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# UNEMPLOYMENT: CAUSE AND CURE
## HAS BEVERIDGE SOLVED IT?

THE PUBLIC instinct is right in regarding unemployment as the crux of the social problem. Because of its author's reputation Sir William Beveridge's contribution to the discussion (*Full Employment in a Free Society*. George Allen & Unwin. 12s. 6d.) has been eagerly awaited. The title certainly comes up to expectation. Full employment in a slave society would present a difficult and repugnant choice. But does the book itself live up to the expectation? Does it diagnose correctly the cause or causes of unemployment? And if so, does it propose appropriate and adequate remedies? These are the vital questions.

### Four Assertions

The book contains so large an apparatus of statistics, description, and discussion of detail that the reader may well have difficulty at first in discovering the essentials of the argument. He may also very easily be diverted from consideration of the basic features of the proposal by the elaborate and intriguing exposition of the various alternative forms which it may take, and thereby be subconsciously induced to assume that the fundamental propositions have been proved.

The foundation of the argument can, we think, be reduced to four assertions:

1. Unemployment is due to insufficient outlay (spending) upon the products of labour.

2. Outlay is insufficient because what people save (i.e. do not spend on consumption) is not all invested (i.e. spent on new means of production).

3. Any kind of spending will maintain employment, whether it is on consumption or investment, although useful spending is to be preferred to useless spending.

4. Any spending induces employment not merely to the extent of the spending, but to a greater extent, because it will set up a demand for other labour. (The multiplier effect.)

These four propositions appear to contain the whole of the economic analysis upon which the book revolves. We propose to examine them in turn.

### Spending and Employment

The first proposition is formulated by Sir William in these words: "Employment depends on outlay, that is to say on the spending of money on the products of industry; when employment falls off, this means that someone is spending less; when employment increases, this means that in total more is being spent." In one sense this statement is a truism. When employment is brisk and production is high, no doubt more is spent; and conversely. But Sir William means more than this. His proposition is intended to contain a relation of cause and effect. It asserts that spending is the cause of employment, and not that employment is the cause of spending. This distinction is the basis of his whole argument and plan. If the reverse statement is true, if spending is the consequence of employment, then the argument falls to the ground.

No doctrine crops up more frequently in the history of economic thought than this. It lies at the root of mercantilist contention that money should be kept in the country. It is the implicit basis of the argument for protection. When it is proposed, for example, to set up a plant to distil oil from coal at twice the price at which oil can be imported, the same idea that spending is beneficial is invoked. This notion was the subject of one of Bastiat's celebrated economic fallacies. A boy throws a stone and breaks a householder's windows. The neighbours condole with him, but at the same time remark that it is an ill wind that blows nobody good: there will be work for the glazier. However, as Bastiat remarks, they forget that if the man had not had his window smashed he would have spent the money with the shoemaker, or some other tradesman. In the upshot the householder is without the slippers he might have had, and the rest of the community is no better off—the shoemaker has lost the householder's money, the glazier has gained it.

### Saving and Investment

Although he does not admit it, Sir William appears to realise that the first proposition needs strengthening. It seems to be on this account that he introduces the second. This is derived from Keynes' *General Theory of Employment, Interest and Money*, the publication of which, in 1936, inaugurated "a new era of economic theorising about employment and unemployment." Sir William does not attempt to demonstrate the truth of this theory. He takes it for granted as generally agreed, quoting an American economist, Mr. Paul A. Samuelson; "Upon one thing all modern economists, of whatever school of thought, are agreed: the amount which the community wishes to save at full employment income levels must somehow be offset [i.e. by spending], or income will fall until the community is so poor and wretched as to be willing to save no more than can be offset."

It is also remarkable that, although he provides a superabundance of charts and tables relating to unemployment, Sir William offers not a single factual corroboration that unemployment is caused by unspent savings. He draws attention to the fact that the proportion of workers unemployed in this country between the two wars was two to three times as large as that ruling prior to 1914. Is it true that there was so much more difficulty in spending savings in the latter period than in the former? And if so, what is the reason? These are crucial questions, but they are neither asked nor answered.

