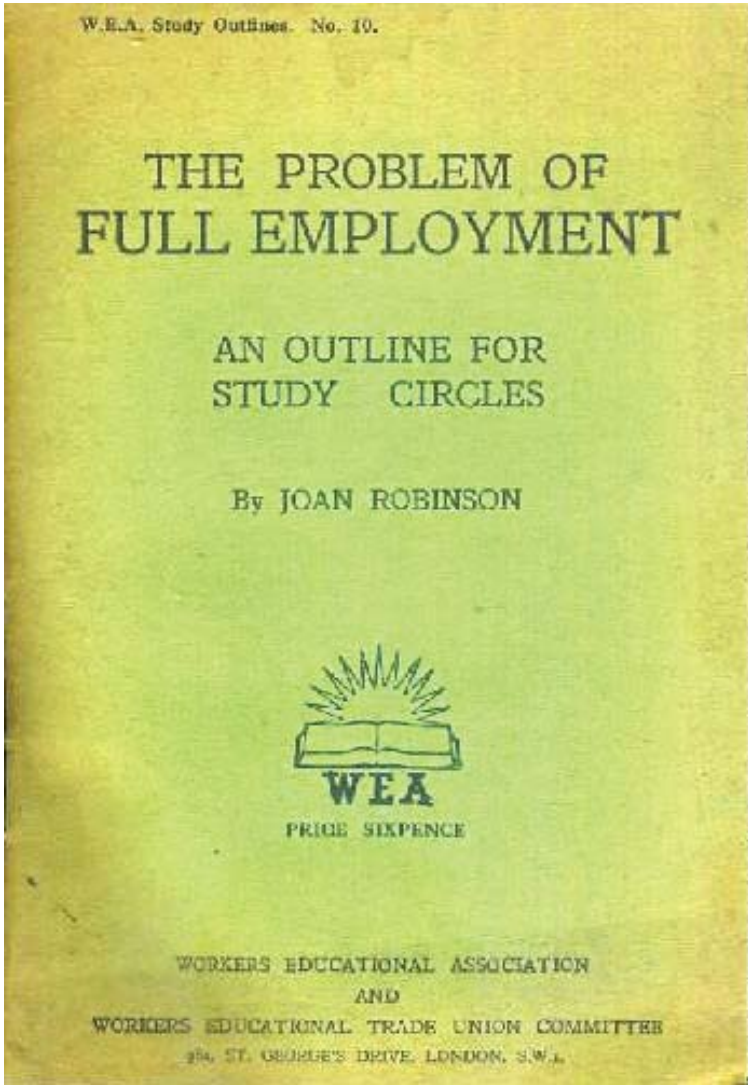

JOAN ROBINSON

THE PROBLEM OF FULL EMPLOYMENT

CONTENTS

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INTRODUCTION

The problem of unemployment is discussed in this outline with reference to the situation of this country after the war. The great slump of the 30s led to a radical reconsideration of the problem of employment. The most important book on the subject is:

Keynes: *General Theory of Employment, Interest and Money.* It is, however, primarily addressed to professional economists and is confusing to most students, though many passages in it are clear and vivid. A simple account of the main ideas is provided by

Joan Robinson: *Introduction to the Theory of Employment*.

Sir William Beveridge: *Full Employment in a Free Society*.

The following are also useful:

James Meade: *Introduction to Economic Analysis and Policy*.

John Strachey: *A Programme for Progress.*

Alvin Hansen: *Fiscal Policy and the Trade Cycle.*

All these books, however, are strongly coloured by the slump situation which gave rise to them, and students should keep the historical setting in mind while reading them.

The White Paper on Employment Policy 1944 (Cmd. 6527) is an important document.

For the distribution of income see Annual White Papers on National Income and Expenditure.

The following is a small selection from a number of pamphlets on the subject of unemployment:

Full Employment. "The Times" reprint.

The Problem of Unemployment. Lever Bros. and Unilever, Ltd.

Employment Policy and Organisation of Industry After the War. Nuffield College (Oxford Univ. Press).

Private Enterprise or Public Control. Joan Robinson.

Economic Reconstruction After the War. M. Joseph and N. Kaldor (Association for Education in Citizenship).

Export Policy and Full Employment. Schumacher (Fabian Society).

Full Employment. Barbara Wooton (Fabian Society).

I. THE PROBLEM OF UNEMPLOYMENT

This outline was originally written during the war with the intention of helping to stimulate discussion of how to avoid the pre-war evil of mass unemployment. Since the war unemployment has not been a serious national problem (though it is still a severe hardship to individuals on whom it falls). Rather we have suffered from a "scarcity of labour". The need to export goods in order to make up for the "unearned income" from foreign capital used up during the war, the need to re-equip industry to make good war damage and to catch up on arrears of housebuilding, and the increase in demand for consumer's goods, due to a less unequal distribution of income and to the spending of money saved up during the war, have together led to a demand for more labour than there is, so that outlay has to be restrained by rationing and by heavy taxation. In short we have been suffering from, inflation rather than from deficiency of effective demand.

Nevertheless the principles discussed in this paper still apply (indeed it is a useful exercise to see how the same principles lead to different conclusions in different circumstances) and the main problem has not been solved but merely postponed.

1. PRODUCTION FOR THE MARKET

Unemployment as we know it is a consequence of specialisation. In a modern industrial country there is very little work done directly for needs. The housewife scrubs and cooks; the man perhaps digs in the garden; but, beyond this, all the needs of the family are provided for by exchange. That is, the man sells his services by working, usually for an employer, and buys goods with his earnings. The employer in turn sells the product. Thus all are dependent on the market, and each supplies a highly specialised fraction of the whole output of society. The development of specialisation has made possible the enormous increase in productivity which is characteristic of modern industry. But production for the market means that each individual is dependent upon the proper functioning of the system as a whole, and if something goes wrong he becomes the victim of circumstances which he is quite powerless to deal with for himself. The price which we pay for the high standard of life provided by modern industrial technique is the extreme misery which is caused by a breakdown in the system. In the period between the two wars the defects of the system were more obvious than ever before, and it is now generally recognised that, whatever technical achievements may stand to its credit, we cannot afford to continue with the old system.

2. TWO FORMS OF DEMAND

Before we can discuss what changes should be made in the system we must understand how it works. The market for goods and services, on which depends the possibility for each individual to find employment and make a living, comes from expenditure. Every sale is also a purchase. It is useful to distinguish between two broad classes of expenditure, that which is for the purpose of immediate consumption, as when a housewife buys a packet of tea or a pair of stockings, and that which is for future production, as when a firm builds a new factory or a municipality sets up a waterworks. The two classes are known, as consumption expenditure and investment expenditure. The rate of expenditure of both classes taken together makes up the total demand for goods and services of all kinds, and so governs the number of jobs that are offered at any moment, and the total amount of employment. When there is unemployment, it means that the market is not sufficient to make it profitable for employers to offer jobs to all the people who are anxious to work. The clue to unemployment must therefore be found in forces which influence these two forms of demand.

3. CONSUMPTION EXPENDITURE

The most important influence on the demand for consumption goods is the distribution of income. There is certainly no lack of need for goods to employ the services of all, and more than all, the people able to work. What is lacking is money to buy the goods that they might produce.

A rough picture of the distribution of income in this country before the war can be obtained as follows: Ninety per cent of all separate incomes were below £250 a year, and these made up 55 per cent of the total sum of incomes; ½ per cent of all incomes were above £2,000 a year, and these absorbed 16 per cent of the total. The remaining 9½ per cent of incomes between £250 and £2,000 absorbed 29 per cent of the total. Each separate income supports a varying number of people, and since in general the largest families go with the smallest incomes this picture somewhat underestimates the extent of inequality. On the other hand, taxation and social services bring about some measure of redistribution.

