
Conference Reports

Interwar Unemployment in International Perspective

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The worldwide rise in unemployment has reawakened the interest of economists and historians in the Great Depression of the 1930s. The 1930's are seen as a watershed — a traumatic experience which influenced social and economic policy for more than a generation. The sudden and unexpected emergence of mass unemployment, its uneven incidence across industries, occupations and individuals, the rise of an underclass of long-term unemployed and the belated and partial responses of public authorities are the building blocks of the mythology of the 1930s. Yet all too often such caricatures are based on an inadequate understanding of exactly how the burden of unemployment was shared, by whom and why.

These concerns provided the motivation for a conference on Interwar Unemployment in International Perspective held at the Center for International Affairs of Harvard University on 7-8 May 1987. The conference heard eleven papers over two days, two providing a comparative analysis, and nine on aspects of the unemployment experience of individual countries. It was attended by over 40 economists, historians and sociologists from a wide range of countries and representing a spectrum of theoretical and empirical backgrounds. The conference was organised by Barry Eichengreen (University of California, Berkeley and Centre for Economic Policy Research) and Tim Hatton (Essex, Australian National University and CEPR), and made possible with financial support and assistance from the Center for International Affairs, the North Atlantic Treaty Organisation, the Harvard/Mellon Economic History Center and the Centre for Economic Policy Research.

In their introductory paper, Eichengreen and Hatton drew attention to some of the key characteristics of interwar unemployment that arise once one adopts a comparative perspective. Their point of departure was the observation that perceptions of the severity, incidence, and character of unemployment are conditioned by the available statistics which arise primarily from the

operation of trade union and unemployment insurance funds. These sources tend to focus exclusively on the industrial sector and, with the exception of the U.S. and Canada, indicate much higher unemployment rates than census benchmarks or labour force surveys. It would be misleading, however, to conclude that international differences are entirely a figment of the data. Within the manufacturing sector, the depression and recovery in different countries elicited different time profiles of unemployment. In some countries there was a dramatic decline and recovery in productivity, whereas in the US and Italy there was a permanent decline in hours. In still others, such as Australia, output and employment moved proportionately. Still more difficult to identify are the labour supply responses: were the 1930's characterised by a substantial rise in hidden unemployment? The interwar response may have differed from postwar behaviour because of changes in alternative income sources (either from the state or from subsistence self employment), in demographic composition, or in family structure. The incidence of unemployment also shows distinctive characteristics. Evidence from the US and UK suggests employment turnover was higher than in the postwar years, although in the 1930s the long-duration unemployed with very low reemployment probabilities comprised a growing share of the total. Unemployment rates by age also show a distinctive pattern, with low teenage unemployment and then, in several countries, a "U" shaped age distribution. The reasons for this age profile have not been adequately explained.

For many years there has been a consensus that soaring unemployment after 1929 was due in some part to nominal wage inertia leading to a sharp rise and subsequent fall in real wages. In their paper, Jim Symons (University College, London) and Andrew Newell (Sussex) tested time series equations for employment, the real wage, and price changes on data for 14 countries. They found that the real (product) wage and real interest rate had strong negative effects on employment, though ironically (given the attention paid previously to these countries) the results are weakest for the UK and US. The average long run real wage elasticity of employment was estimated at -0.7 and the real interest rate elasticity at -1.3 . Symons and Newell argue that the pattern of unemployment in depression and recovery can be explained largely by these variables. Changes in the price level had a powerful impact on the real wage, as if there existed considerable nominal wage inertia, but the level of unemployment had only a weak effect. Price changes in turn were determined by world prices, adjusted for the effective rate of protection, and by world trade. For individual countries, it appears, it was the contraction in world wealth and world trade which, by causing a fall in the price level, led to a decline of employment. At the global level, according to Symons and Newell, the dominant factor in the Depression was the leftward shift of the IS curve due to the fall in the value of assets (a result of the Wall Street crash?) and the leftward shift in the LM curve that resulted from bank failures in the US.

