

Week 2. Inter-war Unemployment.

What were the main causes of unemployment in inter-war Britain and how did they change over time?

Readings.

Floud, R., and D. N. McCloskey, *The Economic History of Britain since 1700*, vol. 2 (1860-1970). (First edition, 1981). [Chapter 11 (Howson)]. Offers an excellent introduction to the topic.

Floud, R., and D. N. McCloskey, *The Economic History of Britain since 1700*, vol. 2 (1860-1939). (Second edition, 1994). [Chapter 14 (Hatton)]. Surveys the most recent material.

Glynn, S., and A. R. Booth, 'Unemployment in Inter-war Britain: a Case for Relearning the Lessons of the 1930s,' *Economic History Review* (1983). Discusses the reasons, consequences and remedies for the low demand for UK output.

Broadberry, S. N., and N. F. R. Crafts, *Britain in the International Economy* (1992). [Chapter 11 (Thomas)]. Examines the institutional aspects of the labour market.

Broadberry, S. N., 'Aggregate Supply in Inter-war Britain,' *Economic Journal* (1986). Formalises the debate within the framework of a simply aggregate demand and supply model.

Dimsdale, N., S. J. Nickell, and N. Horswood, 'Real Wages and Unemployment in Britain during the 1930s,' *Economic Journal* (1989). Do not worry too much about the details of the model – they are similar to the Nickell model outlined in the Thomas chapter. The results are more interesting.

Note: The two chapters in the two editions of Floud and McCloskey are **not** alternatives to one another because they contain very different material. Therefore they should both be read.

INTER-WAR UNEMPLOYMENT.

The Causes Of Unemployment In The 1920s.

1. The most striking factor of Britain's inter-war economy is the high level of unemployment which persisted through booms and slumps. Even at the peak of the cycle the unemployment rate rarely went below 8%, roughly twice the pre-war rate and four times the rate experienced in the 1950s and 1960s. Hence we are particularly concerned to explain why the "*natural rate*" of unemployment rose in the inter-war period. The *fluctuation* of unemployment in the 1920s can be explained relatively easily by changes in demand (for example, the expansion of world trade from exceptionally low levels after the war).

2. Structural factors

a) Export markets were lost in the 1920s due to overseas industrialisation and the disruption caused by war (sudden growth of German steel, Indian cotton, et cetera).

b) Previous "over-commitment" to old industries created hysteresis (labour and capital immobility, new funds drawn to existing firms, short-termist government policy, et cetera. See Richardson, 1967). A growing need for rationalisation (coal and cotton). The more extreme claims of the Richardson hypothesis have been rejected (for example, Von Tunzelmann demonstrates that "new" industries were *more* labour intensive).

c) Underlying sclerosis of heavy industry. Powerful unions inhibited new technology (shipbuilding, cars); real wages were too high (Broadberry, 1986; Dimsdale, 1984).

3. Monetary policy.

a) Tight monetary policy was required in order to return to gold (Capie and Webber, 1985). Monetary policy was a very powerful tool - unemployment rose from 2% in 1920 to 15% in 1921.

b) Sterling was overvalued by 10%. The consequent need to reduce the level of prices - rather than just the rate of change of prices - required tight money for much longer than was really necessary. It is estimated that 10% devaluation would have reduced unemployment in 1928 from 8% to 4% (Moggridge) or 5% (Thomas). But see Walcott (1993).

c) The adverse impact of deflationary policy was accentuated by the power of the unions. Because nominal wages were sticky - as can be seen from the General Strike - more vigorous deflation was necessary. Also, this compounded the structural nature of the problem (the staples were the most heavily unionised, so opted for higher unemployment: see Oswald, 1985).

d) The rise in the replacement ratio and the reduction in hours shifted the labour supply curve permanently to the left in 1920 (Broadberry, 1986). It also allowed the unions to be more aggressive in wage bargaining. (Why was this aggression not moderated by the massive fall in union membership, which halved between 1920 and 1930? Perhaps higher unemployment *caused* the reduction in membership).