Another way of looking at distribution is in terms of types of income. In 1938, income from property, that is, rent profits and interest (including undistributed profits of firms), accounted for 36 per cent of the total income, salaries for 22 per cent, wages for 36 per cent. The remaining 6 per cent is accounted for by pensions, unemployment pay and other allowances. This division does not correspond at all closely with the division according to size of incomes. Many salaries (which include the incomes of shop-assistants) and some property incomes are lower than the highest wage incomes, while some of the higher salary incomes are rather similar to incomes from property, since it is not generally possible to become, say, a successful barrister or a high business executive without owning some property to start with. Moreover, one individual may be drawing income from several categories. However, since the bulk of the population live from wages, we get the same broad picture from whichever way we look at it.

The unequal distribution of purchasing power has the effect of limiting the demand for consumption goods. Those with small incomes must spend nearly the whole in order to live. It is true that even the poorest families save something in normal times, but their saving is mainly saving up to spend later—saving for funeral expenses, for old age or setting up house. Thus some are spending more than their incomes, by drawing on past savings, to an extent that more or less compensates for those who are spending less than their incomes in order to save. The bulk of saving comes from those with higher incomes, who aim to leave some money to their children, and from the undistributed profits of firms, which are put to reserve with a view to being used some time or other, to expand the business or to weather through bad trade, but are not spent immediately on anything.

Saving, essentially, means not spending on current consumption and the desire to accumulate wealth limits the demand for consumption goods. Those who would like to buy have not the money, and those who have the money do not like to spend it all.

4. INVESTMENT EXPENDITURE

The desire of individuals and of firms to accumulate wealth creates, as it were, a gap between the amount of employment which can be profitably given in making consumption goods and the total amount of labour available to be employed. Where this gap is filled by sufficient investment expenditure—that is, outlay on capital equipment—there

is work available for all who want to work. But there is no reason to expect that, under a profit system, the gap will normally be filled.

The demand for investment goods depends on the prospects of their earning a profit for the firms which cause them to be made. (It is true that governments and municipalities have not the same direct interest in profit as private firms, but up till recent times they acted much like private firms and tended to undertake schemes of investment in times of good trade, when profits were high, and to go in for so-called economy when times were bad.) There is no reason why the rate of investment in capital equipment undertaken by firms under the influence of prospective future profits should be the right rate just to fill the gap. Sometimes the prospect of profit is high. A great invention, like the steam engine or the internal combustion engine, opens up wide fields of profitable investment. A shortage of houses for middle-class families who can pay high rents makes building a good investment. The development of a new export market makes it profitable to equip factories to produce goods to send to it. Government expenditure on armaments makes the heavy industries profitable. Such things lead to an investment boom, and make the total level of employment high. At other times prospects of profit are lacking and the rate of new investment falls low. Then slump conditions prevail and there is a great deal of unemployment.

5. THE "HOARDING" FALLACY

It is this lack of co-ordination between the desire to accumulate private money wealth by saving and the desire to create real capital by investment which makes an economic system governed by the profit motive liable to unemployment. It is sometimes supposed that the trouble arises from savings being "hoarded" in the form of money instead of being lent to industry by buying stocks and shares. On this view, everything would be all right if new savings were always used to buy shares. But the trouble lies much deeper. However willing the owners of wealth may be to lend to industry, firms will not borrow to invest in new capital equipment unless they see a profit in doing so. Buying shares will not force them to undertake new schemes of investment. On the other hand, when prospects of profit are good they will be able to promise a rate of interest that will tempt lenders; they can draw on their own reserves, and they can borrow from the banks. Thus it is the prospect of profit and not the willingness of the public to lend which is the chief influence on the rate of investment.

This fallacy is kept alive by a verbal confusion. The word "investment" is used in everyday speech to mean buying pieces of paper. Thus one may say: I have invested £100 in Argentine Railways. In this pamphlet, and generally by modern economists, the word "investment" is used to mean expenditure on physical capital equipment such as plant, railway lines, ships and houses, or on stocks of commodities and raw materials. "Investment" in pieces of paper gives no employment except to stock-brokers, but investment in real capital gives employment in the investment goods industries. The economist's habit of using words in special senses is tiresome to the ordinary reader, but it is unfortunately impossible to develop any subject without developing a special language, and the reader must meet the writer half-way, and keep the meaning of the terms used constantly in mind.

6. INSTABILITY OF INVESTMENT

Under a system of private enterprise the demand for investment goods is variable—sometimes high and sometimes low—simply because they have a long life, and the more there are in existence the less profitable is it to add to their number. Suppose that a company is formed to build a new railway in an undeveloped region. While it is being built navvies are employed on the lines, iron and steel workers are making rails, builders are erecting stations, engineers building locomotives. As soon as it is completed there is no further work for them to do, as far as that region is concerned, for when there is one railway line between two points, there is no profit in building another. Suppose that in a certain town there is a great shortage of houses. Rents are high (unless they are restricted by law) and the owners of houses can always be sure of letting them the moment they fall vacant. Building is therefore profitable, and there is employment for builders in the neighbourhood. Brickworks and cement works are busy. In short, there is a building boom. After a little while house-room is less scarce in the town. Vacancies take longer to fill and the level of rents begins to fall. Now new houses are a less profitable investment and the boom gradually peters out. The first cinema that comes to a town is always full, and makes good profits. Another is built to share the same market, and neither does so well as one did alone. By the time half a dozen are established, it is not worth while to set up another one. The same principle applies to all investment schemes. Unless new prospects of profit happen to open up at a regular rate (and there is no reason why they should) each burst of investment

will be followed by a decline in demand for new investment goods, and consequently by a decline of employment in making them.

7. THE "MULTIPLIER"

The instability of investment causes instability in demand for consumption goods also. For demand depends upon income, and when men are employed and profits are being made in the investment industries, wages and dividends are being spent in the shops.

Suppose that an increase in investment occurs at a time when there is unemployment in every industry. Part of the outlay on investment goods will be paid out in wages, part will be used to purchase materials and part will go in profits. The cost of the materials in turn will consist of wages and profits. The men newly employed must have been spending (or borrowing) some money before, for they could not live on air, but now that they have wages to spend they will buy more consumption goods. Similarly the increase in profits will lead to more dividends being paid, so that, after a certain time, expenditure out of profits will also increase. The increased incomes of those engaged in making consumption goods will lead to further expenditure, and so on. The increased output of consumption goods involves an increase in employment, so that as soon as employment in investment industries increases it will increase in consumption-goods industries also. Part of the increase in employment, however, will be in foreign countries, for the higher level of activity at home will lead to an increase in imports. This aspect of the matter will be discussed further below.

As income increases, only a part of the wages and profits which make up the cost of investment will be passed on as increased expenditure. Part will be saved or will replace borrowing (including borrowing by the Unemployment Insurance Fund). The level of income will be pushed up to the point at which the rate of savings is increased by the same amount as the rate of investment. For whatever is not saved is spent, and what is spent increases incomes. Thus income must increase to whatever extent will call forth the savings corresponding to the investment.

The total increase in employment, due to a given increase in investment, will bear a fairly definite relationship, in any country in a particular set of circumstances, to the original increase in employment in the investment-goods industries. This relationship is called the "multiplier".

If, say, one extra man is employed in consumption-goods industries for every two men employed in investment, the multiplier is 1½. In the period between the wars it was not much greater than this in Great Britain. In the U.S.A., which is much less dependent upon imports, it was between 2 and 3.

8. THE TRADE CYCLE

The above argument provides the clue to the succession of booms and slumps known as the trade cycle. Investment, as we have seen, has a tendency to fluctuate, under a profit system. And every change in investment sets on foot a general change in the level of employment. When investment increases, consumption increases also. But that is not all. For a general improvement in trade raises the level of profits and, since business men to a large extent judge the future by the present, a rise in profits makes schemes of investment more attractive. Thus once an upward movement has started it hoists itself further upward. A high rate of investment, however, can never continue for long. As the stock of capital equipment increases the profitability of making more declines (as we saw above). Sooner or later the rate of investment begins to fall off. When it falls, incomes shrink and unemployment increases. Profits decline, and investment becomes still less attractive. The downward movement thus drags itself down, and slump conditions will prevail until so much capital equipment has been worn out that investment is again profitable, or until new inventions or the growth of population has opened up fresh prospects of profit.

