

THE WORLD OF TO-DAY

UNEMPLOYMENT

BY

F. W. PETHICK LAWRENCE

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UNEMPLOYMENT

CHAPTER I

WHAT IS MEANT BY UNEMPLOYMENT?

“Satan finds some mischief still
For idle hands to do.”

ONE of my earliest recollections is being taught this little couplet by Dr. Watts. No doubt many others have a similar experience. But the twentieth century is somewhat sceptical of the morality of the eighteenth; and those who speak to-day of the evil of unemployment are not thinking mainly, if at all, of the ethical aspect of idleness. Their concern is primarily with an economic issue. It may be expressed by saying that ‘men and women willing and anxious to work, *because work to them is livelihood*, cannot find work to do or cannot find it at a price they are willing to accept.’

Two illustrations will make the point clear. Suppose a bricklayer, who is out of work, suddenly receives a legacy from a relative, and retires to a life of leisure. The world ceases to trouble itself about the ‘problem of unemployment’ in his case. Suppose a widow with three tiny children loses her job as a charwoman and has to apply for relief. She is said to be unemployed, in spite of the fact that the care of her home and her children provides her with ample occupation.

The essence of the evil of unemployment is in fact the loss of livelihood. In primitive times when men were

their own masters, and food and clothing were the results of their efforts in the chase, the capture of the quarry satisfied both requirements whether the pursuit had been short or long. If the prey migrated, man had to follow it, for unemployment would have brought as a necessary result privation and ultimately death. Similarly, where life depended on agriculture, if the harvest failed, there was unemployment, and this wiped out the community as soon as the granaries were exhausted.

In modern times most men and women are not and cannot become their own masters. They are dependent on being hired to work by someone else. At the very time they are unemployed there are people, perhaps they themselves, wanting the identical things which they are anxious to make. Moreover, though they and their families are short of food and clothing, there is in the world abundance of both which the resources of civilization could easily bring to their doors. Yet they remain out of work, and suffer privation of all kinds.

The tragedy of a primitive people occurs when their stocks run out. The tragedy of a people advanced in civilization appears to occur when their warehouses are filled to overflowing with useful commodities. They seem to be afflicted with the same kind of trouble as a man who, on leaving his office at 1 o'clock for lunch, placed a notice on the door that the office would not be reopened till 2.30 p.m. Returning himself at 2.15 and absent-mindedly reading the notice, he took out his watch and waited till 2.30 p.m. before placing his key in the door and letting himself in.

It is this state of affairs, at once unbelievably grotesque and piteously tragic, which is known as the evil of unemployment. In so far as it exists, civilization must be counted a failure; and for this failure society as a whole is beginning to realize that it is responsible. It is not a question of blaming individuals—politicians, capitalists, workers—each class is the product of its day and generation. It is not enough to mark the symptoms of unem-

ployment and try to deal with them as they arise. What is required is a really careful diagnosis of the malady.

It will be found on examination that the various causes group themselves roughly into three main divisions. First, there are those which are common to all life on the planet, or which spring from the nature of men and women. Secondly, there are those which arise out of the particular methods of modern industry. Thirdly, there are those which owe their origin to war. Chapters II-VII of this book will be devoted to an examination of the nature of these causes.

When they are rightly understood, it will be necessary to try to find remedies, and with this the remaining chapters of this book will be concerned. Of course, at every stage troublesome obstacles are likely to be encountered; many faint hearts will come forward to declare that a cure is impossible or impracticable. But man is a creature of indomitable will. He has learnt to rule the earth, and to ride the sea and air. Who dares to say that when he sets his will to end unemployment he will find the task beyond his powers?

CHAPTER II

NATURAL CAUSES

NEARLY all living creatures experience unemployment at certain seasons of the year. The bee and the ant have been held up to us from childhood as shining examples of patient and continuous toil. But both these industrious insects suffer from unemployment when winter comes. It is then only their thrift which saves them from starvation. The bear during the cold short days retires to sleep till the spring sunshine opens out to him again occupation and a livelihood. Some creatures make no attempt to exist during the winter, but leave behind them a new generation which is hatched out from eggs in the following year. The migratory birds alone cheat the seasons by racing from autumn to spring across the equator and so securing two summers in every twelve-month.

Man for all his cleverness is no exception to the general rule. In primitive conditions the seasons entirely dominate his life. In spring and summer the lengthening days are all too short for what has to be got through in the fields; but when winter comes, and snow covers the land or frost holds it in its icy grip, or streams of incessant rain make it water-logged or unworkable, the primitive husbandman has little to occupy him, and, unless he has food put by in sufficient quantity, suffers privation and sometimes even death.

As man progresses in civilization, the seasons still dog his steps. The mason, the bricklayer, the painter, are held up by the frost, the brickmaker by the wet, the sea-

side landlady by the lack of winter visitors. The fisherman has his busy and his slack times, dependent on the seasonal habits of the fish in which he specializes.

Seasonal unemployment is not necessarily an unmixed evil. A time of hard work, then a time of enforced leisure, then hard work again, may even be congenial to certain temperaments. So long as the product of the busy seasons provides a surplus above immediate needs to tide the producer over the idle months, he may be satisfied with the situation. But often it does not do so. Then a remedy needs to be found.

A graver danger is the fickleness of the seasons themselves. If the summer be too hot or too cold, too wet or too dry, the harvest may fail in part or in whole. Then the husbandman is unemployed at the very time he ought to be busy, and unless he can obtain help from other districts where the harvest has been plentiful, he will experience not merely unemployment, but famine. For a similar reason, caterers in the holiday resorts know that a bad summer means a shortage of work for them; while the fisherman finds it useless to go out to sea if the regular fish shoals do not appear at the expected season.

A somewhat different problem presents itself when the fickleness is due not to natural conditions, but to human caprice. For instance, the owner of an ostrich farm may find one day that the fashion in ostrich feathers has disappeared. In this case the change is not in supply, but in demand; the result, however, is very similar. In some cases the fashion may come back again after a short interval; in others it may die out altogether.

Sometimes unemployment tends to be intermittent, due to causes which are partly natural and partly human. Thus work at the docks depends on the arrival and departure of the ships, the regularity of which depends on various conditions.

Next there are those changes in the methods of industry which are usually summed up in the word 'progress.'

Hand work gives place to machinery, simple tools to complicated machines, motor-driven engines are substituted for human or animal power, lighting is effected by electricity instead of by candles or lamps or gas. Every such change, whether it be really an improvement or not, throws out of work men and women who were employed at the old processes. It was for this reason that the first spinning jenny created a riot and the early shipwrights resented the building of iron ships.

Finally, there is human nature itself to be taken into account. Some men are lazy or stupid, others are quarrelsome, others dishonest, others so overvalue their own attainments that they will never work whole-heartedly for any wage which it is within their power to obtain. These human frailties among employees have their counterpart in grasping or domineering qualities in certain employers who can, as a result, never secure from their workers effective and loyal service. It is quite common for unthinking people to attribute the whole evil of unemployment to one or other of these failures. 'The measure of unemployment is the number of the unemployable' is a phrase which is sometimes quoted with a sense of triumphant finality. Such a view is, however, entirely disposed of by the fact that the percentage of workers who are unemployed fluctuates from almost nothing at one time to as much as ten, fifteen, or even twenty or more in exceptional periods. Moreover, these human frailties among the workers are themselves effects of causes which lie deeper. Ill health, undernourishment in childhood, slum life, faulty education, and bad treatment—all these things and many others have to be taken into account when a true remedy has to be discovered.

CHAPTER III

BOOMS AND SLUMPS

IN Wagner's opera 'Die Meistersinger,' Herr Sachs, the shoemaker, is depicted sitting up late at night to finish Beckmesser's shoes for the festival on the following day. No doubt in the same way in many village trades in old days there were times when orders were pressing and times when they were slack ; but the problem was largely an individual one, and it is not easy to estimate the extent of aggregate unemployment in bad times.

Contrast this state of affairs with what takes place in modern industry. To-day there is no direct contact between producer and consumer. The workman who is engaged in the manufacture of boots only knows that there is a job for him in the factory. He works there so many hours a day for so much wages a week. He performs one process. After the material leaves him it passes to someone else. The factory turns out so many thousand pairs of boots a week. They may be sold at home or abroad. It makes no difference to the worker so long as he gets regular work and regular money.

But one day he is told he must work overtime. He sees also additional hands taken on, extra machines installed, extensions to the factory made. He assumes correctly that higher profits are being made, and applies for a rise in his rate of wages, which is granted to him. For some time this goes on.

Then overtime is stopped. A little later some of the hands are discharged. Plant begins to lie idle. More men are dispensed with. His employer asks him to

accept a lower rate of wages ; with or without a struggle he yields. Even so, reductions in the number of workmen are continued, and one day he finds himself turned off or put on short time. He blames his employer. He thinks of all the profits that the firm has made. He says to himself that if only he and his mates had not worked so hard a few months back there might still be work for them to do to-day. One thing, however, is perfectly clear to him, and this is that he himself is a mere cog in the machine of production, and that though he may be able to stop the machine by a strike, he is entirely powerless to start it or keep it going.