In the debate over causes and consequences of high unemployment in the 1930's, microeconomic evidence has been neglected. In his paper on the US labour market, Robert Margo (Colgate University and NBER) provided the first analysis of unemployment from the public use sample of the 1940 census. Margo examined the personal, regional and industrial characteristics of three groups of household heads: the employed, the unemployed and those on relief projects associated with the New Deal. Compared with the employed, unemployed workers were more often middle aged or elderly, foreign born, single, urban, geographically immobile and more likely to live in the North East or West. Relief workers exhibit characteristics different from the unemployed in that they were more likely to be under 45, married and owner-occupiers but less likely to be either white or foreign born. Analysis of interrupted unemployment spell durations and re-employment probabilities indicated that higher levels of schooling and geographic mobility reduced both risk of unemployment and access to work relief. Those on relief tended to have very long spells without regular work, indicating that, for a large group of individuals, relief work was virtually a permanent occupation. Overall, Margo's results suggest that relief work was not equivalent to regular employment and that the conditions and characteristics of relief workers were substantially different from those of the wholly unemployed.

The next session was comprised of two papers on the character and consequences of unemployment in interwar Britain. Mark Thomas (Virginia) examined measures of labour turnover and unemployment duration using statistics derived from the interwar labour exchanges. Inflows to unemployment in the early 1930s were calculated to be two to three times the levels of 50 years later. In consequence, average completed unemployment spells were considerably shorter than might have been expected: about 10 weeks for all unemployed, 20 weeks for the wholly unemployed. But interrupted-spell length for the latter group rose from 15 weeks in 1929 to nearly 50 weeks in 1936. This conveys an impression of unemployment as sharply bifurcated into long and short durations. The extremely low exit probabilities for the long-term unemployed cast doubt on the idea that the duration dependence evident in the aggregate data can be explained solely by differences in the characteristics already possessed by workers when they entered unemployment, suggesting instead declining exit probabilities for each individual. Long-term unemployment was concentrated among older workers with both lower unemployment benefits and lower wages when in work. It is difficult to see these workers as induced by the insurance system to stay on the register for long periods.

In his paper on health and unemployment in interwar Britain, Bernard Harris (Bristol) reviewed contemporary studies of poverty, arguing that these often understated the extent of the problem. Although unemployment was only one among several causes of poverty and ill health, Harris noted that the general improvement in mortality from 1911 was smallest for high unem-

ployment areas. Maternal mortality and mortality among men over 55 appeared to be most sensitive to unemployment. While general indicators of health are hard to come by, variations in nutrition have been found to influence the early growth and therefore the heights of children. Harris's time series analysis for certain areas in the 1930s revealed negative effects of parents' unemployment on children's stature.

The economic policies undertaken by fascist regimes in the 1930s are often said to have promoted rapid economic recovery and to have virtually eliminated unemployment. This was the focus of papers on Germany and Italy. Dan Silverman (Pennsylvania State University) examined policies to promote economic recovery under the Nazi regime. Could the dramatic turnaround in the German economy, which saw recorded unemployment cut by sixty percent in the first eighteen months of the regime, be explained by work creation programmes? Silverman's examination of these schemes suggested that until the rearmament drive from 1935 work creation had only marginal effects on the total number out of work. Alternatively, it has been suggested that changes in methods of recording unemployment could have exaggerated the fall in German unemployment in 1932/3. Although deliberate doctoring seems unlikely, the German Federal Institution for Placement and Unemployment Insurance was thrown into chaos during the process of nazification. This, coupled with changes in eligibility and coverage of unemployment insurance, obscures the true picture of revival in the German labour market in the critical early years of recovery.

