

## THE PROBLEM OF UNEMPLOYMENT

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(Being Notes of an Address delivered at the Henry George Club, London, 28th March)

The problem of unemployment is essentially a modern phenomenon; the point at which it emerged in our social history is quite clearly to be observed. It is still more a modern phenomenon as a subject of political concern and as a subject of economic investigation, because it is mainly the growing political power of the working classes that has forced this matter on the attention of statesmen and economists. An adequate analysis of the problem is therefore a matter of some difficulty as being outside the well-beaten path of economic investigation.

To the unemployed man himself, the matter resolves itself mainly into a disinclination or inability on the part of employers to give him employment. To the employer it appears in the shape of a failure of demand on the part of his customers for the products of his undertaking, that is to say a failure of demand at such a price as will make it profitable to produce, and therefore profitable to employ labour.

What has to be explained, then, is a widespread failure of effective demand. This may appear to be due to changes of taste and fashion, or to satiety in respect of individual articles of consumption, but such causes merely signalize a change in the direction of consumption; they do not indicate an aggregate diminution in demand. The expenditure which was formerly made upon one article is made on some other; the energy that was formerly devoted to the production of one is devoted to another. The total result is the same. What we have to find rather is an explanation for a general failure of demand, that is to say a diminution of purchasing power in general.

Now the total purchasing power of the community is nothing else than the total income of the community; or in other words, the aggregate national production of goods and services constitutes when viewed from one side the supply, and when viewed from another side the demand for goods and services. So that a general diminution in demand is, and can be, nothing else than a general diminution in production. The argument appears, therefore, to lead us in a circle, and to furnish as an explanation the very fact to be observed; but this is not wholly so. We have eliminated in the process those attempted explanations, which rely upon the phenomena of exchange, or the relationship of employer and employed. We are thrown back, instead, to consider the fundamentals of production, and to inquire where among its three factors the obstacle to production is to be found.

The obstacle plainly is not due to the factor of labour, for the very essence of the problem consists in the apparent surplus of efficient and employable labour. (The problem of unemployability is something quite different.) Nor is the obstacle the insufficiency of the supply of capital or its unfittedness for the requirements of production, for an equal characteristic of periods of unemployment is the large quantities of unemployed capital which find their way again into use when the crisis has passed.

We are driven, therefore, to consider the third factor, land; and we find, in fact, an apparent scarcity of it. This scarcity is, however, of a distinctive character. It is merely a relative scarcity, not an absolute one. There is in every modern society an abundance of unused land, of every degree of productivity, but obtainable as an instrument of production only at a price which renders it impossible to use it. The obstacle, therefore, that brings the process of production to a standstill, and that throws out of use both capital and labour, is the holding of land out of use. This is confirmed by the fact that every period of unemployment is preceded by a period of brisk speculation, and the ultimate object of this speculation will be

found to be land-value, though the immediate object of the speculation may appear to be the shares and stocks of industrial undertakings. These, however, have no value in themselves; they are merely the representatives of the land and capital in whose product their owner is thereby entitled to share. Henry George has explained with masterly clearness how the progress of society tends to a constant appreciation in the value of land, and how this in its turn leads to periods of violent speculation in land values, and the holding of land out of use until the speculative value is attained and sufficient land then comes into use to enable industry to become once more active. This activity in its turn provides the basis for anticipating a further increase in value, and marks the beginning of a fresh epoch of speculation. On the other hand a period of brisk activity in production leads to an increasing production of capital and a cheapening of it. It is evident that the object of speculation is not capital in the strict sense of the term, but the other factor in production, land. It is the holding of land out of use that checks production, not the holding out of use of capital. This analysis affords the only adequate explanation of the recurrent periods of depression and unemployment.