Look at the matter now from the point of view of the employer. One day he finds orders coming in faster than he can execute them. He stiffens his prices, pushes production to the utmost in his factory, and, in spite of having to pay high wages, makes big profits, which he divides among his shareholders. He starts to enlarge his plant, and, finding his bankers willing to advance him money for the purpose, orders new machinery to be made.

Then all at once, before he realizes what is happening, the situation changes. No new orders come in. Even some of those already given are cancelled and the goods are left on his hands. For a while he keeps his factory running on full time and makes for stock ; but he finds he is not getting in money as fast as he is spending it on wages and other things. He goes to his banker to borrow money, and at first is probably accommodated ; but after a time he is told that his overdraft must not be further increased. He therefore cuts prices a little in the hope of being able to sell his surplus, and learns that he is too late, for others are doing the same, and prices are falling fast. He cannot sell out fast enough to get cash for his requirements. When he does sell, he finds the price he gets so low that he has actually manufactured at a loss. He proceeds at once to reduce his staff and to cut wages. Even so he finds himself in a tight corner. He is inclined to blame his banker. Himself

he holds to be caught in a mesh of circumstances too strong for him to resist.

Turn finally to the banker. He is willing to lend money to the manufacturer to increase his plant when trade is good, because such money will be secured on real capital and seems sure to be repaid. He refuses to allow him to increase his overdraft indefinitely in order to withhold stock¹ from the market, because he believes that a break in prices is certain to take place at last, and that then the loan would be bad. A banker may sometimes be capricious in his outlook, but one who persistently acted on different principles would clearly come to grief.

It will have been noticed that changes of price-level may be the *result* of changes in trade. If, however, they arise independently, they may be the *cause* of them. Thus, suppose a manufacturer finds that in January 100 tons of raw materials can be bought for £1,000, and that with the help of capital and labour, which will cost him a further £800—or £1,800 in all—he will produce in six months' time 50 tons of finished produce, worth in ~~January~~ ^{July} £2,000. If prices remain constant between January and July, he will make a profit of £200. If they rise 10 per cent, he will get £2,200 for his goods, and make £400—i.e. double profit. If prices fall 10 per cent, he will only sell his goods for £1,800, and his profit will be nil. If they fall more than 10 per cent in the six months, he will make a loss. This result is partly caused by the fact that the manufacturer has to pay a fixed money rate of interest on mortgages, debentures, and some preference shares, and that he contracts to pay a money rate of wages to his workpeople. His profits are the residue after these money claims have

¹ In countries where there is a bank of banks (such as the Bank of England here or the Federal Reserve Board in U.S.A.) the change of policy originates with this central bank and takes the form of raising the 'bank-rate,' i.e. the rate of interest at which money can be borrowed on sound security. The immediate object of this is to prevent the bank being drained of gold or forced to inflate further the currency.

been met. Manufacturers are therefore very sensitive to price changes, and if they think prices are likely to fall, will reduce production.

A chain of events such as was described at the beginning of this chapter may be confined to a single industry. More often it is happening simultaneously in nearly all the industries of a country. When trade is good and increasing, there is said to be a boom, and when it is falling, there is said to be a slump. The features of a boom are: demand in excess of supply, diminishing stocks of finished articles, rising prices, vigorous production, increasing wages, big profits. The features of a slump are: supply in excess of demand, increasing stocks, falling prices, unemployment, reductions in wages, low profits, and often losses. These features tend to interact and become cumulative. Thus booming trade causes good wages and big profits, which mean plenty of money in people's pockets to spend, and this in turn improves trade. In the same way bad trade causes low profits and unemployment, which result in little money to spend and therefore worse trade and more unemployment.

It might seem that in consequence of this cumulative action there should be no limit to a boom or a slump in trade when once one or the other sets in and that the process would therefore go on indefinitely. But this is not the case. The reasons for this are somewhat complicated, and the explanation of them will therefore be reserved for a separate chapter.

CHAPTER IV

WHY TRADE OSCILLATES

It is a favourite human failing to hide a difficulty by the use of a long word of doubtful meaning. In this way the word 'over-production' has been called into service to explain why booms come to an end and slumps take their place. In reality over-production in the ordinary sense of the word is quite impossible. How can there be over-production in a world in which millions of people are habitually underfed, many more are miserably clothed, and only a comparatively few have adequate house room or any of the more refined comforts of life?

If the word over-production is to be used to describe the state of affairs by which a slump is started, it has to be strained out of its natural meaning and defined afresh. Thus it is said to occur when the supply of goods *at the market prices* is in excess of the demand *at these prices*. But this is merely to state the problem and not to explain it. For while it is easy to see that over-production might be the case in certain selected trades, it is not easy to see how it can occur in all simultaneously. Seeing that the producers as a whole are identical with the consumers as a whole, why cannot they go on exchanging with one another *all* their products however busily they work, and however many counters in the shape of pounds or dollars or francs they may reckon them up as worth?

The real answer is threefold. In the first place production, though it cannot be in excess all round, may be *disproportionate*. The world's steel mills are probably capable of turning out steel at several times the present

rate of world consumption. Similarly the world's rubber plantations will yield far more rubber than is at present used. If all other forms of wealth were simultaneously increased, this surplus steel and rubber could be fully absorbed by the market. For one thing, everyone might have a motor-car and a bicycle. But other forms of wealth have not been thus increased, and therefore there is a disproportionate surplus of steel and rubber which causes depression in these trades. This depression results in unemployment, low profits, and losses, and as a result tends to depress other trades and to cause a general slump. Disproportionate production may also be brought about by failure of the harvest or of other natural resources in some corner of the world.

In the second place, as production is increased, the goods, if they are to be absorbed by the market, must be available for humbler people and be put to less important uses. Under a system of barter there is no reason why this should cause a slump, provided production were to be increased simultaneously in all trades. But in our existing civilization goods are exchanged for money, and the amount of money does not necessarily vary¹ with the amount of goods made. Therefore, as goods become more abundant, prices generally tend to fall; and this fall in prices causes a general slump for the reasons explained in the last chapter.

In the third place, the manufacturer and, to a still greater extent, the retailer, in the belief that the boom is going on, hold out too long for better prices than they can obtain. Thus the stock of unsold goods increases and a slump is rendered inevitable. This cause is highly important and is frequently overlooked. It might occur, independently of the use of money, in a primitive society

¹ Of course it might be made to do so, and in some cases, such as Germany at the present time, the activities of the printing press have exceeded the development of industry. But when there is a gold basis to the currency or an intention not to allow the paper currency to sink in gold value the central bank deliberately refuses to expand paper money or credit beyond a certain point.

where there were only two trades—farming and hunting. If the farmer in a time of prosperity refused to sell more than two bushels of wheat for a carcase, while the hunter insisted on three, trade would not result, and each of them might in consequence discharge some of their men. No doubt in such a community the situation would soon right itself, but in our more complicated civilization, where goods are exchanged for money, both manufacturers and retailers delay some time before they adjust themselves to conditions resulting from increased production. This cause explains how it comes about that the consumers as a whole, though identical with the producers as a whole, have not the purchasing power to purchase all that is produced. If the goods were sold to the consumer directly they were made, there would always be the required equality, but as they are withheld in increasing quantities, the purchasing power becomes deficient.

Of these three causes tending to stop a boom and produce a slump, the first is economic, the second financial, and the third psychological. Corresponding to these are similar forces which tend to stop a slump and create the beginning of a boom. These forces between them do not, as some people might suppose, produce equilibrium, but oscillation. This will be understood by considering a pendulum which swings first to the right and then to the left, though the force of gravity is always directing it towards the middle. It does so because its momentum carries it past the point of equilibrium. In just the same way trade, when it begins to recover, is carried past equilibrium by the momentum of the trade boom, and, similarly, when it begins to fail, it is carried past equilibrium in the opposite direction by the momentum of the slump.

A more complete analogy is to be derived from the governor' of an engine. In a factory it is important that the machinery should run at a constant pace, and the engine is accordingly provided with a 'governor'

to prevent it from 'racing.' A sensitive 'governor' automatically reduces the inflow of steam directly the pace is exceeded, and allows it to enter freely directly the pace is brought back to normal. Thus steady motion is secured. But an imperfectly sensitive 'governor' produces oscillations. It fails to cut off any steam until the pace is considerably in excess, and then cuts it off with a jerk, and keeps it cut off until the engine has slowed down well below normal.

Such an imperfect 'governor' corresponds exactly to the kind of checks which operate at present in industry. Owing to the long period of time taken by successive processes in converting raw material into finished articles, increased production does not immediately result in satisfying the increased demand by which it has been called forth. When at last it does so, prices have risen considerably and the manufacturer and retailer delay in adjusting themselves to the new conditions. As a result there is a rapid accumulation of unsold goods on the market, and the check to prices and to production is violent and remains in operation for a long time after prices have been depressed below the point where production satisfies current demand. At last scarcity is reached, and production is once again stimulated and increased until the whole round begins afresh.

The main features of modern industry which all contribute to the swing of the industrial pendulum are the following :—

1. The divorce of the bulk of the workers from any independent access to raw materials and their extreme specialization, so that they cannot supply *themselves* or work at any but one trade.

2. The length of time occupied by the chain of processes which make up production, so that changes in demand do not for some time produce an equivalent change in the supply of finished articles.

