EMPLOYMENT POLICY.

MEMORANDUM BY THE PAYMASTER-GENERAL.

THE two attached minutes on employment policy, prepared for the Prime Minister, are circulated at his suggestion.

C.

13th January, 1944.

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EMPLOYMENT POLICY IN THE TRANSITIONAL PERIOD.

THE best way to approach these problems is to study what happened after the last war. (See chart 1.)

After a few months of unemployment, while industries were switching over from war to peace, there was a brief but violent boom (which reached its peak in the summer of 1920) whilst stocks were being rebuilt, war arrears of maintenance made good, and the pent-up demands of foreign countries satisfied. Unemployment was very low, and prices and wages soared. When demand at home and abroad began to slacken and prices to slump, towards the end of 1920, there was a great increase in unemployment, which reached 2½ million about the middle of 1921.* From this figure unemployment gradually recovered to the neighbourhood of 1½ million and (apart from the coal dispute in 1926) stayed at about this level from 1923 till 1929. With the onset of the great depression at the end of 1929, unemployment mounted to over 2½ million in just over one year and did not fall below that figure until the middle of 1933, after which we had a steady decline, to under 1½ million in the middle of 1937.

We may expect a somewhat similar trend of events when this war ends—at any rate for the first few years—unless steps are taken to check the tendencies at work.

In the first period (perhaps six to nine months) there will be hundreds of thousands seeking work before the factories are prepared to take them.

In the second period, when the factories are ready, there will be more demand for labour than can be met.

In the third period, when re-stocking is complete, maintenance arrears are made good, war savings are spent, and foreign demand slackens (with the completion of reconstruction and re-stocking abroad, and the recovery of our industrial competitors), there will be a tendency to slump and unemployment.

The various lines of action which seem appropriate to the changing conditions which are to be expected are set forth below in broad outline.

* This figure does not include the million miners who stayed on strike for three months, but the strike aggravates unemployment in other industries.

[26341]
First Period.

We have to-day about 22 million people gainfully employed.

Of these 5 million are in the Services and Civil Defence,
nearly 5 million are on Government work in the munitions industries,
and 3 million are on other Government work (direct and indirect)
in clothing, building, transport, mining, and
other industries and services.

Total ... 15 million on Government work.

This leaves only 7 million employed on civil and export work (although some
of the 15 million working for the Government are not, of course, doing strictly
war work).

The problem of demobilisation is to transfer, say, about 10 of the 15 million
back to civil and export work. The remaining 5 million will remain on Govern­
ment work or return to the "occupied" category.

For some of these 10 millions the transfer will be hardly noticeable, e.g., in
transport and mining. Many, especially in the munitions industries, will be re­
employed by the same firm as soon as the machinery, &c., can be adapted for civil
work, e.g., motor vehicles. But many will have to change their occupations. These
include demobilised members of the forces,* workers employed on work to which
there is no peace-time parallel, such as shell filling, and the men and women who
will have to go back to their old jobs to make room for the returning service men.

There will thus be a gigantic turn-over of labour, and there is bound to be
some unemployment:—

(a) while people move from one job to another;
(b) if there is a shortage of coal, transport, skilled labour or imported
materials, as happened after the last war.

But this "frictional" unemployment should not be accentuated by any
general shortage of demand, since

(i) The man-power available for civil work will be well below the peace-time
level for some time, especially during the Japanese war and the period
of occupation of Germany;
(ii) there will be a greater demand for civil goods than in peace-time, since
consumers will wish to restock their wardrobes, kitchens, &c., and
will have plenty of money to spend out of savings, businesses will
want to rebuild their working stocks, to carry out maintenance
and extensions postponed during the war, and to adapt their plant
to peace-time purposes.†

After the last war unemployment rose to over a million in April 1919 and
then fell steadily to only 300,000 in the summer of 1920. This time we should
be able to do better if, as a result of a two-stage ending of the war, demobilisa­
tion can be slowed down, e.g., if we transfer 5 million up to the end of the
Japanese war and 5 million thereafter. If, however, we go all out until the
end of the Japanese war,‡ the problem may be even more difficult than last time,
since there has been a far higher degree of mobilisation in this war.

