How successful was the National Government in tackling the economic problems faced from 1931-39?

In order to evaluate the success of the National Government in tackling the economic problems from 1931-39, one must split these economic problems into catego ries, and then look at the successes and failures of the government. The categories to look at are the balancing of the budget, the gold standard, unemployment (and assistance), cheap money and regional policies.

Firstly the failures of the National Gove rnment will be looked at. With the Budget, there was the almost immediate incorrect prediction that the budget was heading for a large deficit. This was an immediate failure because it was completely wrong, and because of this incorrect prediction, there w as the speculative selling of the Sterling and the decrease in expenditure and 10% reduction in unemployment benefit. Spending continued to rise as unemployment continued to rise up to a peak of 2.8 million in 1932. The key point is that the government cou ld not possibly conceivably tackle the economic problems unless they knew the correct situation; and with the predicted budget deficit of £120m, it is clear just how wrong they were when one looks at the figures, and sees that only once was the budget in d eficit (1933) between 1927 and 1939, and this was a mere £6m. The government failed again when failing to maintain the gold standard, which is theory was a massive failure for the National Government as Britain had been on the gold standard almost continuo usly for over 200 years. The fact was that leaving the gold standard was seen as a bad thing, and the government had been elected to save the gold standard after the mistakes by Labour with expenditure cuts. It must however be noted that the government were forced off the standard. Unemployment continued to be a great problem under the new governments and it was never less than 10% of the labour force between the wars and it even reached 22% in 1932. More specifically the problem was regional unemployment. This was caused due to the excessive unemployment benefits whereby a unemployed man would earn 50% of his normal wage in benefits. Also real wages were too high due to money fluctuations, e.g. between 1929 -32 – real wages in industry rose 8%. Unemployment was a massive problem, and there was no easy solution, and the government did not come up with any real solution. The government tried to run a budget surplus to reduce unemployment and it was relatively successful, however the problem was that, according to modern economic theory, it made the depression worse by taking more money out of economy than putting in, and so aggregate demand was decreasing and therefore unemployment would increase. The government followed a deflationary fiscal policy and therefor e made unemployment worse. The theory of cheap money did help the recovery process, however there were limitations as this time period revealed the limits to the capacity of low -interest rates to generate recovery, therefore no firm will borrow to build a new factory if they cannot sell the output from the existing factory. Therefore although lowering interest rates, the economy still could not recover quickly. With protection and tariffs, although they helped recovery, British tariffs at 10-20% were quite low by world standards and exports were also reduced with tariffs. Regional unemployment still remained, even in 1936, where it was clear that the unemployment had a regional dimension. The government introduced the Special Areas Act, however this was not a great success as only £9m was spent between 1934-38, which was hardly enough to solve the problem, the majority of the money was not even spent on establishing new industries, and not enough was done to persuade firms to move to depressed regions with li mited area and funds, and a short-term and temporary policy. Despite any 'acts', regional unemployment still remained, even if it had decreased. Furthermore the depressed areas felt they were being ignored and so a series of 'Hunger Marches' took place. Fi nally with unemployment assistance, this was a sensitive issue with the 'means test'. This was a failure by the government as it meant those without work could end up just as well as those with jobs, more people were being tempted to be unemployed of their own choice, and also the unemployed resented the test as it meant those who had sensibly saved and not spent were penalised, whereas those who had spent all their money received more assistance.