3. Disproportionate production resulting either from excessive capitalization of certain manufacturing in-

dustries or from natural causes, such as the failure of harvests.

4. The fact that profits are the motive power of production and that fluctuations in the general level of prices may often turn a genuinely earned profit into a loss, and vice versa. This is aggravated by the fact that profits are reckoned after paying a fixed sum in money on debentures, mortgages, etc., and a money rate of wages.

5. The failure to cut prices early enough when the limit of the real boom is reached.

6. The time-lag between the fall in wholesale and in retail prices.

7. The complexity of modern industry which deprives all the human elements directly concerned in it of power to control it.

CHAPTER V

FOREIGN TRADE

FROM the earliest times the foreigner has been the object of dislike and suspicion. 'See, Bill, here's a foreigner; let's 'eave 'alf a brick at him,' conveys a sentiment instinctive to men of all classes, however much it may be covered up by polite language or controlled by more generous impulses. Nevertheless, from long before recorded history up till to-day trade has been carried on between men of different nations, separated though they may be by thousands of miles of land or sea and estranged from one another by speech and dress and habit of life.

Trade takes place because it is mutually advantageous, and invariably consists of an exchange of goods or services. Shallow thinkers do not believe either of these assertions to be true. They isolate half a transaction (e.g. exports), and satisfy themselves that that half is an advantage to one party and a disadvantage to the other. In reality the whole of a transaction must be taken together. This will be understood from the illustrations which follow.

In old days the merchants themselves were the travellers who carried the wares of their own country across land or sea and bartered them for wares of the land to which they had come. Laden with these, they returned home to dispose of them to their own countrymen. As they found it worth while to make the journey again and again, it is self-evident that they must have got a better price for what they brought back than for what they took away, and, further, that the difference must have been

at least enough to cover the expenses of their journey, their time, and their risk. Is it possible, then, that the people whom they visited also secured an advantage? Certainly, because the value of an article is not an inherent quality, but depends on its place and its abundance. Ivory in an elephant jungle is not highly prized; water in the midst of a desert may be of inestimable worth. If either of the parties had lost by the exchange, he would have refused to effect the deal.

In modern times the transaction is split up. An American tailor wishing to have for sale in New York English-made overcoats does not procure and send over a load of American wheat to barter for them; he buys them with a bill of exchange. At the same time, however, a British corn merchant buys from an American farmer a load of wheat with another bill of exchange. The bills pass through the hands of financiers and cancel one another, and very likely the same ship carries the coats on the outward journey and brings back the wheat. The transaction is therefore still one of barter, and the bills have only been used to 'oil the wheels' of trade. The wheat is worth more to Britain than the coats, the coats are worth more to America than the wheat, or else one or other of the parties involved would not have done the deal. Finally, British labour has been employed in making the coats, and it is paid out of the sale of the American wheat.

Perhaps it will be suggested that though this is one example of trade between nations, other examples would give a different result. It will be found, however, that all other cases are only variations of this typical one. Thus the trade may be triangular instead of dual. England may sell (for money) cottons to India, India silks to America, America wheat to England. The net result is that American wheat comes here bartered for cottons woven with Lancashire labour.

Or again, the purchase price may include services. Thus if the goods are carried out and home in English

ships, part of the wheat is bartered for freight charges, which include the wages of the British sailors who man the ships.

Or again, payment may be partly in gold. If so, gold is really like any other goods, and it has either been mined in the country or (as is the case with us) has been bought with our home-made goods from some gold-producing land. But in any case, if the transaction is a large one, and runs on for a long time, only a very small part of it can be settled by shipment of gold, because the total amount of gold in existence is small compared with the hundreds and even thousands of millions involved in international trade.

Finally, payment may be postponed, and then interest and principal will both be due, but goods or services are the only forms by which payment can be made in the end. A British firm may receive a contract to build a railway in the Argentines. It employs partly British labour at home and partly native labour on the spot. While the railway is being built there is an added demand for British employment. Payment may be nominally made at the time in the form of Argentine Government Bonds. But in reality these are only promises to pay. The real payment is made later when the interest on the bonds becomes due, and ultimately when the bonds are redeemed. The payment then takes the form of Argentine corn and hides, which will be coming to England without any simultaneous return.

These illustrations show that trade between nations is an intricate process which has grown up into the structure of society. Further, trade must be taken as a whole, and exports and imports cannot be separated. It is not possible to have one without a corresponding amount of the other. If in a year the exports and imports of a certain country do not balance after due allowance has been made for freights, interest on debts, etc., the result must be a change in the amount of the net debt owed by that country to foreign nations or owed to it by them.

The principal effect of normal international trade on employment is therefore neither to increase nor to diminish it, but to substitute one kind of employment for another. There are certain large countries in the world which could get along fairly easily without any international trade. The United States of America, China, and Russia have sufficient natural resources to enable them, if they chose,¹ so to organize their industry as to be independent of the rest of the world. The British Isles got on in this way a few centuries ago when their total population was less than a score of million; they then supplied the bulk of their own requirements direct from their own production. But in the interval between that time and this a great change has taken place. We now grow only a fraction of our own food and clothing, and are dependent on international trade to supply us with the rest in exchange for the industrial products which we manufacture. Any failure therefore to-day to find customers for our wares throws out of gear the machinery of our national life.

¹ Of course U.S.A. is not so organized to-day, and her industry is being thrown out of gear by the loss of European trade.

CHAPTER VI

WAR

WAR plays havoc with civilization. Just as surely as bullet and shell and poison gas lacerate the individual body of a man, so does war as a whole destroy the corporate body of society. The first effect of war is to divert employment. Men are wanted for soldiering and men and women for the manufacture of munitions and the other requisites of war. But at the same time trade with enemy countries is cut off and many luxuries are dispensed with, so that those engaged in these occupations are thrown out of work. As the war grows in intensity, and the call for men and munitions increases, the unemployed are all absorbed into the war machine.

But the Government still wants more men and women, and endeavours to draw them out of occupations which can be temporarily neglected, such as the building of new dwelling-houses, into war work. It does so partly by compulsorily taking them (conscription) and partly by paying high prices (for munitions, etc.), which results in big profits for contractors and high wages for work-people. To get the money to pay these prices and to carry on the war the Government imposes new taxes, creates paper currency, and floats loans. The effects are first a general increase in prices, secondly the creation of a vast debt, thirdly a rise in the rate of interest. Increasing prices mean high profits in business, but also a rising cost of living.

Even with all these efforts, most countries at war are unable to do all that they want without help from other

nations. They therefore look to their neighbours to supply them with food and munitions. Under ordinary circumstances they would pay for these at the time by exporting a corresponding quantity of manufactures; but under pressure of the war they cannot do this. They therefore run up debts.

Thus during the great war France, Italy, and Belgium all came to Britain to supply them with munitions, and now that the war is over they owe us very considerable sums of money. Britain during the war obtained munitions from America in addition to the food which usually comes from there, and, being unable to meet the bills for them at the time, ran up an account; the effect has been that whereas before the war the American people owed money to Britain, now the British Government owes money both to the American Government and to individual Americans.

The victors in a war often demand heavy indemnities from the vanquished. Thus the terms dictated to Germany at the end of the war included the payment of a very large sum of money running into several thousands of millions of pounds. The proceeds have to be divided up between the various Allies in certain proportions, Britain claiming 22%. The effect of this is to create ~~a debt owed by Germany to Britain and to other countries.~~ *W. War II.*

The general result of a war is to reduce unemployment to a minimum while the war is in progress. Thus in Britain in 1916 the Trade Union proportion of unemployed was less than $\frac{1}{2}$ % compared with an average of some 5% or 6% and the enormous figure of 23% at which it stood in June 1921. This is not surprising, seeing that the whole energies of the nation during a war are bent towards prosecuting the war and maintaining its own life at home. What is surprising, is that during the last war, in Britain at any rate, the standard of life of the working people was in the main higher than it had been during the period of peace. This was mainly accounted for by the fact that

the nation was living on its capital, failing to replace or repair its internal capital—houses, railway lines, etc.—and getting goods from America on credit. It was also due to the reduction of luxury-spending by the wealthy, and to the immense efforts of the whole population, involving an expenditure of physical and nervous energy which could not have been continued indefinitely.

At the close of a war it will be found that the situation differs considerably from that which existed before war began. The following are the principal changes.

1. The debts of a nation to its own citizens are enormously increased. Thus the British national debt during the great war grew more than tenfold, from about £700,000,000 to over £7,000,000,000, of which over £5,000,000,000 was owed to its own citizens.

2. The rate of interest has risen. During the great war it was nearly doubled—from about $3\frac{1}{2}\%$, 4% , and 5% , according to security, to about 6% , 8% , and even 10% .

3. A great rise in the general level of prices. In Britain the index-number of prices more than doubled; in other belligerent European countries the increase was far greater still.

4. A shortage of commodities and a still greater shortage of things partly manufactured but awaiting the final stages of production.

5. A shrinkage and letting down of real capital. Thus there were fewer dwelling-houses, and those that there were, were out of repair.

6. An increased rate of money wages. In Britain it is probable that at the end of the war individual wages had about kept pace with the cost of living; but, owing to the full employment, and the fact that a larger number of persons in the family were at work, the family was generally better off.

