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Unemployment in Interwar Britain

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November 1988

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UNEMPLOYMENT IN INTERWAR BRITAIN

It was the autumn of 1929 when business began to decline. Where Neil Smith's employer had needed six lorry drivers, now he needed only five. But Smith, a young Englishman, was not worried. With his employer's cooperation, the six drivers formed a "pool" to share the remaining work. His foreman arranged to have a different member of the pool "play off" (be temporarily laid off) for three days at a time. When his turn came around, Smith signed on at the Employment Exchange. Having been unemployed for two three-day periods over the last two months, he had already registered at the Exchange and so qualified immediately for unemployment benefit. The 13 shillings he and his young wife received for each three-day period were not much less than his wages while employed, and even permitted a visit to the cinema during his short "vacation."

It was the winter of 1935. Michael Richards had been without steady work for nearly five years. Initially confident of his ability to find another job, after months of frustration he grew sullen and despondent. At first, his 32 shillings a week in benefit had been enough, after rent and expenses, to put food on the table for his wife and three children. But after exhausting his entitlement to unemployment insurance benefit, Richards was forced to turn to the meagre 22 shillings of means-tested relief provided by the Public Assistance Committee. Potatoes and turnips replaced meat on the table, and even that was in short supply. Smith's children seemed small compared to their classmates. He himself blamed inadequate diet for the hacking cough which had caused many a foreman to turn him away. The search for work being futile, he spent most of the day on the street commiserating with his mates.

Messrs. Smith and Richards are fictional characters. They are representative of two caricatures of unemployment in interwar Britain. One portrays interwar unemployment as an economic and social catastrophe of unparalleled dimensions. Unemployment in this view resulted from the collapse of the market economy in the post-1929 Slump. Inability to find work was not the fault of the individual but of the circumstances in which he found himself. At least this was true until the experience of unemployment began to exercise its pernicious effects. In addition to its effect on health, unemployment threatened the psychological well-being of those who endured it. The unemployed worker became demoralized, depressed and undesirable from potential employers' point of view. Consequently there emerged by the second half of the 1930s a large pool of long-term unemployed for whom idleness was virtually a permanent condition.

The second view characterizes interwar unemployment as a largely voluntary practice in which workers were encouraged to engage by Britain's inordinately generous unemployment insurance system. Often, benefits amounted to a substantial share of wages and could be drawn without any effective waiting period. Employers like Neil Smith's were encouraged to adopt the OXO System (so called because the Ministry of Labour used O's to denote days of employment and X's to denote days unemployed), and persons out of work were induced to remain unemployed in the hope that a more desirable position might turn up. From this perspective, unemployment was not pernicious because workers chose it voluntarily. If it had costs to society, in the form of the lost output of the voluntarily unemployed, these were attributable to an ill-devised system of unemployment insurance.

Much recent research on interwar unemployment has revolved around these two views. It is easy to see why the topic should have attracted so much attention and has been the subject of such controversy. The emergence of high unemployment has been the most disturbing feature of the British economy in the 1980s, and its persistence has been the most important failure of Margaret Thatcher's economic policies. To better understand both the causes and effects of high unemployment, economists and historians have turned to the only other period in the 20th century when unemployment has been so widespread and persistent: the 1920s and 1930s. Increasingly, many of the same debates which occupy the pages of our newspapers also fill the pages of historical journals.

This research by historians has revealed that not one but both stereotypes of interwar unemployment have considerable validity. At any moment in time, there were a large number of individuals who moved back and forth between work and dole, experiencing a succession of short spells of unemployment. At the same time, there was a hard core of long-term unemployed, particularly in the 1930s, for whom prospects of re-employment were dim. In effect, the British labor market was divided into two segments, one in which turnover was rapid and movements into and out of the pool of unemployed occurred smoothly, and a second in which both employment and unemployment were long term, so that once in either state an individual had little chance of getting out. How these two situations could coexist remains the major puzzle for historians of interwar unemployment.

