

Full Employment in a Free Society

A Summary

by

SIR WILLIAM BEVERIDGE

Published jointly by

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THE problem of unemployment concerns everybody.

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November, 1944

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THE NEW STATESMAN AND NATION
and **REYNOLDS NEWS**

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PREFACE

When the fighting in this World War ends, there are three things which each of us will need, three conditions which must be satisfied if all the efforts and sacrifices made in war are to seem worth while, as making possible a good life for ourselves and for our children. The first thing that we need is that peace, when it returns, shall be assured and lasting, that men of all nations shall be able in future to live without war and without fear of war. The second thing we need is that each man and woman, so long as he or she is able to work and serve and earn shall have the opportunity of doing so. The third thing we need is that each man and woman shall be assured of an income sufficient for honourable subsistence and maintenance of any dependants, when for any reason he or she is unable to work. Each of these three conditions of a good life—lasting peace, a job while one can work, an income when one cannot work—is indispensable. Freedom from War and fear of War, Freedom from Idleness and fear of Idleness enforced by unemployment, Freedom from Want and fear of Want, these are the fundamental freedoms. These are the aims which we should pursue with unrelenting determination both during the war and after it.

The first of the three conditions cannot be dealt with here. I will say of it now one thing only: that since Freedom from War is a thing desired by nearly all mankind, it is absurd to describe it as impossible. Wars are man-made and by man they can be prevented.

The third of the three conditions is the subject of the Report on Social Insurance and Allied Services which I made at the request of His Majesty's Government, with the help of all the Government Departments, and presented in November, 1942. That Report takes Freedom from Want as its aim, and sets out a Plan for Social Security to achieve this aim. Want is defined as lack of income to obtain the means of healthy subsistence—adequate food, shelter, clothing and fuel. The Plan for Social Security is designed to secure, by a comprehensive scheme of social insurance, that every individual, on condition of working while he can and contributing from his earnings, shall have an income sufficient for the healthy subsistence of himself and his family, an income to keep him above Want, when for any reason he cannot work and earn. In addition to subsistence income during interruption of earnings, the Report proposes children's allowances to ensure that, however large the family, no child need ever be in Want, and medical treatment of all kinds for all persons when sick, without a charge on treatment, to ensure that no person need be sick because he has not the means to pay the doctor or the hospital. The Plan for Social Security is first and foremost a plan for basic income security. It attempts no more than to ensure that

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every man is at all times able to pay the butcher, the baker, the coal-merchant and the landlord, and to call in the doctor when he needs him.

In setting out this Plan for Social Security, I named as one of its assumptions that employment was maintained and mass-unemployment prevented. I did not mean by this that if there was mass-unemployment we did not need Social Security or needed a Plan materially different from that which I proposed. I meant that income security was inadequate treatment for mass-unemployment, so that income security by itself would not produce a good society. Idleness enforced by unemployment is a different evil from Want, an evil from which men do not escape by having an income. Employment security is needed as well as security of a minimum income. The opportunity of working, serving and earning while one has power to do so is the second of the three conditions of a good life. That is why I named it as one of the assumptions on which I framed my plan for income security.

It did not fall within the scope of my Report on Social Insurance to suggest how this assumption could be realised. Since I made that Report—now nearly two years ago—I have been working at this problem with the help of economists and others outside the Government service and have prepared a second Report, on Full Employment in a Free Society, which has just been published.* In making this Report I have been concerned not with the problems of demobilisation or of transition from war to peace, but with the nature of the economic system to which transition should be made, if the mass-unemployment of the past is to be prevented.

This second Report, setting out the facts of unemployment and dealing with difficult economic questions, is a substantial volume. It cannot be read by everybody. But the problem with which it deals concerns everybody. I have tried, therefore, in this Summary to present the problem and my suggested solution so shortly that the Summary can be read by all, and can be understood without reference to any other document. But I hope that many of those who read the Summary will proceed to the Report, and judge the conclusions by the arguments and the facts that they will find there. Unemployment cannot be conquered by a democracy until it is understood by them. Full productive employment in a free society is possible, but it is not possible without taking pains. It cannot be won by waving a financial wand; it is a goal that can be reached only by conscious continuous organisation of all our productive resources under democratic control. To win full employment and keep it, we must will the end and must understand and will the means.

Boat of Garten.

August, 1944.

W. H. B.

FULL EMPLOYMENT IN A FREE SOCIETY

I

THE EVIL OF UNEMPLOYMENT AND ITS DIAGNOSIS

Material and Spiritual Loss by Unemployment

Between the two wars, from 1921 to 1938, the unemployment rate in Great Britain and Northern Ireland, that is to say the percentage unemployed among persons insured against unemployment, averaged 14.2. In the best year, 1927, the rate was just under 10, representing about 1,100,000 persons unemployed; in the worst year, 1932, the rate was just over 22, representing over 2,800,000 persons unemployed.

Before the first World War there was no general scheme of unemployment insurance and no comprehensive recording of unemployment. But the trade unions which gave out-of-work pay to their members were able to supply a continuous record of unemployment from the middle of the 19th century; in the last 31 years before the War, from 1883 to 1913, the unemployment rate in these trade unions ranged from just over 2 in the best years, such as 1889 and 1899, to more than 8 in the worst years, such as 1908 and 1909, and averaged 4.8. This trade union unemployment rate is less than would have been found among work-people generally if unemployment insurance had been in operation as it was between the wars. How much less cannot be stated with certainty, but it is probable that for comparison with the unemployment rate of 14.2 between the wars, unemployment from 1883 to 1913 should be put at an average of about 6.0 in place of the 4.8 recorded by the trade unions. That is to say, unemployment between the wars was nearly two and a half times as great as before 1914.

But though unemployment was more severe between the wars than before 1914, it was by no means negligible in that earlier period. The trade union unemployment percentage never went down to zero; it was as low as 2½ per cent. only in occasional boom years, in one year out of six. In the unorganised trades and particularly in those practising casual engagement, like building and dock and harbour service, there was chronic under-employment. In boom years, as in other years, there were more men seeking jobs than jobs waiting for men.

An unemployment rate of about 14 means that between the wars only 86 persons on an average out of every 100 persons seeking employment were able to get employment. This represents a serious loss of material wealth. If we had used our manpower, in place of wasting it in unemployment, we could have increased our total production by about one-eighth, could have been richer and raised our standard of

* By Messrs. Allen and Unwin. 12s. 6d.

living by that amount. In the year 1938, when unemployment was a little below the average, about 12 per cent., it represented a loss of £500,000,000 of production. But this loss of material wealth, serious as it is, is the least of the evils of unemployment. Even with it, Britain was still one of the richest countries in the world.

Some of the 14 who on an average stood idle out of every 100 had been unemployed for many months or years. They were suffering not only material loss; they were being disheartened, demoralised, made to feel useless; this applied not only to the older men and women, but to young persons at the outset of their careers. Failure to make use of adaptable youth is one of the worst blots on our record in Britain, as it is in America, between the wars. It stands out in poignant contrast to what is required of youth in war, and to the call on youth made by the dictators in preparing war.

Others of the 14 had been unemployed only for a short time; they represented a much larger body of people passing into and out of employment; in an average year three out of every ten workpeople and in a bad year five out of every ten would experience some unemployment. This relates to single years. The proportion of those who would experience unemployment at some time or other during a longer period was materially higher; two out of every three workpeople of all ages made a claim to unemployment benefit between July, 1924, and December, 1932.* Fear of unemployment was much more general than actual unemployment. Fear of unemployment fostered organised or voluntary restrictions on output, and resistance to technical advance, made every man seem the enemy of his fellows in a scramble for jobs and led to many ugly growths, of hatred of foreigners, hatred of Jews, enmity between sexes.

"Misery generates hate." This text, taken from Charlotte Brontë's account in "Shirley" of the hand-loom weavers who, one hundred and twenty-five years ago, were being driven into unemployment and miserable revolt by the invention of knitting frames, is the main text of my Report and of this Summary. The greatest evil of unemployment is not physical but moral, not the want which it may bring but the hatred and fear which it breeds. So the greatest evil of war is not physical but spiritual, not the ruin of cities and killing of bodies, but the perversion of all that is best in man's spirit, to serve purposes of destruction, hate, cruelty, deceit and revenge.

Diagnosis of Unemployment

Remedy of any evil must be preceded by diagnosis, by discovery of its nature and its causes. The first step in the diagnosis of unemployment is to realise that employment depends on spending. If

* The proportions for single years are based on figures given at p. 9 of the *Labour Gazette* for January, 1937; those for 1924-32 on a sample enquiry reported in the *Labour Gazette* for September and October, 1933.

employment increases and unemployment decreases, that means that someone is spending more than before. If employment decreases and unemployment increases, that means that someone is spending less than before. Employment—demand for labour—means spending. If in any community the demand for labour is normally less than enough to employ the available labour, that means that the community normally does not spend enough. If in any community the demand for labour fluctuates and gives rise to alternate booms and depressions, that means that spending in that community fluctuates, is unstable. The facts of unemployment in Britain, both before the wars and between them, show that the demand for labour was chronically weak, with always more idle men than vacant jobs, and was extremely unstable, rising and falling perpetually. Spending was insufficient and unstable.

The next step in the diagnosis of unemployment is to examine spending and to see how it comes to be insufficient and unstable. Spending is of two main kinds, for consumption and for investment. What people spend on consumption, that is to say on things that they want directly to use or enjoy—food, clothes, furniture, entertainment, railway journeys, and so on—gives employment, and on the whole people tend out of any given income to spend much the same and fairly steadily on consumption. What people save out of their incomes, i.e., do not spend on consumption, gives employment only if it is invested, which means not the buying of stocks and shares but expenditure on means of production, that is to say expenditure in adding to capital equipment, such as factories, machinery or ships or in adding to stocks of raw material such as pig-iron or wool, with a view in each case to producing more goods for later use; investment includes also the building of dwelling houses, which are regarded as the means of supplying to consumers the service of accommodation. While consumption expenditure, as stated, is relatively steady, investment shows extreme instability. It is sufficient here to give a few illustrative figures, as to ships, pig-iron, factories and houses. Business men placed orders for more than 900,000 tons of shipping to be built in 1883, but for little more than a third—about 330,000 tons—three years later in 1886; they arranged for 1,100,000 tons to be built in 1906, but only for about half as much—600,000 tons—in 1908 and in 1909, and then went back to 1,100,000 tons in 1911. They called for 9½ million tons of pig-iron in 1899, but less than 8 million tons two years later in 1901. They spent more than twice as much on new factories in 1929 as in either 1931 or 1932. But the most remarkable and least reasonable fluctuation of all is in house building, typified by the building in Scotland of nearly 29,000 houses in 1875 and only about 5,000 four years later in 1879; 21,000 in 1899 and only 8,500 in 1904; 17,000 in 1904 and less than 3,000 in 1912 or 1913. It is obvious that with this fluctuation of house building unemployment and its attendant evils are unavoidable. It is obvious also that there is no corresponding fluctuation in human

needs, for houses or for the things that ships can carry or factories can make.

Instability of business investment, illustrated above mainly by instances before 1914, has long been recognised as one of the major weaknesses of the unplanned market economy of the past. It is the central feature of the fluctuation of economic activity which goes by the name of the trade cycle. But it is not the only weakness or the sole cause of unemployment. Four other factors in unemployment call for mention.