* These have a legal right to reinstatement in their old jobs for six months. Although
there are certain safeguards it seems that this obligation may lead to difficulties.
† The following table, giving estimates of civil production in 1942 as a percentage of peace­
time supplies, affords some idea of the depletion and deterioration of civil stocks that must have
taken place after four years of war:

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage of Peace-time Supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Footwear</td>
<td>70</td>
</tr>
<tr>
<td>Clothing</td>
<td>45</td>
</tr>
<tr>
<td>Books</td>
<td>40</td>
</tr>
<tr>
<td>Perambulators</td>
<td>35</td>
</tr>
<tr>
<td>Bicycles</td>
<td>32</td>
</tr>
<tr>
<td>Pottery</td>
<td>30</td>
</tr>
<tr>
<td>Pots and pans</td>
<td>25</td>
</tr>
<tr>
<td>Glassware</td>
<td>20</td>
</tr>
</tbody>
</table>
| Towels, bed linen, cutlery, cameras, foun­
tain pens, sports goods and toys | 15 |
| Furniture         |                                  |
| Fancy goods and jewellery | 5 |
| Motor bicycles    | 1                                |
| Vacuum cleaners, wringers, refrigerators, wireless sets, motor cars | Spare parts only |
| Carpets, linoleum, wallpaper | Nil |

‡ On present plans the 5 + 5 seems likely to be nearer 3 + 7.
The measures we must take (and prepare for now) are:—

(a) see that firms are prepared to switch over their capacity to peace-time production as quickly as possible;

(b) find out in advance where skilled labour will be required, arrange for any necessary training, if possible get key-men out of the forces quickly, or perhaps second them for duty on army pay, and perhaps retain the Essential Work Order and direction of labour, so that skilled workers can be put or kept where they are most needed;

(c) ensure an adequate supply of coal and transport (which means, among other things, the absence of strikes such as are apt to occur in these periods) and of raw materials from overseas. We shall also have to retain the machinery for allocating these things to where they are most needed;

(d) give a longish period of leave to demobilised soldiers if necessary; perhaps even until a job is offered them;

(e) prevent the undue inflation of the official unemployment statistics, as seems to have happened last time when many women appear to have registered at the employment exchanges in order to get the out-of-work donation, although they were not really seeking work.

Second Period.

In this period there should be little difficulty in providing work for everyone. The main problem (which will also have to be faced in the first period) will be to prevent a rapid rise in prices, for, as has been shown, the pent-up demand for goods will tend to exceed the supply. A price boom would aggravate the tendency to a subsequent slump in two ways: it would lead to artificial speculative prices; and it would dissipate in higher prices the war savings we wish to hold back until the slump threatens.

To prevent an inflation it will not be enough to keep down the cost of living by subsidies. We shall also have to continue to damp down excessive demand, or, rather, postpone it until the threat of a slump gives the signal for it to be unleashed. For this purpose the following measures seem appropriate:—

(a) postponing Government expenditure on building, &c., save in urgent cases;

(b) postponing private expenditure on buildings and other capital equipment, except for the export trade and other urgent work, by licensing and by allocating raw materials, labour, &c.;

(c) regulating the increase of rations of manufactured goods, such as clothing, to correspond with the increase in production (the speed at which we can increase our food rations will depend more on overseas supplies);

(d) postponing reductions in indirect taxation, and if possible the release of post-war credits, so as to prevent too rapid a rise in the money spent on consumption; our tax policy should, however, aim at encouraging enterprise and competitive power, above all in the export trades, e.g., by reducing E.P.T.

All these measures will unfortunately be most unpopular and very good propaganda will be required to make them acceptable.

Before this period ends we must get ready counter-measures to prevent the threatened slump. We must prepare a detailed technique for reversing the measures (a), (b), (c) and (d) quickly, and we must have schemes of public expenditure ready to start immediately the slump threatens. This means that central and local government authorities and public utilities must prepare plans well in advance.

