SHS Web of Conferences **123**, 01027 (2021) https://doi.org/10.1051/shsconf/202112301027
SSPHE2021

The high unemployment rate in Britain during the interwar period

Yifei Liu*

University of Edinburgh, Old College, South Bridge, Edinburgh EH8 9YL, Scotland, United Kingdom

Abstract: World War I (WWI) causes irreversible consequences on the British economy, and Britain has experienced the most severe economic crisis in the 1920s. This paper aims to explain the causes of unemployment in Britain in the years between the wars and why that problem persisted for much of that period. This paper will describe the causes of unemployment by analyzing how World War I affected the British exports market. Then this essay will move on by exploring how the economic policy of Britain after World War II(WWII) damages the exports market and creates high unemployment. In addition, this paper will also discuss the relationship between the change in the labour market in World War I and the unemployment problem. Finally, this paper will illustrate why the unemployment problem persists by exploring regional and industrial unemployment issues.

1 Introduction

After WWI, Britain experiences the most detrimental economic depression in the modern era. After the 1920s, the depression causes unemployment, and it persists until the outbreak of WWII. The reasons why unemployment happened and continues are mostly related to WWI [1]. During WWI, UK lost the surplus in exports. The lack of new technological production reduces the competitiveness of UK exports' products [2]. At the same time, the competition in trade with the US and Japan growing more and more intensely. After WWI British government were trying to restore the old currency ratio. Although Britain came off the Gold Standard in 1919, Britain immediately joined back in 1925. Rejoined in Gold standard along with deflationary policy further damage the exports. During WWI, the change in working hours with an increase in the wage and unemployment benefit intensified unemployment [3]. The development of unions constraint the marketability to adjust the unemployment problems. And there is regional and industrial unemployment. And most of the old industry mainly suffers in unemployment and all concentrated in certain regions even though the economy across London is in prosper. All these reasons added up together result in long term unemployment, and it persists until WWII.

* Corresponding author: s1810717@ed.ac.uk

2 Exports industry

Britain loss the surplus in exports during WWI which accounts for high unemployment in the old engineering industry. During WWI, Britain becomes an enemy with Germany, the Austro-Hungarian Empire and the Ottoman empire. Accordingly, they stop the trade with each other and in the War, 60 per cent of the British fleet sunk in the battle [4]. So, Britain lost revenue by being a Marine porter. The Shipping income in Britain, an essential element in the invisible balance, are affected. Also, after WWI, more nations develop their shipping capacity, which is a permanent loss for Britain. It explains why the shipping industry, which is mainly in Scotland, has a high unemployment rate. Britain cotton industry usually gets raw material through the Atlantic Ocean. The German submarine destroys this supply-side, which has a detrimental effect on the British cotton industry [5]. At the same time, Indian domestic cotton production growing quick and can compete with British products.

3 Indian market

War always cost plenty of money. Britain typically gains revenue by trading in the empire, and India is the most critical market. During the War, Britain borrows money from India on the condition that after the War, Indians did not need to put taxes on their goods if they put taxes on British goods. The tariff on Lancashire goods increased from 7.5 per cent to 11per cent in 1921and the $3^{1/2}$ per cent excise on exports of Indian cotton goods are cancelled. In 1913, 80 per cent of the output from the British cotton industry was for export, and 45 per cent of export goes to India [6]. Indian domestic cotton production growing quick and can compete with British products. Indian mill industry expanded its output by 25 per cent from 1914 to 1918. War increases the share of the Indian domestic market from a little over 20 per cent to around 40 per cent [7].

4 Chinese market

During the Treaty of Versailles, Japan took over the control of the German colony in China, and in 1931 Japanese military invaded North Eastern China with abundant resources. In the following years, Japan gradually uses military threats to dominate the Chinese market, which previously belonged to Britain. Japanese worker was paid low wages compared with Britain and they work in longer hours which is easier for them to dominate the Chinese market. Japan also competed with Britain in India and the southeastern Asian market. Lancashire’s export market share in India fell from 97 per cent in 1913 to 50 per cent in 1932, while Japan's market share rose from 0.1 per cent in 1913 to 45 per cent in 1932 [8]. After William McKinley tariff and Theodore Roosevelt new isolationism to America, the British American market gets further squeezed down.

