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EMPLOYMENT POLICY

Foreword

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TABLE OF CONTENTS

Chapter	Page
FOREWORD	3
I The International and Industrial Background	4
II The Transition from War to Peace	6
III The Balanced Distribution of Industry and Labour	10
IV General Conditions of a High and Stable Level of Employment	15
(a) The Maintenance of Total Expenditure	16
(b) The Stability of Prices and Wages	18
(c) The Mobility of Labour	19
V Methods for Maintaining Total Expenditure	20
(a) Capital Expenditure	20
(b) Consumption Expenditure	22
(c) Central Finance	24
VI The Policy in Practice	26

APPENDICES

- I Unemployment in Great Britain from 1858-1938.
- II Variation of Social Insurance Contributions.

EMPLOYMENT POLICY

FOREWORD

The Government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war. This Paper outlines the policy which they propose to follow in pursuit of that aim.

A country will not suffer from mass unemployment so long as the total demand for its goods and services is maintained at a high level. But in this country we are obliged to consider external no less than internal demand. The Government are therefore seeking to create, through collaboration between the nations, conditions of international trade which will make it possible for all countries to pursue policies of full employment to their mutual advantage. The discussions which have been undertaken to this end are briefly mentioned in Chapter I of this Paper.

If by these means the necessary expansion of our external trade can be assured, the Government believe that widespread unemployment in this country can be prevented by a policy for maintaining total internal expenditure. The measures by which such expenditure will be influenced are described in Chapters IV and V.

There will, however, be no problem of general unemployment in the years immediately after the end of the war in Europe. In this transition period our problems, though no less difficult, will be different. It will be a period of shortages. Though there will be risk of unemployment due to the dislocation involved in the gradual change from war to peace, the total man-power available will be insufficient to satisfy the total demand for goods and services. It is likely to be some time before the need arises to put into operation the long-term policy for averting mass unemployment which is described in Chapters IV and V. The Paper therefore deals first, in Chapters II and III, with the special problems of the transition period and the measures to be taken for preventing local unemployment by securing a balanced distribution of industry and labour.

Unlike other Papers on post-war problems which the Government have presented or are preparing, this is not primarily an outline of projected legislation. For employment cannot be created by Act of Parliament or by Government action alone. Government policy will be directed to bringing about conditions favourable to the maintenance of a high level of employment; and some legislation will be required to confer powers which are needed for that purpose. But the success of the policy outlined in this Paper will ultimately depend on the understanding and support of the community as a whole—and especially on the efforts of employers and workers in industry; for without a rising standard of industrial efficiency we cannot achieve a high level of employment combined with a rising standard of living.

CHAPTER I

THE INTERNATIONAL AND INDUSTRIAL BACKGROUND

1. This Paper is concerned with the course of policy which the Government propose to follow internally in order to maintain the highest possible level of employment. But the level of employment and the standard of living which we can maintain in this country do not depend only upon conditions at home. We must continue to import from abroad a large proportion of our foodstuffs and raw materials, and to a greater extent than ever before we shall have to pay for them by the export of our goods and services. For as the result of two world wars we have had to sacrifice by far the greater part of the foreign investments which we built up over many years when we were the leading creditor country of the world. It will not, therefore, be enough to maintain the volume of our pre-war exports; we shall have to expand them greatly.

2. A country dependent on exports—and relying largely, as we do, on the export of manufactured goods of high quality—needs prosperity in its overseas markets. This cannot be achieved without effective collaboration among the nations. It is therefore an essential part of the Government's employment policy to co-operate actively with other nations, in the first place for the re-establishment of general economic stability after the shocks of the war, and next for the progressive expansion of trade.

3. The aims of this international co-operation are to promote the beneficial exchange of goods and services between nations, to ensure reasonably stable rates of exchange, and to check the swings in world commodity prices which alternately inflate and destroy the incomes of the primary producers of foodstuffs and raw materials. It will also be necessary to arrange that countries which are faced with temporary difficulties in their balance of payments shall be able both to take exceptional measures to regulate their imports and to call on other nations, as good neighbours, to come to their help, so that their difficulties may be eased without recourse to measures which would permanently arrest the flow of international trade.

4. The Government have already given proof of their intentions. They have signed the Atlantic Charter. They have made a Mutual Aid Agreement with the Government of the United States of America,* one of the chief aims of which is agreed action "directed to the expansion, by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods." They have also declared their acceptance of the comprehensive recommendations made to the Governments and authorities of forty-four nations by the United Nations Conference on Food and Agriculture held at Hot Springs in 1943, in so far as those recommendations are applicable to conditions in the United Kingdom. One of those recommendations† recognises that "the promotion of the full employment of human and material resources, based on sound social and economic policies, is the first condition of a general and progressive increase in production and purchasing power. . . . Progress by individual nations toward a higher standard of living contributes to the solution of broader economic problems, but freedom from want cannot be achieved without effective collaboration among nations."

The Government are considering, with the Governments of others of the United Nations, how these general agreements regarding the common ends of

* Cmd. 6341, 1942. Part of Article VII.

† Cmd. 6451, 1943. Resolution XXIV. Achievement of an Economy of Abundance.

international economic policy can best be carried out in practice. For this purpose they are working in close consultation with the Governments of the Dominions and of India. The early renewal of the economic strength of the British Commonwealth of Nations and the economic development of our Colonial dependencies are among the substantial contributions we can make to stability in the world's economic order. The Government will also collaborate with other Governments in considering how effect may be given to the principles and recommendations recently put forward by the International Labour Organisation. Further reports on all these matters will be made to Parliament in due course.

5. While the Government will spare no effort to create, in collaboration with other Governments, conditions favourable to the expansion of our export trade, it is with industry that the responsibility and initiative must rest for making the most of their opportunities to recover their export markets and to find fresh outlets for their products. In the interest of the whole national economy, our export industries must be resilient and flexible; and in the period immediately after the end of the war their claims for raw materials, labour and factory space freed from war purposes must have a high priority.

6. Though there will be special reasons for giving this measure of early priority to the export trades, the need for increased efficiency in industry is in no way limited to those trades. To maintain and improve our standard of living there must be steady progress in the efficiency of our industry as a whole. During the war British industry has amply demonstrated its power to improve the technique of its production, and this improvement must continue if we are to solve the problems of the post-war years. The Government have been considering as part of their general reconstruction plans, what help they can give to this end. The Chancellor of the Exchequer has already announced in his Budget speech the means by which taxation policy will be adapted to foster the development of industrial research, and to facilitate the modernisation of industrial plant, machinery and buildings. These important modifications in the incidence of taxation on industry will make a substantial contribution towards industrial recovery after the war and will pave the way for a continuous technical advance throughout British industry. The means of promoting industrial efficiency will be kept under constant review—other proposals to this end are already under examination—and the Government will continue from time to time to report their conclusions or present their proposals to Parliament on this subject.

7. The earlier paragraphs of this Chapter, which were concerned with the balance of payments and the export trades, referred mainly to the manufacturing industries. In the remainder of this Paper the term "industry" is used in its widest sense to cover all the manifold activities which provide employment. Thus, it includes, not only the manufacturing and processing industries, but the industries providing raw materials and primary products, such as agriculture, forestry, fishing and mining, services such as shipping, inland transport and the distributive trades, and all the varied activities of commerce.

The prosperity of a particular industry depends partly on circumstances peculiar to that industry and partly on the general economic condition of the country. This Paper sets forth the Government's policy for securing general conditions favourable to a high level of employment throughout industry as a whole. In addition, special measures may be taken from time to time which are directed to the circumstances of particular industries. The Government have, for example, declared their determination to ensure that we shall have in this country after the war a healthy and well-balanced agriculture; and the special measures needed to secure this are now being discussed with representatives of the industry. This Paper does not deal with

special measures which are peculiar to a particular industry. But all alike will benefit from the general policy which it describes; for, to the extent that this policy succeeds in maintaining a high level of employment, it will sustain the demand for goods and services of all kinds.

CHAPTER II

THE TRANSITION FROM WAR TO PEACE

8. After the end of the war with Germany, the war with Japan will have first call on our resources of man-power and materials. There will, however, be some redistribution of man-power which will release labour for urgent civilian work. At this point we shall enter a period of unsettled economic conditions, which is likely to last until some time after the end of war with Japan. The plans for this transition period must be extremely flexible; for no one can yet know when the war with Germany will come to an end or how long thereafter Japanese resistance will continue.

9. During the present war, as during the last, unemployment has shrunk to negligible proportions. In April, 1944, the figure was 75,000; whereas during the years between the wars it varied between one and three millions.* The reasons for this improvement are obvious. The call of the Armed Forces for men and munitions is limited only by the availability of labour and other physical resources. There could therefore be no question of demand falling short of the level necessary to employ all available resources. On the contrary, steps have had to be taken to hold demand in check and to prevent a runaway rise of prices by such means as high taxation and encouragement of war savings, rationing of food and clothing, allocation of materials, control over the employment of labour and direct control of prices.