### Productive or Unproductive Expenditure

The third proposition is in a sense true. It makes no difference to immediate employment whether savings are spent upon new capital equipment—additions to the stock of factories, machines, raw materials, and so on—or whether they are spent upon consumption. So long as the saver gets interest upon the money he has lent at the rate agreed, he is not directly concerned about what the borrower does with the money; and the expenditure may be assumed to employ an equal number of men whether it is on additions to productive capacity or not. The ultimate results for the productivity of labour and the well-being of society are by no means the same. The one process should yield a rising standard of living and the other a stationary one. For that reason consumption loans have always been frowned upon both by moralists and economists.

### Increased Taxes and Debt

Sir William, none the less, includes in his plan proposals that the State should borrow the supposed unspent savings which are alleged to cause unemployment, and should spend a part at least upon subsidising current consumption. The consequence of such a policy is an increase in the national debt without the State possessing permanent assets of an equal amount. This in its turn means increased taxation to meet the interest on the debt. Sir William regards that as a good thing, because it will avoid "increasing the numbers and wealth of rentiers, that is to say of people with legal claims against the community entitling them to live at the cost of the community." Alternatively, he hopes that the State will be able to manipulate the rate of interest upon its borrowing, so that it becomes continually lower and ultimately becomes infinitesimal. Either method will, it is said, bring about what Keynes calls the "euthanasia of the rentier," although it is a little difficult to understand why the rentiers should consent to lend their money to the State for nothing, or why they should invest in Government stocks if they know that the State is going to tax away all the income.

### Building Pyramids

Now we come to the fourth proposition: that any spending which gives employment will in turn give rise to more employment, because the wages paid will be spent and set up a demand for other labour. This is the idea which Keynes has carried to its logical conclusion in the assertion that in a country suffering from unemployment, even useless employment such as building pyramids or digging holes and filling them up again may increase real prosperity because the wages spent on useless labour will induce demand for useful labour. Or, to take another example which Sir William gives in all seriousness, exports may even be advantageously given away by a country suffering from unemployment because the wages paid to the persons making them set up an internal demand for other labour, "so that the exports, even though they are themselves given away, may increase the production of useful things and add to prosperity at home."

It is well known that governments have, from time to time, subsidised exports (and home production also). These practices, which used to be universally condemned by economists, have suddenly become praiseworthy. The only mistake these governments made would seem to be that they did not do these things upon a sufficiently large scale—for it now appears that the more wasteful you are the more prosperous you become.

### The "Multiplier"

The proof of the "multiplier principle" given by Keynes is presented in a mathematical guise. On that account a formal disproof would be too long and tedious for this review. It may suffice to mention that among other assumptions it postulates that, if the total national income remains constant, the proportions devoted to consumption and to saving must also remain constant. This is obviously untrue.

### Inflation Inevitable

Despite the suggestion that the proposals made in this book amount to nothing more than putting idle money into circulation, their real nature seems to be a continuous process of inflation. That this is so is evidenced by Sir William's concern about the effects of his policy upon wages, prices and international trade—the three fields in which the effects of inflation show themselves most notably. He says: "There is a real danger that sectional wage bargaining, pursued without regard to its effects on prices, may lead to a vicious circle of inflation, with money wages chasing prices and without any gain in real wages for the working class as a whole." The assertion that inflation is a consequence of wage bargaining will not pass muster. Inflation is purely a monetary phenomenon.

### Control of Prices

Similarly, Sir William says: "Adoption by the State of a price policy is a natural and probably inevitable consequence of a full employment policy. . . . One of the first and most obvious signs that total outlay was tending to be excessive in relation to the production resources available would be a rapid rise of prices." By a "price policy" Sir William means price control, or fixation of prices by the State. The passages quoted make it clear that the plans which he advocates will result in inflation, and that rather than abandon them the State will have to regulate both wages and prices. It is, therefore, also clear that the economy will not be a free one, and that the ideal of a free society is not attainable within the plan which he outlines. The ultimate result must be that fixation of prices and of wage rates will depend upon the political pressure which can be exerted by the interests concerned, whether manufacturers or trade unions. In this process the smaller and weaker interests will inevitably go to the wall; the advantage of the stronger interests will be secured at the expense of the small businesses and the independent or less well-organised workers. In the end the society will tend to become more and more corporative or totalitarian, and the weak be systematically exploited by the strong.

