THE DEPRESSIONS OF THE EARLY THIRTIES AND OF THE MIDDLE SEVENTIES: A COMPARISON

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I intend to compare the depressions of the early thirties and of the middle seventies. The choice of these two periods has been imposed by the impression both did on the people and not by the non appearance of other depressions between 1934 and 1972 but they were depressions only in the technical sense. I mean that before 1939 setbacks that is diminutions of the various aggregates appeared whilst 1946-72 we noticed only diminutions of the rates of growth involved. It has not to be omitted that inflation contributed in the latter case to avoid the diminution whilst before the beginning of world war II deflation prevailed in the world economy which of course did not exclude inflation in certain countries.

When comparing two depressions it is necessary to analyse first their caracteristics, second their results, third the governmental efforts to end same, fourth the measures available before drawing an appropriate conclusion. Let me mention in this connection that the depression which started at the end of 1973 has not yet finished (October 1979) even if we should consider only the United States economy.

I.

I referred already to a fundamental difference between the two depressions. The other characteristics to be examined are:

- the connection with a confidence crisis,
- the estimation of the dangers due to inflation,
- the evolution of interest rates,
- the evolution of wages,
- the evolution of the share prices,
- the intensity of international collaboration before and during the depression,
- the importance of capital transfers first for borrowing abroad, second for hoarding there before and during the depression involved, third for investment there.

When referring to the importance of the setback in both cases to be examined I stressed already that in the seventies despite depression inflation continued, whilst in the thirties deflation was considered as an appropriate measure. It has to be added that the devaluation of all currencies in terms of gold in the thirties and the various aggregates in same increased the impression of the severity of the depression of the thirties[1] as shown on table I by indexes:

TABLE I

Year	World Trade in gold	World trade in £	World trade in Quantity	Industry production total except URSS	Whole prices U.K. in gold	sale in £	Cost of living U.S.	Wages builders U.S.	Manuf. unemp.
1929	100	100	100	100	100	100	100	100	100
1930	81	81							
1931	58	62			54	78	76		
1932	39	54	74	63					291
1933	35	52	75	71	62	72	63	90	274
1934	24	55							

Year	Export unit value	Export unit quantity	U.S.	U.S. whole-sale pric.	U.S. consumer prices	U.S. hourly earnings	Manuf. empl.
1972		117	101,6	68,1	77,7	79,2	95,6
1973		131	110,2	77	82,6	84,8	99,8
1974	92	137	109,8	91,5	91,6	91,7	101,8
1975	110	100	100	100	100	100	100
1976	102		110,2	104,6	105,8	110,2	103,1
1977	111 3rd trim.		116,4	111	113,7	107,7	106,6
			116,4	111	113,7	107,7	106,6
1978			119,7	118 4th trim.	117,7	111	
						123,3	109,1

On the other hand the corresponding indexes developed as follows in Switzerland as representative of those countries which were able to restrict inflation

1. Cf. Société des Nations. L' économie mondiale 1935-6, Genéve 1937, pp. 182-3.

TABLE II

	1972	1973	1974	1975	1976	1977	1978
wholesale prices							
commodities of the country	79,9	86.7	98.8	100	98.9	98.9	97.9
of all commodities	79.6	88.1	102.4	100	99.3	99.6	97
consumer prices	78.5	85.4	93.7	100	101.7	103	103.9
hourly earnings	77.6	82.6	91.6	100	105.8	113.7	117.7
non agricultural employment	111.3	110.2	110.6	100	93	92.8	n.a.

On the other side the depression of the seventies did not lead to an interruption of the inflation except in the case of Switzerland since 1975. It follows that increases in monetary units continued whilst in real terms either stagnated or showed a weaker increase.

— It has been stressed that the depression of the early thirties would have finished in 1931 if the confidence crisis did not start in May 1931 and did not culminate with the suspension of the gold standard in September 1931 in the United Kingdom and in March 1933 in the United States. The latter of course extended and strengthened the depression of the thirties, it prevented the end of the virtual stop of foreign loans and investments whilst later the expectation of the beginning of world war II did not induce those concerned to lend or to invest abroad. The tendency to repatriate funds whenever possible for security reasons prevailed and upset even more the balance of payments of debtor countries. In the middle and late seventies despite the substantial devaluation of the United States dollar and of sterling no confidence crisis developed except if the substantial withdrawal of European funds by private people and corporations from the United States is considered as such. This was however neutralised first by the purchases of corresponding balances in United States dollars of some European central banks and of the Bank of Japan without omitting the keen propensity of the central banks of countries run by communists to increase their dollar balances, second by the continuation of the operation of the Eurodollar markets where the deals in United States dollars continue to be much more important than those in all other currencies and despite the latter's substantial appreciation in terms of the United States dollar.[2] As a further proof of the non existence, at least until October 1979, of a confidence crisis is the possibility practically for any debtor country and for those living or operating there to secure loans in the Euromarkets.