* * *

The first problem that any study of unemployment must confront is measurement. Even today there is no generally accepted definition of

unemployment. Is a man who works half a day employed or unemployed? What about a married woman who, upon losing factory employment, spends her day engaged in housework? Even when one adopts a particular definition, there is the problem of accurately enumerating those in and out of work. For interwar Britain, the generally accepted statistics on unemployment derive from the operation of the unemployment insurance system. The unemployment rate among the insured is shown in Figure 1. Not all workers were covered by the system; most notably, agricultural workers, the self-employed, and new entrants to the labor market who had not yet qualified for insurance do not appear in the statistics underlying Figure 1. Moreover, insured persons who had been denied or exhausted their benefits might drop off the Ministry of Labour's register and not be counted as unemployed. The only other comprehensive source of information, the 1931 Census, suggests that if the uninsured are included then unemployment may have been several percentage points lower throughout the period. But there is no reason to suspect that Figure 1 presents a particularly misleading picture of fluctuations in unemployment over time.

There is no dearth of explanation for those fluctuations. The most prominent feature of Figure 1 is the dramatic rise in unemployment after 1929. Here it is argued that the worldwide depression created a crisis for the British economy. Britain, after all, was an export economy, and once the depression caused the collapse of British exports, a contraction of employment opportunities was inevitable. Some interwar economists, like A.C. Pigou, while acknowledging the severity of the Depression objected that unemployment was by no means the inevitable result. If laborers had been willing to work for less, the prices of British exports could have been reduced, more could have been sold abroad, and employment

