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**A PROBLEM OF INDUSTRY (1909-1930)**

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# CAUSES AND CURES OF UNEMPLOYMENT

BY

Sir WILLIAM H. BEVERIDGE, K.C.B.

AUTHOR OF 'UNEMPLOYMENT: A PROBLEM  
OF INDUSTRY'

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## PREFACE

IN this volume are printed six wireless talks on Unemployment, given during May and June 1931. I have inserted two charts illustrating the subject of the talks, and have added in an Appendix the memorandum of evidence submitted by me in March 1931 to the Royal Commission on Unemployment Insurance.

The Interim Report of this Commission was published while my talks were in progress (long after they had been prepared) and the Report of the Committee on Finance and Industry was issued just after their conclusion. So far as I can judge, neither Report contains ground for changing seriously anything in my talks, though each, of course, covers—with far more authority and fullness—part of the same ground.

I have kept in the printed text a few sentences which, when speaking through the microphone, I omitted, in order to come within my allotted twenty minutes for each talk, and I have corrected one or two minor errors and amplified one or two phrases which caused misunderstanding. Otherwise, with 'chapters' substituted for 'talks' in cross references, the printed text represents almost word for word what I said. I am indebted to the British Broadcasting Corporation for permission to republish these talks in their present form.

W. H. B.

GREEN STREET,  
AVEBURY,  
26th July, 1931.

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# CAUSES AND CURES OF UNEMPLOYMENT

## CHAPTER I

### UNEMPLOYMENT: DISEASE OR SYMPTOM?

"UNEMPLOYMENT is often called a disease of society. I am inclined to think that one is nearer the truth if one speaks of it as a symptom.' Unemployment is like a headache or a high temperature—unpleasant and exhausting but not carrying in itself any explanation of its cause.' A high temperature may be got by catching malaria or by breaking one's leg or by eating too much; it may mean that one has something wrong with one's appendix or lungs or teeth, that one is in the thick of a bad cold or is sickening for cholera. Until one finds out which of these and many other possible causes is at work, one will not have gone far in finding a cure simply by knowing how many degrees of fever one has. The clinical thermometer is an indispensable but limited instrument.

The numbering of the unemployed by the Ministry of Labour week by week and month by month is like a thermometer, indispensable but even less informing as to what is the matter and how much is the matter with society. To know how many people



are registered as unemployed at any moment is barely a beginning towards knowing anything worth knowing about unemployment. The important thing to know, of course, is what are the underlying conditions of which unemployment is the symptom in each case. Upon that depend both the possibility and the nature of the cure, as well as the chance that unemployment may cure itself in time if it is left to itself.

The state of being unemployed may mean and does mean quite different things to different people. It may arise and does arise from a number of distinct causes ; that is the first point that I want to make. I shall in this chapter classify under four main headings the various types of unemployment with which experience has made us familiar in this country. I shall in the next four chapters deal with each of these types in turn and try to trace each to its underlying cause or causes in the economic structure of society or in human nature. Each of the four main types will in fact be found to be composite—a strand composed of several threads. In the sixth and last chapter I shall review the problem as a whole and draw some conclusions.

Before getting down to the diagnosis, however, let us be clear about the symptom, and let us look at the thermometer chart of our unemployment. Now what is the symptom ? When is a person to be regarded as unemployed ? He is not unemployed simply during the time when he is not working. Speaking broadly, no one works for more than about one-third of each twenty-four hours, or on more than six days out of seven, or in the long run for more than two out of every three years of all the years of his life. A man who has lived for seventy-five years has lived for 660,000 hours. If in that time he has worked for what one may call the three fifties—fifty

hours a week for fifty weeks of fifty years—he will have done a full life's work, but he will actually have been at work only for 125,000 hours—less than one-fifth of his life. He is not, however, unemployed during the rest of his life—while he is too young or too old, while he is sick or asleep or amusing himself, or even while he is engaged in a dispute as to the terms upon which he shall work. Some people do no work at all, and many do much less than the three fifties, yet they are not ordinarily regarded among the unemployed. They are leisured.

✓ Not all idleness is unemployment. The idleness which should be so regarded is the idleness of the man who depends on employment for a livelihood, and cannot get the kind of employment for which he is suited when he wants that kind of employment and is fit for it. To count as unemployed, a man must be able to work, wishing to work, dependent on work for a livelihood but unable to obtain suitable employment. That is substantially the definition of unemployment for the purposes of unemployment insurance, and our thermometer of unemployment is really based on our insurance scheme. In order to get insurance benefit while he is not working, a workman has to register at an employment exchange, and after registering has to sign a book three times a week during working hours. His coming to the exchange in working hours to sign is *prima facie* evidence that he is not ill or at work; if the exchange cannot offer him a job, that is some evidence that there is no suitable employment for him. I shall have more to say about the insurance scheme in a later chapter. I have said this much here just to show how closely the counting of the unemployed depends upon an insurance scheme.

If there were no benefit to be drawn there would be no certainty that unemployed men would register;

they might not think it worth while. In countries without an insurance scheme—in America and France—the statistics of unemployment are just guesses, some good and some bad, sometimes honest guesses, and sometimes guesses coloured by desire to make a case.

In Britain we have had a general scheme of insurance against unemployment since 1920. The Ministry of Labour knows pretty accurately both how many people are insured at any time and how many of them are unemployed; every insured workman has to have an unemployment book, to which the employer fixes stamps to pay contributions while he is employed, and which the workman deposits at the exchange when he loses employment and wants benefit. The Ministry of Labour can count the books issued to insured workmen and the books deposited by unemployed workmen, and compare the two numbers. By this calculation it tells us that at the end of April 1931 there were about 12½ million persons in Great Britain and Northern Ireland insured against unemployment and that 2,600,000 of them, or 21 per cent.—more than one in five—were unemployed. That is what we mean when we say that the unemployed percentage is 21.

These figures I have just given do not include quite all the unemployed, because some occupations—agriculture and domestic service and one or two more—are outside the insurance scheme. But they do include substantially all those who live by industrial employment. They give us a record of unemployment more complete—a thermometer more sensitive—than can be found in any other country of the world, except perhaps Germany.

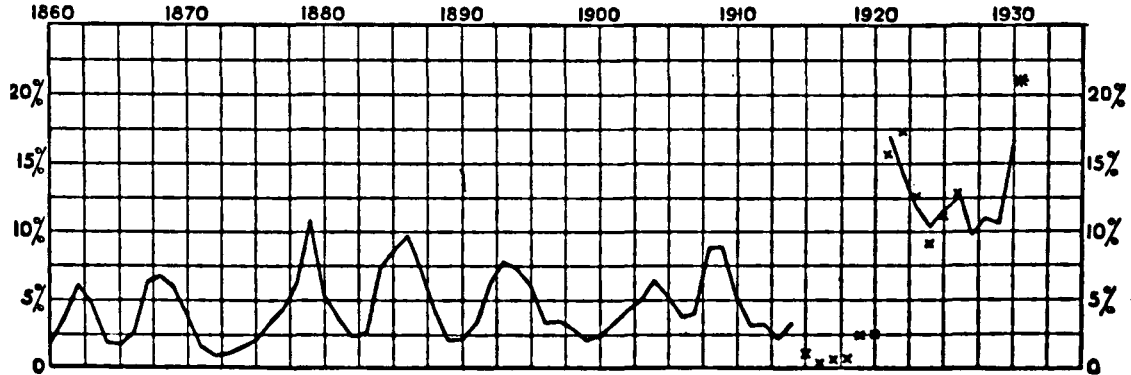
What does our thermometer tell us? I have just given the latest reading—for the end of April 1931. We can get similar readings from about the beginning

of 1921; these show us that unemployment to-day is much above the normal, even for the time since the war. From 1922 to 1929 the percentage fluctuated between 10 and 14 and averaged about  $11\frac{1}{2}$ ; at the end of 1929 it rose suddenly, and for 1930 was just over 16; before 1922, in the collapse of 1921, it was 17.

Since the Great War we have a very good thermometer for unemployment. Before the war there was no general system of unemployment insurance and no similar count of nearly all the unemployed. But a number of trade unions had insurance systems for their own members, and from these we can get a statistical record of unemployment, beginning about 1860—that is to say, covering more than fifty years before the war. We can compare the number of trade union members unemployed with the total membership, and so get a percentage of unemployment. The record shows unemployment fluctuating in intervals usually of six to ten years, from a minimum of 2 per cent. (once or twice a little less) in years of good trade to a maximum of 10 per cent. in years of depression; the average over the whole period is  $4\frac{1}{2}$  per cent. The record covers directly only a small sample of the industrial population. But for some years after the war, when one can compare the sample with the whole body of insured persons, one finds much the same general level of unemployment in each. The union records represent a variety of trades. The sample, though small, seems to be a fairly good sample.

This, then, is our temperature chart of unemployment, as printed on the following page. Before the war we have a percentage of unemployment, in the trade unions, fluctuating from about 2 to about 10 with an average of  $4\frac{1}{2}$ ; never disappearing altogether, but never approaching the heights to

### UNEMPLOYMENT PERCENTAGES IN BRITAIN—1860 TO 1930.



The line shows the percentage of unemployment in each year, as recorded by the trade unions from 1860 to 1914, and in the insured population from 1921 to 1930. The crosses show trade union percentages from 1915 to 1930. The star shows the insured population percentage in April 1931, namely 21 per cent. The trade union percentages are taken from Table XLVII, and the insured population percentages from Table XXXVII in *Unemployment: A Problem of Industry*.

## UNEMPLOYMENT : DISEASE OR SYMPTOM? 7

which we are now accustomed. In the war unemployment, marked on the chart by crosses, becomes very small indeed. After the war, in an apparently normal period from 1922 to 1929, we find a percentage of unemployment practically never falling below 10 and averaging  $11\frac{1}{2}$ . Before that period we have a slump in 1921 with 17 per cent. of unemployment. After that period we have another slump in 1930 making the average unemployment for that whole year 16 per cent. To-day our thermometer of unemployment records 21 per cent., over  $2\frac{1}{2}$  million persons unemployed, or one in five of the insured total of  $12\frac{1}{2}$  millions.

That is what the chart shows. In getting below the chart to what it means, we must begin by studying it in sections :

The first section covers unemployment as we knew it before the war ; it is concerned with the pre-war causes of unemployment, particularly as they were investigated by the Royal Commission on the Poor Laws and the Relief of Distress which sat from 1905 to 1909. This is the 2 to 10 per cent., with an average of  $4\frac{1}{2}$  per cent.

The second section covers unemployment as it was experienced in Britain between the two slumps of 1921 and 1930. This is 'The Dead-weight of Unemployment in Britain from 1922 to 1929,' the  $11\frac{1}{2}$  per cent.

The third section is 'The World Slump of 1930,' the 20 per cent. and more of our experience to-day. The slump actually began in some countries during 1929, and in the middle of 1931 is not yet ended. What is more important than the dating of it is the description of it as a world slump not peculiar to Britain. It has clearly something in common with the cyclical fluctuations of trade which used to visit Britain and other countries before the war. How

much it has in common with them is one of the subjects for discussion.

We shall find that, though there is a great deal that is common to all these three sections, though the various causes of unemployment operate more or less in all of them, yet in each section some one cause, a different cause in each, becomes most prominent—becomes the characteristic disease of that period. The characteristic disease of the pre-war period—the most important, though not the only cause of its unemployment—we shall learn to know as disorganisation of the labour market. The characteristic cause of Britain's troubles in the years from 1922 to 1929 is rigidity of her economic structure—failure to adapt herself to a changing environment, a kind of hardening of her arteries. The characteristic of the slump of 1930 is collapse of credit and prices, not only in Britain, but throughout the world.