10. At the present time we have about 23 million men and women in the Armed Forces and in gainful employment—an increase of 4½ millions since 1939. There has been an enormous transfer of man-power to the Armed Forces, Civil Defence and the munitions industries; and, within industry, a very large change-over from civilian production and services to more direct war needs. Something like 80 per cent. of employment in the manufacturing industries is now on Government account. During the transition from war to peace these movements will be reversed. There will be both a reduction in the total man-power employed and a substantial movement from the Forces and war work to civilian production and services. The numbers involved in this change-over may be in the region of 7 millions. For many the transfer will not involve any change of employment; substantial numbers in the munitions industries will be re-employed by the

* After the last war there were a few months of dislocation and unemployment, while industries were switching over from war to peace. There then followed the brief but violent boom (which reached its peak in the summer of 1920) while stocks were being rebuilt, war arrears of maintenance made good and the accumulated demands of foreign countries satisfied. Unemployment was very low, and prices and wages soared. As soon as demand at home and abroad slackened towards the end of 1920, prices began to slump. Deflation followed inflation, with disastrous results. Wage reductions led to widespread industrial unrest. There was a startling increase in unemployment, which reached 1½ millions in March, 1921, and rose to 2½ millions about the middle of that year, owing largely to a shortage of fuel caused by a stoppage of work in the coalmining industry. From this figure unemployment gradually fell to the neighbourhood of 1½ millions and (apart from the coal dispute in 1926) stayed at about this level from 1923 to 1929. With the onset of the great depression at the end of 1929, unemployment mounted to over 2½ millions in just over one year and did not fall below that figure until the middle of 1933, after which we had a steady decline to under 1½ millions in the middle of 1937.

same firm as soon as its plant can be turned over to production for civilian needs. But large numbers will have to change their present occupations and their place of employment, including not only members of the Armed Forces but many workers now employed on tasks, such as shell filling, to which there is no peace-time parallel, and those who will have to make room for the men and women returning from the Forces to their pre-war jobs.

11. Side by side with the gradual release of this great labour force there will be a vast transformation in the demand for the products of labour. Government expenditure on aircraft, warships and munitions will naturally contract, though the needs of the Armed Forces are likely to remain high for a considerable time; on the other hand, the pent-up demand for civilian goods of all kinds will be released. There will be an immense need for all the things we have had to go short of during the war.* There will be houses to be built, shops to be filled, factories to be transformed, plant and rolling-stock to be replaced and export trade to be renewed and extended.

12. If this switch of demand could be immediately matched by a corresponding switch of supply, there would be no need to fear the occurrence of unemployment in the period immediately after the war. But of course this cannot happen in practice, even though the war against Japan continues after the defeat of Germany and, as a result, there is a more gradual re-allocation of labour to civilian tasks. Of the millions of men and women who will have to find new jobs on release from the Armed Forces, Civil Defence and the munitions industries, not all can be released in the areas where the immediate demand for their labour is greatest, nor will all those who are released have the special skills to fit them for the peace-time tasks available. Moreover, for a time, shortage of key workers or of particular raw materials or types of equipment may delay the full re-employment of all the labour released. New designs have to be created and approved; factories need to be re-tooled or re-opened; semi-manufactures have to be produced before full manufacture can begin; the skilled labour which is needed for one set of processes cannot immediately be reconstituted by the release of skilled labour from others. Peace-time production, like war production, will necessarily take some time to get fully into its stride.

13. There will be inherent in the situation a threefold danger:—

(a) that patches of unemployment may develop where the industrial system fails to adapt itself quickly enough to peace-time production;

(b) that demand may outrun supply and create an inflationary rise in prices;

(c) that civilian production, when it is resumed, may concentrate on the wrong things from the point of view of national needs.

Government action will be directed to forestall, so far as possible, each of these dangers.

14. It would be vain to imagine that patches of unemployment can be eliminated altogether in the transition period; but they should not be so widespread or so persistent as is sometimes feared. After the last war the number of ex-Service men claiming out-of-work donation never rose substantially above 400,000, although demobilisation was proceeding at an average rate of nearly 700,000 a month in the first quarter of 1919. The total

* The present clothing ration provides roughly one-half of the pre-war consumption of clothing. Supplies of household goods have also been greatly reduced. Only about one household in ten can now buy a pair of sheets and one household in five a pair of blankets each year. Only one person in seven can now buy each year a knife, fork or spoon, one person in three a kettle, saucepan or frying pan, one person in four a teapot or jug. The manufacture of carpets, vacuum cleaners, refrigerators and other household appliances is virtually prohibited.

number of unemployed persons rose to over a million at one time in 1919, but this figure was soon reduced to a low level and remained low until the end of 1920. It is unlikely that the change from war to peace will be anything like so abrupt this time. The Government are, however, making preparations to reduce the resulting unemployment to a minimum:—

- (a) by assisting firms to prepare to switch over their capacity to peace-time production as quickly as possible;
- (b) by finding out in advance where the skilled labour which will gradually become available for civilian work will be most urgently required;
- (c) by arranging, so far as war conditions permit, that labour and raw materials will be forthcoming for urgent civilian work and ensuring that the machinery of allocation devised in war-time will be adaptable to the special conditions likely to obtain after the end of the war in Europe;
- (d) by arranging, so far as possible, that curtailments of munitions production shall take place in areas where the capacity and labour can be used for civilian products of high priority;
- (e) by arranging that the disposal of surplus Government stocks shall not prejudice the re-establishment and development of the normal trade channels for producing and distributing similar goods;
- (f) by regulating the disposal of Government factories in such a way as to help towards the early restoration of employment.

15. The Government are already working out plans, based on the use of the above methods, to promote the orderly expansion of peace-time industries throughout the transition period. (The priorities to be applied in the earlier stages of the period are outlined in paragraph 18 below.) These plans have been helped by experience gained in the large-scale shifts from one type of war production to another which have been carried out with success in the last two years. Their guiding principle is to secure, so far as possible, that labour and capacity no longer needed for munitions production shall be used for producing civilian goods of high priority; and that releases of premises, labour and material are co-ordinated in advance so as to reduce local or temporary unemployment to the minimum. Discussions have already been held with many of the industries concerned, in order to find out what difficulties individual industries and firms expect to meet in switching over to peace-time production and absorbing men and women released from the Services and from other war work.

16. The second danger will come when people relax from the discipline and strain of war, and look round for opportunities to spend the money they have saved and to make up for their years of self-denial. If there were then a scramble to buy, while there was still a shortage of goods, prices would rise. This would mean an inflationary boom—bringing with it the social injustice and economic disturbance which inevitably accompany inflation.

If, therefore, we are to restore civilian production and to maintain employment we must enter the post-war period with a firm determination to keep stability in the general level of prices. This cannot be secured by the Government alone; there must be continued public support for policy on the following lines:—

- (a) Rationing and a measure of price control must be continued for some time. Increases in rations of manufactured goods, such as clothing, will be regulated to correspond with increases in production. The speed

at which food rations can be increased and varied will largely depend on the extent to which we can obtain overseas supplies.

(b) Price control cannot be effective unless it is accompanied by a stable general level of costs*. If all will work together to keep the level of internal costs down, it should be possible to avoid any sharp rise in the cost of living. No undertaking can be given so far in advance to peg the cost of living index to any particular figure by Government subsidies; for one important factor in our internal price level, i.e. the cost of our imports, will depend upon the future level of world prices, which cannot be forecast. But, generally, the Government, if supported by the co-operation of all sections of the public, will continue their present policy of providing subsidies to prevent temporary and considerable rises in the cost of living.

(c) The habit of saving must still be encouraged. Unless people are still prepared to go on putting aside some part of their earnings in savings, instead of spending it on consumption goods, labour and capacity which is needed for schemes of post-war reconstruction and social development will have to be diverted to increasing the supplies of consumption goods.

(d) The use of capital will have to be controlled to the extent necessary to regulate the flow and direction of investment. Heavy arrears of capital expenditure on buildings, plant and equipment have to be overtaken, and construction on new development must begin. Without control, therefore, there would be a scramble to borrow, leading to a steep rise in rates of interest. The Government are determined to avoid dear money for these urgent reconstruction needs. In this period, therefore, access to the capital market will have to be controlled in order to ensure the proper priorities.

17. It cannot be expected that the public, after years of war-time restrictions, will find these proposals altogether palatable; and the Government have no intention of maintaining war-time restrictions for restriction's sake. But they are resolved that, so long as supplies are abnormally short, the most urgent needs shall be met first. Without some of the existing controls this could not be achieved; prices would rise and the limited supplies would go, not to those whose need was the greatest, but to those able to pay the highest price. The Government are confident that the public will continue to give, for as long as is necessary, the same wholehearted support to the policy of "fair shares" that it has given in war-time.

18. The third danger is that production of unessential goods may interfere with the production of essentials. In order to direct the efforts of industry towards the right tasks in the right order, it will be necessary to establish certain broad priorities and to enforce them for a time by means of the issue of licences, the allocation of raw materials and some measure of control over the labour and staff required for industry. There are three main reasons why this must be done:—

- (a) During the war we have obtained a large proportion of our imports by the sale of our foreign assets and later by lend-lease or on credit. This process cannot continue indefinitely; and if we are to be able to buy the imported food and raw materials which we need to maintain our standard of life, we must expand our export trade. An export drive is thus of paramount importance, and home demand—whether for consumption goods or capital expenditure—must not be allowed to divert the resources needed for exports.

* This is discussed more fully in Chapter IV(b) below.

(b) Production for the home market must be directed in the first place towards the necessities of civilian life and, until these primary needs are met, resources which could be applied to meet them should not be diverted to the production of luxuries for home consumption.

