

## "THE TIMES" ON EMPLOYMENT

A SERIES of ten articles, some contributed and some editorial, on economic policy and particularly on employment, which have appeared in *The Times* in recent months, has been reprinted under the title "Full Employment." They are by different hands and reflect somewhat differing outlooks, but they are united by the thought that in one way or another violent fluctuations in employment and large bodies of workpeople unemployed are one of the most disquieting features of our civilization and must be prevented in the future.

What is meant by "full employment" is nowhere clearly stated, but one writer says that it means in practice to restrict unemployment to the order of 500,000. It is pertinent to observe that if this is so, then prior to the last war we had more or less achieved full employment, and it would be important to enquire what happened afterwards to cause unemployment to rise to many times that level.

Is not the change which has taken place in the last 25 years largely bound up with the growth of protectionist and interventionist policies? Is it not the tariffs, quotas, exchange controls, bilateral trade agreements and similar devices which have prevented the exchange of goods and services, which have prevented the application of labour and capital in the most productive and economical fashion, and which have led to an enormous growth of trusts, cartels and monopolies of all kinds?

In an economically free society technical progress leads to reduction of price, and reduction of price leads to larger sales, a rising standard of living and more production. These are the benefits of free and equal competition. But in a monopolistic society technical progress leads to lower cost and higher profits, and in order to maintain those profits the producer restricts production to the point which is most beneficial to him instead of expanding it to the point at which his profits fall to an equal level with those in other industries. It is along this line of thought that one can find a rational explanation of the great growth of unemployment during the last quarter of a century.

One of the writers in this pamphlet says: "It is widely agreed that the fundamental cause of mass unemployment lies in the failure of consuming power to keep pace with productive power in an unregulated economy. A Beveridge plan (or a super-Beveridge plan), combined with minimum wage legislation, would put purchasing power into the hands of those who need it most, and so ensure an enlarged and stabilized home market for consumption goods." This statement is ambiguous and misleading. What is meant by "consuming power"? If it means ability to consume, there is no lack of that: the wants of man are insatiable. Perhaps it means "purchasing power," the term used in the next sentence in reference to the Beveridge plan. If so, the Beveridge plan does not create any fresh purchasing power. At best it transfers purchasing power from some persons to others. And what is meant by "productive power"? Does it mean the production actually achieved, or does it mean what might be achieved with the

wisest and most economical disposition of the land, labour and capital available for production? If it means the latter, then the Beveridge plan has no relation to the problem of securing maximum production. If it means the former, then this writer's assertion appears to be merely a restatement of the hoary fallacy of "social credit" that goods are being produced which no one is able to purchase. Reasoning of this kind provides no scientific basis for a solution of the problem.

The outlook of this particular contributor is illustrated by two other assertions. One is that if full employment could be attained the absence of fear of unemployment might have "a disruptive effect upon factory discipline," because no man would be afraid of being sacked. The other is that if full employment could be achieved and if free wage-bargaining continued "there would be a constant upward pressure upon wage-rates," and this would lead to a "vicious spiral of wages and prices." If this argument be true, the writer is automatically committed to a fully totalitarian state in which employment, wages, and prices are all fixed by some central authority and freedom completely disappears. The argument is, however, completely fallacious. It assumes that there are no natural laws in economic life which determine the prices of commodities and labour; and if that is the case, then there can be no economic science and everything is reduced to chaos.

Another contributor develops the thesis that variations in employment are mainly due to variations in investments in durable capital goods. This is, of course, the idea which has been popularized by Keynes. In its baldest form it consists in the assertion that at any given moment a certain amount of the annual production of a country consists of consumption goods and the rest of production goods. If the value of the consumption goods is, let us say, ten times that of the production goods, then we have only to increase the investment in production goods and automatically we increase by ten times as much the production of consumption goods and the amount of employment in making them. This is the celebrated theory of the "multiplier" which Keynes in his "General Theory of Employment" endeavours to establish by an elaborate quasi-mathematical argument. The argument, however, breaks down when it is realized that the multiplier is not a constant, but a variable. Or, to put it in another way—although it is true that, when by some means a general increase in the production of wealth takes place, the quantity consumed will be, let us say, ten times the quantity invested, it does not follow that an arbitrary increase in the quantity of capital goods produced will automatically increase the quantity of consumption goods tenfold.