### No Free Trade

The same inferences can be drawn from Sir William's observations upon international trade, and in particular his contention that multilateral trading is not possible unless each country adopts the kind of internal policy which he proposes for this country. That assertion means in practice that freedom of world trade can never be restored, and that the productivity of labour will continue to be hampered by all the restrictions and disabilities to which we shall presently refer in more detail.

### Results of Inflation

What are the consequences of inflation? It means an increase in the money price of consumable goods, raw materials, machinery, plant, land and other tangible objects. It means, therefore, that those who own such things become better off in terms of money than they were before. In course of time, as the consumable goods, raw materials, and produced means of production wear out or are consumed, they have to be replaced by articles produced and purchased at the new level of prices. These adjustments take more or less time in each particular case, according to the period which must elapse before the existing stock is replaced. Those who own the most durable goods will tend to gain most. Those who own the least durable goods will gain least, or may actually lose, because they are obliged to sell their stocks before the full effect of inflation and to replenish them when prices have risen still higher. Owners of land gain most of all because land does not require to be reproduced and has no cost of production. Wage workers, as a rule, lose most. Thus inflation results in a transfer of wealth in which those who have most are likely to gain most, and those who have least to lose most.

### General Rise in Costs

But there is another consequence of inflation which is often overlooked. The rise in the price of finished goods will make certain processes of production appear to be profitable which were not profitable before. There will, therefore, be a tendency to embark capital upon them which it would not have been profitable to invest previously. However, it is almost certain that when the whole series of readjustments has been carried out, the general rise in costs will make this altered investment of capital unprofitable. The economy as a whole will be less productive than it was before the inflation took place. This will lead either to lowered earnings or to unemployment.

### Planning or Freedom?

What may, perhaps, strike the reader as remarkable in this book is that, although unemployment is alleged to be due to lack of spending of funds which are available to be spent, no proposal is made for eliminating the cause (if there is one) of this condition. On the contrary, the whole tenor of the book is that this is inevitable, and that the State must step in to correct it. And, apparently, the State must continue to do so until, perhaps, the weight of taxation upon everyone (and the euthanasia of the rentier) has made it impossible for any individual to save, and has thereby made impossible any gap between saving and investment.

In fact the book wavers between two points of view. There runs through it the idea that our troubles are due to this being an "unplanned society." But planning implies constraint; how, then, can we have a "free society"? Sir William struggles valiantly against this dilemma. First of all, he confines economic liberty to "freedom in choice of occupation; and freedom in the management of personal income." But can there be freedom in choice of employment in a managed society? And can there be freedom in the spending of personal income? As to the latter, his own diagnosis imputes most of our troubles to this very fact of freedom in the management of personal income. So he is driven to the paltry device of saying that if the people are dissatisfied with the managers of their economy they can change them at the ballot box, subject always to the proviso that "there must be reasonable continuity of economic policy in spite of such changes of government.

### "Essential Liberties"

His list of essential liberties "does not include liberty of a private citizen to own means of production and to employ other citizens in operating them at a wage." Whether it is an essential liberty to own means of production and for the owners to operate them individually or collectively does not appear. At any rate, a careful perusal of this book will show that liberty in economic matters is hedged about with all kinds of qualifications and restrictions. The society of Sir William Beveridge is very far from being a free society, so far as concerns economic activity. Upon which the question arises very insistently, how far will or can it be a free society in all other matters? Is all the teaching of generations of liberal (and socialist) thought about the basic importance of economic freedom, for itself and in relation to all other freedoms, now thrown on the scrap heap?

