SECRET.

C.P. 37 (29).

CABINET.

UNEMPLOYMENT.

MEMORANDUM BY THE MINISTER OF LABOUR.

1. THE memorandum of the Home Secretary (C.P. 27 (29)) is suggestive and important. The sentiment which he expresses is probably that of thousands of those who sympathise with the Government. In these days of unemployment many men would like to see the Government do something that is "dramatic" and of "national importance." The Home Secretary's pen is like an Aeolian harp, "tuned to the whisperings of a thousand airs."

2. For reasons, which I will give, I believe that his apprehensions are exaggerated. Nevertheless, in my opinion, there is good cause for concurring in his general conclusions. My concurrence, however, is subject to one very important condition, and to the proviso that there are, in fact, practical measures that will fill the bill. I will deal later with these two points, and with the further question that arises from one of them.

I.

3. The intention of the Home Secretary is to estimate the situation with a view to an Election at Midsummer. Apprehensions, therefore, based on the unemployment figures stated by him, should be discounted, though not of course dismissed. He quoted an unemployment figure of 1,520,700 in comparison with a figure of 1,190,000 when we assumed office. In January, however, and in early February the unemployment figures, like the weather, are notoriously at their worst. After that they both improve as spring advances. There is an abrupt seasonal rise to a peak immediately after Christmas. After this the figures fall gradually. They have already fallen by 178,000. Unemployment figures always decrease during the latter half of February, the months of March and April, and, generally, of May, although the rapidity and consistency of the fall varies according to trade prospects and conditions. The reaction against any Government in power is generally at its greatest in January and early February. It is increased by depression due to the cold, the wet and the darkness of winter, in addition to the actual rise in unemployment. As the year goes on, unless some catastrophe occurs, the position is almost bound to improve. Subject to any such catastrophe, it is difficult to believe that by the end of May the figures of unemployment will not be lower, and may be substantially lower, than when we assumed office.*

4. With the spring fall in unemployment figures and the advent of spring weather, other features in the political landscape are also likely to regain their normal proportions. Those who criticise the Government for not embarking on particular works of national importance which give direct employment do scant credit to what the Government has already done. They pass lightly over the Derating Bill; they omit reference to safeguarding (although on a platform a

* This must not be taken to imply that a comparison of the figure of October with June is on economic grounds any more justifiable than one of October with January.

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reference to safeguarding and Mr. Snowden's avowed intention to repeal safeguarding duties is most effective). They say nothing of the Electricity Act and of the contracts already given and those about to be given by the Electricity Commissioners. Yet employment is stimulated by these measures, either directly or indirectly, in the best possible manner—i.e., in the occupations to which men and women naturally belong. I will not dwell further on these measures as I am sure the Home Secretary would be the last person to under-rate them. The material point for purposes of the present discussion, is that, as unemployment decreases, so should the effectiveness increase of references on the platform to these measures which the Government have initiated.

5. For the reasons which I have stated, I think that the Home Secretary has painted his picture in too sombre colours. But the prospect, even so, is disquieting enough. Unemployment is to-day* 1,342,500, as compared with the following figures for comparable dates in previous years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1924</td>
<td>1,188,700</td>
</tr>
<tr>
<td>1925</td>
<td>1,248,600</td>
</tr>
<tr>
<td>1926</td>
<td>1,165,000</td>
</tr>
<tr>
<td>1927</td>
<td>1,270,200</td>
</tr>
<tr>
<td>1928</td>
<td>1,159,800</td>
</tr>
</tbody>
</table>

6. As regards these figures, it may be said:

(i) that a "prosperity" or "welfare" index number would show that, after making full allowance for unemployment, the average working man or woman is better off than at any time in the country's history;

(ii) that the general high level of unemployment since 1920 is due to certain deep-seated causes, the effect of which can only gradually be overcome;

(iii) that the excess of the last ten months over the years immediately preceding (except the period of the coal strike), is principally accounted for by the large number of coal miners out of work; and

(iv) is demonstrably due to the criminal lunacy of the coal strike with the consequent wastage of capital and decrease of purchasing power in other industries beside coal.