4. Regional factors.

a) The impact of the downward multiplier was accentuated by the regional nature of economic interdependence. The *ordering* of industrial suffering was the same all over Britain, but any particular industry suffered more severely in a depressed region than in a prosperous region. "Price signals were swamped by quantity signals" (Broadberry, 1990).

b) Labour mobility was not high, particularly *between* regions rather than *within* regions (Glynn and Booth, 1985). This problem was accentuated by unionisation (William Morris versus the Welsh); cultural factors; and housing costs (the latter were higher in the south and moving from the north removed your right to subsidised council housing).

The Recession Of 1929.

a) The sudden rise in unemployment from 1929-32 stemmed from an adverse aggregate demand shock (the domestic US contraction caused a collapse of world trade, accentuated by Reparations crises and tariff barriers). (Dimsdale, 1984).

b) Alternative explanations revolve around the replacement ratio (Benjamin and Kochin, 1982) and the rise in real wages produced by a fall in import prices (Beenstock et al, 1986). But Benjamin and Kochin have been discredited through macroeconometrics (Metcalf, Nickell and Floros, 1982) and new microeconomic data (Eichengreen, 1987). The work by Beenstock et al offers only half an explanation because they do not show *why* real wages rose (supply side or demand side factors). Dimsdale, Nickell and Horswood (1989) have shown that real wage rises are perfectly consistent with an adverse demand shock.

The Causes Of Unemployment In The 1930s.

1. Monetary policy.

a) Monetary policy eased in February 1932 after Britain came off gold. (The government managed to convert £2 billion from 5% to 3.5% stock in July and this ushered in lower long term interest rates, with concomitant lower short term rates). The Bank rate fell from 6% in January to 2% in June.

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Cheap money stimulated housebuilding in the early 1930s (employment rose from 850 000 in 1932 to 1 050 000 in 1935) and widespread industrial investment in the mid-to-late 1930s. (New industries; stock market; building societies; dynamic effects such as labour mobility).

2. Structural factors.

a) The collapse in exports further depressed UK staples. This was compounded by the fall in the price of raw materials - although this reduced costs, it also prevented many developing countries from buying UK products.

b) The only policy which really alleviated the structural problem was rearmament from 1936 onwards. Not only did it raise demand, but channelled it directly to the staple industries (coal, steel, shipbuilding, textiles).

3. There was a substantial rise in the working population in the inter-war period. Although unemployment was higher in 1937 than in 1921 the total number of people employed was still higher in 1937.

Would Keynesian Fiscal Policy Have Worked?

1. Keynes believed that the economy was not self-adjusting in the medium and long term (sticky nominal wages prevented reductions in the real wage through deflation). But Keynes argued that the *real* wage was not sticky and workers would accept a cut in real wages through an *increase* in the price level. This could be achieved by stimulating demand directly through fiscal policy. Other economists (Pigou) thought that workers would resist any cut in *real* wages.

2. In any case, the government could not have provided a large enough fiscal stimulus. If the 1920s public works programme had been implemented (£140m), Howson (1981) estimates that by 1932 unemployment would have fallen from 3 250 000 to 2 500 000. (She uses generous assumptions). Thomas (1975) shows that the programme of public works proposed by Lloyd George in 1929 (£500m over five years) would have reduced unemployment by 350 000 in 1932. This would have been at the cost of rising imports (over £20m for every £100m spent) and a falling exchange rate. Keynes vastly overestimated the multiplier (it was only 1.5 rather than 3 and only unity in the short run).

3. The adverse effect on confidence of a budget deficit would have countervailed all the expansionary effects of the deficit (hence the government was already window dressing; Australian example). There would have been lower investment and capital flight. The exchange rate would plummet and interest rates would need to rise (need to defend gold before 1931 and the sterling bloc thereafter). Hence any deficits would be

counterproductive.

What Would Have Been The Cost?