2. The International Bank for International settlements estimated them at 350 billions U.S. $ for 1977. Cf. report 1977/8, p. 113.

— Whilst in the thirties despite deflation the governments, the central banks and practically everybody except debtors were afraid of inflation and so reluctant to act in an appropriate way in order to encourage economic activity even if connected with some price rise needed to improve debtor's possibilities to pay punctually which had heavily deteriorated owing to the price fall, things were different in the seventies. All those concerned pay lipservice to the necessity of fighting inflation which in the majority of cases continues unabated but do not avoid to take measures aimed to intensify economic activity even at the cost of increased inflation considered as a minor evil except if developing to hyperinflation.

— Interest rates had fallen to very low levels[3] at least in the Western countries in the thirties whilst in the seventies not only were they hold at their former levels but increased substantially. This development is of course due to inflation as the tendency prevails at least as long as economic and not demagogic factors are considered to neutralise any profit from inflation to those securing loans whilst the banks need substantial profits in order to pay high wages and other costs connected with their operation. In the rare cases where inflation disappears or weakens substantially interest rates fall inasmuch as the fixing of dividends all over the world does not consider this factor and so discourages the investment in shares.[4] The same argument prevails in fixing the interest rates paid to depositors who otherwise would have been trying to replace deposits by some other asset less damaging in a long period of inflation when every body tries to reduce the damages it causes to those holding cash.

— In the thirties nominal wages diminished as shown in table I but the diminution has been more substantial, first as overtime disappeared, second as in many small firms where the contact of workers or employees with their employer is personal those concerned were ready in order to contribute to their employer's survival and so to their employment to pay back a fraction of their remuneration of course without getting a receipt, also to undertake some supplementary errands without any indemnity for which under normal circumstances a new employee or worker would have been enrolled. In the seventies' depression, which is a stagflation, wages and salaries continue rising. As doles follow upwards the danger of unemployment is not considered any more important and encourages all those employed to insist on their claims inasmuch as their substantial savings enable them to participate in long strikes independently of their trade unions support in case of need.[5]

— In the depression of the thirties the great majority of share prices all over the

3. 2% in the central banks, 1/2% for very short loans and 5% for first class bank debtors.

4. The case of Switzerland where since 1975 inflation has practically stopped and where interest rates have been accordingly reduced; in 1979 long term bonds yield 3 3/4-4% provided the debtor is considered first class.

5. Sometimes particularly in the public or the banking sector the wages of the strike days are later paid if the employers believe that so the climate will improve in the corporations concerned.

world fell substantially[6] and recovered only when world war II began and when inflation which started practically at the same time began to be felt. In the years 1945-72 whenever no nationalisation, no substantial tax increase endangering the firm's profitable operation, no wage increases exceeding the productivity's increase were expected share prices had rosen to very high levels[7] not only in absolute terms but also in comparison with the point of departure. As far as prices of United States shares are concerned it cannot be excluded that they were unfavourably affected by the decision of holders not living in the States to sell in view of the fall of the $ rate in terms of their own currencies neutralising so any share rise when expressed in United States dollars.[8] Of course share prices are not supported by the tendency of firms all over the world to limit the amount paid for dividends to a small fraction of net profits. This places shareholders at a disadvantage in comparison to bondholders. As a matter of fact the latter get always their coupon whilst shareholders do not get a dividend if profits diminish and before the bondholders' claims and all other creditors' claims have been paid. Bondholders are of course not protected in case of bankruptcy of the corporation that issued the bonds. This consideration is important when the interest rate on bonds is high as in the seventies. The argument that thus share prices increase as their internal value is pushed upwards is not accurate, first as the latter cannot be calculated adequatly by those not acquainted with all information available, second as certain assets have a price only when a buyer is available and when they are needed in the firm which owns them.

– The intensity of international collaboration before and during the depression exercises a strong influence. As a matter of fact in the early thirties the quasi totality of governments relied on deflation, on devaluation and on isolation from foreign countries to weaken the disadvantages connected with depression and did not bother for the unfavourable repercussions of this policy in the short run on foreign countries that means their exsuppliers, their excustomers, their excreditors and their exdebtors and in the not too long run even on their own economy. This "beggar my neighboor" policy was applied without respect for obligations assumed by international treaties, with monetary measures, with laws, with decrees and with other administrative steps. As international collaboration was less developed in the late twen-

6. They often became "non valeurs" particularly if the firm concerned did not operate any more for a long time.

7. The Dow Jones index for industrial shares quoted at the New York stock exchange reached 1.000 in 1973 and never rose more-jit fell substantially and recovered to that level in 1977 for a short time independently of the important dimimution in the meantime of the purchasing power and of the exchange value of the U.S. $.