7. All this, however, does not meet the Home Secretary's case. If we could be sure that the next few months would see not merely an improvement, but an improvement so considerable as substantially to "break the million mark," we might rest easy. But it would be folly to count upon it. There are favourable signs, but it would be impossible to forecast their effect and the degree to which the fall in purchasing power due to the strike of 1926 has been made good. From the political standpoint, therefore, there is good justification for a development policy which would strike the imagination. And, subject to the reservation made at the outset, there is much economic justification for such a policy, if the programme is proper and businesslike.

8. What, however, must be the features of the programme if it is to make a bright enough fly for us all to go a-fishing with in murky water? It should let people realize that national resources are being used to get work done of national importance as contrasted with the millions paid in benefit for which no work is done. It should provide a substantial amount of employment within the next three months. It should contain some features of originality and enterprise which might touch the imagination. I trust that this is an adequate description. Presumably also it would suffice if one part of the scheme satisfied the second requirement and another the third, provided that both were substantial.

9. Obviously there are not many schemes that would fill this bill, and also satisfy the requirement "If you can't be businesslike, be as businesslike as you can." In order, therefore, to get some idea of the nature of the proposals which it would be possible to put forward, it is necessary to realise if only in the broad outline, the nature of the unemployment which exists.

* February 11, 1929.
10. Excessive unemployment in this country is mainly confined to coal and to four or five of the other big industries. Geographically it occurs in certain areas only. In other areas and in most other industries trade is good and prosperity is considerable. London, for example, has had the boom years of her existence. This is cold comfort for the heavy industries, but it is important in limiting the schemes which are possible. It is useless to imagine that it is possible to start industries in the depressed coal areas which can assist more than a minute percentage of those who are a permanent surplus in those areas. For these, transference is the only solution. It may not be a popular policy in Epsom or Twickenham, little as these places have to fear from it. They are asked only to spare one or two crumbs of employment from the rich man's table. This policy of transference is one of those items of the white man's burden which any decent administration is bound to undertake occasionally. Again, the danger which the Home Secretary apprehends of an inadequate "supply of skilled labour in the heavy trade or the textile industry" is very remote. In a year or two there will be a shortage of juveniles, but there is little likelihood of any shortage of adult workers.

11. What measures, then, can be proposed which can both fulfil the conditions of the Home Secretary's policy and also deserve serious consideration as passing the test of being businesslike? Most schemes of work take time to fructify, so far as employment is concerned, and thus are at once excluded from the category of possibles:

(i.) The only kind of work that can give substantial employment within a short time is road-making. The amount which it gives is calculated as about 25,000 to 30,000 man months of labour directly or almost directly employed for every £1,000,000 spent. I understand that the Ministry of Transport have already made surveys for a £8,000,000 trunk road reconstruction programme. Such a programme, if it is to be carried out promptly and give the maximum employment to the men from the depressed areas, would have to be financed by the Government on the basis of 100 per cent. of the cost.

(ii.) Schemes that will strike the imagination, give employment in the future and deserve examination on economic grounds are of a different kind. The consistent policy of the Canadian Pacific Railway has been to push transport facilities ahead of and as a means of creating development and settlement. That policy has justified itself in the prairie provinces of Canada. Whether it would be equally justifiable in the tropies needs examination. We have never seen estimates for the Zambesi Bridge, or for the railway development of East Africa. How many years' interest should be foregone? What data are there for calculating whether and when the bridge or the proposed new railways would pay? Who should manage them? A corporation on a long lease, and, if so, under what obligations? What, again, would be the amount of orders coming to this country? What employment created and what other indirect advantages might be expected? All these questions need investigation. The general question has been raised from time to time during the last four years, but it has never been properly examined. It is the most promising of all such schemes and deserves real consideration.

(iii.) One of the contributory causes of the excess unemployment in recent years has been the decrease in emigration. We are now faced with a substantial reduction of all nominated passages to Australia. It is quite clear that we cannot look for any material increase in emigration by normal methods. I am, however, informed that there is one scheme of bulk migration on a considerable scale, which is a practical proposition, judged by business standards. It is to Western Australia. The extent of available land is said by the Western Australian Agent-General to be 37,000,000 acres. If all this land were ultimately settled in wheat and

* Iron and steel, engineering and shipbuilding, textiles, miscellaneous metals, transport, and building account (with coal) for 900,000 of the unemployed, or two-thirds of the whole.

