

The Chickens Return To Roost

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"Now everybody knows that money is dropping in value the trick no longer works."

THERE is a slightly naughty story about an employer who asked his secretary whether she would entertain an indecent proposal if he offered her £10,000 as an inducement. When she replied affirmatively, he then asked her whether she would give the same answer if the inducement were only £5. "Certainly not!" she retorted, "What sort of girl do you think I am?" "I know what sort of girl you are," answered the employer, "we are merely haggling over price."

Rather similar considerations beset questions of public policy in relation to unemployment. It is really a question of price. Anyone with any sort of conscience hates the idea of people being unemployed; while large numbers of folk are apprehensive that, one day, they may become statistics themselves. There are some known techniques by which unemployment may be cut down dramatically. As Samuel Brittan writes,* "The abolition of unemployment pay would certainly reduce dras-

tically the unemployment rate, and so would the reintroduction of the Press Gang. Neither is a good idea . . ."

Hitler and Stalin both had their methods for abolishing unemployment, and even the democracies found one during the early 1940s. Most of us would not be prepared to pay those prices. In addition to these devices which are possible but distasteful, there are other methods which some wild souls have proposed, which anyone with any kind of *nous* perceived to be impossible—such as abolition of trade unions, and wholesale direction of labour.

Outside the range of the calamitous and the impossible, there are several famous devices for reducing or abolishing unemployment. The celebrated White Paper of 1944 listed four:-

- (a) influencing the location of new enterprises in areas of high unemployment;
- (b) encouraging mobility between areas and occupations;
- (c) retraining of labour;
- (d) using government spending, taxation and monetary policy to maintain 'aggregate demand' or

'total spending' at high enough levels to maintain employment.

Whether the first three of these devices have been particularly effective or not, it would be hard to show that they have done very much damage. Device (d), however, has been turned into something which the drafters of the White Paper quite clearly neither envisaged nor intended: chronic, accelerating inflation as a means of maintaining full employment. Inflation, of course, is vastly older than conscious full-employment policies (the Romans inflated, but they didn't aim at full employment) but what has made people tolerate inflation in post-war Britain more than anything else has been the idea that it was in some way necessary for the preservation of employment.

Samuel Brittan's Paper is the first of a series issued by the Centre for Policy Studies, a body of which Sir Keith Joseph is founder and Chairman. The author's argument is pitched, perhaps, at the reader with more-than-average knowledge of economics; but the dogma which emerges is lucid. Inflation does not materially assist full employment. Or rather—and this is the real vice and danger of the thing—inflation may well have assisted full employment to quite a substantial extent at first, but now it does so no longer. Once we got rid of the bathwater at the cost of pitching out babies as well, now we don't even get rid of the bathwater, but we lose an awful lot of babies. The success of gentle inflation in the far-off 1950s turned on a sort of confidence trick. People stepped up their demand, not really appreciating that money was dropping in value. This helped to mop up unemployment. Now everybody knows that money is dropping in value, and the trick no longer works. If ever there was a moral lesson in which the Victorians would have delighted, this is it. You can't fool all of the people all of the time.

If this is a foretaste, the Centre for Policy Studies Series will be an important contribution to the economic thought of our time. The next volume, perhaps, will not merely tell us of the devious path by which we got into the woods, but how we find our way out again.

*Samuel Brittan, *Second thoughts on full employment policy*, Centre for Policy Studies, £2.00