To these three sections of our study, a fourth must be added, of a slightly different kind. I call it 'The Administrative Factor.' Our thermometer for measuring unemployment is intimately connected with our measures for relieving unemployment by the administration of insurance. There can be no doubt at all that changes in administration affect the readings of the thermometer—that is to say, the numbers recording themselves as unemployed. There is, in my mind, as little doubt (though this is a more controversial matter) that some of our administrative measures actually tend to increase our unemployment, to make our disease definitely worse or to postpone a cure. That will be the burden of the last chapter but one.

Meanwhile, let me make two general points about the subject of this chapter. The first point is that the four-fold classification is a classification of the causes of unemployment, rather than of the un-

employed. Any one unemployed man can and commonly does represent a combination of many causes. A dock labourer who was unemployed in Liverpool last August might be suffering from many different causes—from the chronic irregularity of his employment, from seasonal depression (for the docks are normally less busy in August than in the rest of the year), from cyclical fluctuation (for we were in the midst of a world slump), from a change of industrial structure (caused both by the decay of the cotton trade and the shifting of Britain's industry southwards), from his own defects of physique or character (very likely caused by his chronic under-employment and through the ease with which he can obtain unemployment benefit). Here we have a difference from the medical analogy. It is possible for a man to have more than one disease at a time; if he has influenza already, it is possible for him to develop appendicitis or break his leg; but it is not usual. Most bodily diseases fortunately come singly. On the other hand, it is usual, when there is much unemployment, for each individual case of it to be the result of several causes. Nearly every case of unemployment is a case with complications. That is one of the differences between unemployment as a symptom of social disease and high temperature as a symptom of bodily disease.

Another difference is that some degree of unemployment, or at least some risk of unemployment for individuals, is probably an essential part of economic health for the community. A society in which every individual was absolutely sure of never losing his job, would be a society without any change at all—a dead body, not a live one.

I do not mean by this that unless individuals were afraid of unemployment, there would be no progress, that fear is the only mother of invention.



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I mean only that progress implies change, and that change may result in displacing men from their chosen careers; individuals may suffer though the community gains.

Still less do I mean that we should treat unemployment lightly; unemployment is never less than a tragedy to the individual. The fact that social progress may involve unemployment of individuals is the justification of social measures for dealing with and relieving unemployment. But the measures must be such as to ease, not hinder, progress. There can be worse things than unemployment in a country.

## CHAPTER II

### THE PRE-WAR CAUSES OF UNEMPLOYMENT

THE subject of this chapter is unemployment as it was experienced and diagnosed in Britain before the Great War. There are several reasons for taking that as a starting-point if we want to discover the causes of unemployment to-day.

One reason is that we know a great deal about unemployment just before the war. A Royal Commission on the Poor Laws, appointed in 1905, was given, as a second branch of its terms of reference, the study of unemployment and of measures for dealing with unemployment. The Commission—sitting from 1905 to 1909—did its work with great thoroughness, and, so far as unemployment is concerned, came practically to unanimous conclusions, though they embodied these in separate reports—Majority and Minority. As a result, we have an exhaustive impartial diagnosis of one group of causes leading to unemployment—the pre-war causes. We have nothing to match that diagnosis for the time since the war.

The second and main reason for dealing with the pre-war causes of unemployment is that unfortunately they are post-war causes also. All the main causes of unemployment diagnosed before the war are operative now; the remedies then proposed have not been carried far enough to effect a cure. This chapter is not historical; it has a painfully practical bearing.

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Yet a third reason for looking at the time before the war is the contrast between general economic conditions then and now. Now the industrial future of Britain seems dark, or at least uncertain. Then, up to the eve of war, it seemed assuredly bright. Fluctuations there were of good and bad trade, but through them all the tide of our prosperity rose. In the fifty years from 1860 to 1910, while the population of Britain increased by about 50 per cent. the total income of the population, allowing for changes in the value of money, increased by nearly 150 per cent.; on an average, each individual of the larger population of 1910 was 80 per cent. better off than his predecessor of 1860. 1918, the last year of all before the war, was a record year for trade and for many branches of production, a year of active employment, good profits and rising wages. Yet through all this prosperity, unemployment persisted. The number of those finding employment rose endlessly, but the number of the unemployed never fell to zero. The demand for labour, it seemed, could increase indefinitely, without bringing unemployment to an end. What is the explanation of that seeming paradox?

One obvious explanation of there being unemployment in a country is that there are too many people in it, that the country is over-populated. But this explanation does not fit the facts of Britain before the war. All through the nineteenth century the standard of living rose as the population grew; the return to labour was increasing, not diminishing. Each person added to the working population found on an average more room and not less room than those before him. Yet there were always some who for a time at least could find no room at all.

Some people in those days, when they found that unemployment could not be explained as over-

## THE PRE-WAR CAUSES OF UNEMPLOYMENT 18

population, were apt to explain it away as unemployability. If, they said, there is room for all in Britain, any one who cannot find a place there for himself, clearly has no one but himself to blame. He must be unemployable—unfit to work or unwilling to work. The only thing to do with him is to send him to prison or to hospital, or if you must relieve him, relieve him on conditions so unpleasant that he will feel driven to go to work instead. That at bottom was the principle of the former Poor Law dating from 1834, with its workhouse test of destitution; it assumed that there could be no serious genuine unemployment. But explaining away unemployment as unemployability did not fit the facts any better than did explaining it as over-population. Though there were no labour exchanges and no regular official count of the unemployed, there was sufficient evidence, in the trade union records and elsewhere, to prove to any one who would look at the facts that unemployment was a reality. That was what the Poor Law Commission of 1905 did. They looked at the facts; they emphasised the general prosperity and progress of the country, but they recognised authoritatively at the same time the reality of unemployment; and they gave an explanation of the seeming paradox, of unemployment persisting, however much employment grew.

The explanation is really simple. Unemployment, in the forms which it presented before the war, was a problem not of the total numbers employed, but of the ways in which men found employment, a problem not of the scale of industry but of the organisation of industry. I tried myself to put just that point in just five words, by calling a book which I wrote then *Unemployment: A Problem of Industry*.<sup>1</sup>

<sup>1</sup> Revised edition published by Messrs. Longmans, Green & Co. in 1931 (21s.).

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I meant that unemployment was not a problem either of personal character or of over-population, but of the way in which industry was conducted ; unemployment was part of industry. The whole book was an explanation of the title.

Unemployment before the war did not mean that the demand for labour as a whole was out of accord with the supply of labour as a whole. In the long run the demand for labour as a whole kept pace with the supply. But while the supply of labour—that is to say, the working population—grew steadily, the demand for labour grew unsteadily and irregularly ; now for one type of workpeople and now for another ; now in one place and now in another ; now as a whole faster than the supply and now more slowly. There was no general lack of adjustment between labour supply and labour demand ; there were specific maladjustments of quality, place, and time which were the economic causes of genuine unemployment. These maladjustments were of four main kinds ; they may be described as changes of industrial structure, seasonal fluctuations, cyclical fluctuation, and disorganisation of the labour market.

By changes of industrial structure are meant the decay of particular industries ; introduction of new processes or machines ; substitution of one kind of labour for another, and movement of an industry from one part of the country to another. All such changes may result in displacing individuals from their chosen careers, and may do this at a time of life when it is difficult or impossible for those displaced to fit themselves for other work. They may cause unemployment in a community which as a whole is prosperous and progressing ; without such changes, indeed, and the resulting risk of unemployment, there can hardly be progress. Theoretically, changes of industrial structure have always been

## THE PRE-WAR CAUSES OF UNEMPLOYMENT 15

recognised as possible causes of unemployment. Practically, before the war, they were not an important cause, because they almost always happened slowly. The decay of an industry meant as a rule that new labour did not enter it, rather than that large numbers of men in it were thrown out. New machines and new processes spread gradually: the prosperity they gave often led to increased demand for labour. The changes in any case were sporadic; they did not affect all industries at once.

A second familiar cause of pre-war unemployment is to be found in seasonal fluctuations. That some industries have regular seasons is well known; for obvious reasons there is more work for bricklayers in the summer than in the winter and less for coal-miners and gas-stokers. In fact, there are seasonal variations, though as a rule less marked, in nearly every industry. These seasonal variations cause unemployment, but not often a serious problem of distress through unemployment. The slack time comes regularly each year, so that it can be foreseen and provided for, lasts for a short time only, and is different for different occupations. There can be movement from one occupation to another, *e.g.* from building or brick-making in summer to gas-works in winter; that is to say, there can be some dove-tailing of seasonal occupations.

Far more important is the third of the pre-war causes of unemployment, which we have learnt to call cyclical fluctuation. If the state of employment, as recorded by the trade unions from 1860 onwards, is plotted year by year on a chart, it moves in a succession of waves. There are crests of good employment—with an unemployment percentage of about 2—at 1864, 1872, 1882, 1890, 1899, 1906; that is to say, at intervals of seven to ten years. Between the crests there are troughs of bad employment—with

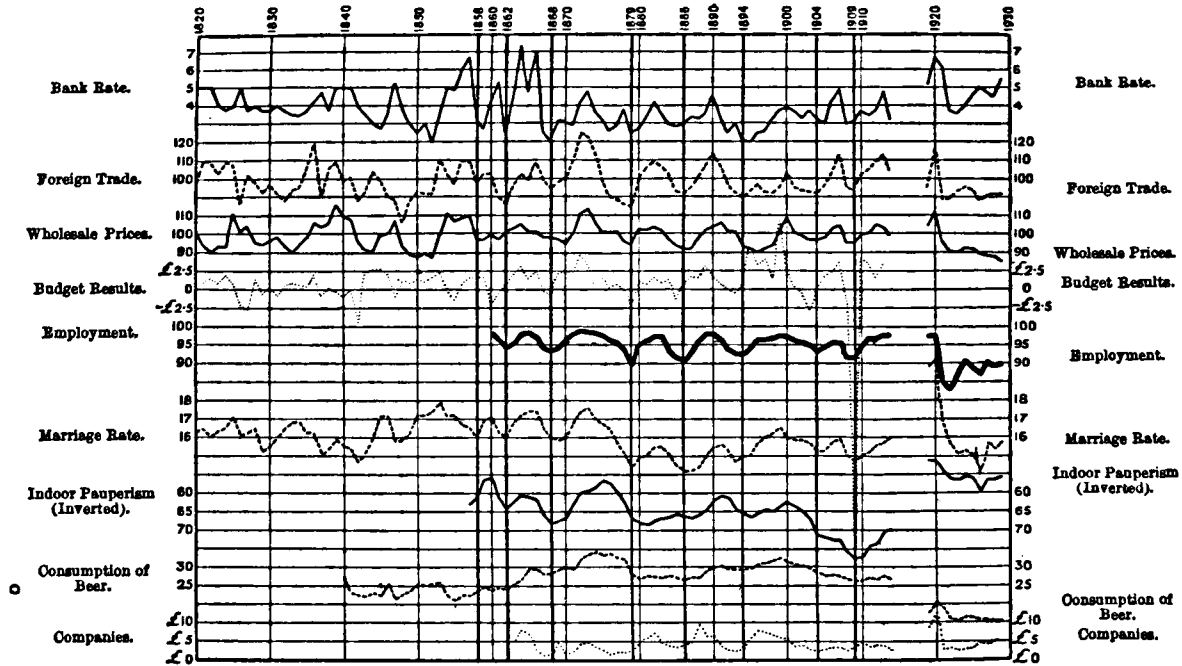
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an unemployment percentage of 8 or more—at 1862, 1868, 1879, 1886, 1894, 1904, 1909, that is to say, at intervals of five to eleven years. This fluctuation of employment is only one side of a general movement reflected in almost every other economic index—foreign trade, prices, bank-rate, pauperism, marriages, consumption of beer, flotation of companies, railway traffics, and many more. The movement is pictured in the chart opposite, called 'The Birth and Life of the Trade Cycle.'<sup>1</sup> About the middle of the chart is a curve which shows employment rising and falling; vertical lines at the years 1862, 1868, 1879, 1886, 1894, 1904, 1909, cut up the employment curve into a series of waves. The semi-vertical lines cut up the other curves into a series of similar waves.

