behalf of companies worth less than £1 million, whereas in 1930 it had been only 5%. (p198). We should note, however, that the overall level of share issues was very low throughout the 1930s (p200).

8. We must, however, recognise the role of natural recovery mechanisms at this point.

Reducing the interest rate makes marginal projects profitable and therefore increases investment. But an increase in output and income shifts the whole marginal efficiency of capital curve, which is likely to prove quantitatively more significant than a move along the curve. (p199). Even in the mid-1930s, when industrial investment surpassed its previous peak of the late 1920s, industrial issues were still relatively low because firms had come to rely on internal funding for investment (i.e. retained profit). Hence the importance of cheap money was further reduced. (p201). [Note: firms often held their undistributed profits in securities until they decided to invest. So the bank's demand for securities may have increased investment by allowing the firms to liquidate their savings more easily. p202].

9. The most important influence of cheap money was felt through the housing boom (mortgage rates fell, building firms expanded with increased liquidity, housing assets offered a stable rate of return when other forms of investment were becoming less remunerative). (p203). Richardson is keen to point out that cheap money was only permissive in this instance, however, and is not a sufficient cause of recovery.

10. The money supply began to level off around 1936-7. The Bank raised its reserve ratio and as a result gold inflows no longer acted to raise the money supply. In addition, the earlier expansion in the supply of deposit money ceased (it is not clear if this was due to the banks' reserve ratio falling to its minimum or a shortage of liquid assets due to the "Bill Famine"). As a result banks liquidated their government securities and forced up the interest rate. (p204). This was compounded by crowding out due to rearmament (p205). The government was in a difficult position. To increase the money supply further would raise inflation (which was beginning to show itself) but it would also reduce the cost of borrowing to the government. Hence the stagnation in the money supply can be seen as a via media (p205).

11. Share prices peaked at the same time, partly due to interest rates and partly due to a reduction in profit expectations (caused by increased profit taxes, the New York stock exchange slump, et cetera). (p204).

12. The primary effects of cheap money were to insulate the UK from overseas fluctuations and permit a recovery of growth through domestic expansion, particularly building. (p206).

EICHENGREEN, "Sterling And The Tariff, 1929-32," *Princeton Studies In International Finance (48).*

1. Eichengreen examines the reasons for imposing a tariff. There were valid arguments for imposing a tariff prior to devaluation: reducing imports would help to defend the currency and also raise prices and employment. But tariffs were introduced *after* devaluation when the government had alternative policies at its disposal (such as cheap money and budget

deficits) and fewer problems to deal with (i.e. there was no need to defend the sterling). In addition, Mundell has shown that under a regime of floating exchange rates tariffs are generally contractionary. (p1).

2. Eichengreen rationalises the decision to impose a tariff by suggesting that the immediate purpose of the tariff was to maintain external balance without an "excessive" devaluation. An excessive devaluation was likely to occur because imports were very demand inelastic, consisting mainly of food and raw materials. Such a severe devaluation would reduce real incomes and lead to higher wage demands. This in turn would raise input prices and make UK exports uncompetitive once again, putting further downward pressure on the exchanges. The result would be a wage/inflation spiral with little or no increase in employment. (p2, 25, 28, 30).

The only way to break out of the cycle (other than by a tariff) would be some kind of tight monetary or fiscal policy which would keep up the exchange rate but also stall the recovery. Hence the tariff seemed the best option.

3. In 1929 the Labour government opposed tariffs and in fact they allowed to lapse those tariffs that were already in place (i.e. the Safeguarding of Industries Act). Firstly, tariffs were very unpopular and lead to the Conservatives' severe election defeat of 1929. Secondly, raising the price of imports would reduce the real wage of the working class. (p4). Thirdly, it would reduce international co-operation (which the Party wholeheartedly supported). (p5).

4. Keynes initially opposed tariffs (1923) because the classical model showed that when the economy was at full employment a reduction in imports must be balanced by a fall in the supply of exports (since inputs will be switched to those industries making import substitutes). (p6).