8. The influence on the share prices of the behaviour, either voluntary or compulsory of foreigners has not to be underestimated. The downwards tendency of share prices in Switzerland 1977-8 has been attributed to the prohibition to foreigners to buy Swiss shares and bonds in order to discourage transfers to Switzerland. Cf Neue Zürcher Zeitung, Fernausgabe of the Sunday-Monday Issue in 1978 under the title "Die Schweizer Börsen". It was cancelled in January 1979.

ties as a consequence of the treaties which ended world war I and of the then prevailing mentality the losses caused by this policy were not so important as they would have been in the seventies. International collaboration had then been much more developed as the international economic and monetary institutions are more numerous and exercise more influence, as full employment in the West led to the production of parts and of semi-manufactured commodities in developing countries and so to a great interconnection and complementarity, as those in charge had learned through bitter experience of the thirties that the policy of isolation, self sufficiency and deflation cannot be successful. They further had learned that default on foreign loans and on the non repatriation of both profits and invested capital cannot be avoided without export from the countries where foreign investments have been carried out and foreign loans had been granted. It has to be stressed that the O.E.C.D., Paris has been particularly helpful in this connection in an area where economic and financial relations between the member states have been and are very important and whose ties with the outside world are and were substantial. It follows that economic activity had not to suffer the setback which would have been unavoidable if the tactics of the early thirties would have been applied once more.

— Last but not least whilst in the thirties investments and loans abroad in order to secure higher profits and greater interest had practically stopped in fear of bankruptcies, moratoria and at least exchange control these capital transfers continued in the depression of the seventies. As a matter of fact those in charge on the giving side had understood and accordingly decided that it pays to continue transferring abroad in order to secure increased incomes whilst the repatriation of funds for security reasons cannot be carried out on a great scale except for those who will decide first in the frame of a general "sauve qui peut". These decisions in the right direction were and are facilitated by the activity of the Bretton Woods institutions, the practically unexhaustable ressources of the funds available at the Eurodollar markets, the certitude that if one or two countries default others will follow and that damages will occur on a greater scale than in the thirties.[9]

II.

When judging the results of two depressions and when trying to compare same we have the tendency to attribute all unfavourable developments during the years concerned to the depressions which is not necessarily so. The results to be expected refer:

— to the size and the duration of unemployment,

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9. Of course this unfavourable result may also be caused by the eventual unability to pay of one or more Comecon countries which have borrowed too much. But even in this case the avoidance of a rolling stone will pay more even if it means "to push good money after capital already lost".

– to the sufferings of those getting unemployed and of those who would have been happy if the depression did not occur,
– to the extent agreements concluded cannot be carried out within the country and abroad,
– to the unability of finishing investments which had been started with the purpose of securing profits, of achieving when finished supplementary employment, of rationalising the operation of plants, transportation, agricultural corporations and public services,
– to the size of the deficits and to the time they last
aa) in the budgets, both national and local,
bb) in the balance of payments, both current and on capital account in combination with the consequences for those unfavourably affected.

– The size and the duration of unemployment were more important in the depression of the early thirties than in the middle seventies.[10] In comparing these figures it has to be further considered that in the thirties emigrants were not numerous whilst they were practically free to move in the seventies and independently of various restrictions which as a rule are not applied in a systematic way, have increased a lot. Let me add in this connection that in the seventies minorities, young people and women have the tendency to be longer unemployed.[11] This difference was not shown in the thirties.

– Those getting unemployed in the thirties were not so well supported as they are in the seventies. The dole payments are now in proportion of the rewards of those who are employed whilst in the thirties they were fixed and did not get adapted as they are now. Of course it may be said that adaptation was not needed in the thirties as the currency's purchasing power did not fluctuate downwards; it had on the contrary an upwards tendency. In both cases the conditions of the unemployed tend to become unfavourable when the social insurance system is no more responsible for them. However in the seventies this lasts longer and so postpones the time conditions become difficult for those unemployed inasmuch as the smaller intensity of the depression increases their chances of securing a job before the responsability of the social insurance system has got exhausted.

– Every body tries to satisfy his future needs by agreements or in virtue of the law presupposing payments under the condition he will be entitled to receipts when becoming ill or unable to work in function of age. If these payments cannot be

10. Maximum in millions

	Thrities	Seventies
Germany	6	1,1
United Kingdom	3	1,2
United States	12	7,8

11. C.F. G. Haberler, Less developed countries and the liberal international economic order, Zeitschrift für Nationalökonomie 1978, p. 157.

carried out regularly and completely the beneficiaries will have to suffer. As in the seventies' depression the public sector has expanded on a great scale those affected by an eventual unability of private companies which have assured such obligations this did not concern many people. At the same time there were no defaults worth mentioning on national and foreign debts and so victims were not numerous as it had happened in many cases in the thirties. Then at least three dozen countries[12] were obliged to default on their foreign debt and in some cases even on their national debt. At the same time the transfer abroad by private debtors of amounts becoming due[13] was often forbidden on the basis of the theory that private debtors cannot do more than their government[14] in order to satisfy their creditors.