9. CHRONIC STAGNATION

The trade cycle, with an interval from boom to boom of about ten years, is an old disease, which has afflicted industry from the very beginning of its modern development. In recent times, and especially between the two wars, an even worse malady seems to be attacking the economic system. During the nineteenth century population was growing rapidly in the western world, major inventions succeeded each other continuously and new continents were being opened up to capitalist development. A general expansion was therefore taking place, and fresh outlets were constantly being found for profitable investment. I11 the ten years before the last war, many observers came to the opinion that the great age of expansion was over. It is always rash to make predictions, especially about the distant future, but the situation at the time certainly supported that view. Slumps appeared to have grown deeper and more

prolonged, and there was heavy unemployment even in times of boom. Technical progress had brought about an enormous increase in productive capacity, but consumption had not kept pace with it. The gap to be filled was wider than ever, and investment to fill it less adequate than ever. The hope of maintaining a reasonable level of employment under private enterprise without central planning seemed remote in the extreme. There is every reason to expect this situation to repeat itself as soon as the period of post-war readjustment has come to an end.

10. SPECIAL CAUSES OF UNEMPLOYMENT

Certain industries suffered from very heavy unemployment as a result of causes special to themselves. The Lancashire cotton industry, for instance, lost markets with the development of rival industries abroad. Oil and water power reduced the demand for coal. A world wide expansion of iron and steel production during the 1914-18 war left productive capacity in excess of demand. Particular groups of workers are often thrown out of work by technical changes. The cinema musicians lost their livelihood when the talkies came in. Hansom cab drivers were driven out of business by taxis. Such changes in demand for particular types of work are always liable to occur. But in times of general prosperity and expansion workers displaced from one trade can find work in another (though there cannot fail to be many cases of individual hardship). What made the problem of the depressed industries and depressed areas so intractable was the existence of general unemployment. No one wants to move to a new trade or a new district merely because the chance of getting work is somewhat less bad than in the old one. And no one likes to feel that he is taking a job from someone else who has a better claim on it. Workers therefore tend to stay where they are when there is general stagnation, so that the amount of unemployment is not mixed up and spread evenly through the country, but accumulates in pools, which would be drained fast enough if any channels were open.

Some unemployment is seasonal—either for natural reasons, as in agriculture and building, or for reasons of convention and fashion, as in the motor trade, with its annual shows of new models, and in printing which works for the publishing seasons. This kind of unemployment also would be very much reduced in a time of general scarcity of labour.

It is to a large extent a luxury which employers can afford when labour is plentiful and they have no fear that men stood off for a time will not be available when they are wanted. Technical difficulties could be overcome and conventions broken through if there were a strong enough motive for offering steady employment. The decasualisation of dock labour, which has taken place during the war, is an example of the kind of effect which may be expected from conditions of full employment.

Finally, some individuals get more than their average share of unemployment, because they are old, or bad workers, or have a name for being too keen on the rights of labour or are awkward customers to deal with. They become known as "unemployable". But the problem of the unemployables is also connected with the general state of trade. All human beings are inefficient and tiresome in greater or less degree, and when the general demand for labour is low the least efficient and the most tiresome are naturally the ones to lose their jobs. But when labour is scarce, employers must make shift with what they can get.

Thus the special causes of unemployment are a reflection of the general causes, and all the problems which they present become manageable when the general level of employment is high.

II. THE WASTE OF UNEMPLOYMENT

The most striking aspect of unemployment is the suffering of the unemployed and their families—the loss of health and morale that follows loss of income and occupation. Too great a concentration upon this side of the story, however, may lead to a lop-sided view of the remedies which we must look for. There are many ways of reducing the human suffering caused by unemployment which do not touch the seat of the disease. The most important aspect of unemployment is its wastefulness. It is the existence of unused productive resources side by side with unsatisfied human needs that is the intolerable condition. Poverty and hardship can be borne, somehow or another, when they are inevitable. But unnecessary poverty is insupportable. As soon as people in general realise that unemployment is not an act of God, but the result of a defect in the economic system, they will insist on finding a way to alter the system.

QUESTIONS FOR DISCUSSION

1. What are the advantages of specialised production?
2. Which members of your group derive their living from investment expenditure and which from consumption expenditure ?

3. Draw a diagram for each of the sets of figures illustrating the distribution of income given in par. I (3).
4. How would the "multiplier" be affected by an increase in rates of unemployment allowances?
5. Could seasonal unemployment be eliminated?

2. FALSE REMEDIES FOR UNEMPLOYMENT

I. KEEPING LABOUR OFF THE MARKET

There are various ways in which it is possible to reduce the number of people who are counted as unemployed without increasing the amount of employment. For instance, a rise in the school-leaving age keeps a number of young workers from looking for jobs. Pensions of which retirement is a condition take the older workers off the labour market. Married women may be discouraged from taking work. Such policies, in a certain sense, turn unemployment into leisure, and they may be highly desirable in themselves. (Most people would agree that raising the school age is desirable; the other two are more disputable.) But they are not remedies for the disease of unemployment. They do nothing to increase the total of employment, but merely distribute the existing amount of work in a better way. If the disease of the market were cured, so that there was always sufficient demand to make use of the services of all who are available for work, then these policies would represent a sacrifice of material production for leisure. It may very well be that, as a community, we should prefer more time to more stuff, but the choice should be made deliberately, on its merits, and not mixed up with the question of unemployment.

Similarly, shortening the working week may be desirable on its merits, but it is not a method of curing unemployment. It is merely a way of spreading the existing amount of employment round amongst more people. If we entirely despair of finding any good use to which productive power can be put, then we might fall back upon such devices, but as long as poverty exists we need more material output- more food and clothes and furniture and entertainment—and it is a false remedy to try to cut down the supply of labour to equal the market demand for it. The true remedy is to find a means to use the labour which is available to produce the goods that we need.

2. MAKING WORK

Another type of false remedy for unemployment is to use less efficient methods of than the best available. The workers have always had a strong suspicion of "labour-saving devices" which increase output per man, and so make it possible for fewer people to produce the same output. In times of slump this feeling is fully justified, for the labour saved by technical progress is not used for any good purpose—it is merely left to rot. But when we are considering the problem of unemployment it is necessary to beware of remedies which consist merely in making work. To prohibit the use of efficient methods of production is merely to substitute one kind of waste for another. From the point of view of the individual unemployment means being without a chance to earn income, but from a wider point of view it means unnecessary poverty for the community as a whole. To cure unemployment by inefficiency may give jobs to more individuals, but it still leaves unnecessary poverty which ought not to be tolerated.

3. MONOPOLY

Employers no less than workers have an interest in inefficiency in slump conditions, and whenever the market is narrowed by lack of purchasing power there is a tendency for monopolies to be formed, which restrict production, limit investment or even destroy commodities and smash up plant, as in the well known cases of Brazilian coffee and British shipyards. Each group of firms can protect its profits to some extent by reducing the output of the particular commodities it produces, and so keeping up their price by making them scarce. It is obvious enough that this must impoverish the community as a whole, and even from the point of view of the capitalists as a class it is of scarcely any advantage. Each monopolistic group produces less goods and employs less labour, thereby reducing incomes and so reducing the demand for the products of other firms. Each gains from its own restrictions and loses by the restrictions of the others, so that, collectively, they are cutting off their nose to spite their face. It is sometimes claimed that monopoly tends to stabilise industry, and there may be some truth in this, but what it stabilises is a low level of production. It sets out to cure the trade cycle by making the slump permanent.

