

Oxford Pamphlets on Home Affairs

No. H.3

Price 6d. net

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By A. C. PIGOU



Oxford University Press

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OXFORD UNIVERSITY PRESS
LONDON : HUMPHREY MILFORD

1943

Britain's resources—slowly at first, but with gathering speed—have been mobilized until the whole energies of the nation have been directed into war channels. This has meant an enormous shift of employment. Millions of men and women have entered the Services. Millions more have turned from the production of peace-time needs to war-production. Unemployment has disappeared (we all know, now, how Hitler did it).

What is going to happen when the machinery goes into reverse gear? How will the transition back again to peace-time production be effected? Will those who were employed before the war get back to their old jobs? Will those who have reached employable age during the war find jobs? What are the prospects? What the dangers, and how can we avoid them?

These questions, and others, are the subject of this pamphlet. The author suggests the answer to them, both by describing our present probable prospects, and by looking for guidance—and warning—to what happened after the last war.

Professor Pigou is Professor of Political Economy at Cambridge, and the author of many books on economics, including *The Economics of Welfare*, *The Political Economy of War*, *Economics in Practice*, and *Socialism versus Capitalism*.

A forthcoming Pamphlet in this series will deal with the question whether Full Employment is possible.

First published March 1943

First published in India December 1943.

Printed at the Diocesan Press, Madras, India and published by
THE OXFORD UNIVERSITY PRESS, Amen House, E.C.4.
LONDON EDINBURGH GLASGOW NEW YORK TORONTO
MELBOURNE CAPETOWN BOMBAY CALCUTTA MADRAS
HUMPHREY MILFORD *Publisher to the University*

THE TRANSITION FROM WAR TO PEACE

THE problems of transition from war to peace must be in great part political; provisions for security against aggression, the re-unification of France, the adjustment of disputed frontiers, and so on. There is a grave warning in a recent pronouncement by Lord Cecil: 'Believe me, we are in for an extremely difficult period after the war. I do beg you to consider what is the condition of large tracts of Europe at the present time, and it certainly will not be any better, it will be worse by the time we reach the peace. The whole of the governments of many countries have been destroyed; Czecho-slovakia, practically no government left except a dictatorship from Berlin; Yugoslavia, the most vigorous part of the population wandering in the mountains and forests of that country and maintaining guerilla war; the occupied districts of Russia in much the same situation; and so it is in many of the other countries. This is the situation you will have to deal with.'¹ With these things, however, this pamphlet is not concerned. Nor will it endeavour to cover the whole field even of economic problems. Many of the difficulties to be dealt with will be international in scope. The provision of food and equipment for devastated countries will be an inescapable obligation on Great Britain and on the United States, and one the execution of which may well entail some postponement of our own less urgent needs. But, though international and national problems are necessarily in some degree interlocked, the latter group only, not the former, will be studied here. This entails that many important matters must be left aside, but it will be possible, by way of compensation, to handle the others more fully.

¹ Presidential Address to the General Council of the League of Nations Union, 20 November 1942.

The Transfer from War-work to Peace-work

The dominant *immediate* change that the return of peace must bring about is the shifting of an enormous mass of national effort away from the service of war. Vast numbers of men now engaged in the armed Forces will no longer be wanted there; vast numbers of men and women now engaged in producing munitions of all sorts will also no longer be wanted for that work. No figure for the reduction in aggregate war service will be hazarded. For not only are data lacking, but also it is impossible to define war service with any precision. What proportion of coal miners, for example, would it be reasonable to describe as engaged in war and what proportion in civilian service? But, no matter what definition we take, it is obvious that the contraction in war service when peace returns will be enormous.

It would be a serious mistake, however, to suppose that the number of persons whose employment on war service will cease is equivalent to the number that will want employment in civilian industry. The latter number will in fact be substantially smaller than the former. For during the war a substantial number of men who would normally have retired have remained in industry; children have gone to work at an unusually early age; and above all, a large number of women have come into industry who were normally engaged in looking after their own homes. With the return of peace these persons, or, more accurately, an equivalent number of persons, will not desire employment. Moreover, there are bound to be men demobilized from the Forces who will have been rendered by wounds or illness unfit for work. There is reason to believe that during the

year following the last war well over a million persons, men and women together, in one or another of these categories, withdrew of their own motion from industrial activity ; thus reducing the number seeking civilian work substantially below the number unable any longer to obtain war-work.

Yet, again, it must be borne in mind that for many people a shift from war-work to civilian work will not entail a shift of personal employment. It is true, of course, that every man demobilized from the Forces and desiring work will need a different job and a different employer. But a great many persons in industry, who cease to work indirectly for the war machine, may hope to continue at very nearly the same job and with the same employer as during the war. No shift of employment is needed when railways turn from carrying troops and munitions to carrying civilian goods, while many firms, that have in war-time done engineering work for the Government, may be expected in peace-time to set their men to work on very similar jobs in the manufacture of civilian goods. Thus the number of men and women transferred from job to job and place to place on the return of peace will, so far as civilian war-workers are concerned, be very much fewer than those transferred from the service of war to the service of peace.