7. An increased rate of profits from business. A part of this in Britain was of course skimmed off by the excess profits duty. But even that which remained was far in excess of pre-war years.

8. A severance of trade relationships and the complete absence of confidence and goodwill.

9. A complete change in the debts owed by nations to one another. Thus before the war America was a debtor to Europe, and the debts of European countries to one another (except Russia) were comparatively small. After the war America was a creditor of almost all the belligerent countries in Europe, including Britain; and Britain was a creditor of all the others. Germany was a debtor to all the Allies.

CHAPTER VII

PEACE

THE return of peace, however welcome, produces almost as great an upset in the economy of society as the outbreak of war. This is due partly to the real situation and partly to the idea which men and women erroneously form of it in their minds. They fondly hope that they are going to see a speedy return to the state of things before war began, and it is a long time before they are disillusioned. Meanwhile they have acted on their erroneous assumption, and made the ultimate result far worse than it otherwise would have been.

Just as with war, the first effect of peace is to divert employment. Men and women are demobilized from war work of all kinds and thrown on the labour market. But at the same time there is an immense demand for goods which for patriotic or other reasons has been held in check during the war. Such demand includes dwelling-houses, factories, machinery, clothes, entertainments, and luxuries of all kinds. The demand is so great, that it would employ all the demobilized labour but for two reasons: first, the labour requires training to adapt itself to peace work; secondly, the wheels of production are out of gear and cannot be re-started without delay. The result is that unemployment and a demand for suitable labour exist side by side. Further, Government expenditure is still partially on a war footing and in excess of income; in consequence there is further borrowing of money, with its twofold result—rising prices and a rising rate of interest. Finally, owing to the abundance of

money, people overlook the facts that their money represents less real wealth and that they all share liability for the national debt. They therefore spend lavishly. Thus a great boom occurs with rising prices and high money wages and full employment.

Then the reaction sets in, and the swing of the pendulum takes place and carries trade from boom to slump. Supply catches up and outruns effective demand. Wholesale prices begin to drop, profits fall, men are turned out of work, while those that remain are forced to accept lower wages, all the more resented because retail prices do not fall as soon or to the same extent as wholesale prices.

The causes of this reaction are largely those already described in Chapters III and IV; but they are accentuated by the results of the war and supplemented by other causes which are purely of war origin. Thus there is disproportionate production because the recovery of some industries (especially those which employ converted war-plant) is much more rapid than others. There is a rapid falling off of high-priced demand as soon as certain wealthy people have replaced special articles which they were not able to replace during the war. There is an accentuated faith among business men in the continuance of the boom which leads them to hold out exceptionally long for high prices and thus greatly to overstock the market. There is deliberate action by the central bank to prevent the further inflation of the currency.

Among special causes of the sudden termination of the boom must be counted the fact that during a war the earlier links in the chain of production are left unforged. It is impossible, therefore, directly the war is over, to turn out a great supply of finished articles to match the great demand. The effect is to give an immense temporary impetus to the production of certain machinery and of half-finished articles which cannot be subsequently maintained. There is also the rapid reduction of Government expenditure, and the sudden realization by the

public that they are not as rich as they thought they were.

Another factor acting to hinder trade and employment is the existence of a vast national debt. To pay interest upon this involves heavy taxation on the people which increases the cost of living and compels the wage-earner to insist on high money wages. Indirectly also it operates to keep up the price of services, such as the postal service, for which the trader has to pay. War pensions must be classed with the national debt as a new burden on trade.

A further handicap on trade is the prevailing high rate of interest and high price of capital. Thus an extension to a factory which would have cost £100,000 borrowed at 5%—i.e. £5,000 a year—in 1913, would have cost at least £200,000 in 1920, and 10% would have had to be paid to borrow it, making an annual charge of £20,000. Thus the manufacturer would have had to pay not twice, but four times as much for this extension as in 1913, and the whole of this would have to be found out of his gross earnings before any profit could be made.

Finally, a very great part is played by the foreign situation. International trade is an intricate structure more nearly resembling a living organism than a mechanical apparatus. War kills it, and the mere return of peace cannot restore it to life. It has to grow up again. It cannot thrive except in an atmosphere of credit, and credit implies both the moral quality of goodwill and the economic basis of prosperity actual or potential. Where certain countries are distrusted, where they are very poor and have no prospect of becoming rich, there is little chance of successful trade being opened up with them. If, in addition, there are vast international debts owing by certain countries to others, there can be little mutual business done between them. For as neither the principal nor the interest of the debts can ultimately be paid in gold and must be discharged by an excess of imports into the creditor countries, there is no encouragement for creditors to sell goods to

the debtors. These conditions exist to-day. The whole of Europe east of the Rhine is poor, distrusted, and loaded down with debts to the rest of the world. France and Italy are debtors for enormous sums to Britain and America. Outside Europe there is unrest and an attempt to boycott British trade in Asia and Africa.

Before the war there was a normal flow of international trade which had been gradually built up during years of peace. This normal flow consisted roughly of a balance of exports and imports between European countries who had as regards one another comparatively small debts, and a surplus of exports from the United States to Britain and Europe generally because of the debts owed by the United States. Now, as a result of the war and of the settlement, the United States finds herself entitled to receive from Europe a vast excess of imports over exports, and Britain finds herself entitled to receive a vast excess of imports from continental Europe. In so far, therefore, as these debts are paid, the immediate effect must be to create unemployment in the creditor countries, America and Britain. Either we must consent to have articles dumped upon us within our own shores, or we must submit to being undercut in the markets of the world, as we are being undercut to-day by Germany in such a commodity as coal.

The points to note are (1) that creditor and debtor countries largely manufacture similar articles; (2) that payment cannot be made to any considerable extent in money, and, therefore, (3) that whatever articles are selected as the medium of payment, the result must be less employment in the corresponding industry in the creditor country. No doubt in time, if the annual payments are continued, new industries will grow up in the creditor countries and a new equilibrium will be attained. But in the meanwhile there will have been much dislocation of trade and consequent unemployment.

Of course, as a matter of fact, the Allies have not paid interest on their debts, and Germany has only paid small

instalments of the indemnity. But it is the existence of these debts and the partial payment by Germany which is in the main responsible for the low and falling continental 'exchanges.' These falling exchanges enable German manufacturers to undercut ours, and are largely responsible for bad trade and unemployment in Britain and the United States.

All these circumstances tend to bring about the reaction from the boom in trade which follows immediately on the war and to cause a slump and unemployment. Once the slump is started, it is likely to be headlong in character. There is an immense range through which prices can drop. There is a great body of partially trained labour recently discharged from the fighting forces which has not secured a strong foothold in industry. There is an atmosphere of uncertainty and unrest throughout national and international society which is favourable to the growth of economic panic.

CHAPTER VII

SOME SIMPLE REMEDIES

THE master key to all remedies for unemployment is organization. In varying forms it applies to every kind of occupation and every form of life, from the lowest to the highest. In a primitive state of society the organization is in the work of the individual; in an intricate civilization it is in the corporate life of society itself.

Even in the animal world examples of both kinds are to be found. Migratory birds are examples of individual adaptation. Bees, on the other hand, live an intricate communal life, and their organization takes the form of birth-control, by which they regulate the population of the hives so that it may be small in winter and when their weather prophets predict a shortage of flowers, and large when it is anticipated that the honeyflow will give extensive employment.

In the human world a farm provides one of the most simple and direct illustrations of the value of organization. On a badly organized farm some of the labourers are turned off at the end of the harvest, others are only employed on fine days during the winter. On a thoroughly well-organized farm it is found possible to keep all the hands in full employment all the year round. The occupations include, in addition to the necessary work of ploughing, hoeing, threshing, and attention to the stock, the following: cleaning out ditches and cutting hedges, laying down new drains, making and mending gates, fences, and farm implements, cleaning

out cowsheds and stables and repairing those falling into decay, repairing old barns and even building new ones as they may be required.

Most of this special work is in the nature of capital improvement, which yields its full return to the owner as years go by. But one of the difficulties of carrying it out in Britain to-day is the system of land tenure, under which so many farms are held. Landlord and farmer are generally not one and the same person, and the farmer merely rents his land while the landlord is responsible for capital repairs. As a result, neither party is anxious to spend money on wages to get these repairs done. One of the means of preventing agricultural unemployment in winter time is therefore a change in this system.

Another example of how organization can help to keep employment steady is to be found in the case of coal for domestic use. Here the seasonal irregularity is not in the supply, but in the demand, a larger quantity being required in the winter than in the summer. To meet this, consumers are invited to stock their coal cellars at mid-summer instead of waiting till late autumn, and an inducement to do this is offered to them in the shape of a lower price. I knew once a misguided philanthropist who refused to avail himself of this offer, and waited to buy coal till it went up in price in order that he might not secure an undue advantage over the poorer classes who could only buy a few hundredweights at a time as they required it. In reality he was hindering the regularization of employment and helping to increase the winter cost of coal.

Seasonal variations in other trades can only be partially overcome by organization of the trade itself. Holiday travel may be spread over six months of the year instead of two or three by awakening public opinion to the advantages of this course; but it can never be expected that as many people will go away for their holidays in November or February as in July or August. This

affects railways, steamboats, road transport, hotels, boarding-houses, lodging-house keepers, caterers, and a host of others. Again, in the building trades there must be considerable seasonal expansion and contraction.

