



Economic Stagnation in Europe in the Interwar Period

Douglas F. Dowd

The Journal of Economic History, Vol. 15, No. 3. (Sep., 1955), pp. 273-280.

Stable URL:

<http://links.jstor.org/sici?sici=0022-0507%28195509%2915%3A3%3C273%3AESIEIT%3E2.0.CO%3B2-4>

The Journal of Economic History is currently published by Economic History Association.

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/about/terms.html>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/journals/eha.html>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

JSTOR is an independent not-for-profit organization dedicated to and preserving a digital archive of scholarly journals. For more information regarding JSTOR, please contact support@jstor.org.

ECONOMIC STAGNATION IN EUROPE IN THE INTERWAR PERIOD

I

It would not seem to be stretching matters unduly to assert that widespread agreement could be found on the following related propositions: (1) that the social crises and upheavals in Europe between the two World Wars, and the wars themselves, were not aberrations but are, rather, susceptible of a systematic, coherent explanation; (2) that such an explanation, though it would rest on a myriad of social relationships and processes, would place economic affairs at or near the center of Europe's troubles; and (3) that an understanding of European economic difficulties in the period might be efficiently achieved through an analysis of the factors stimulating and retarding the rate of economic growth of interwar Europe—or, that any thorough explanation would have to include such an analysis.

The literature on European economic affairs of the last half century or so is, of course, staggering in its sheer quantity. With it all, oddly enough, a systematic analysis of economic growth in Europe in its period of crisis has been lacking—until the arrival of a new United Nations publication.¹ Whether we are now provided with a complete explanation of the economic growth of Europe in this period may be questioned. But it cannot be doubted that Mr. Svennilson has taken a long and important step toward such an explanation. That step has high value in at least two senses: the enormous amount of solid information that the author and his staff have dug out and put together and, more importantly, the enlightening theoretical framework within which the study is made to move.

This vast piece of research embodies a detailed attempt to combine economic theory and economic history, with the aim of explaining the pattern of economic growth in Europe (excluding the Soviet Union) in the period 1913–1938. Integrated into the text are over 130 charts and tables, many of them ingeniously constructed, and there are an additional 75 tables in a statistical appendix. This is a gold mine of statistical data concerning the economic behavior of Europe (stretching back to 1880 and up to 1950, in some cases). It is unlikely that any relevant facts capable of statistical expression have been neglected. So much for the enormous volume of “facts,” which taken alone justify the careful use of this book as a reference work. What is done with them?

The book is divided into ten chapters, the headings of which will help to indicate the pattern and emphasis of Mr. Svennilson's approach: “The Process

¹ *Growth and Stagnation in the European Economy*. By Ingvar Svennilson. Geneva: United Nations, Economic Commission for Europe, 1954. Pp. xvi, 342, \$4.50.

of Economic Growth"; "Problems of Transformation in the Inter-War Period"; "Stagnation and Growth in the Inter-War Period"; "Population, Industrialization, and Urban Settlement"; "The Agricultural Background"; "The Use of Energy in the European Economy"; "The Steel Industry"; "Other Industries (Cotton, Rail and Road Transport, The Motor Industry, Shipbuilding, Cement, Chemicals)"; "Structural Changes in Europe's International Trade"; "Main Elements in National Growth." A useful discussion of sources and methods and a well-arranged subject index follow the statistical appendix.

II

The central theoretical emphasis of the study is on the process and the problems of "transformation" as they affect and are affected by economic growth. Mr. Svernilson makes clear his meaning of the term transformation in the following passage: "During the last hundred years, economic growth has been associated with industrialization, and this has meant a progressive and thorough transformation of the economy. In the notion of transformation we include: A change of production methods, mainly in the direction of more advanced mechanization; A change of input-output relations between raw materials and end-products; The development of new end-products . . . ; Changes in exports and imports in relation to the output of domestic industry; A redistribution of manpower between different industries and occupations" (p. 7).

In general, economic growth is viewed by the author as a complex, dynamic, self-contained process, yielding *uneven* and *transitory* developments in any one industry or country. These developments, stemming from transformation, require further transformations (in an industry, a nation, or in the world economy), without which vitality recedes, stagnation enters. But the products of growth in turn breed forms of resistance that act to hold back the needed degree of transformation—the familiar notion of conflict and institutional lag. One is reminded of Pirenne, of Postan, even of Veblen—perhaps, even, of Marx.² The prime virtue of this study, then, is not that it introduces a novel theoretical framework, but that it (implicitly, it should be said) synthesizes existing notions for specific application to a particular problem, period, and area.

