UNEMPLOYMENT AND PUBLIC SPENDING

By A. J. Carter

1. REGIONAL POLICIES OF GOVERNMENT

LAST WINTER seems far away; summer scandals have dimmed the memory of it, and passions have cooled down. Now that winter is once more upon us, it is a good opportunity to remind ourselves that what happened then was serious, both in itself and because it was the symptom of a hidden infection in society which might break out again at any time in the future.

The Government did not create the severity of the weather, and there are in any event always seasonal fluctuations. But in February 1963 the total number of wholly unemployed (660,000) and temporarily stopped (218,000) reached 878,000, or 3.9 per cent of all employees. This is not merely a statistic — it represents getting on for a million people who, though they were willing to work, could not find work, and were therefore condemned to a period not only of poverty but of idleness, lethargy, and loss of self-respect. These feelings communicate themselves to the wives and families of the unemployed men, so the hardship, both material and psychological, is in fact much greater than the statistics suggest.

Such a figure would probably not stir the phlegmatic Englishman very much if the lack of work were evenly spread. The concentration of unemployment in certain areas, however, makes a strong impact and stimulates a widespread concern. The violent demonstration by several thousand unemployed men and sympathisers outside Parliament on March 26, 1963, was an ugly manifestation of this, and an indication of the mounting bitterness. Even among those securely employed and far from the blackest areas, unemployment was seen as one of the foremost political issues, feeding Labour anger and disconcerting Conservatives. Once this stage is reached no government dares to continue to sit back and do nothing. If the attempts to encourage industry into barren pastures are not working, then the members of the government feel that they must do something else, preferably dramatic as well as effective.

The trouble is that no government knows what to do, nor has the time to think. Jolted out of its complacent inaction, it therefore reacts like one of Pavlov's dogs, totally in accordance with its previous conditioning. In these days the conditioning is Keynesian, and the government's reflex action is usually an attempt to "spend its way out of the recession."

Most of the Government's policies for curing unemployment are of an essentially regional nature — rather like heavy watering of the largest patches of dead grass in an otherwise fairly flourishing lawn. The argument for this regional approach (for an analogy may or may not be valid) was conveyed by Mr. Maudling in his 1963 Budget speech, when he declared:

> "It will not be possible to run this country at its full potential on a steady basis so long as full employment in Scotland and the North-East and Ulster means overfull employment and serious shortages of labour in the Midlands and the South. The need for further progress with the problems of regional unemployment is, therefore, both social and economic . . . "

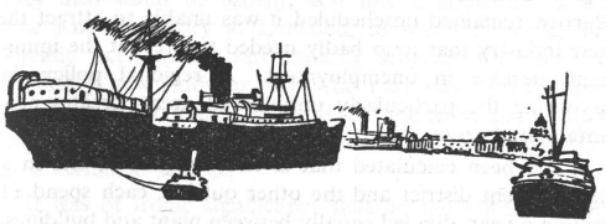
The assumption in this argument is that the only way in which unemployment can be reduced, other than by "further progress with the problems of regional unemployment," is by state-stimulating policies which stimulate the healthy as well as the sick. The assumption is false, because full employment is not dependent upon the stimulation of industry; in free economic conditions full employment would arise spontaneously, and if it does not do so at present something is interfering and preventing it. The fault of most current thinking is that it is concerned with measures to "create" employment; the correct approach is to remove unemployment by removing the factors that cause it.

The phrase "the two nations" — used by Disraeli as the subtitle of his novel *Sybil* — applied to the rich and the poor, between whom there was a great gulf. Today, although we throw many bridges across it, this gulf still exists, and there is no more one nation now than there was then. But it is misleading to use the phrase to apply to those vague areas the North and the South. It is true that much of last winter's unemployment was concentrated in the North, particularly the North-East: the percentage of unemployed there in March 1963 was 6 (men, 7.2), compared with Scotland's 5.7 (men, 6.8), the Midlands' 2.5, and London and the South-East's 1.8. It is equally true that the highest figure was not in the north of England but in Northern Ireland, where the rate was 9.3 per cent; and that the figures in the North and Scotland had their counterparts in the South, for instance Sheerness and parts of Cornwall. Nor must it be forgotten, in the wider context, that the comparative backwardness of the North as compared with the South today is in large part a legacy of the North's great lead following the industrial revolu-

tion. Once it was the North that attracted industry as now it is the South.