1. Fiscal and monetary policy are fundamentally interdependent. Continuous increases in borrowing make independent monetary policy impossible (selling bonds to the public takes money out of circulation and raises the interest rate). There is also an incentive to monetise the debt (Sargent and Wallace). Phillips (1933) argued that the benefits of budget deficits arose solely *because* they affected the money supply. If the government borrowed from the Bank then high-powered money entered circulation and raised the price level.
2. Increased government spending would merely have crowded out investment which would otherwise have taken place (if it were financed through bonds) because it would force up the interest rate. Keynes replied that when income rose the absolute level of savings would rise and the interest rate would fall - but he had to admit that in the interim they would rise.
3. The balanced budget was a convenient ideal which influenced policy-makers against endless pressure to spend more money. If this moral constraint were removed then politicians were more likely to behave irresponsibly.
4. The only way to make Keynesian policies more effective was to devalue or close the economy (or both) in order to reduce leakages. This would prompt many political problems (especially in the earlier period). Also, Walcott (1993) has demonstrated that even a substantial devaluation would have been ineffective due to supply constraints in several industries which would have forced up prices before full employment was reached.

Could Keynesian Fiscal Policy Have Been Implemented?

1. Keynes argued that deficit financing would only be necessary in the short run because tax revenues would rise once the recovery started. Hence the problem of prolonged deficits could be avoided. The Treasury termed this the "Act of Faith" argument (parallel to Reagan - tight money but high spending).
2. Spending would have to be channelled through local councils, which had authority over roads and social overhead capital. They would take the opportunity to *reduce* their own spending (and hence the level of domestic rates) and this would undermine the government effort. Also, the many layers of government made it difficult to prepare and implement large projects such as highways at short notice (Middleton, 1982).

DIMSDALE, "Employment And Wages In The Inter-war Period,"
National Institute Economic Review (1984).

1. Britain's economic difficulties in the 1920s stemmed in large part from the collapse of the staple export industries, which was greatly exacerbated by Britain's lack of international competitiveness. The return to gold at a high parity brought out this problem in sharp relief.
2. The high level of real wages in Britain contributed greatly to her lack of competitiveness. The real hourly wage rate rose by 28% between 1913 and 1924. This was produced by a jump in money wages during the war and the boom which followed in 1920, and also the cut in working hours in 1919 (from 53 to 47 hours per week). A more useful measure of real wages is "own product real wages" (OPRW) because it is the latter which determines the firm's demand for labour. OPRW rose by 20% between 1913 and 1924 whilst output per head rose by only 5%. (p94).
3. The difficulty of reducing money wages after 1923 (viz. the General Strike) suggests that competitiveness could only be regained by raising the price level and/or keeping sterling at a lower parity than \$4.86 (which was Keynes preferred option). The MacMillan Committee (1931) suggested imposing a tariff and using the revenue to subsidise exports. Pigou (1931) argued that such a cut in real wages would merely inspire greater efforts to raise the money wage.
4. The deflation of the 1920s further increased real wages and this was supplemented after 1929 by the massive fall in the price of imported food and raw materials.
5. The situation was eased in the 1930s after the devaluation of sterling, which conferred a competitive advantage that lasted for several years. In addition, the state of world trade in the 1930's was very poor. This suggests that increasing Britain's international competitiveness by reducing real wages would have been unlikely to increase output and employment. (p94).
6. Nonetheless, it has been claimed by Beenstock et al (1984) that the level of real wages played an important role in Britain's collapse and recovery in the 1920s and 1930s. In particular, they argue that the rise in real wages after 1929 was the principal cause of rising unemployment during the recession and the subsequent fall in real wages after 1932 stimulated the recovery of output and employment. (p95).
7. Beenstock et al agree that the OPRW rose until 1934-5 and then fell thereafter. But if it were a major cause of recovery then surely we would expect the OPRW to fall at or before 1932 (i.e. when the recovery started). Also, if we use a final goods price deflator which is corrected for import prices then the degree of change in the OPRW is much reduced. (It seems reasonable to assume that British firms were influenced by the ratio of costs to *their own price* rather than anyone else's). The rise in OPRW 1929-32 is then only 7.6% (rather than 12.7%) and the fall in 1935-7 is only 4% (rather than 4.5%). The rise which occurred

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1929-32 and supposedly caused the Great Depression is actually lower than the rise between 1925-9 (only 10.7%). (p96).

