

The Economic Legacy of Conflict: Britain in the Aftermath of the First World War

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Any analysis of the effects of the First World War upon Britain's national and international economic standing in the 1920s and beyond must reflect on certain stylised features of the wartime economy itself. It is a commonplace of economic history that when war broke out in 1914 the British government assumed that fighting Germany was compatible with 'business as usual'. The war was expected to be of short duration but by the end of 1915 it was clear that the mobilisation of economic and financial resources would have to be undertaken on an entirely different scale, beyond the capacity of the free market economy alone. The 'Great Shell Scandal' of 1915, arising from the scarcity of ordnance at the front, graphically illustrated the limitations of existing forms of economic control and direction. The creation of the Ministry of Munitions in June 1915 reflected a new sense of urgency and realism. Survival was not merely a military matter; the state had to contemplate extending its authority to a degree previously unimagined if the needs of a mass army and the domestic population were to be met in any prioritised way.

During the early years of the war mass production techniques and economies of large scale production were notable for their absence. Many essential industries were still underdeveloped and major industrial sectors were subject to trade union job controls.¹ As the needs of the wartime economy became apparent, the authorities concentrated on directly influencing the supply of skilled men to industry and on raising productivity through greater specialisation and mechanisation of production in a way which enabled unconventional sources of labour (particularly women and the semi-skilled) to be used without significant damage to productive efficiency. The Ministry of Munitions, for example, established state-owned factories and shipyards equipped with electric power and best practice production techniques. Similar general advances were made in assembly-line

¹ M. Kirby/M. Rose, 'Productivity and competitive failure: British government policy and industry, 1914-19', in G. Jones/M. Kirby (eds), *Competitiveness and the State. Government and Business in Twentieth Century Britain* (Manchester, 1991), 20.

techniques and in the use of electric power in factories from 1916. In general, the war economy stimulated rationalisation and the breaking down of trade jealousies and seccies, especially in the engineering sector, bequeathing new methods such as automatic welding, the use of limit gauges by unskilled workers as well as new techniques of management.²

These specific developments were but part of an extensive array of state economic control. What had begun as a trickle of strategic intervention in the affairs of industry during 1915-16, concerning for example labour, prices, and investment, became a deluge from 1917 as government became determined not to supplant private capitalism but to steer it more systematically towards a co-ordinated and disciplined response to pressing economic need.³ The extension of state interference and influence was considerable. By 1918 two-thirds of the economy and nine-tenths of imports were subject to direction by bodies authorised by the government. The country had some 200 government-owned plants. Military expenditure had risen from about 4 per cent of GDP in 1913 to 38 per cent in 1916-17.⁴ Wartime production schedules placed a new premium on the maintenance of industrial peace. In 1916 the Whitely Committee on Relations between Employers and Employed argued for the establishment of Joint Industrial Councils in industries as diverse as motor vehicles, chemicals, and pottery and by 1918 twenty six councils were in existence. Likewise the Ministry of Reconstruction, established in August 1917 to embrace social reconstruction after the war and to improve business organization and industrial efficiency, placed great stress upon enhanced co-operation between workers and employers, whilst one of the most striking innovations in the creation of the Ministry of Munitions had been the recruitment of active business leaders as senior administrators. Business and labour interests, in other words, had become more involved in the conduct of the war economy as each strengthened their own position numerically and institutionally.

These features of the wartime economy are extensively documented, not least because they mark such a sharp contrast with the conduct of economic policy in the Edwardian period.⁵ The first total war gave rise to

² S. Pollard, *The Development of the British Economy, 1914-1990* (1992), 20.

³ The best account remains R.H. Tawney, 'The abolition of economic controls, 1918-1921', *EcHR* 13, 1943, 1-30.

⁴ C.H. Feinstein/P. Temin/G. Toniolo, *The European Economy Between the Wars* (Oxford, 1997), 19.