It is inadequate, therefore, to consider the problem solely in terms of regions. As Mr. Sid Chaplin (himself a northerner) wrote in the first of the Northern Accent features in *The Guardian*: "We are not a chosen people. We are part of a body politic, and, it so happens, the part which is afflicted with a sickness of lack of work. But the sickness, hidden or otherwise, belongs to the body."

It is no solution to encourage an industry to move from one area to another, for this is merely transferring unemployment, not curing it; spreading it more evenly but not doing away with it. Moreover, it makes little sense to refuse to allow a firm to extend its premises and take on more labour in, say, Accrington because the Board of Trade insists on its being done in Merseyside if the result



is that there are no extensions at all. (Mr. Harry Hynd, M.P. for Accrington, said: "I think it is fantastic. An established firm in Accrington has been told that it cannot extend in its home town.") As for giving a Minister responsibility for a particular region, there can be no justification for selecting one region for special treatment. The appointment of Lord Hailsham looked more like a political gesture calculated to silence criticism from and on behalf of the North-East than a contribution to reducing unemployment in Britain as a whole. It was also an admission that the Government was without an effective policy and could not be bothered to try to think one out.

The Government fumblings which it calls its economic policy have been aptly described by Mr. George Schwartz (*The Sunday Times*, March 31, 1963):

"What Government today is doing, largely in response to differing and fluctuating electoral pressures, is to fuss round the body economic dabbing on ointment in one place and plaster on another wherever a pimple looks like getting angry. This quack treatment won't restore health to the system."

As one would be led to suppose from this, Mr. Schwartz comes out against the concept of helping certain areas only. He points out that it is not areas and industries that feel hardship but individuals, and that just as there are well-off people in generally depressed areas so there are the unemployed in the so-called prosperous areas. "The welfare of one redundant person in a prosperous area is of as much concern as the welfare of any one of 100,000 redundant persons in a depressed area." This is an example of clear thinking which the members of our government apparently cannot rival.

Lacking any background principles of its own, the Government continues to make two mistakes. Not only does it seek to create employment rather than remove the barriers that prevent it, but it also thinks regionally instead of formulating and implementing a consistent, non-discriminating policy for the nation. The natural offspring of the two mistakes is intervention in the siting of industry, and it is precisely here that the Government finds its greatest difficulty. To adopt full direction of industry would be to admit that the whole free enterprise system had failed, and Britain is mercifully not ready to make that mistake yet. This puts the Government in a dilemma. It is unable to see any single policy that is an alternative to control of the siting of industry but at the same time it cannot bring itself to carry that control to completion: it is obliged, therefore, to be half-hearted.

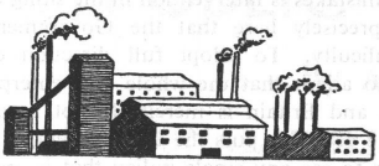
The failure of this emasculated policy was evidenced by the fact that unemployment came. Some interesting details were given in *The Sunday Times* of December 2, 1962, in Mr. Peter Wilsher's Focus article "Army of Despair":—

"The North-country problem areas depend, to an overwhelming extent, on great, heavy, nineteenth-century industries — shipbuilding, shipping, steel, coal, jute — which are dying, contracting, changing or in decline. All have been the subject of valiant (though often ineffectual) efforts by the Government, the Board of Trade, the Treasury and, lately, extremely tough and realistic local development councils, to reverse the tide that has been draining jobs and prosperity from these areas. New factories have been built, new industries cozened, blarneyed, chivvied or bribed into opening up; outright subsidies — on fuel, on transport, on plant (disguised as industrial de-rating) — have all been tried. All of them, in various ways, have been found wanting. As report after report has shown — Toothill on Scotland, Sir Robert Hall on Northern Ireland, George Chetwynd in repeated speeches about the North-East — the introduction of new industries among the Victorian monoliths is rather like trying to push a crushing weight up an escalator which is coming inexorably down."

The more artificial the inducements for a firm to go to a certain area the less likely it is to stop there — the Government, of course, has no power to compel it to do so. Mr. Wilsher quotes examples from Merseyside: sixteen of the new factories on the trading estates at Kirkby and Speke, which were "operating full blast" in 1960, when Merseyside was a development area, are now empty. In Liverpool, examples are given of a clothing works and a tyre factory which closed. The secretary of the Liverpool Chamber of Commerce is quoted as saying, "There's not much point in the Government taking powers to direct industry to come, if they don't take powers to prevent them being stripped out again at a moment's notice." This is logical enough, and a demonstration of the necessary weakness of the policy of government location of industry.