8. Dimsdale also points out that the effect of changes in the OPRW were offset in part by changes in the prices of other inputs. The rise in the OPRW in 1929-32 was largely offset by the massive fall in the price of raw materials; the fall in the OPRW after 1937 was counterbalanced by the rise in the price of raw materials. The rise in the price of manufactures (20%) between 1932 and 1937 clearly demonstrates the importance of other input prices. The overall rise in unit costs (weighting the labour cost of unit production as one quarter and raw materials as three-quarters) was 17% - whereas wages rose by only 9%, raw materials rose by 47%. (p97).

9. Dimsdale estimates an alternative model which emphasises demand factors (such as world trade, money supply, etc). He finds that demand factors are highly significant - and that OPRW is statistically insignificant *until demand factors are added to the equation*. (p99). The net result is that world trade raised employment during the 1920s in spite of the rise in OPRW; between 1929 and 1932 employment fell due to the contraction of trade and the continued rise of OPRW; and after 1932 the rise in trade and the moderation of rises in OPRW both served to increase employment. (p102).

BEENSTOCK and WARBURTON, "Wages And Unemployment In Inter-war Britain," *Explorations In Economic History* (1986).

1. Explanations of the depression have traditionally stressed the demand side (e.g. Worswick, 1984; Dimsdale, 1984), concentrating on the collapse of exports and subsequent growth of housebuilding. Recently, Benjamin and Kochin tried to explain the depression by changes in the *supply* of labour resulting from alterations in unemployment benefit levels. (p153).

2. Beenstock et al believe that the depression was caused by alterations in the real wage level. As the real wage rose 1929-32 there was a fall in the equilibrium quantity of labour which was traded (therefore reducing output). This was reversed after 1932. (p154). [Beenstock et al do not explain *why* the real wage rose and fell. The RPI changed as a result of exogenous shocks, but we must also rely on some kind of price stickiness to explain a subsequent change in the real wage]. They support this explanation in spite of evidence from Broadberry (1983) that the supply of labour was very inelastic, and in spite of the econometric evidence of Dimsdale (1984).

3. Elementary regressions support the notion that the real wage and employment are negatively related (what a surprise). (p160). More complex regressions have a better fit (p163), in particular the introduction of M3 and world trade. It is notable that the coefficient on trade (0.1) is almost as large as the coefficient on real wages (0.15), and the coefficient on M3 is considerably higher than both (0.2). However, the coefficient on the

capital stock term is very much higher (0.7) and appears to have been far more important in explaining the path of unemployment. [Why do Beenstock et al not point this out?] It is also noticeable that real wage elasticity is very low (0.16).

4. Beenstock et al find some evidence of the "discouraged worker effect". That is, as unemployment rises some agents (e.g. married women) withdraw from the active labour market because they perceive the chances of finding work to be very low. Beenstock et al also point out that the fall in the participation rate in the early 1920s may have resulted from a rise in National Insurance contributions (which reduced the real wage). (p164).

5. The rise in unemployment 1929-32 was 1.9 million. Beenstock et al ascribe 1.2 million of this to the rise in real wages. They also suggest that the rising real wage brought 0.5 million more workers in to the job market, out of a rise in the total working population of 1.5 million (1929-32). (p165). They further argue that the effective fall in unemployment 1932-7 was 1.9 million (if we discount 0.6 million workers who had only become unemployed previously due to the excessively high real wage). Beenstock et al suggest that 1 million of the fall was due to the fall in real wages. (p166).

6. When world trade, real money growth and capital stock are added to the regression the fit improves once again. Furthermore, in the period 1929-32 the reduction in world trade accounts for approximately the same amount of unemployment as does the change in real wages. In the period 1932-7, real money, the growth of world trade and the change in the capital stock are all together approximately four times more powerful than real wages in reducing unemployment. (p167). The impact of real money is particularly marked in 1933. (p168).

7. Beenstock et al admit that they have no evidence concerning why the real wage might have changed (was it driven by inflexible money wages or a change in the willingness to supply labour?). (p168).

DIMSDALE, NICKELL and HORSEWOOD, "Real Wages And Unemployment In Britain During The 1930s," *Economic Journal* (1989).