In all such cases the question arises as to how far the same man or woman might not with advantage dovetail in more than one kind of employment. This is already done to a certain extent. Many a man calls himself a painter in the summer and follows quite a different calling in the winter. A number of the poorer townspeople go out into the country to do hop-picking for a fortnight in the summer. The ice-cream vendor becomes in the winter the roast chestnut merchant. The bricklayer's labourer turns roadmender. But a very great deal more might be done in this direction if attention and forethought were devoted to it.

There are, of course, many difficulties in the way, some of them real and some of them mere matters of prejudice. There is the natural and well-founded dislike that a man has of becoming a 'jack of all trades and a master of none.' There is the caste system, which separates various grades of workers and makes a marked distinction between so-called manual workers and so-called brain workers—though the highly skilled engineer who would be classed among the former uses his brain at least as much as the ordinary clerk who would rank among the latter. There is the trade union fear of the interloper. There is the preference of some employers for a margin of unemployment which will enable them to contract or expand at will and impose their own conditions on their workpeople.

Nevertheless, with modern facilities for education, with the better lighting of houses, with the improved means of bringing people together in cities and even in the country, with the diverse forms of things to be made for use or enjoyment, most of these difficulties could be overcome by patient organization. The winter season would then be made nearly as profitable as the summer and the

natural talents of a large section of the population developed. Unfortunately, however, this is just one of the things which do not get organized to-day, for, in our civilization, while it profits the organizer to perfect machinery, to develop markets, to advertise his wares, to reduce waste within his works, it is to no one's personal profit to reduce the waste of human material involved in unemployment.

The remedy indicated in the preceding paragraphs applies principally to regularly recurring seasonal changes. It will be of much less use in dealing with sudden and unexpected events, as, for instance, the failure of the harvests owing to bad weather or the total stoppage of building work owing to severe frost. Here the men have to stand continually by, ready to resume work directly the moment comes ; they could not, therefore, engage in any other industry except perhaps in some homecraft work which could be thrown down at any moment. They must in the main be temporarily unoccupied ; but enforced leisure for a time is not necessarily an evil for anybody, provided the livelihood of the person and his or her family is properly secured through some form of insurance, and provided also there is some real recreation within easy reach.

A different problem is presented by the case of the man or woman whose job is no longer required, either through some human caprice in fashion or through the effect of what is known as 'progress,' by which some process becomes obsolete. What is needed in these cases is the recognition by the community of a responsibility for setting the victim of the change on his feet again. Generally this can be done by enabling him to get trained for a new job and by granting him maintenance in the meanwhile. Thus when taxicabs took the place of horse cabs, a fund was got together to enable the old drivers to be trained to handle the new vehicles. This was easily raised, because the 'cabbies' were a marked set of men and in direct contact with wealthy patrons. Obscure

workers are much more likely to be left to go under without help. Steps should be taken to prevent this in future.

What is to be done about the unemployable, the lazy and inefficient workers? Punishment is the device to which large numbers of people fly when they are confronted with a human problem for which they can see no other easy solution; and punishment sometimes active in the form of imprisonment or chastisement, and sometimes passive in the form of destitution, has been inflicted on bad workers all down history with the avowed object of making them into useful citizens. It has failed, as punishment usually fails, except as an expression of the vengeance of an outraged society.

Is it not time that the trouble was diagnosed more thoroughly? The normal healthy human being is never so happy as when engaged in useful constructive work; how does it come about then that some men and women are shirkers to-day? Is it because the character of the work assigned to them is devoid of interest? Is it that they believe that they are unfairly treated by society? Is it that they are out of health or defective? These are questions that are outside the realms of economics, but they will have to be looked into and answered before the right remedies for the unemployable can be found.

CHAPTER IX

HELP FOR THE UNEMPLOYED

THERE is an Irish story of a peasant whose cottage had a hole in the roof. Asked why he did not mend it, he replied that in the fine weather there was no need to do so, while in the wet it was too slippery to get up on the roof. So whenever it rained the water dripped in. It is much in this spirit that the tragedy of widespread unemployment is usually treated: when times are good, no one thinks about it; when they are bad, it is mostly too late.

Even when unemployment actually occurred, society used not to recognize any responsibility for the unemployed. They were out of work, it was argued, because they were bad workmen—lazy or incompetent or both; a time of straitened circumstances would teach them a lesson. The results of this policy were what a little humane reasoning might have foretold. A man once unemployed learnt to loaf and had to go half-starved; it was then only with the greatest difficulty that he was ever fit to resume full employment. Meanwhile his helpless wife and children starved with him.

To-day this policy is discredited. It is recognized that when unemployment occurs on a wide scale, the causes are far deeper than individual inefficiency. It is true, of course, that an employer who has to reduce his staff by ten per cent will discharge the worst ten per cent and not the best. But however good all his men are, ten per cent will still have to go; and thus at such times many highly efficient and industrious workmen are among the numbers

of the unemployed walking the streets. To try to help the unemployed is therefore bare justice as well as wise expediency.

How shall it be done? The best remedy is of course prevention, and for this purpose far-sighted schemes will have to be thought out in advance and put into effect. Some of these will be considered in a later chapter. These preventive measures will, however, take time to operate, and when unemployment on a large scale already exists, it is generally too late to employ them. The immediate question is then that of cure, which, in spite of the adage, is always more popular than prevention, because it is more concrete. Here is an individual John Smith who has lost his job. He has looked for other work and cannot find any. His wife at home has several young children and nothing to give them to eat. What is going to be done about it?

Obviously the best answer would be to set John Smith to work; but this is not so easy, because there are no vacant jobs to set John Smith to do. Of course some one with influence can generally procure John Smith a job by turning out Will Brown, but from a national point of view this is not a solution of the problem at all. Equally it does not solve the problem if Will Brown's full-time job be cut up into half a day's job for him and half a day for John Smith. This is only to make a whole working-class population with a low standard of life.

If John Smith and Will Brown are each to have a full day's work and there are no vacant jobs, a new job must be made; but who is to make it? The employers say that they have got all the men they can do with at present; in fact, except for keeping their works going, they would discharge some of those that they already employ. The municipalities do not want to add to their local works because times are bad and the people are already complaining of the rates. The State Departments for similar complaints about the taxes are making frantic efforts to cut down their staffs.

So John Smith goes to the Guardians, and the Guardians go to the local Councillors for money, and the local Councillors go to the Government; and the Councillors and Government then decide that it may be more profitable to finance works of public utility than to pay out money to all the John Smiths who are unemployed and get no return. This decision raises many important questions.

First, shall the work be the direct enterprise of the Government or shall the Government merely encourage Local Authorities or employers, by granting them assistance? Secondly, shall the object aimed at be relief work, i.e. the direct employment of the unemployed, or the expansion of industry in the hope that thereby the unemployed will become absorbed? Thirdly, shall the money for the purpose be raised by taxes or loans? Finally, what works shall be undertaken? These different points may be illustrated by the following examples.

The British Government might decide during a period of widespread unemployment to take the opportunity to place all the overhead telegraph wires throughout the country in channels underground. This proposal has been advocated by many electrical engineers as likely to save the Post Office a large annual sum in repairs, and would therefore yield a remunerative return to the nation. The money required to do the work would run into several millions of pounds and would probably be raised by loan, the interest on which would be paid annually by the Post Office. All sorts of men would be required for the job—managers, technical experts, electrical engineers, and many other men and women skilled and unskilled, and these would all probably be engaged for the work in the usual way of business. In this case the work would be (1) directly done by Government, (2) not strictly relief works, (3) paid for by a loan, (4) directly remunerative to the nation.

Again the Government might decide to employ the

unemployed under skilled supervision in making a great new highway from end to end of Great Britain, or in reclaiming foreshores, or in planting trees on common lands, or in many similar ways. These differ from the last example in that they would be definitely relief works, and also only partially remunerative. The cost would probably be borne partly by loans to be repaid out of receipts and partly by increased taxation spread over a period of years.

Again the Government might be willing to contribute a public grant to the L.C.C. and the Local Authorities in the Home Counties on condition that they utilized the services of the local unemployed in making a ring-avenue round London. This would be relief work done by Local Authorities assisted by the Government. It would be of value to the nation and especially to London and the Home Counties, but such actual revenue as would be derived from it would probably not cover the cost, so that it must be looked upon as partially unremunerative in the narrow sense. Both taxes and rates would be called on for a contribution.

Again the Government might revive its policy of giving grants to anyone building workmen's cottages. This would be work (1) not done by Government, but by municipalities, companies, or private persons, (2) not relief work, (3) paid for out of receipts and taxation.

In the autumn of 1921 the Government undertook to procure loans on favourable terms for companies carrying out certain schemes, such as railway extensions. These involve expansion of industry and not relief work, and the principal part played by the Government is lending the credit of the nation.

Among other examples of work suggested at various times are the following: Building new school houses, repairing the roads, restoring the canals, improving the harbours, harnessing the water power of the rivers and the tides, cultivating waste lands, and the general development of agriculture throughout the country.