⁵ See for example K. Burk (ed.), *War and the State: The Transformation of British Government, 1914-1919* (1982); J. Turner, *British Politics and the Great War: Coalition*

logistical and organizational demands of unprecedented magnitude, particularly the need to blend a free market approach to production and the allocation of resources with the need for intervention when the market was clearly failing the nation. Previous reliance on limited state intervention and upon the efficacy of private enterprise and the laws of supply and demand soon had to give way to the pressure of meeting, economically, financially and in a co-operative spirit, the needs of a mass army engaged in a major European land war. The immediate impact of the war in generating a speculative boom and subsequent collapse, in encouraging strident demands for new forms of wage determination and industrial organisation and ownership, and in encouraging through rapid decontrol a free market deflationary solution to competitive decline also dominated the discussion of the 1919-21 period.⁶

What needs to be recalled alongside the detail of economic turbulence and postwar dislocation is the distinct failure on the part of each of the principal economic agents to build upon the opportunities afforded by the war to foster a more progressive form of reconstruction and modernisation. The Ministry of Reconstruction spent considerable time and effort during the closing years of the war in addressing issues of industrial efficiency, scientific and technical education, and improved industrial relations. By 1917 there was growing support for the view that the role of the state should be expanded in peacetime in order to encourage the development of more efficient productive practices, better industrial relations, closer empire unity and the protection of the economy from export 'dumping'. The fear that jobs and industry could be threatened by renewed German export aggressiveness spurred key industrialists such as Dudley Docker, a prominent Birmingham businessman wedded to industrial modernisation and tariff protection, to urge the safeguarding of industries like engineering which already had been subject to severe German competition before the war. To Docker, the war provided Britain a critical opportunity for social and economic reconstruction to preserve its world prominence and leadership. Likewise, 'social imperialists' called for a revitalised imperial strategy whereby Britain

and Conflict, 1915-1918 (Yale, 1992); S.J. Hurwitz, *State Intervention in Great Britain: A Study in Economic Control and Social Response, 1914-19* (1968).

⁶ S. Broadberry, *The British Economy Between the Wars: A Macroeconomic Survey* (Oxford, 1986); R. Floud/D. McCloskey (eds), *The Economic History of Britain since 1700*, vol. 2 1860 to 1939 (Cambridge, 1994); S. Glynn/A. Booth, *Modern Britain. An Economic and Social History* (1996).

could retire behind a heavily protected empire dominated by British industry.⁷

These calls for renewed employer/union co-operation, the systematic modernisation of industry under a measure of state direction and support, together with protection and closer empire unity, were not heeded in any fundamental way. Despite the rapid shift of resources from consumption to arms production, some parts of British industry had gained from an acceleration of technical progress both in products and processes. But in the immediate aftermath of war little consideration was given to the utility of economic control and direction as a continuing feature of the peacetime economy. If lessons had been learned during the war about the preferred means of organising capital and labour to more productive use and of the putative role of the state as an agent of industrial and economic rejuvenation they were quickly forgotten.

Contemporary political and economic circumstances narrowly proscribed the opportunities for fundamental change. There was little hope of creating a new co-operative industrial environment when neither the employers nor organised labour, each with a renewed sense of authority and power, was willing to seek consensus unless its perceived adversary conceded a measure of real power.⁸ Moreover, there was deep suspicion of government within business. Industry on the whole was still fragmented and highly competitive. Hopes of securing agreement over the differential development of old and new sectors or of imposing general tariffs, for example, were never likely to be fulfilled when industrialists lacked the means of mobilising business interests as a whole to speak with any authority on a strategy for national economic survival.

In most manufacturing industries majority opinion was inclined towards protection as early as 1903, but such support was compromised by an intellectual and moral hegemony in favour of free trade and by a gap between the attractive form of 'constructive imperialism' expressed by Joseph Chamberlain, based on expanding empire markets, and the likely impact of any concomitant food duties on the working class. As a consequence the fight for tariff protection dragged on into the interwar

⁷ P. Cain/A. Hopkins, *British Imperialism Crisis and Deconstruction, 1914-1990* (1993), chpt. 4.

