CABINET.

UNEMPLOYMENT POLICY.

Memorandum by the Lord Privy Seal.

1. It is obvious that, throughout the coming Session our policy on unemployment will be attacked and that the greater our success in other spheres the more vigorous will be this attack. I feel it necessary, therefore, to outline the problem as I see it and the way of approach to it that I propose to develop steadily throughout the Session, both in speeches and in action, in order not only that I may be assured that this policy - on which much of the credit of the Government may depend - is fully endorsed by my colleagues, but also that the "unemployment policy" may be judged not in isolation but as part of the general policy, both at home and abroad, for which we are all responsible.

2. It would be fatal to our policy if we allowed ourselves to be judged by what may be called the "Live Register Test", i.e. by the numbers of registered unemployed at any given time, or by the numbers of men we have "set to work" during the winter. Except for comparative purposes over a long period and subject to numerous qualifications of detail, the Live Register is a deceptive index of the true problem of unemployment at any date. For example, it has risen during the last 4 weeks by nearly 70,000 - a sharp rise representing the accumulated seasonal increase of unemployment.
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which normally begins late in August and is spread over the following weeks. This rise will continue - and it is already being attributed to our impotence or to a loss of confidence in us on the part of industry. But, in fact, what sign is there in any important trade that, apart from seasonal influences, there is any worsening of the general trading position? The general indications are on the whole favourable. The figures will fall again, probably, in November and rise sharply in January. Those movements will have nothing to do with our unemployment policy; they are simply the reflection of the normal seasonal movements in trade, all of which are recorded on the sensitive register.

3. I need not describe in detail to my colleagues the inevitably intermittent method of working in many trades and industries. For example, dockers, the irregularity of whose employment is recognised in their scale of wages always show a high number of men "wholly unemployed", whereas in point of fact, registration and other schemes for regularising work in the docks have ensured for them a greater regularity of work each week than they had before the war. A section of the dock-workers, the coal tippers and trimmers, steadily earn big wages each week, though each week they may show two or three days complete unemployment, to swell the statistics. In certain areas in this section the line between employment and unemployment in the minds of the men is so fine that they treat wages and unemployment benefit alike for the purposes of a pooling arrangement under which they share the proceeds. The great seasonal trades show heavy unemployment in their slack periods and in many crafts a complete disappearance.
of unemployment during their busy periods. I am not seeking to minimise these irregularities, but we shall only confuse ourselves and the public if we regard this sort of unemployment as a problem of the same gravity as that experienced, for example, by thousands of miners and iron and steel workers.

4. To show the general effect of these minor breaks of employment I may say that 15% of the Live Register on each Monday have disappeared into employment by the following Monday, and 7% of the persons who come on to the register in 6 months (nearly 2 millions in all) do not remain unemployed long enough to qualify for benefit. As a final example of the need for perspective in the matter, it is doubtful whether with our present insurance scheme the figures of registered unemployed would fall in normal times below 600,000; they would probably run during the year, from 600,000 to 650,000.

5. We must remember at the outset that, however much we stimulate local authorities, railway companies, dock authorities, etc., however lavish our grants in aid of their expenditure, and whether we undertake this or that local service "on a national basis", we cannot, as a practical matter, put such an additional number of men to work this winter, or indeed at any time within the next 12 months, as to make any substantial impression upon the Live Register which would be recognised as due to our efforts. A programme of £40 or £50 millions of capital works authorised or under consideration may sound impressive, but when it is realised that the work cannot start at once, that much of it is spread over months and years, and that the weekly wages paid by ordinary industry
amount to about £25 millions, the contribution of such a programme, or of any programme that the "State" could undertake, to the total volume of employment, is seen in its proper perspective.

6. It may be suggested that larger numbers of men could be set to work if we were to do the work on what is described as a 'national basis'. I do not think we have always been clear enough what we mean by doing works 'on a national basis'. Very difficult and contentious questions of finance and administration are involved. We have already had some examination made into the matter from the point of view of road works, but while, as I have indicated above, immediate results cannot be expected, I suggest that we have the practicability of applying the policy on a wider scale considered in detail by a special Cabinet Committee, as a matter of urgency.

