**Economic Crisis and Economic Recovery Under the Postwar Labour Government**

**Britain’s Financial Problems After the War:**

* Had borrowed £27,000 million from the US under the Lend Lease Scheme
* Had borrowed from the colonies e.g. Canada $1000 million
* Had borrowed from the public in ‘wartime bonds’
* It was estimated that 2/3 of Britain’s export trade has disappeared.
* Britain’s exports barely paid for a fraction of the imports it required
* With the abrupt removal of American financial support after the Japanese surrender in September 1945, Britain was bankrupt and Keynes called it an ‘economic Dunkirk’.

**Costly Overseas Commitments:**

* Empire – maintain army bases overseas, imperial governments
* Cold War – escalated after 1945 e.g. Berlin Airlift 1948-9
* Korean War – 1951
* Britain actually pulled out of Turkey, Greece and Palestine because it was unaffordable
* Britain also relinquished the ‘jewel in the crown’ of her empire, India, in 1947
* Attlee and Bevin invested in nuclear weapons, which was a costly endeavour

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| **Policy** | **Success** | **Failure** |
| U.S. Loans e.g. In 1945, Keynes negotiated a loan of $3,700 million repayable over 50 years. Marshall Aid from the U.S. 1948-50.Canada lent Britain $1,500 million on easier terms than the US. | These loans were vital to recovery and America was the only nation that profited from the war and so the only one to give them. The dollar was the only currency in which creditors and investors had confidence and Britain needed the money to pay for essential imports. America also gave Britain millions in Marshall Aid (named after U.S. Secretary of State, George Marshall). This very generous helped package was offered by America across Europe and intended to relieve poor conditions and therefore the threat of Communism. Bevin succeeded in getting Britain the largest share of Marshall Aid (£1263 million), which came through in 1948 – this was better than the 1946 loan and crucial to economic recovery. | In return for the loan Keynes negotiated, Britain had to make the pound fully convertible to the US dollar. The Americans drove a hard bargain over the loan, only lending $3750 million (not the $6000 requested) at 2% interest with repayments to start in 1951.There was a crisis over convertibility (paying someone back in a different currency – there was a lack of confidence in sterling). Dalton had to allow people to convert their money into dollars, but when these ran out it questioned the confidence in Attlee’s government and forced Britain to withdraw from overseas commitments e.g. Greece, Turkey, Palestine.Due to the winter 1946-7, the American loan started to run out years before it was supposed to. |
| Rationing – maintained in order to keep imports low and divert resources to exports to get the economy back on track and earn dollars to pay back the loans. This was known as austerity. |  | Crisis in 1947 meant that by 1948 rations were lower than that of wartime.Food rationing did not completely end until 1954.Even in 1951, meat, butter, bacon, tea and sugar were all rationed.In 1946, the British Housewives League began campaigning against rationing albeit with little effect.Imports could not always be kept low. When North Korea invaded South Korea in 1950, Britain had to start importing raw materials in order to rearm – this caused another Balance of Payments problem between imports and exports. |
| Rebuilding ExportsThis was twinned with austerity as if money could be directed into exports, then these could be sold to the USA, who would provide the essential dollars needed so that Britain could afford to import essential food and raw materials.  | Investing in exports was the long term was to bridge the ‘dollar gap’.Once Britain had re-adjusted to peacetime production, this proved very successful.Exports increased by 80% between 1946 and 1950.Key export = motor cars.The devaluation of the pound by Cripps in response to the 1949 Balance of Payments crisis meant that British exports were a lot cheaper and so by 1950 the Balance of Payments was in surplus.Historian Morgan gives credit to the devaluation for making British goods more competitive. | In 1949 a recession in America reduced the demand for British exports. |
| Exchange ControlsBecause it was so important not to waste dollars, restrictions were set on anyone who wanted to withdraw their money and spend dollars abroad. | In 1949, a Balance of Payments crisis forced Cripps (Chancellor) to devalue the pound; on the plus side this made British exports cheaper and solved the Balance of Payments crisis within a year. | The Devaluation of the pound in 1949 from 4.03 dollars to 2.8 dollars was a huge blow to British prestige.  |
| Switching to peacetime production Government controls were maintained to give priority to exports; wartime controls on prices and wages were also maintained.Labour had a regional policy to invest in new factories in depressed areas. | In adjusting to peacetime production, exports increased by 80% between 1946 and 1950.By 1950, the volume of exports was 50% higher than in 1937. Labour brought prosperity to depressed areas – half of all factories built between 1945 and 1951 were in depressed areas. Old staple industries and new industries were united in the ‘Export or Die’ mentality.  | Priority in industry could not always be given to exports e.g. in the fuel crisis of 1947. The Minister for Fuel, Shinwell, had failed to stockpile enough coal when the worst winter of the century hit, cutting off many parts of the country and bringing transport to a standstill. Cripps was forced to divert coal supplies from industry to power stations. Industry temporarily came to a standstill with unemployment rising to 2 million and coal exports dropping by 20%. |
| Economic Planning and Full EmploymentTo maintain full employment, Labour believed that Britain needed a state planned economy and as a result nationalised key industries e.g. air travel, railways, coal, public transport, electricity, gas and the Bank of England. This also helped the drive towards increased exports.Labour used taxation, interest rates and the Budget to stimulate the economy and control inflation and unemployment.An Economic Planning Council was set up in July 1947.Subsidies and guaranteed prices were given to agriculture. | Low interest rates, wage rates and inflation were good at attracting investment and boosting exports. Labour was able to keep down wages through agreements with trade unions – real wages only rose 1% 1945-50. Inflation rose by less than 3%.By 1951, 20% of the economy was under the control of the government – the result was a mixed economy with government safeguards combined with free enterprise.Full employment was largely maintained through the Labour years.Agriculture was able to produce more home grown food, reducing the need for imports. Productivity also increased in agriculture – there was a 20% increase in output. | Prioritisation of exports and full employment did not always work e.g. ‘annus horribilus’ of 1947 when coal exports dropped 20% and unemployment rose to 2 million.Government controls were beginning to stifle enterprise by 1948 and they were reduced 1949-50.The coal mines and other old industries were still stifled by how run down they were and a lack of government money to invest in them.Nationalisation remained a controversial policy – it had to be pushed through Parliament amidst strong opposition from the Conservatives. Many thought it would cause inefficiencies and drive up costs.There was a huge disagreement over the nationalisation of iron and steel, which was profitable without nationalisation. To get the Act to pass, Labour had to introduce the 1949 Act of Parliament, reducing the power of the Lords further. Labour nationalised iron and steel in 1950, only for the Tories to privatise it again in 1953. Agricultural subsidies proved expensive for the Labour government. |
| Building a new international economic systemLabour and the U.S. built a new economic world order based on the World Bank and International Monetary Fund (IMF).At Bretton Woods in 1944, there was a General Agreement on Tariffs and Trade (GATT), which continued to regulate trade and avoid the stagnation of the 1930s. | Britain’s foreign competition was helped by the fact that Japan and Germany had been severely weakened by the war.  |  |