A Government may also endeavour to stimulate exports to foreign countries by giving a bonus on them or by assisting in the provision of credit or by other means. Again it may endeavour to protect home industries by putting up tariff barriers against imports from abroad. In view, however, of the fact that exports and imports must correspond in the way described in Chapter V, these efforts will generally not work out exactly as they are expected to do.

Finally, there are proposals for withdrawing from the labour market the competition of (1) the old, by giving earlier and larger pensions; (2) the young, by raising the age for leaving school (thereby incidentally adding to the employment for teachers); (3) foreigners, by a rigid policy of exclusion; (4) many able-bodied men and women, by assisting them to emigrate to the colonies.

These schemes cover a wide range of different methods. Their principal advantages and disadvantages will be considered in the next chapter. Other schemes more far-reaching in character will be reserved for discussion in Chapter XI.

CHAPTER X

MERITS OF RIVAL SCHEMES

IN the previous chapter a distinction was drawn between schemes for the direct relief of unemployment and those for the general expansion of industry. Each method has its particular advantages and disadvantages, and, according to circumstances, it may be better to employ one or the other or both.

The principal features to be aimed at in relief works proper are the following: (1) They should be suitable to localities where unemployment exists, so that they shall not involve transportation of labour. (2) As far as possible they should provide for various classes of employees likely to become unemployed on a large scale. (3) They should be elastic, so as to expand or contract as required. (4) They should be able to be begun quickly and reduced or closed quickly. Programmes of relief works should be drawn up locally in different localities to be ready for immediate execution.

The merits of relief works proper are, first, that they immediately reduce the number of the unemployed; secondly, that most of the money expended goes direct in wages; and, thirdly, that the men and women are employed in the locality where the money is spent. From this it follows that the experiment can be easily watched and its results noted and analysed.

There are two main demerits. First, as the job has to be found for the men and not the men for the job, there is often a difficulty in choosing suitable work, just as a dramatic author finds himself restricted when he has to

write a play to suit the personal caste of a group of actors, instead of finding the actors to perform the play. The result is that, as a large proportion of the unemployed are unskilled, it usually happens that relief works consist solely of unskilled work, and that no work is provided for skilled men and women or non-manual workers except for a few supervisors of unskilled labour.

The second defect of relief works is that they generally show a very poor financial result. This is partly due to the fact that the unemployed are, on the average, below the general standard of workers, and that they have been further deteriorated by enforced idleness and privation. It is also partly due to the 'task-work' character of relief works, which resemble prison labour rather than ordinary industry, and produce a bad effect on worker and supervisor. To meet this difficulty, Governments sometimes insist that relief workers shall be paid below the standard rate of wages for the work done. But this only raises fresh complications ; it creates endless friction, aggravates the disinclination to work, and often reduces the pay below the standard of subsistence for a man with a family, thus defeating the object of relief itself.

Schemes for the general expansion of industry avoid these two defects of relief works. Any enterprise is available which is advantageous on public grounds ; and as the workers are engaged from the whole labour market, and may be dismissed in the usual way, there is no reason why the financial results should differ from that of any other undertaking. A further merit of such methods is that their effect in restoring trade and employment is cumulative. On the other hand, they operate more slowly in reducing unemployment ; a smaller proportion of the money spent goes direct in wages to the unemployed ; their cumulative effects are diffused over the country, and can neither be measured nor enjoyed by the locality originating them. From this it will be seen that they ought to be nationally financed and commenced when the barometer of employment shows the first signs of

depression. For this purpose they must be thought out carefully during times of prosperity, and be capable of being launched within a few days of the decision to apply them. To improvise hasty and badly planned schemes when unemployment is already acute is certain to lead to disappointment.

An interesting cross between the two methods of approaching the problem will be found in some experiments carried out in Germany¹ during the year 1921. Various public works were undertaken, including irrigation, electrification, building hospitals, constructing an underground railway, street repairs, etc. The Federal Government found up to half the money, the Local Authorities the remainder. The work was generally given to contractors, who tendered in the usual way, but subject to certain conditions. The contractor was allowed to employ about twenty per cent 'key' men; the remainder he was obliged to engage through the labour exchanges, and, though he was entitled to dismiss any of these men subsequently, he had to give a good reason for so doing to the Exchange, and must also engage the substitute through the same channel. He had to pay the full Trade Union rate of wages, except where the man taken on was new to the kind of work. These experiments seem to possess many advantages, and the results should be carefully noted.

The next question of importance to be decided is who shall carry through the work. 'Shall it be the Government, a Local Authority, or a company or private employer? In most cases the nature of the scheme selected will supply the answer to this question. Capital expenditure on the Post Office must be a national enterprise, country road repair a local work, railway extensions a company speculation unless the railways themselves be nationalized. This is so even if the Government gives a grant from the national exchequer or pledges

¹ The description is from an article by Mr. Felix Morley in the *London Nation* of November 26, 1921.

the national credit to assist the municipality or the company.

How much should the national exchequer be called upon to find? This is a matter of acute controversy between Government and Local Authorities. In old days relief was looked upon as almost entirely a local concern. To-day opinion is changing. It is realized, for instance, that it is national policy which decides whether the Clyde workers are to be prosperous or idle; Glasgow has no more to do with the decision than Kensington. Mayfair and Poplar are dormitories for rich and poor respectively; they meet for their daily work. Poplar claims that it is unfair to impose on her slender means the burden of relieving her larger amount of unemployment. These arguments tend to show that a substantial share of the cost of the unremunerative schemes should fall on the national purse.

How is the money for this national contribution to be raised? If the work is really to be remunerative, it may quite reasonably be raised by loan. If it is frankly unremunerative in the narrow sense, however beneficial to the community, it can only safely be raised out of taxes. With proper forethought there ought to be an insurance fund in existence put by during the fat years to meet the lean years when they arise. If the enterprise be partially remunerative, part of the funds may be raised by loan and part by taxes.

- At this point we encounter a question which is often entirely overlooked. Will the necessity of financing any such schemes injure and reduce the other industries of the country? Suppose first that the money is raised by taxes; if these fall solely on wealth, they will, no doubt, reduce the purchasing power of the rich, but this will be compensated for by the increased purchasing power of the newly employed. If they fall partly on industry, as rates inevitably do, they will, to some extent, reduce normal trade and thereby create unemployment, but not to the extent that the new employment is given.

If they are raised out of loans, they will tend to create credit and raise prices. On the other hand, they will also tend to raise the rate of interest against the manufacturer; in fact, a man having money to invest may put it into the Government loan instead of into some other undertaking. All this tends to show that in estimating the gain in employment from any special scheme for helping trade, some allowance must generally be made for the reverse effect due to the need of obtaining the money. How great this effect will be will depend partly on how the money is raised and partly on the character of the enterprises on which it is spent.

Turning now to other schemes of helping the unemployed, the caution against finding work for John Smith at the expense of Will Brown is very necessary. If a healthy adult Englishman or Englishwoman is shipped to the colonies, it is true that the labour market is relieved of his or her competition, but at the same time the retail trade is deprived of his or her demand for goods, and the makers of these goods will tend to be thrown out of work. Similarly foreigners coming to live in this country may appear to be taking the bread out of the mouths of the British working men; but if they spend their wages here, they are giving work to British men and women to the same extent. If children be kept longer at school, however desirable this may be on other grounds, the money that they fail to earn may reduce employment as much as the reduction of their competition may improve it. These considerations show that the effect of schemes for reducing the labour market by emigration, exclusion of foreigners, raising the school age, etc., will be at most transitory; and these matters ought to be decided on grounds other than those of their supposed relief of unemployment.

If all means of finding work for the unemployed fail, they and their families must either be allowed to starve to death or be provided for by someone; that someone may be the local shopkeeper, the neighbour, the Guardians,

or the taxpayer. Every method is open to grave objection. Civilization to-day has rejected the first inhuman method entirely, and the trend of thought and practice in this country is away from the next three courses. It is beginning to accept State payment or at any rate State contribution as a necessary corollary to a form of society in which the State is largely responsible for a man's sudden loss of his job. It is not a good plan for people to have an income for doing nothing, whether they be rich or poor ; but this is better than letting them starve, it is better than loading them with debt to the tradespeople, it is better than lowering the standard of life of their neighbours, and it is better than demoralizing them by poor-relief. It is also better for trade than that the purchasing power of the workers should be cumulatively reduced. If unemployment money has to be provided, the best way is that it should be the result of an insurance fund with contributions from the individual and the State.

CHAPTER XI

CAN SLUMPS IN TRADE BE PREVENTED ?

APART from special disasters, such as war or famine, the main cause of unemployment is the irregularity of trade by which periods of booms and slumps follow one another. Therefore, though it is necessary to try to deal with unemployment when it has actually arisen, a far more important question to consider is whether it may not be possible to prevent its occurrence by far-reaching schemes which shall keep the wheels of industry running at a constant pace.

The suggestions which have been put forward for this purpose group themselves under four main heads according as they propose to operate: (1) through control of credit, (2) by the extension and contraction of public works, (3) by fixing prices, (4) by altering the basis of the industrial system. In the analogy given in Chapter IV of an engine in a mill, the first suggestion would correspond to the construction of a sensitive 'governor' to damp down the oscillations; the second and third would reduce the momentum of swing; the fourth would amount in effect to the substitution of a new engine of a different pattern.