During the 18 months following the last war round about 4 million men, say $3\frac{1}{2}$ million in the wage-earning classes, were demobilized from the Forces. Towards the close of that war it was estimated by the Civil War Workers' Committee that 900,000 persons (probably many more) in industry would, on the return of peace, in consequence of the cessation of war orders, find their jobs closed down. A grand total of, say, $4\frac{1}{2}$ million persons ! It must be remem-

bered, indeed, that, whereas in 1919 our armed Forces were cut down very rapidly to the pre-war scale, at the conclusion of the present war it may prove necessary to retain for many years much larger Forces and much more equipment than we have ever maintained before in times of peace. This is an important consideration but, after all, only a secondary one. The essential point remains. The transition from war to peace, throwing, as it must do, vast numbers of men and women out of direct and indirect forms of war work, is bound to create, as it did create in 1919, an assembly of persons, less vast indeed, but nevertheless large, for the moment deprived of employment and anxiously seeking after it in one or another civilian occupation.

A Large Immediate Post-war Demand for Labour Probable

In view of this, it is of the first importance to know what the state of civilian requirements, when the war is over, is likely to be. Will there be enough demand for work at civilian tasks to absorb those men and women who still desire paid work, but whom the war no longer needs? So far as the *immediate* post-war situation is concerned there is not much doubt about the answer to that question. As soon as peace returns a great deal of work will be wanted to deal with war damage. Many houses and other buildings, that have been hit by bombs, will need repair or reconstruction. A great deal of work will also be called for to bring up again to full efficiency railways, ships, plant and equipment, which have suffered wear and tear and depreciation. The working capital of industry will have been

seriously depleted, the stocks of many things in factories, warehouses, and shops having been greatly cut down. These will have to be built up again. The same thing is true of the furniture, crockery, glass, and clothes in the hands of private people. A vast process of re-stocking will be called for. There may well, too, be heavy demands on our export industries, to serve, probably in part on credit, the needs of many war-ravaged countries. All this is over and above the call that the public, forced for so long to a low level of consumption, will make for less austere living. There is thus a strong presumption that the return of peace will be followed very shortly by a period of great activity in civilian industries. This forecast is abundantly supported by the evidence of last time. By the spring or early summer of 1920, whether we judge from the statistics of out-of-work donation or from the Trade Union unemployment returns or from those furnished in connection with the Unemployment Insurance Acts, it is clear that the number of persons involuntarily out of work was very small indeed; that substantially the whole body of those ejected by the ending of the war and desirous of continuing paid work had been absorbed into civilian industry.

Problems of Adjustment between Worker and Job

Granted, however, that the immediate post-war civilian demand is likely to prove sufficient, this does not imply that there will be no immediate post-war problems. On the contrary, there are bound, for a short time, to be serious difficulties of adjustment between pegs and holes. Something might be done to meet these by arranging the order of

demobilization from the Forces and from munition work in such a way as to help a speedy resumption of civilian activities. Thus, after the last war an attempt was made to release from the army at an early stage the key men of industry, without whom work could not easily be started, and others for whom immediate employment was guaranteed. But not very much can be done along these lines; the demand for prior demobilization for men of long service and married men is bound, as it did in 1919, to prove too insistent. Already it has been officially announced on behalf of the Government that after the war the order of demobilization will be based in the main on age and length of service.¹ For displaced civilian war workers, whose jobs are likely to come to an end very suddenly, there is even less scope for an ordered demobilization. In the main, therefore, it would seem, attention must be concentrated on insuring that those persons who inevitably in the process of transfer will suffer temporary loss of work do not also suffer distress. In 1918-1919, when there was as yet no general system of unemployment insurance or assistance, an elaborate scheme of out-of-work donation was instituted for this purpose, applicable alike to members of the Forces and to civilian war workers. Now we possess a highly efficient system of unemployment benefit and assistance, which, if the Beveridge Plan, or something similar to it, is adopted, should, by the time the war ends, have been still further improved. We may, therefore, be fairly confident that the task of safeguarding from distress persons transferred from war to peace service in the immediate post-war period—the first six

¹ Sir William Jowitt, House of Commons Speech, *Manchester Guardian*, 2 December 1942.

months or so following the armistice—will be dealt with adequately. I shall not, therefore, discuss it further.