First, to prevent unemployment, it is not sufficient that the demand for labour should be stable. It must also be high enough. This means that consumption and investment together must add up to a total of expenditure sufficient to set up a demand for the whole of the available labour. At one time it was supposed that, apart from recurrent cyclical depressions of trade, this would happen automatically. Whatever people saved, i.e., did not spend on consumption, would be invested, i.e., spent on means of production; if people were trying to save more than could be invested, the rate of interest would fall, discouraging saving and encouraging investment and so bringing them into line again. According to the new economic theories associated with the name of J. M. Keynes, now Lord Keynes, and accepted substantially by all people qualified to judge, this does not happen. Decisions to save and decisions to invest are made by different people at different times for different reasons. They do not start with any initial tendency to march in step and there is no automatic painless way of keeping them in step or bringing them together if they fall out; the rate of interest, which was supposed to serve this purpose, fails to do so. There is thus the possibility of chronic deficiency of demand for the products of industry, leading to chronic under-employment both of labour and of other productive resources.

Second, it is not sufficient that the demand for labour should be high and stable. It must also be rightly directed, having regard to the location of the available labour. Between the wars such new demand for labour as arose through the development of new industries was largely misdirected. The new factories were built round London and other southern cities, adding to congestion of housing and transport there, leaving the north and west derelict in structural unemployment.

Third, unemployment may arise not through deficiency, instability or misdirection of demand, but through the methods of engaging labour. This was the main theme of both the Majority and the Minority Reports of the Royal Commission on the Poor Laws and Relief of Distress thirty-five years ago and of my own first study of unemployment which appeared at the same time. Reliance on casual engagement in such industries as dock and harbour service meant that these industries accumulated and retained excessive reserves of chronically under-employed labour. But casual engagements repre-

sented only an acute form of the disorganisation of the labour market. The normal glutting of the labour market in all occupations sprang from the fact that long after regular markets had been established for every other thing needed to be bought and sold, the prevailing method of selling the most perishable and most essential article of all, the service of human beings, continued to be the medieval method of hawking it from door to door. The remedy for this evil was to replace the hawking of labour by organisation of the labour market through employment exchanges, to shorten the passage from job to job in every industry, to bring the recruiting of labour by each industry into accord with its total requirements, to replace the large stagnant under-employed reserves collected in the casual industries by small mobile bodies of men adequately employed in working sometimes at one place and sometimes at another. This was the argument that, in one form or another, was put to the Royal Commission from many sources, was accepted by them, and led to the passage of the Labour Exchanges Act of 1909.

Fourth, part of the demand on which employment in Britain depends comes from overseas. This demand also has shown remarkable fluctuations which have clearly had much to do with generating the trade cycle. This problem forms the subject of a lengthy Appendix to my full Report, leading to the conclusion that controlled marketing and production of primary commodities (food and raw materials) is an essential step to stabilise employment in Britain and other manufacturing countries.

The last of the four factors in unemployment named above is of peculiar importance to Britain, since Britain, more than any other great country, depends for a high standard of living on international trade; the international implications of a full employment policy form the subject of a lengthy section of the Report, summarised in chapter 6 of this pamphlet. The second and third factors are subsidiary. The first factor applies to all advanced industrial countries and is the most important. The main attack on unemployment must consist of ensuring high stable demand at all times for the products of industry. That means high stable spending, and high stable spending will not come about automatically in an unplanned market economy, that is to say an economy which relies on pursuit of private interest as its driving and guiding force. The new facts of unemployment between the wars and the new theories of employment converge to show that an unplanned market economy is less automatically self-adjusting at a high level of employment than had been supposed in earlier times.

THE MEANING OF FULL EMPLOYMENT IN A FREE SOCIETY

After this diagnosis of unemployment, the next question to ask is: What do we mean by curing unemployment? Everyone is agreed that the mass-unemployment which defaced the period between the wars, in Britain, in the United States, and in many other countries, must not be allowed to return. But not everyone is agreed as to how far the attack on unemployment should be pressed. Would it, for instance, be enough to reduce unemployment to the levels reached before the first World War? Would it, again, be enough to have full employment in the sense in which that term is defined in the Nuffield College Statement on "Employment Policy and Organisation of Industry after the War" as "a state of affairs in which the number of unfilled vacancies is not appreciably below the number of unemployed persons, so that unemployment at any time is due to the normal lag between a person losing one job and finding another?"

On the view taken here, neither of these aims is high enough. The time has come, not just for making unemployment rather less, but for making a fundamental change to permanent full employment, defined as a state of affairs in which there are always more vacant jobs than unemployed men, not slightly fewer jobs.

The proposition that there should always be more vacant jobs than unemployed men means that the labour market should always be a seller's market rather than a buyer's market. For this, on the view of society underlying this Summary—that society exists for the individual—, there is a decisive reason of principle. The reason is that difficulty in selling labour has consequences of a different order of harmfulness from those associated with difficulty in buying labour. A person who has difficulty in buying the labour that he wants suffers inconvenience or reduction of profits. A person who cannot sell his labour is in effect told that he is of no use. The first difficulty causes annoyance or loss. The other is a personal catastrophe. This difference remains even if an adequate income is provided, by insurance or otherwise, during unemployment; idleness even on an income corrupts; the feeling of not being wanted demoralises. The difference remains even if most people are unemployed only for relatively short periods. As long as there is any long-term unemployment not obviously due to personal deficiency, anybody who loses his job fears that he may be one of the unlucky ones who will not get another job quickly. The short-term unemployed do not know that they are short-term unemployed till their unemployment is over.

The human difference between failing to buy and failing to sell labour is the decisive reason for aiming to make the labour market

a seller's rather than a buyer's market. There are other reasons, only slightly less important. One reason is that only if there is work for all is it fair to expect workpeople, individually and collectively in trade unions, to co-operate in making the most of all productive resources, including labour, and to forego restrictionist practices. Another reason, related to this, is that the character and duration of individual unemployment caused by structural and technical change in industry will depend on the strength of the demand for labour in the new forms required after the change. The greater the pace of the economic machine, the more rapidly will structural unemployment disappear, the less resistance of every kind will there be to progress. Yet another reason is the stimulus to technical advance that is given by shortage of labour. Where men are few, machines are used to save men for what men alone can do. Where labour is cheap, it is often wasted in brainless, unassisted toil. The new lands empty of men are the homes of invention and business adventure in peace. Stimulus to labour saving of all kinds is one of the by-products of full employment in war.

Full employment in this Summary means more vacant jobs than unemployed men. It means something else as well. If there were two million chronically unemployed men in Britain and $2\frac{1}{4}$ million vacant jobs which they could not or would not fill, there would be more vacant jobs than unemployed men, but to call this state of affairs full employment would be mockery. It is not enough to say that there must be more vacant jobs than unemployed—more or about as many. It is also necessary to be sure that the number unemployed, or rather the duration of unemployment in the individual case, is not excessive. Full employment, in any real sense, means that unemployment in the individual case need not last for a length of time exceeding that which can be covered by unemployment insurance without risk of demoralisation. Those who lose jobs must be able to find new jobs at fair wages within their capacity, without delay. This means that the demand for labour and the supply of labour are related qualitatively as well as quantitatively. The demand must not only be sufficient in total but must be directed with regard to the quality and the location of the labour that is available. The labour supply must be capable of following the changes of demand that are inseparable from technical advance.

In so far as room is left for change and for freedom of movement from job to job, room is left for some unemployment. Full employment, by its definition of more vacant jobs than unemployed men, clearly does not mean that there is literally no unemployment. It does not mean that every man and woman in the country who is fit and free for work is employed productively on every day of his or her working life; we have some unemployment even when our manpower is being strained to the utmost in total war. In every country

with a variable climate there will be seasons when particular forms of work are impossible or difficult. In every progressive society there will be changes in the demand for labour, qualitatively if not quantitatively; there will be periods during which particular individuals can no longer be advantageously employed in their former occupations and may be unemployed till they find and fit themselves for fresh occupations. However high the demand for labour there will always be some frictional unemployment in a progressive society subject to seasons and having trade with other countries.

If full employment does not mean literally no unemployment, how much unemployment does it mean? My suggestion is that we should be able to reduce unemployment to not more than 3 per cent. to cover seasonal slackness, change of jobs and fluctuations of international trade. 3 per cent. of unemployment means 97 per cent. of employment, as compared with the average of 14 per cent. of unemployment and 86 per cent. of employment recorded in Britain from 1921 to 1938. This 3 per cent. would consist of a shifting body of short-term unemployed who could be maintained without hardship by unemployment insurance. There would be no long-term unemployed and there would always be more vacant jobs than idle men. For men to have value and a sense of value there must always be things waiting to be done, with money to pay for doing them. Jobs rather than men should wait.

Preservation of Essential Liberties

The labour market in the past has invariably, or all but invariably, been a buyer's market rather than a seller's market, with more unemployed men—generally many more unemployed men—than unfulfilled jobs. To reverse this and make the labour market always a seller's rather than a buyer's market, to remove not only mass-unemployment but the fear of it, would affect the working of many existing institutions. Full employment would change, and is meant to change, fundamentally, the conditions of living and working in Britain, to make Britain again a land of opportunity for all. There are some things in Britain which neither full employment nor the means of achieving it should be allowed to change.

The Summary, as its title indicates, is not concerned simply with the problem of full employment. It is concerned with the necessity, possibility and methods of achieving full employment in a free society, that is to say, subject to the proviso that all essential citizen liberties are preserved. The precise effect of the proviso depends on the list of essential citizen liberties. For the purpose of this Summary they are taken as freedom of worship, speech, writing, study and teaching; freedom of assembly and of association for political and other purposes, including the bringing about of a peaceful change of the govern-

ing authority; freedom in choice of occupation; and freedom in the management of a personal income. The proviso excludes the totalitarian solution of full employment in a society completely planned and regimented by an irremovable dictator. It makes the problem of full employment more complex in many ways, of which four call for special notice.

First, in a free society the governing authority is liable to be changed at short intervals by peaceful methods of political organisation and voting. There must be reasonable continuity of economic policy in spite of such changes of government. The machinery of government, while responsive to general changes of opinion, must be resistant to "lobbies"—that is to say, organised sectional pressures.

Second, freedom of association for industrial purposes raises the issue of wage determination. Under conditions of full employment, can a rising spiral of wages and prices be prevented if collective bargaining, with the right to strike, remains absolutely free? On the other hand, can the right to strike be limited in a free society in peacetime?

Third, freedom in choice of occupation, makes it harder to ensure that all men at all times are occupied productively. It makes it impossible to retain men forcibly in particular work or to direct them to it with the threat of imprisonment if they refuse to go. One assumption underlying this Summary is that neither the Essential Work Order nor the powers of industrial direction which have been found necessary in war should be continued when the war is over. In Britain at peace the supply of labour cannot be adjusted by decree to the demand for labour; it can only be guided by economic motives. From another angle, freedom in choice of occupation raises also the issue of industrial discipline. Under conditions of full employment, if men are free to move from one employment to another and do not fear dismissal, may not some of them become so undisciplined as to lower appreciably the efficiency of industry?

Fourth, freedom in the management of a personal income complicates the problem of full employment from another side. If men cannot be forced to buy just what has been produced, this means that the demands for labour and its products cannot be fitted forcibly to the supply. There may be continual changes in the kinds of things on which consumers want to spend their money—that is to say, in the quality of consumers' outlay; there may be changes also in its quantity. For freedom in the management of a personal income includes freedom to decide between spending now and saving, so as to have the power of spending later. In a free society individuals must be allowed to plan their spending over their lives as a whole.