It is worth while, nevertheless, to enquire what does actually happen when some capital project is embarked upon, the erection of a new factory, for example. Those who propose to build it must somehow during the course of construction be placed in possession of sufficient money with which to pay for the land (or the

hire of land) and the price of the materials used and the wages of the men employed in building and equipping it. The money so paid out is used for paying men for their labour or for producing goods, and they in turn use it for buying their food, clothing and house-room, and all these things have to be supplied from what is then being, or already has been, produced and not out of the proceeds of future production. If the persons who supply the money for building the factory had not used it in that way, they would presumably have used it in some other way, either in buying more food, clothing and house-room or otherwise. It does not appear that the building of the factory during the process of building has added anything to the volume of production, although it may do so when it is completed.

It may, however, be said that these persons would not have chosen to spend their money upon anything. They might have kept it unused (Keynes's liquidity preference). If they do hoard their money, one would expect that this would increase the purchasing power of what money remained in circulation, or what is the same thing, would result in a reduction of prices. In that event other people would be able to buy the goods which the hoarders abstained from buying. On the other hand, it may be freely admitted that if general epidemics of hoarding took place from time to time, they would cause fluctuations in the price level and upset the normal flow of the economy. (The pursuit of this thought may lead either to the plan of Silvio Gesell for using money which diminishes in value with time, or it may lead to the idea adumbrated in the plan, with which Lord Keynes's name is associated, for an International Clearing Union under which credit balances above a certain minimum are penalised by a percentage charge for keeping them. The more rational outlook appears to be that excessive hoarding is adopted because of uncertainty regarding the investment outlook, and may be regarded as a symptom or result of unemployment rather than the cause.)

Those who think that unemployment can be ended by stimulating capital investment seek to do so by one or both of two lines of policy. The one is to give special advantages to capitalists to encourage investment; the other is for the State to embark on capital projects itself. The first course takes a number of forms, such as relief from taxation, loans of public money at low rates of interest, or, what is much the same thing, state guarantees of repayment of money borrowed. During the discussions on this year's Finance Bill suggestions were put forward for certain reliefs from income taxation for "industry" with the object of stimulating accumulation of capital. The de-rating legislation of 1929 was supported by very similar arguments. No one now believes that it had any of the results predicted for it by its advocates. On the contrary it has simply put some of the tax payer's money into the pockets of a small number of privileged individuals.

Capital investment by the State raises the question of whether the outlay is to be met by taxation or by borrowing. As the

proposal is intended to stimulate employment during times of depression, it is generally held to be inexpedient to increase taxation at such a period. It is on that account proposed by many partisans of this school of thought that there should be, in addition to the normal budget of public expenditure and income which should be balanced (*i.e.*, the expenditure met from taxes), a second or capital budget which should be unbalanced (*i.e.*, the expenditure met by borrowing). In the private affairs of an individual or corporation there is nothing unusual in this procedure. Many enterprises are financed by borrowing. In the case of the State, however, it is not contemplated that it will borrow from other States, but from its own citizens. If it does so, then it would seem that it merely borrows funds which were already destined for investment. Under the stress of war and the instinct of patriotism and self-preservation very large funds have certainly been diverted from consumption to saving. No one has explained how or why such a thing should occur in normal times. But if the device of the capital budget did not divert money from consumption to investment, it would not achieve its primary purpose of increasing the amount of investment. Even if it did, there is no reason to suppose that the total amount of employment would be increased.

All this is not to say that the State can do nothing about employment. On the contrary it can, and should, create the conditions which will make full employment possible. *The Times* in one of the leading articles reprinted in this pamphlet indicates the true approach to the question when it says: "Mass unemployment in its contemporary form has sprung not from the unregulated private enterprise of the nineteenth century, but from the private enterprise of the twentieth century, which, far from being unregulated, has become in a high degree self-regulated. Self-regulation in the form of monopolies, trade associations, and price agreements is in the last resort always restrictive. . . . Where this form of regulation prevails public authority must step in as the supreme regulator both to secure fair play for individual initiative and to set in motion once more the processes of expansion. As experience shows, haphazard or piecemeal expedients designed to promote the interests of particular groups of producers will not create full employment. On the contrary, they aggravate unemployment." At another point in the same article we read: "In the 'twenties and 'thirties the onset of mass unemployment was met on all hands by policies of restriction which, in the long run, gravely inflamed and aggravated the disease. Producers cut down production in the hope of holding up prices and profits; financiers curtailed investment; trade unions tightened up limitations on the interchangeability and transferability of labour; and nations piled up the barriers of tariffs and quotas." *The Times* turns attention in the right direction, but it does not follow the thought involved to its logical conclusion. It does not make positive proposals for altering the conditions which make monopoly possible. It accepts monopoly as a continuing and unescapable fact, and merely proposes to super-impose upon it