About this immediate period of transfer and adjustment two other points should, however, be made. First, with the large number of persons that must be then suddenly thrown on the labour market, there is a risk that wage-earners, at all events in some occupations, will find themselves at a disadvantage in bargaining and so may be forced to accept large reductions in rates of pay. At the end of the last war this danger loomed large. To obviate it and the unrest which, if it were realized, would inevitably follow, the Government on 21 November 1918 passed through Parliament the Wages (Temporary Regulation) Act. The main purpose of this Act was 'to secure the maintenance for a period of six months [afterwards extended to September 1920] of the minimum wages generally applicable at the date of the signing of the Armistice, in each trade or branch of a trade or district, to each class of workmen, except in so far as these minimum wages are varied by arbitration or by agreement.'¹ In the conditions immediately following the Armistice some such Act was obviously a wise precaution. Nor does the fact that a few months later the tendency of wages was upwards prove that it was superfluous; for immediately after the outbreak of peace untoward happenings might easily have taken place. It would plainly be sound policy for the Government to safeguard the interests of wage-earners in the same way when the present war ends.

The second point—for the danger I have just been speaking of is probably not great—is much more important. The

¹ *Labour Gazette*, November 1918, p. 485.

war has impinged upon the life of many young men and called them into the armed Forces at that stage when they would normally have been working at Universities or engaged in some other form of education or training. Now the ordinary occupations of civil life demand entrants and, to obtain them, offer pay. Education at training institutions stands on a different footing. Entrants do not receive payments, they make them. In view of the upheaval which their lives have undergone, many of these young men will not be able to provide these payments out of their own or their parents' means ; and yet it is vital both for themselves and in the general interest that the educational opportunities, of which they have been deprived, should be postponed only, not irretrievably lost. In 1919 the State freely recognized its obligation in this matter. Thus already in the middle of December 1918, schemes for higher education and training were announced and students were given grants for University education. In the following February a scheme of State assistance to enable men to complete apprenticeships which had been interrupted by war service was announced. An Industrial Training department of the Ministry of Labour was formally constituted to organize training for demobilised ex-Service men and civilian war-workers and to control, in place of the Ministry of Pensions, training, other than curative, for disabled men. In principle, this arrangement was obviously sound, and something of the same kind will need to be done when the present war ends. In the statement of Government policy as regards demobilization already referred to, Sir William Jowitt assured the House of Commons that 'the question of education and training for the young, whose educational

careers were interrupted by the war, will not be overlooked.'

The Period of 'Delayed Depression'

So far it has been tacitly assumed that the transition from war to peace is fully accomplished when the makers and users of swords have, in the immediate post-war period, turned themselves into makers of plough-shares. But this assumption cannot stand. The transition is bound to be a long drawn-out affair, of which the first year or so of peace constitutes only the initial phase. That this must be so the reader will have already inferred from what was said about the probable characteristics of the immediate post-war demand. A large part of that demand is sure, as we have seen, to arise out of the need to make good war damage, to carry out postponed repairs to equipment and to restock factories, warehouses, shops, and private houses. That is to say, a large part of it will be a once-for-all, not a continuing, demand. When the repairs and restockings have been accomplished a chapter will be closed. It is as though the construction of a railway system, which had been occupying a great deal of labour for a long time, was finished and the demand associated with it shut down. Thus we should expect a second phase following the first—a phase of relatively contracted demand, in which a number of would-be workers may well find themselves without a job—a delayed post-war depression linked with and partly caused by the high activity of immediate post-war days. This period, with its many and complex problems, belongs to, indeed is an integral part of, the transition from war to peace. Let us once more look for guidance at what happened after the last war.

Some eighteen months after the Armistice the period of keen demand for labour, which till then had been gathering force for a year, drew to its close, to be followed by a tremendous and devastating decline. The percentage of unemployment recorded by Trade Unions, which had been less than 1 per cent. in April 1920, was over 10 per cent. in the following March (before the outbreak of the great coal strike), while the corresponding percentages among insured work-people were 2·8 per cent. and 15·4 per cent. The *Labour Gazette* for January 1921 describes the earlier part of this movement as follows :—

‘ In July, August and September a decline in employment, which had already become apparent in certain trades, especially boot and shoe manufacture, leather tanning and currying, cotton weaving, and the hosiery and jute trades, gradually spread to a considerable number of other industries, and by the beginning of October a depression was reported in most branches of the textile and clothing trades, and in the boot and shoe and leather trades. In October and November the shortage of fuel, caused by the general stoppage of work at the coal mines, which continued for over two weeks (18 October–3 November), resulted in general slackness and much unemployment and short-time working in nearly all the principal industries. There was a partial recovery shortly after the settlement of the strike, but the improvement proved only temporary, and, after a renewed decline during December, employment at the end of the year was slack in most of the principal industries.’ Under the influence of the great 1921 coal stoppage, which began in April of that year, the situation greatly worsened.

