



Interwar Unemployment in International Perspective.

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aim of deriving "models" of historical development on the basis of statistical analysis of secondary data, but it is nevertheless an interesting and stimulating book, characterized by considerable erudition and rich in substantive insights about the interactions of institutional change and economic development.

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Interwar Unemployment in International Perspective. Edited by Barry Eichengreen and Timothy J. Hatton. Dordrecht: Kluwer Academic Publishers, 1988. Pp. xxii, 434. \$114.00.

This book surveys the interwar period's unemployment in Western Europe, North America, and Australia. Large-scale, mass unemployment is an obvious waste of society's productive power—in George Orwell's *The Road to Wigan Pier*, unemployed coal miners scuffle for waste fuel while the machines they used to work stand idle all around them. A fall in production may not necessarily mean that the economy has gone awry: raw materials may have disappeared or world market conditions changed, and production was forced into patterns producing less value than old patterns did during their boom. But mass unemployment—the inability of an economy to find anything for a substantial share of its productive workers to do—reveals a deep flaw in any economy's performance as a social calculating mechanism for allocating scarce resources among alternative uses.

Mass unemployment also means that the burden of economic dislocation is unequally borne. Since the prices workers must pay often fall faster than wages, the welfare of those who remain employed frequently rises in a depression. Those who become unemployed thus bear far more than their share of the burden of a depression, a point Bernard Harris makes in his discussion of unemployment, insurance, and health in Britain. Moreover, the reintegration of the unemployed into even a smoothly functioning market economy may prove difficult, for what employer would not prefer a fresh entrant into the labor force to someone out of work for years? The simple fact that an economy has recently undergone a period of mass unemployment may make it difficult to attain levels of employment and boom that a luckier economy attains as a matter of course.

Eichengreen and Hatton have edited a book, consisting of their introductory chapter and ten additional chapters, that tries to bring together what is known about interwar unemployment and to place it in a solidly comparative perspective. They took on the project because information about interwar unemployment outside the United States and United Kingdom was not easily obtained. Although analogies between the 1930s and the 1980s were tempting, they thought such comparisons would darken as much as illuminate unless a solid basis of knowledge about unemployment during the 1920s and 1930s could be built up. And certainly it is not possible to gain anything close to a full picture of the course of the Depression without knowing the unemployment experiences of individual countries and how they varied.

The contributors all stress the diversity of interwar unemployment experience. France appears very different from Britain. How Australia's labor market tried to adjust to the Great Depression bears little resemblance to the experience of the United States. In order to organize the disparate interwar unemployment experiences, I find it helpful to group the volume's accounts along three axes: short-term business-cycle unemployment, persistent policy-generated unemployment, and long-term unemployment.

Business-cycle unemployment appeared in all countries in the early stages of the Depression. And fortunate nations among the European, North American, and Australian set studied in Eichengreen and Hatton—by and large those that devalued early and devoted attention to reflating aggregate demand from 1930 on (see Barry Eichengreen

and Jeffrey Sachs, "Exchange Rates and Economic Recovery in the 1930s," this *JOURNAL*, 45 [Dec. 1985], pp. 925–46; or Andrew Newell and J. S. V. Simons's survey of interwar macroeconomic events in this volume)—experienced little unemployment outside of this category. Business-cycle unemployment is "involuntary." Unemployed coal miners are willing to work—they gather waste coal at a real wage of 1 1/8 pence an hour—yet no firm can or will hire them for some more productive line of work. Perhaps employers fear the consequences for worker morale of hiring the unemployed at lower than prevailing wages; perhaps unions or contracts keep wages at levels inconsistent with full employment given the depressed level of aggregate demand; perhaps workers think that they will soon be rehired and that the costs of trying to move to a different region or industry make active job search at the moment unattractive; but in any event workers would rather be back at work in their conventional jobs at wages less than those their peers are still receiving, but remain idle because of some momentary lack of economic flexibility.

Economists' understanding is that short-term business-cycle unemployment cannot last longer than a few years. Even a severe lack of economic flexibility in the short run should not keep economies from being flexible and returning to full employment in the longer run. But unemployment during the Great Depression remained at high levels for a very long time on a business-cycle scale. And so the standard interpretation of high unemployment as a short-term business-cycle phenomenon cannot be the whole story.

