

THE THEORY
OF
UNEMPLOYMENT

BY

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"THE ECONOMICS OF WELFARE", ETC.

MACMILLAN AND CO., LIMITED
ST. MARTIN'S STREET, LONDON

1933



MACMILLAN AND CO., LIMITED
LONDON · BOMBAY · CALCUTTA · MADRAS
MELBOURNE

THE MACMILLAN COMPANY
NEW YORK · BOSTON · CHICAGO
DALLAS · ATLANTA · SAN FRANCISCO

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TORONTO

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BY R. & R. CLARK, LIMITED, EDINBURGH

PREFACE

THIS book is addressed to students of economics. Its aim is to clarify thought, not to advocate a policy. While it is natural and right in the present deplorable state of the world's affairs that many economists should seek to play a part in guiding conduct, that is not their primary business. They are physiologists, not clinical practitioners; engineers, not engine-drivers. The main part of such contribution as they may hope to make must be indirect; in the study, not in the pages of newspapers or even in the council chamber. I offer no apology, therefore, for publishing, in a period when the tragedy of unemployment is of unexampled magnitude, a book on that subject strictly academic in tone and content.

It is possible to study the problem of unemployment either from the money end or from what I shall call, in contrast, the real end. The two studies, if made complete and carried through correctly, must necessarily come to the same thing, their analyses meeting in the middle. There can, therefore, be no question of the one way of approach being right and the other wrong. Both are right, and both can be used with profit. In recent years, as is to be expected in a period of monetary disorganisation, economists have been inclined to concentrate attention on the money end. The result, in my opinion, has been to overstress somewhat the rôle that money plays in more normal times, and to put in the background very important factors of a non-monetary character. For this reason, among others, I have chosen to write my book from the real end, and to bring in the monetary factor only at a fairly late stage.

Addressing myself to economists, I have made use without disguise of whatever tools have appeared to me, in different

parts of the analysis, to be helpful. In some chapters of Parts II. and III. this method has involved the employment of a little elementary differential calculus. I am aware that there are writers on economic subjects, unacquainted with this tool, who resent its use by others. To them it is sufficient to reply with Pareto that persons ignorant of the German language are ill-qualified to criticise German literature. There are, however, other writers, themselves masters of all the relevant technique, who, nevertheless, deprecate the introduction of mathematical symbols into economic discussions. Marshall, for example, a great part of whose work was built up round a mathematical skeleton, was at extreme pains to keep the skeleton concealed. By so doing he made his *Principles of Economics*, not only a great work of science, but also a great instrument of general education. None the less, I venture a doubt how far those many readers of Marshall, who leave the skeleton unwrapped—who perhaps are even unaware of its existence—really grasp his thought. Would they not in the end have been better off had mathematical ideas been presented to them in mathematical form: and had they been advised to acquire a mastery of these few and simple tools? However that may be, I have in this book deliberately discarded cotton-wool and said what I had to say in a direct manner.

Though this volume is of substantial size, it does not claim to be exhaustive. What I have studied is a simplified model of the economic world rather than that world itself in its full completeness. Neither our analytic apparatus nor our statistical information is at present adequate for that. In particular many complications of detail associated with the imperfection of markets are left aside: and the concept of wage-goods is employed in a manner which cannot, in the nature of things, yield more than a rough approximate picture of the facts. The work is thus tentative in character and, as no one knows better than the author, in many respects unsatisfactory. Moreover, on a number of relevant matters, including some of the broader influences that govern movements of demand, I have said little. The reason is that they have already been discussed at length in my *Industrial*

Fluctuations. In some degree this book and that are complementary to one another.

Part I. is general and introductory. Part II. is concerned with the form of the real demand functions for labour in particular occupations and in the aggregate: Part III. with alterations in these demand functions brought about otherwise than through the monetary factor: Part IV. with alterations in whose genesis or development that factor is concerned. All these Parts are, in a sense, preliminary. Finally, in Part V. the results obtained are brought together and utilised in a direct discussion of the causation of unemployment and its fluctuations. Mr. Denis Robertson, of Trinity College, Cambridge, has very kindly read all these Parts in manuscript and has helped me with many valuable suggestions; and Mr. Sraffa has done me a like service for Parts I. and II. In each Part, when reference is made to a chapter in another Part, both Part and chapter are named; when reference is made to a chapter in the same Part, the number of the chapter only is given.

A. C. P.

KING'S COLLEGE, CAMBRIDGE,
April 1933.

CORRIGENDA

P. 49, l. 23, for all read small.

P. 49, footnote 1, for $\frac{w}{2q-w}$ read $-\frac{w}{2(q-w)}$.

P. 79, in the last equation, for $k \frac{xf'(x)}{f(x)} \cdot \frac{dx}{dw}$ read $-k \frac{xf'(x)}{f(x)} \cdot \frac{dx}{dw}$.

P. 80, in the first equation, for $k \frac{1}{e} \frac{dx}{dw}$ read $-k \frac{1}{e} \frac{dx}{dw}$.

P. 81, l. 4, for $\frac{1 + \frac{k}{e}}{\frac{1}{E_r} - \frac{k}{e}}$ read $\frac{1 - \frac{k}{e}}{\frac{1}{E_r} + \frac{k}{e}}$;

and, for the expression for E_d in l. 18

$$\text{read } \frac{x \frac{1 - \frac{k}{e}}{\frac{1}{E_x} + \frac{k}{e}} + y \frac{1 - \frac{q}{e}}{\frac{1}{E_y} + \frac{q}{e}} + z \frac{1 + \frac{s}{e}}{\frac{1}{E_z} + \frac{s}{e}}}{x + y + z}$$

P. 82, l. 2 of § 7, for positive read negative; and, throughout the page, for $+\frac{k}{e}$ read $-\frac{k}{e}$, and for $-\frac{k}{e}$ read $+\frac{k}{e}$.