In June the Trade Union unemployment figure was 20·6 per cent. and the insurance figure 22·4 per cent. When the stoppage came to an end there was, of course, an improvement. The Trade Union figure for July was 16·9 per cent. and the other figure 17·9 per cent. During the latter half of 1921 and throughout 1922 the improvement continued ; but even at the end of 1922 the Trade Union figure was still 13·8 per cent. and the insurance figure 12·8 per cent. (14·5 per cent. for males and 8·1 per cent. for females). Production as a whole in this country in 1922 was, say, 15 per cent. less than in 1920.

This history shows a warning light. Will it be repeated ? That there must be some tendency towards contraction when post-war repairs, re-equipment, and restocking are finished seems inevitable ; and, unless special means are taken to resist it, it can hardly fail to manifest itself in reduced employment. But is it inevitable for the tendency to be on the enormous scale of 1920-1922 ; or were there special factors then in play which it may be possible next time to keep out of the field ? With these questions we are brought face to face with the monetary aspects of the post-war situation.

Monetary Policy : Lessons from the Boom and Slump of 1919-1922

When the prospects of business are good, as they are bound to be while the ravages of war are being repaired and depleted stocks filled, business men, to finance their activity, at once turn over their existing balances more rapidly and try to secure further balances by borrowing from banks.

These processes normally lead to rising prices and rising money incomes. In 1919, after a few months of hesitation following the Armistice, the business world felt the urge of spring and moved forward with ever-growing confidence. 'With the comparatively small volume of American competition, which is bound to get smaller, with Germany, Belgium, Russia and other pre-war rivals practically out of the race and with the world's hunger for steel to satisfy, the trading opportunities for British steel are golden. . . . The prospects of spinners and manufacturers in Lancashire were never brighter than at the moment. Large profits continue to be made and big dividends declared. Although, since the beginning of the year, extensive business has been done, there are no indications of markets abroad being over-supplied; . . . it is believed that all cloth made in Lancashire during the next two or three years will be needed. . . . When it becomes possible to observe the economic effects of the recent war in true perspective it will probably be found that the most outstanding result is a new lease of life for British trade.'¹ These sentiments were beyond doubt greatly strengthened by the avowed policy of the Government to have done with all industrial controls, priority arrangements, price maxima, and rationing of consumers' purchases at the earliest possible date. They were given extra scope by the Government's decision in March 1919, in the face of a warning from the Committee on Financial Facilities, to allow companies without restriction to put on the market new securities whose proceeds were to be applied inside the United Kingdom, and in the

¹Extracts from articles and correspondence in *The Economist*, 18 and 25 October 1919.

following November to free from control all sorts of new securities. The boom ran on till the spring of 1920. At that date the well-known index number of wholesale prices prepared by the *Statist* newspaper was more than 37 per cent. higher than it had been at the Armistice, and monthly money income may well have been running 50 per cent. higher than in January 1919. During the boom year as a whole, from April 1919 to April 1920, there was an expansion in the number of persons in remunerated work, when increases in civilian occupations are set against decreases in the armed Forces, of probably about half a million; an expansion, that is to say, of some 3 per cent. The history of other industrial fluctuations suggests strongly that a recovery of employment on this scale could have been 'carried' by a very much smaller monetary boom.

In the spring of 1920, the monetary boom checked and then broke, to be followed by a monetary slump, even more tremendous. By the end of 1921, the *Statist's* index number of wholesale prices had collapsed to half what it had been at the peak of the boom, so that it stood 32 per cent. below its level at the time of the Armistice. What happened was not, as is often supposed, a consequence of deflation by the banks, in the sense of a contraction of the quantity of money in existence. Bank deposits, as represented by the deposits of the London Clearing banks, did not contract. On the contrary, till August 1922, in all except three separate months, they were higher than they had been in April 1920. It was a consequence of the decisions by business men not to use their money—to turn over their balances much less rapidly than they had been doing. The immediate need for post-war repairs and restocking was by April 1920

mostly satisfied ; so that openings of which industry had been availing itself were no longer there to be exploited. Thus the avalanche was ripe to fall. On the 15th April, Bank Rate, which had been put up from 5 per cent. to 6 per cent. in November 1919, was raised to 7 per cent. This gave a jolt to confidence, and was, it may well be, the spark that fired the tinder and initiated the downward movement.

But why was the movement so large ? One reason, no doubt, is that the preceding large-scale boom had carried on its back a number of unsound enterprises, whose nakedness was now revealed. When an exaggerated optimism dies, an exaggerated pessimism is apt to arise from its ashes. Moreover, since in a violent boom industrial activity becomes geared to the expectation of *rising* prices, a mere arrest of the rise leads to heavy losses, and so brings about contraction and a fall.

