

Full employment and after

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For the last ten years recorded unemployment has only once (in 1947) exceeded 2% of the labour force, and most of the time has been less than .1.5%. Even a small amount of unemployment means unpleasantness for many individual families, but, taking it in the large, this is a remarkable, indeed an unprecedented experience.

It is too soon to start boasting. Even apart from politically induced crises such as the Suez affair, we cannot be sure that this level of employment will endure. The threat of a recession in the United States is still hanging over the "free" world. On the time scale of the last post-war period we have only just passed 1929. Moreover there is always the possibility that a Conservative government will sooner or later summon up the resolution to create unemployment (by budgetary and monetary policy) under guise of combating inflationary pressure. Indeed, it must be freely admitted that the problem of finding the policies that produce full employment without inflation has not yet been solved either on the plane of theory or on the plane of practice.

The phenomenon of inflatory pressure contains a number of elements which are distinct in principle though mixed up together in actual situations.

The full-employment myth

First of all there is the notion that full employment in itself sets a drag upon production. It makes the economy, we are told, excessively rigid because workers will not move out of industries that should be contracting into those that should be expanding, when jobs are easy to get at home. Employers "hoard labour". The workers grow slack and undisciplined, absenteeism is rife, and so forth.

All these arguments smell of special pleading. The flexibility given by a reserve of unemployed labour is merely a sign that the expanding industries have not expanded as fast as they could. Hoarding of labour is not at all a bad thing, for an employer who is anxious not to lose hands during a temporary period of slack trade has a strong incentive to find something for them to do; unnecessary seasonality of production due to mere convention is cut down and natural seasonality countered by dovetailing of occupations; decasualisation of hirings is a great benefit both from a human and from an economic point of view. Full employment of manpower entails full utilisation of capacity and increases output per unit of capital. A scarcity of labour is a great incentive to raise productivity both by more intelligent management and by more rapid modernisation of plant. The ancient tradition of the Luddites weakens, and workers are more ready to accept labour-saving devices. Inefficient firms have to become efficient or are squeezed out of existence by the rise of the ratio of wages to output. In fact, between 1953 and 1954 output per man hour (in real terms) in industry, mining

and public utilities is reckoned to have risen by 2.5%, and over the period 1948 to 1954 by 1.7% per annum.¹ Output per man (including building) is reckoned to have risen by 4.5% between 1953 and 1954 and by 3% per annum over the period. (The greater rate of rise in output per head reflects less short time working and more overtime). But between 1951 and 1952, when unemployment rose from 1.1% to 1.7% the increase in total national product, came to a complete halt. The onus of proof seems to lie on those who maintain that full employment is bad for productivity.

Inflationary pressure

But there are other problems raised by full employment which are not imaginary. One meaning of inflationary pressure is that consumption is too high to permit of a desirable level of investment. In an ordinary boom the ratio of investment to consumption is very much higher than in a slump. But it may well be that with continuous full employment and full capacity, consumption is struggling to rise from its short-run towards its long-run ratio to investment. Individuals spend more of a given income that they rely upon than out of one which seems unusually high. Larger and more assured profits lead to a greater distribution of dividends, and capital gains also feed consumption outlay. The share of working class incomes in the total is raised by food and housing subsidies which are introduced to prevent the rise in prices that accompanies a rise in employment from causing acute hardship. The fixed-money-income classes, who suffer in a boom, gradually get their position redressed. All this means that the pressure of consumption expenditure grows greater as prosperity continues and begins to appear to be normal. High consumption means high profits, and high profits make investment attractive. The basic problem of inflation consists in the tug-of-war between investment and consumption for the available productive resources of the economy.

There is no such thing as the "equilibrium" rate of investment or the rate that will just ensure full employment. It is possible to have full employment with less or more investment and more or less consumption. But generally speaking the more rapid the rate of investment the rarer the rise of national income in the future, and a fairly high rate of industrial investment is required merely to prevent national income from falling, for it is necessary to keep abreast of technical progress to maintain our position in export markets. Most people would agree, also, that we need more social capital (houses, schools, etc.) to make the country fit to live in. The only way to increase consumption in the long run is to have more capital, and to allow consumption to expand in the short run at the expense

¹ E.C.E. Bulletin, May 1955. Other figures are all from the Annual Abstract of Statistics.

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of investment is to buy a small temporary advantage for a great deal of future trouble.

The worst possible policy in this situation is easy taxation and tight credit. What is required is a budget surplus to impose collective saving on the economy and easy credit to ensure that the saving is used in investment. Unfortunately taxation is a leaky sieve. Expense accounts permit a great deal of consumption to escape. Owners of property are free to evade their share in collective saving by keeping up their expenditure through dis-saving or realising capital gains. And to impose saving on the rest of the community (by taxing earned income, removing subsidies and raising indirect taxes) without satisfying their sense of justice, causes a revolt which expresses itself in a demand for higher money wages.

Limitation of dividends is another kind of imposed saving, but this also creates a number of problems, and if it is relaxed after having been imposed for some time it creates a wave of inflation when capital gains fall into the lap of shareholders as the Stock Exchange goes up in consequence.

The easy way out is to cut investment and give consumption its head, which is not solving the problem but surrendering to it.

