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**A survey of the Great Depression
as recorded in the
International Labour Review, 1931-1939**

Rod Mamudi

Economic and
Labour Market
Analysis
Department

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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,¹ and which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work,² in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.³

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

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¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

³ See <http://www.ilo.org/gea>. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work*, "Vision" document, ILO, 2006.

⁴ See <http://www.ilo.org/employment>.

Foreword

The world has been there before. In this working paper, the author, Rod Mamudi, a historian who interned in the Department in the Summer of 2009, concerns himself with a global economic crisis of an earlier era – that of the 1930s, famously commencing with the stock market crash of 1929. As in the present day, the ILO concerned itself extensively with analysis of the crisis, its impacts on labour markets, and the search for solutions. Proof of this resides in a spate of articles over the years appearing in the *International Labour Review*. The author studied several dozens of these. On the one hand, he finds remarkable parallels with the present day and age. The birth of Keynesianism in the 1930s, for example, is not unlike the extraordinary fiscal stimulus efforts that many governments have undertaken today. Concern for the unemployed and a rising interest in social protection systems are also not unlike what we are witnessing in many countries in 2009. “Public works”, investments in infrastructure were prominent in the 1930s, as they are today. Finally, the tone of the academic debate among economists as to the origin of the crisis and what to do about it, their disagreements over how much “market” and how much “state” ring true today.

Mr. Mamudi’s review illuminates an important chapter in the history of the ILO. It is also something of a tribute to the ILO. It shows, for example, how the principles that would come to be known as Keynesianism were presciently discussed in the articles of the *Review*. It clearly highlights the ILO’s abiding concern with the human cost of economic crises.

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Introduction

The economist, like every one else, must concern himself with the ultimate aims of man.

Alfred Marshall, *Principles of Economics*

In this essay I intend to produce a succinct but full account of the *International Labour Review*'s⁵ various responses to the economic Depression of the 1930s. The period I shall be covering ranges from 1931, when the crisis began to be recognised as a prolonged and international phenomenon, and 1938, when, amongst other things, a relatively improved situation and rearmament began drawing the attention of the *Review*, and its authors, elsewhere. I have selected articles that either make explicit reference to the Depression, or else that deal directly with national and international policies to manage the Depression.

At its height, in the richest nations of the world, the Depression had laid idle one in four workers. Banks collapsed, currencies ran, industry ceased. I shall begin with the general effects of the Depression, so as to provide some sketch of the scale and movements of the collapse in demand that debilitated economic activity so thoroughly. The social dimensions of economic crisis are highlighted in a number of articles, and cover topics from migration to housing to nutrition.

Finding ways to restore, and secure, prosperity became the ultimate aim of the journal. The main policy proposals were: managing working hours; providing unemployment insurance; managing wages; the provision of public works; and the development of international cooperation, for establishing a coherent monetary policy, as well as for broader purposes. The 1932 International Labour Conference passed a special Resolution on the crisis prioritising the implementation of national public works schemes. This policy is the most extensively covered. Analyses of concurrent governmental efforts to manage the crisis form the empirical basis of the *Review*'s work, and national remedies are reviewed in series: wage management measures, for instance, being considered in turn in New Zealand, Australia, Germany and the United Kingdom, allowing both for comparative studies and a fuller understanding of particular national conditions.

Finally, having traced the debates surrounding policy proposals, I will look at the causal explanations of the Depression. By the early 1930s it was clear that the economic situation as was did not fit in with the normal run of the business cycle. Technological advancement, the failure of the gold standard, trade unions, even the wealth of society itself, all feature in the various efforts to understand what had caused the economic meltdown.

These are the topics, invoking a rapidly evolving conception of the role of the state in economic management, which will form the basis of this review. I shall now turn to extrapolating on the work described above.

⁵ The Journal of the International Labour Organization, as mandated by the Treaty of Versailles, article 369, paragraph 4: 'The International Labour Organization will edit and publish...a periodical paper dealing with problems of industry and employment of international interest' (Special Article, 1921: 3).

Through the period I will be looking at the journal was published on a monthly basis.

Today, popular analyses of the Depression of the 1930s will typically make some mention of the financial crash that took place in New York in the autumn of 1929. The *Review* is not so concerned. Or rather, it wasn't.

Mention of the stock market crash is rare. A summary of the 1931 British Committee on Finance and Industry's account of the causes of depression makes reference to 'violent changes in speculative activity in New York and elsewhere' (Martin, 1931a: 361). This is seventh on a list of factors. My purpose here is not an exposition upon the role, or otherwise, of the crash in the Depression. As JK Galbraith put it, 'in assessing the causes of depression none is more intractable than the responsibility to be assigned to the stock market crash' (Galbraith, 1954: 186). In another comment in the *Review* IH Flamm sees the crash as a consequence of the increasing unemployment of the preceding summer, betraying the boom as unsound and shaking the faith of speculators (always 'speculators' at this time, never 'investors'). In explaining the general absence of the crash from *Review* notice however it may help to note that many of today's views on the scope and range of the crash were in fact forged in the course of the on-going depression that characterised the world economy of the 1930s. In the US 1929 remained throughout the 1930s a benchmark of peak growth and productivity. The dollar value of production did not surpass the 1929 level until 1941 (BEA, 2009). Moreover, this new dynamic, the reality of a low-employment equilibrium, and its fallout, rapidly became for *Review* contributors a more urgent subject for analysis.

Effects

Hardly a scaffold was raised, hardly a hammer was heard.

Harold Ickes,
Secretary of the United States Department of the Interior,
'Public Works in the United States of America'

By the early 1930s it had become evident that the economic depression the world was experiencing transcended prior experience of the business cycle. The dramatic shrinking of economic activity over several years running is illustrated in numerous articles, as well as the journal's monthly 'Employment and Unemployment Statistics'. Nor is unemployment taken as a purely economic situation: its social context is charted too, taking in various analyses of women's employment, youth employment, migration patterns, the consequences for health, and housing issues.

The downturn and subsequent Depression was not a uniform experience. The dramatic collapse in the US, for instance, was not replicated across borders. For other countries the economic decline was not a particularly new phenomenon either: in Britain for instance, the post-war 1920-1922 slump, as a movement in gross domestic product (GDP), was worse than anything the country experienced in the 1930s (UKNA, 2000). But for all the variation across States, the global economy in the period of the early 1930s was marked by dramatic downward movements of demand, trade, prices and employment.

The 1932/3 figure for combined unemployment in Europe and North America is taken at 25 million in 'round figures', with roughly half each side of the Atlantic (Woytinsky, 1932: 2). The workforce of the US at this time numbered less than 50 million (Ickes, 1937: 778). This movement is distinguished from technical unemployment – the loss of employment to machine production and technological advancements – by the concurrent drop in production: at the beginning of 1933, 'the index of production in the chief industrial countries, already abnormally low, has fallen on the average some 10-15 per cent. Below the 1931 level' (Martin & Riches, 1933: 26). Wholesale gold prices had become similarly

depressed. Trade barriers exacerbated the situation. The index of the value of international trade was down 34 per cent in the first six months of 1932 against the corresponding period of the previous year. This was on top of year-on-year declines of 28 per cent between 1931 and 1930, and 19 per cent between 1930 and 1929 (Ibid.).

Prices also dropped. To take two of the largest economies, wholesale prices at their 1927 value fell 22.9 per cent in the United Kingdom between 1929 and 1931; whilst in the United States commodity prices fell 23 per cent in the same period. Again against 1927 figures, net profits in the US fell 111 per cent between 1929 and 1931 (Martin, 1932: 222). This gives us some idea of the boom that preceded the crisis: profits in 1929 had been 144 per cent of the 1927 figure. Referencing the US Commerce Department's Bureau of Economic Analysis statistics (BEA, 2009), US GDP in constant 2000 dollars shrunk by 26.55 per cent between 1929 and 1933; and by 8.61 per cent in the first of those three years alone. In current dollars the 1929-1933 shrinkage registered at 45.56 per cent, further demonstrating the collapse in prices. Recovery began from 1933 on, and GDP was back at its 1929 constant-dollar value by 1936, but shrunk 3.45 per cent (6.31 per cent by current-dollar figures) for 1938 following a drop off in production late 1937. Current-dollar value production would not surpass the 1929 figure until 1941 (BEA, 2009).

Employment figures⁶ for the US demonstrate this broad 'w' shape. Going from 8.2 per cent to 14.5 per cent between 1929 and 1930, it rose steadily to peak in 1933 at 24.3 per cent. From here there was a steady decline to 10.5 per cent in 1937, only to jump again the following year to 15.3 per cent, from where it dropped again the year after that. The United Kingdom follows a similar pattern, peaking at 22.1 per cent in 1933, dropping to 10.5 per cent in 1937, and rising again in 1938 to 12.6 per cent. Of the other major economies, France does not begin a recovery until 1937, promptly to go into reverse the following year. Germany and Japan, both adopting major rearmament programmes earlier than the other nations, both witnessed a steady drop in unemployment, the German figure going from 30.1 per cent in 1932 to 2.1 per cent in 1938. To take two other countries that feature heavily in the *Review* at this time, Swedish unemployment peaked at 23.7 per cent again in 1933, followed by a steady reduction, with only a minor increase in 1938 to 11.8 per cent. Poland peaked later, in 1935, giving the figure at 16.7 per cent, before it began a slow recovery. As might be expected, the missing summer figures for Poland in the December 1939 'Statistics of Unemployment' did not make it to the following issue. The country had been invaded by both German forces and the Red Army in the course of September.

The *Review* also takes a closer look at various groups within the unemployed, notably looking at the effects of the Depression on women and the young. Women's unemployment is looked at in particular in two pieces by Marguerite Thibert, 'Economic Depression and the Unemployment of Women' (1933), a study in two parts, and 'Rationalisation and the Employment and Wages of Women in Germany' (1934), by Judith Grunfeld. Thibert begins by arguing against the charge that increasing levels of women's employment is responsible for disturbing labour market equilibrium, the charge gaining currency by way of the economic fallout. Even in the case of the most rapid recorded increase, 'Germany, where women's employment has steadily risen both before and after the war [1895:25 per cent; 1907:30.5 per cent; 1925:35.6 per cent]', it cannot be claimed that an increase of 5.1 per cent of women working between 1907 and 1925, or 2.4 per cent of the total population,

⁶ Employment figures were collated in different ways by different governments, some using union returns, some registration rates, other benefit claimant figures. This makes international comparison tricky. Still, they serve well to illustrate the movement of unemployment within a given country, and figures and trends across countries are indeed often similar. These figures are all collected from the journal's monthly 'Employment and Unemployment Statistics' section, and principally from the December 1939 edition.

could account for the 19 per cent unemployment rate registered by February 1932 (Thibert, 1933: 449).

The article goes on to highlight prejudiced attitudes to women's employment brought out in legislation by the Depression. With the introduction of the Anomalies Act in Great Britain on 3 October 1931 'there was at once an appreciable drop in the curve of women's unemployment' (Ibid.: 459). The argument of the Act was that the curve was sustained artificially high by numbers of women dismissed from employment upon marriage '- a practice common in certain branches of British industry -' (Ibid.) and was premised on the assumption that these women then registered as unemployed without any intention to seek further work. Thus,

'as a result of an administrative reform which has had no effect at all on the actual situation, unemployment among insured women, which was formerly only slightly lower than that among men [20 per cent to 23.9 per cent in the first quarter, 1931], now shows a considerable difference [13.8 per cent to 23.6 per cent in the final quarter]' (Ibid.).