(1) Modern business is largely run on credit, which enables the manufacturer or trader to do a much larger turnover than if he was limited to his own capital alone. This credit takes the form of an overdraft at his bank, and it has been already remarked in Chapter III that it is the refusal of the bank to allow overdrafts to be increased that is the proximate cause of stopping the boom and starting the slump. As a natural result the banks are blamed, and it is suggested that a reversal of their policy would secure a continuance of prosperity. In

reality, the longer the banks delay, the more serious will be the crisis when it actually occurs.

A concrete example will help to explain the situation. In the United States, after the war, manufacturers started to produce at a rate far greater than could be absorbed by the combined home and foreign markets at the prices asked for the goods. Consequently they piled up stocks of finished articles, until at the end of 1919 every warehouse, every spare railway wagon, and every other conceivable receptacle within a hundred miles of the Atlantic coast was stuffed with goods waiting to be sold. All this time the banks gave credit against these goods, and this credit enabled manufacturers to carry on. At last the banks called a halt,¹ and the crash came; prices tumbled precipitously, and a general slump in trade, with terrible unemployment, ensued. If the banks had gone on longer, the only difference would have been that the crash would have been postponed and aggravated, for clearly the farcical situation of making goods which were not marketed could not have continued indefinitely.

A somewhat similar line of reasoning applies to general proposals to improve unemployment through the continuous expansion of credit. One such scheme recently put forward is based on the theory that the total purchasing power of the people is never sufficient to enable them to buy all the goods that are placed on the market. It is proposed, therefore, continually to supplement this by a steady creation of fresh credit by a public bank. If this scheme were actually to be put into operation, its only effect would be to produce inflation—i.e. a general and continuous increase² in prices—which would perpetually lower the purchasing power of the pound note and lead to endless friction between employer and employed.

¹ What happened was that the Federal Reserve Board put up the rate of interest.

² Major Douglas, the author of the scheme, hopes to prevent this by decreeing that prices should remain constant; but these decrees would be ineffective. Either they would be disobeyed, or they would result in queues (see below, p. 54).

Another scheme is to give Municipalities the right to issue their own notes,¹ and with these to pay for relief work and other industrial undertakings. These notes would be useless if they were not made 'legal tender' throughout the country, and if they were so made, they would again simply result in inflation.

What would really help to regulate trade would be to begin to contract credit as soon as the stocks of finished articles unmarketed showed signs of increasing (instead of waiting as now until they have become considerable), and to begin to expand it as soon as they showed signs of diminishing.² In this way both the extreme height of the boom and the extreme depth of the slump would be avoided. This scheme, though easy to theorize about, is much more difficult to apply in practice. Even if it could be brought into accord with the self-interest of the banking world, it would require almost superhuman judgment to decide the right moment to apply the corrective action. Nevertheless, as the ideal to be aimed at as regards credit, it should be carefully considered.

It would facilitate this solution if the Government at frequent intervals collected from all parties particulars as to output, sales, stocks of finished and partly finished articles, current home and foreign orders and other relevant facts, and published the aggregate results regularly. This information could be utilized by banks to assist them in deciding when to expand and when to contract credit. It would also be of great service to manufacturers themselves, and enable them to judge when to begin to cut prices and reduce production instead of waiting too long as they frequently do to-day.

(2) The proposal to start public works to improve employment when large numbers of men and women are already out of work has been discussed in the

¹ Generally known as the Wigan proposal.

² In the recent crisis in U.S.A. the Federal Reserve Board delayed too long in putting up the rate of interest and also in putting it down again.

two preceding chapters. What is contemplated here is the far more ambitious scheme of endeavouring to regulate the whole level of trade at all times by the extension and contraction of public works. For this purpose it would be necessary to schedule a very large amount of works of the various kinds referred to in Chapter IX. These would be held in abeyance during times of prosperity, but the moment employment showed signs of falling off, would again be put into operation. The process would correspond to that of an attempt to keep a pond artificially at a fixed level by means of a pipe containing a special supply of water which could be regulated to counteract variations in the natural inflow and outflow. Such a scheme if carefully organized and properly worked, even if it failed to secure absolute regularity, ought to be able to reduce considerably the oscillations in employment due to trade fluctuations.

(3) Changes in price-level are, as we have seen in Chapter III, often the cause of booms and slumps. If therefore it were possible to fix prices, one of the main anxieties of manufacturers would be removed, and there would be neither a feverish anxiety to produce during certain times nor a necessity to cut down at others. Can this fixing be actually done ?

At first sight nothing seems simpler. Pass an Act of Parliament or issue a Royal Decree that the price of bread or tea or butter or meat shall be so much, and the thing is done ! Economic laws, however, are stronger than Acts of Parliament, and cannot be banished on a charge of high treason. And economic laws demonstrate that supply and demand regulate both the price at which articles shall be sold *and the quantity of them that will be brought to market*. If prices are arbitrarily fixed, then there will not be equilibrium between the quantity supplied and the quantity demanded. This actually happened in the early years of the war, when politicians unversed in economics attempted to fix prices. In some countries their laws were evaded. In this country they were mainly obeyed, but queues

formed up, for more things were wanted than were offered for sale. This was because prices were fixed below the economic rate; if they had been fixed above it, there would have been a glut on the market.

Confronted with this result, statesmen adopted rationing, and at the same time issued orders to producers and shippers. This method enabled them successfully to fix prices within limits, and it could theoretically be put again into operation in peace time. This is not, however, likely to be tried, because the restrictions on liberty involved in wholesale rationing are so severe that a free people would not tolerate them except under the pressure of dire necessity.

There is no other method of fixing the actual price of each individual article; but it is possible to keep uniform the general level of prices by purely financial means. Before the war, the sovereign was a coin of gold of a definite weight. The £5 note was a piece of paper for which the Bank would give five times this weight of gold. To-day the £1 note cannot be converted for practical purposes into gold at a bank, but someday it may become so convertible. If ever it does so, the question is, shall it be convertible into a fixed weight of gold, or into a weight of gold varying¹ month by month so as to be the equivalent of fixed quantities of several useful things? For example, the £1 might be that amount of gold which will buy one pound of tea, 20 lb. of bread, 4 lb. of sugar, $\frac{1}{2}$ lb. of butter, and a certain amount of clothing. This sounds very complicated, but economists know that if use was made of index numbers (which are something like the Ministry of Labour index of the cost of living), the scheme would present no great difficulties either theoretical or practical. Of course there are many pros and cons to be considered, a discussion of which would be quite out of place in this little book. But there can be no doubt that if such a scheme were successfully put into operation, one of the principal causes of booms and slumps would be removed.

¹ The scheme described in the text is that of Professor Irving Fisher of Yale University, and is generally known as 'the Compensated Dollar.'

(4) Finally, there are those who hold that the only fundamental cure for periodic unemployment is a complete change in the industrial structure itself. So long, they argue, as the mainspring of production is private profit, fluctuations are bound to occur, and may sometimes enrich the employer, particularly as he does not in his own skin bear the brunt of unemployment. If, on the other hand, production were carried on by the community to make things for the use of the community, there could be no such thing as overstocked markets, since everything would be distributed as fast as it was made, and there would be no such thing as unwilling unemployment, as everyone would be set to work to swell the national product.

Opponents of this line of reasoning have three main objections. First, they say that a nation so constituted would still need exports and imports, and therefore industry for export would still have to be carried out on a profitable basis. Secondly, they say that most men and women need the stimulus of private interest to call forth their powers of work and organization, while individual initiative would be killed by the red tape of the machine. Thirdly, they say that industry would be deprived of the checks by which it is at present directed into the most profitable channels.

Between the extreme views on this question, which are the subject of acute political controversy, there are an almost infinite number of gradations of opinion. Enterprise is being conducted to-day in a great variety of different ways. The old-fashioned isolated handworker still exists in some trades, cut-throat competition in others; monopolies partial and complete, co-operative enterprises, municipal trading, national and even international organizations all exist side by side and are open to inspection and comparison. Civilization is on its trial; and, in so far as any one method fails to meet human needs, other methods will be experimented with in order that, if successful, they may take its place.

CHAPTER XII

THE RECOVERY OF EUROPE

IN times gone by doctors frequently attempted to cure a diseased member by paying sole attention to the part affected. To-day it is generally recognized that the health of the patient as a whole is an important factor in the recovery. In the world of nations many people have this lesson yet to learn ; they imagine that one country can be prosperous in the midst of a group of countries that are impoverished and in debt. In exceptional circumstances it is possible that this might be the case ; but it is certainly not true of the British Isles, which depend for their prosperity on trade.

Europe to-day has not recovered from the war. First there is the general unrest and loss of goodwill. Goodwill is largely a moral quality, and can only be re-established by the reassertion of the natural social character of mankind. But moral goodwill alone is not effective economically. In order to give birth to credit, it must be mated to a hopeful estimate of future solvency. Unfortunately the prospect at the time of writing is the reverse of hopeful in many parts of Europe. Scarcely any country balances its budget. Russian finances are in chaos, the peasants are suffering from the most terrible famine of modern times and her city industries are stagnant. Austria is bankrupt, her professional classes literally starving and her working population on the verge of destitution. Germany is hard at work, but her mark fluctuates wildly, with the result that real wages are low and uncertain ; she shows no prospect of develop-

ing that vast excess of exports over imports which alone could make regular provision for the payment of the indemnity ; she cannot obtain fresh credit, for the creditor would be in the position of a second mortgagee of a bankrupt estate. The French national debt has actually been increased since the war by an amount greater than the whole increase while the war was being carried on.