— UNEMP

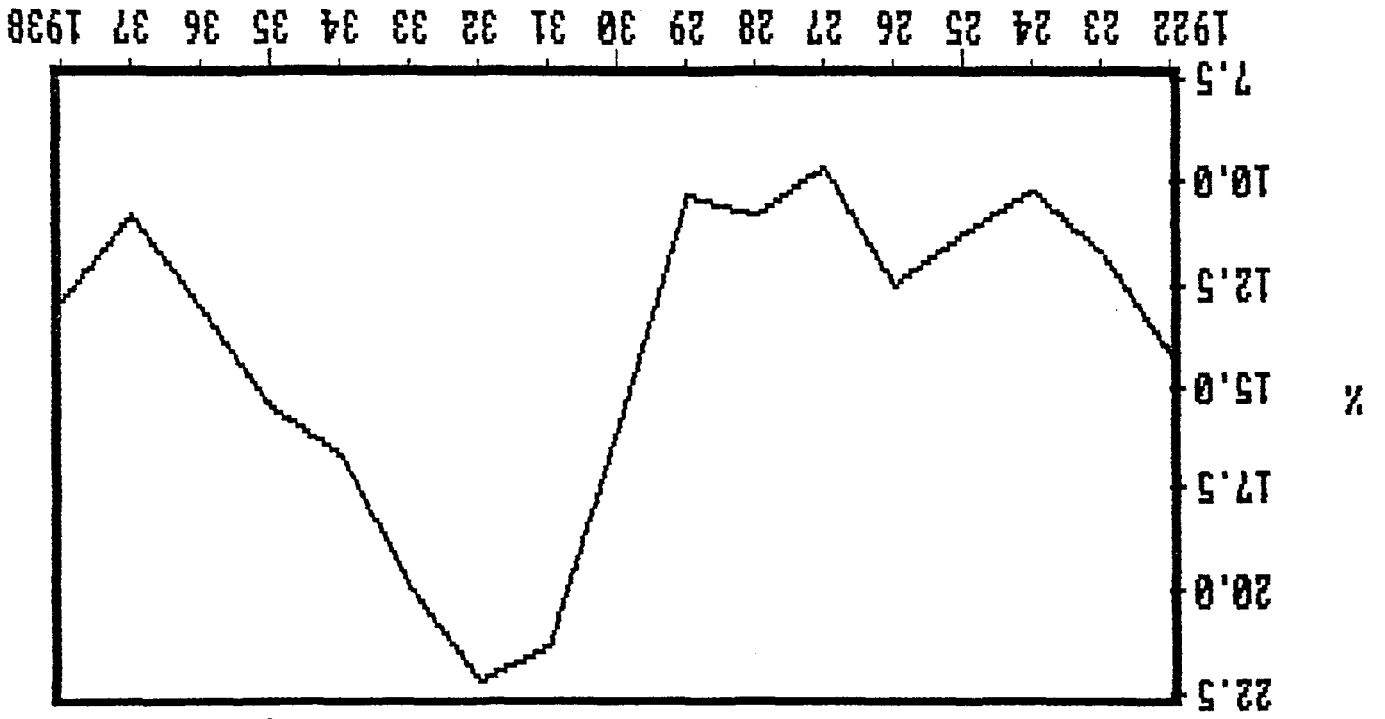


FIG. 1. UNEMPLOYMENT RATE FOR INSURED WORKERS, 1922-1938

would not have had to contract. The problem, as they saw it, was that real wages (money wages deflated by product prices) rose dramatically after 1929 instead of falling (as shown in Figure 2). This resulted not from a rise in money wages but because prices collapsed and wages lagged in following them down. Some critics, like Pigou, blamed the unions for the slow adjustment of wages. Others emphasized the extent to which wages were governed by custom rather than current economic conditions. Still others, like John Maynard Keynes, in his General Theory of Employment, Interest and Money, argued that wage cuts would only aggravate the situation, since the problem was not that labor was too costly but that the demand for products was too low and reducing wages would further reduce consumption.

A second prominent feature of the unemployment series in Figure 1 was its persistently high level. Unemployment had reached high levels well before the interwar depression. Something other than the post-1929 slump had to be invoked to explain what was by then already a decade-old problem. Hence the appeal of the argument that unemployment was subsidized by the generous provision of insurance benefits, a position argued recently by the economists Daniel Benjamin and Levis Kochin [1]. There is no disputing that, from 1922, unemployment benefits for a family of four represented a substantial fraction of average adult male wages (see Table 1). But that fraction was also substantially less than one so that unemployment did lower incomes. The level of benefits alone cannot tell us much about the extent to which the dole encouraged unemployment. Benjamin and Kochin's statistical analysis led them to conclude that over the period as a whole the operation of the unemployment insurance system raised unemployment by five to eight percentage points. Their estimate