These are the essential liberties, more precious than full employment itself. The need to preserve them raises a number of questions—as to industrial discipline, the determination of wages, and choice of job—which are discussed with other Internal Implications of Full

Employment in Part V of the full Report. Here it is sufficient to say that they are liberties which must be exercised with responsibility, not licences to behave in any way one pleases. Perpetual instability of economic or social policy would make full employment and any other social reforms futile or impossible. Collective bargaining for wages should continue, but the bargainers must be responsible, looking not to the snatching of short sectional advantages, but to the permanent good of the community. Choice of occupation means freedom in choosing between occupations which are available; it is not possible for an individual to choose to be Archbishop of Canterbury, if that post is already filled by another. Removal of the fear of lasting unemployment will not under good industrial management remove from men the incentive to do their best, but work means doing what is wanted, not doing just what pleases one. All liberties carry their responsibilities. This does not mean that the liberties themselves must be surrendered. They must be retained.

In all the respects named, and possibly in some others, the problem of maintaining full employment is more complicated in a free society than it would be under a totalitarian regime. From one complication of some historic importance the problem, as posed here, is free. The list of essential liberties given above does not include liberty of a private citizen to own means of production and to employ other citizens in operating them at a wage. Whether private ownership of means of production to be operated by others is a good economic device or not, it must be judged as a device. It is not an essential citizen liberty in Britain, because it is not and never has been enjoyed by more than a very small proportion of the British people. It cannot even be suggested that any considerable proportion of the people have any lively hope of gaining such ownership later. If it should be shown by experience or by argument that abolition of private property in the means of production was necessary for full employment, this abolition would have to be undertaken. On the view taken in this Summary, full employment is in fact attainable while leaving the conduct of industry in the main to private enterprise, though not without a large extension of the responsibilities of the State. The proposals made in the Summary are based on this view.

3

REMEDY BY PLANNED ECONOMY OF WAR

In 1938, the last full year of peace, there were on an average nearly 1,900,000 persons unemployed in Britain and Northern Ireland. In 1943 there were about 100,000 and nearly a quarter of these were

unsuitable for ordinary industrial work; this represents an unemployment rate in the neighbourhood of $\frac{1}{2}$ per cent. In melting away unemployment, the second World War has repeated the experience of 1914-18.

The figures cited are a statistical presentation of what has now become a commonplace: that the only sovereign remedy yet discovered by democracies for unemployment is total war. Those who use war experience as an argument for the possibility of abolishing mass-unemployment in peace often find themselves met by two popular objections; first, that this result is achieved only at the cost of incurring immense public debt; second, that the achievement of war proves nothing for peace, since the full employment of the civilian population depends on withdrawing millions of men and women from useful production to military service. The first of these objections is an objection not to the possibility of abolishing mass-unemployment, but to the assumed cost. As is shown in a later section of the Summary in dealing with the finance of a full employment policy, this objection is without substance. The second objection is also without substance, because the distinction suggested by it, between men and women in military service as doing useless things and those in industrial employment as doing useful things, is invalid. Those who use arms are neither more nor less productively employed than those who make arms; both users and makers are engaged in meeting needs of the highest order of priority. This becomes obvious, if the question is asked: what would happen should the nature of the war make it desirable and possible to have, say, a million fewer men and women in the Armed Forces of Britain? There can be no doubt that the whole of that million would be absorbed in employment outside the Armed Forces, in increasing the supply of arms and in meeting other needs. The demand for man-power in total war is unsatiated, and insatiable.

War affords, in fact, the decisive argument against the popular view that the number of jobs to be done in the world is limited, so that each man can get a job only at the cost of displacing another man. Though the men and women of the Forces often describe their Service pay as the alternative to the unemployment "dole," their numbers are far greater than the numbers taken off the dole. War is a practical demonstration that the number of jobs is not fixed, but can be expanded whenever the Government has sufficient desire to do so.

The only assumption which gives any plausibility to the objection examined here is the assumption that human needs in peace have a definite limit. This is not so. The needs are there, but they are not clothed with purchasing power to make them into effective demand. It is obvious that the purely material needs of humanity are very far from being satisfied in any country of the world. This is shown for the United States by the studies of *America's Capacity to Consume*, and of *America's Capacity to Produce*, published by the Brookings

Institution in 1934. "The unfulfilled consumptive desires of the American people are large enough to absorb a productive output many times that achieved in the peak year 1929. . . . The trouble is clearly not lack of desire, but lack of purchasing power." This conclusion rests on statistical evidence of how, at each successive higher income level, the expenditures of families and individuals increase for food, shelter and clothing as well as for the comforts and conveniences of life. "The United States has not reached a stage in which it is possible to produce more than the American people would like to consume." If this can be said of the United States, it can be said with even more emphasis about the rest of the world. If and when technical progress and economic organisation make it possible to satisfy all the material needs of men, the needs of peace will still remain without limit, for the needs of rational men include leisure.

Though in Britain and the United States unemployment has been abolished only in war, a similar result has been obtained elsewhere in conditions short of actual war; in Nazi Germany in preparing war, and in Soviet Russia, in carrying through an industrial revolution which included being ready for war. In each case, the objective involved some distortion of ordinary human desires. The rulers of Nazi Germany preferred guns to butter and used any necessary compulsion to force this unnatural preference on their subjects. The leaders of Soviet Russia, aiming at rapid industrialisation of an agricultural country combined with collectivisation of agriculture itself, used whatever powers were necessary to secure these objectives, against the natural opposition of individuals. In each of these cases, therefore, more direct compulsion was required than would be necessary or would be accepted easily for full employment by the British or American democracies at peace, though less than is accepted without question by all peoples in total war.

Spectacular Achievements of War Economy

The achievements of the planned war economy are spectacular. The output of Britain in terms of 1938 prices rose from £4,360 millions in 1938 to £5,700 in 1942, that is to say by 31 per cent., or nearly a third. The output of the United States in terms of 1939 prices rose from \$88.6 billions in 1939 to \$133.2 billions in 1942, that is to say by 50 per cent. While these calculations for the two countries are not absolutely on the same basis, it is natural that the rate of increase should be greater in the United States.

The United States has had the advantage of not being under direct attack or the threat of it, and of escaping bomb damage, the blackout and the need to disperse factories for reasons of security. It has had the advantage, from the point of view of war, of starting with more unemployment—nearly 10,000,000, or 18 per cent. of the labour

force in 1938, nearly 9,000,000, or 16½ per cent. in 1939, as compared with Britain's 1¼ millions, or 12½ per cent. in 1938. With these and other advantages, the United States in 1942 has been able to obtain both guns and butter, an immense output of arms and Armed Forces combined with an increase of something like 13 per cent. in civilian consumption. The differences between the United States and Britain in war are interesting. They are less important than the similarity, in dramatic change from peace to war in both countries. Under the unplanned market economy of peace a substantial part of the productive resources of each country more often than not stood idle; in the last decade before the war the average loss of potential output through this cause was an eighth or more. Under the planned economy of war, output has leapt forward by 30 to 50 per cent. in three or four years.

The achievement of war is not merely a matter of material production. War brings about also a psychological revolution—a change of popular attitude to the problem of unemployment. This result of full employment in war is put simply and cogently by Mrs. Wootton. "No more black looks at the married woman, the old-age pensioner or the refugee because they are 'flooding the labour market' and so 'taking the bread out of people's mouths.' No more defence of luxury and waste and antiquated methods because they make work. The woman no longer steals the man's job; she releases him for the war effort. All the old phobias based on the theory that one man's work is another man's unemployment are buried."* But, as Mrs. Wootton points out, the phobias are not dead. The change of popular opinion is for war not for peace. The economic problem is that of doing deliberately in peace that which we are forced to do in war—of creating a community in which men have value. The psychological and political problem is that of persuading the people that this can be done. They need no persuading that it ought to be done.

It is not necessary or desirable to attempt in peace to drive the economic machine at the pace of war. The target set in war is made deliberately too high; to stave off defeat, all that is possible must be done and more than is possible must be attempted. Hours of work are lengthened; leisure destroyed; education curtailed; the pace of work accelerated. Peace should bring back leisure and the power of using leisure. It should not bring back the misery and waste of mass-unemployment. The target set for peace should be lower than that for war, related to our capacities and not to our dangers. The target set for peace will also be different in character, in accord with the natural healthy desires of mankind, not a distortion of them to serve blind ambition and lunatic hate or to defend us against these evils. Because of this difference and many other differences between war

* *Full Employment*, by Barbara Wootton (Fabian Publications, Research Series, No. 74). p. 3.

and peace, there is no need, as in a free country there will be no willingness, to carry on into peace the interferences with personal liberty which are accepted in war. Conscription, direction to work, rationing, and prohibition of strikes and lock-outs spring from the special character of the war objective and the conditions under which it is pursued. They are required in war because it is necessary in war to make human beings do and suffer inhuman things; because factories must be placed not with regard to the available labour but with a view to safety; because the pace is set by the enemy, not by our man-power. None of these interferences with personal liberty have anything to do with full employment; they can and should be rejected in peace.

But the main lessons of the planned economy of war are relevant to peace. War confirms decisively two theses of the economists—that employment depends on outlay, and that outlay by the State which controls money is a different affair from outlay by private citizens who are controlled by money.

4

REMEDY BY PLANNED ECONOMY IN PEACE

Unemployment arises in peace in three ways: through chronic or recurrent deficiency of total demand for the products of industry; through misdirection of demand; through failure to organise the labour market, involving both insufficient and excessive movement of men in search of employment. The attack on unemployment must be an attack from three sides, aiming at the maintenance of adequate demand at all times, at the right direction of demand, and at the organisation of the labour market. The first of these three is the main attack; if it does not succeed, if we cannot achieve and maintain adequate total demand for the products of industry, mass unemployment returns with certainty. The attacks on the two other lines are subsidiary but independent, mopping-up operations to make victory complete. In this Summary they are dealt with first, to clear the ground for the main topic of adequate outlay.

Two Minor Measures

The misdirection of demand which can be most serious as a factor in causing unemployment is local misdirection; the stream of labour flows more readily and with less breaking of the social structure from one occupation to another than from one place to another; the second condition of success in the attack on unemployment accordingly is control over the location of industry. This control is required in the main for reasons other than prevention of unemployment: to deal

with the Giant Squalor—that is to say, with the evils of congestion, overcrowding, ill-health, bad housing, and destruction of urban and rural amenities alike, which are described in the Report of the Royal Commission on the Distribution of the Industrial Population, generally known as the Barlow Commission. But need to prevent local misdirection of demand for labour, and the unemployment that may result from it, is an additional reason for this control. It is better, and less of an interference with individual lives, to control business men in the location of their enterprises than to leave them uncontrolled and to require workpeople to move their homes for the sake of employment. Control by the State of location of industry is the alternative both to the compulsory direction of labour and to the making of distressed areas.

So long as demand for labour as a whole is insufficient, immobility of labour, in the sense of failure to change occupations or places of residence in response to demand, cannot be regarded as a substantial cause of unemployment. In Britain, between the wars, with hardly any unsatisfied demand anywhere at any time, willingness to move or not to move determined upon which individuals unemployment should fall and not how much unemployment there should be. But in happier circumstances of demand, the mobility or immobility of the supply may become a factor of real importance. No individual, if his family circumstances permit, should think it an intolerable grievance to move for work from one part of Britain to another. Movement should be facilitated and guided, and the intervals between jobs should be made shorter by substituting the general use of employment exchanges for personal tramping in search of work—that is to say, for the hawking of labour. The national employment exchanges established in 1909 have rendered essential service, in peace as in war, but their use by employers falls far short of what is needed to reduce unemployment to a minimum. After the war return to the old casual ways of engaging labour in such industries as dock and wharf service, which lead to the accumulation of under-employed reserves of labour, should be made impossible. In respect of young persons up to 18, the use of exchanges should be made compulsory. Under the new educational system such persons will still be subject to the care of the community, citizens in process of formation not yet fully formed. But it is idle to train them in schools and allow them to be misplaced and misguided in work; they should not be tempted into “blind-alley” occupations or declining industries.

