

THE ECONOMICS OF UNEMPLOYMENT

by

J. A. HOBSON

Revised Edition

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THE ECONOMICS OF UNEMPLOYMENT

BY THE SAME AUTHOR

THE EVOLUTION OF MODERN CAPITALISM
THE CONDITIONS OF INDUSTRIAL PEACE
INCENTIVES IN THE NEW INDUSTRIAL ORDER
THE ECONOMICS OF REPARATIONS
THE PROBLEMS OF A NEW WORLD
DEMOCRACY AFTER THE WAR
FREE THOUGHT IN THE SOCIAL SCIENCES
WEALTH AND LIFE
RATIONALISATION AND UNEMPLOYMENT

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PREFACE TO THE NEW AND
REVISED EDITION

THE present trade depression is deeper, more prolonged and wider spread throughout the world than any in previously recorded history. The line of analysis of this grave economic disease followed in the first edition of this book, first published in 1922, has been verified by the later course of events. But the discussion that has taken place has required some important additions and alterations in the earlier statement. These I have set out in their proper place, adding an entirely new statement of the action I impute to the monetary factor, together with a defence of the part which wise public expenditure can make towards the alleviation and remedy of a trade depression within the limits of national policy.

J. A. HOBSON

May 1931

PREFACE TO FIRST EDITION

To pursue any close inquiry into the causes of trade depression and its accompanying unemployment at such a time as this will appear to most persons an otiose proceeding. It seems self-evident that a long destructive war, followed by a not less destructive peace, and a failure to repair the machinery of trade and finance, must involve just such a period of low production, poverty and suffering, as the world is now experiencing. This explanation is easy, interesting and convincing. But though it holds some obvious elements of truth, it is not sound. It does not go to the root of the matter. The economic experiences of the war and peace have greatly aggravated the burden of this trade depression, and have imparted some special features to its distribution, but they cannot rightly be held responsible for its causation.

In 1914 all the signs of a cyclical depression were present, a hectic prosperity of trade, with a high level of prices, large profits, and in most countries, especially in Central Europe, a dangerous expansion of credit. Economists predicted an early collapse, financial and industrial. The war stopped this depression, postponing its action for seven years.

How? By an immense and continuous artificial stimulation of consumption. While the producing power of the world was reduced by the withdrawal of some twenty million or more men called to arms (compensated but partially by the fuller employment of the remaining civil populations), the destruction and extravagance of war raised the

level of consumption far above the pre-war level. Even after the war, the high rate of public and private consumption kept in full employment for several years the fighting men as they returned to productive occupations. Then the postponed depression came, with all those special characteristics upon which so many critics wrongly fasten as the sole source of the trouble.

Now the chief economic lesson which the war should teach relates to the power of high consumption to maintain production. This it teaches by an extreme case. The artificially enhanced consumption of these seven years not merely postponed the depression that was due, but kept the available productive powers of capital and labour in every belligerent and neutral country fully and continuously employed. The destruction and extravagance of war, of course, exceeded the strained productivity of the belligerents, leaving them at its close with reduced capital resources of their own, and heavily in debt to neutrals whose surplus produce they had borrowed to enhance their war-consumption. This excessive rate of consumption could perhaps not have continued indefinitely, even had the neutral world been willing and able to continue handing over their surplus produce in the hope of eventual repayment.

But the war made it evident that the quantity of slack normally present in the operation of the economic system was far greater than had been supposed, and far exceeded the accepted measurements of 'unemployment.' Under the stimulus of high consumption the system showed hitherto undisclosed powers of productivity. War production

involved, indeed, an excessive and often injurious strain upon the human factor; and war-consumption is the worst of all consumptions, destroying as it does the potential instruments of future production. But so manifest was the stimulation of production under the spur of extravagant consumption, as to evoke the thought that a higher normal range of consumption than actually prevails might maintain a higher normal level of production, thus averting the waste of cyclical depressions. If, say, consumption could be maintained at three-fourths of the high war standard, and could be applied productively to enhance the future efficiency of the human instrument, instead of being applied destructively, it would seem that trade fluctuations might disappear, by a policy which would not merely avert unemployment (outside the minor requirements of economic elasticity), but would furnish the economic conditions for a continually increasing productivity, with a corresponding rise in the general standards of consumption.

This is the thesis I propose to establish in these chapters. For convenience of readers, I will reduce it to a series of dogmatic propositions.

Full regular employment of the factors of production demands the maintenance of a proper proportion between the production of consumable commodities and that of capital goods, that proportion varying, of course, with changes in methods of production. In other words, there exists at any given time an economically sound ratio between spending and saving. Excessive spending (as in the war) encroaches on saved capital, and impairs future productivity. Excessive saving operates, through

deficient demand for commodities, to slacken the sinews of production and produce more capital goods than are able to be put to full productive use.

The current distribution of income throughout the industrial world tends normally to evoke a rate of saving and capital creation that is excessive, in this sense. For whereas, under a fairly equal distribution of income, the average pressure of growing human needs for satisfaction will keep a right adjustment between the immediate satisfaction of spending and the postponed satisfaction of saving, under the present unequal and inequitable distribution no such adjustment is maintained. On the contrary, a large part of the surplus unearned income of the rich is found to be excessive, even for purposes of luxurious and wasteful consumption, and accumulates automatically to form an investment fund of capital which is larger than is required, in order to help maintain the growing volume of consumption in the economic world. This excess in capital formation is attested not only by the cut-throat competition and the organised restriction of output which alternate in modern capitalism, but by the normal under-employment both of capital and labour in the industrial system, as well as by the more signal wastes of cyclical depressions.

If the surplus income of the rich which produces this congestion and these stoppages were absorbed, either by the increasing share of the workers, or by the needs and uses of an enlightened State, or by both, this economic disease would be remedied. A sound distribution, thus attained, would react in fuller, more regular, and more productive activity

throughout the economic system, imparting an order and a progress to society not otherwise attainable.

The thesis is no new one. It has a considerable history in the course of modern economic thought. But it has almost always been vitiated by some extremity of statement or by association with attacks upon the virtue of personal thrift. I have here endeavoured to avoid both these mistakes, and to present the theory as an essential factor in the principles of social progress. In particular, I have sought to set the doctrine in its true relation to those mainly or exclusively financial explanations of trade depression which are so prevalent at the present time, and to indicate the true and important ways in which the ill-controlled credit system operates to enhance the fluctuations of trade.

I desire here to express my deep obligation to Mr. Sidney Webb and Mr. R. H. Tawney, who have read these chapters in manuscript and have made many valuable suggestions and corrections.

J. A. HOBSON

HAMPSTEAD,

July 1922

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