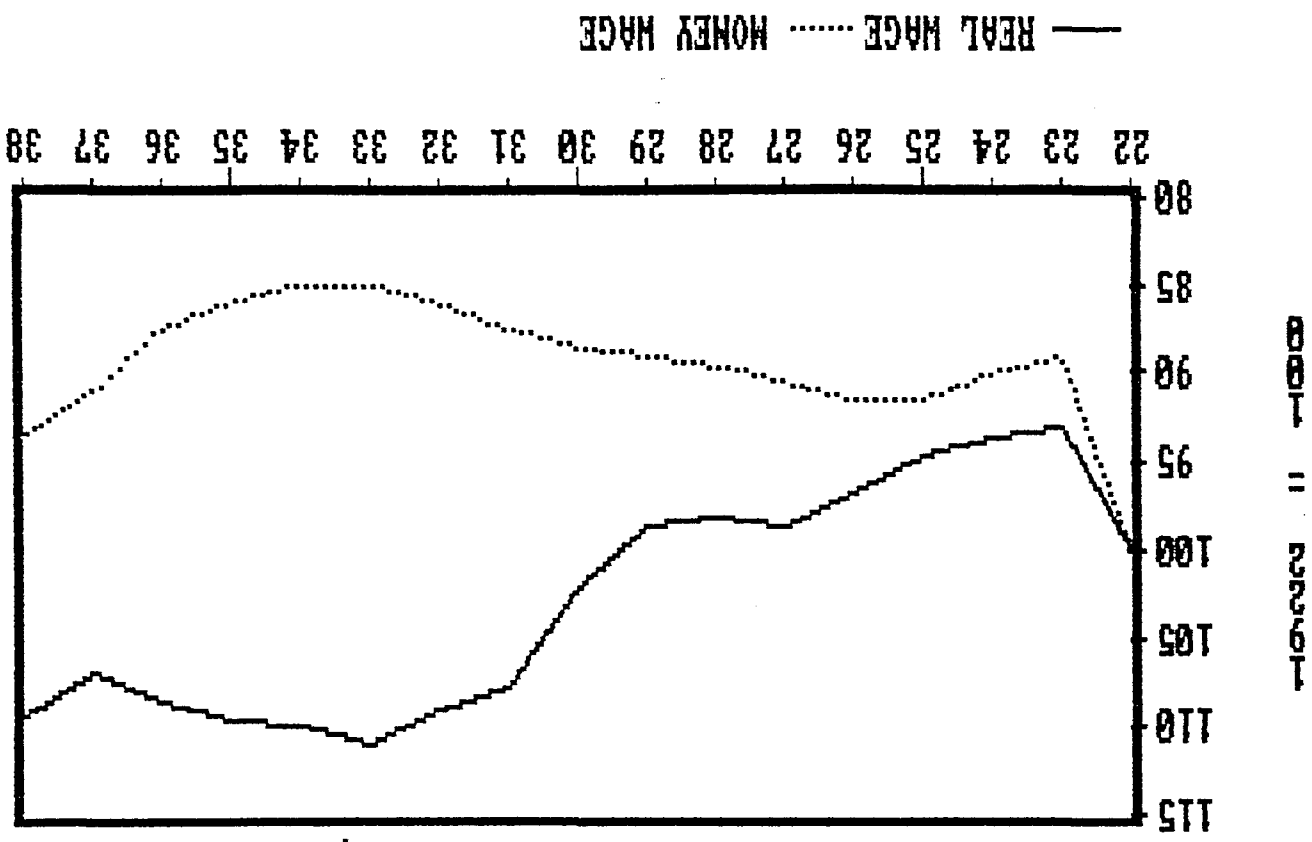


FIG. 2. REAL AND MONEY WAGE RATES, 1922-1938

Table 1
Wages, Benefits and Unemployment Rates
United Kingdom 1920-38

Year	Average Weekly Wages	Average Weekly Benefits	Benefits/ Wages	Unemployment Rate
1920	73.8	11.3	.15	3.9
1921	70.6	16.8	.24	17.0
1922	59.1	22.0	.37	14.3
1923	55.5	22.0	.40	11.7
1924	56.0	23.7	.42	10.3
1925	56.4	27.0	.48	11.3
1926	55.8	27.0	.48	12.5
1927	56.2	27.0	.48	9.7
1928	55.7	27.7	.50	10.8
1929	55.8	28.0	.50	10.4
1930	55.7	29.5	.53	16.1
1931	54.9	29.5	.54	21.3
1932	54.0	27.3	.50	22.1
1933	53.7	27.3	.51	19.9
1934	54.3	28.6	.53	16.7
1935	55.0	30.3	.55	15.5
1936	56.1	32.0	.57	13.1
1937	57.2	32.0	.56	10.8
1938	58.9	32.8	.56	12.9

Notes: Wages (for adult males) and benefits (for typical family of four) in shillings per week. Unemployment rate in per cent.

has been vigorously attacked by historians. My own research [2] suggests that the effects of unemployment benefits were considerably smaller. Factors other than the insurance system must have contributed to the high average level of unemployment over the period.