The Main Measure: Adequate Outlay

In the war against unemployment, controlled location of industry and organised mobility of labour are minor measures. The main measure is the ensuring of adequate total outlay at all times. The

first condition of full employment is that total outlay should always be high enough to set up a demand for products of industry which cannot be satisfied without using the whole man-power of the country; only so can the number of vacant jobs be always as high as or higher than the number of men looking for jobs. "Outlay" means "spending," but is used here in preference to "spending" for two reasons: first, that the person who lays out money on getting a house built is apt to look on it, not as "spending," but as saving by way of investment; second, that "outlay" suggests design, as distinct from mere getting rid of money.

Who is to secure that the first condition, of adequate total outlay at all times, is satisfied? The answer is that this must be made a responsibility of the State. No one else has the requisite powers; the condition will not get satisfied automatically. It must be a function of the State in future to ensure adequate total outlay and by consequence to protect its citizens against mass-unemployment, as definitely as it is now the function of the State to defend the citizens against attack from abroad and against robbery and violence at home. Acceptance of this new responsibility of the State, to be carried out by whatever Government may be in power, marks the line which we must cross, in order to pass from the old Britain of mass-unemployment and jealousy and fear to the new Britain of opportunity and service for all.

Acceptance of this responsibility by the State does not mean that all outlay is made by the State or controlled by it. In a free society the greater part of the total outlay on which employment depends will be the spending of their personal incomes by private citizens. In a society which preserves a large measure of private enterprise in industry, a substantial part of the total outlay will take the form of private business investment. Acceptance by the State of responsibility for adequacy of total outlay does not settle what steps shall be taken to fulfil that responsibility. For full employment the total outlay must be equal to the output capacity of the nation, but the total can be built up in many different ways out of the different kinds of outlay. The State may seek to increase total outlay by encouraging private consumption or private investment, by undertaking additional public spending out of revenue or from loans, by developing exports, or by a combination of any or all of these methods. There are several alternative routes to full employment. The best route depends on the circumstances of the time and country in question. It depends on what most needs doing.

Some people suggest that the simplest and best way of stepping-up outlay would be to redistribute incomes much more equally, to put more purchasing power into the hands of the poorer consumers, or to leave it there by taking off indirect taxes, so as to expand private consumption. Undoubtedly the unequal distribution of incomes in the

past has been one of the forces weakening demand for the products of industry. Some redistribution of incomes, so as to expand private consumption, should form part of a full employment policy. But, for a number of reasons, it should not be the whole or the main part of the policy for Britain in the near future. The increased outlay of private consumers might be directed without regard to the available labour, so that it did not cure unemployment; it might be directed abroad, so as to increase the difficulty of balancing our exports and imports; it would not enable consumers to get many vitally needed things, such as healthy homes, hospitals, schools, which can be obtained only by collective action; it would do little or nothing directly to stabilise investment—that is to say, the kind of outlay whose fluctuations have caused so much trouble in the past.

A Long-term Programme

The policy proposed here is more positive and direct than that of simply increasing purchasing power in the hands of consumers. It is the setting up and execution of a long-term programme of planned outlay, directed by social priorities and designed to secure both expansion and stability in the economic system. So long as there are things about which practically everyone would agree that they ought to be done, it is better to decide and to plan to do them rather than leave the doing of them to chance. There are a number of such things to-day—objectives which, when stated, command general assent. First, we should set out to destroy the giant evils of Want, Disease, Ignorance and Squalor, which are a scandal and a danger. Second, we should rejuvenate and expand the mechanical equipment of our industry, whether in private or in public hands, so as to make possible a rapid and continuous raising of the standard of living. Third, we have to balance our payments abroad, because we cannot go on indefinitely importing more than in one form or another we export. These are the things, or some of the things, which we ought to make certain of doing after this war, the objectives on which, first and foremost, we should use our energies and our money when we cease to use nearly all of them in making war. These are the three heads of our reconstruction task: destroying the giants, improving our capital equipment, balancing our payments abroad. What must we do in practice to attain these objectives?

Destroying the Giants

Attack on Want means doing not less than is proposed in my Report on Social Insurance and Allied Services to guarantee to everyone, on condition of working and contributing while he can work, an income sufficient for his subsistence and that of his family when for

any reason, of sickness, accident, old age, or unemployment he cannot work; with social insurance against interruption of earnings there is needed a system of children's allowances, paid both when the parent is earning and when he is not earning, to ensure that, however large the family, no child need ever go hungry or cold. By destroying Want we shall also strike a blow at unemployment. Social security means a redistribution of incomes, as between times of earning and not earning, and as between richer and poorer. It means more spending and steadier spending.

Attack on Disease requires both cure and prevention. For cure there is needed a National Health Service, ensuring adequate treatment of all kinds for everybody without a charge on treatment, as proposed in my Report on Social Insurance and in the Government White Paper. But removal of economic barriers between the patient and treatment is only a minor step, even for cure of disease. The real task lies in the organisation of the health service; the building and equipping of many more and better hospitals and clinics, the recruiting and training of doctors, dentists and all their assistants. And before cure of disease comes prevention. This goes far beyond the development of what is ordinarily known as public health service, important as that is. It means taking steps to make good housing, good food and other necessary conditions of health available for all. Good housing is part of the attack on the next giant, Squalor. In regard to food, war experience has shown the advantage of a nutrition policy based on science. There are many converging reasons—of desire to improve the feeding of our people, of desire to make a prosperous agriculture in Britain, of desire to stabilise imports, of desire to stabilise the cost of living—for continuing after the war, not the rationing and restrictive side of the Ministry of Food, but the bulk purchasing of supplies and their distribution at controlled prices. This involves what may be called "joint outlay," the State buying as a wholesaler, with a view to reselling later to consumers, at a price which, if necessary, may be lowered by a subsidy. The same method can be applied to coal and to other necessaries. It is the way of combining steady employment of producers with the interests and freedom of consumers.

Squalor means the bad conditions of life for a large part of our people which have followed through the unplanned disorderly growth of cities, through our spoiling more and more country by building towns without building good towns, through our continuing to build inadequate, ill-equipped homes that multiply needlessly the housewife's toil. The greatest opportunity open in this country for raising the general standard of living lies in better housing, for it is in their homes and in the surroundings of their homes that the greatest disparities between different sections of the community persist to-day. **Better housing means not merely better houses, but housing in the**

right environment, in the right relation to places of work and recreation and communal activity. That depends in turn upon the location of industry; population goes where industry calls it. And industry depends, among other things, on transport and power. Housing, Town and Country Planning, Transport and Power all hang together in a complex of related problems which should come under the general supervision of a Minister of National Development. This does not mean that all action on these matters should be taken centrally. Execution of a housing programme must be largely left to local authorities, in so far as it is not left to private enterprise. But local authorities and private enterprise should both work within the framework of a national plan and with the help of national credit in borrowing for approved schemes.

Ignorance is an evil weed, which dictators may cultivate among their dupes, but which no democracy can afford among its citizens. Attack on it involves an immense programme of building schools, training and employing teachers, providing scholarships to fit opportunity to young ability wherever it is found. The first essential steps for that have been taken in the passage of the new Education Act; there remains the task of pressing the attack on Ignorance with vigour and speed on all fronts. Learning should not end with school. Later study should be open to all, and money, teaching and opportunities must be found for that as well. Learning and life must be kept together throughout life; democracies will not be well governed till that is done.

Improving Our Capital Equipment

Successful attack on the giant evils of Want, Disease, Squalor and Ignorance will improve the efficiency of the working population, and raise output and the standard of living. These last objectives should be pursued also along another line, by improving the capital equipment of industry. Britain led the world in industrialisation, but for that very reason her capital equipment—mines, factories and machinery—is now in some ways behind that of other countries and in need of rejuvenation. As compared with the United States, she uses much less machinery and has a materially lower manufacturing output per head; in this lies the main explanation of the higher standard of life of the industrial population of the United States. To raise continuously the standard of living, we need now a great expansion of investment, that is to say of expenditure on means of production. But this expansion of investment should take place steadily, not by fits and starts and with fluctuations, such as have marked private investment in the past. To ensure that, we must secure that investment, whether in private industry or in public industry, is looked at and planned as a whole and expanded steadily. There

is needed for this purpose, as an essential new organ, a National Investment Board, with powers of encouraging investment, whether public or private, by making money available at low rates of interest and with powers of checking investment, if it tends to get out of hand or become lop-sided. The critical problem here is as to how far it will be possible to steady the process of investment in industry while leaving industry in private hands. It is reasonable to leave the answer to that question to be settled by experience.

Balancing our Payments Abroad

There has been named above, as the third of our reconstruction tasks, the balancing of our payments abroad. This means, as compared with the last years before this war, either materially increasing our exports or reducing our imports and replacing them by home production. This is part of the larger problem of international trade discussed in Chapter 6. Here it is sufficient to make three points. First, the most effective way of increasing our exports is to increase our efficiency in production, by improving on the one hand the health and training of our people, and on the other hand the mechanical equipment of industry. Second, for a variety of reasons, we probably cannot leave either imports or exports to the unregulated working of the market economy. Third, the need for balancing our payments abroad is an additional reason for planning outlay, rather than simply stepping it up by getting more money into the hands of consumers.

A New Type of Budget

A long-term programme of planned outlay does not mean an invariable or rigid programme. It means a programme adjusted annually in detail by the Budget, in the light of experience and to fit changing circumstances. The instrument by which the State has influenced outlay in the past has been the annual Budget presented, usually about April of each year, by the Chancellor of the Exchequer. This Budget has determined directly the scale of public outlay undertaken by the Central Government; it has to a large extent determined indirectly the outlay of local authorities; by the taxation proposed it has influenced both the extent and the direction of outlay by private citizens. It is through the same instrument of public outlay and of taxation that the State in future must pursue its new objective of adequate total outlay. Adoption of a national policy of full employment means a revolution in national finance—a new type of Budget introduced by a Minister who, whether or not he continues to be called Chancellor of the Exchequer, is a Minister of National Finance.

What is the essence of the new budgetary policy required for full employment? It is, first, that the Budget becomes in the fullest sense

a National Budget, designed to influence and guide the economic activities of the whole nation, and not simply to raise taxes and spend them on the purposes of the Central Government. It is, second, that the Budget is made with reference to available man-power, not to money; that it becomes, in Mr. Bevin's phrase, a "human budget." Man-power is a datum; it cannot be altered by State action; to take anything else as a datum and to try to fit use of man-power to it is to risk mass-unemployment or mass-fatigue. It follows that the Minister of National Finance has to take each year one cardinal decision: after estimating how much, assuming full employment and under the taxation which he proposes, private citizens may be expected to lay out that year on consumption and private investment, he must propose for that year public outlay sufficient, with this estimated private outlay, to employ the whole man-power of the country, that is to say sufficient to make the assumption of full employment come true. This cardinal decision involves a break with the two main principles which have governed the Treasury Budgets of the past; first, that State expenditure should be kept down to the minimum necessary to meet inescapable needs; second, that State income and expenditure should balance each year. Each of these principles was a by-product of the assumption of full employment made by the classical theory of economics. So long as it is believed that there are economic forces which automatically ensure adequate effective demand for all the productive resources available, the State cannot prudently set out to use any of these resources for its own purposes without depriving private citizens of their use. But once the possibility of deficient private demand is admitted, the State, if it aims at full employment, must be prepared at need to spend more than it takes away from the citizens by taxation, in order to use the labour and other productive resources which would otherwise be wasted in unemployment.