4. INCREASING WAGES RATES

We have seen that the basic cause of unemployment is the unequal distribution of purchasing power. It seems therefore that a simple remedy would be to bring about an all-round rise of wage rates, and so give more purchasing power to the bulk of the population. The Trade Union movement in general supports this point of view, and there are also some employers who believe in the "economy of high wages". But an attack along this line has very limited prospects of success. A rise in wage rates not only raises money incomes, and therefore demand for goods, it also raises money costs. Prices are normally formed by adding a percentage for overheads and profits to the direct cost of production. Thus when costs rise, prices rise more or less in proportion, and the real purchasing power of the higher wage rates is scarcely greater than the real purchasing power of the lower rates. A direct frontal assault on the distribution of income is therefore doomed to frustration under an uncontrolled profit system, though much good may be done by raising the wage rates of the most "sweated" workers relatively to the better paid. This does not mean that the struggle of the Trade Unions is vain-by and large, it is certainly true that the share of wages in the proceeds of industry is less where labour is unorganised (or is organised by Fascist methods) than where Trade Unions are free and strong—but it does mean that the scope of improving the distribution of income by Trade Union action is limited and that the basic cause of unemployment cannot be removed by Trade Union action alone.

QUESTIONS FOR DISCUSSION

1. Are you in favour of making retirement a condition for receiving a pension?
2. Do you consider that Trade Union regulations retard technical progress?
3. Why does monopoly lead to the destruction of wealth?
4. How far can wage-bargaining affect the real distribution of income?

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3. TRUE REMEDIES FOR UNEMPLOYMENT

1. INCREASING CONSUMPTION

Since the real evil of unemployment lies in the waste of productive resources, any real remedy for unemployment consists in increasing production. Production may be for immediate consumption, or to increase the stock of material wealth by investment. Let us consider consumption first. Any policy which puts purchasing power into the hands of the poorest part of the community increases consumption and so finds a good use for labour. This is true even if money is taken away from the better-to-do by taxes or insurance contributions. For the poorest families will spend the whole of what they receive on the immediate necessities of life, while the better-to-do will not cut down their consumption correspondingly, for they will meet the taxes partly by reducing their savings. Thus to make the distribution of income less unequal not only reduces poverty by sharing a given total of output more fairly, it also increases the total to be shared. Much of the discussion of the Beveridge proposals (which have largely been embodied in the social insurance system) turned on the question "Can we afford it?" This is a nonsensical question, so long as there is unemployment. When there is unemployment there is no problem of scarcity of output; there is deficiency of demand. Anything that increases demand increases output. The question of what we can afford only comes up when we are using all our resources fully, so that more of one thing means less of another.

2. LUXURY SPENDING

Well-meaning people with a comfortable income are sometimes troubled by a moral puzzle. It seems wrong, they say to themselves, to spend money on luxuries when so many families live in want, but spending gives employment, and so it must be better to spend on luxuries than not to spend at all.

On the moral plane, this is a confusion of thought. It is perfectly true that, in times of slump, spending of any kind gives employment, and saving does no good to the community as a whole. But it is a very feeble conscience that will be satisfied by self-indulgent spending. Why not give money outright to help the needy? Then there will be spending but it will be spending in relief of want. True, to hand out money in the street is likely to do more harm than good, but there are plenty of hospitals and other organisations which are ready to put the conscience money of the well-to-do to excellent use,

On the economic plane, it is true that spending of any kind gives employment, and that to produce luxuries is less wasteful than to produce nothing at all. But to encourage luxury spending is a remedy for unemployment by "making work". The problem of wasted resources is not solved by using all resources for something or other. It is not fully solved until all resources are employed in the most useful way.

3. CONTROLLING INVESTMENT

To increase consumption narrows the gap that has to be filled by investment, and every increase in the rate of consumption makes investment more profitable, for more plant is required to produce consumption goods at a greater rate. But it is impossible to cure unemployment by increasing consumption alone. It is also necessary to control the rate of investment, so as to insure that the gap, however wide or narrow it may be, is continuously filled. Under the profit system, as we have seen, investment is necessarily fluctuating. Even in the great age of capitalist expansion there were periodic slumps, and the very nature of private enterprise makes stability impossible. The need for planning is now generally recognised, but the method and the degree of planning are very much in dispute.

4. THE REVERSE OF THE SHIELD

All this applies to periods when there is a deficiency of demand. It is also possible, as we know only too well, for demand to be excessive. Then the reverse remedies are needed. There is an urgent need to in-increase productivity so that the same amount of labour provides more goods. Meanwhile investment has to be restricted. Luxury expenditure (and much that we feel is very nearly necessary expenditure) has to be restrained. If we were satisfied with the actual distribution of spending power among the families which make up the nation, a rise of prices could be allowed to check demand and "ration through the purse". But since we are committed to an ideal of equality which does not correspond to the actual distribution of incomes it is necessary to control prices and restrain demand by rationing, to curtail purchasing power by taxation, and to promote individual saving by propaganda.

QUESTIONS FOR DISCUSSION

1. Should luxury expenditure be encouraged because it gives employment?
2. Why is it necessary to control the rate of investment?
3. What are the principle means for checking inflation?

4. THOROUGH-GOING PLANNING

1. A RATIONAL ECONOMY

The private-enterprise system is irrational, in the sense that it is not based on any conscious plan. Everything happens as a result of innumerable individual decisions. Society is broken up into a variety of groups with conflicting interests, and economic life is a general game of catch-as-catch-can.

In a rational economic system, the productive resources of society would be used deliberately to meet the needs of the people.

On the one side we have so and so much labour, plant and land available for production, and such and such possibilities of increasing the productiveness of labour, by improving technique and expanding equipment. On the other side we have such and such needs for food, clothing, house-room and all the material furnishing of life, and for entertainment, education and health services, for administration and for defense.

Needs are boundless and resources are limited. In a rational economy the resources would be set to work to meet the needs on some system of priorities, those judged the most necessary taking precedence over the less necessary.

In wartime, even a capitalist democracy is forced into planning. The object of all activity is to win the war, and whatever compromises may be made with sectional interests, the general plan of economic life has to be unified and directed to a definite aim. The U.S.S.R., which provided the first large-scale experiment in conscious planning, was from the first under the necessity to place the needs of defense above all other objectives. A planned economy operating in fully peaceful conditions has never yet been seen. Its working therefore must be largely a matter for speculation, but we can usefully discuss its general principles.

2. EMPLOYMENT IN A PLANNED ECONOMY

Would there be unemployment in a planned economy? Certainly unemployment might occur as the result of errors and muddles. If the authorities who work out the plan recruit too many weavers and too few spinners, the weavers will be held up for lack of yam. And no plan would be so perfect as to eliminate unemployment entirely, so that no single individual was ever without a job for a single day. But there would be no general problem of unemployment such as we know under the private-enterprise system. The use of labour would be worked out in

advance, and workers trained for the jobs that were needed to fulfill the plan. Purchasing power would be adjusted to available supplies and the problem of a general deficiency of demand could not arise.

It would be necessary to take a general view as to the desirable rate of capital accumulation, and to keep the level of purchasing power down to the level of production for immediate consumption. The planned society would be presented with a choice between a higher rate of consumption immediately and a more rapid rise of productivity in the future. (In U.S.S.R., mainly because of her precarious position in a hostile world, the standard of consumption was kept low while capital was accumulated at a more rapid rate than has ever occurred under capitalism.) But whatever decision was taken on the general division of production between consumption and investment, the output and the recruitment of labour to each group of industries would be adjusted accordingly. If unemployment happened to occur, it would be a sign that something had gone wrong with the plan, and that the error must be corrected.

It is possible to imagine a planned economy working so successfully as to bring about a real saturation of demand. Capital might be accumulated to the point at which there was no further need for more equipment, and the standard of life raised to the level at which everyone was contented and had no desire to consume at a greater rate. In such a situation, every improvement in technique would release labour for which no use could be found. But this should not cause unemployment. It would mean that the time had come to increase leisure by reducing the working week, giving longer holidays or a longer period for education. There is a great difference between a deficiency of money demand, which is the chronic disease of capitalist societies in peace time, and a state of affairs in which needs have been fully met. The first causes unemployment side by side with poverty; the second means that a point has been reached, where more leisure is preferred to more stuff.