Secondly, the successes of the National Government must be looked at. The Budget was considered a failure, especially with the incorrect prediction, however the figures demonstrate that the government achieved its aim – the books had been balanced and the government was only in deficit once. Leaving the gold stan dard was seen as a great failure in theory for the government, however, ironically, it proved to be one of the government's greatest contributions to economic recovery. This was because a lower value for the sterling meant that exports increased and import s decreased, and so more production occurred and so unemployed decreased. Also it now became possible for Bank of England to reduce interest rates which in turn stimulated business investment. The government tried to run a budget surplus, as according to c onventional economic opinion, this would supposedly have the effect of reassuring business confidence, encourage investment and recovery. This was in practise the wrong thing, but it was a success for the government as they achieved their aim and the budge t was in surplus or equilibrium every year but one. Furthermore it used the policy of cheap money to keep interest rates low in order to encourage investment in new factories. This was relatively successful as it helped the recovery process and it contribu ted to the housing boom. The government also used protection, and this was the most distinctive recovery policy and it did help recovery, however not by much. This was to reduce imports of manufactured goods and between 1932-33 they fell by 45% in volume. Effectively what actually happened over the period was that imports were only increasing in line with the actual economy and so tariffs just helped to slow the growth of imports. This was successful in preventing a balance of payments crisis, and so we see that tariffs were a facilitating factor as they gave the economy room to grow. By reducing foreign imports, this increased the domestic market, e.g. the car industry benefited from protection. Furthermore these tariffs were very successful as they boosted the confidence of businessmen and they were encouraged to invest. With regional policy, some measures were taken in order to redress the balanced of the regional unemployment. This was done with the 'Special Areas Act 1934' which meant the appointment of some commissioners to encourage new firms to set up in their areas by contributing to their rents, rates, tax bills, setting up government trading estates, encouraging foreign firms to settle in these areas and setting up retraining courses. The effectiven ess of such policies will be discussed in the second paragraph, however this was a clear positive as the government actually publicly recognised this regional unemployment and it actually came up with a solution of some kind to address it. The Special Area s Act created about 50,000 jobs in the respective areas. As a result, from the mid -30s, the level of unemployment in the depressed areas did begin to fall, e.g. in North East in was 31% in 1932 but fell 15% to 17% just 4 years later. This reflected the beg innings of a recovery among the staple export industries and a continual drain of the population from depressed areas to the midlands and south. The government also had to support the unemployed – unemployment assistance. There were many problems, as discu ssed later, however the 'Unemployment Act of 1934', brought about by Neville Chamberlain, removed the issue of unemployment benefits away from the Ministry of Labour and the local public assistance committees. This was a success because in theory it was 'a bove' politics, by creating an independent Unemployment Assistance Board.

In conclusion, the years 1932-39 were actually years of economic recovery in Britain, and in comparison to the 1920s, the 1930s were more economically prosperous. The period is often thought of one of depression, poverty and mass unemployment, this is incorrect. The depression was from 1929-31, and by 1932 the economy began to improve and was even the strongest and most sustained growth since the 1890s. GDP grew at 4% per year, industrial production grew 46% (1032-37) and unemployment fell by 50% by 1937. Therefore one could say that the economic record of the 1930s was relatively successful. However one must note that due to the depression, the figures reflect a stronger recovery than what actually took place, and by 1939 – the underlying unemployment problem still had not been solved, and there were still 1.5 million unemployed in 1939. Furthermore regional unemployment remained in some areas. However in order to address the questi on, one must look at the role of the National Government in tackling the economic problems and thus the recovery. In general, the given view is that the government did not play a big role in the recovery. L.J. Williams, in *Britain and the World Economy* 1919-70, said, 'The general verdict must be that conscious government policy contributed little to recovery'. Some of the policies undertaken by the government were successful, such as the leaving of the gold standard, introduction of protection, cheap money, regional policy, and budgetary policy. However the consequences of leaving the gold standard were not what they had aimed to do, protection had a rather minimal effect on the recovery, cheap money did help however the links between interest rates and inve stment are weak, regional policy again had a minor effect and with the budgetary policy – this made the depression worse. Therefore while these policies may have helped overall, they are not enough to account for the economic recovery. A more important rea son was the rise in real wages of those in work, meaning people had a higher amount of money to spend. This in turn stimulated the multiplier effect meaning aggregate demand shifted outwards, thus increasing employment. However this was only a short-term process and the underlying economic problems, such as unemployment, remained.