All through the time of Britain's most rapid material progress before the war, there was in her economic life an alternation of great activity and comparative depression—a pulsation with a varying period somewhere about seven years, but often less and often more. As a factor in unemployment, recurring cyclical depression was more serious than seasonal depression—not only because it came less seldom (so that it could not be foreseen) and lasted much longer (years in place of months), but because it affected all trades more or less together.

I come now to the last of the main causes of unemployment known before the war—disorganisation of the labour market. Though I have spoken of the demand for labour as a whole and of how as a whole it keeps pace with the supply, the demand for labour as a whole is an abstraction. The concrete reality is the demands of innumerable independent

<sup>1</sup> The chart is taken from page 340 of *Unemployment: A Problem of Industry*, and the figures on which it is based, with a full explanation of them, are given there.





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employers for particular kinds of men in particular places. These demands are always changing; they rise and fall, as the fortunes of individual employers rise and fall. The changes involve a perpetual flux of men into and out of employment. In years of good employment before the war one out of every four workpeople in such trades as building, engineering, ship-building, printing, would be out of work at some time during a year and have an interval between jobs. Each such interval, short or long, was an interval of unemployment; the occurrence of such intervals, even in years of good trade, was the reason why unemployment never disappeared altogether, never fell below a minimum of about 2 per cent. The longer on an average were the intervals, the more would be the total unemployment; the methods by which men who had lost a job could set about finding another job had a direct bearing on the volume of unemployment.

Now when before the war the Poor Law Commission and others studied the methods by which men found jobs, they came at once across a striking difference between labour and everything else that is bought and sold. The finding of jobs is the marketing of labour. But whereas for everything else that has to be bought and sold—wheat or cattle or tea or cotton or stocks—there had for centuries been regular common market-places, to bring buyers and sellers easily and quickly together, for labour, in this country, there had till twenty years ago been no such development. For labour there were no market-places. When the Poor Law Commission studied the matter, the normal way of hiring men was to wait for them to come to the factory gates. The marketing of labour meant the hawking of it from door to door, as many other goods used to be hawked in the middle ages. That persistence of medieval methods

## THE PRE-WAR CAUSES OF UNEMPLOYMENT 19

into modern times is the disorganisation of the labour market, the fourth and, in the view of the Poor Law Commission, the worst of the pre-war causes of unemployment.

That is disorganisation of the labour market in general terms. It can be illustrated by a few special cases. One such case was that men out of work in one district would set out to tramp the country in search of work, tramp blindly, often in the wrong direction. In a country with a post office, telephones, and a railway system this was clearly absurd. Another special case was the misdirection of juvenile labour; leaving boys and girls to hawk their labour with the rest meant leaving them to choose careers almost by chance, to choose careers often for which they were personally unsuited, or to enter trades which had no future at all.

Yet another case of disorganisation was the practice of casual employment, typified by labour in the docks, though not confined to it. The work of loading and unloading ships in a port is necessarily irregular, because ships come in and go out at short, uncertain intervals. But for the men who do the work it is made altogether more irregular than it need be, through the practice of all the different employers in the port engaging their labour independently at many separate stands or taking-on places, each tending to keep his own separate reserve of labour for his fluctuating needs. As a result the whole work of the port is spread thin over a much larger body of men than is wanted on the busiest day. Yet the work on particular ships may be delayed for want of men. Actual investigation in Liverpool during January 1912, a time of good trade, showed that the total number of men seeking employment in the port was about 27,000; that the maximum total number employed in the port on the busiest day

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of the month was under 20,000; that nevertheless, in spite of this surplus of 7000 men, there were on every day, at one or other of the stands chosen for observation, not enough men for the work to be carried on without delay. Inefficiency and disorganisation could hardly go further. Casual employment meant providing for rapid fluctuations in local demands for labour by keeping a large unorganised reserve of men drifting aimlessly about the docks in a state of chronic under-employment. If the employers could be got to engage all their labour from a few connected exchanges, the whole work of the port could be done by a small mobile body of men in far more regular employment. That is what is meant by de-casualisation.

The practice of casual employment, though most conspicuous at the docks, was not confined to them. In varying forms and in varying degrees it was found in most industries. And in the considered, emphatic, unanimous judgment of the Poor Law Commission, casual employment was, before the war, the greatest single cause of pauperism and distress. It is well to remember that judgment; for the practice of casual employment continues to-day just as it did before, practically without change.

The pre-war diagnosis of unemployment can be summed up now in three sentences. Unemployment was not due to over-population, for, as a whole, industry was growing fast enough to absorb the growing population at a rising standard of life. Changes of industrial structure were then unimportant as a cause of unemployment. Apart from such changes, the unemployed were not surplus to the needs of industry, but part of industry, a reserve to meet changes in the demand for labour.

✓ This conception of the unemployed before the war as a reserve rather than a surplus is fundamental.

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They were men standing by in slack seasons or years of cyclical depression, to be called on in busy seasons or boom years later; they were men passing from one job to another in the perpetual flux of employment; they were the chronically under-employed members of casual occupations. All these reserves, in their intervals between employment, made a real and formidable problem of unemployment. The policy advocated by the Poor Law Commission for dealing with the problem in 1909 was, first, to mobilise the reserves of labour and so reduce the intervals to a minimum; second, to provide maintenance for the intervals that would remain. The first half of this policy meant organising the labour market by labour exchanges, both generally and in the special aspects of de-casualisation and better guidance of juvenile labour. The second half of the policy meant unemployment insurance. This policy was officially accepted by the Government of the day. It led to the establishment of the employment exchanges in 1910 and of unemployment insurance (then limited to certain trades) in 1912. There was a third section of the policy—an endeavour to counteract cyclical fluctuation of private business by putting necessary public work into slack periods—on which no definite action was taken.

That is the diagnosis of unemployment made in the last years before the war, and the remedial policy based upon it. In a later chapter we shall meet both the diagnosis and the policy again and see what has happened to them.

## CHAPTER III

### THE DEAD WEIGHT OF UNEMPLOYMENT IN BRITAIN FROM 1922 TO 1929

IN this chapter we are to look at Britain after the war from 1922 to 1929, Britain between the two slumps of 1921 and 1930. We shall find in this period three main differences from the time before the war: two I will mention at once; the third, in its proper place, later.

The first difference is the much higher rate of unemployment. In the whole eight years, 1922 to 1929, the percentage of insured persons out of work was under 10 only for one year; it averaged 11½. This, if we leave out the years of cyclical depression before the war, as we have left out the post-war slumps of 1921 and 1930, is about three times the average rate of unemployment recorded by the trade unions from 1860 to 1913.

The second difference is the much higher rate of real wages—that is, wages from the point of view of what they will buy. This difference, though not so generally recognised, is equally certain. Since before the war the value of money has altered, and all our reckonings of prices and wages have changed; but all the changes have not been equal. Reckoned in money, retail prices have risen more than wholesale prices and wages have risen more than retail prices. As a result wages measured by what they have to buy, wages in relation to the costs of living—real wages

as they are called—are materially higher than before the war. The rise of real weekly wages from 1913 to 1929 is nearly 17 per cent., that is to say one-sixth; the rise of hourly wages is greater—more than a quarter, since the number of hours worked each week has been reduced. This rise of real wages means a definite and substantial improvement in the prosperity of those at work, a pushing up of the standard of living. The rise of real wages from 1913 to 1929 follows on a period—from 1900 to 1913—when real wages hardly rose at all. If account be taken of the reduction of hours, it represents an improvement of the position of the wage-earner, during sixteen years of war and dislocation, comparable to anything achieved in any equal period of the nineteenth century, that era of almost legendary progress.

We have then from before the war to the time now under review two changes—a marked rise in the general level of unemployment and a marked rise of real wages. Is there any connection between the two? That is the main issue in this chapter. One set of people tells us that wages are now too high and a main cause of unemployment. Another set tells us that the way to maintain employment is to keep up wages. Which set is right? We must begin by asking what in general is the relation between wages and employment.

That putting wages up or keeping them up beyond a certain point may cause unemployment is undeniable. Finding employment is selling labour, and all sales turn upon price. If the seller of labour, that is to say the workman, asks for his labour more than the buyer, that is to say the employer, is prepared to give, there will be no sale; the workman will be idle, though his idleness may be called a trade dispute and not unemployment. But if the buyer of labour agrees to the price asked by the seller, he may

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in turn find that, to cover the wages and other costs of production, he must put such a price on his product that he cannot sell it, or cannot sell as much as before; putting up his price may restrict his market, lead to the dismissal of workmen, and so cause unemployment.

All this is so obvious that it ought not to need saying. But it does need saying to-day. Many people are so determined not to believe that a good thing like high wages can cause a bad thing like unemployment, that they cheat themselves and try to cheat others with every kind of false distinction and bad argument to the contrary.

Some people object to thinking of labour as if it were a commodity, a thing to be bought and sold. There are, of course, important distinctions between labour and ordinary commodities. When we say that the price of a chair or a pound of butter is too high, we may mean two quite different things. We may be prepared to pay the price but feel that the seller is charging too much in relation to his costs of production and is making too much profit. In that sense the price of labour can never be too high; it is the essence of material progress that the price of labour should rise above bare costs of production, should give to the working population more and more of comforts, and luxuries, and leisure, not just necessities. We may mean, on the other hand, that the price of the chair is so high that we will not buy it. In that second sense, of restricting the demand for it, the price of labour can be too high, just as can the price of any commodity.

There is another distinction between labour and commodities which has more substance. If you manage to buy a chair below cost price, that does not make the chair less useful. If you buy labour below cost price, that is to say if you pay wages below subsistence level, you cause the workman and his

family to deteriorate. That is the justification of minimum wage laws: if an industry cannot exist without sweating, it should not be allowed to exist at all. But this only amounts to saying that in certain conditions it is worth while to keep up wages, even at the risk of causing unemployment; it is an assertion rather than a denial of the possibility of causing unemployment by wage policy.

But, here some one will object, all this assumes that high wages mean high costs of production; and that need not be so in the least. Paying higher wages for more efficient labour may mean lower costs. Of course that is true. But it is not a distinction between labour and other commodities; everybody knows that it is often cheaper in the end to pay more for a good chair than less for a bad one. But the chair that costs more is cheaper than the others only if it gives better service. Higher wages do mean higher costs of production unless the labour for which they are paid is better labour or is labour applied more effectively. And unless the employer was profiteering before, raising the costs of his production means raising the price he charges, and so means reducing sales and employment.