⁸ R. Lowe, 'The failure of consensus in Britain: The National Industrial Conference 1919-21', *HJ* 21, 1978, 647-75; L.G. Gerber, 'Corporatism in comparative perspective: the impact of the First World War on American and British labour relations', *BHR* 62, 1988.

period amidst similar competing claims about its likely affect on Britain's industrial competitiveness and hegemonic status.

The difficulty in forging an effective modernising strategy in the immediate aftermath of war was that industrial consensus and the drive for more scientific and technologically based business activity had rested upon fears of a very different economic outcome to the war. Once the resurgence of postwar German economic and industrial power had receded, the restoration of the liberal economic order had greater attraction than extended economic control and state intrusion into the affairs of private capitalism, however much they promised a continuation of some of the mutual benefits enjoyed during the wartime 'siege economy'. Germany's sudden collapse in the closing months of the war removed one essential justification for a programme of state-initiated economic development.

So far as the advances in industrial relations were concerned, the appointment in 1916 of a committee under the chairmanship of J. Whitely to consider suggestions for securing a permanent improvement in the relations between employers and workmen ultimately lead to the appointment of Joint Industrial Councils to foster systematic reviews of conditions of employment and working practices in industries where the two sides were organised on an industry-wide basis. Implicit in such moves was the presumption that the wage-earner's claim for a better standard of living would be met from the increased prosperity that would result from his co-operation in the reconstruction of industry. Organised employers initially welcomed the initiative having carefully rooted themselves in the wartime spirit of collaboration. However, it soon became apparent that the successful rapprochement between capital and labour signalled by Whitely's Joint Councils was fatally flawed. Although the Councils were popularly regarded as a concession of industrial self-government the workers, recalcitrant employers were under no effective compulsion to concede the official wish that workers should have a greater opportunity in participating in the conduct of industrial affairs. In industries such as building, pottery, and printing, in which similar experiments in co-operation had already developed, and in others such as cement, flour milling, and electricity supply, where there was evidence of a more enlightened attitude among employers, some progress was made. But in many others where the Whitely proposals were adopted, such as soap and candle manufacture, paint and varnish, and electrical cable-making, it was soon apparent that employers had never been under any illusion as to who would effectively determine the pattern of postwar industrial relations. Employers in other sectors such as coal, engineering, and railways were more openly apathetic towards the entire spirit of the

Whitely scheme, fearing that it might be used to claim control of management and give practical power to labour extremists. Nor was recalcitrance limited to employers. Those trade unions distinguished by a membership of skilled workers who had attained their status through prescribed apprenticeships viewed any combination of semi-skilled workers and employers as a dangerous threat to their existing privileged position.⁹

The aftermath of war imposed strains and forced compromise in other directions. Expensive reconstruction expenditure, for example, worried the Treasury, the City and the Bank of England. Although Britain did more than most countries in terms of imposing additional taxes, the major part of the cost of the war had been met by borrowing at high rates of interest. Apart from the government's own internal borrowing, the country had liquidated investments in the USA and had ran down gold reserves to a substantial degree. Britain's wartime financial plight was eased by America's entry into the war in 1917 because it enabled a renewal of public and private loans which had previously been restricted in the face of Britain's increasing indebtedness. But by the end of the war Britain had borrowed \$3.7 billion (about two-thirds of Europe's debt to America).¹⁰ In the circumstances, grandiose ideas for domestic reconstruction aimed at building upon the enforced change in state/industry relations during the wartime period fell foul of the financial authorities' determination to rescue London's international reputation. With industry and the trade unions unable to offer a coherent strategy of national renewal, the Treasury in particular was able to reassert its influence over the priorities of economic policy which put domestic reconstruction behind the needs of international financial prowess.