(c) Production of the capital goods needed to restart and re-equip industry at the highest pitch of efficiency must be rapidly expanded.

19. It is not yet possible to forecast the length of the transition period during which the prevailing tendency will be for demand to outrun supply. The need to maintain large armed forces may prolong this period considerably; and, although the most pressing shortages may disappear and the most vexatious controls be relaxed, our main problem for a considerable time to come may be, not to avert mass unemployment, but to secure with a limited labour force an adequate production of the goods needed to improve our standard of living and to increase our exports. The immediate difficulties for our external trade will be serious. We may be struggling to restore our exports while we are still at war with Japan and liable to provide help for the liberated territories. We shall, therefore, be compelled during this period to regulate imports and to manage our exchange resources with great care.

On the other hand, the recuperative powers of modern productive technique are very strong. Under favourable external conditions, it may not be very long before production becomes adequate to meet the various calls upon it. When that happens, the first aim of employment policy—the maintenance of an adequate level of expenditure on goods and services—will no longer be realised automatically, as a by-product of the war effort or of reconstruction, but will call for the application of a policy deliberately directed to that end.

CHAPTER III

THE BALANCED DISTRIBUTION OF INDUSTRY AND LABOUR

20. Before proceeding (in Chapters IV and V) to describe the long-term policy proposed for maintaining total expenditure, it is necessary to turn aside from the main argument of the Paper to describe the measures which the Government will take to check the development of localised unemployment in particular industries and areas. Although their effect will continue for many years thereafter, these measures will begin to operate in the transition period and can therefore be described most conveniently at this point in the Paper.

21. Apart from temporary unemployment due to the seasonal and other irregularities in particular trades, patches of longer-term unemployment develop in particular industries and areas when the demand for their products is insufficient to provide work for the whole of their labour force. This is due to a temporary or a permanent decline in an industry or group of industries caused by technical change, the trend of fashion, or the growth of foreign competition.

22. Unemployment of this type was a familiar feature in this country's economic life between the wars. The industries affected were mainly export trades—such as cotton and coal—and some of the heavy industries which had been greatly expanded during the last war. Areas which were largely dependent upon depressed industries showed heavy unemployment percentages, not only in the basic industries, but in subsidiary local trades and occupations as well.

23. The suffering in these areas was enhanced by their lack of a proper industrial balance. An area may be industrially unbalanced either because it is over-dependent upon a single industry or group of industries which tend

to fluctuate together; or because it is predominantly concerned with the export trade, which is especially liable to sudden fluctuations not within the control of our internal policy; or because it contains industries which provide employment mainly for men or mainly for women; or because its industries are subject to unpredictable changes in demand. Dependence on a single industry and the subsidiary industries which grow up round it is a natural form of industrial development which has in the past enabled certain areas to reach the highest peak of temporary prosperity while circumstances were favourable. Shipbuilding and the heavy industries in the industrial belt of Scotland, coal and iron in South Wales, and cotton in Lancashire are examples. But the price to be paid for such temporary prosperity is high when the period of depression comes. A region like South Wales in the early '20s, with half its workers employed in getting coal, three-fifths of which was shipped overseas, was dangerously dependent upon foreign trade. Conversely, regions with a wide range of industrial skills, like Birmingham, have been able to see many of their old industries die away during the past half century without losing their general prosperity, because they have had the resilience to develop new activities to replace those which became obsolete.

24. The first line of attack on the problem of unemployment in these unbalanced areas must be to promote the prosperity of the basic industries on which they primarily depend, e.g. coal, steel, engineering and shipbuilding. It will be an aim of Government policy to help these industries to reach the highest possible pitch of efficiency, and secure overseas markets.

Secondly, these industries, and the areas which are largely dependent on them, will share in the benefits which will flow from the Government's policy (explained in Chapters IV and V) for maintaining domestic expenditure at a high level. But it will not be enough to rely on the general maintenance of purchasing power to solve all the problems of local unemployment. A solution on these lines alone would be too long drawn out and might involve the partial depopulation of industrial regions which are a national asset that we cannot afford to lose.

25. The Government therefore propose to attack the problems of local unemployment in three ways:—

- (a) By so influencing the location of new enterprises as to diversify the industrial composition of areas which are particularly vulnerable to unemployment.
- (b) By removing obstacles to the transfer of workers from one area to another, and from one occupation to another.
- (c) By providing training facilities to fit workers from declining industries for jobs in expanding industries.

Distribution of Industry.

26. It will be an object of Government policy to secure a balanced industrial development in areas which have in the past been unduly dependent on industries specially vulnerable to unemployment. The Government will encourage the establishment of new enterprises in these "development areas" by the following means:—

- (a) *Location of new factories.*—In order that the Government may be fully informed of the course of industrial development, industrialists contemplating the establishment of new* factories, or the transfer of a factory

* For the purpose of this legislation "new factory" will include extensions of existing factories, but in framing the definition the Government will seek to exclude from the restrictive provisions small establishments and small extensions of existing establishments.

from one area to another, will be required to notify the Government before their plans reach an advanced stage. This will enable the Government to exercise a substantial influence over the location of new industrial development, as contemplated by the Barlow Report*. On the one hand, power will be taken to prohibit the establishment of a new factory in a district where serious disadvantage would arise from further industrial development. On the other hand, the Government will be able to use their influence to steer new factory development into areas which call most urgently for further industrial diversification. In exercising this influence account will be taken of strategic, as well as industrial and social, considerations. In this positive aspect of their policy, the Government will be prepared, in suitable cases, to offer to industrialists who are willing to establish new factories in development areas the special inducements indicated below.

(b) *Munitions Factories.*—Where practicable, factories now engaged in war production in these areas will be retained on that work if it is reasonably clear that they can be employed in the production of munitions after the war. Factories which are not likely to be required for the manufacture of munitions after the end of the war will be released as early as possible, and those owned by the Government will be leased or sold for civilian production.

(c) *New factory building.*—To the extent that existing factory buildings are insufficient to secure a proper balance of industry in the development areas, the Government will give priority to these areas in the grant of licences for the building of new factories and extensions of existing factories.

(d) *Factory Premises for Smaller Firms.*—The Government will continue and extend the policy of erecting in development areas factories on individual or collective sites, for sale or lease, including factories which can be rented in sections.

(e) *Government Contracts.*—Due regard will be paid to the needs of these areas in the placing of Government orders of all kinds.

(f) *Financial Assistance.*—The Government will take such steps as may be necessary to secure that enterprises which establish themselves in these areas in conformity with the Government's policy, and show good prospects of success on a commercial basis, shall have adequate facilities for obtaining short-term and long-term loans and, where necessary, share capital.

27. The Government will also take such action as may be necessary to secure the full development in these areas of the basic services on which industry depends and to stimulate the modernisation of their capital equipment, e.g., the improvement of communications (including docks and harbours, as well as roads and railways), the extension of power services, and the improvement of housing, other amenities and general public services. In addition, the Government will organise research with a view to discovering what types of industry would fit most naturally into the long-term economy of each of these areas.

28. The measures required to balance and diversify industry will of course vary from one area to another, and the areas in which such measures may be required from time to time cannot be foreseen. There can be no final list of "development areas." Areas which have regained their prosperity by the aid of these measures will be removed from the list, while others may have to be added to it as economic conditions change.

29. With the introduction of this new policy for securing a balanced distribution of industry, the need for the Special Areas legislation will disappear.

* Cmd. 6153, 1940. Report of the Royal Commission on the Distribution of the Industrial Population.

The Special Areas are not at present depressed, and experience during the war has shown that production there can be as efficient as in other parts of the country. Much social capital is already invested there in the form of houses, shops, public services, etc. Neither this social capital nor the corporate life of these communities can be sacrificed. There may be some small and isolated villages, especially in mining areas, which, owing to permanent changes in industrial conditions, offer no hope of sound economic revival. In these rare cases the population may have to be re-established elsewhere. There will be other larger areas where the temporary causes of special industrial prosperity have disappeared, e.g., because of the exhaustion of a wasting asset, but where the economic life of the community could be put on a sound basis if the population were reduced. In these special cases some proportion of the workers may have to be re-established elsewhere. But where a large industrial population is involved, the Government are not prepared either to compel its transfer to another area or to leave it to prolonged unemployment and demoralisation.

30. No single Department could conveniently undertake the responsibility for formulating and administering the policy for the distribution of industry outlined in the foregoing paragraphs. This is essentially a policy of the Government as a whole, and its application in practice will involve action by a number of different Departments, each of which will adapt its administration to conform with the general Government policy. The main responsibility will rest with the Board of Trade, the Ministry of Labour and National Service, the Ministry of Town and Country Planning and the Scottish Office.

Standing arrangements will be made for supervising and controlling, under the Cabinet and as part of the central Government machinery, the development and execution of the policy as a whole. At the other end of the scale, there will be a Regional organisation, which will bring together the representatives of the Departments concerned in the local application of these measures.

It is necessary, however, that there should be a single channel through which Government policy on the distribution of industry can be expressed. It would not be satisfactory if the public were left to deal with a number of different Departments on different aspects of the same problem. The Government therefore propose that the channel for the expression of Government policy in this matter shall be the Board of Trade, which will be the Department responsible for all general questions of industrial policy and will be suitably strengthened to undertake the heavier responsibilities which Government will assume in this field after the war. The President of the Board of Trade will be responsible to Parliament for all the general aspects of the policy; and, on these, enquiries and representations from interested sections of the public will be made through the Board of Trade.