The New Rules of National Finance

Does rejection of the old principle that the Budget must be balanced at almost all costs mean that in future the Government need not trouble themselves and the citizens by imposing taxes, and can borrow freely for all their expenditure? By no means. The first rule of national finance in future will be that total outlay, public and private, must every year be sufficient to set up a demand for all the labour in the country; if that could not be secured without borrowing largely each year it would be better to borrow for State spending than to have mass-unemployment. But there are substantial reasons for preferring to raise money for public outlay by taxation rather than by borrowing. The main reason is the objection to increasing the numbers and wealth of rentiers, that is to say of people with legal claims against the community entitling them to live

at the cost of the community of the day without working, although they are of an age and capacity to work. This reason is irrespective of the purposes for which the money is borrowed; it is a ground both for keeping taxation as high as it can be kept without stifling desirable enterprise and for making the rate of interest continually lower, till, in the phrase of J. M. Keynes, the "euthanasia of the rentier" is accomplished. A policy of cheap money should be regarded as an integral part of any plan for full employment. A subsidiary reason for taxing rather than borrowing is that borrowing to meet State expenditure, in place of meeting it from current revenue, enables the Government of the day to avoid the unpopular task of taxing and the loss of votes from this unpopularity. In other words, it increases the opportunities of general political bribery.

The question of how money required for public outlay should be raised is far less important than the questions of the amount which should be spent (which must always be enough to prevent mass-unemployment) and of the purposes on which it should be spent (which should be determined by social priorities). The question of taxation versus borrowing is ultimately one to be decided, not on general principle, but according to the circumstances of the time. It must be decided in the light of statistical estimates of national income and of necessary expenditure in carrying out the long-term programme. In Appendix C to my full Report, a number of calculations on this subject are presented, the best that it now seems possible to make, as for the year 1948. The general result is that, given full employment, it would be possible in that year to meet all the necessary current expenditure of the State, including interest on the war debt, the higher cost of defence, the Social Security Plan of my earlier Report (including the National Health Service) and the new Education proposals by taxation at rates little above those ruling in 1938; this would leave nothing to be met by borrowing but capital expenditures on houses, transport, hospitals and other public works which everyone would regard as fit subjects for borrowing. It would be possible also in that year to produce enough to balance our payments abroad, to consume nearly 20 per cent. more than in 1938 and at the same time to invest nearly 25 per cent. more. This is what planning for full employment could do for us.

The details of finance are complicated. The main principles which should govern national finance in future are few and simple. The first rule is that outlay in total, private and public, must always be enough for full employment. The second rule is that outlay, both private and public, should be directed by social priorities, putting first things first, the prevention of Want, Disease, Squalor and Ignorance before unessentials—bread and health for all before cake and circuses for anyone. The third rule is that in general it is better to tax than to borrow. But it is absurd to be unduly afraid of borrow-

ing by the State. To submit to unemployment or slums or want, to let children go hungry or the sick and old untended, for fear of increasing the internal national debt is to lose all sense of proportion.

Social Demand

The policy of full employment proposed here is a policy of socialising demand rather than production. It attacks directly the central weakness of the unplanned market economy of the past—failure to generate steady effective demand for its own products. It makes possible the retention of competition in meeting social demand. It makes possible the retention of private enterprise to discover and develop the best technical methods of production, so long as private enterprise appears to be the most efficient agency for that purpose. At the same time it does not block the way to socialisation of production in general or in any particular industry. It is a policy of doing what must be done under any economic system which aims at full employment, namely the adjustment of total outlay to the datum of man-power. That has to be done, and it can be done, whether production itself is socialised or not. It could be done in a United States which remained capitalist or in a Soviet Russia which was wholly collectivised or in a Britain which took a middle course. Nationalisation of the means of production in every industry would not be an alternative to the policy of ensuring outlay for full employment; it would only change the conditions under which that policy had to be pursued. Nationalisation of particular industries may be useful as part of this policy to help in stabilising investment, but is even less of an alternative to it; the adjustment of total outlay to total manpower is meaningless, except as a global policy covering the whole of industry.

The policy proposed here, while suggested by economic analysis, is direct and practical and in accord with the lessons of experience. It is direct and practical, because giving employment to building operatives, coal miners, agriculturists, or any other class of persons depends on directing outlay to their products; ensuring employment up to any given amount depends on guaranteeing a market and price. It is in accord with the lesson of repeated experience of war that full employment is achieved, not by socialisation of production, which even in war is still left largely in private hands, but by socialisation of effective demand, determined by a scale of priorities. That, with a different scale of priorities, to suit peace rather than war, with no limitless demand for war material requiring rationing and restrictions elsewhere, with a restoration of all essential citizen liberties, including free spending of personal incomes, is the essence of what is proposed here.

THE WHITE PAPER PALLIATIVE

The necessity for preventing a return of mass-unemployment after this war is recognised by everybody. This recognition has led to the recent publication by the Government of a White Paper on Employment Policy* which, as an official document, is epoch-marking in several ways.

First, the White Paper, with its comprehensive though brief survey of employment problems in the transition from war to peace and thereafter, is the practical proof that the central machinery of Government in Britain at last includes an organ capable of expert study of general economic problems, as the basis of orderly foreseeing treatment of them. That is to say, the machinery of Government includes what a Committee of Economists appointed to consider reconstruction problems in 1917 propounded as their first and most emphatic recommendation—an Economic General Staff. Now, after a quarter of a century and the outbreak of a second World War, it has been accepted in substance.

Second, the White Paper contains an excellent brief statement of modern economic doctrine as to the dependence of employment on spending, with an analysis of the various types of spending which may give employment. It thus refutes incidentally the economic fallacy whose pious acceptance by the British Treasury in the past has stood firmly in the way of action by the State to maintain employment. As Mr. Winston Churchill, in his capacity of Chancellor of the Exchequer, told the House of Commons in his Budget speech of 1929, "it is the orthodox Treasury dogma steadfastly held that, whatever might be the political and social advantages, very little additional employment and no permanent additional employment can, in fact, and as a general rule, be created by State borrowing and State expenditure." This dogma, with its irrational distinction between public and private spending, was attacked at the time by a formidable variety of economic authorities, including J. M. Keynes, Mr. H. D. (now Professor Sir Hubert) Henderson, Professor Pigou and Professor Clay. By the renewed experience of full employment it has been consumed completely in the fires of war, and the White Paper may be regarded as a ceremonial scattering of its ashes.

Third, the White Paper announces that the Government accept "as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war." This means having "a policy of maintaining total expenditure." This is the

* Cmd. 6527. A more detailed criticism of this White Paper—including the sections on location of industry and international trade—is given in a Postscript to my full Report.

critical decision which must be taken to prevent mass unemployment.

The White Paper on Employment Policy is a milestone in economic and political history. It remains to examine the practical measures proposed in the White Paper for maintaining employment and to consider whether they are likely to succeed.

Private Investment and Public Works

The principal measure is that of expanding and contracting public investment, on plans prepared beforehand, to offset contraction and expansion of private investment. The White Paper assumes the continuance of fluctuations of economic activity, and by consequence of periods "of depression" (§ 60) or "of sub-normal trade" (§ 74) or of "trade recession," which, it argues, "provide an opportunity to improve the permanent equipment of society by the provision of better housing, public buildings, means of communication, power and water supplies" (§ 66). This attitude follows on the recognition of what is described in § 47 as one of two "highly inconvenient facts," which form "the most serious obstacles to maintenance of total expenditure," namely that "those elements in total expenditure which are likely to fluctuate most—private investment and the foreign balance—happen also to be the elements which are most difficult to control."

The first comment to make on this is that the two elements, of the foreign balance and private investment, are not on the same footing. The foreign balance, or rather one factor in the foreign balance, namely the demand from other countries for British goods and services, is beyond the control of the British Government, though by no means beyond its influence. But investment at home is beyond the control of the British Government only so long as the British Government choose not to control it. Treating the foreign balance and private investment on the same footing is equivalent to treating British industry as if it were a sovereign independent State, to be persuaded, influenced, appealed to and bargained with by the British State.

That in fact is how industry is treated in the White Paper. The Government in § 82 "appeal with confidence to industry" to provide the statistical information essential to an employment policy; obviously the Government, in place of appealing, can and should require this information. The section on stabilisation of private investment contains nothing effective. "The possibility of influencing capital expenditure by the variation of interest rates will be kept in view" (§ 59). This is the possibility explored with negative results throughout the nineteenth century; how it is to be reconciled with the altogether more desirable policy of cheap money is not explained. It is recognised, however, in the next paragraph that "monetary

policy alone will not be sufficient to defeat the inherent instability of capital expenditure" (§ 60); and accordingly "the Government propose to supplement monetary policy by encouraging privately owned enterprises to plan their own capital expenditure in conformity with a general stabilisation policy" (§ 61). The only form of encouragement to which the White Paper is rash enough to commit itself is the giving of good advice. It points out that "to a strong and well-established business, confident of its long-run earning powers, there are obvious attractions in executing plans for expansion or for the replacement of obsolete plant at times when costs are low." This is open to two criticisms; first, experience of a hundred years of the trade cycle shows that lowness of costs in a depression does not encourage investment, so long as expectation of profits is as low or lower; second, the assumption that costs, which must mean wages and prices, will fluctuate, conflicts with the emphasis laid elsewhere (§§ 49-54) on stability of wages and prices. Apart from giving good but far from new advice and re-exploring an avenue which has already been found to be a *cul-de-sac*, the White Paper, in regard to private investment, does nothing but hold out hope of still more explorations.

Variation of Social Insurance Contributions

Apart from public works the only practical measure proposed, though even this is offered with some reservations, is that social insurance contributions should be varied, being raised in periods of good trade and lowered in times of bad trade, with a view to making consumption more stable. This interesting and novel proposal was brought to my notice during the preparation of my Report on Social Insurance and Allied Services, and is mentioned there (§ 442) as deserving consideration in framing employment policy. It does not appear in my Report on Full Employment in a Free Society, which proceeds on the basis of planning for continuous steady expansion rather than on the basis of mitigating fluctuations.

The practical difficulties of the proposal are considerable. The advantages that could be gained by it are not very great; this device would, at highest, mitigate the secondary rather than the primary effects of fluctuation. The addition to personal consumption that might, after an interval, result from it, in face of an increase of unemployment from 8 to 12 per cent., is put at £70-80 millions. This is named as a minimum but appears in fact to be an optimistic maximum; it would be attained only when unemployment was as high as 12 per cent., representing unused resources, at 1938 prices, of £500 millions a year. If further serious consideration is given to the proposal by the Government, two suggestions may be made. First, the case for varying the employer's contribution is by no means the

same as that for varying the contribution of the employee. If in a slump the employer finds the cost of his insurance reduced he may not spend any more, but may simply add to his reserves. If social insurance contributions are varied at all, as a means of stabilising expenditure, variation should be confined to the employee's contribution. Second, if the proposal is good for social insurance contributions, it is even better for general taxation, and under the pay-as-you-earn system could be applied to income tax; the social insurance fund is simply one of the Government banking accounts.