But the main explanation is not to be found there. From March 1919, when the American exchange was 'unpegged,' i.e. ceased to be supported by Government action, and the Gold Standard was formally abandoned, it was a settled policy of the British Government—a policy which scarcely any person of authority then disputed—to re-establish that standard at pre-war parity at the earliest possible moment. This policy made it necessary for the banking authorities, so far as they could, to resist falls and to stimulate rises in the New York rate of exchange. It was with this in view that, after the boom had conclusively broken and when prices were falling rapidly, a 7 per cent. Bank Rate was retained for nearly a year, an arrangement, which, both directly and still more through its influence on business psychology, must have greatly intensified the slump.

The damage done was accentuated by the fact that, while prices were tumbling down, money wage-rates did not follow suit. Until the first month of 1921 they continued, under the impulse of the preceding boom, to rise substantially, so that between April 1920 and January 1921 they had actually increased by 17 per cent. in the face of a price fall of 25 per cent. ; and, while during the course of 1921 itself they fell again absolutely (by some 20 per cent.), relatively to prices they were still rising slightly. This lagging of money wages behind the associated price movement, which is a natural, probably an inevitable, accompaniment of a heavy monetary slump, struck with great severity at business profits, and was bound to entail a serious contraction of employment. During 1922 itself the delayed-action fall of money-wages continued sharply though prices had nearly come to rest ; thus, along with the reduction in the Bank Rate, which, by the middle of that year, had been brought down to 3 per cent., contributing to an improvement in the employment situation.

The moral of this history is fairly plain. After the war of 1914-18 money got out of hand. There was a violent monetary boom, much larger than was needed to carry the industrial readjustment, followed by a still more violent monetary slump. This transformed what might have been a moderate shrinkage of employment into a catastrophic collapse. It is *not* inevitable that at the end of the present war these events should repeat themselves. By refraining from a too rapid removal of industrial controls, by continuing the system of priorities, price maxima, and rationing, until shortages have been made good, and by exercising supervision over new issues of securities, the Government should

be able to prevent the occurrence of an immediate post-war monetary boom. This, of itself, should do much towards preventing a subsequent slump. If such a slump is threatened, the banking authorities, not this time having their hands tied by an obligation to restore a pre-war gold parity, will be free to adopt a discount policy calculated to counter rather than to accentuate it. Moreover, the post-war credits, savings certificates and so on, which the public will have accumulated, and for which cash can be demanded from the State at short notice, if only they are held back from use for a year or so after the war stops—and, since rationing is likely to continue for some time, this may well happen—will be available to be thrown in with great advantage in the form of a compensating new demand for consumption goods at the time when the demand for repairs and restocking is coming to an end. Thus, though the history of 1919 to 1922 gives warning of serious dangers, these fortunately are of a kind which 'happily foreknowing may avoid'.

Effect on Industry of Shrinking Exports

But our subject is not yet exhausted. In the early 1920's, when the alarms and excursions of the post-war boom and slump had died away, it became evident that the industrial structure of the country had undergone a very important change. Without attempting to go into the matter in detail, we may distinguish four developments that strongly affected demand conditions here. First, a number of countries, which had previously been accustomed to obtain manufactured goods from the great industrialized countries, notably from Great Britain, being shut off during the war

from their sources of supply, started producing for themselves, and, after the war, naturally made strong efforts to maintain their new industries. Thus Japan and India became considerable manufacturers of textile goods, with the result that British-made textiles were less needed. Secondly, war shortages in Europe had caused a very large acreage of land in the New World to be turned over to agriculture—a development which those who had undertaken it were unwilling after the war to undo. Thirdly, at the same time technical agricultural improvements had increased productivity. These changes led, when European agriculture began to recover, to very cheap prices for agricultural products. Since British demand for these products is not very elastic, we were able to get what we needed of them in exchange for a reduced quantity of exports; or, to put the same point in other language, foreign producers of agricultural goods, having to sell them cheap, had not the means to buy so much of our exports as before. Fourthly, in the period following the war the quantity of investment abroad, in real terms, i.e. when allowance is made for the changed level of prices, undertaken by this country was substantially smaller than it had been before 1914. Mr. Colin Clark puts the money value of our overseas investments in 1907 at 138 million, in 1924 at 72 million.¹ Since prices were much higher in the latter than in the former year the proportionate reduction in real terms was, of course, much greater than in money terms.

All these four influences, it will be noticed, struck specially heavily at those of our industries whose products entered into the export trade. The demand for the output of these

¹ *National Income and Outlay*, p. 185.

industries was still further handicapped by the disorganization of foreign currencies, difficulties about credit, and the attempts of many countries to close or restrict their markets by import prohibitions, quotas, tariffs, and exchange regulations designed to defend their endangered currencies from collapse. In view of all these things it is not surprising that the volume, as measured by values adjusted to 1913 prices, of our exports, did not, in any of the years down to 1926, rise above three-quarters, or, allowance being made for changes in quality, say, four-fifths of what it had been in 1913. In this connection Dr. Bowley wrote :—' The actual falling off of British exports is not only widespread geographically, but also it extends over all the principal manufactures for export. . . . In addition to the actual loss of labour in production of these goods there is the loss of transport by sea and land and of all the incidental business arising from foreign trade. It has been estimated that before the war nearly one-quarter of the national income depended on production for export, while in 1924 the proportion was only one-fifth.'¹ All this obviously meant a very considerable shift in the general pattern of our industries.