– In the depression of the thirties many investments of both the public and the private sectors had to be interrupted. This created losses and other unfavourable consequences to

a) those who were expecting employment first until the investment was to finish, second to those who expected employment when the latter was to operate, third to those who would earn profits from its operation,

b) those who would secure advantages by the rationalisation of plants, transportation, public services and agricultural corporations as when noise or smoke could be avoided in the first case, when the distance is shortened through a new bridge in the second case, mail would be delivered one day earlier in the third case, agricultural products could be brought to the market before becoming too ripe in the fourth. This did not happen on a scale worth mentioning in the depression of the middle seventies whilst it was noticed in the early thirties.

– The substantial diminution of the economic activity in the early thirties caused deficits in the budgets both national and local, as public receipts diminished and public expenses mainly with dole increased. On the other hand debtor countries were led to have substantial deficits in their balance of payments as they could not contract new loans abroad. Whilst budget deficits were covered by central bank credits which could not lead to inflation as unemployment was so high, high deficits in the balance of payments had to be faced by moratoria whose repercussions abroad had been very unfavourable. In the depression of the seventies the budget deficits have to be covered in the same way as in the thirties with the difference however that the purchasing power of the people increased and so prices as in inflation nobody is induced to hoard funds. Thus the rate of inflation grew up. On the contrary the contraction of loans abroad, as exposed before does not create problems in the depres-

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12. Germany, Austria, Hungary, all South Eastern European and all South American states except the Argentine.

13. When able to pay in local currency. The "Aufbringungsproblem" was so solved with payment in blocked accounts.

14. Not serious I am afraid.

sion of the middle seventies and so neither defaults nor their unfavouable repercussions abroad do become unavoidable.

III.

The efforts of the governments all over the world to end the depression as quickly as possible were based in the early thirties on deflation, on isolation from abroad and on monetary devaluation. The results could have been satisfactory if only a few countries were applying this policy. As all did the results were not satisfactory inasmuch as the confidence crisis complicated the problems and contributed to the extension of the depression.

On the other hand in the depression of the middle seventies the efforts were undertaken in the frame of international collaboration with the avoidance of any measure in the spirit of the "beggar my neighbour policy". Some exceptions were noticed however 1976-8 with the application of quotas on the import of manufactured commodities from developing countries to developed Western countries mainly in Europe. The recourse to devaluation was on the other hand applied by those countries who have been able to get rid earlier of the depression in their economy. It was natural that the demand for balances in the country concerned by inhabitants and corporations living and operating abroad would not increase as much as the demand for foreign currencies by those living and operating in the country which has recovered from the depression. The result was either devaluation of the latter's currency through decision of the government and consent of the International Monetary Fund or no interference in the foreign exchange markets where this currency will depreciate in terms of the other currencies. Any governmental interference to stop this depreciation can have only provisional results as shown by the efforts of the United States, the West German, Japanese and Swiss central banks[15] to restrict the depreciation of the U.S. $ to dimensions bearable for the competitors of the United States exporters.

IV.

The measures available to the governments concerned in order to reduce the length and the intensity of the depression both in the early trirties and in the middle seventies have already been exposed in III. Whilst in the early thirties more was expected from devaluation, deflation and very protective policy, the failure achieved led those concerned in the middle seventies to try measures in the frame of the world

15. As it is welknown the latter three purchase U.S. dollars when this currency tends to depreciate too much. They do so in order to avoid great losses and substantial disadvantages to their own exporters. This effort cost the Swiss National Bank until December, 31, 1978, as officially announced, 4,4 billions Swiss francs which corresponded then to 2.750 billions U.S. $. Cf. Neue Zürcher Zeitung, Fernausgabe of January 3, 1979.

economy. That means increased public expenses with recourse to the central bank and foreign loans, when internal loans from savers are not available, stability of custom duties at low levels, efforts of economic development at home and through foreign aid abroad, devaluation or depreciation of the currency when this is considered unavoidable to exclude a dangerous disequilibium.

Conclusion

Whilst it cannot be said that the depression of the middle seventies is over except in the United States and very few other economies (October 1979) it has to be admitted that results have been more satisfactory than when trying to end the depression of the early thirties. May be this is due to the milder character of the depression of the middle seventies, to the fact it is a stagflation and to the avoidance of both the confidence crisis and of deflation. The latter complicated and intensified unfavourable developments in the thirties without reason insasmuch as there was no danger of inflation. The policy applied in the thirties led to the confidence crisis which in the thirties aggravated the situation and intensified the depression; it did not come up until October 1979 in the seventies.

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