3 The Inter-war Economy

The First World War (1914-18) was mainly fought in Europe. But its impact was felt around the world. Notably for our concerns in this chapter, it plunged the first half of the twentieth century into a crisis that took over three decades to overcome. During this period the world experienced widespread economic and political instability, and another catastrophic war.

3.1 Wartime Transformations

The First World War, as you know, was fought between two power blocs. On the one side were the Allies – Britain, France and Russia (later joined by the US); and on the opposite side were the Central Powers – Germany, Austria-Hungary and Ottoman Turkey. When the war began in August 1914, many governments thought it would be over by Christmas. It lasted more than four years.

The First World War was a war like no other before. The fighting involved the world’s leading industrial nations which now harnessed the vast powers of modern industry to inflict the greatest possible destruction on their enemies.

This war was thus the first modern industrial war. It saw the use of machine guns, tanks, aircraft, chemical weapons, etc. on a massive scale. These were all increasingly products of modern large-scale industry. To fight the war, millions of soldiers had to be recruited from around the world and moved to the frontlines on large ships and trains. The scale of death and destruction – 9 million dead and 20 million injured – was unthinkable before the industrial age, without the use of industrial arms.

Most of the killed and maimed were men of working age. These deaths and injuries reduced the able-bodied workforce in Europe. With fewer numbers within the family, household incomes declined after the war.

During the war, industries were restructured to produce war-related goods. Entire societies were also reorganised for war – as men went to battle, women stepped in to undertake jobs that earlier only men were expected to do.

Fig. 20 – Workers in a munition factory during the First World War.

Production of armaments increased rapidly to meet war demands.
The war led to the snapping of economic links between some of the world’s largest economic powers which were now fighting each other to pay for them. So Britain borrowed large sums of money from US banks as well as the US public. Thus the war transformed the US from being an international debtor to an international creditor. In other words, at the war’s end, the US and its citizens owned more overseas assets than foreign governments and citizens owned in the US.

3.2 Post-war Recovery

Post-war economic recovery proved difficult. Britain, which was the world’s leading economy in the pre-war period, in particular faced a prolonged crisis. While Britain was preoccupied with war, industries had developed in India and Japan. After the war Britain found it difficult to recapture its earlier position of dominance in the Indian market, and to compete with Japan internationally. Moreover, to finance war expenditures Britain had borrowed liberally from the US. This meant that at the end of the war Britain was burdened with huge external debts.

The war had led to an economic boom, that is, to a large increase in demand, production and employment. When the war boom ended, production contracted and unemployment increased. At the same time the government reduced bloated war expenditures to bring them into line with peacetime revenues. These developments led to huge job losses – in 1921 one in every five British workers was out of work. Indeed, anxiety and uncertainty about work became an enduring part of the post-war scenario.

Many agricultural economies were also in crisis. Consider the case of wheat producers. Before the war, eastern Europe was a major supplier of wheat in the world market. When this supply was disrupted during the war, wheat production in Canada, America and Australia expanded dramatically. But once the war was over, production in eastern Europe revived and created a glut in wheat output. Grain prices fell, rural incomes declined, and farmers fell deeper into debt.

3.3 Rise of Mass Production and Consumption

In the US, recovery was quicker. We have already seen how the war helped boost the US economy. After a short period of economic
trouble in the years after the war, the US economy resumed its strong growth in the early 1920s.

One important feature of the US economy of the 1920s was mass production. The move towards mass production had begun in the late nineteenth century, but in the 1920s it became a characteristic feature of industrial production in the US. A well-known pioneer of mass production was the car manufacturer Henry Ford. He adapted the assembly line of a Chicago slaughterhouse (in which slaughtered animals were picked apart by butchers as they came down a conveyor belt) to his new car plant in Detroit. He realised that the ‘assembly line’ method would allow a faster and cheaper way of producing vehicles. The assembly line forced workers to repeat a single task mechanically and continuously – such as fitting a particular part to the car – at a pace dictated by the conveyor belt. This was a way of increasing the output per worker by speeding up the pace of work. Standing in front of a conveyor belt no worker could afford to delay the motions, take a break, or even have a friendly word with a workmate. As a result, Henry Ford’s cars came off the assembly line at three-minute intervals, a speed much faster than that achieved by previous methods. The T-Model Ford was the world’s first mass-produced car.

At first workers at the Ford factory were unable to cope with the stress of working on assembly lines in which they could not control the pace of work. So they quit in large numbers. In desperation Ford doubled the daily wage to $5 in January 1914. At the same time he banned trade unions from operating in his plants.

Henry Ford recovered the high wage by repeatedly speeding up the production line and forcing workers to work ever harder. So much so, he would soon describe his decision to double the daily wage as the ‘best cost-cutting decision’ he had ever made.

Fordist industrial practices soon spread in the US. They were also widely copied in Europe in the 1920s. Mass production lowered costs and prices of engineered goods. Thanks to higher wages, more workers could now afford to purchase durable consumer goods such as cars. Car production in the US rose from 2 million in 1919 to more than 5 million in 1929. Similarly, there was a spurt in the purchase of refrigerators, washing machines, radios, gramophone players, all through a system of ‘hire purchase’ (i.e., on
credit repaid in weekly or monthly instalments). The demand for refrigerators, washing machines, etc. was also fuelled by a boom in house construction and home ownership, financed once again by loans.