7. There is a further point which I consider most important. For some years past the internal market has been supported by various forms of State expenditure, largely by mortgaging the future. That policy cannot continue indefinitely, nor can it form the basis of any real attempt to solve the unemployment problem. Much of it is simply capital expenditure, and it is today as essential for the Exchequer as for any business, that capital expenditure shall earn its keep, and fairly promptly. That seems to me the real answer to such grandiose proposals for public expenditure as are contained in the Liberal pamphlet. Its authors exaggerate the problem through misunderstanding the unemployment figures,
and have therefore to magnify their remedy up to complete distortion. The objects of the expenditure are good enough, but to spend on the scale they suggest upon what, in industrial terms, is "plant", would throw the economic development of the country badly out of balance, particularly through the locking up of capital which needs to be kept liquid for trade purposes, unless we could see a "load" for the plant in the near future. The task for most industries to-day is to ensure that they get a pound back for every pound they spend, and I am certain we must apply the same test to our expenditure. To sanction large expenditure just to "provide work" temporarily for X thousand men would be foolish. Indeed by doing so we might do much more harm than good, in the effect of such a policy upon industrial and financial opinion, and upon the cost of our production. All State expenditure has to be paid for, and ultimately any part of it which is "dead" has to be added to the costs of production. The root difficulty of our present economic position is that we cannot, in all cases, compete in price with our industrial rivals. This is due partly to inadequate economic equipment, partly to faulty organisation both for production and sale; both of these matters I deal with below. To these handicaps, which can be removed, we cannot afford to add the burden of uneconomic State expenditure. It is not always realised how dependent we are upon our foreign trade. Our imports of food and raw material are three-quarters of our imports, and amount to £800 millions a year; they include four-fifth of our wheat requirements, three fifths of our
meat, the whole of our cotton and nine-tenths of our wool and timber. We cannot materially reduce the dependence of our population and our expanding industries upon these foreign supplies.

8. In the long run we can only pay for these imports by exports, whether visible or invisible, that is, we can only buy as much as we can sell, and we can only sell if in quality and price we can hold our own in the struggle for markets. While not underestimating the value to our industry of its home market, I see no way of escaping the conclusions that this market in the end must be supported by our export trade, and that this trade, under present conditions requires most careful nursing. It is not generally realised to what an extent our staple industries are dependent on export markets. Coal is dependent on overseas markets for the disposal of one-fifth of its products; shipbuilding about one-half; engineering, one-quarter; cotton, about four-fifths; woollen and worsted, over one-half; iron and steel, one-third. It is possible for the State to spend money wisely and fruitfully, for the benefit of the export trade, and I shall not hesitate to ask for money for purposes which would help the policy I am describing.

9. I have set out what I may call the negative side of the policy at some length in view of its important implications for the Government as a whole. I need not explain to my colleagues that a firm stand upon these principles is not likely to be popular with some of our supporters in the House and in the country, but if I secure the endorsement of the Cabinet, I propose to make the position perfectly clear, not on my own behalf, but as the considered view of the Government. I hope, however, that I can now make clear, very briefly, that there is a positive
and constructive policy as well.

10. My investigations had led me to see the real problem of unemployment as divisible into two parts: the chronic unemployment in certain areas and parts of certain industry; and the irregularity of employment over other parts of industry.

11. The first part of the problem consists in bringing those chronically unemployed workpeople who are still employable or can be made employable by training, etc. into effective contact with the main currents of industry. For a large number of them this means physical transfer and absorption into other localities, apart from anything we may be able to do by way of stimulus to the local industries. I know the difficulties and unpopularity of such a policy, especially if we allow the parochial view to overrule the national. But whether we all like it or not, if we are to save the people in the depressed areas and to restore any sort of economic basis for local Government there, it is inevitable; it will take time and will mean expenditure upon training, etc. and it must be done carefully, but I believe we shall be shirking our real responsibilities unless we accept and press that policy with complete sincerity.

12. But this policy also must not be seen in isolation. To make transfer effective we must reduce the irregularity of employment and strengthen the absorbing capacity of industry as a whole. That is indeed the key of the whole problem. And to do this I outline below and propose to continue, two inter-dependent policies.