3. DISTRIBUTION IN A PLANNED ECONOMY

How would the product of industry be distributed between individuals in a rational economy? This is a question which goes very deep. There are two sides to earning an income. Income provides the means to live and the motive for work. From one point of view, the best use is made of the resources of society when income corresponds to needs. Human beings are all pretty much alike on the physical plane. This standard therefore should lead to equality of income (the income of a family varying with the numbers it has to support), with allowances for special needs—more care for invalids, more solid food for heavy workers, more privacy for brain workers, and so forth. But if incomes are governed by needs, the incentive to work is lost. A different result would be reached if income was based on work done. Those who worked hardest or possessed scarce skills would enjoy higher incomes than the rest. (In our own society, of course, income is largely based upon property owned, and is not based on any rational system at all.)

In a society which followed the principle "To each according to his need, from each according to his capacity", the conflict would not arise. This is the principle on which family life is based, where mutual affection takes the place of law. It has been followed in some communities governed by strong idealism, such as the Zionist communal farms in Palestine. It works to a certain extent among friendly neighbours in wartime arranging a fire-watching rota. But for large communities composed of people who do not know each other personally, it cannot be relied upon to overcome the selfishness of human beings as we know them (whatever possibilities there may be of evolving a nobler type in the future). Some kind of compromise is therefore necessary between the two conflicting principles of distribution—needs and the reward of effort. A rational society would, certainly not contain the enormous inequalities which exist in capitalist or feudal states, and it would not recognise mere ownership of property as a source of income, but it would have to make use of differences in income as an incentive to work and to acquire knowledge and skill, so that complete equality could not be attained.

4. PLANNING AND THE CHOICE OF WORK

The planning of production requires that the total numbers of each kind of worker are controlled. But it does not mean that each individual must be told what kind of work he is to do. Over-all planning can be combined with individual freedom in the choice of job to a very large extent. Tastes and capacities are various, and with free choice people would distribute themselves amongst the different kinds of work. Where voluntary recruitment fell short of the plan, mere advertisement might be sufficient to set matters right. If those about to leave school are told: more bricklayers or more dentists are needed, many who had no strong preference for something else would take the required training.

If this was not sufficient, slightly higher pay, or other privileges, could be used to attract the necessary recruits. Movement out of one trade into another in later life could be brought about by similar means. Dangerous work (as in Russia) would be for shorter hours. In our society generally speaking, the most unpleasant kinds of work are the worst paid and those who take them up do so from mere inability to find something better. In a society with equality of opportunity it would be necessary to make unpopular jobs palatable, and to honour instead of despising those who serve society by doing society's dirty work. In wartime freedom of choice cannot be maintained—the need is too urgent—but in peace society could afford to allow time for voluntary methods to work, and in the long run voluntary methods are certainly the most efficient, for everyone works best at a job congenial to his temperament.

QUESTIONS FOR DISCUSSION

1. How does economic planning eliminate unemployment?
2. Is it ethically right that a skilled worker should have a higher rate of wages than a labourer?
3. How ought the rate of capital accumulation to be determined (under conditions of full employment) in an advanced industrial country?
4. Does economic planning involve conscription of labour?
5. How much progress has been made in this country towards equality of opportunity for all?

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5. PARTIAL PLANNING

1. THE TRANSITION TO PLANNING

If a group of decent and sensible people found themselves marooned on a desert island they would pool all resources to meet their common needs and arrange their work according to a common plan. But in an old-established society it is impossible to pool resources without breaking down privileges and property rights, whose possessors will fight to maintain them. And the rights of property include, as things are, the right to direct the economic life of the community—to decide what is to be produced and what work is to be done. A change over to planning, without revolution, can therefore only be made piecemeal, and the system which results from such a change-over cannot be fully rational, but must be a patch-work of compromises between the public interest and innumerable private rights and privileges. Some people maintain, even now, that planning is unnecessary and harmful; they look forward to returning to a system of uncontrolled private enterprise. But most of the discussions which are going on at the present time are in terms of a partially planned system which would continue to be a mixture of government control and private enterprise. It is pretty generally recognised that private enterprise, left to itself, cannot solve the problem of maintaining employment. Even representatives of the industrialists and even Conservative politicians recognise that in future the maintenance of employment must be a responsibility of the Government, and disputes are mainly about the form and the degree of control.

2. PLANNING INVESTMENT

To maintain employment, in a partially planned economy, the first necessity is to control the rate of investment. This would be possible if the Government had control of the great spheres of investment—housing, transport (by road, rail, air and water) and the public utilities (gas, electricity and water supply). One of the motives of nationalisation has been the belief that if non-profit public corporations are set up to control each of these great services, it will be possible for each to work out a long-term investment plan, and for their plans to be dove-tailed together, and adjusted to the available supply of labour in such a way as to increase and steady the rate of investment, which is both deficient and fluctuating under an uncontrolled system. The provision of capital goods need not be nationalised—building, for instance, could be carried out by private contractors—but the demand for capital goods must be controlled.

If the industries mentioned above, along "with the provision of schools and hospitals and all the other equipment necessary for the improved education and health services on which we have embarked, and the industries already centrally controlled, such as defense, the Post Office and forestry, were brought into a planned scheme, all the major spheres of investment would be controlled.

Industry remaining in private hands would have to be fitted into the general plan of investment. This could be done by a system of rationing. All companies above a certain size could be required to disclose their future plans for investment and for replacements and renewals of equipment. A central authority could work out how much labour will be available, and allot permits to the firms to carry out their schemes

accordingly. Thus all except a small fringe of investment would be fitted into a common plan and carried out at a steady rate. The trade cycle would then be cut at the roots. The general level of activity would be stabilised and the self-multiplying effect of the up-swing and down-swing of trade would not be allowed to get under way.

Up till the present we have enjoyed a high level of employment as a result of post-war scarcities. The testing time for our new institutions will come when the main job of reconstruction has been completed.

3. IMPROVING DISTRIBUTION

The inequality of income and opportunity, which is the most disagreeable feature of our present society, could be partially corrected without resorting to revolutionary means. The social insurance system shows how the grossest evils of poverty can be eliminated. It is, in the main, a method of redistribution of income within the wage-earning class, though all members of the community, irrespective of their incomes, are included in its scope, and it calls for some additional contribution from higher incomes by placing part of the cost of benefits on general taxation, which falls most heavily on the highest incomes. Much can be done by providing health services, education with maintenance grants, and other social services, out of taxation on the middle and higher incomes. But redistribution by this means has obvious limits. Beyond a certain point, those with large incomes rebel. Taxation can be very high in wartime—patriotism smothers protests, and a temporary hardship can be borne more easily than one that is expected to be permanent—but in peace time an economic system which depends on the money motive will not function unless the individual can keep at least a substantial part of the money that he gets for himself.

4. PRICE CONTROL

A roundabout attack on inequality can be made by price control. It is calculated that wages represent 48 per cent of the cost of British manufactures. The other 52 per cent goes in salaries, cost of capital, advertising and selling costs and profits. A large part of these costs are unnecessary. Salaries, cost of capital and profits are all high per unit of output when firms are working below capacity. A lower rate of profit per unit of output would yield the same return, if output per unit of capital was higher. If prices were controlled in such a way that a firm can survive only if it is working near to capacity output, with a high level of efficiency, redundant firms would be squeezed out of existence, while a greater output was produced by those which survived. Selling costs (such as advertisement and the commissions of travellers) are mainly competitive. Each firm is trying to get customers from all the rest, and each has to spend on advertisement mainly because the others are doing so. Similarly, in an armaments race, each nation must spend on defense because other nations are armed. The more one spends, the more the rest must spend. A limitation of armaments agreement, in which all had confidence, would be a great saving for all, but none dare disarm alone. No individual firm, or small group of firms, can afford to give up the chase after customers. But if prices were controlled in such a way that it was impossible to pass on the selling costs to the consumers, none would advertise, goods would "sell themselves", and everyone (except the advertising agents) would be better off.