We must also take advantage of the post-war prosperity to diversify, as far as possible, industry in areas which at present depend too much on one or a few industries. This means that we must give preference to such areas in licensing new factories and the like and in deciding which munition factories are to be kept permanently in peace-time.

We must prepare a statistical technique for forecasting the state of demand a few months in advance, by getting returns of orders on the books of businesses, their projected capital investment, &c.
Third Period.

When the statistics described above forecast a slump we must begin to reverse the restrictive measures outlined above and try to increase expenditure on both consumption and capital goods. To do this we can—

(a) encourage local authorities, public utilities and private undertakings to go ahead with their building and other capital programmes, all of which will have been well prepared in advance;

(b) free post-war credits, in so far as it has been politically possible to hold these back during the transitional period; they amount to about £400 million to-day and may rise to £500 million or more by the end of the war;

(c) abolish any rationing that may still be in force;

(d) remit taxation (the method of deducting income tax weekly or monthly should make it easier to do this quickly, and it should also be possible to change the taxes on drink, tobacco, &c., fairly quickly);

(e) reduce social security contributions.

(Under the Beveridge plan the total contribution by worker and employer is 7s. 6d. a week, and it is reckoned that a variation by 2s. 6d. in either direction would have a direct and indirect effect on total demand of £250 million a year, which represents well over half a million workers.) Such a reduction in contributions could be regarded as financially sound since a large surplus will have been built up during the war and transitional periods.

If possible these measures should be intensified in areas that threaten to become particularly depressed.

It is important that the country should be given a clear view of the unemployment position. Just as cancer is considered much more prevalent than formerly largely because diagnosis is more accurate, so the reason people are apt to think unemployment is much worse than formerly may be in part, at any rate, because our statistics of the absolute numbers unemployed are more comprehensive. Even an improvement in the unemployment position in the post-war years may well appear in the opposite light if absolute figures are quoted, simply because with the rise in the working population and the extension of unemployment insurance to new classes, culminating in the Beveridge scheme, we shall be insuring after the war about half as many people again as in the early thirties. Unless the Government is to be unfairly blamed, care should be taken e.g., by quoting unemployment in percentages of the insured population, to see that a true picture of the position is given.

Employment problems are particularly difficult to handle because the remedies have to be applied before the symptoms are obvious. An early application of the brake can prevent an unhealthy boom. Conversely a timely touch on the accelerator can stop a slump developing; if the Americans had adopted in 1930 the inflationary measures applied in 1933 the slump would never have reached such unmanageable proportions. But a Government acting in this way will always risk being accused of blocking prosperity just when the country is turning the corner or, conversely, of irresponsible extravagance just when future prospects are bad.

This note does not attempt to go beyond the Third Period, which should carry us three years or more beyond the end of the German war. Thereafter additional considerations will, of course, have to be taken into account in determining policy.

26th October, 1943.
LONG-TERM EMPLOYMENT POLICY.

SUMMARY.

The public will demand full employment after the war. The experience of the last eighty years shows:

I. The cyclical nature of unemployment.
II. A rise in the average level of unemployment since the last war.

I. Cyclical Unemployment.
1. The vicious circle.
2. The scale of the problem is not unmanageable.
3. The importance of stabilising exports and of the Article VII discussions.
4. Internal policy.
   (a) The timing of public investment.
   (b) Variations in taxation.
   (c) "Black spots."

II. The Average Level of Unemployment.
1. The importance of preventing another permanent fall in exports.
2. Internal policy.
   (a) Theory of "glut" rejected.
   (b) Increasing the mobility and versatility of labour.
   (c) Encouraging new firms and industries.
   (d) Offsetting a possible excess of savings in relation to the demand for capital.

III. The Need for Speedy Administrative Action.

Unemployment has been reduced by the harsh necessities of war from the 1 to 3 millions of peace time to about 100,000. After 6 to 10 years of full employment during the war and the post-war boom, the British people will not tolerate a return to the old figures. They will demand that the Government produce a programme for achieving comparable results in peace.