Although the immediate strains of war focus attention on the 'wartime economy' strictly defined, it was the impact of the war in accelerating the emergence of a hostile global economic environment that cast a long shadow for Britain. There is little doubt that the declining competitiveness of British exports, already evident before 1914, worsened thereafter. This was particularly worrying for a country such as Britain whose manufacturing sector as a whole before the war had depended on overseas sales for 45 per cent of its markets, in the case of cotton textiles for 75 per cent, and in the case of iron and steel for roughly one third. By 1920 export volumes of all kinds were about 30 per cent less than they had been in 1913. In terms of volumes, exports never regained their pre-war levels before 1939 and there

⁹ W.R. Garside, 'Management and men: aspects of British industrial relations in the interwar period', in B. Supple (ed.), *Essays in British Business History* (Oxford, 1977).

¹⁰ Cain/Hopkins, *British Imperialism*, 59.

was clear evidence that Britain had suffered a major loss of market share in all types of products and in all markets.¹¹ The United States and Japan in particular had capitalised on the disruption to European trading patterns to invade markets, especially in Asia and Latin America. The war also stimulated import substitution in non-European countries such as Canada, Australia and India, reducing the markets upon which a considerable part of the pre-war export output upon which Britain had depended. The coal industry, for example, faced both the development of indigenous mines in The Netherlands, Spain and other former importers, together with increased competition in existing markets from Germany and Poland, all at a time when technical advances in fuel technology and the growing use of substitutes (such as oil for coal in shipping) were further reducing demand. In short, the opportunities which the war provided to rival manufacturers to raise the prevailing levels of competition and complementarity compressed into a few years a relative deterioration in Britain's trading situation which might otherwise have been a more protracted process.

Economic dislocation in Europe provided Britain with a brief postwar respite in terms of her share of world trade but for the remainder of the 1920s her relative decline as an exporter was accentuated by the collapse of prices and earnings in those primary producing countries which had previously been such an important, if ultimately damaging, source of demand for British manufactures. With growing import volumes in the 1920s coinciding with a drastic slump in invisible income, Britain was cruelly exposed to an international economic environment which offered little hope of immediate economic betterment.

The British authorities, bereft of any strategy for economic restructuring attuned to the realities of the changed national and international economic environment, searched instead for traditional symbols of normality and stability such as the gold standard and balanced budgets, the restoration and operation of which seemed to promise a measure of economic certainty for the future. In truth, the war had so transformed the economic and financial strength of America that the terms upon which international economic relations were to be restored offered little hope for Britain. Although the USA emerged from the war as the leading creditor nation, it did not seek as a deliberate act of policy to aid financially the reconstruction of European economies to peacetime production. Moreover, the United States was determined to restore a full gold standard. Britain argued at the Genoa Conference in 1922 for sterling or the dollar to be allowed to act as a

¹¹ Feinstein et al., *The European Economy*, 64.

reserve asset rather than gold, permitting European currencies to be stabilised on a gold exchange standard. The idea was vetoed by the Americans. Once other countries, including the Dominions, moved towards the creation of a gold bloc, Britain was obliged to hasten its return to gold as a necessary step to re-establishing a role in the international postwar financial community. The transformation in international indebtedness and economic power resulting from the war thereby imposed upon Britain years of enforced deflation as she struggled to restore the gold standard as the principal means, in her eyes, of regaining the financial strength and stability necessary to sustain industry and jobs.

This observation is also well entrenched in the literature but it highlights the continuing difficulty in assessing the economic impact of the First World War. The subjection of the domestic economy to the needs of international finance by way of enforced wage cuts, reduced public expenditure, rising unemployment, and deteriorating industrial relations is conventionally seen as a major downside of the war insofar as Britain was obliged in the transformed economic environment to find some way of recovering her economic strength. This effect cannot be ignored, least of all dismissed. The danger however is to regard the principal economic effects of the war merely as those which accelerated trends in declining relative economic performance and world stature that would have occurred in any event.