Labour Surpluses and Shortages

Even, however, had there been no such shift, there must have been serious awkwardness. Of ex-Servicemen returning to civil life the great majority would naturally try in the first instance to move back into their pre-war occupations. Many of them, indeed, had had their former jobs kept open for them. But, of persons who had entered gainful employ-

¹ *Some Economic Consequences of the Great War*, pp. 206-7.

ment for the first time during the war and wanted to continue in it, the majority, having no skill for any kind of job except the one they were actually doing, would try, when things had settled down, to stay where they were. Hence we should expect to find the proportion of the population seeking employment in industries that had been swollen during the war to be somewhat larger, and the proportion seeking it in those that had been contracted somewhat smaller, than before. Prominent among the war-expanded industries were, of course, engineering, shipbuilding, vehicles, iron and steel and metal industries. It is, therefore, specially interesting to find that over three-quarters of the total increase of the male industrial population of working age between the 1911 and 1921 censuses became attached to this small group of occupations.

Looking at the matter more generally, we see that the post-war distribution of would-be wage-earners seeking work among different occupations was mainly based on what the comparative demands for labour in these occupations were before the war and on what they had become during the course of it. But the levels of demand for labour in different occupations when things had settled down were determined by the circumstances and the prospects visible then. These, of course, were quite different from pre-war and during-the-war prospects. An inevitable consequence was a wide divergence between the proportions in which wage-earners were wanted and the proportions in which they were offering themselves for various kinds of work.

This is well brought out by the following table for Great Britain and Northern Ireland.

<i>Industry</i>	<i>Unemployed Percentages 1924</i>
Shipbuilding and Ship Repairing	29·4
Dock, Harbour, River and Canal Service	25·6
Steel Smelting and Iron Puddling Furnaces, Iron and Steel Rolling Mills and Forges	21·1
Shipping Service	19·5
Public Works Contracting, etc.	17·8
Road Transport not separately specified	15·4
General Engineering, Engineers' Iron and Steel Founding ...	15·2
Cotton	13·7
Textile Bleaching, Printing, Dyeing, etc.	12·7
Hotel, Boarding House and Club Services	12·3
Metal Industries not separately specified	11·4
Building	10·6
Tailoring	9·5
Bread, Biscuits, Cakes, etc.	9·4
Boots, Shoes, Slippers and Clogs	9·2
National Government	9·1
Chemicals	9·0
Construction and Repair of Motor Vehicles, Cycles and Aircraft	8·5
Dressmaking and Millinery	7·5
Furniture-Making, Upholstering, etc.	7·2
Local Government	7·2
Drink Industries	7·0
Woollen and Worsted	7·0
Hosiery	6·9
Distributive Trades	6·6
Laundries, Dyeing and Dry Cleaning	6·2
Gas, Water and Electricity Supply Industries	6·1
Railway Service	5·8
Coal-mining	5·7
Printing, Publishing and Book-binding	5·4
Commerce, Banking, Insurance and Finance	4·9
Professional Services	4·0
Tramway and Omnibus Service	3·2
All Industries	10·3

(Rearranged from Beveridge, *Unemployment, a Problem of Industry*, p. 351.)

The extremely unfavourable situation in war-expanded industries such as shipbuilding, iron and steel and engineering is immediately apparent. So also is that of the textile industries, a large part of whose sales is normally made abroad; and that of dock, harbour, river, and canal service, which, though also affected to an important extent by another factor, is closely bound up with foreign trade.

Of course maladjustments of this kind tend in the long run to correct themselves. The surplus of labour in the overcrowded industries forces wages down in these as against other industries. Thus, in 1923, wage-rates in shipbuilding, engineering, coal, and cotton were substantially lower relatively to those in building, printing, and railways than they had been in 1914. Relatively low wage-rates together with high liability to unemployment tend to reduce the numbers attached to the over-crowded industries. Thus, several large industries, general engineering, electrical engineering, and marine engineering, motor vehicles, cycles and aircraft, chemicals, oil, glue, soap, etc., which, taking men and women together, increased their numbers during the war, had by 1929 got back to having less than the average percentage of unemployment.¹ But the long run is sometimes very long. The forces making for expulsion work in a very slow and hesitating manner. For this there are three principal reasons. First, as everybody knows, when only small shifts in relative numbers are needed, these can be accomplished without any adult trained person moving, simply by a change in the direction of the stream of new recruits coming into industry every year. For example, if, as appears to be the case, the average period