The general theoretical approach is brought to bear on "the facts of economic life" in the period 1913-1938. The starting point, indeed the

² Henri Pirenne, "The Stages in the Social History of Capitalism," *American Historical Review*, XIX (April 1914), 494-515; M. M. Postan, "Recent Trends in the Accumulation of Capital," *Economic History Review*, VI (October 1935), 1-12; Veblen, most generally, in his *Imperial Germany and the Industrial Revolution* (New York: The Viking Press, 1946), especially chaps. 4-8; Marx, most briefly, in the preface to his *Critique of Political Economy*.

justification of the study, is the general stagnation characterizing the period. The term stagnation is used by Mr. Svennilson "in a purely quantitative sense When output ceases to increase, we speak of stagnation and, when a period of rapid long-term growth is followed by a very slow increase, we speak of a tendency towards stagnation" (p. 4). Specific manifestations of such stagnation appear in widespread, continuing, and deep unemployment, persistent excess capacity, even, as in France in the thirties, as a process of "un-industrialization."³

As is well known, Europe enjoyed a significantly more rapid rate of growth in the three decades preceding 1913 than in the quarter century following. The depression of the thirties exerted a strong downward pull on the average for the later period, naturally, but the over-all average remains significantly lower for Europe than for the United States, where, of course, the depression could be expected to have the same effect on the averages.

In the period 1880-1913, "in a group of six European countries [including France, Germany, and the United Kingdom] . . . , total output of manufactures was growing by about 3 per cent per year, or by about 2 per cent per head of population and probably also of the total labour force. This should be compared with 1.4 per cent for total output, 0.8 per cent per head of population, and 0.5 per cent per head of the total European labour force in the period 1913 to 1940" (p. 56). (This may be compared with Simon Kuznets' estimate of a sustained yearly rate of increase in gross national product—not in manufactures alone, as above—of 3.5 per cent in the United States for the whole period 1879-1938.⁴) Furthermore, if 1938 is taken as 100, by 1949 the index of European industrial production had risen only to 109, by 1950 to 124. For the United States the appropriate figures are 198 and 225 respectively (pp. 54-55).

These averages, of course, cover a diverse pattern of change, within and between industries and in different European nations, embodying both deep stagnation and relatively rapid growth. The resulting picture is one of what might be termed schizophrenic national economies. The older industries (such as coal, steel, textiles) were able to hang on to capital and labor, despite all, with a stultifying effect on the rest of the economy, and again back on themselves. Even with the deadweight of older industries, rapid expansion took place in several newer industries (such as radios, cement, and automobiles). Without the latter, of course, stagnation would have been intensi-

³ W. A. Lewis notes that between 1929 and 1937, while the French population grew slowly, the numbers engaged in industry diminished by 21 per cent, as the work week was also being reduced. By 1937 full employment had been attained, but industrial production was at only 82 per cent of the 1929 level. Part of the explanation lies in increased leisure for industrial workers; more interesting and relevant is the return to rural pursuits.—*Economic Survey, 1919-1939* (London: George Allen and Unwin, 1949), p. 102.

⁴ *Uses of National Income in Peace and War* ("Occasional Paper No. 6") (New York: National Bureau of Economic Research, 1942).

fied; without the former, relieved. The problem of explaining the diversity suggests itself.

We may now look at some of the component parts of Mr. Svernilson's explanation of the foregoing pattern. In general, he sees three main developments pressing for internal and international transformation in the years following 1913: (1) the development of a new technology, calling for "a second revolution in the organization of agriculture, industry, distribution and the economic system as a whole"; (2) the changing relationships of Europe with the rest of the world, growing out of "the stagnation in the volume of world trade, the changing commodity composition of world demand for manufactured products, and the rising competition from overseas industrial powers"; and (3) a shift in the center of gravity of population growth from the west and the north to the east and south of Europe, which, combined with declining overseas migration, raised the problem of "combining capital and technical skill from the more-developed parts of Europe with manpower from the less-developed European countries" (p. 20).

The challenge offered by these developments could have been met, conceptually, in any one of several ways. In fact, in the interwar period in Europe, transformation was "mainly dependent on the effectiveness of normal economic incentives such as changes in prices, wages, and incomes. State intervention generally took the form of changing these incentives, not of replacing them by an economic system of another type. . . . [But] differences in profits and incomes between industries . . . were . . . less effective agents of transformation than they had been in earlier periods" (p. 34). This period, of course, saw the rise of national economic planning to one degree or another throughout Europe. Although in the process "some of the market incentives to transformation were weakened, the idea of national planning . . . was not so far advanced that governments were prepared to steer the development of the economy in a particular direction, or that State directives took over the functions earlier exercised by private initiative; imperfections of the old liberal market economy were partly replaced by imperfections in State intervention" (p. 36). The State both slowed and speeded up the process of transformation. The former was effected through tariffs, subsidies, and the like; the latter by, for example, state participation in the German rationalization movement. On balance, a pronounced slowing effect was the result, since it was often "the explicit purpose of economic policy for social reasons to soften and delay the effects of new developments" (p. 38). The nature of the "social reasons" referred to is given only a hurried glance, unfortunately.