Distribution of Labour.

31. In an expanding economy workers must be ready and able to move freely between one occupation and another. This is necessary in order to reduce the dislocation which arises from changes in technique and fluctuations in market conditions, and also to ensure that the expansion of new industries under the stimulus of a high level of demand is not hampered by a shortage of skilled labour. During the first year or so after the war the problems of labour mobility will centre mainly around the re-settlement of members of the Armed Forces released from service and war workers released from war work. The Government have already announced their training schemes for re-settling ex-Service men and women and released war workers. As the re-settlement of persons who have been uprooted by war service draws

to a close the Government propose to continue training schemes on similar lines as a permanent measure, so far as this is needed to assist necessary transfers from one industry or occupation to another.

32. For jobs calling for no great amount of skill and requiring only a few weeks' instruction, employers should arrange to give the instruction in the course of employment. No matter how little skill is involved in a new job, proper instruction should be given for it and the worker should not be left to pick up the new technique as best he can. This is a need which can best be met by the development of methods of training within industry; and does not call for any financial assistance from public funds. For jobs calling for greater skill and requiring a more extended period of specialised instruction, the training should also be carried out as far as possible by employers. This type of training is best given under properly designed training schemes providing a definite course of instruction. Employers who provide such courses, approved by the appropriate Department, will receive Government grants calculated on a capitation basis to be settled after consultation with the industry concerned.

There are great advantages in providing training in the factories, where the trainees can see ahead of them the jobs which they are qualifying themselves to fill. For certain occupations, however, training can be better given in a separate school or institution than in employers' workshops. To meet the need for this kind of training, which employers cannot provide, the facilities for institutional training which are provided in the Government Training Centres, Technical Colleges, etc., will be developed and extended.

33. It will be a fundamental principle that where re-training is required it shall be provided as soon as it is clear to the Ministry of Labour that the worker is not likely to be able to resume his former employment within a reasonable time: he will not be expected to wait until he has been unemployed for a long time before becoming eligible for re-training. This will enable the Government to take steps to train the necessary labour for new and expanding trades in time to be available when the demand for its services matures. It will also prevent the training schemes from becoming discredited by being confined to persons who have been unemployed over a long period and cannot readily be placed in new employment.

34. The allowances granted to the trainees will be completely divorced from payment of unemployment benefit. The worker entering upon a course of training must be made to feel that he has left unemployment and unemployment benefit behind him and has started on a new job. Training allowances will be fixed on a higher scale than unemployment benefit, subject to the principle that they should not be so high as to provide a higher income than the general run of wages likely to be received by trainees in their first subsequent employment.

35. If retraining schemes are to be a success there must be the fullest co-operation between employers and the Trade Unions. Difficulties have arisen in the past because some sections of industry have been reluctant to admit trainees. There have been various reasons for these difficulties, including rules and practices which were devised to safeguard the security of employment of existing workers and their wage standards, and to maintain a proper standard of skill. In some cases the difficulty has been increased by competition between Unions. During this war causes of friction, including demarcation, have been greatly reduced; and the Government believe that, with the creation of conditions designed to produce full employment and stability, all parties in industry will agree that existing rules and practices

may safely be modified to allow the ready admission of trainees, provided that proper steps are taken to train them to a standard which will justify the payment of the recognised rate of wages. Care will also be taken to ensure that the number of trainees does not exceed the number capable of being absorbed in the particular trade.

36. While the Government do not rely primarily on large-scale labour transfers for a solution of the unemployment problems of particular areas, they are anxious to overcome some of the obstacles which stand in the way of the transfer of workers to places where suitable employment is available for them. Experience before the war showed that two of the most serious obstacles were the worker's difficulty in obtaining a suitable house to rent in areas where work was available, and the special costs which for a time fall upon him while he is settling down in his new environment.

Since the end of the last war, the difficulty of obtaining a house to rent has been an especially important factor. Workers who could afford and were anxious to rent houses in the areas to which they were moving found themselves unable to do so and were forced to buy houses on mortgage. Steps will be taken to secure that a substantial proportion of the new houses erected after the war shall be available at a rent which is within the means of the average wage earner.

Where workers are transferred under approved schemes to a new area, they will be eligible for resettlement allowances to meet the costs involved in their removal and that of their dependants. Special arrangements will also be made for the training and employment of juveniles.

CHAPTER IV

GENERAL CONDITIONS OF A HIGH AND STABLE LEVEL OF EMPLOYMENT

37. In the transition period, as we have seen, employment policy will be primarily concerned with the transfer of men and women to peace-time jobs. But however smoothly this transition can be made, and however rapid may be the return to normal conditions, there will still remain for treatment those long-term problems connected with the maintenance of an adequate and steady volume of employment which eluded solution before the war.

38. The chart in Appendix I shows unemployment rates for the period 1858-1938. Throughout the period there was a fairly regular cycle of unemployment—evidence of instability in our economic system. And (although the figures are not strictly comparable throughout the whole of the period) the average level of unemployment after the war of 1914-18 was, on account of the special and continuing problems of the export trades, higher than in the period before 1914.

39. If these features which have afflicted our economic life in the past are to be banished, as it is our resolve to banish them, from the future, three essential conditions must be satisfied:—

(a) Total expenditure on goods and services must be prevented from falling to a level where general unemployment appears.

- (b) The level of prices and wages must be kept reasonably stable.
- (c) There must be a sufficient mobility of workers between occupations and localities.

(a) **The Maintenance of Total Expenditure**

40. Assuming a given level of wages and prices, and full mobility of labour, workers will lose or fail to find employment because there is not a sufficiently large expenditure on the goods and services which they might produce. If more money is spent on goods and services, then more money will be paid out as wages and more people will be employed. Thus, the first step in a policy of maintaining general employment must be to prevent total expenditure (analysed in paragraph 43) from falling away. Once it is allowed to do so, a minor decline may rapidly gather momentum and take on the proportions of a major depression. If, for example, there is a decline in the demand for steel for the erection of new buildings, unemployment will first appear among steel workers. The steel workers, in consequence, will have less to spend on food and other consumer goods, so that the demand for consumer goods will fall. This leads to unemployment among the workers in the consumer goods industries who, in turn, find their purchasing power reduced. As a result of this general loss of purchasing power in the community, the demand for new building is still further reduced and the demand for constructional steel falls once again. The original decline in expenditure produces secondary reactions which themselves aggravate the source of the trouble. This is an over-simplified illustration, but it is sufficient to make it clear that the crucial moment for intervention is at the first onset of the depression. A corrective applied then may arrest the whole decline; once the decline has spread and gathered momentum, interventions on a much greater scale would be required—and at that stage might not be effective.

41. The Government are prepared to accept in future the responsibility for taking action at the earliest possible stage to arrest a threatened slump. This involves a new approach and a new responsibility for the State. It was at one time believed that every trade depression would automatically bring its own corrective, since prices and wages would fall, the fall in prices would bring about an increase in demand, and employment would thus be restored. Experience has shown, however, that under modern conditions this process of self-recovery, if effective at all, is likely to be extremely prolonged and to be accompanied by widespread distress, particularly in a complex industrial society like our own.

42. The methods which the Government propose to adopt to maintain total expenditure are described in Chapter V. It will, however, be convenient to analyse here the constituent parts of this total expenditure, for they differ greatly both in their susceptibility to fluctuations and in the ease with which these fluctuations can be controlled.

43. In a country which could ignore the outside world these parts would be four in number:—

- (a) *Private Consumption Expenditure*
Private expenditure on food, clothing, rent, amusements, etc.
- (b) *Public Expenditure on Current Services*
Expenditure by public authorities on education, medical services, national defence, etc.

(c) *Private Investment Expenditure**

Private capital expenditure on buildings, machinery and other durable equipment and on additions to goods in stock.

(d) *Public Investment Expenditure**

Capital expenditure on buildings, machinery, roads and other durable equipment by the central Government, local authorities or public utilities.

But in a community linked with the outside world some expenditure (i.e. that upon imports) does not directly lead to employment at home, while some employment at home (i.e. labour engaged in making things for export) arises out of the expenditure of people in other countries. It is convenient to allow for these facts by adding a fifth item (which may of course be a minus quantity) to the list of the constituents of total expenditure, namely:—

(e) *The Foreign Balance*

The difference between exports (visible and invisible) and imports (visible and invisible).

44. Expenditure on private consumption is perhaps the element least liable to sudden and spontaneous variation; for, so long as people's incomes do not greatly change, their habits of buying are likely to remain much the same. Public expenditure on current services, including national defence, will also be fairly constant as a rule, unless the Government decide as an act of deliberate policy to vary expenditure on some items in order to compensate for swings in other parts of total national expenditure. Public capital expenditure has in the past fluctuated considerably, largely because public authorities have often taken the view that in a period of depression, when their revenue was precarious, economy on capital expenditure was the right policy.