Concerns over the effects of Depression on youth unemployment are highlighted in the *Review* in a series of country studies, taking in Britain, Poland and Australia, as well as an overall survey. In the eloquence of Henri Fuss,⁷ whilst the frustrations and indignation of a few 'will lead them to claim social improvements and the necessary reforms', too often the young will be 'rather discouraged by the failure of life to keep its promises: they lose all will-power, all inclination to work...and it is this damage to character that must be seriously resisted' (Fuss, 1935: 650-651). His work takes an ILO estimate of world youth unemployment (the youth age range typically being 14-25, depending on school-leaving age legislation) at some 'six million' (Ibid.: 651). In Poland, juvenile workers were declining as a percentage of the employed workforce, from 6 at the end of January 1931 to 2.2 three years later. This does not seem to be the product of any especially progressive thought in this direction (Rosner, 1935: 514).

In Britain D. Christie Tait notes that youth unemployment was not necessarily higher than the average level and indeed often much lower (Christie Tait, 1935: 166). Again however, there is concern for the demoralisation effect. There is further the fear that Depression combined with mechanisation was creating non-progressive, or 'blind-alley' jobs, that can be easily filled by juveniles, 'especially girls' (Ibid.: 169). Not only does this exacerbate the unemployment problem, but the juveniles are learning neither skill nor trade as regards their own futures. Beyond this there is another concern still that Fuss brings up in his piece, around the dangers of 'special employment centres'. 'There is in the first place the danger of militarisation of youth outside the normal military organisation of a country.' Then again, 'some countries do not attempt to conceal the fact that they use the labour camps for preparatory military training' (Fuss, 1935: 661). In 1932 Germany's recorded unemployment rate stood at 30.1 per cent. By 1938, the Nazi regime recorded the rate at 2.1 per cent, the same year in which the regime annexed both Austria and Czechoslovakia.

The loss of employment typically necessitates the search for new employment, and EP Neale's work in the *Review* takes this aspect to an international level. He follows the prevailing scholarship as identifying a shift in the mid-nineteenth century, when the draw of economic opportunities overseas became the major, 'pull', factor in emigration, as oppose to pre-mid-century when issues of religious or political persecution had been greater, 'push', determinants. He then goes on, however, to use a series of examples to demonstrate

⁷ An ILO man, like many other of the contributors to the journal at this time, including Percival Martin, D Christie Tait, and EJ Riches.

how still into the twentieth century conditions in the country of departure could be decisive in emigration movements. In 1890 and 1891 Italy and Argentina were both in depression, yet they were both years of re-emigration to Italy. Departures figures from South Africa swelled in 1907 and 1908, though both were years of recession in South Africa and Europe (Neale, 1932: 821). Neale argues that this is due to the nature of 'new' countries, where recent and hence less-settled émigrés will be prepared to move again in the absence of sufficient economic opportunity. Extending this line of argument highlighted a potential danger to new, and less populous, countries, as mobile bodies of labour could leave the market and potentially hamper subsequent economic recovery.

Underpinning all of this research is the fundamental issue of human cost: the suffering and deprivation that typically accompanied the inability to secure gainful employment. The ILO's own Dr R Paula Lopes constructs a comprehensive study of this in her 1934 piece 'The Economic Depression and Public Health'. Split into three sections: clothing; housing; and nutrition; it is a thorough survey. Some vignettes from the piece will suffice here for illustrative purposes.

In the US the National Federation of Settlements found that of 150 families covered, '41 had insufficient clothing – which meant in many cases no winter clothing at all.' Of 432 families covered by an enquiry by the Polish Institute for Social Problems, '131 families had only the clothes they stood up in' (Paula Lopes, 1934: 785). In terms of housing, evictions in New York increased by over 50 per cent between November 1930 and November 1931, and this in a city where 'according to experts themselves, the housing conditions of a large section of the poorer classes...are even more deplorable than anything to be found in European cities' (Méquet, 1933 : 170-1). In Belgium a Solvay Institute survey in 1934 found that for more than half the families queried rent now accounted for 20 – 50.7 per cent of total expenditure, whereas 'in 1929 the percentage was only 10.7 for the poorest class of workers in employment' (Paula Lopes, 1934: 789).

As resources dwindled through prolonged unemployment, the cost of housing – elemental protection – demanded sacrifices in other directions, including, inevitably, food. Doctors in Hamburg and Berlin examining 4,500 children of the unemployed 'found that they fell appreciably short of the normal weight and height, especially in Berlin' (Ibid.: 794). In Massachusetts, the Department for Health for children under school age found an increase in underfeeding from 11 per cent in 1927 and 1928 to 19 per cent by 1932 (Ibid.: 799). The net effect is not just a decline in well-being, but a seeming increase in disease. The author is unconvinced by the wisdom that the unemployed's opportunity to 'spend much time resting or living in the open air ought to protect them against disease' (Ibid.: 801), and looks further at income changes and the morbidity rate (the incidence of disease and sickness) in the US cities of Birmingham, Detroit and Pittsburgh between 1929 and 1932. The morbidity rate of those who had been in the 'comfortable' income bracket in 1929 but who had subsequently slipped to 'poor' in 1932 was 60 per cent greater than those who had remained comfortable. The scale of the problem can be gauged looking at the change in the relative size of groups: in 1929, 10.3 per cent of families surveyed were 'poor', living on less than \$150 per head per annum; in 1932 this group would account for 45.1 per cent of the survey (Ibid.: 805-806).

Debates, remedies, resolutions

While the ILO had its own policies, it had no dogma. A variety of views are covered in the journal, one often fiercely competitive, if not contradictory, of the other. The most relevant and pressing issues and policies were looked at empirically as they were being implemented, and what short-term analysis could be made, was.

Managing hours of work

The labourer of to-day, unlike his primitive ancestor, no longer enjoys “freedom of contract”.

IH Flamm, ‘The Problem of Technological Unemployment in the United States’

As early as 1919 the first session of the International Labour Conference adopted as its maiden act a convention on ‘Hours of Work (Industry)’. One of the earlier responses to the crisis, in turn, was the management of working hours. In some cases the response was led by business concerns themselves: ‘only a very few undertakings have ...received sufficient orders to employ their staff during the normal working week’ (Reports & Enquiries, 1932: 224). Elsewhere, notably the United States, work hours management became core government policy, pivotal to ‘meet[ing] not only an economic but also a social and political emergency of the first magnitude’ (Butler, 1934: 2). Every industry assumed regulatory Codes, determining hours and protecting rates. Those that did not submit their own conditions for consideration were directly assigned Presidential Re-employment Agreements, so construed as the Office of the President saw fit. The general basis for this and similar policies was to relieve unemployment by rationing available work: to protect as many as possible from total unemployment and the associated privations. It was a policy to manage depression.

There remained some however who viewed the arrangement as potentially longer-term. In the spring of 1931 ILO Deputy Director Harold Butler was informing Review readers that in addition to the large amount of short time being worked, and in view of the ‘vastly increased capacity of mechanical production’ (Butler, 1931: 315), the American Federation of Labour considered the only preventative of extensive unemployment in the future to lie with a 40-hour week. Awareness of the machine is prominent throughout the discourse on hours. IH Flamm writes that between the ‘unusually rapid progress made in technology since the world war’, and the subsequent increases in the rate of production; and the ‘the failure fairly to distribute the fruits of our progress’ with the wage-earning classes so as to maintain some proportionate capacity for consumption, all echelons of society had encountered disaster (Flamm, 1935: 345). Furthermore, ‘consumption has its limits from both a physical standpoint and an economic one.’ When production outstrips this capacity, the result is unemployment, further lack of demand, ‘the ravages of...the past five years’ (Ibid.: 362). So as hours had declined steadily with the march of mechanisation, so they must be lowered further still amidst the flurry of post-war progress, and here Flamm recommends a benchmark 24-hour week (Ibid.: 360). This would get the unemployed back to work and so create a basis of demand for future production and expansion.

The notion of work rationing permeated all the way down to the raising of the school-leaving age. In 1935 Fuss reports on an Office Conference Recommendation to fix the admission to employment age at 15: ‘just as it has become unnecessary to work a 60 hour week...so it has become unnecessary to make children work when they are 12 or even 14 years old’ (Fuss, 1935: 652). He notes that many countries had already adopted such legislation, and indeed that certain States in the US; Ontario, Canada; several Swiss cantons; and some of the South African provinces already set the school leaving age at 16 (Ibid.: 654). Most movements in this direction covered in the Review however focus on

Britain with the work of Fuss and Christie Tait. Additional training, for the purposes of removing extra candidates from the employment market and equipping youth for more than 'blind-alley' jobs, certainly grew during this period. Fuss writes that 'during 1931 2,979 adults and 2,661 juveniles completed their [government-run] training, mainly for domestic employment' (Fuss, 1933, 612). In the wake of the 1934 Unemployment Act, 'average attendance at [junior instruction (this tending to be the focus)] centres and classes was 12,754 boys and 3,822 girls in the week ending 24 October 1934' (Christie Tait, 1935: 179).

But however large a growth this represented, it was still a tiny proportion of the total figures. 'In England and Wales the number of children aged 14 leaving school in 1935 was estimated at 590,000' (Fuss, 1935: 654). Similar efforts in Australia are equally described as 'only touch[ing] the fringe of the problem' (Bland, 1934: 54). More to the point, 'junior instruction centres cannot...take the place of an extra year of full-time education, or even of part-time continuation schools' (Christie Tait, 1935: 180). This was a policy mechanism still in its infancy.

On the issue of work-hours management however, many more countries opted for legislation, even if intentions were rather less sweeping than Flamm's 24-hour week. A 1932 piece by a Director in the German Federal Ministry of Labour tells us that by 5 June 1931, the government had already passed an Emergency Decree authorising the reduction of work hours by means of Orders. Broadly the Decree sought to enforce a 48-hour week, but it was a limited piece of legislation, stating that it was to be applied in the first place only 'by means of voluntary agreement' (Sitzler, 1932: 474). By the beginning of 1933 the goal of legislation was a legal limit of 40-hours per week (Special Article, 1934a: 771). France was adopting legislation to this end by 1936 (Maurette 1937: 8). On the whole however, agreement was difficult, with employers often resolute against the idea: in 1934 the employer's representatives refused to participate in the International Labour Conference's Committee on Work Hours Reduction (Special Article, 1934b).

The most striking example of work hours management arrived with the Roosevelt administration in the US in 1933, and the National Industrial Recovery Act. This contained the provisions for the Codes discussed above. In theory every industry was to be covered by its own Code, and hours were set accordingly. Factory or mechanical work was to be set at a 35-hour week, whilst clerical and office work was set at 40 hours. The longest (permissible) week was for male restaurant employees, at 54 hours. According to the Review report Codes were agreed on a tri-partite, if not quadra-partite basis, with government, employers, employee groups and consumer groups being invited to agree proposals (Reports & Enquiries, 1934).