Here we come to one more objection, and the last: what about the argument that raising wages is the best way of keeping up employment because it keeps up the purchasing power of the working classes? Well, that always seems to me a thoroughly bad argument. Raising wages irrespective of output does not add to purchasing power. It only transfers purchasing power to the workman from the employer or from the man who has lent him capital; they lose in ability to give employment just what the workman gains. At bottom, it is not the money paid in wages or profit—the counters in which we reckon—that is the demand for fresh labour; it is the



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valuable product—a ton of coals or a quarter of wheat—represented by that money which warms and feeds others while they work. The product is not increased by re-distributing the price for which it has been sold. If money—purchasing power—in the hands of the workman gives more employment than it does in the hands of others, why not cure unemployment altogether by giving all the money to the workman and leaving nothing to the employer? Of course, if raising wages means raising output—either because it makes the workman more efficient or because it drives the employer to improve his organisation—that does increase the demand for labour. But it is not the higher wages that do that for us; it is the higher output. And increased output is by no means an automatic consequence of high wages. Wages as the price of labour may be raised to a point causing unemployment.

Those who do not like to think of labour as a commodity and wages as its price can reach the same conclusion by another road. As Professor Robbins has pointed out, the argument here is independent of the wage system. Suppose that there were neither employers nor employees in Britain, but that industry and trade were conducted by co-operative associations of producers selling abroad what they made, in order to secure the food and other things that they needed from abroad. The market for their products would still depend upon the prices they charged; if, in order to maintain or attain some specified standard of life for their members, they asked prices higher than the rest of the world was prepared to pay, they would not find a market and their members would be unemployed. Take a yet simpler case, without bringing in foreign trade at all. Suppose that a farmer and his family together live by cultivating three fields of equal size but different fertility, so

that they yield respectively 15, 20 and 80 bushels to the acre; and suppose the family should decide not to work henceforth for any yield of less than 20 bushels. They would be unemployed for a third of their time, until technical progress could raise the productivity of the poorest field. If productivity could not be raised, one-third of them would be a surplus population that could find work at its chosen standard only by moving to a more fertile country. Assertion of a standard of life for working under any system—capitalist, communist, socialist, syndicalist—means not working, means being unemployed if the standard is higher than the economic conditions warrant.

The only difference between a capitalistic system and other systems of production is this, that raising wages unduly may not only cause unemployment directly, by restricting the market for the product, but may cause unemployment indirectly as well, by cutting off the supply of capital. In a world where savings can be invested at choice in almost any country, it is dangerous for labour in one country to ask more than the usual share of the total product. If labour in one country materially increases its share, it decreases the return to capital; under modern conditions, that may just drive capital abroad to some other country where it can get a bigger return. If that happens, the machinery with which labour works will not get renewed sufficiently, productivity will be lowered and the costs of production increased; there will follow either a lowering of wages again, or reduced employment. The demand for labour under modern conditions depends, not simply on finding a market for what the labour can produce, but on finding the capital to help it in production. The demands of labourers for their services must take account of both these requirements.

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All these are elementary general truths. What bearing have they on the case of Britain to-day? To see that, we must bring in the third main difference between Britain before the war and Britain from 1922 to 1929. Before the war, wages rose within a rising total of wealth for the whole community, rose as production expanded. For Britain, the time after the war, even apart from the two slumps of 1921 and 1930, has not been a time of expansion and growing general prosperity. It has been just the reverse. From 1911 to 1924, according to the best authorities, the income per head of the total population in Britain, allowing for the change in the value of money, did not grow at all; "the rise of real wages came not from a larger total of wealth but by re-distribution of much the same total. Since 1924, Britain, which more than any other great country lives by foreign trade, has lost trade all over the world to almost every other country in the world. During these years the world's demand for British products and British services has been cramped and cut down, as Britain became manifestly unable to compete with her rivals on the same terms as before. I am not going to weary you with figures on this point. I will only ask those of you who want convincing to read the chapter on 'Britain and World Trade' in Mr. A. Loveday's book of that name. 'The trade of the world,' says Mr. Loveday, 'has increased; the share of the United Kingdom has decreased and is decreasing. It is decreasing in the world; it is decreasing in Europe, and as we examine one group of industries after another the same phenomenon presents itself. It is due neither to inflation here, nor to deflation there, nor to poverty, nor to tariffs.' It is due simply to inability of Britain to produce both as well and cheaply as her rivals, the kind of things that she must produce and sell if she is to prosper.

High wages are excellent things, though not for the bad reason that they maintain employment. High wages are excellent things for two good reasons. The first is that they call for high output: high wages are or should be a stimulus to the employer to afford them and to the workman to earn them. Acquiescence in low wages is only too apt to mean acquiescence in poor workmanship and slovenly organisation and being behind the times. The second reason for raising wages, if possible, is their effect, not on employment, but on enjoyment. Other things being equal, that is to say if the total product of industry present and future is not going to be diminished thereby, it is better to raise wages than to raise profits; an extra pound going as wages into a poor man's pocket means more to him and his family than the same pound going as profits or interest into a richer man's pocket; it adds, as a rule, though not of course invariably, more to enjoyment, more to human welfare. But that does not mean that all pounds should go that particular way; otherwise there would soon be no pounds at all. Nor does it mean that more pounds should go to the workman than the world is prepared to pay for what he does.

High wages are excellent things. It should be the aim of every employer to be able to afford high wages. But since the war one set of circumstances—the rigidity of money wages in face of falling prices—has been compelling British employers to raise real wages, just at a time when another set of circumstances—the development of rival industrial countries and rival sources of power—would have made it hard for them even to maintain the former standard. They have not solved the difficult problem thus set to them. For the exports that she does sell Britain is getting—in order to cover costs she must get—higher prices than ever before. But she cannot sell

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as much or nearly as much. The result is loss of trade and unemployment.

That is not by any means the whole explanation of the high level of unemployment recorded from 1922 to 1929. As I shall explain in a later chapter, in dealing with 'The Administrative Factor,' post-war records of unemployment are swollen by the development of the insurance scheme. Whether it is merely the figures that are increased by completer recording of those who would have been unemployed in any case, or whether insurance has done anything to increase unemployment itself, is open to question; the record is swollen beyond question.

The administrative factor is of growing importance during the later part of the period from 1922 to 1929. In the earlier part of this period, yet another factor has been important, a factor which we have already, in discussing pre-war unemployment, learnt to recognise as changes of industrial structure. Immediately after the war, came the changes necessary to bring Britain from a war basis to a peace basis. Certain industries connected with the supply of munitions had grown disproportionately; others had been stunted. The former had to be scaled down; the latter had to be scaled up. As this change proceeded, another legacy of the war began to show itself. The war did not merely cause changes which had to be reversed when peace returned; the war also delayed changes which had to come some time; dammed them up and then released them like a flood.

There was, to take one instance only, a tendency before the war to develop water and oil as substitutes for coal, and a tendency also in Britain for coal-mining to shift gradually from the older fields of Lancashire and Wales to the newer fields of South Yorkshire. In the war these two tendencies were

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arrested ; both the old and the new fields, both the old and the new sources of power, were developed. The resulting adjustment after the war, which coming gradually might have been almost painless, has come suddenly, as a catastrophe.

Changes of industrial structure become sudden instead of slow, epidemic instead of sporadic, account for much of the exceptional post-war unemployment. They do not account for it all. The most serious sign of Britain's economic ill-health to-day is not the adversity of her depressed industries but the slow progress of her other industries. The world outside has become harder for her. Just while that was happening she has attempted an unprecedented improvement in her standard of living. In theory that almost inevitably must cause widespread enduring unemployment. In practice it has done so. The central problem for Britain now is that of adjusting her standard of living to her economic environment, or her environment, if she can, to her standard of living.

## CHAPTER IV

### THE WORLD SLUMP OF 1930

At the beginning of last year, of 1930, there were in Britain 1,850,000 insured persons out of work, 11 per cent., or one person in every nine. Twelve months later, at the end of 1930, there were two and a half millions out of work, 20 per cent., or one in every five. Unemployment had nearly doubled.

"The growth of unemployment is one feature of the slump. The slump itself affects everything—production, trade, transport, banking, marriages, consumption, drink, crime—everything." From 1929 to 1930 the volume of industrial production in Britain, already held down by depression and unemployment in all our principal industries, fell by a further 8 per cent. The value of our exports in 1930 was 22 per cent. less than in 1929; the opening months of 1931 show a further decline of exports from 1930. On April 1 last 761 British ships with a tonnage of 1,867,000 were laid up; this means that 15 per cent. of all our tonnage was wholly unemployed; many of the ships running were half full or less.

This is Britain's share of a movement common to all or nearly all the civilised world. All other industrial countries show since the end of 1929 a similar collapse of production, trade, and employment. Some show it less; others show it more. While British exports fell 22 per cent., those of the United States fell 27 per cent., and those of Germany 11 per cent.

While British industrial production fell from 1929 to 1930 by 8 per cent., the fall is put at nearly 20 per cent. in the United States, 15 per cent. in Canada, 17 per cent. in Germany. While the British unemployed rose from  $1\frac{1}{2}$  millions to  $2\frac{1}{2}$  millions, those of Germany rose from 2 millions to  $3\frac{1}{2}$  millions. In the last chapter, in considering the years from 1922 to 1929, we were concerned with troubles peculiar to Britain, or at least most marked there. In this chapter, in looking at 1930, we can cheer ourselves, if we will, with the thought that others are in the same distress as ourselves, and in some ways even worse distress. It is a world slump. We can take comfort in that, if we like.

But that is a pretty cold sort of comfort. Even from the narrowest point of view, we have to remember, that if in the slump itself our production and trade have fallen off less than those of other people, they had not so far to fall; we started from a stage of long-drawn adversity; the other countries or most of them from comparative prosperity. And anyhow such narrow views are out of place. No one ought to take comfort from world disasters.

For a disaster it really is—this laying idle of so much of the productive power of the world. No one can measure the disaster; we do not yet know when its end will come. But whether the loss be 20 per cent. or 15 per cent. or 10 per cent., whether the slump lasts three years or two years or ends after one and a half years, it means waste and impoverishment on a fantastic scale. By reason of it there is a loss of good things in the world—of good things not made that might have been made—a loss exceeding the damage done by twenty earthquakes. How vast must be the strength of the world that can carry on with so little trace of such a loss.' For carry on we do: men sleep and eat and make love;



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ships sail, trains run, food comes; no one starves, in Britain at least; newspapers and sport and governments and even wireless talks go on. Just think what it means to be able to carry on like this with 20 per cent. of slack in the machine, with one-fifth of our working power idle. Just think what it would mean if we could take up that slack, could abolish unemployment, could use all our powers, not only four-fifths of them, steadily and fairly to do and get the things we want. Each of us could be one quarter as well off as before, have one-fourth more of all his material desires. Alternatively, if we were content with what now we have of material good things, and turned our unemployment into leisure, each of us could have ten extra weeks holiday in the year; yet all round be as well off as we are to-day. I do not imagine many of us would choose either alternative of more wealth or more leisure by itself. We should want some more wealth—we could not really enjoy much longer holidays without it; I hope we should all plump for some more leisure too.

But that is just dreams. Our slump unemployment is not leisure, spread fairly, with money spread to make leisure recreative. Our slump unemployment is uncreative idleness—fields going out of cultivation, mines and factories closing, ships laid up, men rotting. The world each year makes better and more beautiful machines which might make leisure, and every seven years or so the world stops using them; it is like a pettish child making and breaking playthings. Why do not we manage better? Why cannot we keep trade and production on an even keel? What brings these slumps again and again?

For 1930 is not the first slump. We had another in 1921, though we could and did blame the war for that. We used to have something like this slump—not quite so bad—before the war, with cyclical

depression every seven years or so. What makes these disasters great or small, and what can be done to stop them ?

Up to a point the answer to those questions is simple. Beyond that point the answer is so hard, that I am sure I do not know it, and I am not quite sure that any one else does. At least it needs a book all to itself, and quite a number of long and difficult books have been written about it. The last and one of the most interesting is the Report of the Committee on Finance and Industry,<sup>1</sup> of which Lord Macmillan was Chairman and Mr. Keynes and Professor Gregory and many other experts were members. Everyone interested in the problem of why trade fluctuates should read the report. In this book and chapter I must stick to the easy part of the answer.