45. It is, however, in the two remaining components of total expenditure—private expenditure on capital equipment and the foreign balance—that spontaneous variations are likely to be greatest and at the same time most difficult to control. A business man deciding whether it is worth his while to sink more capital into his business will be influenced by a very wide range of considerations: whether his market is likely to grow or decline; what his competitors are doing; whether prices are likely to go up or down; whether the latest type of machinery is much superior to his own, and so on. It is in practice impossible to foresee with any certainty what decisions business managements will reach on these matters: the prevailing atmosphere of optimism or pessimism, particularly in periods of rapid industrial change, probably has as much influence on them as any independent analysis of the facts.

46. In the majority of highly industrialised communities it is expenditure on private investment which is the most usual and most potent cause of instability in total expenditure, and consequently in employment. But this country, because of the relative importance of its export trade, which before the war provided employment for about one and three-quarter million persons,

* Strictly speaking, *net* expenditure in both cases, i.e., after allowing for expenditure on maintenance and renewal of existing capital equipment and of goods in stock. Such expenditure, of course, also gives rise to a demand for labour, but this is already allowed for in the figure of final demand for the goods, whether capital or consumption goods, which the equipment is being used to make, and we must not count it twice. Indeed, if part of the sums currently set aside for depreciation, etc., are not actually being expended on renewals and replacements as has happened during the war, we must make a corresponding deduction from the expenditure on *new* equipment in order to reach the true figure of "net investment expenditure". Similarly, a deduction would have to be made for the depletion of stocks in any given period.

is also particularly subject to fluctuations in employment arising from fluctuations in international trade. In 1929, for instance, the depression in British industry was transmitted to this country from abroad. The state of our foreign balance depends very largely upon the behaviour of persons and Governments outside our jurisdiction. Our aim must therefore be to agree with other countries on international measures which will be to our mutual advantage and will render them partners with us in a common economic policy. As has been mentioned in Chapter I, the Government have already embarked on such discussions, with the object of increasing and stabilising the volume of world trade.

47. The most serious obstacles to the maintenance of total expenditure therefore lie in these highly inconvenient facts:—

First, those elements in total expenditure which are likely to fluctuate most—private investment and the foreign balance—happen also to be the elements which are most difficult to control.

Secondly, an increase in one part of total expenditure can only within limits offset a decrease in another. For if, through a decline in private investment, the construction of new factories is discontinued and building labourers are thrown out of work, it may be useful to stimulate the purchase of clothing but it would be idle to expect the building labourers to turn up the next day ready to handle sewing machines in the clothing factories. Again if important British exports fell off sharply, it would be essential, at the earliest moment, to find alternative exports to fill the gap: an expansion of internal demand would not alone be an appropriate remedy and indeed, if it were applied too vigorously, might lead to inflation.

48. The guiding principles of the Government's policy in maintaining total expenditure will be as follows:—

(a) To avoid an unfavourable foreign balance, we must export much more than we did before the war.

(b) Everything possible must be done to limit dangerous swings in expenditure on private investment—though success in this field may be particularly difficult to achieve.

(c) Public investment, both in timing and in volume, must be carefully planned to offset unavoidable fluctuations in private investment.

(d) We must be ready to check and reverse the decline in expenditure on consumers' goods which normally follows as a secondary reaction to a falling off in private investment.

The plans which are being prepared for this purpose are described in Chapter V.

(b) The Stability of Prices and Wages

49. Action taken by the Government to maintain expenditure will be fruitless unless wages and prices are kept reasonably stable. This is of vital importance to any employment policy, and must be clearly understood by all sections of the public. If we are to operate with success a policy for maintaining a high and stable level of employment, it will be essential that employers and workers should exercise moderation in wages matters so that increased expenditure provided at the onset of a depression may go to increase the volume of employment.

50. This does not mean that every wage rate must remain fixed at a particular level. There must always be room for the adjustment of wages and conditions, e.g. on account of changes in the form, method or volume of production. Also there must be opportunity for the removal of anomalies in the rate

of remuneration of different grades and categories of workers, both within an industry and between different industries. The principle of stability does mean, however, that increases in the general level of wage rates must be related to increased productivity due to increased efficiency and effort.

51. An undue increase in prices due to causes other than increased wages might similarly frustrate action taken by the Government to maintain employment. If, for example, the manufacturers in a particular industry were in a ring for the purpose of raising prices, additional money made available by Government action for the purpose of maintaining employment might simply be absorbed in increased profit margins and no increase in employment would result.

52. Stability of wages and stability of prices are inextricably connected. If the general level of wage rates rises and there is a corresponding increase in prices of goods for civilian consumption, the individual wage-earner will be no better off and there may be no increase in the total amount of employment available.

53. Thus, the stability of these two elements is a condition vital to the success of employment policy; and that condition can be realised only by the joint efforts of the Government, employers and organised labour. The Government for their part are prepared to do what they can to stabilise prices so as to avoid or mitigate changes not rendered inevitable by higher costs either of imports or of production at home. If, however, the cost of living is thus kept stable it must be regarded as the duty of both sides of industry to consider together all possible means of preventing a rise in the costs of production or distribution and so avoiding the rise in prices which is the initial step in the inflationary process.

54. Workers must examine their trade practices and customs to ensure that they do not constitute a serious impediment to an expansionist economy and so defeat the object of a full employment programme.

Employers, too, must seek in larger output rather than higher prices the reward of enterprise and good management. There has in recent years been a growing tendency towards combines and towards agreements, both national and international, by which manufacturers have sought to control prices and output, to divide markets and to fix conditions of sale. Such agreements or combines do not necessarily operate against the public interest; but the power to do so is there. The Government will therefore seek power to inform themselves of the extent and effect of restrictive agreements, and of the activities of combines; and to take appropriate action to check practices which may bring advantages to sectional producing interests but work to the detriment of the country as a whole.

(c) The Mobility of Labour

55. Even if there is an adequate overall demand for labour, maintained by a total expenditure sufficient to provide every worker with a job, it does not follow that unemployment will altogether disappear. In an economy which aims at keeping employment at its highest level, change will always be going on; new industries will be starting up, new processes replacing old; new ways of meeting consumers' demand will be under experiment. Numbers of people will therefore be registering as unemployed at Employment Exchanges on any particular date—there will always be people who are changing from one job to another, or are unemployed for some such temporary reason. If short-term unemployment arising from such causes is to be reduced to a minimum every individual must exercise to the full his

own initiative in adapting himself to changing circumstances. The Government will assist by the measures designed to bring the men to the work and the work to the men which have been described in Chapter III. They will also seek to prevent mobility of labour being impeded by arrangements of a type sometimes made before the war whereby workers worked part-time and claimed unemployment benefit for the rest of the week.

56. It would be a disaster if the intention of the Government to maintain total expenditure were interpreted as exonerating the citizen from the duty of providing for himself and resulted in a weakening of personal enterprise. For if an expansion of total expenditure were applied to cure unemployment of a type due, not to absence of jobs, but to failure of workers to move to places and occupations where they were needed, the policy of the Government would be frustrated and a dangerous rise in prices might follow.

CHAPTER V

METHODS FOR MAINTAINING TOTAL EXPENDITURE

(a) Capital Expenditure

57. If we could stop violent fluctuations in public and private capital expenditure taken together, and could keep the foreign balance reasonably stable, we should have gone far to prevent wide variations in demand and consequently in general employment. The following paragraphs outline the measures by which the Government propose, as part of their long-term policy, to influence the volume of capital expenditure, private and public.

58. In ordinary times the volume of capital expenditure is influenced by movement in the rate of interest. If the cost of borrowing money is high, some projects which are not profitable at that rate will be held back. When it falls again, those projects will be brought forward and others will also be taken in hand.

59. For some time after the end of the war it will be necessary, as explained in paragraph 16, to maintain a policy of cheap money. Thereafter, the possibility of influencing capital expenditure by the variation of interest rates will be kept in view. The experience gained since 1931 of co-operation in this field between the Treasury and the Bank of England and the Joint Stock Banks will make it possible to operate a concerted and effective monetary policy designed to promote stable employment.

60. Monetary policy alone, however, will not be sufficient to defeat the inherent instability of capital expenditure. High interest rates are more effective in preventing excessive investment in periods of prosperity than are low interest rates in encouraging investment in periods of depression.

61. The Government therefore propose to supplement monetary policy by encouraging privately-owned enterprises to plan their own capital expenditure in conformity with a general stabilisation policy. The larger private enterprises may be willing to follow, in their own interests, the example set by the Government in the timing of public investment and to adjust their activities accordingly. For to a strong and well-established business, confident of its long-run earning powers, there are obvious attractions in executing plans for expansion or for the replacement of obsolete plant at times when costs are low. And a wider understanding of the social importance of the aims of employment policy should inform and reinforce the interest which business men as a whole undoubtedly have in evening out fluctuations in capital

expenditure. A further inducement would be provided if it were found practicable to adopt a device similar to that of the deferred tax credits mentioned in paragraph 72 below and calculated to stimulate capital expenditure at the onset of a depression. This and other possible methods of influencing the volume of private investment will continue to be studied as knowledge and experience of the new technique for maintaining total expenditure are accumulated.

