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3. The Economic Scene (1919-1939)

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3. The Economic Scene (1919-1939)

Abstract

Control over the processes of production was made more efficient by the application of the new techniques of scientific management, a concept which first achieved prominence in America. Uneconomic producers were closed down in what was called rationalization of production. In Britain, unprofitable coal mines were abandoned through cooperation between government and business. In some cases, plant efficiency was increased by better layout and labor-saving machines. American coal mining was revolutionized by the conveyor belt and mechanical cutting equipment. Material-saving devices were introduced, such as those which reduced the amount of coal necessary to generate a kilowatt of electricity. Standardization of production made the name of Henry Ford admired even in Communist Russia. [*excerpt*]

Keywords

Contemporary Civilization, Economic Growth, Inter-war Years, Industrial Productivity

Disciplines

Economic History | Economics | European History | International Economics

Comments

This is a part of [Section XVIII: The Western World in the Twentieth Century: The Historical Setting](#). The [Contemporary Civilization](#) page lists all additional sections of *Ideas and Institutions of Western Man*, as well as the [Table of Contents](#) for both volumes.

More About Contemporary Civilization:

From 1947 through 1969, all first-year Gettysburg College students took a two-semester course called Contemporary Civilization. The course was developed at President Henry W.A. Hanson's request with the goal of "introducing the student to the backgrounds of contemporary social problems through the major concepts, ideals, hopes and motivations of western culture since the Middle Ages."

Gettysburg College professors from the history, philosophy, and religion departments developed a textbook for the course. The first edition, published in 1955, was called *An Introduction to Contemporary Civilization and Its Problems*. A second edition, retitled *Ideas and Institutions of Western Man*, was published in 1958 and 1960. It is this second edition that we include here. The copy we digitized is from the Gary T. Hawbaker '66 Collection and the marginalia are his.

Authors

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3. The Economic Scene (1919-1939)Indicators of Economic Growth
Industrial Production Index *
1938 = 100

	1880	1913	1920	1929	1937	1950
Europe	27	71	55	91	102	124
United States	15	70	85	126	130	225

*Adapted from Shepard B. Clough, The Economic Development of Western Civilization (New York, 1959), p. 420.

Viewing the interwar years in relation to the periods preceding and following, we see in the above table how they fit into that pattern of long-range economic growth which is characteristic of modern Western Civilization. Other tables could show how output per employed worker rose, and how time spent at work decreased.

There were other aspects of the economic scene which were less encouraging. Economic growth was subject to marked fluctuations over the years, and it was not distributed evenly either by occupation or by geography. The rate of growth in Europe (excluding Russia) was less than in the half century before the war. This tapering off was even sharper in the United States, although there the amount produced was remarkable indeed.

Increased industrial productivity was achieved by a continuation of those developments which had revolutionized the economy before the war. Technology produced more effective machines, such as the continuous rolling mill in steelmaking. The airplane and the radio, both in their infancy in 1914, now greatly speeded communications. Chemistry added such new processes as the commercial production of nitrogen from the atmosphere, an invention of wartime Germany cut off from her normal supply of artificial fertilizers. It added new processes such as the now ubiquitous plastics.

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those which reduced the amount of coal necessary to generate a kilowatt of electricity. Standardization of production made the name of Henry Ford admired even in Communist Russia.

Modern warfare also utilized contemporary technology for destruction with equal efficiency. Consequently, the economy of the interwar years labored under a heavy burden imposed by World War I, a burden borne, but not equally, by both victor and vanquished. Of the 65 million who had fought, approximately 13 million, taken from the most productive age groups, died in action or of wounds. This was approximately twice the number killed in battle in all major wars between 1790 and 1913. Noncombatants suffered additional losses from air raids, massacres, disease, and starvation. The total real economic cost was approximately \$270 billion, this at a time when the annual national income of the U. S. was about \$50 billion. Plants had been allowed to run down. Reserves and the pipelines of commerce were drained. Reconversion from wartime to peacetime production, and the absorption of ex-servicemen in the labor market, created immense problems. These and other difficulties were enlarged by international, social, political, and intellectual tensions which prevented calm and systematic search for solutions.