¹ *Unemployment, a Problem of Industry*, p. 355.

of a man's industrial life is about thirty years, a contraction up to 3 per cent. per annum could, theoretically, be accomplished in a representative industry simply by no new recruits coming into it. In women's industries, where, owing to the custom of retirement on marriage, industrial life is on the average only about one-third as long, an annual contraction up to 10 per cent. could be accomplished in that way. Obviously adjustments made by the diversion of new recruits have much less friction to overcome than adjustments by the actual shifting of adult wage-earners. But the adjustments needed after the chaos of a great war are likely to be much too large for that. Great numbers of adult workers also will need to change their jobs and in many instances their homes. This they are naturally very unwilling to do; it entails a tremendous wrench. Secondly, when the demand for labour in a particular industry shrinks, there is a natural tendency to hope that the shrinkage is only temporary, and that the causes responsible for it will soon disappear. It is often easy, when one looks back afterwards, to see that this hope was false, but at the time it may be impossible to see this. Those affected prefer to face the hardship of insecure employment and low wages for what they trust is only a little while rather than uproot themselves and their families and start out on new and unknown ventures. Thirdly, and lastly, in periods when certain industries obviously need more workers—a war or a railway boom—a worker out of a job who wants to move has no difficulty in deciding where to go. But, when the only obvious thing is that his present industry needs *less* workers, such a man is in a great difficulty. In the early 1920's it was plain enough that shipbuilding and

engineering, for example, were overcrowded occupations. But what occupations were crying out for new workmen? When a few industries need to contract a great deal, even though the rest in the aggregate are prepared to expand in equal measure, since the number of new workers that any one of them is able to take on is small, the openings are not easily visible. Candidates for work may be ready to move, but have no clear guidance about where to go. The temptation to stay where they are in the vague hope that something will turn up is, therefore, very strong. The three broad influences here enumerated are bound greatly to impede and delay the appropriate contraction of industries that have been swollen up by war.

How the 'Hard Core' of Unemployment Arose

So long as heavy concentrations of unwanted workers are undispersed, heavy *aggregate* unemployment is inevitable. The period beginning with 1922 was no longer a time of slump, rather of recovery, in suchwise that, on the basis of pre-war experience, the Trade Union unemployment percentage should have been less than 4 per cent. Nevertheless, in 1923, starting at a maximum of 13·6 in January, it still stood in December at 9·3 per cent., while in 1924 its best figure (in May) was 7 per cent. and in December it was up again to 9·2 per cent. Throughout the two years the monthly percentage recorded for insured workpeople in Great Britain and Northern Ireland was only once below 10 per cent. for men (9·9 per cent. in May, 1924) and never below 9·3 per cent. for men and women together. The absolute number of persons recorded as unemployed in the

insured industries was never less than a million. There was thus a hard core of unemployment, not consisting, of course, of the same persons throughout, but of many different people, some of whom were only out of work for a short time, which amounted to something like a million persons; the famous 'intractable million'.¹ Nor, in spite of the fact that methods of recording unemployment after the war were different from what they had been, is there any good ground for thinking that the great excess prevailing in post- as against pre-war years was a mere statistical appearance. The concordance between the unemployment insurance figures and the Trade Union returns during the period when both were available is too close for that;² while the virtual disappearance of recorded unemployment at the present time points strongly against any such suggestion.

Prospects and Dangers after the War

It is possible that, when things have in reasonable measure settled down after the present war, our export industries will be found to have suffered a second heavy blow. But, though this is possible, it is perhaps not likely. We shall still need large imports of food and raw material; and our claims to interest by means of which these have so far been, in part, paid for, will be seriously depleted on account of sales of foreign securities made during the war. Moreover, obligations contracted in connection with the Lease-Lend Act may well call for liquidation through exports.

¹ It is of interest to note that the *extra* unemployed in 1924 as against 1911 amounted to some eight hundred thousand, while the employable population had increased by some nine hundred thousand, so that the aggregate numbers actually employed at the two dates were substantially the same.

² Cf. Beveridge, *Unemployment, a Problem of Industry*, p. 349.