62. Public investment can, however, be used more directly as an instrument of employment policy.

Only a small proportion of public capital expenditure is undertaken by the central Government, by far the greater part being within the province of local authorities and public utility undertakings. In the past, capital expenditure by these authorities has generally followed the same trend as private capital expenditure—it has fallen in times of slump and risen in times of boom, and has tended therefore to accentuate the peaks and depressions of the trade cycle. In the future, Government policy will be directed to correcting this sympathetic movement. It should be possible for the Government to maintain the stability of public investment when private investment is beginning to fall off at the onset of a depression. But this may not be enough; for the purpose of maintaining general employment it is desirable that public investment should actually expand when private investment is declining and should contract in periods of boom. There are, however, practical limits to the extent to which Government action can produce swings in public investment to offset such swings in private investment as it cannot prevent. Thus, a large part of the capital expenditure of public authorities—for example on housing, schools and hospitals—is dictated by urgent public needs, the satisfaction of which cannot readily be postponed to serve the purposes of employment policy. And, in the other direction, the Government could not compel substantial acceleration of the capital programmes of these public authorities without much more power of direction than they now possess. There are, therefore, limits to the policy; but within those limits the Government believe that they can influence public capital expenditure to an extent which will be of material value for the purpose of maintaining employment.

63. The procedure which the Government have in mind is as follows. All local authorities will submit annually to the appropriate Department their programme of capital expenditure for the next five years. For the first of those years, at least, the plans will have been worked out in all details and will be ready for immediate operation; for the later years they will naturally be increasingly tentative and provisional. These programmes will then be assembled by an appropriate co-ordinating body under Ministers and will be adjusted, upward or downward, in the light of the latest information on the prospective employment situation. If this entails a slowing down of programmes, adequate powers, through the withholding of loan sanctions or grants, are ready to hand. If it entails an acceleration, the Government will, by granting loan sanctions or otherwise facilitating finance, bring forward projects which otherwise might have had to wait for a later opportunity.

The Government are considering the lines on which this procedure can be applied to the programming of capital expenditure by public utility companies.

The machinery envisaged in this paragraph will enable the Government to set each year a target for the whole volume of public works in the succeeding year.

64. In order that public investment may be more quickly mobilized to redress the balance of private investment the Government also intend to seek means of reducing the time-lag which ordinarily intervenes between a decision to undertake public capital expenditure and the actual start of the work. Speed here is crucial, for if a decline in demand can be caught quickly enough and corrected, a comparatively modest amount of compensating expenditure will be sufficient to restore the balance.

The Government therefore propose that the existing arrangements between themselves and other public authorities should be reviewed, in consultation with those authorities, in order that any causes of unnecessary delay in varying the level of this expenditure may be removed. There may also be other retarding influences, e.g., in Parliamentary Private Bill procedure, which are capable of improvement.

65. Finally, forward planning may have to be carried down to the industries which supply the primary needs of public investment. Much time would be saved if, in those capital industries which are most subject to fluctuations and are the first to be affected by an increase in public investment, attention had been given beforehand to the quickest ways of switching production from the types of article needed for private investment to the types required for those forms of public investment which stand highest in priority on the reserve list of public works.

66. The Government believe that in the past the power of public expenditure, skilfully applied, to check the onset of a depression has been underestimated. The whole notion of pressing forward quickly with public expenditure when incomes were falling and the outlook was dark has, naturally enough, encountered strong resistance from persons who are accustomed, with good reason, to conduct their private affairs according to the very opposite principle. Such resistance can, however, be overcome if public opinion is brought to the view that periods of trade recession provide an opportunity to improve the permanent equipment of society by the provision of better housing, public buildings, means of communication, power and water supplies, etc.

(b) Consumption Expenditure

67. If, despite our efforts, there are still swings in capital expenditure, with consequent fluctuations in the expenditure of people engaged in the industries producing capital goods, such as the iron and steel industry, the incomes of persons engaged in making clothing, wireless sets and other goods for consumption will also be lowered. These persons in turn will reduce their rate of consumption of food and other goods and thus the influence of the original swing in investment will be rapidly transmitted throughout the whole range of industries.

68. We must create another line of defence against this progressive degeneration of the state of trade by putting ourselves in a position to influence the community's expenditure on consumption. Here again, speed will be essential. The ideal to be aimed at is some corrective influence which would come into play automatically—on the analogy of a thermostatic control—in accordance with rules determined in advance and well understood by the public.

For this purpose the Government, after examining a number of methods, favour the adoption, when settled conditions return, of a scheme for varying, in sympathy with the state of employment, the weekly contribution to be

paid by employers and employed under the proposed new system of social insurance. The standard rate of contribution would be assessed on the basis of a forecast of the average level of unemployment, in such a way as to keep the social insurance fund in balance over a number of years. But the rate of contribution actually levied would exceed the standard rate at times when unemployment fell below the estimated average level and would be less than the standard rate at times when unemployment exceeded this average. An outline for a scheme of this kind is set out, by way of illustration, in Appendix II.

69. The effect of this scheme would be that, above a certain level of unemployment, a rise of two points in the unemployment percentage would decrease by an average of £500,000 a week the total of the social insurance contributions paid by workers in employment—apart from the corresponding reduction in the costs of employers. This would substantially augment the purchasing power in the hands of employed workers; and the additional money thus left in the hands of many millions of people would help to maintain demand for consumers' goods, thereby offsetting, at least in part, the decline in the expenditure of those who had lost their employment. This maintenance of purchasing power would reduce substantially the variations in total expenditure and employment.

70. A plan of this kind is in no way inconsistent with the contributory basis of the social insurance scheme. It is still intended that over a period of years the contributions to the fund, supplemented by State assistance on the agreed scale, should balance its outgoings, and that the standard rates of contributions should be altered from time to time if necessary to secure this result.

71. A scheme for varying social insurance contributions would be an inappropriate remedy for the type of unemployment which is likely to arise in the transition period. Moreover, there would be serious risk of confusion if such a scheme were brought into operation too soon after the introduction of the new system of social insurance. The introduction of that system will itself present a formidable problem of administration for the State, and contributors also will need time to adjust themselves to the new conditions. On both grounds it would be preferable that there should be an interval for the new system to establish itself before this additional complication is introduced. While, therefore, the plan and any necessary qualifications of it will be drawn up in detail, it will not be put into operation until the abnormal conditions of the immediate post-war years have disappeared.

72. The Government have also examined a number of other devices for influencing the volume of consumption, such as the variation of rates of taxation and the incorporation of some system of deferred credits as a permanent feature of national taxation. Since after the war a very considerable proportion of the national income will have to be taken in taxes, it is clear that relatively small variations in rates of taxation, whether effected by deferred credits or otherwise, will have a significant effect on the purchasing power available to the public and so on employment. Deferred credits are preferable to any system of direct variation which, apart from its other disadvantages, would come into operation more slowly than an effective policy demands. If experience should show that the variation of social insurance contributions was of value in keeping employment steady at a high level, but that another instrument for operating upon the volume of consumption was also desirable, it might well become a matter for consideration whether in prosperous times

rather more taxation should be raised than was necessary for the Budget requirements of the year and that excess treated as a credit repayable to the taxpayers in bad times.

73. These measures would operate by increasing the purchasing power in the hands of consumers. There is also the possibility, to which reference has already been made in paragraph 44 above, that the Government might directly sustain employment in consumer goods industries by placing orders at a time when the normal demand for their products was flagging.

The Government are large purchasers of certain types of consumer goods, e.g. boots, clothing and furniture; and they could within limits vary the volume of these orders according to the general state of trade. Local authorities could also be invited to aim at a similar variation in their orders for stores of this kind. If all public authorities adopted a policy of buying for stock when employment was flagging and allowing their stocks to run down when trade was brisk, they would make some contribution towards the stability of employment in those industries.

It might be suggested that the Government should go further and should place orders for consumer goods which are not required for Government use with a view to meeting a temporary deficiency in demand. This would, however, involve the purchase of goods by the Government for subsequent re-sale to the public, and there would be a risk that Government stocks over-hanging the market would create uncertainty and cause traders to reduce or postpone their orders for these goods. It is possible that for certain classes of goods Government orders could be placed without risk of these consequences; and it is proposed to continue the study of this problem. Further examination is also being made of other methods for influencing the volume of employment in the consumer goods industries, including the possibility of regulating hire purchase transactions according to the state of trade.

(c) Central Finance.

74. None of the main proposals contained in this Paper involves deliberate planning for a deficit in the National Budget in years of sub-normal trade activity. A policy of low interest rates is helpful rather than otherwise to the Budget. Any action which can be taken to improve our foreign balance works in the same direction. The designed variations in the capital position of the social insurance fund will not affect the Revenue Budget. Financial inducements to public authorities to expand capital expenditure will mainly take the form of an annual grant towards meeting recurrent charges on the loans raised and their burden will consequently be spread over a long period. Moreover, the success of measures designed to stabilise the national income and prevent cyclical depressions will have the effect of ironing out Budget deficits which are normally associated with severe depression.

75. Much of the public capital expenditure by public authorities which has been described is likely to be remunerative in the commercial sense and will amortise itself. There will be other public capital expenditure—e.g. on roads, schools, parks, etc.—which provides no assets yielding income; but in modern communities borrowing for services of this kind is, within certain limits, regarded as normal practice. If the finances of local authorities are prudently administered, and a proper relation is kept between the growth of capital expenditure and the buoyancy of rate income, it is unlikely that the growth of their indebtedness would involve an intolerable burden on local rates. If, however, the additional capital expenditure which local authorities are asked to undertake for reasons of employment policy would involve such a burden,

the Government would contemplate giving further financial assistance to them.