Among other factors historians have long emphasized the role of structural (or "mismatch") unemployment. Before World War I, one in four British workers had been employed in the staple trades: mining, shipbuilding, cotton manufacture, mechanical engineering and iron and steel. During the war, domestic and foreign capacity in all these industries was considerably expanded. Hence in the 1920s the British staple trades suffered from intense foreign competition and low prices. The problem for the economy was to redeploy resources to other sectors. Between 1920 and 1925 employment in the staple industries fell by over one million. But the process of redeployment was not smooth. Even a coal miner fortunate enough ultimately to find a job in the motor industry might suffer an extended spell of unemployment in the interim. As late as July 1929 the five staple trades accounted for nearly half the insured unemployed. N.F.R. Crafts, Mark Thomas and Mary MacKinnon have recently shown that the average level of unemployment was raised quite considerably by the extent of structural imbalance.

Part of the difficulty of redeploying workers from declining to expanding sectors was the concentration of unemployment in certain depressed regions. In June 1936 unemployment varied from 32 per cent in Wales, to 17 per cent in Scotland and the North-west, to 5 per cent in the South-east. One might think that this was simply another symptom of structural unemployment: since coal mining was depressed and since the industry was concentrated in Wales, it followed that Wales should have

been depressed. This was not the entire story, however: unemployment varied across regions even after eliminating the effects of industrial mix. These regional differentials created further difficulties for the operation of the labor market. Moving in search of employment was both costly and risky. As one Londoner put it, "You live on more than just what you get from your work. There is the fact that you're known in the neighborhood and can find help tiding you over bad times. Then there is your family. It's pretty risky to move away and leave all that for a job that just might be a good one."

* * *

Just as unemployment was spread unevenly across industries and regions, it varied across demographic groups. Typically unemployment rates were almost twice as high for men as for women, and for males aged 55-59 as for those aged 18-24. Comparing adults of different ages, unemployment traced out a U-shaped pattern, starting at high levels among young adults, declining to low levels among workers in their late 30s and early 40s, and then rising among older workers. The relatively young complained that employers discriminated against the inexperienced, while the elderly complained of "the wall of age" -- that employers turned away older workers on the grounds that they had come to expect higher wages, that they might be more subject to illness, or that they might be disinclined to learn new methods.

One reason for the lower unemployment rates among women was not that they really fared better but that upon becoming unemployed they were more inclined to drop out of the labor force and to disappear from the statistics. In addition, Carol Heim [5] has pointed to the fact that many

new firms in expanding sectors preferred to take on new workers like women and juveniles without prior experience in industry. These workers were desirable by virtue of the fact that they did not bring to employment entrenched attitudes about work pace and organization.

Youth unemployment rates were lowest of all. Where the overall unemployment rate among insured persons averaged 14 per cent between 1920 and 1938, juvenile unemployment, for those under eighteen years of age, averaged only 5 per cent. This contrasts provocatively with the 1980s, when youth unemployment rates have been much higher, not lower than those of adults. Why should the youth/adult unemployment differential have risen so dramatically over the last 50 years? My work [3] points to the possibility, as for women, that the low levels of youth unemployment between the wars were partly a figment of the data, due to the difficulty of accurately enumerating unemployed juveniles actually searching for work. But interwar unemployment rates for juveniles were exceptionally low for a number of additional reasons, including demographic factors (a lower ratio of juveniles to adults in the population than in the 1980s), the industrial composition of employment (which favored industries employing a large share of juveniles in their work forces), and a lesser reliance on seniority as the basis for layoffs (so-called "inverse seniority" layoff rules).

A remarkable feature of this labor market was the amount of movement in and out of unemployment. Mark Thomas [6] has estimated that in the early '30s one out of every 15 unemployed persons found a job in a given week. Workers moved in and out of the pool of unemployed at two to three times the rates of the 1980s. This meant that the burden of unemployment was widely shared. In a year like 1932, when the unemployment rate was 22

per cent, not 22 but 53 per cent of workers experienced at least some unemployment.