The electors will not be content with the answer, albeit reasonable, that in war time 5 million people are in the forces; that the State's duty to feed, clothe, equip and maintain them makes insatiable demands for labour; that by directing labour from one job to another, or even from one region to another, and conversely by siting factories to suit labour conditions, the Government in war time can reduce to negligible proportions the large number normally out of work moving from job to job, or while waiting for their particular job to come back to them; and that accelerating inflation would be hard to avoid unless full employment were accompanied by rationing, allocation of materials, the essential work order, compulsory savings, &c. We managed to maintain full employment, they will say, by dressing one-tenth of the population up in uniforms and getting them to fire away vast quantities of valuable munitions; surely there is no particular virtue in the homicidal aspect; and, if not, why cannot we obtain the same result in peace? They will, of course, want to get rid of controls, and in return will, no doubt, accept some measure of "frictional" unemployment (say, 1-2 million) whilst people are moving from one job to another. But figures over a million will be repudiated. The problem, therefore, will be, without huge defence expenditure and with a minimum of war-time controls, to ensure employment figures at any rate comparable with those of to-day.

I shall not endeavour to examine in detail the administrative and political implications of the various measures which, in their different ways, would be effective. My object is to set out the various lines of approach and indicate how they would operate. But it seems to me urgent that these matters should be examined from the point of view of practicability, both administrative and political, so that a proper Government programme can be put forward at an early date.
Chart II shows approximate unemployment figures from 1860 to the present day. Even a superficial examination shows clearly two important points. The first is the obvious cyclical nature of employment, which is, of course, geared to the well-known trade cycle. The second is that, whereas unemployment from 1860 to 1914 oscillated about a mean level in the neighbourhood of 5 per cent., after 1918 it seems to have oscillated about a figure in the region of 13 per cent. Though the exact percentages may be questioned, since the older statistics are not sufficiently comprehensive or comparable to link on to our modern data altogether quantitatively, there seems no doubt that the average level of unemployment after the Great War was very much higher than before.

It will probably be convenient to consider these two outstanding phenomena in turn.

I. Cyclical Unemployment.

1. Whatever its origin, the disastrous effect of the trade cycle is due to the well-known vicious circle of falling demands causing reduced employment, the loss of wages and profits creating, in turn, fresh falls in demand, and so on. Clearly, if the original reduced demands could be offset by increased demands for goods elsewhere, instead of reduced demands owing to loss of wages and profits, this vicious circle would be checked. Indeed, broadly speaking, a slump could not develop if demand could be maintained, and demand would be maintained if either the Government or the public were in a position to buy. It is, I think, generally agreed that, if money could be put into circulation when a depression began, and if the very natural reaction of both Government and people to cut down expenditure because times were bad could be overcome, we should have gone a long way to solve our problem. This was tried in the slump of the thirties, but the method adopted, namely, to increase the supply of money in the banks and reduce rates of interest in the hope of priming the pump by fostering the demand for capital goods, was, to say the least, slow in operation. Though the banks were stuffed full of money, it did not get into circulation. We must therefore consider in what other ways we can force the issue.

2. The scale of the problem does not seem unmanageable. In the past, the real national income of the United Kingdom has probably never oscillated, between periods of boom and slump, by more than 7 per cent. about the mean level—say, £800 million on a post-war income of £7,000 million. If taken in time a comparatively small intervention should suffice to damp them down. But it is essential to act in the early stages. The brake has to be applied in the middle of the pendulum’s swing if we want to stop it swinging.

3. Whatever may be our theory of the cause of the trade cycle, investigation shows that the main fluctuations in employment in this country originate in our exports, which fluctuate relatively three to four times as widely as the rest of the national income. Obviously the best thing would be to prevent ab initio these variations in the demand for our exports. In our conversations under Article VII, we are trying to ensure this. An unexpectedly wide measure of agreement was reached between our Delegation, headed by the Minister of State, and the Americans. A plan for holding buffer stocks of primary commodities, which would even out the demand of our customers, was discussed. A monetary scheme to give countries a reasonable cushion of foreign exchange and to prevent interference with the normal flow of trade by sudden changes in the value of currencies, save when the country’s balance of payments renders this essential, has reached an advanced stage. Even the proposal for a general reduction of import duties and a ceiling on tariffs, which was included in our commercial scheme, made some headway.* If these various tentative arrangements between the United Kingdom and the United States can be converted into firm agreements, a very large number of the other nations of the world will almost certainly