### Unemployment and Monopoly

All this comes from failure of correct economic diagnosis. There is throughout this work no recognition that land is as much a factor of production as labour. Some perfunctory references to town and country planning occur, but that is all. The basic question of land and its rent is passed by, and of how the privileged ownership of natural resources, strengthened in many cases by protectionist and restrictive devices of many kinds, is the foundation of all monopoly. No serious attention is paid to deliberate curtailment of production for the sake of monopoly profits as a cause of unemployment.

The steady growth of monopoly between the two wars is one of the outstanding features of modern economic history. It has been fostered and assisted, consciously or unconsciously, by Government policy. Protective tariffs have been raised in many cases to several times the level of 1914, and applied to many more articles. But protection, pure and simple, has by no means been the greatest evil. It has been supplemented by quotas, marketing schemes, bilateral trade agreements, currency manipulation, blocked clearings and many other devices. These facts have been soberly depicted in publications of the League of Nations and writers of repute, some of which have been reviewed and summarised in our columns. The burden of taxation upon commodities, upon houses, upon trade and production, has become far heavier than ever before, while monopoly, and especially the rent of land monopoly, has escaped. All of this is virtually ignored by Sir William although the fact stares him in the face that unemployment rose during this period to two or three times what it had averaged prior to 1914.

The world has been suffering from State intervention and restriction, of which the instigators may have been the relatively small body of privileged persons who have benefited by it, but which could never have been brought about without the lack of fundamental thought in economic affairs which this book so well exemplifies.

### Unsound Diagnosis

The Beveridge Plan is based upon a false diagnosis. It is supported by fallacious economic arguments. It does not achieve what it sets out to do, either in the way of securing the fullest and most profitable use of land and labour (the ultimate agents of production) or in the way of preserving freedom. On the contrary, it will lead to an uneconomical use of land and labour with constantly growing interferences with economic freedom, in the endeavour to avoid the consequential ills of this wrong policy. So, in the end, it is likely to cause the loss of both prosperity and freedom.

It fails because it is not radical enough. There is a field for State action in economic matters, but it is not in the direction of attempting to cure the results of restriction by more restriction. Its true field is in destroying the privileges which allow a small minority to grow wealthy by restricting production, and thereby condemning many to involuntary idleness and many others to starvation wages. There is also a field of benevolence and assistance for those who, through accidents which they cannot control, are the victims of unemployment and other ills. But let not public charity be regarded as a substitute for social justice. The first duty of the State is prevention. It must seek out the causes of social evils and destroy them.

### Cause and Cure

A practical programme of social reform must aim not merely at the abolition of unemployment, but also at the largest production and the fairest distribution of wealth. Such a programme must start from a realisation that the primary means of producing wealth are land and labour. If there is valuable land unemployed, then there will be either unemployed or else underpaid labour. Nothing which leaves our land system as it is can avoid these consequences. The essential wrong in the land system is not merely that it allows owners of land to leave their land unused or badly used, but that it positively encourages this by imposing heavy taxation upon the use of land while relieving of taxation land which is unused or inadequately used. At the same time it allows the owners of land to appropriate the publicly created value attaching to it, and obliges the State to confiscate private earnings for public revenue.

These considerations point out the first step in social reform: to relieve productive effort of taxation and to take the social value of land for State and municipal revenues. An immediately practicable policy would, therefore, aim at the following changes: (1) Rating of site values in place of the present rating system. This would relieve houses and other buildings and improvements of rates while discouraging the holding of valuable land out of use and so causing it to be offered at a more reasonable price. The easement so given to dealing with the shortage of houses, our most pressing post-war problem, would be immense. (2) Removal of protective tariffs and of taxes on food, and raising the necessary revenue by a tax on land values. This and the previous proposal would mean a large increase in real wages. It would encourage the international trade which is so important to the economic life of the country and increase the productivity of our industries. (3) Abolition of quotas and other restrictions upon trade and production, thereby providing a larger field for the productive employment of labour thus removing potent causes of monopoly and restriction of production. (4) As an essential aid to the conduct of trade at home and abroad the establishment of a stable monetary system, preferably upon a basis adopted by as many other countries as possible so as to avoid arbitrary variations in the rate of exchange between our money and that of other countries.