P. 83, l. 6, for negative read positive.

P. 84, l. 3, the expression to the right of the second equality sign should be inverted.

P. 86, l. 26, for positive read negative.

P. 102, l. 16, for $(W - K)$ read $\frac{W - K}{W}$.

P. 103, ll. 2-4, for $\frac{dx}{x}$ read $\frac{1}{x}$.

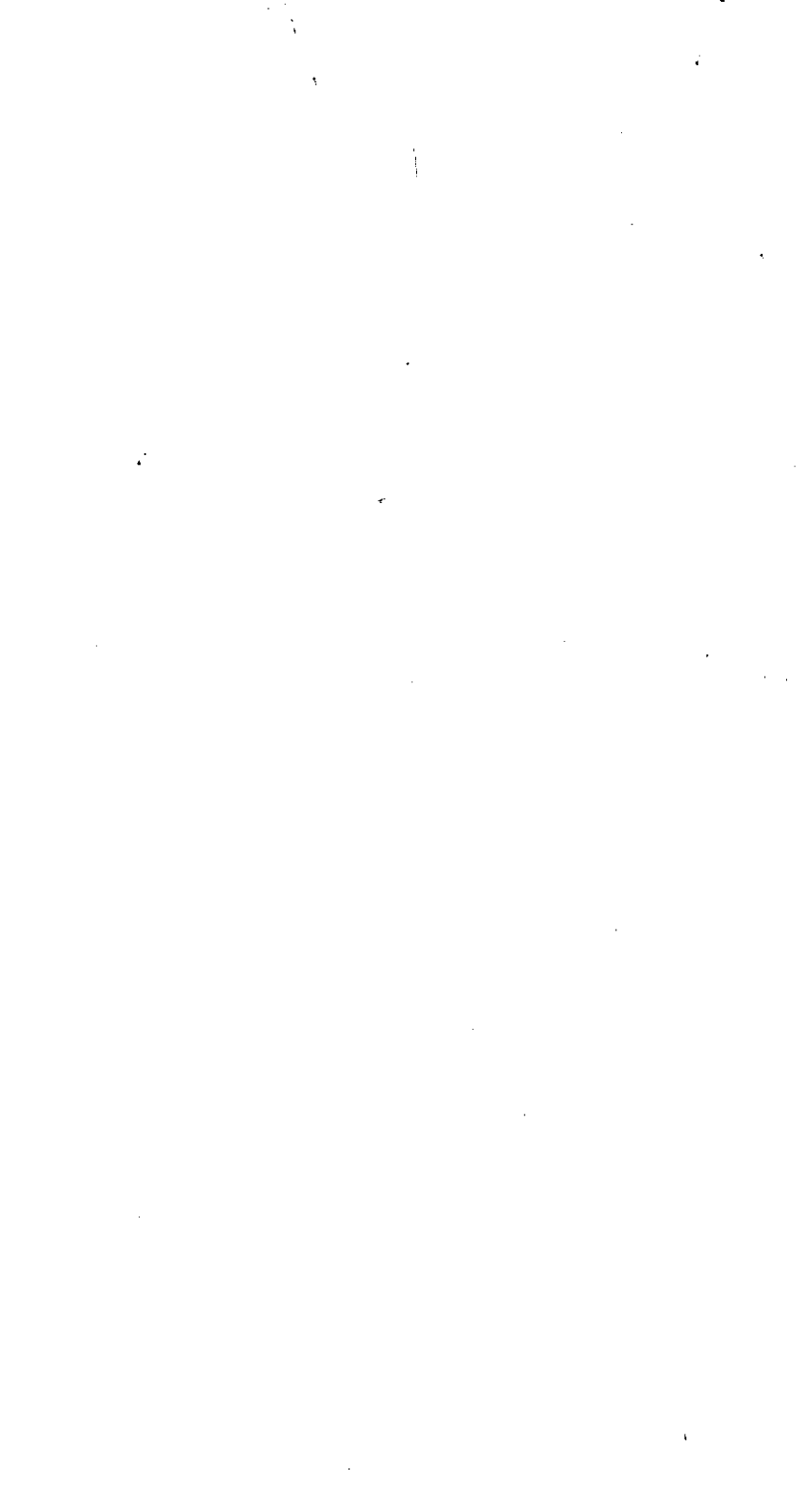
P. 182, l. 1, for $\left\{1 - \frac{100}{100 + p_2}\right\}^n \div \left\{1 - \frac{100}{100 + p_1}\right\}^n$
read $\left\{1 - \left(\frac{100}{100 + p_2}\right)^n\right\} \div \left\{1 - \left(\frac{100}{100 + p_1}\right)^n\right\}$.

P. 200, line 3 from end, and p. 201, l. 1, for *r*th read *l*th.

P. 219, note, l. 7 from the end, for foreign read domestic.

Pp. 302-3, delete sentence beginning l. 4 from the end of p. 302.

P. 305, l. 2, for employment read unemployment.



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- § 4. Losses to industrialists due to unforeseen price falls promote monopolistic understandings, which lower the real demand function for labour.
- §§ 5-6. The demand function is also lowered in consequence of the disorganisation and the addition to real interest-rates which these losses imply.
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