The world slump of 1930, like the cyclical depressions of the nineteenth century, is a creature of our monetary system. It is made possible by the kind of money which nearly all civilised nations use, by the use of credit. Liability to slumps is the price we pay for the convenient, perhaps the indispensable invention of credit, as our principal medium of exchange, our commonest kind of money. Let me try to explain, though explanations of money are not easy going.

In reciting above the effects of the slump on production, trade, and employment, I left out what is really its principal feature—the fall of commodity prices. Modern production is deeply influenced by prices and the course that prices are taking. Production depends on the prospect of making profits. Rising prices make profits easy, because those who undertake production, buying materials and paying wages at one level, sell the product later at a higher

<sup>1</sup> Published in July 1931, since my talks were given (Cmd. 8897. 5s.).

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level; they are stimulated to make as much as possible. Falling prices, by the reverse process, make profits hard or impossible, and cause business men to undertake as little as possible. A rapid general fall of prices may for a time paralyse business; people buy as little as they can in the expectation that prices may be lower still later. The last year and a half has seen a general fall of prices and a resulting slump almost beyond parallel.

‘From the last quarter of 1929 to the beginning of 1931 wholesale prices have fallen in all countries, by proportions seldom less than a fifth; in the United States, Britain and some other countries, the fall is a quarter or more. The fall is not equal for all commodities but it is general: it is not a fall in cereals alone or in agricultural products or minerals or in any other single article or range of articles. The prices of practically all foods and all raw materials have collapsed in company. Manufactured goods generally have not fallen so far in price, but even these prices, with few exceptions, have gone down also. The fall of prices is general; it cannot be explained by disproportionate production of particular things. Equally, it cannot be explained by over-production of all things. The world, having got on famously till the end of 1929, did not suddenly begin to make too much of everything, and so set prices falling; it actually began then to make fewer things of every kind, but found no buyers with money to pay even for those fewer things. The fall of prices can only be explained by a change in the supply or the behaviour of money. The money that we use has suddenly become less, or less active; has smashed prices; has dislocated trade and exchange in every continent.

What is this money that can act like this? Men have used many kinds of money through the ages

—slaves, oxen, cowrie shells, iron, silver, gold, paper convertible to gold, paper not so convertible—but none could play them quite this trick; none, but credit, the kind of money which to-day is most in use.

What is credit? For most practical purposes it is the right to draw cheques on a bank account: it is something that a banker gives—on terms—to his customers. But he gives it on different terms to different kinds of customers. Broadly, he has two kinds of customers: those who have saved more than they want to spend at once and who deposit their savings with the bank, and those who, in order to carry on business, want to spend at once—on materials and wages—more than they have and come to the bank for an advance. The first kind, by saving instead of spending, forgo for the time being claims which they could exercise on the general stock of good things being produced by industry; the second kind, if they get the advances they ask for, are able to increase their claims. In a sense the banker acts as an intermediary between those who have saved and those who want to borrow. As Mr. Dennis Robertson put it in his entertaining talk last January, finance is a kind of head-parlourmaid in the house of industry, serving meals to Mr. Farmer, Mr. Merchant and Mr. Manufacturer from food ordered by Mrs. Thrift. But the connection which the banker makes between the two sides is not rigid; there is a lot of play in it. He takes in deposits with one hand, and gives out advances with the other, but he does not insist on the two processes, keeping pace; it is hard to see how he could insist on their keeping pace, for he is not really in control of the actions either of those who save or of those who spend. 'Sometimes,' as Mr. Robertson says, 'there is a whole host of borrowers ringing at the front door bell—Mr. Farmer, Mr. Merchant, Mr. Manufacturer,

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and the rest; and Mrs. Thrift, sitting within in the parlour, has forgotten to order any food. . . . And sometimes there is tea laid for fifty, and nobody calls, and all the good food is wasted.'<sup>1</sup> "Sometimes the making of credit by borrowing outruns saving, and sometimes saving outruns borrowing. According as one or the other happens, the volume of active credit, credit that is being used as money to buy things, rises or falls and prices rise or fall with it.

That, of course, is a highly simplified statement of the nature of credit. I must keep to the elements of the subject or we should never get anywhere. The essential points for us to realise here are first, that credit, unlike gold, is capable of rapid expansion or contraction, and second, that credit, not gold, forms the larger part of our money to-day. The overwhelming bulk of all business payments in countries like America and Germany and Britain are made by the use of credit, and not by the use of gold. We have heard so much about gold and the importance of being on the gold standard of late, that many people may have the impression that most of our money is gold or at least notes representing gold. That is not so at all. If it were so, if gold, or bits of paper directly representing gold, were the main medium of exchange to-day, the rapid general swings of prices that we see from one year to the next would be impossible. Gold is a stubborn thing: hard to get and nearly as hard to destroy. That is why gold is such a favourite as the basis of currency. It has to be dug. It cannot be printed; it cannot be made in large quantities at will by governments or by anybody, and it does not melt away in a night. But gold is only the basis; credit is the active element, and credit can be, and is, made or destroyed almost at will, by various persons. Of course credit bears some, though a varying

<sup>1</sup> *The Listener*, 14th January 1931, p. 60.

relation to gold. Of course, being on the gold standard does mean something. But in the present slumps as in past fluctuations, credit rather than gold is the immediate agent. The slump has visited together and with nearly equal force the United States which is stuffed with gold and Britain which has or thinks it has too little. Economically the world looks utterly different to-day from what it looked two years ago. There has been no parallel sudden change in the volume or distribution of gold. To blame gold and to hope much from gold at this moment are alike beside the point.

That is as far as I can take this subject of the cause and cure of slumps. It is not very far.

In calling recurrent trade depression a monetary phenomenon, we are naming the conditions which make depression possible rather than explaining just why it comes, still less just why and how it goes. The rapid movements of prices which in turn stimulate and paralyse trade and production throughout the world are made possible by the fact that the bulk of our money is not steady-going gold but excitable credit, capable alike of rapid expansion and rapid contraction. But what exactly are the causes that set credit as a whole expanding or contracting—whether it is possible to get at those causes and control them, whether and how, even if the causes cannot be touched, narrower limits can be set to the resulting movements of credit, all these are questions to which I can attempt no answer.

Some time or other, I hope, the financial experts will find answers. Some day the world's bankers or a world government may solve the problem of bringing credit under control and keeping prices and production on an even keel. Those of us whose main study is unemployment, rather than the mysteries of world finance, must reconcile ourselves for the present

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to accepting the recurrence of trade depressions as one of our given conditions. Accepting them, is there anything that we can do about them? Broadly, two things. First, we can diminish the distress that they cause, by providing for it in advance through unemployment insurance. Secondly, we can plan to counteract them by a systematic distribution of public work. When credit is contracting and prices falling, private industry which works for profit gets paralysed, because with falling prices profits are hard to come by. All production, however, is not for profit, even to-day. National governments and municipal authorities work for the most part for use, not profit; they are not so dependent as private undertakers on the course of prices. If they could so plan their work as to do more in slack years and less in boom years, they might do something to even out the total flow of production and demand for labour. They could not, of course, smooth it out altogether; for many practical reasons the scope of this particular remedy for trade fluctuation is limited. But that is no reason for not exploring its possibilities to the full. For we shall be wise to assume that 1930 has witnessed the latest world slump, not the last one.

## CHAPTER V

### THE ADMINISTRATIVE FACTOR IN UNEMPLOYMENT

By 'The Administrative Factor' in unemployment I do not mean bad administration. I am making no charge against the officials concerned in labour exchanges and unemployment insurance for not doing their work properly. We may feel assured that the officials of the Ministry of Labour do their very difficult task to-day, and carry out the policy laid down for them, with all the devotion and ability which the world has rightly come to associate with the British Civil Service. By the administrative factor I mean the effect on unemployment of the machinery set up by the State for dealing with unemployment or relieving it, assuming that machinery to be worked as well as possible, according to the policy laid down by Parliament and the Government. I mean, in particular, unemployment insurance.

Unemployment insurance began in this country, about twenty years ago, as a companion measure to the organisation of the labour market and to other plans for reducing unemployment. It was looked on then as a method of providing, in return for contributions, a strictly limited benefit, to tide men over intervals of unemployment so short that the men would need nothing but to be tided over. The benefit was limited to so many weeks in twelve months and to one week for every five contributions paid. The contributions were to be varied, by rebates and other-



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wise, so as to adjust premiums to risks of unemployment and encourage regularity of work. It was supposed that insurance would be accompanied by changes of the Poor Law, making suitable but quite different provision for those who ran out of benefit or who needed something more than merely to be tided over short intervals of unemployment. The insurance itself was to be self-supporting and on a contractual basis; three quarters of the cost was to be found by employers and workpeople and one quarter by the State.

In the course of twenty years, the original scheme has changed its character completely. It has become a system of practically perpetual relief, almost irrespective of the contributions paid by individuals, financed more and more by the State. We are now paying out nearly £120,000,000 a year for unemployment. £30,000,000, or one quarter, of this is being found by employers and workpeople, £50,000,000 is being found by the State, £40,000,000 is being added to the debt of the insurance fund, which already stands at more than £80,000,000.

The working of this scheme is under investigation by a Royal Commission and the Commission has just made an interim report, with proposals for restoring the insurance fund to something like solvency. I do not intend here to discuss these proposals in detail. I am going to consider, instead, quite generally how the existence and working of a scheme of practically unlimited benefit, irrespective of contributions, affects the general problem of unemployment.

The most obvious effect, of course, is to remove a great deal of the pain and distress which otherwise would be caused by unemployment. That in itself is an immense gain. It would be hard to overestimate the advantage to this country, in the slump which has just overtaken the whole world, of having

the machinery of relief by insurance already established. But payment of benefit to the unemployed is only an anæsthetic. It can be no cure for any disease of which unemployment may be the symptom. And whether we like it or not, we have to face the question of what effect the application of all this anæsthetic may have on the disease itself—how so much paying for unemployment is affecting the numbers of the unemployed.

There is one effect of generosity in the insurance scheme which no one questions. It adds to the number of the registered unemployed, by making it more likely that all who are unemployed will register. This has to be remembered in comparing the present figures with earlier figures; the present figures are more complete; the real increase of unemployment since a few years ago is not quite so great as appears. But that is a statistical detail; the real increase is great enough in all conscience.

This effect of the insurance scheme, in making the record of unemployment more complete, is admitted by all. The two points of substance which I am going to put next are more controversial.

The first point is that the insurance scheme adds to the roll of the unemployed people who are not really unemployed at all. Not all idleness is unemployment; in my first chapter, I suggested as a definition the state of being able to work, wishing to work, depending on work for a livelihood, but being unable to obtain work. It is clear that a number of people now manage to satisfy the conditions for unemployment benefit who do not satisfy this definition of unemployment. There are, for instance, the married women who have in substance left industry, and are dependent for a living not on their own earnings by work but on those of their husbands, yet contrive under the present rules to qualify for benefit.

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There are the people like coal trimmers and other port workers who regularly earn a living by doing three or four days hard work each week, and as regularly now draw benefit for the other days. In the recent report of a Departmental Committee on Port Labour, you will find noted from various ports groups of men earning £3 or £4 or even £5 a week and regularly drawing unemployment pay as well. You will find these and many other cases described as 'anomalies' in the Report of the Unemployment Insurance Commission. They are not really unemployment at all.