Part of the explanation for the speed of turnover lies in the operation of the unemployment insurance system, which gave rise to arrangements like the OXO system described above. But, in addition, the interwar labor market differed from the present by the extent of low job attachment. It was more common than today for workers to change employers. The extreme case was that of "casual workers," who might queue up at a different factory gate each morning to be taken on for only a day or even a morning's work. It followed that workers without firm job attachments might move in and out of the pool of unemployed while moving between employers.

The average spell of unemployment was longer than the experience of casual workers suggests, however. In the 1930s an unemployed person might expect to remain out of work for 8 to 13 weeks. But different groups remained in unemployment for very different spells of time. At least a quarter of those entering unemployment could expect to remain there for more than a year. This likelihood grew as the depression persisted: long-term unemployment rose from less than 5 per cent of total unemployment in 1929 to 22 per cent between 1933 and 1937. The danger of long-term unemployment was greatest for older males. Older workers did not face a greater risk of losing their jobs, but once in unemployment they had dimmer prospects of getting out.

Thus, unemployment in interwar Britain encompassed a combination of two very different phenomena. On the one hand were a large number of persons repeatedly moving into and out of the pool of unemployment and experiencing unemployment spells of short duration. The insurance system

was partly but not entirely responsible for this extraordinary amount of "churning" in the labour market. On the other hand were a smaller number of persons, mainly older men, who when unfortunate enough to enter unemployment experienced very long spells without work. The insurance system had little to do with their plight. Recent research shows convincingly how misleading it is to lump the two groups together.

* * *

Why should some workers, once in unemployment, have found it exceptionally difficult to escape? One possibility is that they differed in their susceptibility to unemployment's debilitating effects. Older men were thought to be particularly vulnerable to psychological impairment. Long-time wage earners who took pride in their occupation found it especially difficult to deal with being out of work. Household heads despaired for having failed their families and coped with their feelings by falling into a state of indifference and lassitude. While factors such as these are difficult to document, recent historians like Harris [4] have attached considerable importance to their effects.

It might seem that the impact of unemployment on physical well-being would be comparatively easy to document. Yet contrary to the impressions of laymen, throughout the interwar period Ministry of Health experts adamantly denied that unemployment had adverse effects on health. They were unconvinced by the observation that illness was concentrated where unemployment was highest: areas with high unemployment were also ones with long histories of poor health standards. They noted that neither the crude death rate or the infant mortality rate rose significantly between the 1920s and the 1930s. Many historians concur in this view: the work of

Jay Winter [7], for example, suggests that throughout the period improvements in medical care supported a trend toward better health.

Many observers cannot help but feel that this view is too sanguine. They will find support in Bernard Harris' [4] innovative analysis of the problem. Harris draws on the physiological literature on nutrition and stature, which analyzes how malnutrition can stunt the growth of children. Using evidence gathered by the School Medical Officers on the average height of schoolchildren between 1923 and 1938, Harris documents a negative relationship between children's stature and local unemployment for a number of middle-income towns (but no effect for towns where unemployment was highest). He suggests that the level of unemployment benefit was too low to enable the unemployed and their families to satisfy all their physiological needs, but it was high enough to prevent a deterioration in health in areas where the average level of nutrition was already very low. Thus, earlier observers may have overlooked the relationship between unemployment and physical well-being because unemployment did not have its worst effects on the poorest groups.

In addition to providing new evidence on the effects of unemployment, this new work has implications for its causes. For it is hard to reconcile evidence that unemployment led to malnutrition and stunted growth with the presumption that it was a voluntary phenomenon induced by the operation of a generous dole. In addition, Harris' evidence that rising unemployment was associated with deteriorating health for some income groups but not others shows again the dangers of generalizing about unemployment between the wars. Interwar unemployment had neither a single cause nor a single set of effects. The research now underway promises to shed new light on the entire range of experience.

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