† There are no emigration figures prior to 1913, but the following figures, showing the outward balance of passengers' movement from the U.K. to countries outside Europe, are significant:

<table>
<thead>
<tr>
<th>Period</th>
<th>Outgoing Passengers</th>
<th>Returning Passengers</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1896-1913</td>
<td>1,153,718</td>
<td>2,163,718</td>
<td>-1,010,000</td>
</tr>
<tr>
<td>1926-1927</td>
<td>1,297,061</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
sheep farms of convenient size, there would be 35,000 farms. It is, I understand, quite unnecessary for the British Government to interest itself financially in the development to the full scale. Our interest clearly would be to secure that the development is on lines which would ensure the maximum absorption at the earliest date. A British Government guarantee would be needed, for a sum extending to about £2,500,000, the guarantee being for a limited period. Without a guarantee it would be difficult to arrange that the development proceeded on the right lines, so that, primarily, British migrants were absorbed. The management would have to be on business lines by a business corporation. But if the necessary Australian agreement were forthcoming to a scheme on these lines, I am told that there is no reason why it should not succeed.

13. Obviously, the proposals mentioned would need careful scrutiny. I suggest, however, that, subject to the reservation mentioned, they are the most promising and most worthy of examination from the point of view both of the Home Secretary's requirements and of being intrinsically sound. They are:—

(1.) The £8,000,000 Road Programme.
(2.) East African Railway Development and the construction of the Zambesi bridge.
(3.) Group settlement in Western Australia.

14. It is obvious, however, that the moment a "bold dramatic policy" begins to crystallize into actual schemes the economic aspects of the problem force themselves upon our attention. The Treasury is like nature itself: "Expellas furca, tamen usque recurret." It is both right and fortunate for us all that this should be so.

15. But there are two separate financial considerations by which schemes like the above are judged. Making roads and building bridges in Great Britain; constructing railways in East Africa; pressing good migrants on reluctant Dominions; these are all good objects in themselves, but are they business-like, and, viewed from the employment standpoint, how many man-months of direct labour will each provide for each £1,000 expended? This test is always applied, and quite rightly, too.

16. The other question is that of the diversion of credit. Is it or is it not true that if credit be diverted to such schemes it will not be forthcoming in the same abundance for more natural and more fruitful ordinary business? This question concerns a cardinal principle of finance and financial policy, on which, of course, my Department offers no opinion. The Home Secretary's memorandum, however, has raised the question definitely. And after 8 years of financial orthodoxy and 8 years of unabating unemployment, ought we not to ask for a reasoned proof, for some foundations of belief that the financial policy by which we guide our steps is right? And should not some of the deeper causes which affect unemployment be examined?

17. The following are some of the queries that suggest themselves to the mind of the ordinary man:—

(i.) It is admitted that the phenomena afforded by the crest and the trough of the trade cycle are largely due to psychological factors. Business booms until one or two businesses over-reach themselves; then people pull in their horns and trade declines. Business slumps until someone thinks that prices are at the minimum and will re-act. He jumps in and buys: prices harden a little: others follow suit and trade starts on the up-grade once again. Is it not possible to give a fillip to public confidence and thus start business on the up-grade rather sooner? Or does the strict orthodox theory of credit forbid?

(ii.) There are thousands of people anxious to buy articles: there are thousands of other people anxious to make them. Sometimes the articles are the same. Shortage of work in the boot and shoe trade and in the woollen
trades, and shortage of boots and clothes for other people. This may be
unavoidable, but is it wholly so? It is quite true that the producer can
get credit at a price to help him to produce his goods. The crux of the
problem lies with the consumer. Could there not be such a thing as
"Consumer credit"? Incidentally, has anything happened to justify
the "lamentation, mourning and woe" prophesied as a result of the great
extension of instalment buying in the United States?

(iii.) We have all of us supported the Chancellor of the Exchequer in his return
to the gold standard. It was practically the last and an almost inevitable
move on a course previously fixed and definitely set. But did those on
whose initiative it was commenced foresee the results of the rapid
deflation occurring in a country in which workers had the will and the
power to resist strenuously a reduction in the nominal rate of their
earnings, even although the real value would remain unchanged, a country
also in which imports were free?