* The monetary and commercial schemes, far from tying our hands as regards employment policy as is sometimes held, would be of considerable value. They would allow us to depreciate the pound when our balance of payments was in difficulties as a result of a decline in exports, without the fear of competitive depreciation or the erection of equivalent trade barriers by countries more favourably situated. They would also allow us to pursue an expansionist policy when a depression threatened, without the fear that it might hamper exports (through rising prices) or unduly stimulate the purchase of imports; for if this happened, and our balance of payments became difficult, we should be allowed to depreciate the pound and impose import quotas, again without fear of unwarranted retaliatory action by other countries. The international investment scheme proposed by the Americans might be so worked as to reduce fluctuations in world activity as a whole and so in the demand for our exports. Finally, if, as a result of continuing discussions on employment policy itself, anything can be done to stabilise United States employment at a high level, this will be of great value in ironing out fluctuations in the world as a whole.
have to fall into line and a great step forward will have been taken in evening out and promoting the flow of trade. As the greatest trading nation of the world, we shall stand to gain most of all and our employment problem will be materially eased. But no firm agreement has yet been reached; some doubt whether it will ever be reached, seeing how the tide in American politics is flowing. We must therefore prepare to deal with these cyclical variations which may be imposed upon us from abroad by methods within our own control.

One way, of course, would be to reduce our dependence on exports by growing more food at home and thus diminishing our imports. The extent to which this is feasible is disputed. In any event, it could only come into effect to a notable degree if we made great changes in our agricultural practice which obviously would take many years.

I will, therefore, in this note consider only the various possible direct modes of intervention, which may be examined seriatim.

4.—(a) Nowadays, central and local authorities spend a great deal of money on public works. Apart from this the Government can influence, if not control, the timing of a large amount of capital investment by public utilities, &c. To even out the trade cycle such projects should be held back, but kept in a state of readiness, in buoyant periods of boom and fostered and put into effect in periods of slump. In this way, it is reckoned, something like 13 per cent. of the national income might be flung into the scale so as to damp down the oscillations of the trade cycle; and the indirect snowball effect of this variation (through the expenditure of the workers directly employed and so on and so on) should be about as great again, so that the variations would, in all, offset fluctuations of 3 per cent. (£200 million) in the national income about the mean level. This is an appreciable fraction of the 7 per cent. (£500 million) with which we may have to deal, and would in itself contribute to a large extent to even things out.

(b) There is another direct means by which the Government can force money in and out of circulation. After the war, unhappily, there seems little doubt that, in one form or another, taxation, together with social security contributions, will amount to something like 30 per cent. (£2,000 million) of the national income. It is clear, therefore, that a change of, say, 10 per cent. in taxation would directly alter by 3 per cent. (£200 million) the amount available to the public for purchasing commodities, and this would have a cumulative effect as explained above. Together with controlled investment mentioned under (a) this would balance the whole fluctuation due to the trade cycle. And, indeed, considerably less would probably be required in reality if we acted quickly, since extreme fluctuations would never develop as they did in the past.

This proposal would, of course, have afflicted Gladstonian Treasury officials since it means a deficit on the budget in bad years and a surplus in good. But from the economists' standpoint there is nothing sacred about the time it takes for the earth to travel once round the sun. We must get used to thinking on a longer bracket. If the surpluses over a long period balance the deficits, even the most conventional financial expert should have nothing to worry about. We have been warned against crucifying mankind on a cross of gold. We must equally beware of crucifying mankind on the 5th of April.