Faced with this situation, the opinion is growing among financiers and economists that many of the debts between nations will have to be forgiven or modified, or at any rate postponed. Without entering on the political issues which these proposals involve, it is relevant to point out here what would be their effect if adopted.

If new credits for Austria are permitted to rank in front of her present liabilities to foreign nations, Austria will be able to obtain raw materials, subsistence, and manufactured articles from outside, thereby giving employment to British and other workers. If the German indemnity be reduced or postponed, the headlong fall of the exchange value of the mark will be checked and a stable rate of exchange may be established, with the result that there will be less tendency for the German manufacturer to undersell the British manufacturer in British and foreign markets. If the debts of the Allies to Britain and America are cancelled, the position of the French, Italian, and Belgian finances will be improved, and the franc and the lira will rise in relation to the pound, with the result that there will be a better market for British exports in these countries. In addition to this, the increased general prosperity of their peoples will tend to produce a stable and sustained background for world trade.

The position of Russia is a special one, as she has a population of about 130 million people, of whom the great bulk are agriculturists. She is, therefore, a potential buyer of a very large quantity of manufactured articles, for which, under normal conditions of trade, she would be able to give in exchange raw materials. Three main

obstacles to this trade exist to-day. First, there is the rooted distrust between her Government and the Governments of Western Europe ; secondly, there is the question of the recognition of foreign debts ; and, thirdly, there is the pitiable destitution of the Russian people. By mutual accommodation it ought to be possible to get rid of the first two obstacles, and, with trust restored, to give a credit to Russia. This would bring immediate relief to her people and at the same time set British unemployed to work making ploughs, steam engines, boots and shoes, and other manufactured articles, of which Russia is to-day sorely in need.

The difficult situation in Europe as a whole at the present time is very much aggravated by the high tariff walls which almost every country except Holland has seen fit to erect. The idea seems to be to encourage exports and to discourage imports, regardless of the natural correspondence between the two operations. Thus Britain, for the first time for many years, has created protective tariffs in the shape of 'safeguarding industries.' France has a system by which the 1913 rates of duty are to-day multiplied by 'coefficients,' which are supposed to move upwards with prices, but frequently outstrip them. Italy, Spain, Switzerland, and other countries have all recently made large increases in their duties. The general effect of this policy on European trade can well be imagined. It is not merely the existence of the duties, but their continual variation which produces disastrous results, for, in the complete uncertainty as to the future, few manufacturers will care to take the risk of producing for export and undergoing the expense of starting an export trade.

The remedy, though easy to see, is difficult to bring into effect, for each nation, though anxious to have its neighbours' tariffs reduced, is loath to reduce its own, believing that it gains by their retention. Possibly some European or international conference might be induced to take a united and simultaneous step in the direction

of general free trade. If that is impossible, it remains for Britain to consider whether apart from action by other countries it may not be in her own interest to abolish her own protective duties. This would be in accordance with her considered policy for very many years, and has the support of a considerable majority of her economists to-day.

It remains to point out that even if Europe is able fully to recover from the devastating effects of the late war, it is always possible that her economic balance may be again destroyed by some similar conflagration in the future. The question of the prevention of war does not of course lie within the province of this treatise, but it would not be right to encourage the idea that unemployment admits of any permanent solution so long as the possibility of future war remains.

CHAPTER XIII

SUMMARY AND CONCLUSION

UNEMPLOYMENT seems at first a simple problem. But on closer study it is found to be highly complex ; it is, in fact, nearly as complicated as the structure of society itself. Moreover, though it is often thought of in terms of trade and production and statistics of all kinds, it is one of the most human of all the problems which civilization has to face. In individual lives it often spells bitter tragedy, wasted opportunity, stunted growth, and survives in memory as burning indignation. In the nation as a whole it involves conflict, and incalculable loss both material and moral. If the race is to have a healthy and harmonious development, it is imperative that a remedy shall be found.

The essence of the evil of unemployment is the loss of livelihood. The simplest cases are those presented by seasonal changes or by the failure of the seasons to bring their appropriate weather. As such the human problem has its counterpart in the lives of all created things, from the humblest forms of life upward to those of insects, birds, and animals. But man differs from the lower creation in the fact that he has far greater power to control his destiny. He must therefore counteract seasonal changes by dovetailing occupations, so that the winter be nearly as profitable in its own way as the summer; and he must meet irregularities in the seasons partly by occasional employment and partly by the frank recognition of the need for maintenance and healthful recreation.

Men and women are often thrown out of work by the caprice of fashion or by the invention of new processes or improved methods of production. It is the obvious

duty of society to temper the effect upon the individual of these minor catastrophes. Training with temporary maintenance ought to be provided which will enable the man or woman to become equipped with the requisite knowledge and skill to earn a living in a new trade. When owing to age or infirmity this is impossible, individual consideration must be given to each case.

Bad workmanship is the cause of some unemployment, though it is not responsible to the extent which is sometimes supposed. The remedy is social and individual rather than economic, and the trend of public opinion is rightly away from methods of active or passive punishment of the inefficient worker and his helpless dependants.

Apart from the great catastrophes of war or famine, and the minor catastrophes of irregular seasons, changing fashions, new methods of production, and human frailties, unemployment is caused by the periodic succession of trade booms and slumps. The causes of these have never hitherto been fully understood, one reason being that even economists have been content in the past to think of such events in terms of statics rather than in those of dynamics to which they properly belong. They have thought in terms of equilibrium and regular motion, rather than in those of forces and changing velocities. I have illustrated this idea in the pages of this book by comparing booms and slumps to the swing of a pendulum or the working of an imperfect 'governor' of an engine. In this way time enters as a factor, and it is natural that the period between successive trade depressions should be roughly a constant number of years.

In view of these facts it is scarcely a matter of surprise that attempts to cure unemployment after it has arisen on a large scale never achieve more than a partial measure of success. Nevertheless, relief works, if suitably chosen and wisely administered, and, failing these, direct State aid for the unemployed are now generally recognized to be better than allowing unemployment to undermine the stamina of a whole neighbourhood; and, moreover, the

purchasing power which they put in the hands of the working people does something to prevent the cumulative effect of the slump.

But clearly the right line is to try to keep the wheels of industry running at a more regular pace. For this purpose it is necessary to adopt one or more of the following possible remedies. (1) A more sensitive 'governor' may be introduced which may take the shape of the expansion and contraction of credit in accordance with specially collected information. (2) The momentum of the swing may be reduced either by launching, at the moment trade begins to fall off, extensive and carefully prepared schemes of public enterprise, or by fixing the general level of prices by some scientific and practicable method. (3) The machine itself may be altered as would be the case if views in favour of co-operative or communal ownership were adopted.

War is the great destroyer which cuts off foreign trade and diverts employment at home. Nevertheless, while it lasts it has the effect of reducing unemployment to a minimum, for the combined effort of fighting, providing munitions, and feeding and clothing the army and the civil population taxes the working capacity of the people to the uttermost.

The return of peace brings fresh dislocation in industry, and the demobilization of the fighting forces and the cessation of munition work creates widespread unemployment. Very soon, however, the pent-up demand for commodities asserts itself, and a brisk production is stimulated to make good the material wastage of war. Thus the workers tend for a time to be reabsorbed into industry. But many circumstances combine to prevent this being a permanent result.

For one thing, war kills; and its victims are not only men and women, but living social relationships. Neither can be brought back to life again when the fighting ceases. Life must be evolved afresh out of new growth. This, in any case, must take time, but man can help or hinder.

Unfortunately, since the great war many hindrances have been put in the way of the revival of trade, both in the shape of things done and things left undone. Vast debts between the Allies have been left unsettled, and still vaster new obligations have been created between nations formerly at war. A vain attempt to settle these by the balance of trade is responsible for severe unemployment in creditor countries. Racial animosities and conflicts between 'whites' and 'reds' still obstruct mutual co-operation and make it possible for famine, abundant stocks of food, and idle ships, all to exist simultaneously in the same world. Further, the return of peace has seen an increase almost everywhere in the barriers to trade created by tariff walls. Finally, in every country, taxation swollen by the necessity of providing interest on the war debts tends to strangle industry and to create unemployment.

If Europe is to recover—and upon the recovery of Europe depends the resumption of British prosperity—very great changes in international attitude must be made; and the whole question of war debts, external and internal, must be taken in hand with a view to their reduction. Moreover, if Europe is to keep in good economic health, she must at all costs avoid further conflicts which inevitably bring about the twin tragedies of unemployment and destitution.

It is useless, then, to expect to find a panacea for unemployment. The causes of it are diverse and the remedy in each case must be suited to the particular cause. Society has failed in the past through both lack of brain and lack of heart. To succeed in the future it must have sincerity to find out truth, judgment to weigh conclusions, fearlessness to try experiments, and organizing ability to put them into effect. But behind all this must burn the light of an unquenchable determination to remove for ever from civilized life the scourge of this terrible disease.