76. Nevertheless, the general growth of public indebtedness needs to be watched from a central standpoint. As a result of two wars within one generation the national debt is now extremely large—both absolutely and in relation to the national income. Whatever problems may arise from the growth of productive or semi-productive debt, they will be mitigated if we can move as soon as possible into a state of affairs in which an effective reduction can be made from year to year in that part of the public debt which is a dead-weight war debt. We start with a handicap. In the transition period, when demand will be buoyant, the Government would normally expect to budget for a surplus in order to prepare for the lean years. But during this period that aim is not likely to be achieved. On the one hand Government expenditure will still be very high on defence and on reconstruction projects which cannot be delayed; and on the other hand there will be a pressing need to reduce the present very high level of taxation in order to encourage industrial re-equipment. It is inevitable therefore that we should emerge from the transition period with some increase in our public indebtedness.

77. The policy of steadily decreasing the dead-weight debt, while other forms of debt are increasing, does not mean a rigid policy of balancing the Budget each year regardless of the state of trade. Such a policy is not required by statute nor is it part of our tradition. There is nothing to prevent the Chancellor of the Exchequer in future, as in the past, from taking into account the requirements of trade and employment in framing his annual Budget. At the same time, to the extent that the policies proposed in this Paper affect the balancing of the Budget in a particular year, they certainly do not contemplate any departure from the principle that the Budget must be balanced over a longer period.

78. Not only the national dead-weight debt in the narrow sense, but other public indebtedness which involves directly or indirectly a charge on the Exchequer or on the rates, reacts on the financial system. Interest and other charges thus falling on the Exchequer are often regarded as in the nature of a transfer income in the hands of the recipients and as imposing no real burden on the community as a whole. But the matter does not present itself in that light to the taxpayer, on whose individual effort and enterprise high taxation acts as a drag. At the same time, proper limits on public borrowing also depend on the magnitude of the debt charge in relation to the rate of growth of the national income. In a country in which money income is increasing, the total debt can be allowed to increase by quite appreciable amounts without increasing the proportionate burden of the interest on that debt. Owing to the prolonged decline in the birth rate and the present age distribution of the population we can no longer rely, as in the past, on an increase in the national income resulting solely from an increase in the number of income-earning persons. It is also possible, though not certain, that we may find that we receive a smaller volume of goods from abroad in exchange for a given quantity of our exports. On the other hand, these difficulties would be more than offset by continued progress in technical efficiency, which is the dominating factor in the growth of real national income. If British industry carries into the peace the inventive power, technical skill and adaptability which it has shown during the war, we shall be able in due time to carry our burdens without a sense of excessive strain.

79. Both at home and abroad the handling of our monetary problems is regarded as a test of the general firmness of the policy of the Government.

An undue growth of national indebtedness will have a quick result on confidence. But no less serious would be a budgetary deficit arising from a fall of revenue due to depressed industrial and commercial conditions. Therefore, in controlling the situation, especially in the difficult years after the war, the Government will have equally in mind the need to maintain the national income, and the need for a policy of budgetary equilibrium such as will maintain the confidence in the future which is necessary for a healthy and enterprising industry.

CHAPTER VI

THE POLICY IN PRACTICE

80. In submitting proposals for an extension of State control over the volume of employment, the Government recognise that they are entering a field where theory can be applied to practical issues with confidence and certainty only as experience accumulates and experiment extends over untried ground. Not long ago, the ideas embodied in the present proposals were unfamiliar to the general public and the subject of controversy among economists. To-day, the conception of an expansionist economy and the broad principles governing its growth are widely accepted by men of affairs as well as by technical experts in all the great industrial countries. But the whole of the measures here proposed have never yet been systematically applied as part of the official economic policy of any Government. In these matters we shall be pioneers. We must determine, therefore, to learn from experience; to invent and improve the instruments of our new policy as we move forward to its goal. And it would be no less foolish to ignore, than to be dismayed by, the certainty that unsuspected obstacles will emerge in practice.

81. The Government intend to establish on a permanent basis a small central staff qualified to measure and analyse economic trends and submit appreciations of them to the Ministers concerned. Particularly during the crucial early years of the scheme the responsibilities of this central staff will be very heavy; for many of the decisions required to carry out the Government's employment policy will depend on quick and accurate diagnosis. A slump may develop with fearful rapidity: in 1920-21 unemployment rose from 5 to 15 per cent. in four months. Again, it is essential that we should not mistake the disease and so apply the wrong remedy. If, for example, we were to try to cure by means of stimulating total expenditure an outbreak of unemployment which was really due to a temporary maldistribution of the labour force, we might create a dangerous inflation. Similarly, isolated or incidental trade recessions will have to be distinguished from those which herald the onset of general unemployment. Questions of timing will be equally delicate: it is no easy matter to judge when a period of growing prosperity has reached its climax, is in process of turning into an inflation and requires corrective action.

82. The success of the Government's policy will thus depend on the skill which is shown in putting general ideas into day-to-day practice. It is therefore vital for them to obtain, more fully and much more quickly than they have in the past, exact quantitative information about current economic movements. Without this, informed control would be impossible and the central staff which it is proposed to set up would be left to grope and flounder in uncertainty. The Government appeal with confidence to industry to join with them in a task which is essentially co-operative; for only industry can provide

the statistical information required and only a central authority can classify and analyse information drawn from the country as a whole. Just as the central organisation of a successful business must be in a position to know what is happening to each of its various branches, so the State cannot make its plans without knowledge of what is happening throughout the whole range of industry and commerce. Information provided for this purpose will of course be treated as confidential; and figures will not be published in a form which would prejudice the position of any individual firm.

83. The following are the principal classes of statistics (in addition to those available before the war) which must be obtained for the efficient operation of an employment policy:—

(a) Statistics of employment and unemployment, including quarterly or monthly statements of present and prospective employment in the main industries and areas in the country, based on returns from employers.

(b) Regular information relating to savings, projected capital expenditure by public authorities, and, as far as possible, by private industry.

(c) An annual census of production showing the structure of the main groups of industries in the preceding year, including, *inter alia*, details of the quantity and value of output, stocks, and work in progress.

(d) Monthly figures of production, consumption and stocks, and, if possible, figures of orders on hand, based on sample returns obtained periodically throughout the year from large firms, trade associations, and public institutions.

(e) Annual and quarterly estimates of foreign capital movements and balance of foreign payments.

84. It is also proposed to develop the annual White Paper on National Income and Expenditure by providing a much more complete analysis than has hitherto been possible of the constituent parts of the country's total expenditure. In particular, direct estimates will be made of the various types of capital expenditure and the various sources of savings. This will be, in effect, the Capital Budget of the nation's wealth.

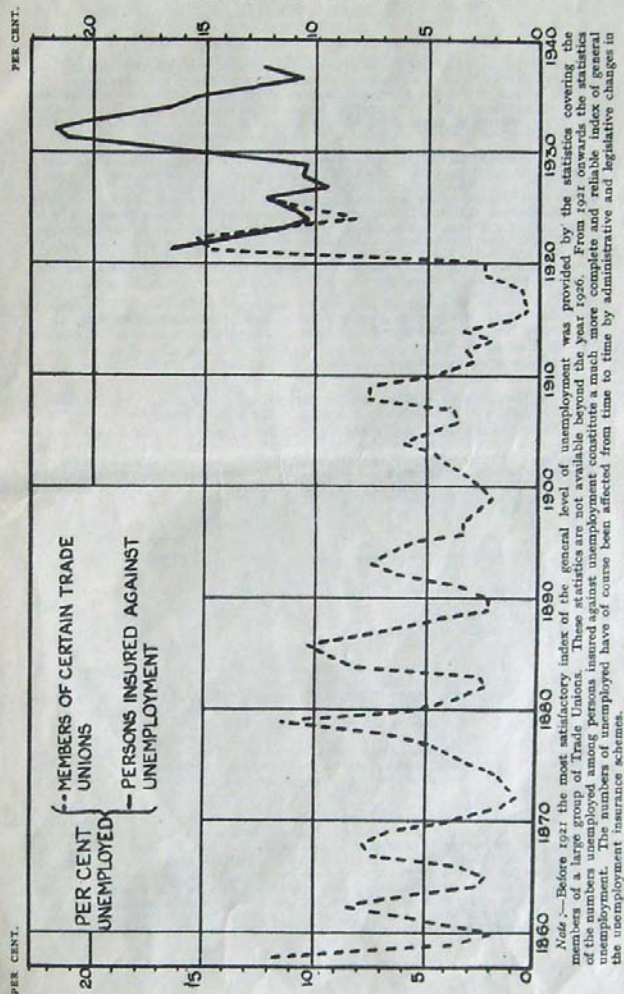
85. This central analysis of our financial position, which will be subject to continuous review and adjustment throughout the year, will serve as a basis for determining what measures are required to maintain employment and secure a rising standard of living. It will be essential, therefore, that at every stage there should also be parallel studies of the manpower position. These will be undertaken by the Ministry of Labour and National Service who, in the light of the knowledge and experience which they have acquired during the war, will be specially well-equipped to keep the employment situation throughout the country under constant review and to direct attention to the employment aspects of national policy. The surveys prepared by the Ministry of Labour will indicate the probable supply of labour over the coming period, the prospective changes in employment in the different industries, and the effects upon employment of Government projects designed to modify the volume of investment or expenditure. The correlation of these complementary budgets—for total expenditure and for manpower—will thus play a vital part in the formulation of Government policy for the maintenance of employment.