The best information in the Review on the returns of work hours reduction is for the Codes, in Butler's January 1934 survey of American recovery. Looking at steel and cotton, he quotes a report by the Administrator of the Steel Code to find that though business had fallen by 10 per cent between June and September, employee numbers were up 22 per cent, total wages paid were up 21 per cent, with average earnings per hour up 20 per cent. Limiting machine hours for cotton production to 80 a week, where once had been 144 hours depending on the season, witnessed a 40 per cent increase in mill payrolls between March and August, and cut the industry's chronic over-production. A mini boom had occurred over the summer with an increase in aggregate purchasing power, and prices rose, but the spending tailed off (Butler, 1934: 9). Overall however, Butler could not but conclude that 'the Codes had already conferred considerable benefit on both employers and workers' (Ibid.: 11).

Unemployment insurance

This alone...has kept the working class population of the depressed areas alive.

H Fuss & D. Christie Tait,

‘Unemployment Benefits and Measures for Occupying the Unemployed in Great Britain’

Another concept rather better established in Europe at this time, and similarly treated to thought in the *Review*, was that of social insurance, and namely, for our purposes, unemployment insurance. With the exception of Britain, where unemployment insurance legislation dates from 1911 and the social reform work of Herbert H Asquith’s Liberal administration, unemployment insurance was largely a post-war product. In the US no such comparable scheme existed until the Social Security Act of 1935. This period would be a stringent test of such schemes.

Despite the pressures of mass unemployment, unemployment insurance did not wither away. As Eveline Burns traces in her 1938 ‘Unemployment Compensation in the United States’, in

‘the last twelve months...a new Act has come into force in the Union of South Africa...the scope of the British scheme has been widened...proposals have been under consideration by the Governments of Belgium and the Netherlands for the transformation of voluntary schemes into compulsory schemes, and...investigations have been made in Australia and Canada with a view to enacting legislation in those countries’ (584).

Germany’s 1927 unemployment insurance Act maintained its generous scope, taking in agricultural workers and domestic servants in contrast with the majority of schemes, through the Depression period of the early 1930s (Weigert, 1933: 174). But the strains showed in other respects. Dr Weigert highlights the 1929 provisions that, among other things, extended the qualifying period for claimants from 26 to 52 weeks, and exempted married women except in cases of ‘particular distress’ (Ibid.: 175).

Study is also made of the late arrival of the US’s version of unemployment insurance, the Act passing only in 1935. Dr Pribram, writing in December 1937, points to a divergent sense of economic responsibility, explained by various factors, from ‘pioneer philosophy’, to a strong cultural belief in the tenets of the *laissez-faire* economic thought. More concretely, he suggests that the opportunities inherent in rapid industrial growth, cheap land and the subsequent mobility of American existence – in terms of employment, residency and social status – impeded the formation of more stable class and geographical identifications which otherwise underlined the political organization of labour in Europe, and especially the voluntary associations and friendly societies from which would grow the national insurance plans (Pribram 1937: 746). Burns goes on to highlight particular logistical problems faced by the US, largely posed by the federal system of government that, in this case, had granted wide berth to the States as regards insurance (Burns, 1938: 617). It was this disparity in fact that often led unions themselves to oppose State-led insurance schemes in the fear it would drive business to less obliging States. Federal policy remedied this, setting employers a minimum rate on payrolls for unemployment insurance purposes, the bulk of which could be off-set by payments to State schemes. Within two years of the Social Security Act separate unemployment-compensation legislation had been passed in all jurisdictions (Ibid.: 586).

For all these difficulties, *Review* work on insurance, not least in Britain, emphasised its importance in depression abatement. ILO researchers Fuss and Christie Tait visited Tyneside, then highly industrialised, a major port, and an important site of coal production, in the north of England, in February 1933. With regard to the payment of benefits, they found that ‘it is this and this alone which has kept the working population of the depressed areas alive’ (Fuss & Christie Tait 1933: 609). Payments had not entirely averted distress,

but, in addition to mitigating the worst of privation, they had to some extent compensated them for the fall in purchasing power – acted, that is, in the function of what we may term a stabiliser. ‘A remarkable stability in retail sales throughout the country’ can be attributed to the fact that whilst between 1929 and 1931 estimated earnings of the insured had dropped by some £131,000,000, benefits increased by £71,000,000. Ursula K Hicks, in an article about the redistribution of income in post-war Britain, argues along similar lines:

‘Heavy over-investment during the boom of 1929 was hindered by the relatively poor profit outlook of British industry due to the high rates of taxation. Heavy deflation during the depression was checked, partly because the spending power of the wage earners [*sic*] was maintained, and thus the national income declined less than... in the United States...’ (1936: 614).

At what cost however is the policy pursued? EC Wilson contributed in the *Review* (1934) to determine the validity of the idea that insurance in fact prolongs depression by maintaining wages above the market norm. In spite of falling prices and persistent unemployment not below 9.7 per cent per annum between 1924 and 1932, ‘the level of average money-wage rates in December 1932 was only slightly below that of December 1923. Among a thorough study it is worth pointing out references to work done in Sheffield between October 1931 and January 1932 demonstrating how unemployment lead to poverty despite insurance. One sixth of the working-class population was found to be subsisting below the poverty line, with two thirds of cases accounted for by unemployment. This is from a survey taken when rates of benefit were 10 per cent higher than after September 1931 (Wilson, 1934: 787). Nowhere does the author find benefit rates higher than going work rates. Rather, it is collective bargaining that accounts for wage rates. Where bargaining was well established, benefit has precious little influence. Where it was not, ‘there have always been examples of very low wages in unregulated occupations’ (Ibid.: 796).

Managing wages

The process quite frankly is one of trial and error.

Sir Hector Hetherington, ‘The Working of the British Trade Board System’

Wages remained throughout the period a topic not only of review, as various policies were adopted in different countries, but of fierce theoretical contention.

‘Unemployment insurance...may have had some upward influence on popular estimates of a reasonable wage, but its chief value to the unions has been in reducing the fear of unemployment’ (Ibid.: 795). Wilson continued by saying that the hardships experienced since 1929 ‘show how limited this support is (Ibid.: 796). It is ultimately the trade unions, however, who, through collective bargaining – ‘the very natural effort to defend the position they have attained’ (Bouniatian, 1934: 20) – are able to influence the wage rate. This, argues Mentor Bouniatian, is the factor disrupting economic equilibrium and, more pressingly, perpetuating the Depression. ‘The real purchasing power of the community is in fact determined by the country’s total volume of production, and prices and wages are merely factors in its distribution’ (Ibid.: 15). Lowering wages then risks no loss of purchasing power: rather employers share the losses of a downturn with wage earners, enabling the employer to sustain a higher level of employment. Over-production has already depressed prices, leaving real wages unaffected, whilst the risk of increased savings, or over-capitalisation (these presumably being equalised by the rate of interest), will further push down prices to the promotion of consumption and the eventual absorption of the excess credit (Ibid.: 16). The solution is deflationary.

This dynamic is carried in the other direction too, noting that in periods of expansion, wages fail to follow the progress of profits. Profits accumulate, unshared with those most

likely to spend the excess, and over-capitalisation leads to over-production. President Hoover's Research Committee on Social Trends in the United States reported to similar effect. No human community, it is declared, 'had ever reached so high a level of real income as the American people during the period 1925-1929.' Yet, "It was only a small percentage who drew enough money to pay for the new ways..." (Special Article, 1933b: 503).

Three years in advance of Bouniatian's article, Professor Warming challenges its thinking. He writes in 1931 in favour of stable wage rates. Individual employers or countries may capture market share by reducing costs and prices, but imitation will then lead to a spiral of the depression effect, and employment levels will follow falling prices. The purchasing power of the wage earners is immediately reduced, and orders are hedged in the expectation of lower future rates, further depressing demand and creating unemployment. Moreover, in directly adjusting the wage rate, there are the serious logistical problems involved. As E Ronald Walker puts it:

'Modest men might disclaim the possession of the nice judgement involved, and most countries lag far behind in the provision of information upon which such judgements must be based...there is always the danger that such a policy will make fluctuations more violent than they need have been, and on the whole a policy to stabilise wages throughout the cycle is to be preferred' (1938: 793).

John Maynard Keynes' *General Theory of Employment, Interest and Money* enters our work here by way of AP Lerner's 'account of the most important line of argument' (Lerner, 1936: 435⁸) running through the book, submitted to the *Review* for October 1936. The contention here is that workers can only control their nominal, or money wage, not the real wage, which would reflect lower costs. A drop in the nominal wage will provoke a price response between competing firms so that the real wage stays the same, and the employment level will return to its previous equilibrium. Other factors may be affected by a wage-level change, but the contention is that there is no simple causal relation between employment and wages.⁹ Keynes argues further, and ILO economist M Mitnitzky echoes his sentiment on his piece on wages (Mitnitzky, 1935), that given the political reality of wage negotiation, this was not the simple, or realistic, remedy it was often made out to be.

It has already been noted above that in many instances, despite a deflationary environment, nominal wages remained stubborn, or sticky. Above are Wilson's British figures for 1924-32. Bouniatian in his piece takes the four largest industrial economies, where by March 1933 wholesale prices had dropped an average of 35 per cent. The indexes of money to real wages then, taking 1929 as his base year (1929 levels = 100), for the period up to March are, respectively, 95 and 112 in Great Britain, 78 and 109 in the US, 80 and 106 in Germany, and 95 and 102 (December 1932) in France (Bouniatian, 1934: 20). This did not mean real wages everywhere rose. A report on Wage changes in the US in the *Review* found that, despite a 22 per cent fall in the cost of living between 1929 and 1932, for the manufacturing industries real wages still fell 15 per cent, for bituminous coal

⁸ The article was approved by Keynes himself, who according to Snowdon and Vane's *A Macroeconomics Reader*, described the piece as 'splendid' (1997: 62, Routledge, London.), and expressed mild reservation only at the absence of an explicit extrapolation of the *Theory*'s formulation of 'effective demand'.

⁹ Though all the arguments here presented have been necessarily simplified, this extrapolation is arguably especially ungenerous, even as regards the Lerner piece, let alone the original. But the original proposition is equally rather more sophisticated than many of the other arguments. Expounding this simplified argument in Book I of the *General Theory*, Keynes footnotes it saying that his fuller argument will be considerably more nuanced, but that this formulation contains at least 'a large element of truth' (Keynes, 1936: 12).

extraction 21 per cent, and for 'metalliferous' mining close to 30 per cent (Reports & Enquiries, 1933: 369).

In both Australia and New Zealand wage setting systems existed before the Depression, and each continued their work through its course. In Australia, discussed in WB Reddaway's 1938 'Australian Wage Policy' paper, the role was fulfilled by the Commonwealth Court of Conciliation and Arbitration, who declared a basic wage for unskilled labour, with further margins for skilled workers. The Federal basic wage was adjusted every three months to costs of living. With the onset of depression the Court was driven to a 10 per cent wage cut for all those within its jurisdiction. The author argues that this helped bring relief to the exporter, whose returns had otherwise collapsed, and 'set the stage for that increased production of manufactures which was needed to replace the expenditure of borrowed money' (Reddaway, 1938: 329). Of the other alternatives currency depreciation is posited, but political calculations remained: the Labour government in power could not risk the 'confidence' of the capitalist classes with less orthodox remedies, whilst the policy still bore the ghost of German inflation. Loans, for funding at least a partial form of public works, were also employed, 'showing the overwhelming magnitude of the problem...it needed all the possible remedies' (Ibid.: 331).