Financial Inhibitions

The limitation of this proposal to variation of social insurance contributions is an illustration of one of the principal weaknesses of the White Paper—its lingering financial inhibitions. The section on Central Finance, as has been stated by the Chancellor of the Exchequer, was written by the Treasury, not by the economists, and bears all the marks of its origin. It starts with a sentence to reassure the old school of orthodox finance: "None of the main proposals contained in this Paper involves deliberate planning for a deficit in the National Budget in years of sub-normal trade activity." It proceeds through a series of ambiguities and confusions of thought which were laid bare with devastating brilliance in an article on "Balanced Budgets?" in the *Economist* of June 17th, 1944. "The authors of the White Paper," as Professor Hicks has pointed out, "are evidently well aware that unemployment cannot be tackled without public borrowing, but they are prepared to resort to any subterfuge in order to ensure that the debt does not fall directly on the shoulders of the Central Government."¹ Thus they are prepared to contemplate lowering social insurance contributions and increasing the debt of the social insurance fund in time of depression; but they do not favour the lowering of ordinary taxes. They are prepared to encourage additional borrowing by the local authorities but not by the State. This is the old Treasury attitude, with self-deception added. There are reasons for meeting outlay of all kinds so far as possible from current revenue rather than by borrowing; the policy of doing so is named by me below as the third rule of national finance. But the main reason for this policy—objection to creating and enriching rentiers—applies to borrowing of every kind, by the social insurance fund, by local authorities and by private business as much as the borrowing by the Central Government. And the rule itself is of minor importance, not able to stand for a moment against major rules. The whole section on central finance is based on a wrong sense of values which comes to the surface in paragraph 79. "Both at home and abroad the handling of our

¹ *Manchester Guardian*, 5th June, 1944.

monetary problems is regarded as a test of the general firmness of the policy of the Government." Again, "in controlling the situation . . . the Government will have *equally* in mind the need to maintain the national income and the need for a policy of budgetary equilibrium such as will maintain the confidence in the future which is necessary for a healthy and enterprising industry." I have italicised the words to which objection must be taken. The policy of the Government in future will be judged by its handling of economic, i.e. real, problems, not "monetary" problems. Maintenance of the national income and maintenance of budgetary equilibrium are not "equally" important. The former of them is fundamental—the first rule of national finance. The latter is sub-ordinate, a local bye-law as compared with an Act of Parliament.

A Public Works Policy

The substantive policy of the White Paper is one of public works, de-stabilised to fit the instability of private investment. There is nothing to stabilise private investment; there is no increase of the sphere of public outlay; there is nothing to cause the steady expansion of demand on which full employment depends. The Employment Policy of the Government is not a policy of full employment. It amounts to little more than always having ready a five-year plan of public works of the established kind to be put in hand by the existing authorities, not when those works are most needed, but when private enterprise is slack. To a policy of this kind there are two fatal objections: that it is not practical and that it is not radical—does not go to the root of the matter.

Not Practical

The policy of the White Paper is unpractical for two reasons. First, the kinds of public work that can be advanced or retarded at will to suit the vagaries of private investment are few and unimportant. The demand for houses, transport, schools, hospitals, water, light and power, is intimately linked with the economic activity of the nation. It is not practical to build factories one year and postpone to some later year, when there may be a slump in private investment, the provision of houses for the workers or transport to get them to work, or schools, hospitals and other communal services for them and their families. Second, labour cannot be moved into and out of public work in great masses at every turn of the trade cycle. If business men are going to be allowed to go on ordering 1,000,000 tons of shipping one year and 500,000 tons next year, the case of the shipbuilders and all those who depend on them—steel-workers, coal miners and the rest—will not be met by offering them jobs on roads or power stations or

coast erosion, perhaps far from their homes, and whistling them back when business men want more ships again. This objection does not mean that no one should be expected to change his job or place of work. When technical progress makes a particular job in a particular place unnecessary, the man who is doing it ought to be ready and should be helped to find and train for another permanent job. But that is quite different from expecting masses of men to move into and out of public work, as private work goes through its meaningless fluctuations.

Nor does this criticism mean that public expenditure cannot to any degree be advanced or retarded according to the resources available. In relation to international trade, it will be necessary to frame plans for expansion and contraction of expenditure at home to compensate for such fluctuations of overseas demand as cannot be prevented. This is necessary, because overseas demand cannot be brought wholly under British control. But compensation for decline of demand in one direction by expansion of demand elsewhere is possible only within narrow limits dictated by practical considerations. The fact that some flexibility of public spending may be needed to compensate for variations of overseas demand is an additional reason for not throwing on public authorities the responsibility for compensating also for fluctuations of private investment at home. The Government in § 66 of the White Paper desire to see "public opinion . . . brought to the view that periods of trade recession provide an opportunity to improve the permanent equipment of society by the provision of better housing, public buildings, means of communication, power and water supplies, etc." The Government after this war will, I hope, find a public opinion of a different kind, which demands better houses and transport and light and power and schools and hospitals, without waiting for the opportunity when business men cannot make profits by selling less important things. Public outlay should be looked on as a means of meeting collectively urgent national needs, not as a gap-filling device.

Not Radical

The policy of the White Paper is not radical; it fails in three ways at least to go to the root of the problem. First, it is in effect concerned only with fluctuation of demand for labour. It does not face up to the fundamental weakness of the unplanned market economy of the past—chronic weakness of demand, with full employment as rare as total wars. If the process of investment, in place of proceeding by booms and slumps, could be stabilised completely at the average of the past, it would yield a state of permanent semi-slump. Second, the White Paper leaves investment in private hands to run its erratic course, in place of planning investment as a whole; that is because it is still too conservative of private enterprise. Third, the White Paper

has not broken sufficiently with the economic fallacies of the old Treasury attitude. Stable full employment cannot be achieved without an immensely increased stable demand for the products of industry, and that can be got only in one of two ways: by a revolutionary redistribution of income, increasing the demand of private consumers, or through social demand made by the State and financed by continuous borrowing. But each of these things falls outside the social philosophy of the Government of to-day.

The two objections to the Employment Policy of the Government—that it is not practical and that it is not radical—in the last resort are the same objection. The policy is not practical because it is not radical, because its political and financial inhibitions exclude effective remedies and limit it to palliatives. The Government in the White Paper treat private ownership of the means of production as fundamental; my Report treats it as a device to be judged by its results. The Government in the White Paper are conscious of the need for giving confidence to business men by monetary stability and budgetary equilibrium. They appear to be unconscious of the still greater need of giving confidence to the men and women of the country, that there will be continuing demand for their services, so as to secure their co-operation, individually and collectively, in reasonable bargaining about wages, in working for the maximum of production without fear of unemployment, in relaxing restrictions, formal and informal, on the full use of resources. This confidence will not be given by a promise to undertake public works whenever unemployment threatens to become serious. It will be given only when the steady expansion of demand for investment, as for consumption, has been ensured, and when it is proved by experience that, though technical progress may sometimes involve a change of jobs, there are always more vacant jobs than idle men in the planned economic war against social evils and for rising standards at home, as there are more vacant jobs than idle men in the military war against barbarism and tyranny abroad.

This is the root of the matter. The Government in the White Paper are fighting unemployment. They ought to be planning for productive employment. But one cannot do that unless there is something that one desires passionately to see accomplished. Employment is wanted not for its own sake, but as a means to an objective. Experience in peace has shown that the desire of men who are already above want to increase their profits by investment is not a strong enough motive or sufficiently persistent in its action to produce a demand for labour which is strong enough and steady enough. Experience of war has shown by contrast that it is possible to have a human society in which every man has value and the opportunity of service, when the motive power and direction of economic activity are given not by private interest, but by collective determined pursuit of a common good.

The Government have not faced the implications of this experience either of peace or of war. Within the limits set by its social philosophy, the White Paper is a sincere attempt to deal with the disease of unemployment. But its brief diagnosis, admirable up to a point, understates the seriousness of the disease, that is to say the extent of the past failure of the unplanned market economy. And its practical proposals are inadequate, not only through deficient diagnosis, but even more because action is inhibited by a sense of values that is wrong in two respects: of treating private enterprise as sacrosanct—a sovereign power independent of the State, and of treating maintenance of budgetary equilibrium as of equal importance with full employment. It is necessary to declare war on unemployment, as it was necessary to declare war on Germany in September, 1939, and to give, in April, 1939, the guarantee to Poland which showed where Britain stood and made war certain. But, as experience has shown, it is possible to make such declarations without being prepared for war and for all the changes of economic and social habits that are necessary for success in war. The time calls for total war against unemployment and other social evils, not for a war with inhibitions. The Employment Policy of the Government is a palliative, not a remedy, for unemployment.

6

INTERNATIONAL IMPLICATIONS

The vital importance to Britain of her overseas trade requires no emphasis. She is less self-sufficient than any other important country. By reason of this, the problem of full employment in Britain is more complicated than in other countries. These complications are discussed in a lengthy Part VI of the Report and should be studied there. Here they can be stated only in barest outline.

First, the scale of Britain's overseas trade means that a substantial part of the demand on which employment in Britain depends comes from overseas. A full employment policy for Britain must include measures for stabilising this overseas demand, so far as possible, whether it comes from producers of primary commodities such as food and raw materials, or from countries which, like Britain herself, are highly industrialised. To stabilise the demand of primary producers means stabilising the production and marketing of primary products; this points to the need for long-term collective contracts by which Britain, in guaranteeing a market and price to secure stable prosperity to her suppliers, can secure a stable market for her own manufactures. To stabilise directly the demand from other industrial countries is harder. The aim must be pursued in the main in another way—by

seeking to develop trade primarily with countries which are themselves taking effective steps for full employment. Any two countries which trade largely with one another become united in a partnership, sharing prosperity and adversity. This means that in planning its commercial policy, each country should have regard not only to the external but also to the internal economic policies of other countries.

Second, Britain, in order to maintain any tolerable standard of living, must have certain imports of food and raw materials and must export goods and render services to pay for them. She must balance her accounts with the rest of the world, that is to say must supply to other countries in the shape of goods and services at least enough to pay for the necessary imports. In some of the inter-war years, we were not doing this and were in part living on our capital abroad, using up our capital. We cannot do this indefinitely. We must in one form or another export at least enough to pay for our imports. This means, as compared with such a year as 1938, either materially increasing our exports or materially reducing our imports. The first, so far as it is possible, is the better plan, enabling us to gain in a higher standard of living the advantages of international specialisation and exchange. It depends upon finding people willing to buy our exports at the price at which we are able to produce them, and the most effective measure for that purpose is to increase our efficiency, by having healthier and better trained work-people and more and more modern machinery. But if, in spite of our efforts, we are not able greatly to expand our exports, that does not mean that we cannot balance our payments abroad. We can, in the alternative, restrict our imports and meet our needs by increased home production, both of food and of raw materials. The War itself has shown that it is possible for Britain, at need, to be much more self-sufficient in the future than she has been in the past.

Third, the nature of the system under which international trade is carried on is of greater importance to Britain than to almost any other country. International trade means trade between countries using different currencies and raises, therefore, the question of the rate of exchange between those currencies. For this general problem, as for the special problem of balancing our accounts abroad, there is more than one possible solution. We can try bilateral trading; we can try multilateral trading with a selected group of countries; we can try general multilateral trading.

Bilateral and Multilateral Trading

Bilateral trading means that the goods and services supplied as exports by country A to country B must be paid for by exports of equivalent goods and services from country B to country A. The B currency which A acquires by selling its exports to B can be used

only to pay in B for exports from B to A. Under strict bilateralism the accounts of each pair of countries must balance.

Multilateral trading means that all countries make their purchases wherever they find them cheapest and sell their exports wherever they can, and do not attempt to balance the purchases from one country against the sales made to that particular country. Under a multilateral system the currency which country A receives for exports to country B can be exchanged for the currency of a third country C and used by A to buy goods in C.

Bilateralism is akin to barter, with some of the limitations of that primitive system. Multilateral trading is trade with convertible money, a medium of exchange. The currency of each country taking part in a system of multilateral trading is exchangeable for the currency of any other country in the system; there is in effect an international money. From this account it is clear that multilateral trade can be of different kinds. It can be general, extending to all countries, with every currency inter-changeable throughout the world. It can be regional, confined to a selected group of countries which make all their currencies inter-changeable into one another, but do not do this for countries outside the group.

