

Unemployment in Interwar Germany, 1924-1938

A thesis presented

by

David John Corbett

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ABSTRACT

For much of the period between 1924 and 1938 the German economy was afflicted by high rates of unemployment. This thesis investigates the nature of that unemployment and examines two of its possible "supply-side" causes.

Chapter One uses data from the official employment agencies on stocks and flows of job seekers to determine the average completed duration of joblessness by age, gender, region and occupation. Chapter Two turns to the relationship between real wages and unemployment and shows that wages in interwar Germany moved countercyclically. The third and final chapter establishes and investigates a strong correlation between the generosity of unemployment insurance benefits and the unemployment rate.

While Chapters Two and Three lend some support to "supply-side" interpretations of the German depression, there are a number of ambiguities about the results. Countercyclical real wages are compatible with either Keynesian or Classical interpretations. And the correlation between benefit levels and the unemployment rate is not well explained by search theory. Much more work must be done before definitive conclusions can be drawn about the causes of Germany's interwar unemployment problems.

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INTRODUCTION

From 1925 through 1928, the Weimar Republic was afflicted by high rates of unemployment. Starting in 1929 a dramatic increase in joblessness seemed to bring with it a steady rise in the Nazis' popularity. The subsequent collapse of Germany's parliamentary democracy and Hitler's seizure of power are often held to have been decisively advanced by the trauma of mass unemployment.

Those studying German interwar unemployment have usually focused their attention on its purported political consequences. Historians have analyzed the voting patterns and political commitments of the unemployed, and studied the ways in which the strategies of political parties and interest groups were affected by widespread joblessness.¹ Since the depression, however, relatively little attention has been devoted to empirical analyses of the nature and causes of Germany's interwar unemployment. Our inadequate understanding of unemployment's determinants has in fact become a constraint on our knowledge of the period, for the proper evaluation of the political consequences of mass joblessness depends on a deeper analysis of its causes.

Historians' relative neglect of the determinants of labor market fluctuations in Weimar and the Third Reich also

¹For work on the voting patterns of the unemployed, see Hamilton (1982) and Childers (1983). See Zollitsch (1982) for a discussion of the impact of unemployment on trade union bargaining strategies.

limits our understanding of other economies during the depression. As Henry Clay remarked in 1933,

Germany is nearer to Great Britain in the type of its economic organization than any other country. It has the same industries, operating on a similar scale; these industries are largely dependent on export; it has similar institutions of social control; it is the only country with a trade union organisation and a system of unemployment insurance with a scope at all similar to that of Great Britain.²

In spite of such similarities, evidence from German labor markets is rarely brought to bear on controversies about presumed peculiarities of British interwar economic history. Nor has the more general relevance of Germany's experience for the debates between Keynesian and classical interpretations of the depression been adequately appreciated.³

This thesis attempts to fill some of these gaps in our knowledge of Weimar and Nazi labor markets, and to introduce German evidence into broader debates about the causes of interwar unemployment. It draws on previously underutilized data sources and quantitative techniques to analyze labor turnover, the connections between real wages, labor demand, and labor supply, and the interactions between unemployment and the measures taken to relieve it. By focusing on quantifiable aspects of unemployment, it endeavors to modestly supplement, rather than supplant, the conclusions

²Henry Clay, in the introduction to Wiggs (1933).

³However, see Borchardt (1979)

of more literary approaches to the subject. Much work remains to be done before the history of German interwar unemployment is thoroughly understood and integrated into the broader story of the depression.

Topics and Arguments

Any labor market is a dynamic system, and employment and unemployment at a given moment reflect previous flows of workers into and out of jobs and the labor force. Chapter 1 analyzes the extensive, but hitherto neglected, data on such flows in interwar Germany. The chapter has several purposes. First, it serves to deepen our knowledge of the timing and magnitude of labor market fluctuations in Weimar and the Third Reich. While recent work by Dan Silverman has challenged the reliability of official estimates of the unemployment stock after 1932, data on the flows to and from the register of job-seekers would have been a less obvious target for tamperers. And evidence on turnover among job-seekers largely confirms the traditional placement of labor market turning points, at the same time suggesting different roles for job separations and hirings in bringing them about.

A second purpose of Chapter 1 is to establish how the total time spent unemployed in a period was distributed amongst those at risk. A given unemployment rate can result

from a relatively large number of short spells of joblessness, from a small number of long spells, or from something in between. The implications of the different possible patterns can be quite important. If unemployment is predominantly long-term, it is likely to have both different causes and consequences than if it is constituted primarily by numerous short spells. Following the recent work of Mark Thomas for Britain, the chapter attempts to measure both the mean length and dispersion of unemployment spells, breaking the estimates down as far as possible by gender, age, occupation, and region. The overall results indicate that the typical spell was quite short by modern standards, but very similar to the average found for interwar Great Britain. As in Britain, however, there also seems to have been a bimodal distribution of spell lengths, with numerous very short spells in part counterbalanced by a large number of long ones.

Chapter 2 turns to the analysis of a possible cause of the unemployment described in Chapter 1. The prime suspect of many observers at the time was an excessively high average real wage. Orthodox Marxists and conservative businessmen joined in the contention that Germany's unions and state labor arbitrators were setting real wages at levels incompatible with the existence of capitalism. Even Social Democrats agreed that real wages were being determined by political forces rather than by the market,

although they disagreed that wage levels were excessive.

The hegemony of various Keynesian theories in the 1950s, 60s, and early 70s diverted historians' attention away from the impact of real wage movements during the depression and towards supposedly more fundamental questions of fiscal and monetary policy. Although Keynes had agreed with his classical predecessors that real wages moved countercyclically, he took them to be more of a reflection of economic conditions than an independent force. Only with the gradual breakdown of the Keynesian consensus did debate about the causal role of real wages revive.

Germany has experienced the renewed debate in a different form than have Great Britain and the United States. Whereas authors interested in the British and American economies argue about the direct impact of real wage movements on the labor market, in Germany the discussion has centered on the relation between wage shares and investment. Chapter 2 briefly summarizes the recent German real wage debate, and then deploys a simple partial equilibrium model to investigate the relations between wages, employment, and labor supply. Here too the results are quite similar to those found for Britain by a variety of authors. Real wages in Germany moved countercyclically, and if they were truly exogenous, played a powerful role in driving fluctuations in unemployment during the late 1920s and early 1930s.

The third and final chapter turns its attention to another possible cause of unemployment: the unemployment insurance system. Like its competitor across the North Sea, Germany had an extensive system of public provision for the jobless. And as in Britain, the generosity of the system appears to have moved in step with the rise and fall of unemployment. The chapter establishes that correlation, and then investigates whether it can be explained as a result of the impact of benefits on workers' job search behavior.

Simple regression analysis indicates that the expansion of the German unemployment insurance system before 1930 played at most a small role in the rise of unemployment in the late Weimar Republic. The gutting of the system under Bruening, Papen, and the Nazis, however, may have made a noticeable contribution to Germany's economic recovery. These results are strictly valid, however, only under the assumption that workers' search behavior was the chief transmission mechanism connecting relief payments and unemployment. Search behavior occupies center stage here in order to ensure comparability with the bulk of the recent research on Great Britain.

The picture painted here of interwar German unemployment is quite similar to that which is emerging from recent work on Great Britain. In both countries, unemployment seems to have been quite well correlated with high real wages and generous unemployment insurance

benefits. In neither, however, is the nature of the causality underlying those correlations well understood. Much remains to be done before we have a thorough understanding of either German or British interwar labor markets. Progress will require a great deal of comparative work, for which this thesis will hopefully serve as a modest, partial foundation.