1. What were the main causes of unemployment in Britain in the inter-war period?

2. What role did unemployment benefits, structural change and real wages play in causing unemployment? Was it inevitable?

Introduction

Glyn and Booth (1933) note that even at the peak of the cycle, the unemployment rate rarely went below 5%, roughly twice the pre-war rate.

During the inter-war period, the national rate of unemployment was perhaps not attributable to a single factor, according to the literature, a combination of them.

In explaining high interwar unemployment than unemployment benefits—however, there is also a role for demand side factors, in particular the decision to return to gold, which Eichengreen (1995) identifies in ‘Golden Fetters’.

Aggregate unemployment figures almost always fail the truth, however, their experience were different according to age, region, sex and industry.

Beanette et al. (1986) find evidence that the ‘discouraged worker effect’, where agents withdraw from the active labour market as unemployment increases, because they perceive their chances of finding work to be low to be particularly apparent in women, and especially married women.

Shocks to Aggregate Supply: Real Wages and Labour Productivity

Dowse (1973) finds that the critical change in the 1920s was the fall in the workweek from 54 -> 47 hours (13% fall), which coincided with a sharp increase in wages.

Dimsdale (1934) calculate a 28% increase in the real wage between 1913 and 1924, which he believed contributed greatly to Britain’s lack of competitiveness, and resulted high unemployment.

Beanette et al. (1986) claim that real wages after 1929 were the principal cause of rising unemployment because of the recovery of output and employment after 1921, when real wages fell.

This explanation is given in spite of evidence from Broadbrush (1939) that the supply of labour was very inelastic, and economic evidence from Dimsdale (1984) which supports this.

Solomon (1991) disagrees with Beanette et al. (1986) completely, arguing that real wages were not the problem in interwar period as real wages never really got out of line with real productivity.

For him, the issue was that labour productivity increases were due to firms shedding the least productive workers (leisure and job search);

They argue that a high replacement ratio (unemployment benefits relative to wages) induced voluntary unemployment which athletes to psychological changes, loss of skills and adverse signals to employers - resulting in transitional adjustment, but rather structural unemployment.

Eichengreen’s (1995) microeconomic study suggests that the direct effects of benefits on unemployment were minimal.

He also makes the distinction that the unemployment rate for household heads was 8.6%, slightly lower than non-household heads.

Crass (1976) finds that the longer you are unemployed, the less likely you are to leave unemployment, which attributes to psychological changes, loss of skills and adverse signals to employers - resulting in transitional adjustment, but rather structural unemployment.

He paints a more reasonable picture of interwar labour markets: that if there as voluntary unemployment, it was not paint a more reasonable picture of interwar labour markets: that if there as voluntary unemployment, it was not paint a more reasonable picture of interwar labour markets: that if there as voluntary unemployment, it was not.