Multilateral trading has obvious advantages. The first aim of British policy should be to restore as completely as possible the world-wide multilateral trading system which ruled before the first World War. This, in fact, is the main object of the monetary plan framed first by British and American experts and now developed into the proposals adopted at the International Conference at Bretton Woods. It is a plan to make international trade as free, as world wide, as non-discriminatory as possible. But whether such a plan is possible does not depend on the technical details of the plan, such as the size of an international monetary fund, the rates of exchange between different currencies or the quotas of international money allotted to each country. It depends on the economic policies of the different countries, rather than on currency arrangements.

Any plan for multilateral trading between any group of countries can be permanent and work smoothly only if each of the countries accepts three conditions: first, of pursuing at home a policy of full employment and avoiding severe fluctuations of employment; second, of taking or assenting to all the measures necessary to balance its accounts with the rest of the world, and avoiding want of balance whether by way of excess or deficiency; third, of displaying reasonable continuity and stability in commercial policy, that is, in regard to tariffs and other methods of regulating foreign trade.

Whether or not a general multilateral system such as is contemplated by the Bretton Woods Conference is possible, depends upon whether all the important countries of the world are in fact able and willing to accept these three conditions of economic policy. If they

are not, or if any important country is not able and willing to accept this, then rather than aim at general multilateral trade, it is better to aim at regional multilateral trade, that is to say trade between groups of countries which are able to accept all three conditions. If no group of countries sufficiently large can be found ready and able to accept these three conditions then the last resort remains open to Britain, as to every other country, of ensuring its essential minimum of imports by bilateral arrangements.

Full Employment First

The problems of international trade are too complicated to be discussed in any detail here. This does not mean that they are insoluble, or that they make full employment impossible. The total demand for labour in Britain can always be made as high as is desired, by the new type of Budget; the real significance of international trade is in raising the standard of living by specialisation and exchange.

Still less do the international complications of Britain's position mean that Britain should delay to adopt a policy of full employment at home until she knows just how all other countries are going to act. On the contrary, the greatest service that Britain can render to other countries, as to herself and to the development of trade between them, is forthwith to adopt a policy of full employment at home, making it clear that, for her, overseas trade is a means of raising the standard of life of all countries by fair exchange, and is not a device for improving employment at home at the expense of creating unemployment abroad. Once this is clear, Britain should co-operate with other countries in bringing about as much international trade as possible on as free a basis as possible, and should be ready to enter into the widest scheme of international clearing and currency, which has good prospects of permanence. But she should not enter into any arrangement for international currency which is doomed from the start, because one or more of the important countries concerned are unable or unwilling to adopt the three conditions named above: of themselves taking steps to avoid mass-unemployment; of balancing their accounts with the rest of the world; of pursuing a stable commercial policy.

In terms of convenience for traffic, world-wide multilateral trade may be likened to an elevator, speedy but capable of going out of action. Regional multilateral trade may be likened to a staircase, less speedy but consistent with reasonable comfort. Bilateralism is the fire-escape, clumsy but certain. We may hope that the world after this war will be equipped with all modern conveniences for bringing men together for their common advantage. We should do our utmost to bring such a world into being. But, in constructing the new edifice, we cannot prudently leave out the fire-escape and the staircase, until we are sure that there will be no fire and that the elevator will always be in action.

CONCLUSION

The necessity of preventing after this war a return to the mass-unemployment between the two wars is formally admitted by all. The possibility of doing so, if we are prepared to will the means as well as the end, is not open to reasonable doubt. Depressions of trade are not like earthquakes or cyclones; they are man-made. In the course of relieving unemployment all industrial countries, but particularly Britain, have acquired much knowledge as to its causes. Though there remain some unsolved problems, the conditions without which mass-unemployment cannot be prevented are known and the main lines for remedial action are clear. Finally, the experience of the two wars has shown that it is possible to have a human society in which every man's effort is wanted and no one need stand idle and unpaid.

The planning of full employment raises many difficult questions of detail. The main thesis of this Summary is simple—that the way to destroy unemployment is not to attack it directly, by making work for the unemployed, but to pursue with determination objectives so important as to make a call on the whole of our energies. That is the way in which unemployment is made to disappear in war. It follows also from simple reasoning: we don't want employment for its own sake, but only as the means to a life richer materially and spiritually.

The Employment Policy of the Government as set out in the White Paper is a policy of compensating for fluctuations of private investment by counter-fluctuation of public work. It does not go to the root of the matter, and because it is not radical it is not practical. The policy set out in my Report and summarised here is a policy of social progress, so comprehensive, so vigorous and so determined that it will use the whole of our energies continuously, and produce a state of affairs in which there are always more vacant jobs than idle men.

The Policy of my Report consists of setting up and carrying out a long-term programme of planned outlay, directed in the first instance against the giant social evils of Want, Disease, Squalor and Ignorance and towards the raising of productivity, by improvements of our capital equipment. The immediate programme includes:—

Abolition of Want by Social Security and Children's Allowances increasing and stabilising consumption.

Collective Outlay to secure good houses, good food, fuel and other necessaries at stable prices for all and a National Health Service without charges on treatment.

Encouragement and Regulation of Private Investment by a National Investment Board, to rejuvenate and expand the mechanical equipment of the country while stabilising the process of doing so.

Extension of the Public Sector of Industry so as to increase the scope of direct stabilisation of investment and to bring monopolies under public control.

A National Budget based on the datum of man-power and designed to ensure year by year total outlay sufficient to set up demand for the whole productive resources of the country.

Control of the Location of Industry with full powers, including transport, on a national plan.

Organised Mobility of Labour to prevent aimless movement, the hawking of labour and misdirection of juveniles, while facilitating movement when it is desirable.

Controlled Marketing of Primary Products, so as to stabilise overseas demand to the utmost.

International Trading Arrangements based on acceptance by all the countries taking part of the three fundamental conditions of multilateral trade: full employment, balancing of international accounts and stability of economic policy.

When the goals set in this immediate programme have been reached or are in sight, new goals will come into sight. The planning of adequate outlay will continue, but outlay may be directed to new aims of steadily rising consumption and of growing leisure, more fairly distributed and used for the free development of all men's faculties.

A Change of Economic Climate

The Policy, as stated, is one of having always more vacant jobs than idle men, of making jobs wait rather than men wait. Merely to mitigate unemployment is not enough. So long as fear of unemployment remains, so long as every man appears the enemy of his fellow in a scramble for jobs, the motive for restriction of output, for jealous demarcations, for resistance to technical advance, will remain. To get rid of these evils, we have to change completely the economic climate of Britain, to make it a land of adventure and opportunity for all, a land in which there are always more things to be done, and an honourable living to be earned by doing them, than there are men and women to do them. We have to set up effective demand constantly outrunning our resources for production. That can be done only by substituting a planned economy for the unplanned market economy of the past.

In a primitive community there is no unemployment, because every man is occupied in meeting directly his urgent primary needs. In an advanced industrial community which has learned the advantages of indirect methods of production, but leaves the operation of the means of production to private owners, unemployment occurs because the desire of these owners, themselves above want, to increase their

wealth does not provide a compelling objective calling on all the energies of the community. Failure to generate strong steady demand for all that it can produce is the central weakness of an unplanned market economy, that is to say an economy which relies on private interest as the driving and guiding force.

The possibility of reproducing in peace the destruction of unemployment which is an invariable incident of total war, depends on replacing private interest by pursuit of a common objective suited to peace, by seeing that the needs of peace, in themselves as illimitable as the needs of war, are clothed with purchasing power to make them into effective demand. The organ for that purpose is the democratically controlled State. The main instrument which the State must use in serving this purpose is its control of money, its power of determining public outlay and influencing private outlay through a new type of National Budget freed from the irrational inhibitions of the past.

The Policy for Full Employment set out in this Summary is in some ways revolutionary. It is in other ways conservative. It preserves absolutely all the essential liberties of the British people. It rejects rationing because rationing restricts the free spending of personal income; it rejects direction of men and women to compulsory tasks; it rejects prohibition of strikes and lock-outs. The policy preserves also other liberties which, if less essential, are deeply rooted in Britain, including collective bargaining to determine wages and private enterprise in a large sector of industry; it preserves these lesser liberties, subject to the degree of responsibility with which they are exercised. The policy preserves possibility of change, the springs of progress and the way to rising standards of life. It is not open to the criticism that it would destroy essential liberties or lead to stagnation. Is it open to any other serious objection? It will be convenient to name some of the possible objections and give brief answers.

Some Objections Answered

There are some who will say that full employment, combined with unemployment insurance, will remove the incentive to effort, which depends on fear of starvation. The answer is that for civilised human beings ambition and desire for service are adequate incentives. It may be that cattle must be driven by fear. Men can and should be led by hope. The policy set out in this Summary is not one of stagnation or forced equality. It does not give security for life in a particular job; it gives only the opportunity of exercising one's gifts and energies in generous rather than in ungenerous rivalry with one's fellows.

There are some who will say that the great development of State activity involved in the policy proposed here will destroy the "little man," that is to say the small, independent business. The answer is that the policy does nothing of the sort, unless risk of bankruptcy

in trade depressions is essential to the existence and happiness of the "little man." The policy is simply one of setting up sufficient demand. It involves, as an implication, control of monopolies to prevent exploitation of the demand and supervision of large concerns in order to plan investment. It does not touch the "little man" at all; he can work to meet the demand like any other. He will find more scope than before, once strong demand has eliminated the slumps in which so many small businesses in the past have come to grief.

There are some who will object to a planned economy on the ground that it involves an extension of the activities of the Government and a consequent increase in the number of civil servants. That substitution of a planned for an unplanned economy does involve action by the Government in fields which in the past have been left wholly to private enterprise is true; the justification for this lies in the failures of the past. In certain industries under a planned economy men may find themselves working directly for the community in place of being the employees of a monster business corporation. In all industries, the managers of large undertakings may find themselves both regulated and assisted in keeping what they do—in investment, in the location of industry, in price policy—in accord with national interest. But there is nothing in all my proposals to involve greater interference in the private lives of the mass of the people. On the contrary, not only will all the wartime restrictions on consumption and choice of work vanish when peace is established, but under conditions of full employment many of the previous interferences with private lives will be ended. There will be no unemployment assistance subject to a means test; the 8,000 officials of the Unemployment Assistance Board in 1938 will become unnecessary for that work. So, too, a substantial proportion of the 25,000 peacetime officials of the Ministry of Labour, that is to say, those engaged in paying or calculating unemployment benefit, will find that occupation gone, though it may be hoped that most of these will render still better service in preventing unemployment by organising the labour market. A full employment policy involves more public control over a limited class of business undertakers, and less interference in the private lives of the mass of the people. It may in the end mean fewer bureaucrats, not more.

There are some who will say that the policy of this Summary subordinates the individual to the State. The answer is that this criticism directly reverses the truth. If the State is regarded as more important than the individual, it may be reasonable to sacrifice the individual in mass-unemployment to the progress and prosperity of his more fortunate fellows, as he is sacrificed in war by the dictators for their power and dominion or that of the race. If, on the other hand, the State is regarded as existing for the individual, a State which in respect of many millions of individuals fails to ensure them an opportunity of service and earning, according to their powers, or the

possibility of a life free from the indignities and inquisitions of relief, is a State which has failed in a primary duty. Acceptance by the State of responsibility for full employment is the final necessary demonstration that the State exists for the citizens—for all the citizens—and not for itself or for a privileged class.

There are some who will say that the policy of this Summary is a mere palliative which will block the way to further reforms like Socialism or Communism. The answer is that the policy does not block the way to these or other reforms, if they are good in themselves. It is a policy directed against one particular evil and includes steps which must be taken under any economic system which preserves essential liberties, in order to deal with that evil.