An important experiment in price control was made during the war with "utility" goods. This device could be much extended in peace time. The "utility" mark could be attached only to goods which satisfied a certain standard of quality (This is impossible at present in some lines, because of the scarcity of good materials, and because the necessary inspection has not yet been established). The consumer would then be guaranteed a sound article. Prices could be fixed in such a way as to cover the genuine costs of production, leaving no margin for inefficiency or for unnecessary selling costs. The gap between prices and wages would then be reduced, and the real purchasing power of a day's work would be raised.

There is no doubt that price control has contributed to raising the share of labour in the product of industry, but the way in which the controls have been operated has not always been such as to promote maximum efficiency in industry.

5. OBSTACLES TO PARTIAL PLANNING

All these schemes look very good on paper, but when it comes to carrying them out they meet with formidable opposition. Control of investment would make a very great inroad upon existing property rights and the power and independence of business men. Redistribution of income is not viewed favourably by those whose share in the total would be reduced by it. Price control, even while it offers some advantages to the efficient firms, hampers their freedom and cuts off the possibility of making extortionate profits. Very strong political resistance is therefore put up to all these measures. Very few are sufficiently shameless to defend their own interests openly against the public good, but all

sorts of arguments in the names of liberty, morality and patriotism are found to befog the issue and distract the attention of the public from the real point. It is idle to expect that proposals of reform, however reasonable they may seem, can be put into practice without a political struggle. This is the great difficulty in the way of all schemes of partial planning.

QUESTIONS FOR DISCUSSION

1. Which industries is it most necessary to control in order to regulate investment?
2. Do you consider that investment can be adequately controlled without nationalisation of industry?
3. How far can the inequality of income be corrected by a social security programme?
4. Are you in favour of "utility" goods as a permanent system?

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6. MONETARY PLANNING

1. THE CURRENCY REFORMERS

Many people believe that thorough-going planning, or even partial planning on the hues discussed above, is not necessary. All that we need to do is to get hold of the financial machine, and everything will be quite easy to manage. This point of view contains a good deal of truth alongside of a good deal of confusion. Unemployment, the argument runs, arises from a deficiency of purchasing power compared with productive capacity. If the public had enough money to spend employers would find it worth while to give jobs to the workers to produce goods for the public to buy. So far, this is perfectly correct. The argument goes on: The banks control the supply of money; therefore if the banks were made to serve the national interest, they would give the public enough money to keep everyone employed, and all would be well. This argument turns on a kind of pun. Money, in the first part of the argument, means the level of incomes; in the second part it means the medium of exchange. The banking system (including the Mint and the Bank of England) can regulate the supply of the medium of exchange-coins, notes and bank deposits—but that does not mean that it alone can control the level of incomes. This verbal confusion covers over the fact that the monetary reformers want to let themselves off the real difficulties and the political antagonisms raised by more fundamental reform. Their slogan is: “It can all be done with a fountain pen.”

2. INADEQUACY OF MONETARY REFORM

The monetary reformers had a great deal more truth on their side than the apostles of “sound finance”. It is perfectly true that, in a deep slump, anything which gives more purchasing power to the public, or which stimulates investment, will do good. Even the apparently fantastic idea of printing notes and sending them by post to every family in the country is not nearly so absurd as the “normal” and “respectable” course of allowing resources to remain idle while people are in need of the goods which they could produce. But there are two flaws in the argument. First, control of the banks is not the same thing as control of purchasing power. Banks do not normally give money away. They only lend it. To make lending easy may do some good. Schemes of investment, especially by small businesses (including farms) which cannot command finance to carry out plans of expansion, may be made possible by easy lending which would be impossible without it. But in general, in a slump, it is not lack of finance but poor prospects of profit which is the seat of the trouble. The most that the banks can do by easy lending is to take the horse to the water—it needs an assured future market to make him drink. The proposal to hand out purchasing power (for instance by distributing pound notes to the public) is something which goes a great deal further than control of the banking system. Yet the monetary reformers often talk as though the second included the first.

Even if we include the idea of giving money around under the heading of currency reform, we still have not found the answer to the problem of employment. To increase consumption is only half the battle. It is necessary also to stabilise investment. A dose of purchasing power would raise the demand for consumption goods. Firms producing consumption goods would make greater profits, and, if they had sufficient confidence that the higher demand would continue in the future, they would enlarge their capacity by building more plant. Thus an investment boom would develop and consumption would increase all the more. As soon as the new plant came into use the rate of profit would fall off again and a slump would follow. There is no substitute for long-term planning and control of investment if stable employment is to be attained.

Moreover, it is all very well to talk of dosing the public with purchasing power in order to make industry profitable. But the various sections of the public will have strong and divergent views on the question of who ought to have the purchasing power. Should it be distributed so much per head? Or as a proportion of existing income? Or should it be given first to the poorest? Or to children and pensioners? All the political issues that the currency reformers hope to sidestep would come crowding upon them, and the main issue would be lost sight of in a general scramble.

3. NEED FOR FINANCIAL CONTROL

Though control of the monetary system cannot take the place of more fundamental controls, it is all the same essential to a partially planned system. Control of investment requires control of credit. If banks and financial institutions are free to lend, or to arrange loans by selling securities to the public, they are free to run counter to the national investment policy—to foster more investment than the authorities desire at one time and put obstacles in the way of investment at another. In wartime the Treasury exercises very close control over credit, and this backs up the direct control over materials and labour which make wartime planning possible. In a partially planned system it would certainly be necessary to use all these controls. But their smooth operation during the war was largely due to the war itself. The danger of sabotage or non-co-operation might become acute if the objectives of the plan did not meet with the approval of financiers. Thus, once more, the difficulties of partial planning are political rather than technical.

4. THE RATE OF INTEREST

In the theory of a private enterprise economy the rate of interest has a definite function to fulfill. It is supposed to regulate the rate of investment. When the level of employment is high there are various forces at work which push up the rate of interest. This, by making borrowing dearer, tends to discourage schemes of investment from being undertaken which would have been profitable at the lower cost of borrowing. It may also discourage spending on consumption by offering a better return on savings. Thus the increase in employment is checked, and prevented from reaching the point at which there is a danger of inflation. (This will be discussed further below.) Conversely, when employment is low there is a tendency for the rate of interest to fall, and this to some extent counterbalances the fall in prospects of profit which causes a decline in investment and helps to bring the slump to an end. The regulating effect of changes in the rate of interest was at best very weak (if it had worked adequately fluctuations in investment would not have occurred) and to insure stability direct control of investment is necessary. With direct control of investment (such as exists in wartime) the rate of interest ceases to have any function.

Meanwhile the Treasury and the Bank of England have learned the trick of controlling the rate of interest, as our experience of a "three per cent war" has shown. There is nothing to prevent them pursuing the same policy in peace time, bringing about a gradual fall in interest to very low levels, while direct controls are used to regulate the rate of investment and budget policy is used to influence the level of consumption. The discovery that the rate of interest is not dictated by economic necessity, but is more or less arbitrarily fixed by the authorities creates an entirely new situation. The rate of interest now becomes a political question. On the whole, the forces favouring a reduction in interest appear stronger than those opposed to it. With a huge national debt to provide for the Chancellor of the Exchequer, of whatever party, has a preference for low-interest, as it reduces the amount of taxation he has to raise to pay out to bond holders. The industrialists prefer low interest, as it reduces the price of borrowing. Society as a whole gains from having to pay a smaller share of total income to the mere owners of property who are taking no active part in production. And even existing owners of property do not suffer any immediate loss. A man who owns war loan or house property does not lose income when the rate of interest falls. His bond brings in a fixed annual payment; his house is let for a fixed rent. The only immediate effect of a fall in the rate of interest is to raise the capital value of his property. After a certain time his bond will be redeemed and he must then be content with lower interest on a new bond; the general level of rents will fall as new houses are built out of cheaper loans and he will sooner or later have to take a new tenant at a lower rent. Owing to its gradual effect, a fall in the rate of interest is likely to raise less sharp opposition than a policy whose immediate impact is severe upon some powerful group in society. The chief effect of low interest is to make it harder to acquire unearned income. To get a given unearned income it is necessary to save a larger capital sum the lower the rate of interest is. It also makes it harder for institutions such as hospitals and colleges to live from endowments, and would force them to depend more upon State grants.