The housing and consumer boom of the 1920s created the basis of prosperity in the US. Large investments in housing and household goods seemed to create a cycle of higher employment and incomes, rising consumption demand, more investment, and yet more employment and incomes.

In 1923, the US resumed exporting capital to the rest of the world and became the largest overseas lender. US imports and capital exports also boosted European recovery and world trade and income growth over the next six years.

All this, however, proved too good to last. By 1929 the world would be plunged into a depression such as it had never experienced before.

### 3.4 The Great Depression

The Great Depression began around 1929 and lasted till the mid-1930s. During this period most parts of the world experienced catastrophic declines in production, employment, incomes and trade. The exact timing and impact of the depression varied across countries. But in general, agricultural regions and communities were the worst affected. This was because the fall in agricultural prices was greater and more prolonged than that in the prices of industrial goods.

The depression was caused by a combination of several factors. We have already seen how fragile the post-war world economy was. First: agricultural overproduction remained a problem. This was made worse by falling agricultural prices. As prices slumped and agricultural incomes declined, farmers tried to expand production and bring a larger volume of produce to the market to maintain their overall income. This worsened the glut in the market, pushing down prices even further. Farm produce rotted for a lack of buyers.

Second: in the mid-1920s, many countries financed their investments through loans from the US. While it was often extremely easy to raise loans in the US when the going was good, US overseas lenders panicked at the first sign of trouble. In the first half of 1928, US
overseas loans amounted to over $1 billion. A year later it was one quarter of that amount. Countries that depended crucially on US loans now faced an acute crisis.

The withdrawal of US loans affected much of the rest of the world, though in different ways. In Europe it led to the failure of some major banks and the collapse of currencies such as the British pound sterling. In Latin America and elsewhere it intensified the slump in agricultural and raw material prices. The US attempt to protect its economy in the depression by doubling import duties also dealt another severe blow to world trade.

The US was also the industrial country most severely affected by the depression. With the fall in prices and the prospect of a depression, US banks had also slashed domestic lending and called back loans. Farms could not sell their harvests, households were ruined, and businesses collapsed. Faced with falling incomes, many households in the US could not repay what they had borrowed, and were forced to give up their homes, cars and other consumer durables. The consumerist prosperity of the 1920s now disappeared in a puff of dust. As unemployment soared, people trudged long distances looking for any work they could find. Ultimately, the US banking system itself collapsed. Unable to recover investments, collect loans and repay depositors, thousands of banks went bankrupt and were forced to close. The numbers are phenomenal: by 1933 over 4,000 banks had closed and between 1929 and 1932 about 110,000 companies had collapsed.

By 1935, a modest economic recovery was under way in most industrial countries. But the Great Depression’s wider effects on society, politics and international relations, and on peoples’ minds, proved more enduring.

3.5 India and the Great Depression

If we look at the impact of the depression on India we realise how integrated the global economy had become by the early twentieth century. The tremors of a crisis in one part of the world were quickly relayed to other parts, affecting lives, economies and societies worldwide.

In the nineteenth century, as you have seen, colonial India had become an exporter of agricultural goods and importer of manufactures. The depression immediately affected Indian trade. India’s exports
and imports nearly halved between 1928 and 1934. As international prices crashed, prices in India also plunged. Between 1928 and 1934, wheat prices in India fell by 50 per cent.

Peasants and farmers suffered more than urban dwellers. Though agricultural prices fell sharply, the colonial government refused to reduce revenue demands. Peasants producing for the world market were the worst hit.

Consider the jute producers of Bengal. They grew raw jute that was processed in factories for export in the form of gunny bags. But as gunny exports collapsed, the price of raw jute crashed more than 60 per cent. Peasants who borrowed in the hope of better times or to increase output in the hope of higher incomes faced ever lower prices, and fell deeper and deeper into debt. Thus the Bengal jute growers’ lament:

    grow more jute, brothers, with the hope of greater cash.
    Costs and debts of jute will make your hopes get dashed.
    When you have spent all your money and got the crop off the ground,
    ... traders, sitting at home, will pay only Rs 5 a maund.

Across India, peasants’ indebtedness increased. They used up their savings, mortgaged lands, and sold whatever jewellery and precious metals they had to meet their expenses. In these depression years, India became an exporter of precious metals, notably gold. The famous economist John Maynard Keynes thought that Indian gold exports promoted global economic recovery. They certainly helped speed up Britain’s recovery, but did little for the Indian peasant. Rural India was thus seething with unrest when Mahatma Gandhi launched the civil disobedience movement at the height of the depression in 1931.

The depression proved less grim for urban India. Because of falling prices, those with fixed incomes – say town-dwelling landowners who received rents and middle-class salaried employees – now found themselves better off. Everything cost less. Industrial investment also grew as the government extended tariff protection to industries, under the pressure of nationalist opinion.