(A) to improve, with the aid of State expenditure where necessary, but subject to the tests mentioned, the economic equipment of services whose efficiency is essential to the health of all industries, e.g. transport and power supply, and
to improve by detailed discussion, and it may be, by State assistance financial and otherwise, where necessary, the organisation of separate industries for production and sale, both generally and in reference to particular markets.

A. Improvement of Economic Equipment.

13. The Development (Loan Guarantees and Grants) Act passed last Session, contains within it most of what is necessary for the purpose of improving the economic equipment of the general utility services. We shall need authority to spend more, and if the principles governing the expenditure which I have laid down above are accepted, I anticipate no difficulty in obtaining the necessary authority from the House. I hope I shall be in a position soon after the House meets to announce expenditure authorised and under review of about £30-40 millions under both parts of the Act. £20 millions of economic work has already been approved under the Act, a further £14 million is under active examination, and big schemes totalling well over £20 million are expected to be submitted in the near future. I do not propose to agree to any substantial increase in the amount of the Government grant towards any type of scheme. To agree to such a proposal is to suggest that we are "on the run", and everyone will stop until they see where our retreat finishes, before they submit another proposal. Moreover, the present scale of grants cannot be described as ungenerous and it is only fair to the community as a whole that local authorities should continue to bear a fair share of expenditure by which they directly benefit. In addition, there are the two Road Programmes on which not less than £20 millions will be authorised or under consideration by the end of the month, the increase of the Forestry Programme from £5½ to £9 millions, as well as the minor schemes.
14. The Colonial Development Act is on a slightly different principle; it is for the development of potential assets which we own but which have not been fully worked, and for the opening to us of additional markets where we start with the advantage of being first on the spot. It must be slow in operation, but I have no doubt of its ultimate value to our trade position. One important scheme of the value of £1 million has already been recommended by the advisory Committee under the Act; another larger one is under examination and will be recommended shortly, others will be forthcoming fairly soon.

B. Trade Organisation.

15. The experience of the past 10 years has improved productive methods enormously, though not equally in all trades. But I believe there has been lacking a continuous pressure upon the trades to "organise" this improvement and to reap the full advantages of it. Successive Governments have waited for the trades to organise themselves, and to a considerable extent have waited in vain. As a Party we have consistently preached the necessity for organisation, and, slow though the process must be, I feel that as a Government we must now accept the responsibility of trying to bring it into action, and organising the whole attack of our trade upon the markets open to it. I have made very satisfactory progress by consultation with representatives of the industries concerned in the organisation of the sale of coal and steel in Canada since my return. The total volume of additional employment which may follow may not be very great at first, but what has been done suggests a way of approach to the problem. I am also engaged in discussions in consultation with the Department of Overseas Trade on the subject of developments in organised selling of motor cars, particularly in the Dominions. I am concentrating
concentrating upon this particular industry at this early stage because of an apparent failure to take full advantage of our opportunities. The Empire contains an enormous and rapidly expanding market for motors, in which, considering the fiscal and sentimental preferences which we have, our progress has hitherto been frankly disappointing. For instance, British motors enjoy a substantial preference in Australia, and yet the value of the motor cars and parts she imported from Great Britain in the year ending 30th June, 1923, was only £1,436,000 as against £6,382,000 from the United States. Fuller figures are given in a footnote below.

Footnote.

EXPORTS OF MOTOR VEHICLES 1928
(excluding motor cycles).

<table>
<thead>
<tr>
<th>TO</th>
<th>FROM GREAT BRITAIN</th>
<th>FROM U.S.A.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Value £ million</td>
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<tr>
<td>United Kingdom</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Australia</td>
<td>9,122</td>
<td>1.35</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2,822</td>
<td>0.58</td>
</tr>
<tr>
<td>Africa</td>
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<td>2,602</td>
<td>0.96</td>
</tr>
<tr>
<td>Antilles</td>
<td>700</td>
<td>0.31</td>
</tr>
<tr>
<td>Brazil</td>
<td>198</td>
<td>0.07</td>
</tr>
<tr>
<td>Continents</td>
<td>32,777</td>
<td>7.15</td>
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</table>

Comparision of total motor exports 1925-28.