(iv.) Was a rise in the Bank rate inevitable? Clearly it was the easiest course.
But was it really unavoidable? It would be interesting to get the opinion
on this point of a committee of industrialists who have also experience
of finance—Lord Melchett, Mr. Dudley Docker, Lord Weir and
Sir Hugo Hirst.

18. I trust my colleagues will not draw the inference from the above that
I am an inflationist, or wish to abandon the gold standard. I do not. Nor do I wish
to underrate the importance of conversion operations. But I think we
should have a full case stated, subjected to criticism and substantiated for the
financial policy which we are asked to continue.

19. On the other hand there are certain facts which affect employment, the
full importance of which has never been generally recognized. What are the real
facts and their influence on unemployment generally?

(i.) The volume of our exports has not only not increased, but has decreased
considerably as compared with 1914. If a calculation were made of the
decrease in employment which this represents, what would be the result? I
remember a paper by Professor Bowley, which led me to believe it would
be in the region of about 600,000 persons, but I cannot at the moment lay
my hands upon it before this memorandum goes to print.

(ii.) The effect of the decline in overseas migration has undoubtedly had an
effect on the position in this country. Even an old settled country like this
can annually absorb a certain percentage increase which gradually,
however, diminishes in amount. But since the War, due to the decline in
emigration, the population of Great Britain has increased more rapidly
than before and this has occurred during precisely those years in which
our overseas markets have been disorganised or curtailed.

(iii.) Another feature of the situation is the "improvement unemployment."*
that may have to be faced in some of our older industries. In the coal
industry, a crash was bound to come sooner or later, as a result of
Mr. Lloyd George's misunderstanding of the industry. The effect of the
trouble was enhanced by the action of Mr. Cook, supported by
Mr. Herbert Smith. A certain proportion, however, even so, is due
not to longer hours, but to improvement in method. It is a commonplace
that such improvements create unemployment for the time being. In
the long run, employment may or may not become as great or greater
in the same industry owing to increased sales. In any case, the wealth of
the country is increased, and if the industry depends in any degree on
the power to compete successfully with foreign rivals, improvement is a
condition of existence. It is possible, however, that if the long overdue
reorganisation in the iron and steel industry takes place, a temporary
increase at least in unemployment may take place. In the cotton trade
it is not so likely.

20. Some of the considerations mentioned above have been noted, as, for
example, in some of the volumes of the Balfour Committee. But they have never
been studied together with the nature of our financial policy and its implications

* In one steel works the result of modernisation has been to reduce from 5,000 to 2,000 the persons
employed in producing the same output.
and consequences. We have, in fact, never really attempted to diagnose our unemployment problem at all. I have tried in spare moments to fit the pieces of the puzzle together, but in the press of work it has been impossible to do so satisfactorily. I suggest that this should be done. Otherwise, in another Government, we shall continue to fumble in the dark as every Government has done up till now. Of course, it is quite possible that we shall get little or no enlightenment or guidance for action. The pundits differ, and "if the trumpet gives an uncertain sound who shall make him ready for battle?" But, at least, we shall have tried, and that is more than others have done.

CONCLUSIONS.

21. I suggest, therefore, that the main issues raised by the Home Secretary's memorandum for the consideration of the Cabinet are:—

(i) Have we—or our predecessors the Governments of 1921, 1923 and 1924—left undone anything that might wisely have been done in relief of unemployment, without doing violence to the settled financial policy of the country?

(ii) Has that policy dominated our actions unduly and prevented us from adopting ameliorative measures which would have reduced the numbers unemployed, and, if so, is it expedient to continue to acquiesce in that domination?

22. As to (i), I suggested to the Cabinet last June (Cabinet 35 (23) 3), when my memorandum C.P. 188 (28) was under discussion, that the position should be reviewed by a Committee of the Cabinet, and there is still time to consider what more can be done at once so as to yield results before May. I suggest, in particular, that the three proposals which I have mentioned should be subjected to review. As to (ii), large issues of policy are involved on which I hesitate to offer an opinion in the absence of an authoritative statement by the Treasury of the grounds for the present policy and of the objections to its modification, or of an enquiry such as I have suggested by a Committee that can review the whole situation impartially in the light of experience.

(Initialled) A. S.-M.

Ministry of Labour,
February 16, 1929.