This programme is simple and self-consistent. It can be carried out by stages. Every step in it will make the next step easier. It gives rise to no secondary ill-effects. It involves no vast change in the economic structure, but it sets men free to realise their economic desires without injury to their fellow men. It is the corner-stone of a free society which will ensure both full employment and full production.

## "FETTERED FACTORIES"

WHERE SHALL we plant our factories? Who shall decide where they are to go, and how shall they decide?

Some cynics assert that the question will be decided by the shopping facilities for the wife of the factory manager. And, after all, why not? Shopping amenities are a necessary factor in the contentment of all workers, and should be taken into account. But there are many other factors in the same account.

The Government, for instance, have issued their White Paper on "Employment Policy," in which the solving of unemployment problems is put forward as a deciding issue in the location of industry. They say they propose to attack the problems of local unemployment "by so influencing the location of new enterprises as to diversify the industrial composition of areas which are particularly vulnerable to unemployment." Industrialists contemplating the establishment of new factories or the transfer of the factory to another area will, therefore, be required to notify the Government before doing so. If necessary, the authorities will take power to prohibit the new scheme.

### Colonel Stevens's Pamphlet

By way of protest, we have a pamphlet issued by Colonel T. H. Stevens, of Trafford Park, Manchester, entitled "Fettered Factories." In this it is pointed out that though the Government may so influence the planting of new industries where they think employment will be created, the sites chosen on this plan may not be the most economical. Political and other considerations may influence the choice of sites in a wasteful direction. Colonel Stevens seems right when he says that "if a factory is forced by the Government to occupy an uneconomic site, and therefore fails and closes down, the payments made to the unemployed will be greater than if the factory was allowed to choose its own economic site elsewhere, and continued as an employer of labour."

The most valuable parts of this pamphlet are the detailed examples of the siting of industries. Several cases are given. One of a Swedish pulp manufacturer who selected a site on the Thames, near Windsor, for its abundant clean water, and the good land he was offered. Colonel Stevens, who has a strong partiality for Manchester, gives detailed calculations to show that the same factory at Trafford Park would have saved £67,416 a year. Another case given compares sites at Liverpool and Manchester for a paper mill, and shows a saving of £19,646 per annum at Manchester. Comparison of sites in Sheffield and Manchester for the import of 5,000 tons of magnesite ore again showed savings at Manchester of £2,062 per annum. It is not always thus, however. One large rubber company had to erect its factory in London because of its two sailings to the Continent per day, as against Manchester's two sailings per week. Factories producing articles for sale in the Home Counties, as they are called, round the metropolis, find it necessary to be located in London, where they have nine million potential customers within range of their delivery vans as compared with Manchester's four and a half millions within twenty-five miles.

### Government Compulsion

These examples show the risks run by any Government which tries to solve in an arbitrary way the intricate problems of placing works and factories in the right place. Colonel Stevens, in fact, makes the claim that "if a factory dealing with imported raw materials and exporting its finished products is made by Government to occupy an inland site instead of a site in the particular port which deals with its imports and exports, then the factory owner would be morally justified in demanding a subsidy from Government to cover all transport charges betwen factory and port."

There is also what this pamphlet calls "the employment of factories by the workers." If a factory is placed in a small town to provide employment, then the workers must remain in that town to provide labour for the factory. One case is given of a large factory which was erected to employ the women in a small town where the men had employment in an industry which at the time was flourishing. The men's industry later failed, and they commenced to leave the town, taking their wives and daughters with them The firm which had employed the women was obliged to put up another large factory to manufacture heavy goods, in order to employ both the men and the women and to prevent the town and their first factory from becoming derelict. For such reasons as these Colonel Stevens registers his protest against the Government's plan to "take away from Industry its right to select the most efficient sites which it can find in the country for the erection of its factories and to force it to occupy sites which may be quite unsuited for the purpose."

The *Manchester Guardian* (November 30) which describes Colonel Stevens as the managing director of Trafford Park, Limited, who are the owners of the land at Trafford Park, says, regarding this pamphlet: "It is not as simple as all that." Whilst largely agreeing with