My second point will probably be regarded to-day as yet more controversial. But twenty years hence I believe it will be accepted as unquestionable; that our present insurance scheme, in providing for unemployment, is adding to the volume of unemployment, of genuine, misery-making, soul-destroying idleness. When anyone says that, it is usually supposed that he is thinking of the effect of benefit on the man who receives it: that the benefit may encourage that man to be unemployed. Some influence in that direction it may have. All giving of money on certain conditions is an invitation to satisfy those conditions; except by dropping it in the sea, one can hardly get rid of money without influencing the actions of other men. Nor is the effect of giving money much affected by the motive of the man who parts with it. Suppose that I give a shilling to a man who is playing a barrel organ outside my house. I may do so because I like the music; in that case the shilling will be paid to him as wages. I may do so because I do not like the music, and want it to go somewhere else; the shilling will then be ransom. I may not care much about the music one way or the other, but may be sorry for the man; the shilling will then be relief. The

possible variety of my motives may thus make the money appear to me as wages, ransom or relief, but which of these three it is will make no real difference to the man who gets it. In any form, or with any motive, the payment will have the same principal effect on him of encouraging him in his way of life, of making it more likely that he will go on with his barrel organ, if not outside my house then outside somebody else's. All passing of money from one person to another is a playing on the economic motive, is a shaping of livelihoods.

In that illustration of the man with the barrel organ I have been speaking of the possible influence of money on the mind and habits of the man who receives it. Some such influence is undeniable. Men are creatures of habit and if they have gone on receiving benefit for a long time without working, they may gradually slip into the way of doing it, and find it easier to draw benefit than to seek new and unfamiliar kinds of work. But I am quite certain, as we are all really certain, that the great bulk of the people who are receiving unemployment benefit would rather be at work. "The main danger of the present insurance scheme does not lie in the risk of encouraging men to prefer unemployment to work, in individual malingering. The main danger lies in another direction—in social malingering."

Unemployment is the result of many factors. Some (the least important) lie in the control of the individual workman—his ability, energy, adaptability, readiness to try new work and new scenes. Some, like seasonal fluctuations, are outside all human control, or, like cyclical depressions and slumps, must be accepted as likely to recur for some time to come. But some are definitely within the control of the leaders of industry—of employers and of trade unions. It is in the effect on their minds and actions that the

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main danger of the present scheme of insurance lies. Unemployment may and does result from the methods adopted by employers for engaging labour or planning their production. Unemployment may and does result from wage policy. "

"In the days before insurance the trade unions which made bargains about wages were also the bodies that paid for unemployment: they could balance the disadvantage of accepting a cut of wages against that of paying more in benefits. Now it is the insurance fund that pays: the trade union has lost much of its old responsibility for unemployment, but has increased its power over wages."

In the days before insurance, an employer who wanted to be sure of his labour had to take thought to make his work regular; now, often he need take no thought at all; "the fund will keep his casuals for him. For years before this present slump the other industries and the State were paying to keep 80 per cent. of unemployment in dock labour, because the industry would not organise itself. Again, since the war it is not only the depressed industries but the growing and prosperous ones like motor manufacture that have had high unemployment, even before the slump of 1930. Is there any reason why, when the slump has passed, they should not arrange to grow and prosper without heavy unemployment?"

In the days before insurance, if a trade decayed, there would be some pressure to leave it. Now, in such a case as that of cotton, perpetual short-time working eked out by benefit keeps the full labour force together though the work to be done is halved or less. "The changing modern world calls more and more for adaptability, flexibility, adventure. The present scheme of insurance instils each day into our industrial system some new rigidity—of occupations, of wages, of methods."

Those of us who twenty years ago were concerned in the launching of unemployment insurance had no doubt as to the reality or the bitterness of unemployment. We thought it wicked that a civilised community should leave men to struggle helplessly and alone in the grip of economic forces, should take no measures either to prevent unemployment or to provide for it. But prevention seemed more important than provision, and the danger that provision might stand in the way of prevention was never absent from our minds. So the labour exchanges, and de-casualisation, and dovetailing of seasonal occupations, and systematic guidance of juveniles in the choice of careers, and counteraction of cyclical fluctuation by public works, were all proposed, in order that unemployment, as it was then diagnosed, should be reduced to a minimum and kept there. Insurance itself was framed in such a way as to give employers and trade unions and individual workmen a sense of financial responsibility for the unemployment fund and motives and rewards for helping to make work regular. With insurance went measures to prevent unemployment both outside the insurance scheme and embodied in it.

Those were our plans and hopes; what has happened to them? Of the measures for preventing unemployment, external to the insurance scheme, some have come to nothing—there has been no de-casualisation and no systematic planning ahead of public work. Some have come to something but not enough: the labour exchanges and the bureaux and committees for guidance of boys and girls are there, half used or less. The measures embodied in the insurance scheme itself—rebates and refunds of various kinds, proportioning of benefit to contributions, differentiation of premiums by risk—have all been swept away. Unemployment insurance has

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become just unlimited unemployment relief, just paying for unemployment, or any idleness that can pass itself off as unemployment, out of an apparently bottomless purse. As the £120,000,000 stream pours out from the insurance fund, industries and individuals adapt themselves to it more and more, to get their share with others.

We cannot go on in that way without risking disaster. We cannot go on just blindly paying for unemployment without getting more unemployment. Provision, by insurance or something like it, for unemployment that cannot be prevented is indispensable, but provision for unemployment is a dangerous second best to prevention. While relieving unemployment, it is just as indispensable, that we should at the same time harness all the motives and forces in society, of the trade unions, of the employers, of the individual workman, of the government to one great effort to reduce unemployment, to cure the disease and not simply dope the sufferers. We are not doing that; we are joining everybody in a conspiracy to throw all their burdens on the insurance fund, to increase unemployment.

As far as numbers are concerned, the administrative factor in unemployment is not yet very great. The bulk of our unemployed would be here to-day whether we had an insurance scheme or not and whatever the form of the scheme. But large or small, the administrative factor is a real element, a growing element, an element to whose further growth no obvious limit can be set. "Insurance as we have it to-day does not simply make our record of unemployment more complete. It adds to the record people who ought not to be there; some who might get work, some who do not need work, some who are not fit for work, many who are genuinely unemployed but would not be so but for the enervating influence of

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relief on the minds of the leaders of industry and of governments. Insurance against unemployment marks in itself a great advance in civilisation; it is a just use of social power to drive needless fear and suffering from the world. But insurance as we have it to-day is not doing that alone. It is making human life in some ways not better but worse; it is playing down to the slacknesses and carelessnesses of human nature, not playing up to what is best in it.



## CHAPTER VI

### REMEDIES AND THEIR PRICE

THE last chapter of this volume is best introduced by a summary of what has gone before.

Unemployment is not a disease of society but a symptom of one or more of several distinct diseases ; it is like a high temperature ; it may arise from a variety of causes. First there are the causes of unemployment diagnosed before the war and still operating to-day : they include changes of industrial structure, seasonal fluctuations, cyclical fluctuation, and disorganisation of the labour market. There are, second, the causes responsible for the dead-weight addition to British unemployment from 1922 to 1929, before the present slump ; those causes can nearly all be summed up under the general head of growing rigidity—of wages and occupations—in a world of increasing changefulness. There is, third, the world slump of 1930, perhaps no more than an acute attack of cyclical fluctuation, but so acute that it calls for special study : its causes lie in our monetary system, in the instability of credit—the money that we chiefly use. There is, fourth, the administrative factor, the effect in adding to unemployment of the provision made for unemployment by the present scheme of insurance.

That, in five sentences, is the synopsis of the first five chapters. In the final chapter we come to practical questions. What are the remedies for the

various economic diseases leading to unemployment? In whose hands do the remedies lie? What will it cost in money or thought or sacrifice of cherished standards or customs to apply them?

I have to begin by emphasising a point already made, that the various diseases that can have the common symptom of unemployment really are different. It is strange how hard it is to drive that point home. In my third chapter, for instance, I discussed the prolonged heavy unemployment in Britain from 1922 to 1929, and I argued that in large part it must be due to real wages and the standard of consumption being too high for our production. Some people who heard this through the wireless thereupon asked me how I reconciled the suggestion that we ought to produce more with the fact that to-day there seemed to be too much of every commodity in the world. That is just missing my whole point. I was not talking of the world to-day—when all our minds are dominated by the slump—but of Britain before the slump and as she may be after the slump. Unless we resolutely keep separate the many distinct diseases which lead to unemployment, we have no chance of giving appropriate treatment to each. Pre-slump unemployment in Britain and slump unemployment in 1930 are as different as typhoid and appendicitis. And as one would go to a doctor if one had typhoid, and to a surgeon if one had appendicitis, so it is quite different people who ought to handle the various causes of unemployment. We have to look separately at the pre-war causes of unemployment, at the British dead-weight of 1922-1929, at the slump of 1930, and at the administrative factor.

Let us take them in a different order and begin with the world slump of 1930. That I need say little about, not because it is unimportant, but because it is more than likely that it will pass of itself before we are

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able to cure it. 'This slump will pass away—and others will come again and again at intervals, unless and until we learn how to control credit, to limit its alternate expansion and contraction. The people who must do that for us are the bankers—those in charge of the central banks of the world.' They are the specialists for this disease—at least it is no good our going to anyone else. It is to the bankers that we must look either to control the making and unmaking of credit more effectively than they do at present or to counteract its movements by measures of their own. But though we must look to the bankers to find a cure, it is not fair to blame them for the disease. The banker makes and unmakes credit not as he pleases, but to please his customers ; he is not in direct control either of saving or of borrowing by business men to spend on production, and it is on the relation between saving and borrowing that credit depends. Nor ought bankers to be blamed because neither they nor anyone else has yet succeeded in finding an antidote for slumps : we do not blame doctors for not yet having found a cure for cancer—so long as they go on looking for a cure. If the bankers are to be blamed at all, it is only because some of them, having got the world back on to the gold standard, have spoken or acted as if their job was done, as if to be on the gold standard was enough in the way of monetary policy. Of course it is not enough. To be on the gold standard is a guarantee against the Government's flooding the country with notes from the printing press. But it is no guarantee of stability in prices or production. 7 It has not prevented first a boom and then a depression, with a 25 per cent. drop of prices in eighteen months and all that that means of dislocation and distress. To find a preventive for such things is important for more reasons than one. Liability to booms and slumps of production is bound

up with capitalism, with making not for use but for profits, which depend on prices as prices depend on credit. Success or failure in controlling credit may thus prove to be the acid test of the capitalistic system. Complacency about slumps is dangerous. <sup>1</sup>

The administrative factor in unemployment—that is to say, the effect of insurance—can also be dealt with shortly. The present scheme of insurance is an anæsthetic, an opiate. It relaxes both social effort and individual effort for the prevention of unemployment. It adds to rigidity and immobility; it tends to perpetuate disorganisation of the labour market. Somehow or other the present insurance scheme, which has run right off the rails upon which it started, has got to be put back upon them. That is a job not for bankers, but for the State, the Government. It is not going to be an easy job, and in one short chapter I cannot set out a concrete programme of reforms. <sup>1</sup> But one can lay down two conditions which any reform should satisfy. The first is that we ought once again to distinguish insurance and relief, to have one system for spreading the remuneration of labour so as to tide men over short intervals of unemployment in which they need nothing but tiding over, and to have another system, based not upon an insurance contract but upon need, for relieving and reconditioning where necessary men who run out of insurance. The second condition is that the insurance scheme must be such as to enlist the interest of employers and of trade unions in reducing unemployment; that means in one way or another adjusting the premiums to the risks. <sup>2</sup> All this is not going to be an easy job. No recovery from a state of being doped—and that is the state into which we are getting with our insurance system—is easy or pleasant. It is not

<sup>1</sup> See Appendix for proposals submitted to the Royal Commission on Unemployment Insurance.