The political complications to action included wage management itself, not least in places less accustomed to active wage policy by the political centre. Even where there was such a tradition, such as New Zealand's Arbitration Court, the 10 per cent wage reduction essentially broke the Court. Export prices declined 47 per cent between 1928 and 1932, placing a massive strain on the export incomes. Import prices fell only 4 per cent. The wage reduction not only stoked popular ire, but as prices continued to fall advocates of wage reduction succeeded in removing the Court's compulsory minimum clause, 'the...essence of the whole system' (Riches, 1933: 626). This undermined the usual forum for wage negotiation, whilst on the other hand affording no actual guarantee of the desired wage flexibility.

Writing in 1938 and reflecting on 'The Working of the British Trade Board System' Sir Hector Hetherington expounded on the dynamics of employer/employee negotiations. He finds that in this tri-partite structure, a large measure of the success achieved, as in 'many other British institutions, is due to the extremely skilful and unobtrusive help of the secretariat' (Hetherington, 1938: 474): which is to say the administrative extension of the government's arbitration role. But the greatest emphasis was put on securing a minimum rate. Beyond the Trade Board system he notes the Depression experience of the Lancashire cotton mills. Despite an impressive history of collective agreement, in the 1930s 'the whole system showed signs of cracking' (Ibid.: 480). Employers took contracts at near most any price and workers conceded to collapsing wages. Employers and unions then together obtained an Act of Parliament by which a mutually agreed wage rate, after the statutory enquiry, might obtain the force of law. The key here, he declares, was 'the escape from a situation of wages deterioration under the stress of unregulated competitions,' secured 'by legal enactment of a rate below which wages may not fall' (Ibid.).

I have not here made reference to wage policy as part of either a broader deflationary strategy, such as pursued in Germany in 1932 (Sitzler, 1932) or a reflationary policy, such as that pursued by France (Maurette, 1937a; 1937b) in 1936 after the early Depression year's deflationary policies. Wage policy in these instances was part of an over-arching policy that radically altered their dynamic. It is clear however that wage policy, increasingly in the industrial setting a product of political negotiations, faced political obstacles. And logistical ones also. A minimum might prevent a deflationary spiral, but other adjustments demanded a great deal from the, in Reddaway's words, 'luckless statistician': 'he must know that his index is not accurate to the decimal point which means a difference of 2s. a week to half a million workers' (1938: 337). We can further conclude that the Depression left the 'science' of economics in a precarious state, where reputable

economists could contend two, or even three, different results for the same policy mechanism. Whichever paradigm one chooses, however, the need for some external management is evident. Securing the flexibility of wages of the competitive paradigm equilibrium requires either an attack on organized labour, or some third-party management of the wage-rate bargain. Maintaining wages, or even a minimum standard, likewise requires an authoritative arbitrator. In Lancashire, it was the employers and unions themselves which sought the Act of Parliament. If we further reflect on the findings so far we see that the effective management of hours required central direction, and in the case of the US the direct involvement of the executive branch of government. Insurance, a measure that certainly ILO researchers believed contributed to stability, constituted a fiscal, and direct government, measure. As the Depression deepened, the role of government was to expand still further.

Public works

Theoretically it is easy enough to see the positive way: it is to set the unemployed to produce...

Professor Warming, 'A Theory of Prices and Wages'

The debate surrounding the utility of public works draws heavily on the first position outlined in the preceding section. In this first position Bouniatian is assuming what we may call a classical, competitive, position. A depression requires an interruption of spending, and this system does not allow for one: that which is saved is necessarily, via changes in the interest rate, spent on investment goods. The fall in prices from over-capitalisation increases the purchasing power of consumers and promotes consumption (Bouniatian, 1934: 16). If wages are allowed to adjust to market conditions, employment, spending and production are all allowed to expand up to their only natural limit, the supply of willing labour. The natural, tending, equilibrium position for the economy then is full- or near-full- (providing for temporary adjustments), employment. The flexibility of prices, including wages, is a vital part of this system: their response in the competitive market to changes in pattern of demand is taken as more or less automatic. If this movement is impeded externally, equilibrium is disturbed. If flexibility is allowed, a high-employment equilibrium is maintained. No further government action is needed. Gustav Cassel, in a 1937 rejoinder to Lerner's Keynes summary goes so far as to state that,

'Considering what governments have done and still do to deter private investment by high and arbitrary taxation, by all sorts of restrictions...it is, to say the least of it, curious that such mistakes should be exploited as a ground for widening the functions of governments as entrepreneurs' (Cassel, 1937: 443¹⁰).

Here is evident, furthermore, the perception of the damaging effects of external, imbalancing interferences.

From the early 1930s it was evident that some ILO economists were not convinced by this satisfying automaticity. Reviewing the British government's 1931 Committee on Finance and Industry (otherwise known, for its chair, as the Macmillan Committee) PW

¹⁰ Cassel had already attacked the effects on unionization in a memorandum to the World Economic Conference in 1927. JH Richardson responded in the pages of the *Review* saying that 'organized capital has equally concentrated upon endeavouring to make the most out of every given situation.'

(Endres & Fleming, 2002: 147)

Martin picked up on the Committee's notice that 'entrepreneurs as a whole are failing to receive back proceeds the equivalent of what they had paid out as costs of production' (1931a: 374¹¹). This realisation brought 'the expert view of to-day...at one with the verdict of practical commonsense': that during a period of industrial depression what is needed is 'an increase in effective demand' (Ibid.). Martin would go on to argue (1933), with fellow ILO man EJ Riches that, whilst cheap credit makes revival possible, 'there is no assurance that it will revive and sustain the volume of buying when this latter is insufficient to keep industry reasonably fully employed' (1933: 38), illustrating at least one part of what AM Endres and GA Fleming's describe as the 'nagging theme' in ILO publications, 'notwithstanding the proclivity to monetary activism...that monetary policy will not be successful on its own' (2002: 76). Three years of low interest rates and high unemployment had proved that. Elsewhere in the *Review* at this period both Professor JCJ Warming (1931) and W. Woytinsky (1932) were warning about the risks of deflationary spirals and 'unemployment begetting unemployment' (Woytinsky, 1932: 6). Each posited the same solution: in Warming's words, 'set[ting] the unemployed to produce what they themselves [in the aggregate, presumably] will buy' (1931: 49).

The re-orientation of intellectual perspective on public works came with the *General Theory*, brought into the *Review* by Lerner in late 1936. Inducing investment will raise employment levels. Where interest rates fail to induce investment, 'investment by the authorities' (Lerner, 1936: 452) becomes necessary. This becomes increasingly the case 'as the wealth and capital equipment of the community increase. For this means that on the one hand people wish to save more out of the larger income corresponding to full employment while on the other hand the accumulation of capital lowers the marginal efficiency schedule of capital' (Ibid.). To fill this investment gap and maintain full employment would require public investment. That these afflictions may become chronic in richer nations is evident from the formulation, and certainly seemed the case in 1936 when Keynes wrote. Hence we may derive from this a case for the 'permanent policy' of effective demand management that Martin and Riches argue for in 1933. We may notice here also the shift from 'public works', as work for the purposes of relief, to 'public investment' (encompassing works), from which a net benefit, if not direct return is expected. Increased future revenues are discussed in some pieces, while Keynes' multiplier is anticipated when, reporting on the 1932 International Labour Conference's Resolution on the economic crisis, Martin (perhaps ambitiously) describes from public works

'a two-fold increase in the volume of buying...by reason of the new money that will thus be brought upon the buying side of the market...[and] because the funds held more or less idle by business undertakings and private individuals will be likely to come into more active use' (Martin, 1932: 202).

It is tempting to begin here with Professor Boris Markus' 1936 *Review* account of the 'abolition' of unemployment in, arguable the greatest public works of them all, the Union of Soviet Socialist Republics. Several reasons stop me. First, lacking proper reference to the Depression, it falls outside of the current remit. Second, it contains claims such as 'collectivization has enabled pauperism and want to be abolished from the rural areas' (Markus, 1936: 379) which are neither explained nor defended. Finally, regardless of the means of organization of the rapid industrial progress, more recent study has shown that the process was underlined by a gulag system of forced labour as well as forced agricultural collectivization which resulted in a series of famines, notably in modern Ukraine. Not consistent, evidently, with the ILO priorities of social justice.

¹¹ This article is followed by a companion piece exploring the 'Macmillan Report as a Basis for International Action' (Martin, 1931b).

As regards the rest of the world, the most comprehensive public works programme, and the most extensively covered in the *Review* – not surprising given the 1932 International Labour Conference Resolution’s prioritising of national works – was the 1933 US Public Works Administration (PWA), as conceived by the National Industrial Recovery Act (NIRA) of the same year. The extent of the programme, the special interest of the ILO manifested in the *Review*, and the relatively ready availability of wider data for the period¹² mean that we are afforded here a special opportunity for more in-depth study.

An Office article from December 1933 puts the NIRA public works appropriation at \$3.3 billion dollars, to be allocated by the PWA. Then US Interior Secretary Harold Ickes, writing in 1937, gives a slightly reduced figure, more fully explained. \$1,478,013,103 was made available for non-Federal works projects, whilst another \$136,101,550 went to the development of Federal low-rent housing projects. An additional \$1,557,762,044, for ‘undertakings of the various departments of the Federal government,’ were allotted by the PWA but, Ickes says, ‘not considered part of the PWA programme proper.’ We may assume however that the majority of this was for construction: Ickes tells us that ‘for all construction purposes, congressional appropriation totalled \$3,151,029,882’ – only \$20,846,815 below the sum of the figures presented above. The direct administrative responsibility of the PWA was mainly constituted by the first figure presented. The total sum allotted to, and then by, the PWA however comes to \$3,171,876,697 (Ickes, 1937: 779).

Some comparisons here will help illustrate the scale of the undertaking. Taking the Bureau of Economic Analysis statistics per annum gross domestic product (GDP) had by 1933 fallen to \$56.4 billion dollars.¹³ Using the (lower) figure ‘for all construction purposes’ – \$3,151,029,882 – the PWA investment effort then amounted to approximately 5.67 per cent of GDP for 1933. The PWA’s work however was spread over more than just the year. By the end of 1933 it had barely begun.¹⁴ Still, the proportion compares favourably with, for instance, the US’s latest fiscal stimulus package: \$787 billion dollars, representing 5.52 per cent of GDP for 2008 (full 2009 figures are not yet available, BBC, 2009). Of the 787 figure, moreover, tax cuts, as oppose to direct investment, constitute over a third of the sum, with other diversions to State government budgets. Looking at the Federal government’s budget from the time, the allocation represented 163.77 per cent of the previous year’s (1932) receipts, and 67.63 per cent of total outlays. Such major additions would require more loan financing, and were provided by the authorisation of Treasury borrowing under the Second Liberty Bond Act (Special Article, 1933c: 765). To put it in the context of the wider industry, Ickes says that in the three years to 1932, total volume of construction in the US had fallen from roughly \$12 billion to less than \$4 billion. Even taking the figure at \$4 billion, PWA allocations would come to 78.78 per cent of total volume for 1933. Though the work was spread over several years, these were dramatic additions all the same.

¹² Thanks to the US Department of Commerce Bureau of Economic Analysis. This does pose some problems as regards the potential re-adjustment of figures. GDP was not a standard measure of wealth at this time. ‘National income’, as Ickes refers to it in the text, was much more common. Ickes puts this figure at \$40 billion for 1932 (1937: 785).