some measure of State control. There is in these articles no clear cut repudiation of the protectionist and interventionist policies which have aggravated the position so much between the two wars, neither is there a single word about the monopoly of land which has for many generations been a fundamental cause of poverty and unemployment. The business of the State is to establish conditions in which restrictive and monopolistic policies are not

possible, in which no one can have special privileges with the inevitable result of depriving others of earnings or employment. The task is an immense one. Vested interests are always more vocal and active than the public interest. But there is no hope of the maintenance of a democratic and free society unless special privilege can be defeated and equality of opportunity established.

F. C. R. D.

## THE ESSAY COMPETITION

As one of the judges of the recent essay competition, organised by the Henry George Foundation, I have been asked by the Editor to comment upon the essays submitted.

The number of entries, 41 in all, while much less than would have been received in peace time, represented a commendable effort on the part of the competitors, in these days when there are so many insistent calls upon the scanty time of the citizens of the country. The choice of subjects open to competitors was so wide, that the task of the judges in deciding the order of merit was more than usually difficult. But as all the winning essays, and those next in order of merit, were read by at least three judges, competitors, successful and unsuccessful alike, may be assured that no pains were spared to ensure impartial adjudication of every entry.

A large majority of the writers devoted too much space to the enumeration of the many grievous ills which affect the social life of this country, leaving too little to devote to the exposition of the remedy, and the arguments in its support. This is a natural tendency usually evident in every discussion, since it is easier to describe things as they are, than to support, by cogent argument, proposals to mould things as they ought to be.

Another common failing, and one which is shared by many widely recognised exponents of the study of political economy, was confusion in the use and precise definition of such terms as "rent," "interest," "landlord," etc. The latter term is widely abused in every day speech being employed to designate such widely separated people as the humble proprietor of a small dwelling house, or a peer of the realm, owning many broad acres and the rents therefrom. There were a number of authors who were commendably precise in this respect, and who gained thereby the grateful appreciation of the judges, endeavouring carefully to understand the author's reasoning.

While a high standard of literary merit was not expected of entrants for this competition, nor would unsound argument, backed by the wit of Dr. Johnson or the biting satire of Swift, have weighted against the sound sense of Henry George clearly expressed, a logical sequence of thought is essential for such an essay. In this respect there were many whose efforts failed to qualify them for the prize-winning class. Clarity of thought and expression are more necessary in writing on any branch of political economy, which has been so tragically complicated by confusion of thought in the last hundred years, than on almost any other subject known to mankind.

There were some who endeavoured to

survey the whole field of economics, thereby setting themselves a difficult task in which a few achieved a commendable degree of success. Those who submitted essays in the form of a review of "Progress and Poverty" generally managed to make them interesting reading, though some were tempted to make rather long quotations from the book and all undoubtedly sacrificed something in the loss of originality inseparable from any favourable review. Those who chose some specific social problem which particularly interested them secured the greatest scope for originality of treatment and provided themselves with ample opportunity for showing the bearing which the taxation and rating of land values would have on the problem chosen. It is surely the outstanding feature of the principles underlying this fundamental reform, as it must be the most exasperating to its opponents, that there is no field of human endeavour upon which it does not have a more or less direct influence. Starting with these initial advantages it was from the latter class of competitor that the majority of the winning essays were chosen.

It is the earnest hope of the Committee that all those who entered for the essay competition will not weary in well doing, but will continue their study of this vital subject. The majority of the essayists undoubtedly appreciated the taxation and rating of land values as the essential preliminary to each and every scheme of social reform envisaged in the post-war years. Without the establishment of that principle every planned scheme must inevitably fail to achieve the anticipated improvement in our social conditions; but let the system of raising national and local revenue from the community created land values be established, many proposals, over which there is now so much controversy, will be found both unnecessary and undesirable.

R. J. R.

There seems to be a growing consensus of opinion that taxation of land values would create a new and considerable source of income to the Treasury, would ensure our communities having some share in the values they create, and would, undoubtedly, influence a downward trend in the cost of land. Obviously all these benefits would prove invaluable in furthering our general reconstruction plans. At present, there is real danger that members of our fighting forces may find, when victory is won, that the land they have defended is almost too dear to live upon, and that the new homes worthy of them are far beyond their means. What crazy economics for a nation in the vanguard of democratic progress! —*North Wilts Herald*, 11th June.