(c) The general measures outlined above will, of course, not suffice to cure the "black spots" in particular industries and areas where employment fluctuates with special violence. They will help, especially the immediate expenditure on capital investment, since industries producing capital goods are usually subject to especially large fluctuations. Moreover, if prosperity can be maintained overall it will be easier for workers to find jobs in other industries when their normal occupation lapses; and there will be a certain incentive to increase output in places where labour is plentiful. We shall have gone some way to solve our problem, in other words, if the cumulative effects of a slump in the large exporting industries can be reduced by preventing a resultant fall in the demand for consumption goods with its well-known cumulative effect.

But the decline in a certain industry or area is often appallingly swift. In the cotton industry, for instance, unemployment rose from 14 per cent. to 42 per cent., i.e., trebled, in the first six months of 1930. Unless the international

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To illustrate orders of magnitude—

1s. in the pound on income tax yields about £100 million.

4d. a pint on beer about £10 million.

1d. on 10 cigarettes (with a similar tax on tobacco) about £30 million.

5d. a week in insured persons' contributions to social insurance about £20 million.

4d. a week in employers' contributions to social insurance about £10 million.
arrangements on which we have been working come into effect this sort of thing is likely to continue.

To forestall this it is most desirable to diversify so far as is possible industry in the black areas, i.e., the areas depending largely on one or two industries, especially where these are working for the export trade. A region with half its workers employed getting coal, three-fifths of which is shipped overseas, as in South Wales in the early 'twenties, is bound to be at the mercy of events abroad, which British Ministers cannot hope to control. The Government can help to diversify industry by maintaining, where possible, munition factories in these areas, and by encouraging industries producing consumption goods for the home market to go there. In munition factories service programmes, which in peacetime are comparatively elastic, might be expanded or contracted to suit the circumstances. In some cases we might even consider keeping internal buffer stocks of manufactured goods such as cotton goods, steel, tinplate, ships, for which the demand is unstable. And, of course, the black areas should be given priority where possible for public works. Purchasing power in the locality might be maintained by temporary local reductions in the social insurance contributions, though this has obvious dangers. If necessary some form of compulsory short-time, supplemented by payments from the insurance fund, could be introduced. We might even consider giving coupons for the purchase at a cheap rate of consumer goods produced by the industries affected as has been done in the United States.

One great difficulty inherent in applying these measures will be, of course, to tell whether the decline is temporary or permanent. In the slump of the 'thirties, for example, employment in both the cotton and the engineering industries fell by well over one-quarter, but whereas engineering was destined to expand again well above its previous level, cotton never recovered appreciably. It will not be easy to decide when the measures necessary and appropriate to tide a given industry over a bad patch should give way to those required when an industry is irretrievably passing into a state of decay.

II.—The Average Level of Unemployment.

1. So far we have considered mainly the types of policy required to cure cyclical unemployment. But even if these policies are successful there may still be a more enduring problem. Though our statistics before 1914 are uncertain there seems no doubt that the average level of unemployment increased markedly after the last war. Various reasons have been adduced to account for this—

(i) Foreign countries learnt during the war to make many of the commodities we had formerly exported.
(ii) We were under-cut in the export markets by European countries with depreciated currencies.
(iii) We were reluctant to invest in countries abroad of doubtful financial and political stability; hence these countries could not buy so much from us.
(iv) We were deprived of a large part of our markets in India, Russia and Japan by political changes.

There is a great deal of truth in all of these reasons, and the fact that the increased unemployment in the 'twenties was roughly equal to the reduction in the number of workers employed in the export trades lends colour to the view that our troubles originated in these foreign markets. It may well be that similar tendencies will occur after this war and unhappily it is very difficult to control conditions abroad. It is for this reason that we should spare no efforts to make a success of the negotiations now in train with the Americans.

2. There remains, however, the very pertinent question why the labour and productive capacity set free by the reduced demand for exports was not switched over more quickly to producing for the home market. This surely was within our control.