**Key Figures**

* Hugh Dalton was Labour’s Chancellor of the Exchequer between 1945-47. He had been Minister for Economic Warfare in the wartime coalition and President of the Board of Trade. He was forced to resign for leaking the contents of the upcoming budget to journalists in 1947.
* Sir Stafford Cripps became Chancellor after Hugh Dalton in 1947, he was a strict teetotaller vegetarian and late convert to socialism. In terms of priorities, he declared, ‘first are exports, second is capital investment in industry, and last are the needs, comforts and amenities of the family’.

**Historical Interpretation**

* Nationalisation was essential to sustain the morale and impetus of the 1945 government – Morgan
* 1949 Devaluation made Britain’s goods more competitive on the world market (positive view) – Morgan
* ‘Nationalisation turned out not so much to be a revolution as a prolonging of the ancien regime by bureaucratic means’ – Barnett

Conclusion

* Economic recovery was not restricted to certain areas as it had been in the 1930s (Midlands and SE), it was far more widely spread with the Labour government consciously investing in factories in the depressed areas.
* The recovery strategy was export-based and this revived confidence in British industry securing good profits on the world market and attracting new investment.
* By 1950, Britain no longer needed Marshall Aid.
* The mixed economy approach with increased state planning and influence of Keynesian economics worked well and provided the basis for a broad consensus in British politics until the 1970s.
* It should be remembered that there were outside factors that helped Labour achieve economic recovery e.g. American loans, the opening of the American market for exports and the loss of export competitors in Germany and Japan.