Lack of adequate statistics makes the unemployment picture for Italy even more obscure. In their paper, Francesco Piva (Rome) and Gianni Toniolo (Venice) emphasized the "dual" nature of the interwar Italian economy. Until 1929, there were high rates of migration from the underemployed agricultural sector to industry in the cities and abroad. Although industrial employment only declined by 6% between 1929 and 1932, there is evidence of extensive job sharing in the sharp decline in hours and the high rates of turnover. While the overall level of industrial unemployment is unclear, the authors' estimates suggest a dramatic recovery between 1933 and 1937. However, as in the German case, Mussolini's public works policy had only marginal effects on industrial unemployment in 1931-3. As argued by Symons and Newell, there is evidence of a strong inverse correlation between the product wage and hours of employment which accounts for a major part of the variation of total hours, both in aggregate and at the industry level.

France and Belgium are two of the countries whose economic recoveries in the 1930s were retarded by their adherence to the gold standard. Yet throughout the period their recorded unemployment rates were surprisingly low. In his paper, Rober Salais (INSEE, Paris) asked the question: why was French unemployment so low in the 1930s? An important feature of French experience was a dramatic decline in the labour force between the 1931 and 1936 census benchmarks. While it is sometimes argued that the exodus of

foreign workers was the major reason for this fall in the labor force, Salais points to other equally important factors. Institutions for the relief of unemployment and the concepts used to measure it were less developed in France than elsewhere and may have led to serious underenumeration. Salais' analysis of the files of over 6000 individuals provided relief in Paris shows that non-household heads often experienced only brief periods of unemployment followed by termination of benefit. Across departments, recorded unemployment is strongly correlated with urbanisation, industry mix and labour market organisation. Home workers and those in small businesses were less likely to be recorded as unemployed due to the nature of their employment contracts, while those in large firms were more likely to be permanently laid off and hence to be enumerated as unemployed.

In Belgium, there are both similarities and differences from France. The Belgian case was analysed in a paper by Martine Goosens, Stefaan Peeters and Guido Peppermans (Leuven). They emphasized the country's system of voluntary unemployment insurance which was extended in the 1920s as a result of trade union influence and government intervention, growing in coverage to nearly a million workers in the early 1930's. The operation of this system forms the basis of their estimates of Belgian unemployment rates. As in France, the census indicates a sharp drop in the labour force from 1930 to 1936. The authors' estimates of the total *number* unemployed suggest that the contraction in the labour force made a major contribution to the fall in unemployment from 1933 to 1938.

Canada's unemployment in the 1930's owed much of its origin to conditions in the US. In their analysis of Canadian unemployment, Alan Green (Queen's) and Mary MacKinnon (Queen's and Australian National University) found that, despite Canada's reliance on a narrow range of staple exports and the regional specialisation of the economy, the regional variation in Canadian unemployment rates was surprisingly small. Differences among occupations and between sexes were more pronounced, with females and those in non-manual occupations experiencing the lowest unemployment rates. In 1930/1, 44% of wage earners lost time and, among these, the average time lost amounted to half a year. Despite the severity of this unemployment problem, work relief projects started in the early 1930s did not develop into a full scale relief programme comparable to the New Deal.

In Australia, despite the rhetoric of equal sacrifice there is evidence that the burden of unemployment was very unequally shared. Robert Gregory (Australian National University) showed that "job sharing" was not as common as in the US. Had the output-employment relationship behaved as the US, Australian unemployment would have risen to only 12% in 1932 rather than to the 19% observed. Once separated from employment, Australian workers experienced very low probabilities of regaining jobs. By 1933 more workers had been unemployed for 2-3 years than for 1-2 years, reflecting the quasi-permanent nature of separations in 1930/1. This suggests that labour

market theories emphasising rapid employment turnover and search behaviour are particularly inappropriate to Australia.

Together, these papers paint a much richer picture of interwar unemployment than the studies that have come before. Revised versions are to be edited by the organisers and published by Martinus Nijhoff in association with the Centre for Economic Policy research. Hardbound and paperback editions are due to appear in the spring of 1988.