Provided there are other and better means of preventing unemployment there is no necessity for the government to take any powers of direction at all, nor should they do so, for several reasons. The first of these is that when industry

is artificially induced, or even compelled, to set up somewhere different from the place of its natural choice, economic advantages may be lost and the nation suffer through higher costs. Of the new Rootes factory at Linwood, twelve miles from Glasgow, Mr. Richard West, in



"Linwood: The Concrete Sprawl" (*The Sunday Times* Colour Magazine, May 5, 1963) wrote: "Only the very naive would imagine that Rootes had chosen Linwood as the best available site in Great Britain. They wanted a new factory. The Board of Trade said that it must be built in a depressed area."

The whole future, not only of the factory and of Rootes as an independent group, but of a majority of the population of Linwood new town, was dependent on the success of one car — the Hillman Imp — in the highly competitive markets of the United Kingdom and of the European continent, where even a very small difference in cost might have proved disastrous. The apparent success of the venture does not detract from the immense danger of the gamble.

The second reason why direction of industry is not desirable is that to have any appreciable effect the financial temptation has to be considerable, and consequently there is a far from negligible cost to the public. The third reason is that any government powers of direction entail an increase in the control of the state over individuals, which is always to be avoided if possible. The fourth, and last, reason is that tinkering with the location of industry does not go to the roots of the problem. It is not enough to ask why there is unemployment, and answer "Because there is lack of industry;" one must ask also why there is lack of industry.

However much local conditions differ, the underlying answer to this question is likely to be the same for all regions, and the wise course is not to analyse the various subsidiary causes of unemployment in particular regions and then treat them separately (and probably too late), but to formulate a national policy which will prevent large-scale unemployment happening anywhere in the United Kingdom. A diagnosis of the troubles of the black-spots will be helpful if it tells us what sort of policy to frame, but, as Mr. Wilsher says, unemployment "has forcibly thrown off the trivialising adjective 'local' and revealed itself as the symptom of serious and persistent national malaise."

DEFINITION

Law of Jungle: a disorderly state of affairs in which some prices or profits might be in danger of falling.

A further difficulty to be faced by governments adopting partial direction of industry is that of defining the areas to which industry is to be encouraged to move. Where to draw the boundaries of such areas is itself a problem, but more serious, once the boundaries are drawn, is the ensuing contrast between the development districts themselves and areas of high unemployment which do not quite qualify for recognition as development districts and so find themselves, relatively speaking, worse off than before. Barrow-in-Furness, for example, was in this position for a time. In Barrow nearly half the working population is employed by Vickers-Armstrongs (many in the declining industry of shipbuilding), and when it became known that the ironworks was to close down, the chairman of the Furness Area Development Committee foresaw a rise in the local unemployment figure to 7 per cent. This was higher than in some development districts, but as long as Barrow remained unscheduled it was unable to attract the new industry that it so badly needed to prevent the imminent increase in unemployment. A regional policy, in favouring the particularly unfavoured areas, creates new unfavoured areas.

It has been calculated that if two companies, one in a development district and the other outside, each spend £1 million a year, divided equally between plant and buildings, the total extra benefits accruing to the first company total no less than £325,000. Such anomalies within the tax system would be no part of a society in which the government was concerned to deal impartially with all its citizens and not to create, in however well-intentioned a fashion, privileged groups or areas. As the Chancellor himself remarked, in his 1963 Budget speech: "The integrity of our tax system depends very much upon its being fair to all concerned, and upon the avoidance of discrimination."

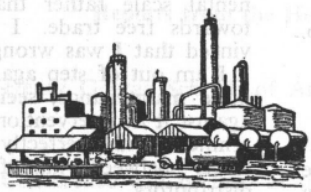
Apparently, in order to try to cure unemployment, Mr. Maudling felt compelled to act in violation of this principle, but a remedy for one evil which creates other acknowledged evils cannot be the right remedy. This would be more clearly seen if large-scale unemployment were regarded not as something tending to occur inevitably unless checked but as a fundamentally unnatural happening which is therefore symptomatic of a social maladjustment. Nature is not self-contradictory: if unemployment is anti-natural, and preferential taxation (which violates the equal rights of man) is anti-natural, then neither should exist at all. It is no answer to eliminate one by using the other.