1. Dimsdale et al demonstrate that the changes in real wages which occurred from 1929 onwards could have been caused ultimately by aggregate demand shocks. Hence the traditional explanation of the Great Depression is consistent with the evidence of Beenstock et al. (p271).

2. The model of Dimsdale et al has several interesting features. The firms compete imperfectly and set price for their output; negotiations between workers and firms determine the bargained real wage; in the long run the model returns to the "natural" level of output. (p273). In the short run the bargained real wage can rise above the level which would achieve the "natural" level of output, creating unemployment. (p274). This will

happen if wages are inflexible compared to prices and there is an adverse demand shock which lowers prices. (p275). In such a situation the firm might allow the real wage to rise by more than the reduction in costs following the fall in the price level (p274). [We might rationalise this by suggesting that the leading firms in the economy benefit more than average from the fall in prices but all firms must set wages in response to the leading firms]. This would be particularly true if we observed price wars in booms: this would imply higher price-cost mark-up in slumps and therefore more freedom to allow real wages to rise. (p279). [Surely, if some of the mark-up is extracted by workers in the form of rents then if we observe a reduced mark-up in booms this may simply be the product of an *increased* mark-up and higher real wages?] All this suggests that a rise in the real wage need not be caused by supply side factors such as the replacement ratio (Benjamin and Kochin), the real wage (Beenstock et al) or increased mismatch (Aldcroft, 1970). (p277).

3. Another element adding to wage stickiness is the fact that nominal wages are set before the firm knows the value of other variables for the coming period (such as product demand, import prices, et cetera). The firm sets nominal wages on trend productivity growth, the current level of benefits, anticipated price level, et cetera - some of which (or all of which) may prove to be incorrect. (p280).

4. Dimsdale et al run a regression based on the specification of their model. They include real wages, productivity growth, import prices, world trade, mismatch, replacement ratio, et cetera. (p286). They find that the reduction in import prices after 1929 increased the real wage (nominal wages were less flexible than prices) but this was partly offset by the firms' failure to fully compensate workers for rises in productivity. (p287). Hence the decisive effect was caused by the adverse demand shock which stemmed from the collapse in world trade. Some of this demand shock manifested itself on the supply side. In particular, mismatch rose in the short run (it would do, of course, as unemployment suddenly rose) and the replacement ratio rose (it would do, unless unemployment benefits were reduced as fast as nominal wages - which is unlikely). (p288). The rest of the demand shock was channelled through nominal inertia in wage setting (i.e. workers refused temporarily to accept lower wages). (p289). Overall, at least three quarters of the rise in unemployment can be attributed *directly* to the reduction in demand.

5. The reverse effects occurred during the recovery. (p289).

6. The only role left for the supply side in this model is to explain why nominal wages were sticky. That is, why did the supply side *exacerbate* the adverse demand shock so badly. (p289).

**EICHENGREEN, "Unemployment In Inter-war Britain: Dole Or Doledrums?"
Oxford Economic Papers (1987).**

1. Benjamin and Kochin argue that the rise in the replacement ratio caused an increase in

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voluntary unemployment (leisure and job search). The replacement ratio for a family of four rose from 24% (1921) to 37% (1922) to 40% or more (every year after 1922) to 60% (late 1930s). At the margin and for workers in low paid industries the incentive was probably higher than these average figures suggest. (p597). It is also noticeable that the replacement ratio rose with age and cross sectional evidence shows that the unemployment rate rose at a very similar rate. For example, benefits doubled at age 18 (as did the unemployment rate) and rose a further 50% at age 21 (as did unemployment rates). (p598).

2. But casual inspection can not convincingly establish a *causal* relationship. It is possible that unemployment rates were similar for all groups of workers but the available unemployment benefits influenced the incentive to *register* as unemployed. Then the relationship is only between benefits and *measured* unemployment - and it runs in the reverse direction! In addition, juveniles are less likely to register for a host of other reasons (they were more likely to be supported by their parents, they had to attend a Junior Instruction Centre, et cetera). (p598). Finally, it may be that unemployment was lower for low-benefit groups because labour demand just happened to be higher. This is plausible if we consider the case of firms in the new industries, who were keen to employ young and/or female workers instead of displaced older workers (they could pay them less, they were less likely to be unionised, they were more likely to adapt to new working conditions, et cetera). (p599, Footnote).

