

### A.3 To what extent were generous unemployment benefits responsible for the high level of unemployment in inter-war Britain?

From 1921 until the outbreak of the Second World War in 1939 unemployment in Great Britain was at record levels: it averaged 14 per cent – far higher than it had been before 1913 or than it would be for any sustained period after 1948 – and it never fell below 9.5 per cent. Among various explanations which have been suggested for this high and persistent inability to provide work for such a large proportion of the labour force were the role of the trade unions and the excessive level of real wages; the over-valuation of sterling as a result of the decision to return to the gold standard with the pound valued at its pre-war rate against other currencies; structural problems arising from over-commitment to the old staple export industries such as coal, textiles, and shipbuilding; and a general lack of demand.

Then in 1979, in a highly controversial article, Daniel Benjamin and Levis Kochin injected a new factor into the debate.<sup>c</sup> Their suggestion was

<sup>c</sup> Daniel K. Benjamin and Levis A. Kochin, 'Searching for an explanation for unemployment in interwar Britain', *Journal of Political Economy*, 87, 1979, pp.441–78. They were not the first to argue that unemployment benefits contributed to a willingness to remain unemployed for a longer period, but the hypothesis had been displaced by alternative explanations and it was only with their article that it returned to prominence in the literature on the inter-war period.

**Table A.4** Data set for investigation of unemployment in inter-war Britain, 1920–1938

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<i>(a) Annual series, 1920–1938</i>	
UNEMP	Total unemployment as a percentage of all insured employees
WAGES	Average weekly earnings (wages and salaries) of all full-time employees (in shillings)
BENEFITS	Weekly benefit entitlement of an adult male with one adult dependent and two dependent children (in shillings)
BWRATIO	The replacement rate, measured as the ratio of BENEFITS to WAGES
NNP	Real output measured by net national product (in £ million at 1938 factor cost)
DEMAND	The ratio of NNP to its trend value, NNP*

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that the persistently high level of unemployment ‘was due in large part . . . to high unemployment benefits relative to wages’. Apart from the severe crises of 1921 and 1930–2, the high unemployment of other inter-war years ‘was the consequence almost solely of the dole. The army of the unemployed standing watch in Britain at the publication of the *General Theory* was largely a volunteer army’.<sup>d</sup>

The insurance scheme that they highlighted had first been introduced in Britain in 1911, but only for a very small proportion of the workforce. An Act of 1920 extended coverage to almost all manual workers over the age of 16 (the two main exceptions were agricultural workers and domestic servants – both relatively stable sectors with low unemployment) and provided much more generous levels of benefit. There were numerous subsequent changes, but Benjamin and Kochin argue that the level of the benefits – together with various institutional features of the system – made the inter-war scheme ‘more generous relative to wages than ever before or since’. In their view it was primarily this generosity that explains why unemployment was so much higher than in earlier or later periods.

Their paper provoked a flurry of historical and statistical criticisms, but most historians would now recognize that the benefit system did make some contribution to the severity of inter-war unemployment, though not by as much as Benjamin and Kochin had originally claimed.<sup>5</sup>

Their data set consisted of four annual primary series for the years 1920–38: UNEMP, WAGES, BENEFITS, and NNP.<sup>6</sup> They are defined in table A.4; all are taken from published sources.<sup>7</sup> From these they constructed two further series. BWRATIO is the replacement rate, and is a measure of the generosity of BENEFITS relative to WAGES (i.e. of the extent to which they are a replacement for wages). DEMAND is a measure of the effects of changes in aggregate demand calculated as the ratio of NNP to NNP\*, its trend value.<sup>8</sup>