There is thus likely to be some opposition, but on the whole it seems both probable and desirable that a permanent policy of low interest will be adopted in the future. The most important function of the control of the monetary system is then to insure that this policy is successful. The view that control of the banking system is all that is needed to secure full employment is false, but control of the banking system is necessary in order to control the rate of interest.

When demand is excessive (as in the post-war period) there is no reason to lower the interest rate for the sake of increasing employment. Indeed it can be plausibly argued that a rise in the rate of interest, which would check private investment, and perhaps encourage saving, is then desirable. But the problem of financing the national debt, as well as the long-run advantages of permanent low interest, tell very strongly against such a policy. In spite of a set back in 1948 due to trying to rush the rate of interest down faster than the public opinion of financiers would accept, it appears to be accepted policy to maintain low interest rates, and to rely upon other means to curb excessive demand.

QUESTIONS FOR DISCUSSION

1. What influence have the banks over the level of employment?
2. What would be the consequences of a permanent fall in the rate of interest to a very low level?
3. What light does recent experience throw on the power of the authorities to control the rate of interest?

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7. INTERNATIONAL PROBLEMS

1. UNEMPLOYMENT AS A WORLD PROBLEM

Chronic under-employment and the trade cycle are world problems. Unemployment is a catching disease. If there is a fall in activity and incomes in one country, demand in that country for imported goods falls, along with demand for home products, and consequently there is unemployment and loss of profits in the countries which export to it. Those countries in turn suffer a loss of income and reduce their imports, and so the disease spreads. Contrariwise, if one country increases its activity, its consumption of imports rises, and prosperity increases in the world outside. We have already come across this fact when we were discussing the multiplier. Part of the increase in employment due to an increase in investment in one country will take place abroad,

This means that it is much easier to overcome unemployment if the problem is tackled by many nations together than by one alone. If a number of countries set about a policy of increasing consumption and investment, each at home, each will find that the market for its exports is expanding at the same time as its imports increase. Any one country acting alone is likely to find its imports rising relatively to its exports, so that it gets into difficulties in paying for imports.

This does not mean that no country should begin. If each waits for "the world" to start, nothing will be done, for "the world" consists of a number of countries. But it does mean that if it is possible to organise a world policy the problem for each country will be much less difficult to solve.

For many countries it is almost impossible to start an expansionist policy from their own resources. If they lack basic industries there is very little that they can do without heavy imports, for instance of iron and steel and machinery. It is therefore highly desirable that the more advanced countries should assist them with long-term loans, which will make it possible for them to import more than they export for a certain time, until their level of development has been raised. For an advanced country there may be a choice between finding a use for all its resources at home, by internal investment and increased home consumption, and assisting in the development of backward regions by lending and exporting to them. In particular, the United States has been faced with this choice and she will be faced with it again when the period of Marshall Aid comes to an end.

2. BEGGAR-MY-NEIGHBOUR

In the great slump most countries tried to solve their unemployment problem by cutting out imports (by tariffs and other restrictions) and by pushing exports by cutting wages, by subsidies and by exchange depreciation. (Exchange depreciation stimulates exports by making goods which have a certain cost of production in terms of home money cheaper on the world market, through making home money cheaper in terms of foreign money.) These devices increase employment at home without increasing investment or consumption in the world as a whole. They make things better at home and worse abroad. If all countries are playing the beggar-my-neighbour game none can gain much from it. As soon as one gets an advantage, others snatch it back, while the whole world loses by the restriction on international trade. Thus even from a selfish national point of view this policy is a hopeless one in the long run. One of the principle aims of the Bretton Woods system is to cut out one kind of beggar-my-neighbour trick—currency depreciation, and to create a machinery favourable to international trade. But no mere currency plan can solve the main problem, which is to find a means to use the productive resources of the world as a whole for the benefit of its inhabitants.

3. CONTROL OF FOREIGN TRADE

For this country in particular the chief problem is to find means for paying for imports. We have lost a considerable amount of foreign capital which formerly brought us interest payments from the outside world, and we have lost markets through the development of home industries in countries which formerly depended upon Great Britain for manufactures. The over-riding problem is not to keep up employment but to find markets for enough exports to pay our way. So far we have been helped by the post-war boom in the world as a whole. But even in a prosperous world it will be necessary for any future government (of whatever party) to take a considerable hand in the control of our foreign trade. Private enterprise by itself cannot be relied upon to build up exports to the required extent, and so long as we are in a weak trade position it will be necessary to control imports, in order to make sure that none of our limited external purchasing power is wasted on unessential things.

If the world as a whole is suffering from unemployment, so that markets are restricted, it will be all the more necessary to have control over foreign trade, to cut down unessential imports and to foster exports.

4. CONTROL OF CAPITAL MOVEMENTS

In the period between the wars capital movements were mainly uncontrolled. This meant that any owner of wealth, say in Great Britain, was free to sell his property for pounds sterling, with the pounds to buy, say dollars, and with the dollars buy American securities. Very large "flights of capital" from one country to another took place, partly under the influence of better prospects of profit to the individual in some foreign country than at home, but mainly under the influence of political fear and uncertainty. A "flight of capital" does not mean that real capital crosses the seas. The factories and the railway lines stay where they are. It means a sudden rush to sell home currency and buy foreign currency. Such flights give rise to a serious problem in controlling the exchanges and they played havoc with the gold standard between the two wars. They would be equally destructive to exchange stability based on the new currency plans, or on any conceivable plan. It is now generally agreed, even in the most conservative circles, that strict control of capital movements will be permanently necessary. It is quite certain that it will be necessary if there is to be even partial planning of home activity. No scheme of planning can be carried through without raising opposition from some property owners, and if capital movements are not controlled property owners can wreck any scheme that they do not approve of by creating an exchange crisis. It was an exchange crisis which brought about the downfall of the Labour Government in 1931. An exchange crisis wrecked the Blum experiment in France, and a "flight of capital" was causing great difficulties to the Labour Government of New Zealand when war broke out.

Exchange control is necessary for any country which wishes to carry out any kind of progressive policy in its home affairs.

Control of capital movements means that no individual is at liberty to transfer funds from one country to another without permission of the authorities, and that all the foreign exchange acquired by selling exports is sold to the authorities, so that it can be used for buying necessary imports or making approved foreign loans, instead of being sold to some individual who wants to move his private wealth abroad. Exchange control has been imposed under the influence of our trade difficulties, but even if they were to disappear (which does not seem likely in any foreseeable future) it would still be a necessary condition for the planning of our home economy.

QUESTIONS FOR DISCUSSION

1. What are the advantages of international division of labour?
2. Does Great Britain lose by the industrialisation of other countries?
3. What do you consider ought to be the trade policy of U.S.A. in the next ten years?
4. What is the meaning of a "flight of capital"?

8. MINIMUM MEASURES

1. PUBLIC WORKS

Even those most opposed to government planning of industry (for instance, the spokesman of the Federation of British Industries) now admit that some Government action will be necessary if a slump de-

velops. They suggest that, when private enterprise has got itself into a slump, the Government should step in and carry out schemes of "public works", such as road building or slum clearance, so as to increase employment, raise purchasing power and so increase the profitability of private enterprise. In the great slump such people were strongly opposed to public works policy, but now they have accepted the principle, regarding it, perhaps, as the lesser evil.