3. Government efforts through the Anomalies Act (1931) to discourage married women from registering were very successful. But the question remains as to whether these women withdrew from the labour market, found new jobs, or simply ceased to register because they were no longer entitled to benefits. (p599).

4. Regressions run by Benjamin and Kochin suggest that unemployment levels would have fallen by a third to a half if the replacement ratio had remained at its 1913 level. (p600). But their results can be criticised on the following grounds.

Firstly, Benjamin and Kochin calculate the replacement ratio by comparing the level of benefits for a family of four to the *average wage* (which was earned by men, women and juveniles). This *underestimates* the level of wages earned by the family of four, since we should be concerned with the average wage of prime age males, and possibly working mothers or elder children. As a result this *overestimates* the replacement rate. [Surely, in a regression this merely makes the change in unemployment *more* sensitive to changes in the replacement rate - which must have been smaller in absolute terms - and therefore reinforces the argument?].

Secondly, causation may be running in the reverse direction. *Id est*, the government may have raised the replacement for those who were hardest hit by unemployment (i.e. prime age males) due to political pressure. (p600).

Thirdly, the data is insufficient to offer robust econometric results (Nickell, Metcalf and Floros, 1982) because there are only short aggregate time series available. For example, if the time periods are redefined then the results are badly undermined.

5. Eichengreen uses cross-sectional data derived from a survey of 27 000 people in working-class London carried out by the LSE in 1929-31. He broadly finds that the elasticity of labour supply was very low (zero) for primary adult wage earners. It was rather higher for "secondary" workers (such as young males still living at home) but in aggregate they formed such a small group of the working population that their "voluntary" contribution to 1930s unemployment was very small. (p601).
6. There are limitations with Eichengreen's data. For example, the sample is biased against middle class families and Jews (neither group was very willing to reveal personal information). Also, London is atypical in many respects - more youths but fewer children under 15 years, less reliance on staple industries and more reliance on new industries and services (although those industries which were hardest hit elsewhere - such as heavy manufacturing and export - were also the hardest hit in London). It seems likely that London data will therefore *overestimate* impact of voluntary unemployment. (p605). It is also notable in the London survey that unemployment seems to have been concentrated amongst those who habitually worked in low-paid (unskilled?) jobs.
7. The general statistical relationship which is revealed is very common and plausible. For example, unemployment risk for primary male workers falls with age and then rises again after the age of 44. Generally, married men were kept on in preference to youths (who expected steep rises in pay after their apprenticeship was finished) and older men (who often had high wages but declining productivity). (p616). However, men with many children were slightly more likely to be laid off - perhaps because they were less mobile or perhaps because they were deemed to be unreliable (or perhaps because they were Irish?). (p610, p617).
8. Eichengreen generates a function to predict wage income on the basis of several social variables (children, age, marital status, et cetera). He finds that for primary male workers unemployment is more likely for those whose income is *below* the level predicted for someone of their social position. Eichengreen suggests that this "unmeasured income" element is probably due to education or training. The potency of this unmeasured element is approximately the same as the coefficient on the replacement rate. (p617).
9. The overall replacement rate appears to have been about 0.39 before 1930 and 0.42 after 1930 (compared to 0.5-0.54 according to Benjamin and Kochin). (p612).
10. Eichengreen's analysis suggests that if 1913 replacement ratios had been continued then unemployment would have been between 14% and 21% lower in 1929-31. [Note, however, that this is subject to a massive margin of error. It could have been reduced by as much as 60%, or increased as much as 50%]. (p619).

GLYNN and BOOTH, "Unemployment In Inter-war Britain: A Case For Relearning The Lessons Of The 1930s?" *Economic History Review* (1983).