Whatever other problems European economies have faced, it is a truism that those problems have been aggravated by the existence of numerous national frontiers, a situation compounded after World War I. The resulting balance of payments problems of each national area, as they affected differ-

ences in national growth, are emphasized by the author. Their importance cannot be denied; neither, however, can or should broad political and military considerations or commercial aspirations be neglected. One would like to have seen specific attention given to the stimulus toward self-sufficiency provided by recognized military needs (in metals, machine tools, motors, chemicals, and so forth) and as well to the commercial (as distinct from the economic) advantages that national frontiers provide—as Veblen pointed out, characteristically, “national frontiers are a means of capitalistic sabotage.”⁵

The early twenties for European national economies were years of distress and chaos. They were followed by a boom from (roughly) 1925 until 1929—what Mr. Svennilson calls a “self-sufficiency boom”—and the growth and spread of inefficient national industries. The depression that followed 1929, though it was not caused by that development, was surely worsened by the pressures that were created by it. During the depression, of course, attempts to gain internal self-sufficiency and stability were intensified. These attempts were reflected in a heightened national and international cartelization movement and by a multiplication and extension of the paraphernalia of economic nationalism. As World War II opened, “the European economy presented a picture of half-finished transformation in relation to technological change and the new developments in the international market. The resistance to change offered by obsolete capital equipment had in large sectors been strengthened by restrictive practices and attitudes of management, workers and Government. Only in a few sectors had a considerable expansion of industries taken place and modernization of stagnating industries made great progress. Europe was suffering from the arteriosclerosis of an old-established, heavily capitalized economic system, inflexible in relation to violent economic change. Low productivity in agriculture and many manufacturing industries, and widespread unemployment kept national output and income low, and blocked the road towards rapid general expansion” (p. 52).

In his discussion of the use of energy in the European economy, the author points to the familiar transition in Europe from that of a net exporter of fuel to a net importer and the problems of transformation that this process posed. Here he develops a theme that recurs throughout; namely, the inability of the market economy to make the necessary structural adaptations to significant changes in demand. He compares, in this case, the deep distress and technical stagnation of the British coal industry with the “brighter” picture in Germany. Not until 1946 were substantial changes made in the technology or the organization of the coal industry in the United Kingdom. In Germany a nation-wide compulsory cartel was formed immediately after the war, yielding technical rationalization and concentration of existing holdings into the hands of a few concerns. In England, during the period, output

⁵ “The Passing of National Frontiers,” reprinted in *Essays in Our Changing Order*, by Thorstein Veblen (New York: The Viking Press, 1943), p. 387.

per man-shift rose only slightly; in Germany it had doubled as early as 1931 (pp. 108-9).

The steel industry, again, reveals clearly the general nature of the transformation challenge. Itself an essential for industrial growth, the steel industry required continuing industrial growth if its developed capacity were not to become excessive. After 1913, "the capacity of the European steel industry would not have been too large if the European economy had continued to expand; on the contrary it would probably have been too small if economic progress had been carried on at its previous pace" (p. 118). Severe excess capacity, wide fluctuations in prices and production, resistance to rationalization, and, ultimately, national and international cartelization marked the steel industry in the period. Instead of bringing about the appropriate and necessary adjustments, "the traditional competitive system broke down under the pressure of the crisis" (p. 119).

The problems of the textile industry were symbolized by the existence in Britain, in 1939, of a pre-1914 textile technology. More spectacular was the change in India's position from a net importer to a net exporter of cotton piece goods during the period. Shipbuilding suffered overcapacity in England—maintained through the joint efforts of capital and labor—until reduced through government intervention. Surprisingly, shipbuilding capacity expanded vigorously in some of the smaller countries, notably Denmark. Cement industries expanded nationally throughout most of Europe, as did the production of certain consumer durables, such as radios. Toward the end of the period, the production of automobiles and trucks expanded in England, France, Germany, and, to a lesser extent, in Italy.