5 Fiscal policy

In the 1920s, British governmental policy is mainly returned to gold standard and deflation in order to drag the exchange ratio back to pre-war level, which 4 dollars 86. There are fixed exchange rates in the gold standard, and money circulated in the market is related to the gold reserve. But, Britain has more imports than exports which mean gold is flowing out from Britain. In this situation, it is hard to maintain the exchange rate. So, the pound is actually highly valued during this period which causes further damage to exports. According to Keynes, Pound was overvalued by 10 per cent, and interest rates in Britain were raised to keep sterling at that inflated level [9]. The rising sterling reduces the competitiveness of British exports since the price is relatively high compared to local goods. Demand for British goods further going down. And for the same reasons, demand for labour decrease, which caused the quantity demanded labour to decrease. This process illustrates why many people are laid off for shipping, coal, mining, and the textile industry. In 1931, In order to attract investment, interest rates were raised in London [10]. Although it promotes investment in London, it also increases the exchange rate and damages the exports industry.

6 Reduction in working hours

After the War, the structure of the British labour market is changed, especially among those old industries. From 1918-1921, the working hours are reduced from 9 hours to 8 hours a week [11]. It arose the short-term increase in industrial cost and caused a major supply shock. However, most of the companies and government did not realize the question of reducing working hours. The industry is confident and somewhat optimistic toward the effect of reducing working hours. But, productivity is decreasing because of a reduction in working time. And, at the same time, the weakness of low British productivity becomes more and more evident during the competition with America. After the second industrial revolution, Americans adopt mass production for the manufacturing industry. And other low-cost competitors such as Japan had longer working hours in cotton textiles and used shift system.

7 Localized production

Britain still uses skilled labour as the primary production method. For textile area, it was mainly aggregated in Northwestern England. Localize production work through potential economies of scale with easier diffusion of knowledge. Localize production decrease the productivity since cotton spinning is in south Manchester and weaving is in North county. Separate function and small firms prevent the rise of mass production. But one reason mass production didn't occur in Britain is because most British textile products are sold to export and require various products. So, the British production method did correspond with their taste. However, the redundant production process did reduce the competitiveness of British productions. As we can see in the table below, from 1913 to 1938, British output per worker did increase 22 per cent But it still lower than some countries like American and Switzerland 47 per cent, Belgium 99 per cent. In 1938, after rearmament, Britain grew at 44 per cent and exceed America cause America is in a great depression, but still below Switzerland, Norway and Italy.

Table 12.1 Output per worker, 1913–50 (normalised to 100 in 1913)

											Memo Item	
	Belgium	Denmark	France	Germany	Italy	Holland	Norway	Sweden	Switzerland	UK	Canada	US
1913	100	100	100	100	100	100	100	100	100	100	100	100
1929	199	116	137	96	126	130	141	102	147	122	112	147
1938	124	119	126	122	145	125	159	128	156	144	104	136
1950	150	146	146	124	153	134	191	171	175	159	167	177

Source: Maddison 1995: Tables 2–7(a).

[12]

8 High wages and unionization

After WWI, the real wage in Britain is increased with an increase in price since there is inflation at the beginning of the interwar period. However, after the governmental deflation policy and the cost of living fall, the wage is still stable. In 1919 average weekly and hourly money wage rates were more than double their 1914 level. And they both continued to rise through to the end of 1920.

Figure 5.2 Real wages (all industries) final output deflator

[13]

The higher wages again increase the cost of production cause wages can be seen as human capital. Lots of people are wondering why real wages are high at that time. Because the only expansion of output could permit an increase both in employment and the real wage. As I illustrated previously, government policy damage output, and there is not enough demand to support higher wages. Accordingly, high unemployment rates suppose to drag the wages down and retrieve employment. But after WWI, unions growing stronger and limit the ability of the market to self-correction. Unionisation increased enormously over the War, to peak at 44 per cent in 1920, and unionism spread to less-skilled workers in a widening range of industries and occupations [14].Union use strike as a threat to maintaining high wages. In the 1920s, union's collective bargaining is on a national scale, and it was accompanied by minimum wages set up by Trade Board in some less organized sectors. So the trade-off between salary and employment is difficult to achieve. Higher real wages further increase workers supply and exacerbate unemployment. More importantly, High real wages could reflect weaknesses within the labour market. Britain also had a dual labour market, one in the depressed export areas such as Northern Ireland and northern Britain and one in the more prosperous southeast and midlands

9 Industrial and Regional unemployment

During the interwar period, there is difficulty in solving industry and regional unemployment. After the 1930s, economics is recovering in Southern England, especially the area around London and at the same time, unemployment persists in North England, South Wales and Scotland. Among the regions that suffer unemployment, the most are all the old industries with high unemployment gathered. During the interwar period, Scottish coal mines operated on a comparatively small scale. The new industry is growing up in southern England and remains to prosper. As we can see from the chart below, Scotland (27.7 per cent) and Wales(36.5 per cent)are far higher than London(13.5 per cent). During 1930, firms are likely to set up the company near the consumer-based, and most consumers are in London. And there is no much demand in those depressed regions. So most prospering industries choose not to locate to those regions. And there were relatively fewer and less attractive opportunities in Scotland for investment cause the lack of accumulating capital [15].