Policy-generated unemployment was, the contributors argue, more widespread than I would have thought they would conclude, given that Eichengreen and Hatton are both of relatively Keynesian bent. For Britain some (although still quite a small share during the peak unemployment years of the 1930s) unemployment among secondary workers and unskilled young men with large families is attributed by Mark Thomas to the "OXO" system, which firms would use to rotate two platoons of workers systematically between time at work and time receiving unemployment benefits. The setup of unemployment insurance gave an incentive, although how strong an incentive is still not clear, for firms and workers to generate short-term unemployment rather than shift workers to less productive but still valued types of work. Robert Margo argues in his essay on the United States that relief jobs were attractive to many in spite of the low level of relief wages relative to average private sector wages. Relief jobs were secure and required little skill, and so the risk-averse or the lesser-skilled might well find that their best option was to stay on relief jobs and be counted as unemployed rather than take a private sector job, even one that was immediately available.

For France, Robert Salais argues that the development of bureaucratic mechanism for dealing with unemployment called forth the phenomena they were to address. Programs that would not offer relief except to the wholly unemployed put pressure on the economy to shift its pattern of labor relations so that it would adjust to lessened demand and slack not by reducing hours or returning workers to agriculture but by creating the "unemployed."

In all of these cases there is no clear alternative way of organizing the unemployment insurance system that would have been a clearly better policy. A good society should offer support to those blocked from earning their wages in the market. And a well-functioning economy should create incentives for the unemployed to register strongly their excess supply of labor in the market. These two goals are inevitably in tension. Relief payments were too high for the short-term and too low for the long-term unemployed, and there was no good way to structure relief programs to tell these two groups apart *ex ante*. As Beveridge wrote in "An Analysis of Unemployment II," *Economica*, 4 n.s. (1937), the long-term unemployed "need . . . more money rather than less than those who have had short periods of unemployment. Yet they can hardly be given more money without . . . [creating an incentive] to settle down into permanent unemployment" (p. 2).

Moreover, few of the long-term unemployed can "escape physical and psychological deterioration through long idleness." Long-term unemployment is, in the eyes of Eichengreen, Hatton, and their contributors, the key to the immensity—or at least to the persistence—of the Depression. Long-term unemployment was strongly present in those countries that suffered worst from the Depression, including non-European nations like Australia (compared to the United States by R. G. Gregory, V. Ho, L. McDermott, and J. Hagan), Canada (analyzed by Alan Green and Mary MacKinnon), and the United States and European nations like Britain and Germany (discussed by Dan Silverman). Long-term unemployment became a problem in gold bloc nations like France and Belgium (analyzed by Martine Goosens, Stefaan Peeters, and Guido Pepermans) that failed to achieve strong recoveries from the Depression.

Long-term unemployment was the tragedy—a significant fraction of workers were truly impoverished for a decade—of the Depression and may have been principally responsible for its persistence. Devalued exchange rates, moderate government budget deficits, and the passage of time all appeared equally ineffective ways of dealing with the problem. Highly centralized and unionized labor markets like Australia's and decentralized and laissez-faire labor markets like that of the United States did equally poorly. Fascist "solutions" unaccompanied by large-scale preparations for aggressive war were equally unsuccessful, as the case of Italy (discussed by Gianni Toniolo and Francesco Piva) shows.

Should we be surprised if the long-term unemployed do not register their supply on the labor market? After all, they might well accurately suspect that they will be at the end of any selection queue an employer would set up. In the end it was the coming of World War II that gave private-sector employers no choice but to hire the long-term unemployed. If we take this lesson from Eichengreen and Hatton to heart, it has serious implications for European unemployment in the 1990s. It would suggest that the long-term unemployed in Europe today will tend to stay long-term unemployed, at least without a very strong excess demand for labor like that seen during World War II or perhaps the 1960s.

As is inevitable with conference volumes, each author pursues favorite themes so the book is somewhat sprawling. The reader must mine common themes and contrasts of the interwar unemployment experience out of the individual contributions. Eichengreen and Hatton have written a very good introductory essay, however, which lays out the book's issues and themes, as does their conference report, in the *Journal of European Economic History*, 17 (Spring 1988), pp. 189–94. The book is close to indispensable for any historian or economist who wants to understand the interwar experience. But I cannot recommend that anyone purchase the hardback version: its price is much too high. I would even find it difficult to urge a library to purchase the book in hardcover. The paperback version is a more affordable £25 or \$48 or so.

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