There can be no doubt that a policy of increasing public works in a slump would do good, and is better than no policy at all. But it cannot be relied upon to preserve a stable level of employment. It is not an easy matter to start and stop large schemes of investment at short notice, and the problem of correct timing of public works would be very difficult to solve. Moreover, so long as Government investment is confined to a few lines, such as road building, which do not compete with, private enterprise, the amount of investment that the Government can control is likely to be inadequate.

2. PRIVATE ENTERPRISE GETS THE FIRST PICK

Even if it were adequate, the whole idea is topsy-turvy. The "public works" policy means that private enterprise always gets the first pick. When private finance sees a chance of profit in starting gramophone companies or building West End flats, it must be allowed to employ all the labour it wants. When prospects of profit fall off, the Government may use labour for slum clearance. As soon as prospects of private profit look bright again, the slum clearance must be slowed up, while private enterprise again employs the labour.

When the general official and orthodox view was that the Government could not do anything about unemployment at all, economists, led by Keynes, were pressing strongly for public works, for to increase public investment of any kind is clearly better than to do nothing. But now that the responsibility for maintaining full employment is accepted by the authorities, the question of what labour can best be used to produce becomes the dominating consideration, and it follows that investment should be regulated on a system of priorities, instead of following the principle that private profit is the only standard of what is desirable.

QUESTIONS FOR DISCUSSION

1. Why is "public-works" policy now favoured by those who most strongly opposed it in the 'thirties?

2. What considerations should be taken into account in planning investment at the present time?

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9. SOME FALLACIES

1. "THE TREASURY VIEW"

During the great slump it was the official view that Government investment cannot increase employment. The argument ran: there is a certain amount of saving going on at any time, and if more savings are invested by the Government, less will be available for private enterprise. This overlooks the fact that if there is more investment there will be a higher level of activity and of incomes and consequently more saving. The argument is so childish that it would not deceive anyone who had not a strong wish to believe it. Nevertheless, it was for many years the basis of Government policy, and was set out in a famous White Paper in 1929.

2. "ECONOMY"

The National Government which was formed in 1931 went in for a great economy campaign. Local authorities were compelled to cease work on building schemes, roads, fen drainage, and so forth. An emergency budget was introduced, increasing taxation, cutting unemployment allowances and reducing the pay of public servants, such as teachers and the armed forces. Private citizens felt it was patriotic to spend less. Some Cambridge Colleges gave up their traditional feasts as a recognition of the crisis. All this helped to increase unemployment and make the economic situation of the country still more depressed. Nowadays there is considerably more understanding of how things work and it is unlikely that such a completely idiotic policy will be tried again.

3. THE BURDEN OF THE NATIONAL DEBT

The National Debt is often brought forward as an argument against public spending to create employment. There is a good deal of confusion between the National Debt and the debt of an individual. An individual who is in debt has to pay interest to someone else, and will be obliged to return the sum borrowed to the lender. A nation which is in debt has to pay interest to its own citizens (a foreign debt is a different story and is much more like a private debt). That is to say, the

Government has to raise taxes from Peter and Paul and pay interest to Paul and Peter. Taking the country as a whole, there is no burden of the debt. Moreover, the debt need never be repaid. As one lot of bonds fall due to be redeemed a fresh lot can be sold to the public. If the debt is finally repaid, it is repaid out of the wealth of the citizens of the country, and this, like interest payments, is merely a swap round among the members of the community.

At the same time there are genuine objections to a large National Debt. It means that there is a large volume of rentier income (the interest on Government bonds), so that the active part of the population has to allot a large share of the proceeds of production to the mere owners of wealth. This objection is all the stronger if the holders of the National Debt are mainly the richer part of the community, while taxes to pay their interest are raised from the population as a whole. This drawback can be kept within bounds, first, by keeping interest rates low, and second, by arranging the tax system so that the same class which gets the interest has to pay the extra taxes. But however well the national finances are managed, some objection must remain.

This does not mean that fear of increasing the National Debt is a sound objection to having a full employment policy. The drawback of having a swollen rentier class is trivial compared to the loss of wealth and of happiness, and of life itself, which is entailed by unemployment.

If, however, we are to have a full employment policy in any case, the problem must be viewed in a different light. Government outlay covered by taxation on the rich is to be preferred to borrowing. A full employment policy conducted according to the rules of Sound Finance is far more radical than a policy of deficits, and Government loan expenditure can only be justified as a concession to the status quo.

QUESTIONS FOR DISCUSSION

1. How do you account for the "economy campaign" of 1931?
2. What is the "burden of the National Debt"?

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10. THE PROBLEM OF FULL EMPLOYMENT

1. THE FUNCTION OF UNEMPLOYMENT IN CAPITALISM

Any scheme of partial planning which does not abolish private enterprise will run into difficulties as soon as it succeeds in overcoming unemployment. It is not a simple matter to remove unemployment and leave everything else the same, for unemployment has a definite function in the capitalist system. It is the fear of unemployment which makes the workers put up with the authority of their employers. In so far as full employment would make it impossible for any employer who did not offer good conditions to get any hands it would be welcomed by many of the big industrialists who dislike competition from "sweaters". But it might go further than this and undermine the authority of the big employers also. For this reason many of them (openly or unconsciously) are somewhat half-hearted about a full employment policy, and are inclined to regard a certain amount of unemployment as a necessary safeguard to their position. The high level of employment since the war has been regarded in some quarters as by no means an unmixed blessing.

2. THE VICIOUS SPIRAL

Another problem created by full employment is the tendency to inflation. When, labour is scarce relatively to the demand for it the Trade Unions are in a strong position to force wages up, and employers do not object to raising wages since it is easy for them to pass on extra costs to the consumer in the form of higher prices. But, as prices rise, the workers demand still higher wages, and the "vicious spiral" of wages and prices sets in. A continuous rise of prices involves serious dangers. First, it brings about an arbitrary and unfair change in the distribution of income, all those with incomes fixed in terms of money suffering a loss of real income. The worst sufferers are pensioners, and the workers who are ill-organised and do not succeed in getting their wages up as fast as the rest. The most vocal sufferers are the middleclass bond holders and salary earners. The loss of their good will may have serious political consequences for the Government attempting to carry out a full employment policy. Second, a general expectation of rising prices may lead to a complete collapse of the value of money such as occurred in the great inflations on the continent after the last war.

To a remarkable extent an appeal to the patriotism of the Trade Unions during and since the war has kept the "vicious spiral" within bounds, but the position has been, and remains, highly precarious.

3. WHY THE NAZIS SUCCEEDED

The only example known to history of full employment under partially planned capitalism (except in war time or a postwar boom) is the Nazi regime. The Nazis succeeded in overcoming the problems created by full employment because they had first broken the labour movement. Discipline in industry was ensured by substituting terror, along with a mystical propaganda appeal, for the fear of unemployment. The vicious spiral was cut at the root by fixing wages.

If full employment is to be secured without the sacrifice of liberty on the one hand, or the abolition of private property on the other, a way must be found to associate the workers with the planning of industry and to satisfy their sense of justice, so that they will not be tempted to use the bargaining power conferred on them by full employment in a struggle with their employers which would wreck the experiment at the start.

QUESTIONS FOR DISCUSSION

1. What effect does the disappearance of unemployment have on relations between employer and employee?
2. Why is inflation considered undesirable?
3. What light does present experience throw on the dangers of full employment?

CONCLUSION

The ideal of full-employment policy is now almost universally accepted. The change in opinion registered by the contrast between the White Papers of 1929 and 1944 is dramatic. Since these new ideas have ruled we have in fact enjoyed something like full employment. But that is very largely a coincidence. Employment after the war would have been high in any case. The time for the new doctrines to prove themselves in practice still lies ahead.