Table 3: UK Unemployment Durations of Insured Men by Region

	June 1932				June 1936			
Region	Unemp Rate	Duration	Spell Length	Share LTU	Unemp Rate	Duration	Spell Length	Share LTU
Gt. Britain	28.3	10.5	26.5	17.3	13.8	12.1	42.2	26.6
London	13.5	7.1	14.5	4.4	6.7	5.7	18.5	8.4
South East	14.3	6.4	14.1	3.8	5.4	6.0	18.7	8.5
South West	17.1	7.8	17.9	8.8	8.2	7.2	23.6	14.1
Midlands	20.1	9.0	25.5	14.6	9.8	10.5	39.7	23.1
North East	28.5	11.9	32.0	21.0	20.4	11.5	50.9	28.7
North West	25.8	10.3	29.1	18.3	17.2	13.2	46.1	27.2
Scotland	27.7	17.3	34.1	27.6	17.2	19.9	58.3	34.6
Wales	36.5	11.0	29.6	21.1	33.0	18.6	64.6	37.7

Source: Thomas (1988), p. 124.

Notes: Data refer to the insured unemployed only. Share LTU is the proportion unemployed for more than a year; Duration is the average completed duration, in weeks, for a worker flowing into unemployment; Spell length is the average interrupted spell length of those on the register, in weeks.

[16]

Also, many products are produced separately. When part-process plants were established, they were pretty small and organizationally dependent on the parent, which meant they could not be placed far from their parent, which was always around the consumer-based area in southern England. Moreover, lots of existing big companies during the 1930s had increased by mergers in the 1920s. They usually acquire existing plants rather than the creation of branch pants. It also explains why the new industry didn’t provide employment to the depressed regions.

TABLE I
LOCATION OF NEW BRANCH FACTORIES IN GREAT BRITAIN, 1932–1938

Location	*1932*	*1933*	*1934*	*1935*	*1936*	*1937*	*1938*
South and South West England	2	6	7	3	0	8	3
Greater London	1	8	21	19	37	32	30
Wales[a]	0	0	0	1	1	4	4
Midlands	15	12	15	10	17	28	17
Eastern Counties	1	0	3	4	3	3	2
North West England	14	15	12	10	22	31	30
Weaving District (Blackburn and Burnley)[a]	1	0	0	1	6	8	1
North Lancashire, Westmorland, and Cumberland[a]	—	1	3	0	1	0	2
Rest of North West England	13	14	9	9	15	23	27
North East England	2	4	8	11	25	23	16
North East Coast[a]	0	0	0	1	7	4	5
Rest of North East England (Yorkshire)	2	4	8	10	18	19	11
Scotland[a]	0	2	5	4	5	3	10
Total Branches	38[b]	47	71	62	110	132	112
Total New Factories, Including Branches	646	463	478	510	551	541	414

Note: Figures include businesses employing 25 or more persons, in manufacture or the processing of new goods. Figures for 1932 are not strictly comparable with those for later years. Regions distinguished in 1932 were South and South West England; London; Wales; the Midlands; Eastern Counties; Lancashire; Yorkshire; North East Coast; and Scotland. After 1932 the regions were South and South West England; Greater London (including some areas formerly included in South and South West England, and in Eastern Counties); Wales; the Midlands; Eastern Counties; North West England; North East England; and Scotland. North Lancashire, Westmorland, and Cumberland were not separately distinguished as one area in 1932.

[a] These areas include most of the severely depressed industrial areas.

[b] The text of the *Board of Trade Journal* reports (p. iv) that there were 38 branches, of which 31 were in the Midlands and Lancashire. The detailed figures, however, show a total of 35, with 29 in the Midlands and Lancashire areas.

Source: Great Britain, Board of Trade, *Survey of Industrial Development*, annually 1933–1938 (London, 1934–1939); figures for 1932 are from *Board of Trade Journal*, 29 June 1933, pp. iii-xv.