<table>
<thead>
<tr>
<th>FROM</th>
<th>1925</th>
<th>1928</th>
<th>Increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Britain</td>
<td>29,050</td>
<td>32,777</td>
<td>12</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>312,240</td>
<td>507,110</td>
<td>62</td>
</tr>
</tbody>
</table>
16. The motor industry is a striking instance of the kind of problem with which I think we must grapple. I propose, however, in consultation with my colleagues to enter into discussions with representatives of a number of other export trades such as electrical plant manufacture, certain branches of general engineering, and aircraft manufacture. In association with the Department of Overseas Trade, the whole field of the export trade is being explored from this point of view.

17. The Export Credits Scheme may prove of real value in connection with these discussions. It may need expansion and I propose to examine it further in consultation with the President of the Board of Trade and if improvements are necessary and can be evolved I shall submit proposals to the Cabinet.

(My Colleagues know that the Export Credits Committee is not now debarred from doing business with Russia. There is obviously a valuable market in that Country, but I am bound to say that my present information makes me doubt how far business can be done on terms that can be described as businesslike. I make this precautionary statement at this stage because we are certain to be asked questions in the House and elsewhere, and I think for the moment we had better...
be guarded in our answers).

18. Export Credits however, extended cannot be themselves solve the disorganisation of our more depressed export trades. Last Session I announced the Government policy with regard to Trade Facilities for ordinary industry. Despite numerous requests for its extension, I still adhere to the view I then expressed. But I think it possible, that, within the steel and cotton industries in particular, there may be a use for trade facilities, on different lines and for a different purpose, which would accelerate and not retard the process of reorganisation necessary if these industries are ever to recover their proper position in the nation's economy. I know the arguments on this point, but the experience with the Lancashire Cotton Corporation and with the Vickers-Armstrong Combination shows that, at the right moment, the provision of new capital on reasonable terms is essential if a sound reorganisation is to go through quickly. While I appreciate fully the burden upon my colleague the President of the Board of Trade, I hope it may be possible to speed up the work of the Committees of Inquiry into Steel and Cotton. Until we have seriously tackled these two industries, we cannot hope to make any marked impression upon the total figures of unemployment.

19. In conjunction with the Minister for Agriculture I hope to be able to show how the policy he is developing for that industry will make its contribution, not on the lines of settling in an industry that is already in difficulties any number of men from other industries, whose chances of making a livelihood would, in the present conditions, be small, but because a prosperous agriculture is, in itself, vitally necessary to our economic balance, and will always tend to attract a small, but growing number of people, to whom life on the land is not without its attractions.
Finally, I want to show how our unemployment policy is an integral part of our whole policy. The personal triumph of the Prime Minister in America, the success of the Chancellor at the Hague and of the President of the Board of Trade at Geneva, the steady progress which the Foreign Secretary is making towards world peace, and settled economic conditions in the world - the one real necessity for a country whose life depends upon the smooth working of international commerce - these are contributions to the solution of the unemployment problem more lasting and widespread in their effects, than any narrowly-conceived policy based upon the figures of the unemployed.

This is a long term view of the unemployment problem, and I want my colleagues to realise its full implications. It is a view which will be unpalatable to many of our own supporters, but I believe there is no other practical or honest way of looking at the problem. Judged solely by the Live Register standard we shall fail, whatever may have been said in the past, and the sooner this is realised the better. This is just the standard by which the Opposition parties would delight to judge us. But there is another standard which we can set for ourselves, if we adopt the policy I have advocated above. That policy is an attempt to give full play to the possibilities of economic development and re-equipment at home and in the Empire and at the same time an effort to attack the problem of unemployment at its roots by openly abandoning the bad old policy of laissez faire and thus bringing the Government into a new relationship to industry. It is a policy slow in its effects, but it would steadily gather momentum. It is sufficiently positive to enable us to convince the country that we have a policy for dealing
with unemployment, and this is what we must do if we are to gain time for our larger measures to bear fruit. Once in this position we can face the attacks of the Opposition parties and of the more impatient of our own supporters with confidence.

22. I must apologise to my colleagues for the length of this memorandum. My excuse must be the importance to the country and the Government of the problem, of our way of approach to it, and of the confidence or distrust that we can engender by our actions and speeches upon it.

(Intl.) J.H.T.

23rd October, 1929.