Once again a number of reasons, many of them substantial, have been put forward. If we examine them one by one the remedies will be obvious:

(a) We need not, I trust, waste any time on the utterly fallacious reason often cited that production had become so easy that supply exceeded demand. This "economics of glut" theory implies that all human demands had been satisfied; it will only be true when the last man who wants one has got his Rolls-Royce and then only if no new inventions are made causing him to ask for something else.
There is more force in the explanation that labour's incentive to seek a new job when thrown out of work is nowadays much smaller, thanks to the social services, than in Victorian times when unemployment spelled the workhouse, and that this caused, e.g., cotton-spinners in Lancashire to hang on waiting for the cotton trade to revive instead of pushing about and looking for alternative employment. To a certain extent this is true and we must not underestimate the importance of making sure that conditions of work are preferable to life on the dole. But, of course, this is only one aspect. In Victorian times, with a rapidly rising population, when nearly all industries were flourishing, it was a matter of one industry expanding slower than others, or at worst standing still. The sons would go into the new buoyant trades; the parents would stay. Nowadays we have to cope with hard definite falls in demand. To find new jobs, middle-aged people, some of whom own their houses or are buying them through the Building Societies, would have to move to other parts of the country. Moreover, a higher degree of specialised skill is required in the various industries than formerly; nor do Trade Union regulations facilitate a change.

The remedies seem to be, not so much migration away from the depressed area, with all the loss in accumulated social values this would involve,* as to start and develop new industries there, to arrange for training workers desirous of changing their occupation, and to make agreements with the Trade Unions by which they can be absorbed.

As a counterpart to (b) we are often told that high taxation has reduced the incentive to the entrepreneur to start or extend industries; and that the small man, on the other hand, finds it hard to start in business in competition with the mass producer. In so far as this factor is material, it emphasises the importance of giving due reward to enterprise and initiative. Tax relief, and, possibly Government loans, to small rising firms and nascent industries, should be considered sympathetically. If our dying industries are to be replaced by new ones, we must look to energetic, active, young men, who see some prospect of making a place for themselves in the world. To pillory them for being inspired by "the profit motive" is unjust. Their motives are no more immoral than those of the worker who wants a higher wage or of any professional man who takes particular trouble over his duties in the hope of finding "a larger sphere of usefulness" elsewhere, even though it be linked with a larger salary.

The most esoteric explanation of unemployment—which commends itself especially to academic economists—is that humanity's incurable tendency to save money may not always be matched by sufficiently attractive investment opportunities, and so may inhibit demand. This danger has, in my view, attracted an undue amount of attention in certain circles at the expense of more urgent problems. Admittedly, the position was easier in the half-century before the last war. Annual investment, or the addition to the capital stock of the community, which probably averaged about 10 per cent. to 15 per cent. of the national income, was made up of three parts, each of comparable importance:

(i) Investment abroad, in the form of a surplus of exports (visible and invisible) over imports. It will be a good many years before we can build up our export markets once again to a point at which foreigners take more from us than we import from them.

(ii) The accumulation at home of capital equipment, houses, &c., to keep pace with the rise in population. This process has now come to an end.

(iii) An increase in the amount of capital per head (better houses, increased mechanisation, &c.). It is on this type of investment that we must mainly rely for some time to come.

* The scale of migration required will by itself often rule out this solution. For example, South Wales was so badly hit after 1923 that one-quarter of the population would have had to be moved to cure unemployment there, before the onset of the Great Depression in 1929 made the problem even worse.
Thus two of our three main outlets for investment in the past are now closed—for the time being at least. But we need not meet our troubles before they arise. Scientific discoveries and new inventions will tend to create fresh investment opportunities, especially if enterprise is fostered and the rate of interest on borrowed money is not too high. Nor is there any certainty that the desire to save may not weaken as social conditions change. If the problem turned out to be serious, it would not be difficult to find remedies, e.g., by discouraging the accumulation of undue reserves through tax remission to companies (companies are responsible for about half our savings) which employ their savings in extensions and new projects at the expense of the less enterprising concerns which neither invest their earnings nor distribute them.

If the position really became so acute that measures of this sort were not enough, the difficulty could, of course, be met by unbalancing the budget. The Treasury in this way would spend the money and create the required demand on behalf of the miserly public. The miserly public would receive in return a growing volume of Government securities. What better security could it ask?