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simple to make up one's mind what ought to be done about insurance. It may be still harder politically to get done what ought to be done. I have spoken of the control of credit as a test of capitalism; the reform of our insurance scheme is perhaps going to be a test of democracy.

I come to the two remaining heads in our analysis of unemployment: the causes diagnosed before the war and operating now, and the causes of the prolonged British depression of 1922 to 1929. The contrast between these factors is important.

The pre-war causes of unemployment, broadly speaking, have nothing to do with the general economic condition of Britain, or with the scale of British industry. They are local disturbances consistent with general good health. They are specific mal-adjustments between the demand for labour and the supply of labour, for which specific remedies are appropriate, such as organisation of the labour market, de-casualisation, guidance of juvenile workers in the choice of careers, dovetailing of seasonal occupations, evening out the demand for labour by scientific distribution of public works. Some of these remedies lie in the hands of government, and some in those of employers. It is a feature common to all the remedies that they are primarily matters not of finding money but of changing old methods. They involve a readiness of employers to change their ways of recruiting labour, to co-operate with the State and the trade unions in substituting an organised for a disorganised labour market. They involve for governments an even greater break with past bad traditions, in that they require planning ahead, foreseeing slumps before they occur, not waiting till they occur to take emergency measures. The cure of the pre-war causes of unemployment will also not be easy,

because it calls for thought rather than money. These causes do not call for, and would not be touched by efforts to increase the scale or the general efficiency of British industry.

The post-war pre-slump unemployment of 1922 to 1929, on the other hand, is directly related to the general economic condition of Britain. To this kind of unemployment increase in the scale and efficiency of British industry would be directly relevant. In medical terms, it represents not local disturbances in a healthy system, but general ill-health showing itself in a particular way. In economic terms, it is declining prosperity that takes the form of unemployment, because it is not allowed to take the form of lowered wages and standards of living.

What are we to do about this? We have had heavy unemployment before the slump, largely because through falling prices our rigid money wages became higher real wages, became wages too high for our production. We shall still have heavy unemployment after the slump if we do not do something to stop it. Can we stop it only by lowering wages?

The economist's answer to that question is not, I think, a direct 'Yes' or a direct 'No.' The right economic approach to it is to begin by considering what it was that kept the supply of labour and the demand for labour generally in adjustment before the war, and why they were out of adjustment from 1922 to 1929; why before the war there was no permanent unemployment, no surplus of labour, only reserves for fluctuations of various kinds, while since the war there seems to be a surplus. The answer is that for labour, as for everything else, supply and demand are adjusted, and can only be adjusted, through its price. The demand for labour comes from what labour itself, with the help of capital and management, produces. Only if employers and

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trade unions keep the wages paid to labour in proper relation to what is produced by labour, can permanent unemployment be avoided.' Before the war that relation on the whole was kept: there was reasonable flexibility of wages. After the war, since we recovered from the slump of 1921, wages have become almost frozen. Restored flexibility of wages, readiness to discuss them from time to time and adjust them trade by trade to the economic conditions of that time and trade, is the essential condition of avoiding unemployment such as we had it from 1922 to 1929: other flexibilities—such as mobility from one occupation to another or one place to another—are important, but flexibility of wages is the chief. It is the permanent condition to which somehow we must get back in industry. That must be done for us by the leaders of industry, the leaders on both sides of the wage bargain, by the employers and the unions; it is not in the power of governments.

But when the economist says flexibility of wages, does he, looking at the facts of to-day, really mean lowering of wages? Some lowering of money wages to-day would only amount to keeping real wages the same as before, as prices fall; to that, if it would rescue any of our unemployed from unemployment, could any one in decency object? I believe that most economists of to-day would go further and say that a lowering of real wages, not money wages only, is probably inevitable in those occupations where they have risen disproportionately. A sufficient lowering of real wages over a wide range of occupations would undoubtedly be a remedy for much of our unemployment—for that type of unemployment which was most prominent from 1922 to 1929. A substantial lowering of real wages may be forced upon us if, when the slump passes, we cannot hold our place in the world without it. For we in Britain cannot cut our-

selves off from the world, as Russia perhaps may do. We must lower wages—both money wages and real wages—if we cannot do better than we did from 1922 to 1929 to make our industry prosperous and get our people into employment.

But to accept lowering of wages as the main way to bring back prosperity to British industry is almost a contradiction in terms. It is certainly a confession of defeat.<sup>1</sup>

I do not believe myself that we need make that confession. I believe that in this small historic island and its people are immense untapped reserves of power. America shows that high wages can go with cheap production and we, whose fathers made America, can surely do the same. The alternative to defeat, to lowering our costs of production by lowering standards of life, is success—is lowering costs by increasing productivity. But it is no use hoping to avoid defeat on easy terms. We will not do it by going on in our old ways. We will not do it by folding our hands, or by wringing our hands, or by shaking our fists at one another—by employers saying that they are crippled by high wages and by trade unionists retorting that the employers could afford high wages if they improved their organisation. Suppose that we try instead a change of heart. Suppose that each of us goes just slightly mad—begins to look at things in a way different from any way he has ever tried before.

Suppose, for instance, that all trade union leaders intent on high wages began to think instead of high output; for it is from that that high wages have to

<sup>1</sup> To make lowering of wages the principal means of restoring equilibrium between production and consumption is open to the further objection that wages are not the only item in costs of production whose real weight has been increased by staying nominally the same while prices fall. Debenture interest, fixed salaries and similar charges are all in the same position.



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come. How many trade unionists who talk of better organisation by employers have yet given positive help towards it ? Yet one cannot combine high wages with restriction of output, a rising standard of life with resistance to new machines or new methods. If a man wants to go on working exactly as his father did before him, why should he expect to be better off than his father ?

Suppose, on the other side, that every employer sets as his goal the affording of the highest possible wages for the most regular possible work. How many employers now look on their businesses in that way, and not as a source of income or as means of providing, if need be, careers for their sons ? Yet all leadership is a public trust and not a private possession. All leadership is a trust, and every employer is a leader, has influence over the lives and fortunes of numbers.

Change of heart or change of some sort is indispensable to-day—in business policy, in labour policies, in statesmanship. We must be ready for all sorts of new expedients in the control of industry and in government. We have got to find planners and give them power and trust them. We want to get more of our best brains into business and away from teaching, the civil service and the other professions. We have got deliberately to learn by the experience and example of other countries as they used to learn by ours. Adversity has replaced prosperity in Britain, not because we in Britain have changed, but because we have not changed to meet a new situation.

“The cardinal fact about Britain is that she started first in the race of industrial development. For a time this was an advantage ; we led the others ; we had a clear course ahead. It is now a disadvantage. We rest on our withering laurels ; we think that leadership should come to us by nature ; we do not

realise in how many ways now we are miles and miles behind. For, meanwhile, others joining the race profit by our experience, and are not handicapped by our pioneering errors.' They lay out their mines and factories and transport in the light of the latest knowledge; they do not have to begin by scrapping so much that is old, by unlearning so much of the methods of earlier generations.

This challenge from other countries was bound to come in any case. Coming as it does with the war added and all war's consequence, it makes a national emergency which can be surmounted only by national co-operation; by daring, by planning, by planning in concert. Governments by themselves will be helpless; so will employers alone; so will trade unionists alone. The world slump will pass: the curing of the unemployment that then remains is going to be the acid test for all of us in Britain—for you—for me—for all of us.

## APPENDIX

### EVIDENCE OF SIR WILLIAM BEVERIDGE, K.C.B., DIRECTOR OF THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE, TO THE ROYAL COMMISSION ON UNEMPLOYMENT INSURANCE

1. I was engaged in the Board of Trade from 1908 to 1916, first in devising with Sir Hubert Llewellyn Smith the scheme of compulsory unemployment insurance for certain trades introduced in 1911, and then as Director of Labour Exchanges in administering the joint service of Labour Exchanges and Unemployment Insurance. In 1919 I was a member of a Departmental Committee concerned in framing a general scheme of unemployment insurance. Since then I have had no practical association with measures for dealing with unemployment, though I have continued to study the problem and have written about it. I am not in a position to tell the Commission anything about the working of the present scheme of insurance which they will not learn better at first hand from other witnesses. I hope it may be of value to them if I first set out briefly the objects of the original scheme, the principles underlying it, and the dangers against which its framers sought to guard it; second, compare and contrast with this the present scheme; third, make some tentative suggestions as to the outlines of a policy for dealing with unemployment insurance and assistance in the future.

2. Before 1911, insurance against unemployment on any considerable scale was unknown in any country, except as practised by trade unions. In Britain provision

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of unemployed benefit, along with other benefits (for sickness, death, accidents, etc.), had been a feature of trade union organisation for more than fifty years. The unemployed benefit consisted of a payment—seldom exceeding 10s. a week—for a limited number of weeks—seldom exceeding 26 in a year; where the benefit continued for a long period the rate of benefit was usually reduced for the latter part of it; after exhausting his claim for one year the member could not as a rule claim again till he had again been in work for a specified period. These benefits, small as they were and little as they cost the unions, were usually sufficient, with the other resources of the workpeople concerned, to make it unnecessary for them to apply either to the Poor Law authorities or for any other form of relief, *e.g.*, under the Unemployed Workmen Act of 1905. Unemployed benefits were confined, however, to a limited number of trade unions, in skilled occupations; they practically did not extend to any unskilled workmen. Even in such strongly organised industries as cotton and coal-mining they were little developed; depression of trade there was met by systematic short time for all rather than by dismissal of some, and the unions did not think it necessary to supplement the earnings of persons on short time. The somewhat notable fact that the friendly societies, which did so much for sickness, accident and funeral insurance, made no attempt to insure against unemployment and left that to the trade unions, is explained by two considerations. First, the trade unions alone, by the knowledge which members of the same trade had of the openings for work, were in a position to test the genuineness of unemployment. Second, in the trade unions, provision of unemployed benefit was intimately associated with keeping the union together and maintaining the standard of wages; unemployed members were kept on benefit so that they might not be tempted to undercut the union rate; on the other hand, if a union put its rate higher than economic conditions warranted, the cost of doing so fell directly on its funds and its members in employment. The union was ✓ directly interested in reducing unemployment to a minimum.

### 3. Compulsory Unemployment Insurance was intro-

duced in 1911, primarily as a means of extending something like the trade union system to unskilled and unorganised workmen. It was meant to provide a benefit, strictly limited in duration, to men whose eligibility for benefits could be determined by some simple automatic test, and under rules designed to interest workpeople and employers alike in reducing unemployment and avoiding unnecessary claims. This last motive was, indeed, one of the main reasons for requiring contributions from employers; the contributions would vary from time to time with the rate of unemployment. The contribution from the State was justified partly as an expression of the interest of the State in reducing distress through unemployment, partly as a means of equalising risks and contributions. The scheme was introduced at first experimentally for a few trades, those where systematic short time was customary (such as cotton and coal) being deliberately excluded; unemployed benefit was regarded as an alternative to organised short time, not as a subsidy in aid of it. The trades insured at the outset included also, by design, hardly any women, so that the problem of insurance of women after marriage did not arise.