But Keynes changed his mind as he developed his model of underemployment (1930). He believed that it was essential to lower interest rates because it would increase activity through higher consumption and investment. It would also raise the price level and thereby lower real wages in the face of sticky nominal wages. (There was great disagreement as to whether nominal wages were sticky upwards as well as downwards. Keynes and Kahn said that they were sticky but Pigou and Robbins disagreed - see p13). Both of these mechanisms would reduce unemployment. But the Bank could afford to lower the rates only if there were some other method of defending the exchanges - such as a tariff. (p7).

Like others, Keynes was worried that tariffs might become a long term habit which would become detrimental to the economy. However, he believed that Britain had to remain on the gold standard in order to encourage international trade (on which the staples and the City of London depended) and he was prepared to tolerate tariffs in order to gain lower interest rates within the framework of the gold standard. (p8, 11). He also proposed alternative measures to lower the real wage such as cutting unemployment benefits. (p14).

4. The Labour and Liberal parties were opposed to tariffs. They were partly concerned about the potential rise in the cost of living. Their fears were bolstered by Beveridge and Robbins, who suggested (amongst other things) that reducing imports and thus overseas incomes would have an adverse effect on UK exports. (p15). This would be doubly bad because Britain's import competing sectors were already approaching full capacity and her export sectors were already vastly underemployed. The net effect on employment and inflation was likely to be adverse. (p16).

The Conservatives were generally in favour of tariffs and had been since the late nineteenth century. The latest twist in their campaign was to use the revenue to subsidise rationalisation and hence improve the supply side of the economy. The temporary tariff would also protect the industries whilst they were transforming. (p17).

5. Support for tariffs grew in the country as unemployment worsened. In 1929 the rate of unemployment dropped from 12.6% to 9.2% and the economy appeared to be growing at a respectable pace. In 1930 unemployment rose from 12% to 20%, accompanied by a balance of payments deficit. The MacMillan Committee recommended the use of a tariff. (p18).

More people were converted to tariffs (Labour MPs, TUC officials et cetera) as the position of sterling worsened in 1931. Tariffs were definitely preferable to cuts in unemployment benefits. (p19). The Labour government fell and in the event the National Government opted for benefit cuts to balance the budget and defend sterling. But budget cuts were not a sufficiently potent weapon and one week after the cuts were announced Britain was forced off gold. (p21).

6. Once devaluation had occurred many people turned against tariffs once more (for example, the TUC) by arguing that devaluation would be a sufficient tool to balance the trade account and permit recovery through lower interest rates. But the pro-tariff lobby argued that import duties had now become even more urgent.

Chamberlain put forward the elasticity pessimism argument, suggesting that sterling might have to reach $2 before the exchange rate reached equilibrium. (p26). This was widely unacceptable because it would impoverish the working classes (or set off a wage/inflation spiral). Also, it would reduce the real value of Britain's overseas wealth (since British debts were often denominated in dollars but British credits were denominated in sterling). (p27).

Chamberlain also pointed out that the exchange situation would be exacerbated if there were competitive devaluations by Britain's trading partners, which is exactly what happened. (p26). Ideally for Britain, the countries which produced inputs for British industry would devalue with Britain and thereby hold down Britain's import bill. By contrast, it was hoped that Britain's industrial competitors would stay on gold and handicap themselves in international trade. This proved to be true only in the short term.

The other macroeconomic benefit of tariffs would be increased revenue. This would help the government to balance the budget without resorting to printing more money. (They might be tempted to print money for two reasons: to offset rising unemployment in a wage/inflation cycle; to balance the budget in the face of declining real revenues, many of which were denominated in fixed nominal terms). (p31).

7. Chamberlain won the day in the cabinet arguments, effectively rebutting Snowden and the arguments of Keynes. (p34). Hence the tariff was introduced provisionally in November 1931 and more fully in February 1932. (p36).

8. Overall, the decision to impose a tariff was taken on macroeconomic grounds rather than microeconomic. It was not to protect industry, but rather to protect the exchanges and contain inflation. The unemployment situation did not feature greatly in the debate (although it would benefit indirectly from a looser monetary policy and some import substitution). Rather, the spectre of inflation was in the forefront of the politicians' minds. In the light of this fact, attempts to measure the benefit to British industry of tariffs seem rather beside the point. (p38).