¹³ All figures in current dollars, unless indicated otherwise.

¹⁴ The amount actually spent by the end of October 1933 ‘was estimated to be about \$133,000,000.’ (Special Article, 1933c: 766)

The functioning of the programme is significant for the way it encouraged further investment. Under the first yearly programme of the PWA a grant of 30 per cent of total labour and material costs was made available to prospective schemes, with the local governmental body accepting the grant providing the rest of the cost. This was liberalised in the second year, and by 1936 the PWA was providing 45 per cent of total costs for schemes. Loans at 4 per cent were also available from the PWA. The net effect was a non-Federal PWA construction programme calling for the expenditure of \$2,397,031,895, but of which only \$720,502,633 came in the form of the PWA grants designed to encourage the works. The rest, including \$919,018,792 in interest-bearing loans from the PWA and other sources, was the responsibility of the local governments whose economies would benefit most directly from the works (Ickes, 1937: 780). PWA schemes saw a major focus on public services and utilities. They include about three-quarters of all schools built from 1933-7 (Ibid.: 786¹⁵), almost 1000 undertakings in water treatment and sewage systems (Ibid.: 788), and the electrification of the Pennsylvania railway line (Ibid.: 792). Federal projects expenditure by mid-1937 had come to roughly \$1,500,000,000, or virtually the entire allocation (Ibid.: 793).

The Effects were no less dramatic. A study by the Bureau of Labour Statistics found that the PWA projects had created approximately 532,000,000 man-hours of direct employment up to 1 February 1937. Of a pre-Depression employed force of roughly 49 million it was estimated about 3 million worked on construction sites. In its peak month, July 1934, 694,000 men were on PWA-project payrolls (Ibid.: 781). After the peak of construction activity in 1935 the monthly figure still remained well above a quarter of a million. Beyond the PWA, H Dubreuil's review of youth forest camps, set up for unemployed youth to combat fungous diseases and fires in the nation's forests, demonstrates not only the scale but also the speed with which much of this work was put into place. By 10 April 1933, the camps had recruited 2,500 men. By 12 May this figure was 274,375, and by 30 September it had topped 300,000 (Budreuil, 1934: 204¹⁶). Whilst conceding that the recovery that had taken place resulted from the 'Administration's wide-flung endeavours to stabilise industry, agriculture and finance,' Ickes declares that the PWA deserves a 'great part of the credit' in the improvement that had taken place. Looking at the PWA's non-Federal projects for June 1933 to June 1936 the Bureau found, making estimates for the man-power required to supply the ordered material of projects, that for every one hour employed on site a further 2.5 hours of work was generated. National income by 1937 was up 50 per cent of the 1932 level, and in the same period the index of industrial production had risen from 58 to 94 per cent of its 1923-1925 mean (Ickes, 1937: 785).

Elsewhere, as early as 1932, Dr Huss, Director-General of the Swedish Social Board and President of the National Unemployment Commission, was reporting in the pages of the *Review* on 'The Organisation of Public Works and Others Measures for the Relief of Unemployment in Sweden'. The works here however, as is evident from the title, are not of the investment 'pump-priming' model expounded above: the purpose is relief; provision for the unemployed on the 'work principle' as against the 'maintenance principle' (Huss, 1932: 29). Wages were fixed firmly below the Communal-regional rate for unskilled workers. In localities where the unskilled worker's wage bottomed out at 5 kr, the reserve works wage

¹⁵ Special note is made of Lyme, Connecticut, where 'a model school replaced a frame building which had served nobly for 140 years.'

¹⁶ The author also notes that the camps were replete with lodgings and kitchens housing refrigerators, which meant that 'the campers could thus be supplied with ice cream, which the American is apparently unable to do without even in the heart of the forest'.

was set at 14 per cent below; where wages were higher, the reserve-work wage were set at up to 22 per cent lower. The key here was the 'official policy with regard to unemployment': any benefit awarded should not be allowed to undermine 'the compulsion to self-help by means of voluntary adjustments to the demands of the open market' (Ibid.: 41).

There are some similarities with the US's later programme however, in the selection of labour-intense public services and infrastructure projects ('in so large and sparsely populated a country as Sweden...the development of communication alone...will offer suitable forms of work...' [Ibid.: 31]), with wages making up on average 75 per cent of costs (Ibid.: 45). In addition there were mixed schemes, whereby the State would pay around 60 per cent of public wages, with the Commune paying the rest (Ibid.: 47). Importantly, works were an accepted facet of government intervention at this time: by December 1931 over 20,000 men were on work schemes, State and Communal, representing over half of the 43.1 per cent of applicants granted aid. This figure would surpass 30,000 by the following March, though as a proportion of relief measure it would drop slightly (Ibid.: 49). Although the following year (1933) the new Socialist government was mandated to expand the scheme (Ohlin, 1935a: 508), Ohlin identifies this as less important in stabilizing the economy than the deficit spending pattern they were inheriting. His emphasis was monetary policy – the subsequent boon to trade and loan-finance mechanisms that made expansion of the works possible – but he remains convinced that expanded loan-financed public works were an important factor in recovery (Ohlin, 1935b: 683). Furthermore, following the consequent expansion, it had been determined that no new taxes would be required to pay off the deficit spending (Ibid.: 682). In this new phase of public works wages were paid at the normal rate, to no discernibly great disadvantage, and bearing the advantage that 'the relief works are now not so unpopular as they used to be' (Ibid.: 684). We may see in the move a greater recognition of 'the theory that the public finances should exercise a certain stabilising influence on the business cycle' (Ibid.: 682).

Returning to mid-decade, Office economist Jan Rosner could declare that 'the public works policy of the Polish government has undergone extensive changes during the depression' (Rosner, 1934: 180). Communes suffered under the increasing burden for works loans, so that in 1930 the central government adopted a system of grants. Between 1931 and 1932 State capital expenditure actually decreased, and not only was almost a third less spent on public relief works in this period, but the State cut back on ordinary public works spending. In the beginning of 1933 however policy changed: "'work and not relief" was the cry', as Rosner writes. On 1 April the Employment Fund was established, to finance and supervise public works, and moreover become a 'permanent fund for public capital investments' (Ibid.: 181-183). It was to be funded by a variety of new taxes however. The notion of genuine counter-cyclical spending came in October when the Capital Development Fund was added to the scheme, drawing on non-interest-bearing Treasury bonds, with no specified date for redemption. The plan intended to supply 200,000 jobs through the course of 1934 and 1935 (Ibid.: 186).

Works extension and coordination also increased with the Depression in the Francophone world. In Belgium the Office for Economic Reconstruction (Orec) was set up and tasked with a comprehensive three-year plan for public works for 1936-8. Where in 1933 the sum of the Extraordinary Budget had been 829 million francs, the total Orec budget projected a total expenditure over the three years of 5,617 million francs, targeting as many different projects as possible so as to have the greatest effect (Braunthal, 1936: 779-80). Financing was to come from the Gold Revaluation Fund, and alternative sources thereafter. Why was the policy being adopted? Fears over the consequences of a 'sudden expansion of credit' had given way to hard necessity (Ibid.: 781-782). In 1936 France's Popular Front government embarked on a series of reforms 'unprecedented in the history of the Third Republic' (Maurette, 1937a: 1). The contemporaneous nature of the work, and the sudden death due to illness of the author mid-way through the drafting of the second paper

in the series on 'A Year of "Experiment" in France', mean that we are not afforded a great deal by way of detail. The fourth measure of the new government's plans however was 'the rapid application of a plan of public works' (Ibid.: 2), and the author's final sentence on the topic expressed his conviction that 'the government will have to provide employment...by means of an extensive and well-thought-out programme of public works' (Maurette, 1937b: 166).

'Work Creation Policy in Germany, 1932-1935' places the German public works effort earlier in the decade, in the summer of 1932. At this time deflation seemed checked, the Central European credit crisis overcome, and the reparations question settled at Lausanne: 'the psychological tension had relaxed' (Grebler, 1937a: 330). It was decided to facilitate the up-swing, and ultimately abolish unemployment, by the 'creation of work by the State' (Ibid.: 331). By 1933 the explicit intent was direct work creation, to which over 5 billion RM (Reich Marks) was allocated over three years: 1,555 million had been spent by the end of 1933; 4,004 million by 31 December 1934; and a total of 4,808 million by the end of the following year (Ibid.: 337). The work was made up of public infrastructure projects, housing, and agriculture projects. Leo Grebler comments that it would be 'interesting to investigate...the effects set in motion by...stimulus...in order to verify in a concrete case the theoretical estimates...of the secondary effects of public works' (Ibid.: 349). To the author's disappointment, a 'second wave' of works obscured any such effort: 'rearmament'.

'In so far as industrial prosperity is founded on warlike preparation, it is not only sinister but hollow and unreal' (Grebler, 1935a: 350). The first of the three adjectives in Harold Butler's noble formulation is undeniable; in the short term at least, the latter two are more subjective. By 1935, the figures for the increase in employment was about double that of the decrease in unemployment, betraying the number of 'invisible unemployed' (unregistered). What drew them out, Grebler continues, was the introduction of compulsory labour service in the spring of 1935, and conscription (Grebler, 1935b: 512). The table further on in the article then puts the figure for workers called into military service at around 450,000 in 1935 alone (Ibid.: 514). Expenditure on rearmament and mobilization came to take the place of public works expenditure from about 1935 onwards. In Japan, the 'Manchurian affair', a rather brutal military expedition and subsequent occupation, was in 1936 absorbing almost three times as much of government Extraordinary Expenditure as public works projects, while armaments expenditure was almost five times the sum. In 1932, in the midst of the Depression, it was claiming 282 million yen against public works' 177 million (Kamii, 1937: 34).

Mention is made of monetary (devaluation) and fiscal (public works) policy measures. But given the figures above, it seems likely that a major aspect of Japanese recovery was the ability to occupy idle workers and industry first with foreign conquest, and then with the exploitation of conquered markets. In prosperous times, the spectre of expensive and uncertain war is not likely to be welcomed. In depression, it becomes a viable component, if not driver, of economic-expansionist policy: the risks are less, the potential gains greater. We would typically regard this a danger of prolonged economic downturn. For a number of nations in the 1930s it constituted a major policy weapon for preserving their economies from prolonged depression.¹⁷

¹⁷ This reality is most directly apparent from the series 'Some Economic Aspects of Rearmament' (Baster, 1938a; 1938b).

In the early part of the decade the *Review* already contained a lot of work exploring and advocating large-scale comprehensive public works policies; a lot of it led by Percival Martin, an Office economist. By mid-decade, and slightly earlier in the case of Roosevelt's vast New Deal, a lot of *Review* space was being devoted to following and reporting on national public works policies, as other policies proved inadequate and more countries adopted schemes. Later in the decade more general work began to be done on both how such schemes can be provided, and their general utility.