There is a case for arguing that, far from giving rise to a particular emergency economic environment that was swiftly dismantled, ignored or circumvented almost as soon as peace arrived, the war itself created significant sources of disequilibrium that proved of critical importance, coming as they did on top of the fundamental shifts in world trade, finance and the competitive environment. Greasley and Oxley have argued that the quantitative impact of the First World War on long-term growth was such that the macroeconomic shock it imposed shaped future output and employment to a more fundamental degree than is commonly supposed.¹² The crashes in industrial production during the war, they argue, created a gap between actual and potential industrial production which produced a macroeconomic shock greater than that presupposed by those who minimise the effect of the war by regarding British economic growth as U-shaped, with rates falling after 1873 and rising from 1924.¹³ Though industrial output

¹² D. Greasley/L. Oxley, 'Discontinuities in competitiveness: the impact of the First World War on British industry', *EHR* 49, 1996, 82-100.

¹³ R. Matthews/C. Feinstein/J. Odling-Smee, *British Economic Growth, 1856-1973* (Oxford, 1982).

did grow after 1920, the gap between potential output (extrapolating pre-1914 growth trends) and actual production persisted so long that industrial production levels did not exceed their 1879-1913 trend until 1937.¹⁴

Greasley and Oxley are not the first, of course, to point to the deleterious effect of the war on industrial strength and adaptability. Dowie and latterly Broadberry have drawn attention to the substantial supply shock imparted in 1919-20 as a result of a widespread reduction in working hours without corresponding rises in productivity, producing a severe check to industrial competitiveness.¹⁵ In addition, the real exchange rate for British industrial exports is estimated to have peaked at 46 per cent above its 1913 level in 1917-18¹⁶ providing industry with a major readjustment problem which the subsequent shifts in hours, wages and productivity could only have made worse. On the other hand, though the supply shocks of 1919-20 undoubtedly produced a barrier to economic readjustment, it is arguable that the excess demand of the war years was itself a major source of the overvaluation of sterling which had such a noticeable effect on Britain's industrial competitiveness.

This macroeconomic perspective is a useful counterbalance to the emphasis upon the changed international economic and financial environment to which the war is commonly seen as a catalyst rather than a cause. Neither approach should blind us, however, to other structural and attitudinal barriers to postwar economic adjustment whose origins can be traced directly to the war itself.

Although the war clearly disrupted much of Britain's normal productive activity, many industrial sectors did rather well under the stimulus of buoyant demand and rising incomes in an insulated domestic market, including motor vehicles, rubber, soap, pharmaceuticals, artificial fibres, tobaccos, chemicals, electricals, glass, iron and steel, shipbuilding and cotton. Had Britain's staple industries continued to develop at their pre-war pace the problems that subsequently developed in terms of excess capacity and high unemployment, though unlikely to have been eradicated, may have been borne less heavily. But the huge increases in productive capacity undertaken during 1914-18 in sectors such as iron and steel, coal and shipbuilding for the sake of supplying armaments and other essential

¹⁴ Greasley/Oxley, 'Discontinuities', 90-97.

¹⁵ J. Dowie, '1919-1920 is in Need of Attention', *EcHR* 25, 1975, 429-50; S. Broadberry, 'The emergence of mass unemployment: explaining macroeconomic trends in Britain during the interwar period', *EcHR* 43, 1990, 271-82.

¹⁶ Greasley/Oxley, 'Discontinuities', 95.

military requirements bequeathed to the peacetime period excess plant, inflated prices, and high unit costs.

Beyond this, many firms in the immediate postwar period were encouraged by the prevailing domestic market and financial environment to engage in ill-informed acquisition, amalgamation, and over-capitalisation which, 'coupled with wage concessions, turned advantage to crippling hardship'. Although manufacturing industry enjoyed a profits bonanza during the war the returns were not always wisely used. Steel indulged in 'an orgy of acquisitions and amalgamations' while other staple trades eschewed reducing capital liabilities, expanding capacity instead within existing technologies and on goods destined for traditional markets.¹⁷ Up to £550 million of credit was made available by the banks for industrial purposes during the short-lived boom, a considerable proportion of which was ploughed into the frantic buying and selling of industrial concerns at vastly inflated prices. Some of the worst excesses were to be found in the cotton textile industry. In the latter half of 1920, 109 mills with an original share capital of £4.5 million were sold for £31.7 million. In shipbuilding, 30 companies were floated in one month alone, while in iron and steel the nine largest firms increased their capital from £20 million to £67 million during the course of the boom.¹⁸ Little attention was paid to altering business organisation or the concentration of ownership as a way of encouraging improved practice and efficiency. What the war encouraged, in other words, was not only the inflation of sectors and practices that ought properly have been slimmed down and curtailed, but an intensification of a myopia which preceded it.