Once this explanation is accepted, the remedy for unemployment is obvious. It is to throw land into use, and I shall not pause to explain the effectiveness of the Taxation of Land Values to do this. The analysis already made is in itself sufficient criticism of many of the current theories on unemployment. I shall, therefore, only deal with one (put forward by Mr. J. A. Hobson in his book *THE ECONOMICS OF UNEMPLOYMENT*), which has a certain plausibility, and appeals to certain strong prejudices. Mr. Hobson's argument is chiefly this: That there is a normal tendency for the rate of consumption of commodities to fall behind the rate of industrial production. That the only adequate explanation of this is the existence of a normal tendency in society to produce more capital than is necessary in order to maintain the production of wealth, and *per contra* a tendency to produce too few consumption goods. This tendency, he says, is due to the wide disparity of income between rich and poor; the rich are already so well off that they have no desire to expend a large part of their income on consumption goods, and they spend on capital goods instead.

Mr. Hobson's statement seems to me in a large measure true, but it is difficult to understand why there should be unemployment because a larger part of the energy of society is devoted to producing capital goods than if it were devoted to producing articles of immediate consumption. It might, on the contrary, be said to be to the advantage of society that the rich devote so much of the income that might be used for mere consumption to capital purposes; and it has indeed been said so with some force by an acute economist, Mr. J. M. Keynes (*ECONOMIC CONSEQUENCES OF THE PEACE*, p. 16).

What is of most importance to us, however, is Mr. Hobson's remedy; it is to remove the surplus element in large incomes, and to secure a better distribution of income. The Taxation of Land Values would, in fact, go a very long way to secure this, and would, therefore, if Mr. Hobson's theory were correct, go equally far in putting an end to unemployment.

It may be instructive to consider some other suggested remedies or palliatives. The cyclical character of unemployment has long been obvious, and has been practically assumed to be almost inevitable. It has, therefore, been suggested that an attempt should be made to regularize the volume of employment by putting into effect public works of one kind and another on a large scale during periods of unemployment, and suspending them during periods of good trade. The only means, however, by which this can be done is by taking money from the pockets of the community and spending it on public works, and it is apparent that all that this can achieve is to alter the

direction which is given to production. The community, in fact, through the agency of taxation and public loans, is compelled to forgo spending as much on (let us say) boots, clothing, and furniture, and spend more on making parks, roads and similar undertakings. This experiment has now been tried upon a gigantic scale during the past few years by the local authorities aided by the national exchequer (Unemployment Grants Committee), but can any impartial observer say that it has made an atom of difference to the volume of unemployment?

Another proposal, which in essence is of the same nature, is that unemployment should be met by insurance. It is said that if a man can safeguard his family against the economic consequences of his death by insuring his life, he should be equally able to insure them against the consequences of his being involuntarily unemployed. The cases are really not on a comparable plane. Insurance for benefits at death (or at a certain age) rests upon the fact that, on an average, exactly the same proportion of the population of a given age dies during the course of each year. The premiums paid by those who live are calculated accordingly to be exactly sufficient to pay the benefits of those who die. The insurance company, if it manages its affairs wisely, has a constant income and a constant expenditure when the total volume of its operations is considered. An exactly analogous state of affairs would arise if the volume of unemployment in a country were constant year after year, although the individuals who constituted

that constant percentage of unemployed were constantly changing. It would then be perfectly simple and feasible to insure the individual against the consequences of unemployment, as there would be a constant income from those in employment paying their premiums and expenditure on unemployment benefit.

In point of fact unemployment is enormously variable. There are periods of several years during which the percentage of unemployed is at a minimum; then follows a like period in which it is very high. It is impossible that the unemployed during these periods of severe depression can be kept on reserves built up during the preceding period of good trade. They must be supplied with bread, shirts and boots which are being produced practically from day to day by the labour of those who are in employment, not by the accumulated products of their labour during the previous period of brisk trade. There is therefore an inherent fallacy in the idea of insurance against unemployment. It is merely an indirect form of taxation, whereby those who are in employment keep those who are unemployed; and the same result might equally well be achieved by making the maintenance of the unemployed a direct charge on public funds, and dispensing with the whole cumbersome mechanism of collecting contributions from employer and employee and supplementing these by a contribution by the State. The only difference would probably be some slight change in the incidence of the cost.