Even as the theory and practise of counter-cyclical spending gained traction, the financial means of applying such projects remained 'a subject of controversy' (Heinig, 1936: 153). Towards the end of the decade numerous pieces appeared on social insurance funds and their finances.¹⁸ But the central concern of each is the very technical investment of funds and securing of ready returns. In the case of public works the investment is determined; the return understood.¹⁹ Financing and managing projects presents the dangers. Kurt Heinig, in a cautionary piece, states that the 'decisive feature of state participation in public works schemes...is that the budget itself is "trustified" and converted into a record of financing and holding operations' (1936: 169). As the state budget turns into a financial and economic organ for managing the business cycle, it is, he continues, important to recognise that this form of economic organization in of itself offers no special form of protection. But since 1918 the world has demanded moves toward systemic economic State management. Therefore there must be efforts to secure the highest quality of any such management. Heinig comments admiringly on the American 'Brain Trust' and takes it as an exemplar of 'wealth of ideas in the preparation of State undertakings' (Ibid.: 170).

The greatest warning is sounded against inflation. Creating credit becomes essential for funding large-scale public works: government revenues fall, whilst saving on existing undertakings would risk undermining the expansionary effort of public works. If the capital mobilised can 'reproduce itself', in economic expansion and increased tax revenues, then 'the budget is converted into a plan for guaranteeing the interest and repayment of capital.' If such outlays produce neither capital nor interest, such as, for instance, armament spending, the budget is converted into little more than a debt-book: an echo of Butler's earlier warning. Inflation, the writing down of the capital value of (potentially vast) government debt is then counted as the greatest danger of all: 'It wastes the economic assets of the country, it is an attack on the body of the State involving danger to its very life.' Even where controlled inflation ('inoculation with the poison'), is conceded as a proven treatment of State finances, Heinig states that 'it is the crudest form of taxation that can possibly be imagined' (Ibid.: 174-175).

The general efficacy of public works, as factors in the re-employment of man and plant and in prevailing economic stability, was equally a subject of debate. Harold Ickes had made the claim that for every on-site hour worked on a PWA project a further two and a half hours of work was created in support work, such as providing materials. Looking at the multiplier effect of the employment itself, as oppose to the wider project, and the subsequent spending over an extended (one year plus) period, ILO economist M Mitnitzky

¹⁸ There is also a particular focus on South America in these articles: 'The Development of Social Insurance in Argentina, Brazil, Chile and Uruguay' Parts I & II (Tixier, 1935); 'Investment in Social Insurance Funds with Special Reference to the Countries of Latin America' (Special Article, 1936a). Beyond these there is also Deschamp's 'The Investment of Compulsory Social Insurance Funds (1938); and Féraud's 'An Introduction to the Financial Problems of Social Insurance' (1938).

¹⁹ This relationship was complicated somewhat when the US started, in 1937, to use the investment of social security to finance the budget deficit (Special Article, 1938b, 741).

determines a ratio of primary to secondary employment of 1:0.40 (Mitnitzky, 1934, 454). Into this he factors in tendencies to save, spending on foreign products and price increases, to describe the minimum effect. In similar studies by the German Federal Statistical Office and economist RF Khan the figures, respectively, 1:0.25-0.75 and 1:0.67 emerge. The author accepts that the figures may disappoint, but he sees no argument against public works in them: 'in the first place it is by no means certain that private enterprise will really decide to increase its expenditure so long as the depression continues, and, in the second place, the effort of supplementary income from this source would not be a jot better than that of the state' (Ibid.: 455).

Review report 'Public Works as a Factor in Economic Stabilisation' (1938) points out that the timing of public works relative to economic fluctuations – counter-cyclical spending – 'is at least 40 years old' (Special Article, 1938b: 735). The policy can be found in French government circulars from February 1897 and November 1900. Counter-cyclical spending had indeed been a feature of economies pre-Depression. Two 1936 pieces (Grebler, 1936a; 1936b) describe how in pre-war Germany and Britain house building and general construction had typically been counter-cyclical, depending as they did on low interest rates to support high long-term investment. Work would pick up as rates dropped in response to a slowdown, and slow down as rates became prohibitive through a boom period, with at least some equalising, stabilising, effect on the cycle. Post-war conditions, especially in Germany, with high rates for materials, rent restrictions, currency depreciation and the forlorn anticipation of a final post-war stabilizing had all served to deter investment to the point where governments were funding a lot of housing work. This led, as the articles found, to a synchronising of house building with the wider cycle, as governments drew on healthier receipts for spending, and tightened budgets in times of downturn. By 1938 Britain was considering plans for the long-term review and management of capital expenditure, particularly building work, so as to re-introduce the counter-cyclical dynamic (Reports & Enquiries, 1938b: 741). In the light of Sweden's success in stimulating private economic activity, and the US's success in at least somewhat recovering the level of economic activity, governments in Finland, Switzerland and Canada were all presenting proposals for future, structured works programmes.

Heinig, in his piece on financing public works, finishes by saying that in a world of international trade there is 'no autarkic way of escaping fluctuations of the business cycle (1936: 176). One of the principle tasks he assigns the International Labour Office in this economic internationalism is to act as a clearing house for knowledge and experience, so that countries might draw on each others developments. This is the work the Office had set itself to with the creation of the International Public Works Committee in 1938, with was attended by 25 member nations, including all the major members except Japan and the USSR (Special Article, 1938b: 735). The draft plan provided that governments be invited to share all details of proposals, methods of financing, anticipated revenues and the suchlike, of public works projects, so as to provide as uniform and as extensive a supply of knowledge on both practise and theory, both still so novel (Ibid.: 748). Events dictated otherwise. Within 11 months of the meeting, five of the attending nations would have been invaded and Europe was again at war.

International cooperation and a glimpse of an alternative

There is no autarkic road to a higher civilization.

Harold Butler at the International Labour Conference,
Nineteenth Session, Geneva, 1935;
quoted in Kurt Heinig's 'The State Budget and Public Works'

It was with thoughts of restoring civilization and its prosperity, rather than elevating it, that ILO economists were filling the pages of the *Review* with the need for international coordination. 1931 and 1932 were the lowest years of the Depression, but the failure of monetary policy to properly meet the demands of the situation was becoming increasingly evident. Just as this context was driving many ILO economists and others to consider other policy mechanisms, so it prompted discourse on the utility of internationally coordinating monetary policy and other government tools.

Already by the autumn of 1931 Giuseppe de Michelis was presenting to *Review* readers his 'World Programme of Organic Economic Reconstruction'. The emphasis here falls firmly on the 'organic', and the paper is concerned with the international coordination of the factors of production, not so that they may be centrally organised per se, but rather to 'create...an economic machine capable of circumscribing, localising, and reducing the interferences with economic activity' (de Michelis, 1931: 496). The idea is that of the fullest mobility of all factors: labour; land and materials; and credit, so that they might be employed globally to most efficient effect. The author invokes bilateral steps already taken to this end, from Sao Paulo's granting of land for plantation development to Poles in 1927, to Franco-Italian agreements on Tunisian phosphates (Ibid.: 499). The principle however is for this on a global scale. The world has become a market, but national competition, suspicion, and trade barriers impede it from behaving as one. An extension of sorts of this thinking can be found in LL Lorwin's 'ILO and World Economic Policy' (1936). Here, however, the intention is less 'organic'. Lorwin's thesis is for the extension of the ILO principles to encompass the full range of economic activity and coordination: an international declaration that will bind those nations dislocated by war; those small countries defining their sovereignty; the new industrial nations asserting themselves such as Japan; and the new-ordered economies such as the USSR, 'to equalise the opportunities of all countries with regard to raw materials, credits, markets, etc.' (Lorwin, 1936: 464). Like the ILO, this enterprise would not change the world immediately. But it could set objectives and standards to be worked towards, and otherwise show what improvements can be made given the energy and the means.

In only marginally less comprehensive terms Martin and Riches considered alternatives to the automatic gold standard – so thoroughly reconstructed, and then abandoned in the course of the 1920s and early 1930s – and struck firmly upon a system incorporating measures to sustain the volume of active purchasing power (Martin & Riches, 1933: 39; 46; 49) that would serve stable prices, and act as a stabilising influence overall, staving off deflationary spirals. The success of such policies, if they are not to be undermined by competitive devaluation and tariff-based responses, require comprehensive international agreement and consensus. Both Britain's Macmillan Committee and the recent League of Nation's Delegation on Gold had asserted the need for international agreement in framing a new and effective monetary order to better facilitate trade. Martin and Riches suggest an important role in this for the ILO, mandated and obliged as it was, to working toward universal peace and social justice, the 'prevention of unemployment' and the 'provision of an adequate living wage' (Martin & Riches, 1933: 50).

This work emerged, to a large extent, from the 1932 International Labour Conference Resolution prioritising public works for the purposes of boosting active purchasing power. Even critics of this proposal, such as Gustav Cassel accepted, first, that the initiative must

be to restore the level of commodity prices, and second, the need for coordination, he himself proposing a simultaneous price-level increase between the United States and Britain: 'it seems pretty sure that other countries would follow such a policy without much hesitation' (Cassel, 1932: 648). Others, who did subscribe to the policy of works at an international level (Woytinsky, 1932; Johnston, 1932) make the case that industry since the war had been internationalised, so attempts to recover it must likewise be international. Woytinsky proposes an international fund, from which countries would be granted loans proportionate to their need to create employment (1932: 21). The general revival thus brought about would increase trade and rapidly sustain itself, rather than leave nations to flail about independent of one another. The importance of trade to national economies leads Johnston to conclude that in terms of economic planning 'it is not only logical, but practically inevitable...to pass beyond the limits of one nation or State' (Johnston, 1932: 74).

There was far less in the way of concrete achievement or even experimentation with regard to this aspect of Depression management than with the others. Nor were recommendations especially thorough. That is not to say that there was no international cooperation. The very functioning and existence of the ILO is a case in point. Beyond the ILO the Lausanne Conference successfully reduced debilitating German war reparations, and within it we have already discussed the Committee on Public Works. But any such progress was checked. Some economies were already turning inward, fearing the risks of international competition and drawing up tariff barriers, whilst other still were seeking recovery 'by means of...preparations for war' (Lorwin, 1936: 466).

The Conference

If States were growing, they were not necessarily growing closer together. The forum of the ILO remained throughout however. Every September in the *Review* (October in the case of the momentous 1939) was a report on the proceedings of the International Labour Conference. An extended consideration of these would fill another work this length again, but a brief overview will serve tell us something about what Conference delegates could, and sometimes could not, agree upon, and the measures then most readily open to remedying depression.

It is 1932 that we arrive at measures most obviously relating to the Depression, from which emerged on 30 April a special Resolution on the economic crisis. The four principle points were as follows:

- i) Government delegates duly authorised to that effect should as soon as possible draw up schemes for large international works with economic equipment and for national works so designed as to encourage the economic situation within the countries at hand, providing them with a financial basis;
- ii) So as better to secure agreement both the ILO and League of Nations should be present at Lausanne for the forthcoming conference on the resettlement of war reparations and other political debts;
- iii) States should take joint action to settle issues of currency and credit so as to imbue the international monetary system with the requisite stability to avoid future depression;

- iv) Governments in collaboration with the other delegates, employer and employee, should examine problems of production and trade with a view to the resumption of normal economic activity by concerted plan, based on the systematic increase in the consumption of the masses and coordinated extension of international trade.²⁰

The prioritising of public works was not without its problems. While the essentials of the Resolution were approved by representatives of 30 countries, and 26 of 31 workers' representatives, it received approval from only three of 31 employers' representatives, with one voting against (Martin, 1932: 199-200. See also Special Article [Sixteenth Session], 1932).