There are some who will say that the introduction of this or any other policy for Britain must wait for international agreement. Undoubtedly any economic policy for Britain must take account of the world of which Britain is part. It should be inspired by recognition of the community of economic interest between different nations. It must be framed in alternatives to suit the alternative policies that may be adopted by other nations; it must include means of off-setting so far as possible fluctuations of overseas demand. But Britain must have her own policy; will do better for the world and herself by leading, rather than by waiting and following. Britain is in the world and cannot escape from the world or her responsibilities for world order and world prosperity, but she cannot meet those responsibilities unless she puts her own house in order.

The Meaning of Social Conscience

We cure unemployment in war, because war gives us a common objective that is recognised by all, an objective so vital that it must be attained without regard to cost, in life, leisure, privileges or material resources. The cure of unemployment in peace depends on finding a common objective for peace that will be equally compelling on our efforts. We cure unemployment in war through hate of Hitler; we ought to cure it in peace through hate of social evils. We should make these in peace our common enemy, changing the direction and the speed rather than the concentration and strength of our effort when the fighting ends. Whether we can do this depends upon the degree to which social conscience becomes the driving force in our national life. We should regard Want, Disease, Ignorance and Squalor as common enemies of all of us, not as enemies with whom each individual may seek a separate peace, escaping himself to personal prosperity while leaving his fellows in their clutches. That is the meaning of social conscience; that one should refuse to make a separate peace with social evil. Social conscience, when the barbarous tyranny abroad has ended, should drive us to take up different arms in a new war against social evils at home.

The Policy for Full Employment outlined in this Summary is a policy of spending and doing. It is a policy of common action. If we attack with determination, unity and clear aim, the four giant evils of Want, Disease, Ignorance and Squalor, we shall destroy in the process their confederate—the fifth giant of Idleness enforced by mass-unemployment. The policy preserves all the essential British liberties; it uses Britain's political advantages to carry through a task which can be carried through only by the power of the State. These political advantages are great and should be used. The constitution of Britain concentrates in the Government of the day the great power without which the problems of a great society cannot be solved. It makes the use of that power subject to continual scrutiny by the citizens and their representatives, and the power itself subject to re-call; the essence of democracy is effective means of changing the Government without shooting. Finally, Britain has a public service, central and local, second to none in the world for efficiency, integrity and devotion to duty. Through these advantages Britain has a chance of showing, sooner and more easily than any other large nation, that democracy can order peace as well as war better than the dictators do. The British people can win full employment while remaining free.

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Annex:

SOME SPECIAL PROBLEMS

In this Annex some of the social problems needing consideration under a full employment policy are noticed briefly with references to the paragraphs in the Report where they are examined.

Social Security Finance under Full Employment*

In determining the rate of benefit required for subsistence under the Plan for Social Security in my earlier Report, it was assumed that prices after the war would be about 25 per cent. above those of 1938. In calculating the contributions required to provide these benefits, the Government Actuary assumed an average unemployment rate of 8½ per cent; this was a reasonable, prudent figure to take in the light of past experience; it did not mean that 8½ per cent. was the minimum to which unemployment could be reduced by a full employment policy. On these assumptions a benefit of 40s. a week for man and wife with 8s. a week for each dependent child was proposed, and the joint contribution of employer and employee was put at 7s. 6d. for an adult man and 6s. for an adult woman. In the present Report these assumptions are revised in two ways (para. 206). First, in the light of present trends, it is assumed that prices after the war are 33½ per cent. in place of 25 per cent., above those of 1938, and that all benefits and allowances are raised proportionately; second, the unemployment rate is put at 3 per cent. in place of 8½ per cent.; this reduces materially the contributions required. The higher money benefits, about 43s. a week for man and wife, with 8s. 6d. for each dependent child, required by the higher cost of living can be provided for a joint contribution of 6s. 4d. (in place of 7s. 6d.) per adult man, and 5s. (in place of 6s.) per adult woman.

National Outlay and Taxation under Full Employment

The quantitative aspects of full employment are discussed in a memorandum by Mr. N. Kaldor, printed as Appendix C to the Report, and are summarised in paras. 186-208, setting out (a) the actual national outlay (which is also the net national income) in 1938 at the level of employment then reached (12.9 per cent. of unemployment) with several alternative routes to full employment; and (b) the prospective national outlay under full employment in 1948. This date is chosen on the assumption that total war ends some time in 1945 and is followed by a transition period of demobilisation of about two years to the end of 1947. On this and on a number of other assumptions, as to size of working population, technical advance, size and cost of defence forces, prices, etc. (summarised in para. 204) the full employment national outlay in 1948 is estimated as in Table 19 below (para. 207) and is compared with the actual outlay in 1938.

* Since this was written the Government's proposals for Social Insurance have been published. Their cost is not very materially different from the cost of my proposals. The argument that, given full employment, the contributions can be lowered appreciably applies to them also.

TABLE 19

POSSIBLE FULL EMPLOYMENT OUTLAY IN 1948, AND ACTUAL OUTLAY IN 1938

	(£ Million)		(3) Actual Outlay 1938	(4) Col. 2 % of Col. 3
	(1) Full Employment Outlay, 1948 at 1948 Prices	(2) at 1938 Prices		
Private Consumption Outlay	5,550	4,170	3,510	119
Public Consumption Outlay on Goods and Services ..	1,135	855	760	112
Net Investment Outlay (Pri- vate and Public) ..	765	575	460	125
Balance of Payments ..	0	0	-55	
Unused Resources ..	0	0	(500)	
Net National Outlay ..	7,450	5,600	4,675	120

The first and second columns show for 1948 a national outlay of £7,450 million at the assumed 1948 prices, or £5,600 millions at 1938 prices.

The third column shows that in 1938 we were failing to the extent of £55 millions to pay for our imports by current exports of all kinds, visible and invisible. That is to say we were either selling some of our investments overseas or were borrowing abroad. We were living beyond our current means. At the same time, through unemployment (of 12.9 per cent.) we were producing at home £500 millions less than we could have produced with full employment (i.e., with unemployment reduced to 3 per cent.). Under full employment our national outlay (which is our net national income) in 1938 would have been £5,175 millions in place of the actual £4,675 millions.

The last column, comparing outlays at 1938 prices, as shown in columns two and three, shows that under full employment in 1948 it would be possible simultaneously to consume about 19 per cent. more than in 1938, to invest about 25 per cent. more and to produce enough exports to pay for all our imports.

The public consumption outlay on goods and services shown in this table is not, of course, the whole of the current public expenditure. It covers the additional expenditure on defence, health service, education. It does not include transfer payments, such as interest on national debt, or social security cash benefits and allowances. The necessary current expenditure of the Central Government, including these transfer payments in 1948, is put by Mr. Kaldor at £1,655 millions. This allows for interest on the national debt, as it will have been swollen by the war; for the heavier expenditure on defence; for the full cost of Social Security and for the cost of the new education proposals. Mr. Kaldor then estimates that under full employment in 1948 taxation at the rates ruling in 1938 would yield £1,560 millions, or only £95 millions or 6 per cent. less than the necessary current expenditure. Under full employment and on the assumptions made, all the necessary current expenditure of the State in 1948 could be met by making income tax 5s. 10d. in place of 5s. 6d. in the £ and putting up all other tax rates in the same proportion. With

income tax at 6s. 6d. in the £ there would be a margin of £200 millions a year for additional expenditure or to cover errors in the assumptions made.

Taxation and Borrowing by the State

The outlay of all private citizens is limited rigidly by their financial resources, by what they possess or can borrow. The outlay of the State is not limited in this way; it can control money in place of being controlled by it. Many of the mistakes of the past have arisen through failure to make this fundamental distinction, through treating the State as if it were just one business among other businesses.

Spending in excess of current income and borrowing have quite different implications for the State than for private citizens; these implications are discussed by Mr. Kaldor in the last section of Appendix C and are summarised briefly in setting out the new rules of national finance in paras. 197-203. Most of the objections that have been made to borrowing by the State are fallacies. An internal national debt increases the income of some citizens (who have lent the money to the State) by just as much as the taxation necessary to pay interest and sinking fund on the debt decreases the incomes of other citizens; it makes some richer and others poorer; it does not reduce the total wealth of the community. This does not mean that the State can prudently meet the whole of its expenditure by borrowing rather than by taxation, or that the rate of interest on State borrowing does not matter. There are good reasons for the State to tax rather than to borrow. But these reasons are altogether less important than the maintenance of full employment. As is shown by Mr. Kaldor, there is on the facts no difficulty in the State's borrowing each year enough to make certain of spending enough for full employment and at the same time decreasing each year the burden of debt on the taxpayer. (Appendix C, paras. 57-8).

There are good reasons also for reducing steadily the rate of interest on State borrowing and by consequence on other borrowing. As has been shown in the present war, the State, if it chooses to exercise its powers, has full control over the rate of interest. While there are reasons against abrupt reductions of the rate of interest on State borrowing, a policy of gradually lowering the rate of interest well below the 3 per cent. which has been established as normal on long-term borrowing in this war should be adopted as part of a policy of full employment. Lowering the rate of interest is, among other things, the simplest route to lower rents. If the money for a £500 house is borrowed at 2½ per cent. instead of 4½ per cent., the rent can be nearly 4s. a week less; if the money is borrowed at 1 per cent., the rent can be nearly 7s. a week less. The State ought to use its credit to lower rents on all approved housing (para. 220).

The International Trade Cycle

The cyclical fluctuation of economic activity in Britain and other industrial countries is examined in Appendix A of the Report, which presents several new facts. The most important results (summarised in paras. 96-102) are:

- (i) The trade cycle is at least 150 years old, and has persisted with

substantial uniformity in its main features through revolutionary changes in monetary and banking policies and in the relative economic position of different countries. It is clearly deeply rooted in the economic system as we have known that system in the past.

- (ii) One of the new facts shown by this examination is the importance, as a factor in initiating both downward and upward movements of industrial activity, of the relations between the producers of primary commodities (food and raw materials) and the industrial users of these products. Measures to regulate the marketing price and production of primary commodities are essential steps towards stabilising activity in advanced industrial countries. To be complete, such measures involve common action by all important countries. But failing common action, Britain, as one of the largest single buyers of many primary commodities, could and should take steps, by making long-period collective contracts, to secure stable prosperity for the primary producers who are the main customers for her exports.

Agriculture under Full Employment

To treat the whole problem of agriculture would require another lengthy Report, but a full employment policy has important bearings on agriculture which must be noted briefly. Planning means country as well as town planning. It raises not merely the question of location of urban industry, but the question of the importance to be attached to agriculture and of the methods for giving agriculture in the future its right permanent place among the progressive and successful occupations of Britain. Agriculture should be regarded not as a Cinderella among industries, but as one possessing advantages which have long been unduly neglected.

First, as part of the policies of nutrition (named in para. 215) and of stability in the price of essentials (named in para. 292), there should be a continuance in peace of one side of the Ministry of Food. Rationing should go; wholesaling in essential foods should remain. This would have the effect of maintaining demand for the products of the agriculture, by guaranteeing a market and price, while leaving the process of production to private enterprise. Agriculturists in Britain as abroad should be protected against the extreme fluctuations of prices which, as is shown in Appendix A, have had much to do with the generation of the trade cycle.

Second, it is nearly certain that the gradual development of manufacturing in other countries and the necessity in future of paying by current exports for a larger proportion of Britain's imports will make it desirable to diminish the dependence of Britain upon food from overseas. This should be done not by protecting old-fashioned methods and not by maintaining a low-paid agricultural population, but by putting at least as much capital, ability and research into agriculture as in the past have been put into manufacturing (para. 219).

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