## SOME OPINIONS ON THE BUDGET

It is just 15 years since Mr. Lloyd George hurled his bombshell proposals into the Tory ranks. For a long time he has been, as near as can be, a Tory himself! His Taxation of Land Values plan died in early infancy, and it falls to this Government to produce another, which Mr. Snowden, we are glad to say, promises to do at the earliest opportunity.—*DAILY HERALD (Labour), 30th April.*

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A very good Budget, which will deservedly be very popular. I wish Mr. Snowden had gone a little farther on the land question, but his proposal relating to the Land Valuation Department is a promise that something will be done.—*Mr. Robert Smillie, M.P. (Lab.), in the DAILY HERALD, 30th April.*

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I am sure that I am expressing the gratification of the Labour members who favour the Taxation and Rating of Land Values when I welcome that part of the Budget in which Mr. Snowden expresses his intention to re-establish the Land Valuation Department with a view to the future imposition of land taxes.—*Mr. W. Whiteley, M.P. (Lab. Joint Secretary of the Land Values Group), in the DAILY HERALD, 30th April.*

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One other most mischievous change is made by the Budget. The absurd Land Valuation Department is to be re-established. It was instituted by Mr. Lloyd George as one of the "rare and refreshing fruits" of his land-tax scheme in 1909. . . . The Department was swept away after the war as a useless expense and sheer waste of money. If it is re-established it can only be because the Socialist Party mean to restore the unprofitable land taxes, which were one direct cause of the present house famine.—*DAILY MAIL (Conservative), 30th April.*

[As recently as 25th January, the *DAILY MAIL*, in a leading article, declared: "There should be power to levy adequate rates on eligible building sites, especially where these are in close proximity to land that is already built upon. The yield of such special rates would be yet another means of meeting the cost of housing."—*Editor, LAND & LIBERTY.*]

Mr. Snowden did indicate a new tax. There was to be an increased staff set to work at Somerset House on the valuation of land, and next year we would have new land taxes. Our past experience in land taxation had not been wholly fortunate. He supposed they must console themselves with the fact that if a good many thousand work-people were likely to be thrown out of employment (by the repeal of the McKenna Duties) at Coventry and elsewhere, at any rate there would be more Civil Servants taken on at Somerset House and elsewhere in the Land Valuation Department. But on balance the national interest would suffer.—*Mr. Austen Chamberlain, M.P. (Conservative), at the Imperial Commercial Association, Holborn Restaurant, London, 30th April.*

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He (Mr. Snowden) was warmly cheered for his promise of economy, and of the Government's definite intentions on land taxation and valuation.

His claim that his Budget was the greatest step ever taken towards the Radical ideal of the free breakfast table raised the cheer it meant to elicit.

But the most outstanding feature of his speech was its Free Trade character. His references to Preference and to the McKenna Duties were delivered with a vigorous and challenging air, and the Chancellor did not conceal his enjoyment when Mr. Asquith, in his brief speech, declared it emphatically a Free Trade Budget.

Mr. Snowden had a great opportunity, and he took it.—*The Parliamentary Correspondent of the WESTMINSTER GAZETTE (Liberal), 30th April.*

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There was something for everybody—cheaper sugar and tea for the housewife, repeal of the McKenna Duties for the Free Traders, abolition of the Corporation Profits Tax for the business men and of the Inhabited House Duty for the middle-class householder, a beginning of Land Valuation for the strong land valuation groups, cheaper seats for the "cinema" public, and no new or increased taxes for anybody. Large and small, they are all popular except the abolition of the McKenna Duties among the Conservative Protectionist.—*Political Correspondent of the MANCHESTER GUARDIAN, 30th April.*