The 1933 Conference retained a depression-centric agenda: the first three points relate, respectively, to the abolition of fee paying employment agencies; invalidity, old-age and widows' and orphans' insurance; unemployment insurance and the various forms of relief for the unemployed (Special Article [Seventeenth Session], 1933a: 317). Conventions were passed on all the above issues, bar unemployment insurance.

1934 prioritised the reduction of work hours, whilst unemployment insurance occupied second place on the agenda. On work hours, the British Government delegate made clear that he could not countenance a Convention that afforded no protection of wages. The Conference decided to refer the whole issue to a Committee. This was where the Employers' Group, in a position of opposition to the policy, declined to participate. At his own request, the Italian Employers' delegate participated (Special Article [Eighteenth Session], 1934b: 290-1). An Unemployment Provision was adopted.

The 1935 conference was topped by the maintenance of insurance rights for workers emigrating, whilst the third part of the agenda dealt with young persons unemployment, and the sixth again with the reduction of hours (Special Article [Nineteenth Session], 1935: 289). Of the 1936 Conference five of the agenda's eight items concerned the reduction of work hours in various industries, notably on public works and in the construction industry (Special Article [Twentieth Session], 1936b: 289). A Forty-Hour Week Convention was adopted at the Twentieth Session, and two further sessions were held in the year relating to sea-farers.

In 1937, of seven agenda items, three again related to the reduction of work hours carried over, whilst the third listed item concerned the planning of public works in relation to employment. This last item was no longer merely an appendage to discussions of unemployment relief (Special Article [Twenty-Third Session], 1937: 293). Another Reduction of the Hours of Work (Textiles) Convention was adopted.

1938 and 1939 shared an agenda (1938 had not been successful), on which we find, of particular note, an item again concerning migrant workers, as well as items on technical training and the generalised reduction of working hours (Twenty-Fifth Session 1939: 448. See also Special Article [Twenty-Fourth Session], 1938a). From 1938 came only a Convention concerning Statistics of Wages and Hours of Work, and in 1939 a Migration for Employment Convention was adopted. After this the Conference went into abeyance until 1946.

²⁰ I have paraphrased this section from the original text as quoted in PW Martin's 'World Economic Reconstruction' (1932), Pg.200 and in Annex I, Pg.220.

Causes

Corporate profit resulting from this period was enormous; at the same time...the consumer was forgotten...the worker was forgotten...the stockholder was forgotten.

United States President FD Roosevelt, from his *Looking Forward*, as quoted in ILO Director Harold Butler's 'The Course of American Recovery'

We are now in a better position to look at the causal interpretations of the Depression found in the *Review*. The arguments, in studying the various policy recommendations and the debates surrounding them, have been sketched above, to some degree or another. It is worth having a fuller account of these debates however, and, where they apply, the interpretive structures behind them. Not only do they constitute *Review* analysis of the period, our present subject, but they served to shape government policy as well as the very concepts of government and macroeconomics themselves.

There is through the period a limited discussion about birth rates and their effect on employment levels. It is not a compelling aspect of the debate, but interesting to consider as, at the least, a sign of the times as it were. L Hersch identified in the *Review* in 1933 declining birth rates across the richer nations. With this he coupled a thesis on the ratio of 'pure consumers' to 'producer-consumers' to arrive at a position where the decline in new births meant fewer, non-working, 'pure consumers' to every 'producer-consumer', resulted in over-production, glut, unemployment. His prescriptions to this problem range from the reduction of work hours to the redistribution of wealth (Hersch, 1933: 160-162). Stefano Somogyi offers a direct retort (albeit some two years later) and gets to the crux of the matter by stating that to justify the Hersch hypothesis it is

'essential to show that the shift in demand from the goods chiefly consumed by the "pure consumer" classes of the population (...the extreme age groups – up to 15 and over 65...) to the goods and services required by adults has the effect of diminishing the activity of branches of production that employ relatively few workers' (Somogyi, 1935: 163-164).

This, he determines, is inconclusive at best. Kurt Heinig goes in the other direction to identify the war-period drop in birth rates as a generally unnoticed component in the relative economic recovery of the later early 1930s: 'the effect begins with those born in 1915; they were 18 years old in 1933...since 1933 four "half-strength" years have come on to the labour market' (Heinig, 1936: 156). Fuss is unconvinced however. Looking at youth unemployment, he makes reference to the forecast of some that owing to the low rate of 1915-1919 youth unemployment (14-18 years of age in this case) would essential disappear as of 1929. 'It was in fact precisely in 1929...that juvenile employment began...to grow at an alarming rate' (Fuss, 1935: 652). Given the massive variance in scale between changes in birth rates and unemployment levels (the latter being decidedly more dramatic, reaching a quarter of the workforce in some nations), we can agree with Fuss that taking the demographic factor to be decisive in determining employment levels is simply wrong.

Rationalisation, which is to say technical and technological advancement in the process of production, is, on the other hand, identified as a major component of economic downturn, and is so noted throughout the period.²¹ Fritz Sternberg (1937) argues that in the past, new (typically colonial and unindustrialised) markets, and then the mass warfare of

²¹ Sternberg's 'Prolonged Unemployment' (1937); Flamm's 'The Problem of Technological Unemployment' (1935); Lederer's 'Technical Progress and Unemployment' (1933) are but the most relevant to the immediate analysis of the Depression.

1914-18, provided outlets for excess production. These factors were not similarly present post-war. Yet advances in efficiency, deriving from rationalisation, continued even in the Depression years of 1930, 1931 and 1932, production per working hour increasing by a mean of 5.37 per cent, year upon year (Sternberg, 1937: 475²²). Furthermore, “it is practically certain that the rate of technical progress since the war is several times as rapid as it was before the war” (Quoting the *Vierteljahrshefte des Instituts für Konjunkturforschung*, Ibid.: 468). Flamm notes that in conjunction with this, and in sharp contrast with the past, ‘the process of decreasing hours of labour has been negligible’ (Flamm, 1935: 352). The 70-hour week remained in living memory, he says, but it had been made just that long before the war. Comparable movements post-war were not evident. So production outstripped the capacity for consumption. Even the existing plant, at full employment, could only ultimately exacerbate long-term unemployment. This is the shortage of consumer demand that accounts for the Depression. This is also why President Hoover’s belated use of Federal credit to bolster railways and banks came to so little. The credit was absorbed ‘sponge-like’, ‘not in building up consumption, but in reducing the credit pyramid – and not even that, for the Government was substituted as creditor. The portion of this credit which found its way into channels of consumption was small’ (Flamm, 1935: 356). As discussed above, Flamm argued for the reduction of hours worked, and the managing of production.

For Martin and Riches, ‘that chaotic monetary conditions are largely responsible for this *débâcle* is generally admitted’ (Martin & Riches, 1933: 27). The gold standard had essentially collapsed, throwing exchange rates into turmoil and badly damaging trade, the process exacerbated by quotas and tariffs again provoked by exchange volatility. The depth and rapidity of decline between 1929 and 1932 is outlined above: trade dropped 34 per cent in the first six months of 1932 against the already depressed corresponding period of the previous year (Ibid.: 26). The very dynamic of the gold standard had been altered post war. Before, as the authors describe it, the standard was less an international system than a British one internationalised. Selling abroad in high volume, it permitted the free entry of goods in exchange. Furthermore, it fulfilled its role as a creditor nation by seeking investments abroad and extending credit abroad, preventing the accumulation of balances.

Since the end of the war ‘the privilege and burden of the international application of the gold standard’ had been shared with France and the United States. Both countries employed tariff barriers, neither invested as heavily abroad as Britain had. Both were due debts from the war. This meant the flow of gold reserves into their national accounts at the expense of other countries. ‘Roughly speaking, each of these countries now holds about a third of the world’s monetary gold, leaving the other fifty or more countries just over a third on which to do their business’ (Ibid.: 28-9). The authors go on to question the genuine automaticity of the ‘automatic’ gold standard, when countries may take measures to stop it working. To this is added questions of valuations, the pound for instance generally being considered to have been over-valued at the time of its 1925 resumption of the standard, and as a result suffered export losses. It was, in sum, a *débâcle* the measure of a depression. It demanded a new, and international, arrangement.²³

²² There is an interesting note in this paper about China. Already at this time home to an estimated fifth of world’s population, it nonetheless accounted for less than 2 per cent of world trade per annum between 1933 and 1935.

²³ A recent paper (July 2009) on this aspect of the Depression has just been written by Barry Eichengreen and Douglas Irwin, entitled ‘The slide to Protectionism in the Great Depression: Who Succumbed and Why?’ Their

Another view still, and one dependent on a much more comprehensive theoretical system, is the analysis presented by Bouniatian in 'Economic Depression and its Causes'. His argument on wages is extrapolated above. The system fuels itself: production supplies its own purchasing power, for even that which is saved automatically goes into investment, providing the demand for excess production. The heady burden of bringing savings and investment into equilibrium is placed on the interest rate. Set high, this will deter investment and encourage saving; set low it will cause the inverse. Prices, including wages, respond more or less seamlessly to demand and adjust themselves, so that greater production, rather than outstrip demand, will mean either greater consumption, or lower prices. If prices fail to adjust, the system brakes down. This is what Bouniatian identifies in the wage bargain:

'The obvious and primary object of the campaign against economic crises and depressions must therefore be to eliminate all obstacles preventing wage rates from adapting themselves as closely as possible to the value of the product of labour, during the period of expansion as well as after a crisis' (Bouniatian, 1934: 22).

Maurice Ansiaux, in evaluating under-consumption as a factor in the economic cycle (1932), focuses on the movement of wages, or lack thereof, during the period of expansion. Under-consumption is a broader thesis than over-production (though this is a part of under-consumption), the latter simply referring to the inability of undertakings to attain a remunerative price for their product. Under-consumption derives in part from the ultimate misplacement of investment (or over-investment – investment always understood as being undertaken in anticipation of future returns) and in part from the ensuing collapse of confidence: 'the alternation of periods of prosperity and depression is based entirely on the fluctuation from illusion to disillusion' (Ansiaux, 1932: 13). It is accentuated in times of prosperity, as profits rise far more than wages, 'and it is chiefly out of profits that savings are accumulated' (Ibid.: 20). The capitalist purchases capital equipment with his excessive savings, resulting in over-production. In depression he holds capital in liquid or other readily realisable forms. The wage earner goes hungry. At both points the maldistribution of the community's income accentuates the problem of under-consumption, and accentuates the economic cycle. Presumably, increasing wealth would make such fluctuations more violent still: the wealth-concentration effect noted by President Hoover's Research Committee. The solution to the extremities of economic fluctuation can only be some kind of redistribution of income. Martin, though born in London, was educated at Columbia University where he would have encountered under-consumptionist thought in courses with Wesley Mitchell and others (Endres & Fleming, 2002: 87), and there are echoes of this paradigm throughout his work.