Yet again, whereas at the close of the last war policies of economic nationalism were widespread and powerful, during the present war many and potent voices have been raised, notably in the United States, in favour of arrangements designed to foster, not more restricted but, on the contrary, freer and more abundant commerce between nations. We must not forget, indeed, that statesmen in the past have frequently paid lip-service to this ideal and promptly repudiated it in action. Still it *may* happen that this time policies will march with promises. Should they do so, our export industries need not fear a second knock-down blow. Even, however, if in this respect we are better off than last time, it is against all reason to expect that, after the shattering impact of the war, the proportions of our labour wanted in various occupations will conform at all closely to the proportions in which would-be wage-earners have attached themselves to these occupations. There will be danger that men and women rendered workless in the over-staffed industries will hang on helplessly half-employed or totally unemployed; that there will thus come into being a new hard core of unemployment, men whose old skills are not wanted and who have not acquired new ones, men standing pat where they are, hoping against hope for a recovery, in engineering it may be, in shipbuilding or in textiles, that does not come; derelict workers and their families congregated together and wearing out their lives in decaying towns and depressed areas. That danger, with the experience of the last war behind us, no one can fail to foresee. The problem that will thus have to be faced—a repetition, not merely of the problem of the 1920's, but also of that which followed the great slump of 1930—is an extremely

difficult one. It is rarely possible to know for certain that depression in a particular industry or in a particular place will last long enough to warrant drastic remedies ; there is a great temptation for the Government, as well as for the persons directly concerned, to wait and see. If attempts are made to introduce new industries into depressed areas, the conditions there may prove unsuitable and the attempts may fail. If, on the other hand, a policy of transferring wage-earners away from these areas is adopted, it may well happen that, while the young go, the old remain, with a life even drabber and more dull and the chances of any renewal of activity progressively weakened.

Moreover, even should these difficulties be successfully overcome and the formation of immobilized pockets of unwanted workers prevented, we shall not be entirely out of the wood. To secure that unemployment is not concentrated in depressed areas would be something. If there is to be a large number of unemployed persons it is better that they should be spread thinly over the country than concentrated in a comparatively few black spots. But obviously what is really wanted is that they shall be, not merely scattered, but absorbed into industry. This will only be possible provided that the wage-policy of Trade Unions and the monetary policy of the State are properly married together. No doubt, if monetary policy was such as to allow money income to rise freely in correspondence with rises in money wage-rates, these wage-rates could be pushed up indefinitely without direct damage to employment. But a monetary policy of this kind, besides hitting very hardly all recipients of fixed money incomes, might well lead presently to a general distrust of the currency

accompanied by violent soaring prices—that terrible ‘galloping inflation,’ experienced in an extreme form by Germany in the early 1920’s, which threatens, not merely monetary, but also industrial, social and political chaos. With any scheme of monetary policy more restrained than this there is a limit beyond which the general average of money wage-rates cannot be pushed up except at the cost of creating unemployment. A system of Social Security, such as is contemplated in the Beveridge Report, has many great advantages. But it also threatens a risk. This is not chiefly, as is sometimes thought, that particular individuals may be tempted to prefer idleness to work when work is available, but, rather, that Trade Unions, in pressing wage demands, may not attend sufficiently to indirect reactions on the volume of unemployment, and so may bring it about that work is *not* available. Very important issues are raised here. They ought not to be burked or concealed.

Broader Prospects

So far of the transition from war to peace when the present catastrophe ends. What of our broader prospects in the days to follow? After the last war the country’s economic recovery was enormously more rapid and complete than most people had thought possible. There is good evidence that in 1924 aggregate home-produced real income was not appreciably smaller than in 1913 and may well have been larger, while aggregate real income, including income from property abroad, was at the worst not much smaller than, and may have been as large as, it was in that year. No doubt, this time Great Britain has suffered, and will continue

to suffer, physical damage through air attack incomparably greater than anything experienced between 1914 and 1918. But in proportion to the total capital wealth, or even the annual productive power of the country, that damage so far, i.e. to March 1943, is very small. Apart from large-scale invasion, it is not likely at the end of the war to amount to more than a few years' work can make good. 'The possibility of a rapid repair of disasters mainly depends on whether the country has been depopulated. If its effective population have not been extirpated at the time and not starved afterwards, then, with the same skill and knowledge which they had before, with their land and its permanent improvements undestroyed, and the more durable buildings probably unimpaired, or only partially injured, they have nearly all the requisites of their former amount of production.' So a great economist wrote in the middle of the last century.¹ Another, at the end of it, following a similar line of thought, delves deeper: 'Ideas, whether those of art and science, or those embodied in practical appliances, are the most "real" of the gifts that each generation receives from its predecessors. The world's material wealth would quickly be replaced, if it were destroyed, but the ideas by which it was made were retained. If, however, the ideas were lost, but not the material wealth, then that would dwindle and the world would go back to poverty. And most of our knowledge of mere facts could quickly be recovered if it were lost, but the constructive ideas of thought remained, while, if the ideas perished, the world would enter again on the Dark Ages.'² In view of these considerations we need

¹ Mill, *Principles of Political Economy*, Book 1, Chapter 5, Section 7.

² Marshall, *Principles of Economics*, 5th edition, page 780.

not fear that, when the war is over, this country, exhausted by its efforts, must necessarily descend into poverty and squalor. There will, no doubt, as after 1918, be serious dislocation and great difficulties. But, unless we suffer invasion and defeat, the foundations of our economic strength should not be greatly impaired.

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