On April 8, 1963, in the House of Commons, the Minister of Labour announced that there were to be fifteen new government training centres and that some of the thirteen existing training centres would be enlarged. In a country as technologically advanced as ours these training centres probably have a very useful part to play as a lubricant to the mobility of labour, for retraining not only benefits individuals but also helps the operation of the free enterprise system rather than hindering or distorting it. It need not be taken as axiomatic that all training centres should be government sponsored: to take a parallel case, the

existence of Labour Exchanges has not precluded the growth of private employment agencies. The rule is that the organs of government — national, local, and perhaps regional — should undertake only what individual firms are either unwilling to undertake or cannot undertake efficiently without the creation of monopoly or the risk of exploitation. Nor should it be assumed that the cost of running any government training centres must be met from public funds. There is a strong case for charging fees to the people who are actually being retrained and therefore receiving a direct benefit from the facilities that the centres provide. Such fees would in fact be paid by insurance companies, for one day there will be general private insurance for jobs as there is now insurance for houses.

It can, however, be argued that employers should themselves give training to their new workers, from whose skill they also stand to benefit, and this is sometimes done. The Rootes factory at Linwood, to which reference has already been made, ran training schemes to teach the necessary new skills to men who may have worked previously in shipbuilding or the textile industry, and in addition is paying a number of apprentices to study full time at a technical college.

It was of ironic significance that on the same day that the Minister of Labour announced his measures to expand retraining facilities and build new factories in Scotland. Wales and the North-East, Dorman Long announced the impending permanent closure of its steel works at Acklam in Yorkshire. This decision was not affected by the subsequent award of a £7 million contract for steelwork in a new power station, nor, since the company's mills were running at only 60 per cent of capacity, has that contract increased employment in Teesside, but it has at least helped to prevent possible redundancy. This brings to mind the danger that a tender, although not the best submitted on grounds of quality, cost or speed of delivery, might be accepted solely in order to create or maintain employment Moreover, there must be a temptation to invent new projects, or at least give the green light to projects of doubtful



value, if the unemployment situation is thereby eased. One cannot help wondering whether the decision, announced July 30, 1963, to build a new aircraft carrier, was made on grounds of military need or because shipbuilders and engineers would receive, over eight to ten years, an estimated £60 million of work (which, as Mr. Shinwell pointed out, "might rise to £80 millions").

These are further illustrations of how a wrong government attitude to the unemployment problem tends to give rise to other evils.

EAST HAM
PROPERTY SALE

A. Glenny & Son, of 53 East Street, Barking, and 41 Whitehall, S.W.1, report the sale, on behalf of their clients, W. J. Reynolds (Motors) Ltd., as part of their reorganisation scheme, of the showroom and office premises at 66 High Street North, East Ham. The purchasers were represented by William Willett Estate Agents, Ltd. The purchase price is not disclosed but the asking figure was £160,000.

— *The Estates Gazette*, December 28.

THEY SAY

Social Paralysis

ONE of the temptations in a modern democracy is to wish to appear to be the universal provider. An age of weakening beliefs has further increased the illusion that central government can and should control not merely the welfare but also the behaviour of all its citizens. Automation and a decline of craftsmen seem to be inducing a form of social paralysis. Technology certainly is stimulating many new human faculties. It is also numbing others, some rather valuable, such as human sensibility.

—William Deedes, M.P., Minister without Portfolio

Right For Whom ?

IT IS right that such money as is available should go to those whose land needs it most and to encourage the farmer to grow the crops which his land is best fitted to produce. —Sir Alec Douglas-Home

He Said It !

THERE are two problems in my life. The political ones are insoluble and the economic ones are incomprehensible. —Sir Alec Douglas-Home

He Knows

ALL experience teaches that particularly in a situation of State Planning there is exceedingly great likelihood of misplaced investment—for planning and reality hardly ever coincide. —Professor Ludwig Erhard

Tax Is Loot

BETWEEN loot and taxation there can in origin have been only a difference of degree. What, after all, is taxation but loot enhanced to the status of a State Monopoly? — Quintin Hogg, M.P., Minister for Science