In 1936 this notion of under-consumption would be given a thorough theoretical substructure by Keynes. The rate of interest, which in the classical model kept savings and investment in equilibrium, and thus served to apply the full extent of purchasing power generated by production, is divorced from the level of savings. Rather, in Keynes' formulation, it is determined by a preference for cash. This is the relevant demand: the interest rate is what people holding cash receive for lending it to others. This means that a drop in consumer spending will not necessarily be met by new investment to absorb the excess output. The psychology of the community is identified as such that as employment and aggregate real incomes increase, so too does consumption, but, by less than the rate of increase in income. Without extra investment to absorb the output beyond the community's propensity to consume, 'receipts of the entrepreneur will be less than is required to induce

contention is that the longer countries adhered to the gold standard, and did not opt for devaluation, the more they later adopted protectionist measures.

them to offer the given amount of employment' (Keynes, 1936: 27²⁴). Given the community's propensity to consume, employment is then contingent on the rate of current investment. A full-employment equilibrium is not therefore a natural tendency, but exists when, 'by accident or design', current investment provides a demand equal to the excess output resulting from full employment over the level of consumption of the fully employed community.

Worse is to come: 'not only is the marginal propensity to consume weaker in a wealthy community [consumption rising with, but by less than, incomes], but, owing to its accumulation of capital already being larger the opportunities for further investment are less attractive unless the rate of interest falls at a sufficiently rapid rate' (Ibid.: 29). So, with increasing wealth, not only will the propensity to consume decline, but investments become subject to diminishing returns, and also decline. Near-zero interest rates in both the US and Britain at the time seemed to attest to this idea. The Depression was a malady of wealth. To provide this extra investment was the key to its solution. Where, for psychological or institutional reasons, there may be difficulties sufficiently reducing the rate of interest to a level to induce the investment required for full employment at the existing propensity to consume, 'Keynes thinks that public works are necessary, and may become more and more necessary as the wealth and capital equipment of the community increase' (Lerner, 1936: 452).

These debates were not without their controversy. In answer to Keynes (by way of the Lerner piece) Cassel asserts 'there can be no such thing as a general theory of employment' (Cassel, 1937: 444). Perceiving an attack on the notion of thrift, he declares 'if all the unemployed died, we should have an economy in equilibrium and with full employment, but still suffering from the supposed malady of an excessive "propensity to save"' (Ibid.). Lerner rejoins that Cassel has produced useful economic work here, most particularly on how not to conduct analysis: 'one cannot assume a change to take place without the consequences of the change also taking place.' If the unemployed are removed, with them goes the demand for the goods, however slight, they consumed and new workers fall out of employment into a corresponding proportion of the smaller population as the previously unemployed (and now dead) occupied '(unless Professor Cassel continues his experiment until the whole community is exterminated)' (Lerner, 1937: 588).

Even Professor Cassel, however, as we saw above, was not averse to governments setting commodity-price levels in the effort to stabilise prices. Whether by political interference (wage rates; impeded international trade), the maldistribution of income, or the technical-economic consequences of increasing wealth, all of the above analyses necessitate corrective action. Given the political realities of the time, this meant invoking action by State governments. Most analyses, moreover, including Bouniatian's classical wage theory (allowing wages to rise in periods of prosperity), required some redistribution of income (implicit in the case of proponents of public works) for both sustaining demand, and managing production. And this was the mandate given to Franklin Roosevelt in 1932:

'as I see it, the task of government in its relation to business is to assist the development of an economic declaration of rights, an economic constitutional order...happily, the times indicate that to create such an order is not only the proper policy of government but is the only line of safety for our economic structure as well.' (Roosevelt, as quoted in Butler, 1934: 4).

²⁴ For reasons of clarity I shall make direct reference to the Keynes text in some parts. Though presenting the conclusions of the General Theory, Lerner's piece does not offer a full extrapolation of how these are reached, and can be opaque in what it does present.

Conclusions

This is not a general history of the Depression. It is an account of the Depression as witnessed by the *Review*, an organ concerned first and foremost with the condition of labour. Credit crises, trade collapses, and currency runs form little more than backdrops to debates and analyses. Devaluation as a policy mechanism is discussed, if in a limited fashion, with reference to Belgium, Sweden, and to a lesser extent still France and Germany. They constitute over-arching policy options however, without the proper context in which to consider them. Likewise I have opted not to look at wider social insurance adoption, lacking as it does a direct bearing on the Depression.

But although its remit was limited, it still managed to cover a wide range of issues, policies, and perspectives. It was also remarkably advanced in its thinking. According to Endres and Fleming, Martin and Riches' early (1931-3) assertions about the insufficiency of monetary policy on its own 'would have been incomprehensible to those at the LON [League of Nations] and BIS [Bank of International Settlements]' (2002: 79) until much later. In a critique of international *laissez-faire* thought toward the end of the *General Theory* Keynes states that 'it is the policy of an autonomous rate...and of a national investment programme directed to an optimum level of domestic employment which is twice blessed in the sense that it helps ourselves and our neighbours at the same time,' annotating the passage with the following footnote:

'The consistent appreciation of this truth by the International Labour Office, first under Albert Thomas and subsequently under Mr HB Butler, has stood out conspicuously amongst pronouncements of the numerous post-war international bodies' (Keynes, 1936: 349).

The central narrative is that of the expansion of the role of the State, at least as regards economic order. Bouniatian, in calling for the elimination of obstacles to wage rate adjustments, does not deny the role of the State in such a proposal, nor can he given the political arrangements of the time, and the scope of the measure he calls for. Ansiaux, in calling for a redistribution of income is almost necessarily calling for action from a preeminent political agent – at this time, the national state apparatus. Calls for public investment are arguments directed at governments. There were not at this time the sufficient international structures, economic or political (to the extent they can be wholly divided), to implement the level of management typically being proposed. There is not one analysis in the *Review* at this time devoid of a government agency, whether a Commonwealth Court of Conciliation and Arbitration, a National Industrial Recovery Act, or Unemployment Insurance Act. And these represented a process just beginning:

'The quasi-independent status of industry *vis-à-vis* the State has been replaced by a mixture of partnership and dependence which, whatever may be thought of it as a system, constitutes a totally new situation, to which the minds of those responsible – statesmen, civil servants and businessmen alike – are not as yet fully adjusted, and for which in many cases the appropriate administrative machinery does not exist' (Martin, 1936: 631).

It could be argued that given the potential for abject poverty (realised so dramatically in the period considered), the importance of industry, and the limits of the State, the richer economies of the 1930s bear a greater resemblance to today's developing economies than they do to their modern manifestations.

Kurt Heinig makes reference to Adolf Wagner's 'law of an increasing extension of the functions of the State. Wars and depressions have emphasised the correctness of his view' (Heinig, 1936: 158). Some States have since so completely mastered the process of production that they have at their disposal the weaponry for their own, and the rest of our, extinction. Heinig is surely right in identifying in the Depression a catalysing effect to this growth of the State. The conscientious reader of the *Review* at this time would also have

been well aware of the threat of future conflict. Japanese and German rearmament, if not their expansionist intentions, are alluded to on a number of occasions.

Of all the measures to manage the Depression, the most prominent and thoroughly surveyed is that of public works. This effort was led, by design or otherwise, by British economists: Martin in his analysis of monetary policy, and his subsequent thoughts on its limits; and Office Director Harold Butler in his work in the United States, the site of the most ambitious of the public works programmes. Recently economist Paul Krugman calculated that of the 7,000 or so papers published by the national Bureau of Economic Research between 1985 and 2000, only five mentioned fiscal policy in their title or abstract (*The Economist*, 2009: 70). In the US today the financial sector has received a great deal of State aid. But then it now accounts for 7 per cent of salaries and wages, more than double what it did in the 1950s (Friedman, 2009: 42). Industry is, proportionately, a less important employer than it was.

Review works also draws out, in terms of the development of economic policy, the role of long-term economic factors in shaping the political conditions that permit policy. By 1930 unemployment in the US had almost doubled, but it seems unlikely that Roosevelt could have benefitted politically at that time from the attack on profit accumulation quoted above. By the end of 1932 however, unemployment had reached such an extent that inaction then became politically intolerable. In 1933 Sweden elected a Social Democratic government so as to expand the measures to combat unemployment and market vagaries; as did France in 1936.²⁵

As regards the breakdown of the economic system, another theme emerges, though it is rarely referred to explicitly: the redistribution of wealth. Near most all efforts to stimulate consumer demand depend on putting purchasing power into the hands of those who have least of it, or, in other words, those most certain to spend it. Ansiaux calls for it directly; Fuss and Christie Tait see it in Tyneside; public works as ‘pump-priming’ (Ickes, 1937: 775) is implicitly dependent on the idea, at the very least in so far that debt incurred by such spending is serviced by taxation on higher incomes and high-value properties. It may not have been the welfare model of today, but these were ideas that represented some degree of redistribution, and were being deemed integral to economic stability.

A recent *Economist* article (2009: 68-72) described the current crisis as having exposed ‘bitter divisions among economists’ (68). This, as can be seen above, not least in the exchanges between Cassel and Lerner, is not a new phenomenon. From this period, and in many ways from the pages of the *Review*, emerged a notion of the ‘Keynesian task’ of demand management, now ‘a routine duty of governments’ (69). The same article posits the idea that the *General Theory* has been superseded: ‘real scientists, after all, do not leaf

²⁵ We can see parallels of this dynamic in the 1970s too. The oil shocks of the early decade brought into relief the prospect of high inflation, which coincided with theorising (namely Mr Friedman and Mr Phelps) about the causal relation between low unemployment and high inflation. Policies premised on a non-accelerating inflation rate of unemployment (NAIRU) began to gain currency, as it were, taking around 5 per cent as a tolerable, if not necessary, level of unemployment. This was the economics of Ronald Reagan and Margaret Thatcher. The viability of such a policy however depended on the long-term growth of wealth that had occurred, which had created what Peter Glotz, then a German SPD politician, described as the ‘two-thirds society’, or what Galbraith called the ‘culture of contentment’. Relative increases in wealth and comfort for a majority left a minority, either unpoliticised or politically overwhelmed, locked into relative poverty, upon whom fell the vast majority of this 5 per cent level of unemployment. Now, with that the prospect of a less discriminating unemployment level closer to 10 per cent, there may yet be another paradigm shift. Glotz’s work is given a refined empirical basis in Headley, Krause and Habich’s ‘Long and Short Term Poverty: Is Germany a Two Thirds Society?’, *Social Indicators Research*, 1994

through Newton's "Principia Mathematica" to solve contemporary problems in physics' (68). But then economics is most assuredly not a natural science. The guarantee of this is the fact that it must contend with the unpredictability of human behaviour; with the vagaries of human psychology. This was understood well in our period, whether it was Cassel calling for balanced budgets to restore 'confidence', or Keynes expounding on our various propensities. Economists George Akerlof and Robert Shiller have borrowed the term 'animal spirits' from Keynes for the title of a new book concerning the psychological and irrational elements governing economic behaviour (Friedman, 2009: 42).

The *Review* itself was not without its dramas. There was the Lerner-Cassel controversy, and the death of Albert Thomas, announced in the *Review* with the black bannered, shocked headline, 'Albert Thomas is dead' (ILO Supplement, 1932). There was contributor Fernand Maurette, who died from illness mid-way through an article on the French Popular Front government's economic policy. The article was duly published 'exactly as it came from his pen' (Maurette, 1937b: 149). Convictions were forged, as with Martin's increasing belief in the need for fiscal stimuli, and statements of defiance were made: upon the outbreak of war Director John Winant declared that 'the function of the organisation in this unprecedented crisis in the destiny of man is to contribute to the preservation of the common heritage of civilisation' (Winant, 1939: 446).

Most important of all, through a time of deep crisis, the *Review*, in its studies and proposals and statistics, had been concerned with the ultimate aims of man.

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