Overview (AS and AD shocks)

Unemployment

Demand management: exchange rate and tariff

Demand management: domestic factors

Sectors that benefited most from direct spending were: shipbuilding, engineering, aircraft, construction

Fiscal policy: Yellow Book programme.

There are aspects of fiscal policy that do actually change during this time, however. Things are moving in different directions depending on the situation.

Against this, however, must be set the idea that workers are staying longer unemployed. This is a consequence of the demand world in 1920/30s, as the demand for labour decreases.

Sudden stop of capital flows leads to a run on the Bank of England, forcing Britain to abandon convertibility. Using these assumptions, Moggridge finds that exchange rate appreciation caused worsening of visible trade balances.

Housing boom.

Money demand drops and people stop investing. They try to invest in safe and neutral things like gold or bronze; and they stay out of the investment market (this does not do good things for aggregate demand).

Some of which was even higher than in Britain. The jobs and workers will use whatever force they have to keep them. The bargain over wages becomes very hard. This also happens with the demand for labour decreasing.

Rearmament does substantially increase GDP after 1935, when the government commits to long-term military spending. Fiscal policy and demand management

Industry: they now deal with an overvalued currency with high interest rates - it is hard to compete. This interest rate is nevertheless important idea in modern fiscal policy theory.

Dimsdale and Horsewood suggest as high as 2.5.

Stabilises and improves the balance of payments, making it easier to trade.

Was there any alternative?

If observations for 1920 and 1921 dropped, (B/W) becomes statistically insignificant.

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Stable exchange rates mean little for the balance of payments. We've left the comfortable world of pre-1914, when Britain was the richest country in the world, and it is very much integrated world market then in small, fragmented, national markets. There was a little attempt for some countries to stabilise exchange rates but not for all. The interwar period and this creates a disincentive for workers to work. Nick Crafts has said that this is problematic: it is hard to reconcile the idea that workers are staying longer unemployed

Group of long term unemployed workers emerged during 1930s, which is difficult to reconcile with the idea that workers are staying longer unemployed. This is problematic: it is hard to reconcile with the idea that workers are staying longer unemployed.

Microeconomic factors.

The interwar period can be divided into two parts: 1919-20 and 1921-30. 1919-20 was a critical change was the reduction in hours worked during 1919-20 (Dowie) Looking at the share of labour to capital; the ratio is 2:1 in new industries (need 2 workers for every block of capital); and so, they start competing with each other: they used to be cartelised (profits were made from cooperation rather than a competitive market).

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Unemployment

Reason 2.

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