Balance of payments

Another element in the problem of inflation is that with a brisk home market exports are discouraged and imports encouraged. Recurrent crises in the balance of payments have been the main problem raised by full employment for this country. The classical remedy for a deficit in the balance of trade was precisely unemployment. A loss of gold was staunchly by raising interest rates, which discouraged investment, and, in the mild language of the Cunliffe Report, "the consequent slackening of employment reduces demand". To maintain continuous full employment without excessive imports is by no means an easy matter. From a long-run point of view it is necessary to steer investment into export industries (but this may be frustrated by lack of markets), and into import-saving industries (but this may impoverish foreign suppliers and cut demand for exports). The short-term remedy of cutting imports in a crisis is clumsy and upsetting to the economy and provokes retaliation. We have denied ourselves the use of selective tariff policy and long-term reciprocal trade agreements by adopting the philosophy of "non-discrimination" and we are cutting off our nose to spite our face by accepting embargos on trade with the Communist world. So far we have just about muddled through and the best we can hope for is to keep muddling on.

The wage-price spiral

The most obvious element in the inflation problem is the vicious spiral of wages and prices, which at the best of times is a considerable nuisance, and may be disastrous for any one country which indulges in it more than the rest, so as to be continually weakening its competitive position in world markets.

The workers nowadays have pretty well seen through

the illusion that their wages are paid to them by their employers. Employers are only agents who collect wages from the public, through the selling prices of goods, and the public are mainly the workers themselves. But even when the workers are thoroughly well aware that, as a whole, they cannot do more than take an occasional nibble out of profits by raising money wages, yet they are obliged to continue the struggle, for *relative* money wages do determine the real wage for each group of workers, and wage bargains are conducted industry by industry or trade by trade. The pattern of relative wages obtaining at any moment is largely a matter of historical accident and an over-all wage stand-still that freezes the existing pattern could never be acceptable. Moreover a wage stand-still is justified only if prices fall as technical progress and capital accumulation lower costs. But with the highly imperfect competition that nowadays prevails it is all too easy for prices to remain where they are while production costs drift downwards and advertising expenses fill up the gap. Some upward pressure on wages is highly desirable, but if there is any at all, in conditions of full employment there is likely to be too much.

All these problems are created by the very success of the great experiment. No neat and simple solution of them is possible in the nature of the case. Every solution must be a compromise, for the whole affair is a compromise—between private enterprise and planning, between the demand for fair shares and respect for property, between political democracy and economic oligarchy. No doubt we shall continue to blunder along, learning by experience as we go. (Mr. Butler lately gave us some very valuable lessons in what not to do).

What is it all for?

But if we can succeed in continuing as we have been doing, a deeper question opens up. What is it all for? In the 'thirties full employment seemed to be an end in itself. Once the principle is established that (errors and omission excepted) full employment is to be maintained, it ceases to be an end and becomes a means. The question is no longer how to keep people employed (digging holes in the ground and filling them again) but how to use our national resources to meet our national requirements. What is it that we want to use our resources for?

There are two major questions which raise considerations beyond the scope of this article. The first concerns armaments. It is reckoned that we are now devoting between 8 and 9% of gross national product to what is euphemistically called defence. This is appreciably more than we are devoting to industrial investment. In recent years gross investment in fixed capital has been at about 14% of gross product and apart from the set-back in 1952, gross product is reckoned to have been increasing by about 4% per annum (in real terms). Since fixed investment (which embodies technical progress) is the main determinant of the increase in production, this means that defence expenditure represents a sacrifice of more than 2% per annum cumulative increase in production that could be achieved without any initial cut in consumption.

Alternatively it may be regarded as a sacrifice of something more than twice our present rate of expenditure on housing and social services.

The second major question is how far we want to use our resources only for our own benefit and how far we should aim at assisting our colonies and ex-colonies in their struggle for economic development. How far does conscience for the past or enlightened self-interest for the future require us to put resources into their development schemes instead of our own?

Leaving these large questions aside, what do we want to do ourselves? We have become so much saturated with a capitalist outlook that we think of consumers as the pasture on which industry grows fat and think the chief benefit of increasing purchasing power is that it enlarges the market for goods to be sold. A rising standard of life means buying more goods and growing more discontented because the Jones's have bought something better. This is all very well for maintaining employment, but is it what we really want?

Social expenditure

Surely most people would prefer, if they once thought it out, to use our growing wealth first of all to make a reality of the welfare state. If the pensioners could be off the conscience of their grandchildren, if family allowances were sufficient to deal with poverty where it pricks most, if preventable disease were prevented and the sick cared for without having to queue in the waiting rooms, if the educational ladder were broad enough really to give talent its chance and the stupid ones were taught how not to be bored, we should be

getting something much more worth having for our money than all the stuff that advertisers keep luring us to buy.

The major difficulty about social collective expenditure, as opposed to individual expenditure in the shops, is that it has to be paid for collectively, and collecting the money is a troublesome business. The capitalist system is a grand booby-trap for those who try to carry out a re-distribution of social income through taxation. It is not very difficult to re-distribute earned income, but property incomes are not easy to catch. However taxes on profits are arranged (whether through taxes on personal incomes, or on companies, or through duties on goods) it is always open to firms (provided they all act alike) to raise prices to cover the taxes, distribute as much dividends as before and expend as much as before on investment, so that the greater part of the outlay financed by the taxes comes back to them as profits. The main burden is thrown onto wages and other earned incomes. But the workers refuse to accept the burden when they are not satisfied that profits are taking a fair, share of the weight, and the vicious spiral is given another spin as they try to throw it back by raising money wages.

This is the main argument for increasing the area of nationalisation. Even though existing property owners are fully compensated, new investment made out of profits in nationalised industries accrues to the nation, and the profits on that investment become available for social purposes.

To find a solution on these lines is a slow, gradual process, but if we can look forward to peace and full employment for some decades, it is time to start thinking how to make use of them.