1. Measures of unemployment for the inter-war period are difficult. The foundation of the National Insurance Scheme in 1911 formalised union efforts to insure their workers against unemployment, but throughout the inter-war period the scheme still only covered 11.75 million workers (about 60% of the working population). Some other workers - such as railway workers - were covered by schemes run by their firm or industry. (p331).

2. Based on the NIS data Feinstein calculates that from 1921-38 unemployment averaged 10.9%. It is not clear how this compares to the pre-war period. Before 1914 it is likely that unemployment averaged around 4.5% but this can be questioned on two counts. Firstly, the data is poor; and secondly, there may have been a great deal of disguised unemployment (underemployment) because there was no social security to fall back on. (p332).

3. The unemployment of the inter-war period was mainly structural, a product of the long term decline of UK staples. This was accentuated by insufficient aggregate demand - which prevented new industries expanding rapidly to take up the displaced workers. (p334). Although cyclical unemployment was also a problem (especially in 1921 and 1929-31), there was still around 8% unemployment at the peak of the cycle and in general probably 60%-80% of unemployment was structural. (p335). The structural element, and particularly the regional nature of the problem, casts serious doubt on the efficacy of a simply Keynesian solution. (p335). Hence in the late 1930s when demand was high we see high unemployment and demand-pull inflation coexisting.

4. Different industries suffered different types of unemployment. In the early 1920s the staples suffered from classical unemployment (id est the real wage was too high), whilst the new industries had deficient demand. (p336). The consequences of this were exacerbated by the regional location of various industries (heavy staples in the outer regions, new industries and services around London) and by the lack of labour mobility between them. Hence the proportions of net industrial output produced in each region altered greatly between the wars:

Old industrial areas: 49.6% (1924) 37.6% (1936)

New industrial areas: 28.7% (1924) 37.0% (1936)

The policy implications for each type of unemployment were not merely different, but downright contradictory. This necessitates a model of a "Dual Economy" in order to fully understand the problem. (p337).

5. How does Keynesianism fit into the inter-war context? Firstly, we must note that tinkering with aggregate demand was not universally condemned (public works programmes were often implemented in times of severe unemployment such as the early 1920s). It was only large and persistent budget deficits which were thought to be

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dangerous. In those situations there was always strong public support for restrictive monetary and fiscal measures (for example the Geddes Axe of 1921-2 and the formation of the 1922 Committee). (p340). It is also the case that Keynesian policies would have been greatly undermined by the state of the external balance - and domestic expansion was thoroughly impractical in inter-war Britain in the absence of either protectionism or devaluation. (p339). Such extreme measures were impossible because of the need to stimulate trade and help the staple trades recover. (p341). Thirdly, blunt Keynesian policies fail to address the imperative regional issue. (p339).

6. It is true that government policy in the inter-war period was neither dynamic nor inspiring. However, the trend in unemployment was downwards until 1927; new industries were beginning to expand; and there were policies designed to alleviate the regional problem (such as the Special Areas Acts and rationalisation). (p343). Alternative policies proposed by the Liberals were simply not credible (as Thomas and others have shown) as well as being very difficult to implement. (p341).

7. The role of the dole in inter-war Britain has been much debated. We should be more aware, however, of the diversity of public assistance over the period (including Poor Relief, National Insurance, the "dole" - which covered various grants to the destitute - and the Public Assistance Committees). (p344). The government could not have increased the level of unemployment assistance because the funds were simply not available (as the events of 1931 demonstrate) but to have cut them would have adversely effected aggregate demand at a critical time. (p345). It now seems unlikely that the dole per se greatly increased unemployment (contrary to Benjamin and Kochin) but it may well have done so by strengthening the bargaining position of the unions - which proved very capable of resisting substantial cuts in real wages. (p347). The alternative to raising unemployment benefits was really no alternative at all - no government (and no people) would accepted such an increase in poverty and destitution. (p347).

8. The complexity of the inter-war unemployment problem condemned the inter-war governments to a deeply unsatisfactory mode of operation. They could never successfully address one form of unemployment without exacerbating the other. Although the low productivity/low wage phenomenon of the Edwardian economy was left behind (even dinosaurs such as steel and cotton showed above average productivity growth) the economy was condemned to stagnation and high unemployment. (p348).