4. The period for which benefit could be drawn was limited in two ways. It might not exceed a specified number of weeks (originally 15, later 26 weeks) in twelve months. It might not for an individual be more than one week of benefit for every five (later six) contributions paid by him. Limitation of the period for which benefit could be drawn was not dictated solely or even mainly by actuarial considerations; it was in fact at that time impossible to estimate how much the claims on the insurance fund would be cut down by either the 15 weeks rule or the 1 in 5 rule. The main principle underlying limitation of benefit was that, though a weekly allowance given as of right without conditions was a suitable means of dealing with temporary unemployment—of tiding over a bad time men who needed nothing more than tiding over till in the normal course they would recover work in their own trades at their former wages—it was not an appropriate measure for chronic unemployment.

5. The limitation of benefit to one week for every five contributions had several purposes. It appeared the

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simplest way of defining eligibility for benefit and protecting the scheme against uninsurable risks. It emphasised the contractual nature of the scheme, adjusting the extent of protection given to the amount of premiums paid. It gave the workman an incentive to avoid unnecessary claims, if he were not in need, and keep his rights intact for a rainy day.

6. The belief that it was important to interest work-people and employers alike in saving the insurance fund from avoidable claims dominated the scheme of 1911. Those responsible for pressing forward insurance at that time were well aware of the danger that provision for unemployment might tend to bring about unemployment—might affect the readiness of workpeople to move to new trades and new districts, might relax efforts by employers to maintain an even flow of employment, might make for excessive rigidity of wage rates. Provision for unemployment, accordingly, through insurance, was accompanied by a number of measures designed to reward and so to encourage the prevention of unemployment. The insurance scheme was associated with a labour exchange system established before it, which it was hoped that employers would come to treat as their main means of recruiting labour; the exchanges were to be in a position to test the genuineness of unemployment by knowing all the jobs available. A rebate of contributions was allowed to employers giving regular employment. A refund of contributions was made at the age of 60 to workmen who had not drawn benefit. The insurance fund was to be self-supporting, and the scope of State help in meeting deficits was rigidly limited. Accounts were to be kept in such a way as to show how the separate trades were paying in and drawing out, and it was contemplated that when the facts were known there should be different contributions for trades with high and with low unemployment respectively.

7. It was recognised, of course, that limitation of the period of benefit meant that men might exhaust their rights to benefit before they recovered employment—in other words, that the insurance scheme would not cover all unemployment. It was never meant to do so. It was meant to be accompanied by a reform of the Poor Law,

making provision outside insurance—on the basis of need rather than of contractual right—for those who exhausted their insurance rights. Compulsory unemployment insurance was conceived only as a first line of defence against distress through unemployment, an extension of admirable pioneer work done in this field by the trade unions.

8. The present system bears no resemblance at all either to the practice of trade unions or to the scheme of 1911 that was meant as an extension of it. Every important idea in either has gone by the board. The benefit has been made unlimited in time and practically divorced from the payment of contributions: it has become neither insurance nor a spreading of wages, but out-relief financed mainly by a tax on employment. The insurance fund has become indistinguishable from the national exchequer. All interest of employer or of work-people in reducing unemployment has gone; glaringly the scheme has become in many cases a means of subsidising casual industries and insufficient wages. In the past, I, like other defenders of unemployment insurance, have often had occasion to speak of 'insurance popularly miscalled the dole.' To-day I am afraid that it might be truer to speak of 'the dole officially miscalled insurance.'

9. The disintegration of the insurance system is not due solely or mainly to the Act of 1930, passed by the present Government. The first step was taken when, in 1920, the system introduced in 1911 for a few selected trades was applied practically without change to all trades, no use being made of the power to exclude from the general scheme and deal by special schemes with casual occupations like dock labour or short-time industries like cotton and coal. The second and decisive step was taken when by the Act of 1927 benefit was made unlimited in duration and, for a 'transitional' period, nearly independent of any payment of contributions. The transitional provisions were extended by an Act of 1929. The Act of 1930 has simply carried to its final stage the process of merging insurance in indiscriminate relief of the able-bodied, by a further extension of transitional provisions and by abolishing the psychological requirement that the applicant should be genuinely seeking employment.

10. The main problem now is not that of finding an

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actuarial basis for the scheme as it stands. The objection to unlimited benefit given as of right is not simply or mainly that of expense, but (a) that money payments without conditions are an inadequate and demoralising way of dealing with prolonged unemployment, and (b) that the availability of such payments encourages unemployment. There would be little sense in trying to find an actuarial basis for fire insurance in a country with no fire engines and no penalties for arson.

11. The essential evil of the present scheme is that it treats alike things which are unlike—the temporary unemployment of the regular worker thrown out by seasonal or cyclical depression, the permanent loss of their old employment by men whose trades have declined or moved, the chronic under-employment of the dock labourer, the loss of earnings by the short-time worker, the leisure of the married woman for whom earnings has become incidental, the long decay of men ageing before their time. The remedy must lie in restoring discrimination and treating differing cases by different methods." This does not mean that the whole problem of unemployment should be divided as between central and local authorities, that part should be dealt with by the Ministry of Labour and part relegated to local bodies for Public Assistance. Mrs. Sidney Webb and the Minority of the Poor Law Commission of 1906 were, I believe, right in urging a single central authority for dealing with the Unemployed at all stages. But it is essential to recognise that there are different stages calling for differing treatment. Broadly we have to distinguish three classes:—

i. Those who are unemployed with a presumption that within a reasonable period (i.e., one not too long, to cause demoralisation through idleness) they will be able to find work again in their own trades and places.

ii. Those who are unemployed and apparently able and desiring to work, but with a presumption that they will not within a reasonable period as defined above find work again in their own trades and places.

iii. Those who though of working age are apparently either unfit to work or unwilling to work.



12. The appropriate provision for the first class is unemployment insurance, as conceived in the schemes of 1911 and 1920—a weekly payment, given as of right, for a limited period, in respect of contributions, from a fund required to be self-supporting. All these people need is a spreading of their wages over good and bad times, 'tiding over' till work returns to them on substantially their former terms. So long as the principle is maintained that the insurance fund, with a fixed contribution from the State, must be self-supporting, the rate and period of benefit and the terms on which it is drawn can all be generous. The rules defining continuity of unemployment, however, must be such as to prevent benefit from becoming a subsidy to chronic under-employment or short time. Moreover, though insurance in one form or another should cover all industrial occupations, at least, and so far as possible, with uniform benefits, there should be some means of adjusting premiums to risks, not only in the scheme as a whole (which will be secured by making it self-supporting as a whole), but as among industries and individuals. Something will be done in this direction if the maximum benefit that can be drawn by any individual is limited by reference to his contributions. The following further suggestions are submitted for examination:—

13. First, the Minister of Labour might be empowered to schedule industries as having 'excessive unemployment.' Scheduling would mean in all cases that engagement of labour had to take place through or under supervision of the labour exchanges, so that recruiting of fresh labour in a presumably overcrowded industry would be controlled as it now is in coal-mining. Where it appeared that the excessive unemployment was a normal condition of the industry, *e.g.*, due to casual employment, scheduling would have the further effect of modifying the insurance scheme in relation to that industry, either cutting them out altogether and making a special scheme to fit their peculiar condition (*e.g.*, with dock labour) or simply increasing their contribution.

14. Second, part of the money required might be raised by a tax on dismissals in place of raising it all, as now, by a tax on employment. The employer, besides

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affixing an insurance stamp for each week of employment (say 1s.) and deducting part from wages, would put on a special stamp (say 5s.) whenever for any reason a man left his employment in such a way as to qualify for benefit. It would be easy to make exceptions for men engaged exceptionally for short periods (particularly if this were done through an exchange) and thus to avoid discouraging such employment. On the other hand, the tax on dismissals, originally proposed by the Poor Law Commission of 1906, under the name of an 'employment termination due,' would automatically increase the contributions of industries and employers making a practice of irregular labour. Arguments can be advanced against this suggestion of a tax on dismissals, but on the whole I think its advantages would be found in practice to outweigh any disadvantages.

15. The principle of the refund of surplus contributions at 60 embodied in the original scheme might be reintroduced in an improved form by providing that any man who at 60 had any contributions to his credit might be allowed to retire voluntarily on a small pension, say 10s. a week, in place of working at all.

16. These suggestions are made only as typical of many others that might be considered, having the general object of adjusting insurance premiums to risks. Such adjustment is desirable, not merely or mainly on grounds of equity, but in order to enlist the interest of employers and workpeople on behalf of the insurance fund, in place of uniting them, as at present, in more or less open conspiracy against it.

17. The essence of the insurance system as described above being the giving of definite rights for a definite period, provision must be made for those who exhaust their rights to insurance benefit. So long as they remain *prima facie* able to work and desiring to work, they should be treated as an industrial rather than a social problem, by a central rather than a local authority, that is to say, either by the Ministry of Labour or (preferably) a statutory commission supervised by the Ministry. The fact, however, that they have exhausted their claim on the insurance fund sets up a presumption that they may not

be able to recover work on their former terms ; their long unemployment makes it certain that further unemployment without occupation of any kind will bring demoralisation. For both reasons something other than mere 'tiding over' by insurance is required. The relief of these men should be a matter, not of contractual right enforced by quasi-legal process before an Umpire, but of need, judged by the administering authority, and would be subject to conditions imposed by the authority ; the necessity of side-tracking detailed Parliamentary scrutiny of the action taken in individual cases makes it desirable that this authority should be a commission with statutory powers, and not a Minister directly responsible to Parliament. The recipient of relief would not be entitled, as under insurance, to hold out for substantially his former wages and former type of work, but would be required to take any work in any place judged suitable for him by the administering authority. He might be required as a condition of relief to enter a training establishment or otherwise have his time or thoughts occupied. He might, in the discretion of the authority, be relieved either in money or in kind. He would, however, be treated as still part of the industrial army, and be relieved, without loss of civil rights, with the aim of restoring him to employment and insurance. If it became clear that through infirmity he was never likely to recover employment, or if he failed to accept suitable work or to comply with the conditions of relief, he would become a social rather than an industrial problem. He would be passed on, in the first case, to the local Public Assistance Authority as no longer able-bodied ; in the second case, to whatever authority was appointed to deal, either in detention colonies or under other stringent conditions, with men of proved unwillingness for work.

18. The essence of this proposal is that, up to the point when men prove themselves unemployable (whether through physical infirmity or character) they shall be dealt with by a central industrial authority, but in two sections—insurance and relief. Both sections might, indeed, be entrusted to a single Statutory Commission working under the supervision of the Minister of Labour.

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For one side of its work, the Commission would take over the Labour Exchanges and Unemployment Insurances. For the relief side it would have local officers forming a separate organisation and housed in separate buildings. It would not, I think, need for the two branches together a larger organisation than for unemployment insurance alone.

19. The separation of relief for prolonged unemployment from insurance for tiding over is proposed here as the only way of securing appropriate differing treatment for differing problems. The proposal does not imply a view that those who suffer prolonged unemployment and run out of insurance are always themselves to blame for their misfortunes. On the contrary, they may be the victims either of large economic movements almost beyond human control (such as those which had led to the decay of coal-mining in certain districts of Britain) or of a policy of rigid money wages in face of falling prices pursued by trade unions or sanctioned by public opinion. But this does not make a benefit claimable as of right so long as they are unemployed an appropriate remedy for their case. The ruined mining areas need treatment altogether different from perpetual doles. The practicability of the scheme suggested above, involving both generous insurance based on contract and adequate relief based on need and subject to conditions for those who run through insurance, depends upon getting back one way or another to the position existing before the war, when the trade unions felt some responsibility both for wage policy and for the unemployment which a policy of rigid wages might in certain conditions cause. A scheme either of insurance or of relief which makes leaders of industry—whether employers or trade unionists—careless as to the creation of unemployment is a social danger of the first magnitude.

20th March, 1931.

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