In his early pages, the author contends that for Europe, "what was needed in order that economic growth could be resumed [after World War I] was a complete transformation of the economic structure, including a development of new industries, and a modernization of stagnating industries in order to squeeze out resources, including labour, that could be used more effectively in new fields" (p. 46). He concludes by observing that "industrial growth in those countries of western Europe that had been the first to become industrialized was slowed down by friction in the process of transformation. The need for transformation of their industrial structure was also especially great, as they, more than other countries, represented the traditional pattern of European exports of manufactures, which now was subject to rapid changes in demand. In addition, those countries could not expand their industry rapidly by attracting new manpower. It is possible, though not certain, that this hampered their industrial growth. In any case, the deepening of their capital structure that took place did not form a strong enough substitute for the widening that would have followed from a rapid increase in the employment of manpower. The close relationship of this fact to the friction in industrial transformation is evident. Taken together, these factors might

explain why industrial growth in the industrially most-advanced European countries was relatively slow" (p. 206).

III

Inevitably, in reading a book of this kind, one's mind turns to the stagnation thesis as it was developed by Hansen and others to apply to the American economy. That thesis was at the same time more abstract and simpler than Mr. Svernilson's and geared more specifically to a set of remedial policies. It rested on a few main "props"—the ending of territorial expansion in America, the slowing down of population growth, an unsatisfactory rate and type of technological change, and a growing surplus of savings (or, in effect, underconsumption). In what appears to have been a widely neglected series of articles,⁶ H. R. Smith has pointed out that these main props may well be, in fact have been, resolved into sets of antinomies. To avoid sterility on the question, Mr. Smith argued cogently that a theory of stagnation (or its opposite) must be a part of a larger theory of economic development, indeed, it would seem, of a theory of history. This is to say the obvious: that economic change does not take place in a historical vacuum. Just as it is true that political transformations cannot be understood, generally, without understanding the economic pressures and possibilities that, at least in part, underlie them, so it is true that economic transformations cannot be understood without a knowledge of the political and social context within which they are implemented.

Thus, Mr. Svernilson, as quoted earlier, argues that a resumption of the pre-1913 rate of growth required "a complete transformation of the economic structure." Let us assume that is so, as it probably is. Such a complete transformation was not brought about anywhere in the countries studied in the interwar period, not even in Nazi Germany, which surely would have suffered economic collapse without its reliance on armaments and war for its "prosperity." The degree of transformation that Mr. Svernilson seems to have in mind is perhaps satisfied by the transformation of British agriculture in the period preceding and following the industrial revolution. Britain's agriculture, first its techniques and its organization, later its very existence, gave way to the demands of a national and later a world economy undergoing transformation. At the very minimum, that process took 150 years; a Tawney (with most of us agreeing) would add at least two more centuries. The point to be made about the evolution and ultimate (virtual) disappearance of British agriculture is that it cannot be explained satisfactorily in economic terms; nor can its results be comprehended in economic terms alone.

⁶ "The Status of Stagnation Theory—Part I," *Southern Economic Journal*, XV (October 1948), 191-204, and "The Status of Stagnation Theory—Part II," *ibid.*, XV (January 1949), 280-302.

None of these remarks is intended to detract from the general excellence and great usefulness of this book. It is to say, rather, that Mr. Svernilson has provided us with a necessary but not a sufficient condition for the understanding of the rate of growth in interwar Europe. He has painted a picture whose component parts include useful descriptions and analyses of economic magnitudes and relationships, with governmental action brought in (but not explained) where appropriate.

Karl Polanyi may ride his horse too hard, but he probably was going in the right direction when he remarked, concerning the Europe that was split open after 1914, that "Its failure was not the outcome of some alleged laws of economics such as that of the falling rate of profit or of underconsumption or overproduction. It disintegrated as the result of an entirely different set of causes: the measures which society adopted in order not to be, in its turn, annihilated by the action of the self-regulating market. . . . The conflict between the market and the elementary requirements of an organized social life provided the [19th] century with its dynamics and produced the typical strains and stresses which ultimately destroyed that society. External wars merely hastened its destruction."⁷

All of us could find something with which to disagree in that analysis. As economists, we should like to see the rate of profit, and the measures taken to keep it from falling, given due attention; similarly with the narrow consumer goods markets, which doubtless have played their role in constricting European economic efficiency; similarly with the other economic processes and relationships that Mr. Svernilson has studied so well.

But, although one is told that it is too much to ask, we nevertheless need as well a theory of history—one that embodies the diligence and acuity of Svernilson, the breadth of Polanyi, the alternately clear and jaundiced eyes of Veblen, the learning of Toynbee, the genius, and, I am inclined to add, the rage, of Marx. Of course that is too much to ask. But now that most of the dog work has been done for the interwar period by Mr. Svernilson, perhaps the rest of us can turn to the more exciting work of grand synthesis.

DOUGLAS F. DOWD, *Cornell University*

⁷ *The Great Transformation* (New York: Farrar and Rinehart, 1944), p. 249.