86. The Debates on the Budget will in future provide an annual opportunity for Parliament to review the financial and economic health of the country as a whole, and to consider the prospects for the coming year. Parliament will thus be asked to join with the Government in framing and approving

the general strategy for maintaining employment. If, however, the policy set forth in this Paper is to be successful, the Government of the day must be able to take the tactical decisions for which it calls—and to take them quickly. Measures to increase total expenditure at the onset of a depression may well be welcome; but the restraining measures appropriate to a boom may meet with opposition unless they are seen and understood as part of a continuing policy for maintaining employment, and accepted as the price that must be paid for the success of that policy over the long period. If action is to be taken quickly enough to have its full effect, the Government of the day must be able to rely on the support and co-operation of the public in applying the principles of an agreed national policy.

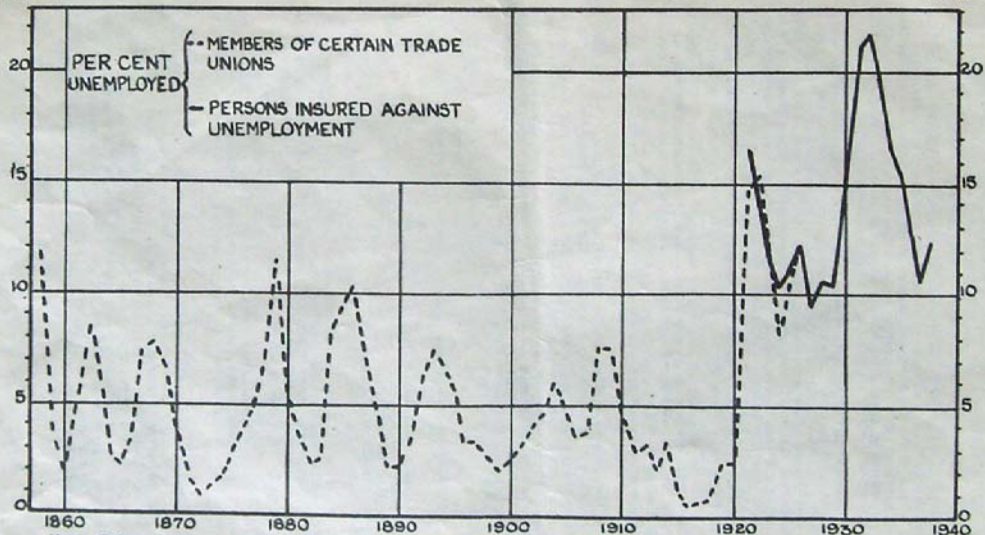
87. The Government believe that, once the war has been won, we can make a fresh approach, with better chances of success than ever before, to the task of maintaining a high and stable level of employment without sacrificing the essential liberties of a free society. They have set out in this Paper the lines on which they believe that task can most hopefully be attacked. In framing these proposals the Government have had in mind the more general aim of securing for the nation the most effective use both of its man-power and of its material resources. That aim can be achieved only if the whole productive power of the nation is employed efficiently: it is not enough that it should be employed. The Government therefore seek to achieve both work for all and a progressive increase in the economic efficiency of the nation, as joint elements in a growing national power to produce, to earn, and to enjoy the fruits of increased well-being.

APPENDIX I.
UNEMPLOYMENT IN GREAT BRITAIN: 1858—1938.



PER CENT.

PER CENT.



Note:—Before 1921 the most satisfactory index of the general level of unemployment was provided by the statistics covering the members of a large group of Trade Unions. These statistics are not available beyond the year 1926. From 1921 onwards the statistics of the numbers unemployed among persons insured against unemployment constitute a much more complete and reliable index of general unemployment. The numbers of unemployed have of course been affected from time to time by administrative and legislative changes in the unemployment insurance schemes.

APPENDIX II.

VARIATION OF SOCIAL INSURANCE CONTRIBUTIONS.

1. In paragraph 68 of the Paper reference is made to a scheme for varying social insurance contributions as a means of influencing expenditure on consumption. The primary object of such a scheme is to prevent an initial decline in demand from producing secondary effects on consumption and thus intensifying the depression. In a time of expanding demand the scheme would operate in the contrary direction. It is thus intended to have a stabilizing effect on employment.

2. It is desirable that the scheme, when once it has been introduced, should operate as automatically as possible. It would not be expedient to put it into operation in the unsettled economic conditions which are likely to prevail in the period immediately after the end of the war, when inflationary tendencies will be at work. Even after the end of that period there may be circumstances in which this remedy would be less appropriate and effective, e.g. if there were serious unemployment confined to particular industries but not accompanied by a significant general fall in employment throughout the country. Nevertheless, after the end of the transition period, a sliding scale scheme, though subject to possible suspension on occasion, could be essentially automatic in character.

3. There are several ways of constructing a scheme of this kind. The following outline of a possible scheme is given merely by way of arithmetical illustration: the figures used are not based on any estimate of the actual conditions which may be experienced in practice.

(i) The scheme would apply to the social insurance contributions of all employed persons.

(ii) The stamp to be affixed by the employer to each employee's social insurance card would vary automatically according to the state of unemployment.

(iii) The scale laid down would be based on a forecast of the average level of unemployment from time to time taken as the basis of the finance of the insurance scheme. If, for example, an average level of 8 per cent. unemployment was assumed, one possible scale for adult male workers (using for purpose of illustration the rates proposed by Sir William Beveridge in his Report on Social Insurance and Allied Services (Cmd. 6404, 1942) might be:—

Unemployment percentage	Weekly Social Insurance Stamp		
	Worker	Employer	Joint
	s. d.	s. d.	s. d.
Less than 5 per cent.	5 6	4 6	10 0
Between 5 and 7 per cent.	5 0	4 0	9 0
Between 7 and 9 per cent.	4 3	3 3	7 6
Between 9 and 11 per cent.	3 6	2 6	6 0
More than 11 per cent.	3 0	2 0	5 0

4. The scheme would bring about a substantial increase in purchasing power. The effect may be illustrated from the foregoing figures. Should it occur that in a period of difficulty average unemployment changed by four points from 8 per cent. to 12 per cent., nearly 10 million adult male workers would have their incomes increased by 1s. 3d. per week and employers would have their prime costs reduced by 1s. 3d. per week for each adult male in their employ. Assuming comparable changes in the contributions of adult female workers and non-adults, this rise of four points in the unemployment percentage would result in an immediate increase of nearly £1 million a week in the incomes of the workers, and a corresponding reduction in the costs of their employers.

5. This injection into the general system of money at the rate of some £100 millions in a year may be estimated, after analysis of many considerations affecting it (including its secondary effects and a necessary allowance for the part which is withheld from expenditure, the part which is paid in taxation and the part which is spent on imports), to produce a very material increase in the expenditure on home produce for personal consumption, rising after an interval to a figure in the region of at least £70-80 millions. This does not take into account any favourable reactions on capital expenditure. At the level of unemployment of 12 per cent. used in the above illustration, the scheme might reduce the fall in aggregate demand by about one quarter, and

in consumption expenditure by a substantially larger fraction, compared with what it would otherwise have been.

6. There are, however, difficulties attaching even in the long term to the automatic use of the scheme. For during periods of high unemployment the Fund would be receiving less than it was paying out, and the reverse would be true in times of low unemployment. If, therefore, the average around which the variations took place proved to have been a correct forecast, deficits in some years would be balanced by surpluses in other years. If, however, the average were wrongly forecast, it would be necessary, at some stage, to adjust the scale in order to make the Fund balance over a reasonable period of good and bad years.

This raises a difficulty which is to some extent inherent in any social insurance scheme which includes unemployment insurance. If the estimate of the average percentage of unemployment assumed for the purpose of balancing the Fund proved in experience to have been too low, it would be necessary, apart from the sliding scale, to raise the standard rates of contribution in order to prevent the Fund from running into a continuing deficit. It might prove that the solvency of the Fund required the change to be made at a time when conditions were depressed. In these circumstances the sliding scale would be an added disadvantage; for not only would the standard rate of contribution be raised, but the basic figure of unemployment would also be raised, beyond which increases of unemployment would justify some lesser contribution than the standard rate. Thus there would be two factors operating simultaneously, each of which would call for an increase in the rate of contributions.

7. A variable contribution also increases the possibility of error in forecasting the future finances of the Social Insurance Fund. Under the fixed contribution method, if 8 per cent. (to take the same illustration as before) was the forecasted percentage of unemployment on which the Fund was balanced, and in actual practice unemployment averaged 9 per cent., the effect would be an average deficit of £17 millions a year over the period. The introduction of the sliding scale would probably result, on reasonable assumptions as to the dispersion of unemployment about the realised average, in an additional deficit of £15 millions a year.

8. The illustrative figures given in this Appendix do not take into account the effect of this scheme and the other measures described in the Paper in lowering the average percentage of unemployment. Although under this scheme the contribution income of the general Social Insurance Fund would be reduced in times of heavy unemployment, the increase of expenditure on unemployment benefit which is experienced at such times would be diminished to the extent that the policy as a whole (including this scheme) succeeded in checking the spread of unemployment.

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