Compared with our other commitments, the scale of the process is not great—say £100 million a year. If we can face an increase of over £100 million in the national debt every fortnight in wartime, we need not be terrified by a similar increase once a year if this should be necessary to prevent unemployment in peace. The extra interest charged—say £3 million a year—would be covered many times over by the natural rise in national income and taxable capacity, which should amount to about £100 million per annum, judging by past experience, even allowing for a stationary population.

There is, of course, a very definite line between the beneficent deficit which cures unemployment and the excessive deficit leading to inflation, but, though this distinction is clear to statisticians, it may not be easy to make it clear to the electorate, or even to some vote-hungry politicians anxious to appease constituents clamouring for bread and circuses.*

III.—The Need for Speedy Administrative Action.

As emphasised in my note on employment policy in the transitional period, a comparatively small intervention in the early stages before a slump has really developed is far more effective than much greater efforts when all the cumulative effects have come into play. In 1920–21 unemployment rose from 5 per cent. to 15 per cent. in four months. It is therefore essential that the Government should be in a position to act in the very early stages, or even to anticipate a threatened slump. For this purpose it is essential to get the required statistical data quickly and to analyse them without delay.

Returns of unemployment, production, &c., should be taken at frequent intervals (in some cases weekly), and the results made available within a few days. Orders placed, especially those with the large exporting firms, would prove an invaluable pointer. Information about changes in stocks held would be a great help in forecasting future developments. Projected capital expenditure by firms and local authorities should be collected. Naturally, all such information should be treated as absolutely confidential. If they could be sure that neither their competitors, creditors nor anyone else had access to the details, I do not believe that industry would object to giving the data. A really competent economic and statistical section in possession of the facts could analyse and cross-check them and present a monthly (or perhaps weekly) report to the appropriate Minister or ministerial committee. This, together with a study of conditions in foreign countries, should allow a reasonably accurate forecast of the trend of employment so that rapid steps could be taken to forestall changes in industrial conditions.

* There is much to be said for the practice frequently advocated, and adopted I believe in Sweden, of having an annual budget which must be balanced in the year and a capital account which may or may not be balanced by revenue according to the state of employment. Public works, armaments, &c., which maintain their value over many years naturally come into the capital account; national debt interest, pensions, civil servants' salaries, &c., come clearly into the annual budget. Though the separation makes no difference in the realities, it might be politically expedient as softening the shock to the old-fashioned mind of unbalanced budget and forestalling to a certain extent the limitless demands of sectional interests.
Naturally, this would involve inter-budgetary changes in taxation, or at the very least, variations in social security contributions. How this could be done without undue changes in our constitutional procedure requires examination. When speedy action is required, it will practically always be to prevent a slump developing; this will mean the reduction of taxation, not the imposition of fresh burdens, so that serious opposition in the House would be unlikely. Parliament might agree to a clause in the Finance Act giving the Government authority, in case of need, to make limited remissions of taxation, having immediate effect—but subject to subsequent ratification.

From many points of view, of course, there would be advantage in making such variations depend automatically upon definite criteria such as the degree of unemployment. This would prevent log-rolling and avoid delay in Government committees. On the other hand, there is much to be said for ad hoc decisions by some responsible Minister or ministerial committee. Automatic changes can only derive from statistics of what has happened in the past; ad hoc decisions can be based on intelligent forecasts. So many variables, political as well as economic, are involved that it seems unlikely that an automatic formula could be found to suit all eventualities. The question is whether it is not even more unlikely that we shall be able to find a man capable of forming a sound judgment, taking account of all these variables, who would be entrusted with this great responsibility by the House of Commons.

Probably some intermediate answer would be best. But one thing is certain, and that is that almost anything is likely to be better than to let matters take their course, as has tended to happen in the past.

Although it seems useful to set out all these long-range unemployment problems, I trust discussion of them will not be allowed to interfere with the measures necessary for the transitional period. The great testing time will come when the slump threatens after the anticipated immediate post-war boom. Unless we prove able to meet and overcome this danger, our whole social and economic structure will, in my view, be in jeopardy.

6th January, 1944.