Nowhere was the war's shattering impact on the economy more evident than in international trade. Here as elsewhere the institutions and practices of international communication which had been slowly constructed in the preceding centuries, especially the nineteenth, were battered or destroyed beyond recall. The gold standard, the London money market, and the international commodity markets which had facilitated international movement of goods and capital were temporary war casualties. Wartime controls did much to accustom people to a managed economy, but once the war was over they were quickly abandoned. Efforts to continue into the postwar world that international cooperation in tackling economic problems which had proved so fruitful during the conflict, met with little success. Intensified nationalism, especially in the newly created states east and southeast of Germany, fostered high protective tariffs. Autarky, the dream of economic self-sufficiency, had great appeal. It led Rumania, for example, to attempt to create a steel industry, despite a lack of capital, raw materials, and trained labor. Currency inflation, the result of shortages of goods and of ill-advised governmental policies, caused erratic movements of capital. Its disastrous social results will be noted later. One of the most spectacular examples was Germany where the mark fell from four to the dollar in 1914 to a low of 62 billion to the dollar in 1923. The international balance of payments was further distorted by the huge reparations owed by the former Central Powers to the victors and by the inter-Allied debts. This was true although only a fraction of these obligations was ever paid.

A novel aspect of the international economy was the way in which the United States changed from a net debtor nation owing

\$3 billion in 1914 to a net creditor owed \$11 billion (plus unpaid war debts) in 1930. During the war American and Japanese businessmen had captured markets hitherto the preserve of Europeans. Europe's share of world trade fell from 54.5 percent in 1913 to 46.9 percent in 1926. Despite her recovery, she was relatively less well off than before. Wartime liquidation of overseas assets deprived Europeans of the income from prudent investments by their forefathers in the preceding century. Unfortunately, America's comprehension of her new responsibility did not match her new power. Her high tariffs prevented Europeans from paying their debts, even when they wanted to, and her overseas investments were neither sufficient to provide adequate capital for reconstruction and expansion nor wisely placed. She refused, in short, to play the role filled by Britain in the nineteenth century.

For most Westerners the impact of these economic developments was intensified by the fluctuations of the business cycle. The war was followed by a brief boom as consumer demand was unleashed from wartime controls. In 1920-1921 there came a brief depression, brought on by the immediate problems of postwar readjustment. From this the world rapidly emerged, so that the late 1920's were economically, as diplomatically, the palmy period of the interwar years. In 1928, European industrial production finally again reached the 1913 level. By then the United States was intoxicated by a boom, particularly in the prices of real estate and securities, which promised the credulous a boundless future of ever-increasing prosperity. Too few noted how much the boom rested on credit, on securities bought with borrowed money, and on the willingness of the American investor to lend money to Europeans so that the latter could pay interest already owed to Americans. Nor was adequate weight given to the spottiness of the prosperity, which was not shared by such diverse groups as American farmers and British coal miners. Throughout the 1920's, Britain never had less than a million unemployed.

Symbol of the dramatic end of the boom was the American stock market crash in 1929, when millions in paper profits were wiped out daily. Soon financial institutions in Europe felt the pinch as American investors began to call in their loans. Public confidence on both sides of the Atlantic was dealt a body blow when many influential banks were forced to close their doors. Commodity prices plummeted. In 1933, wheat sold on the Winnipeg exchange at the lowest price since the reign of Elizabeth I. World trade dropped two-thirds between 1929 and 1934. The number of unemployed rose between 1928 and 1932 by 250 percent in Britain, and in Germany from 1,300,000 to 5,500,000. In the United States, out of a labor force of approximately 48,000,000, unemployment increased from 429,000 in 1929 to 12,000,000 in 1933. The wry humor of the hit song, "Brother, can you spare a dime," scarcely concealed an immense amount of suffering and despair. Only Soviet Russia had sufficiently isolated herself from world affairs to escape most of the consequences of the depression, and she had pressing problems of her own.

After the worst years, 1932-1933, a gradual and irregular economic recovery occurred. Deliberate governmental policies helped some. So did the world rearmament program and the working of natural economic processes. Once inventories had been run down, their replacement put money back into circulation. Nevertheless, the national income of the United States, which had dropped by one-half between 1929 and 1933, did not regain its 1929 level until the beginning of World War II in 1939. The mark of this depression, the second general catastrophe since 1914, was indelibly impressed on millions of minds and on every institution of the Western World.