More fundamentally, what the wartime experience and its immediate aftermath exposed was a deeper malaise, namely the reluctance of employers, labour and the government to broker the terms of postwar modernisation. The invention and innovation of the war years, the co-operation of employers and employed, and the control of key sectors of the economy could in retrospect have been the catalyst for a policy of industrial and economic modernisation had the principal actors been willing to concede some of their vested privileges and established practices to facilitate structural adjustment. Had that occurred to an extent sufficient to have paved the way for the development of newer expanding sectors of industry based on new technologies, adaptive forms of collective bargaining and some

¹⁷ B. Alford, 'Lost opportunities: British business and businessmen during the First World War', in N. McKendrick/R. Outhwaite (eds), *Business Life and Public Policy. Essays in Honour of D C Coleman* (Cambridge, 1986), 205-27.

¹⁸ D.H. Aldcroft, *The Inter -War Economy: Britain 1919-1939* (1970), 35-6.

agreement on how the gains from economic progress could be divided amongst competing claimants, then the adjustments which have conventionally been seen as the 'inevitable' outcome of Britain's economic maturity and fading status (themselves believed merely to have been accelerated by the impact of war) may have proved less painful. Unfortunately, the ability of an expanded but traditional industrial structure to absorb large numbers of demobilised workers, thereby diffusing the sensitive political and militant atmosphere of the immediate postwar period, pushed discussion of a new industrial and economic order into the background as each vested interest sought to solidify its position as best it could.

Constantine et al.'s recent review of the various ways of conceptualising the impact of the First World War serves to emphasise the fundamental problem of assessment, namely that each of the arguments advanced has some relevance in its particular economic, social or political setting negating any effort to generalise about such a traumatic event.¹⁹ The war had a recognisable and readily documented impact upon the domestic economy and gave rise to equally recognisable changes in Britain's international economic standing. The war was at once cataclysmic, a human catastrophe, innovatory yet negative in its impact on particular industries, positive inasmuch as the country did not entirely obliterate the lessons learned, yet negative too in adding weight to entrenched attitudes and power bases within industry, the City and the Treasury which were to prove as significant for Britain's adaptive capacity to the new world order as were the changes in trade, competition and financial hegemony.

It is a commonplace that the secular impact of the war on the British economy is difficult to determine precisely because it embraces elements of continuity and discontinuity. On the one hand, the inflation of industrial capacity in slow-growing sectors reinforced the structural rigidities in existence before 1914. On the other hand, the stimulus provided to innovation, new production processes and to improved labour/employer relations and collective bargaining procedures have been viewed as early instances of emerging corporatism. The growth of national employers' associations and the very noticeable increase in trade union membership might likewise be seen as positive steps encouraged by the war towards effective control and representation by key economic players. At the same time the war witnessed the growth of shopfloor collective action which

¹⁹ S. Constantine/M. Kirby/M. Rose (eds), *The First World War in British History* (1995), chpt. 1.

drove the struggle for job control down to the workplace just as collective bargaining was being transformed from district to national level.²⁰

It would be a mistake, in other words, to give undue weight to the important influence of the war in speeding up the pace of national and international competitive advantage without also recognising that in Britain's case that transformation was directly affected by the more direct impact of the war, not only upon the scale of production, financial health and the exchange rate position but also upon the country's capacity and willingness to broker the terms of postwar reconstruction.

²⁰ R. Hyman, 'Rank and file movements and workplace organisation, 1914-39', in C. Wrigley (ed.), *A History of British Industrial Relations*, vol. 11, 1914-39 (Brighton, 1987).