British industry in the 1920s

In the 19th century, Britain led the world in industrialisation. Towards the end of the century Germany, France, Japan and the USA had all caught up, and by the beginning of the 20th century were beginning to overtake and challenge Britain's industrial dominance.

They used new methods of production and competed for international markets. British coal, iron, steel, shipbuilding and textiles industries relied heavily on selling to worldwide markets. The increased competition from the other countries meant that the 1920s were not comfortable times for British heavy industry.

Wall Street Crash

The Wall Street Crash caused enormous concern to the US president, Herbert Hoover, and resulted in a dramatic period called the Great Depression.

People gathering on Wall Street on 'Black Thursday', 24 October 1929

How did this lead to a depression in Britain?

The Depression in the USA also had a major impact on the UK economy. American economic policies resulted in numerous other countries, including Britain and Germany, sliding into an economic slump.

Any event which caused the collapse of the largest, richest and most powerful economy in the world would impact on other countries which depended on US loans and trade. Loans were recalled and trade with the USA slumped. This led to a world slump.

President Hoover used high tariffs to try to stop American consumers buying goods from other nations. These tariffs made these non-US goods more expensive, and thus led to a decline in demand and profits.

The phrase When America sneezes, the rest of the world catches cold appears to be an accurate one.

The main trigger of the Depression was the Wall Street Crash, but other factors also helped to create the Depression.

Perhaps it deserves to be called a catalyst, as it speeded up the impact of the other causes and speeded up the economic downturn.

This led to companies collapsing, especially as the heavy industries in particular had been struggling since 1918. Companies closing or

Other causes of the Depression

There had been a steady decline in heavy industry in the UK as it faced increased competition from abroad. Following the upheaval of the Great War, many traditional markets for British heavy goods sourced cheaper supplies elsewhere.

This caused a fall in demand in the British mining and steel industries and weakened the British economy. The General Strike of 1926 actually made the decline faster, as the new markets became even more appealing.

Therefore, it seems reasonable to say that the crisis of 1929 simply made an already bad situation worse.

Competition from abroad/new markets

Britain's traditional pre-World War One export markets, eg Canada, Australia and New Zealand, were instead buying:

- US steel
- German coal
- Indian cotton

Losing these crucial markets resulted in British jobs being lost.

Obsolete methods

Too many industries were using outdated practices when producing. British heavy industry, eg coal and steel, were both using outdated labour-intensive techniques. Other countries were using machinery more effectively.

In the mid-1920s, coal cost 65p per tonne to produce in the USA compared to £1.56 in Britain. Meanwhile the USA, Germany and Japan were able to undercut British steel prices using more efficient and modernised steel-making plants. This brought steelmaking to an end in Ebbw Vale in 1929, and part of the steelworks in Dowlais closed in 1930, resulting in 3,000 steelworkers becoming unemployed.

As demand decreased, older traditional industries declined and workers were laid off. However, these older traditional industries had already entered a period of decline after the First World War.

Import duties

British governments tried to encourage free trade between countries in the 1920s, but many others, especially the USA, used tariffs to protect their home-grown industries. Following the Wall Street Crash, import duties rose around the world and international trade declined sharply. Between 1929 and 1931, exports from Britain fell by half. The demand for ships to transport goods also fell dramatically, and this led to a further fall in demand for steel and coal.

Unemployment

There was a rapid growth in unemployment from 6 per cent of the population in 1929 to 15 per cent by 1932. This meant that over 3 million people no longer had a wage and could not buy consumer goods. This led to a further decrease in demand for British goods, causing more businesses to go bankrupt and creating greater unemployment.

Savings

Even those still in employment became more careful with spending and investing due to the economic uncertainty. This led to even more businesses struggling.

Government response

The increase in unemployment meant the government was faced with a vastly increased expenditure on benefits. In 1931, it raised income tax and cut unemployment pay by 10 per cent and introduced the **Means Test**. These measures reduced the amount of money people had to spend and made the Depression worse.

The **Import Duties Act 1932** was designed to protect British industry. Tariffs were meant to help British industries as they would make non-UK goods more expensive, and so ideally people and companies would just buy UK goods instead.

The impact of the act, however, was to reduce the amount of international trade and so it made the Depression worse.