[17]

The data shows the low share of new plant transfer to peripheral areas. It is possible that in industries like textiles and clothing. Their size and organizational constraints might hamper dispersion to the peripheral regions. In many new prosper industries, barriers to entry are not low anymore cause they are not that new in the 1930s. Because of the entry barrier, industrial diversification in the depressed areas are not easy since the areas had no significant cost advantages to offset the obstacles to entry. In the depressed region, it's also difficult for them to go to a prosperous place due to their low mobility. They may have children around, and they have a house or assets in their hometown. It is difficult for them to left them behind. Long term unemployment means they are out of touch for a long time and unaware of industrial change. Also, unemployment alters people's attitude toward life from optimism to pessimism and eventually fatalism. Their skills are not matched anymore. After long term unemployed, they are excluded from the labour force at the eye of entrepreneurs, and entrepreneurs will doubt why no one employs them. Another reason they didn't move out is unemployment in the south was simply not low enough, and it's a considerable risk to move south cause they saw people line up in the south searching for work as well. The unemployment benefit is relatively high in the interwar period, and it might make people rely on it instead of working.

10 Conclusions

According to the discussion above, it is easy to realize that governmental deflation policy combined with the world war I influence in exports market cause the rise of unemployment and fail to solve regional and specific industrial unemployment results in the persist long term unemployment throughout the whole interwar period. All the prosperous industries choose to stay in Southern Britain and didn't move to depressed regions. Also, the unemployed labour usually has unmatched skills, and they have low mobility. The depressing part is vulnerable to the downturn because of the concentration of the old exports industry in those areas. Until the rearmament and the outbreak of the second world war, the government didn't fix unemployment problems. That’s why in the 1970s, the unemployment problem comes back and still mainly concentrates in the areas where depression had been most evident between the wars.

Reference

1. S. Broadberry 'The emergence of mass unemployment: explaining macroeconomic trends in Britain during the Trans-World War I period' Economic History Review, 2nd ser., XLIII (1990) 274
2. P Johnson, ed., Twentieth-Century Britain: Economic, Social and Cultural Change (Harlow, 1994) 30
3. P. Dewey, War and Progress. Britain, 1914-1945 (Harlow, 1997) 281
4. S. Broadberry 'The emergence of mass unemployment: explaining macroeconomic trends in Britain during the Trans-World War I period' Economic History Review, 2nd ser., XLIII (1990) 280
5. Marguerite Dupree “Foreign competition and the Interwar period” chapter 10 in Mary B. Rose The Lancashire cotton industry A history since 1700, at page 974
6. S. Broadberry 'The emergence of mass unemployment: explaining macroeconomic trends in Britain during the Trans-World War I period' Economic History Review, 2nd ser., XLIII (1990) 265
7. Marguerite Dupree “Foreign competition and the Interwar period” chapter 10 in Mary B. Rose The Lancashire cotton industry A history since 1700 at page 990
8. Marguerite Dupree “Foreign competition and the Interwar period” chapter 10 in Mary B. Rose The Lancashire cotton industry A history since 1700, at page 912
9. B. Eichengreen ‘The British Economy between the Wars’, Standard and the International Monetary System 1900-1939 (Basingstoke, 1987)
10. R. I. McKibbin, ‘The Economic Policy of the Second Labour Government, 1929-31,’ Past and Present, no. 68 (August 1975) 100
11. T. Hatton, 'Unemployment and the Labour Market, 1870-1939', in R. Floud and P. Johnson, eds., The Cambridge Economic History of Modern Britain Volume 2: 1860-1939 (Cambridge, 2004), 350
12. T. Hatton, 'Unemployment and the Labour Market, 1870-1939', in R. Floud and P. Johnson, eds., The Cambridge Economic History of Modern Britain Volume II: 1860-1939 (Cambridge, 2004), 315
13. F. Cappie, 'Unemployment and Real Wages' in S. Glynn and A Booth (eds.), The Road to Full Employment (1987) at 64.
14. T.J. Hatton, and M. Thomas, ‘Labour Markets in Recession and Recovery: The UK and the USA in the 1920s and 1930s’, in N. Crafts and P. Fearon (eds), The Great Depression of the 1930s: Lessons for Today (Oxford, 2013) at page 7.
15. C.H. Lee, 'Scotland, 1860-1939: Growth and Poverty, in R. Floud and P. Johnson, eds, The Cambridge Economic History of Modern Britain. Volume II: 1860-1939 (Cambridge, 2004) at page 440.
16. T.J. Hatton, and M. Thomas, ‘Labour Markets in Recession and Recovery: The UK and the USA in the 1920s and 1930s’, in N. Crafts and P. Fearon (eds), The Great Depression of the 1930s: Lessons for Today (Oxford, 2013) at page 12.
17. C.E. Heim, 'Industrial Organisation and Regional Development in Inter-War Britain', Journal of Economic History, 43 (1983) at 933