OBSTACLES TO FULL EMPLOYMENT[1])

By Joan Robinson

VARIOUS definitions of »full employment« have been used by English Writers. Keynes originally used a definition in terms of Marshall's concept of »disutility of labour«[2]). Beveridge says there is full employment when there are more unfilled vacancies than unemployed workers[3]). Others call full employment the level of employment at which money-wage rates begin to rise.

On all these definitions there may be large numbers of workers unemployed when »full employment« is said to exist. It is preferable to take a simple-minded definition, and to say that there is »full employment« when no-one is unemployed.

There is a difficulty in giving a precise definition of »available labour«. Hours of work may vary. The number of married women »available« for employment may not be clear-cut. But if we can take a rough working definition of »available labour« then we may say that »full employment« exists when all available labour is employed.

This is a state of affaire that can never be completely attained. In a changing world there are always bound to be, at any moment, some workers who have left one job and have not yet found another.

Technical changes and changes in tastes both at home and in foreign markets bring about shifts in demand between industries. Although seasonal unemployment could be very much reduced by dovetailing operations with different seasonal peaks, there is probably an irriducible minimum of seasonal employment in some districts. Changes in occupation for personal reasons will always be going on. So long as such shifts in employment are

1) Lecture to Nationaløkonomisk Forening 6. December 1946.
2) General Theory of Employment, Interest and Money, p. 15.
3) Full Employment in a Free Society, p. 18.

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taking place there is always likely to be some unemployment even when the general demand for labour is very high. Thus completely full employment can never be seen.

Nor is completely full employment desirable. The attainment of full employment, in this absolute sense, would require strict controls, including direction of labour. To raise the average of employment from 86 % (the average for Great Britain 1921—38) to say 95 % would be compatible with a much greater amount of individual liberty than to raise it from 95 % to 98 %. To raise it from 95 % to 98 % (not momentarily — but on the average) would involve great sacrifices of liberty, and to raise it from 98 % to 100 % would involve complete conscription of labour.

No-one regards 100 % employment as a desirable objective. »Full employment policy« does not mean aiming at 100 % employment, but aiming at a continuous level of employment as near to 100 % as is practicable with the methods of control which are acceptable to the public. In what follows I shall use the phrase »full employment« loosely, to mean »as near full employment as is reasonable«.

This use of language though not exact, is sufficiently clear for all practical purposes.

In England, we are now living under a regime where it is generally accepted that it is the duty of government to maintain full employment. This was accepted even before the Labour Government came into power. For us, this is a great revolution in ideas. During the great slump of the 30ties it was the orthodox and official view that government action could not increase employment. In 1929 when Lloyd George was running an election campaign on the promise to abolish unemployment by means of government outlay on public works, the Treasury enunciated the doctrine that Government outlay could not in fact increase the total level of investment[1]).

Looking back now, it seems almost incredible that such views should have been taken seriously. There are still in England many who are sceptical or unsympathetic about the new policy, but they have to use far more subtle and sophisticated arguments than the »Treasury View« of 1929.

The change in official and orthodox ideas is of the greatest importance. But up to the present we are living in a fool's para-

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[1]) Commend Paper 3331.

dise. We have accepted a full employment policy, and we are in fact enjoying a high level of employment. There is some unemployment in certain areas, where reconversion to peace time production is held up for want of buildings. Apart from this there is substantially »full employment« in the sense of as high a level of employment as is reasonable to expect.

But this is largely a coincidence. It has little to do with the new policy, because just now there would be full employment in any case. At the moment we are living in an inflationary situation — that is — there is an excess of demand over supply for labour as a whole. The acute shortage of houses, due to bombing and to the cessation of building during the war; the drive for exports, which is being conducted not in order to maintain employment, but in order to balance our trade; the great reduction in private stocks of clothes, furniture and so forth combined with war-time savings ready to be spent on goods as soon as they become available; and the requirements of industry for reconversion to peace-time production — all these add up to an effective demand for labour in excess of supply.

The consequent tendency to inflation is kept in check by the methods evolved during the war. Heavy taxation, rationing, control of prices, a vague and unformulated, but nevertheless fairly successful wages policy, control of imports, licensing of private investment, propaganda for saving, in short, all war-time methods of checking inflation are still in force. These methods are fairly well understood by the government, and accepted with more or less good-natured grumbling by the public.

If it were possible to keep up permanently a condition of near-inflation and run the machine on the brakes — that is, with controls to curb excessive demand — employment policy would be straightforward and comparatively easy to manage.

The real test of the new policy will come when there is a fall in demand. How will it be met? The danger may come from within, or from without. Let us first consider the internal danger. There may be a fall in the rate of private investment when the reconstruction boom comes to an and, but this is unlikely to be serious. Industrial investment, in equiping factories and so forth, has never been a very large part of all home investment. The main bulk of home investment is in building and civil engineering. If the government can control the rate of building, the investment plans of nationalised industries, and the timing of large schemes, such as the electrification of rural districts, then it should be possible to plan for a steady level in the great bulk of investment. This in itself would help to steady private investment because it would go a long way towards stabilising incomes, and therefore the general level of profits. Further, by consultation and persuasion,without overt control, the large firms can probably be induced to fit their investment plans into a national scheme. And a small uncontrolled fringe would probably not be very unstable.

The White Paper on Employment Policy[1]) issued by the late Coalition Government was not based upon this point of view. It was based rather on the conception of »counter-cyclical« Government investment, that is, the idea that the Government should step in and increase its own investment when private investment falls off, and slow down its own investment when private investment increases. In my view, this policy is fundamentally wrong. It means giving private enterprise the first choice. When private firms choose to make investment they can. When they no longer want labour, the Government will use the labour for something or other. When private investment recovers the Government must release labour again, so that it can be used for profitable investment. This whole point of view is subject to the gravest objection. Once we have accepted the idea that it is the business of the Government to see that labour is always employed, we must go on to admit that it is the business of the Government to see that labour is employed in the most useful possible way, that is to say, that schemes of investment should be directed to meet the needs of the community, and not to suite the whims and fancies of profit-seeking firms.

Indeed, it is impossible for the state to diverst itself of responsibility for the direction of employment once it has accepted responsibility for the total amount of employment. There are many in England at present who advocate the use of »global methods« designed to affect the total employment without excercising any discrimination over the allocation of labour between uses. But this is in fact impossible. Any policy, even if it is purely global in conception will produce concrete results and have an influence upon the direction of employment. The decision not to interfere with private investment is itself a positive decision.

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[1]) Commend Paper 6527.

Thus the responsibility for deciding how the influence of the State upon the direction of employment is to be used cannot be escaped.

The problem of deciding what are the »needs of society« and of adjudicating between conflicting needs is by no means simple. There is no one Platonic ideal of the »best use of the nations resources«. Conflicts of interest and conflicts of ideology are bound to persist. But somehow or other a democrary does decide what it wants. In England at present there is no doubt that the people want more than in fact can be done at all quickly. Housing — first in the sense of some kind of a roof over everyone's head, later in the sense of improving the disgraceful condition of our great cities and our backward rural districts. Re-equipment of industry — not for the sake of profit, but for the sake of meeting our desperate foreign trade position and for raising the general standard of production and therefore of consumption.

Improvement of our education and our health services, which involves large investment in building and equipment as well as in training of personel. Improvements in the efficiency and amenity of our transport system. Improvements in the amenity of the country side (there are many cottages in England which are without gas or electricity and even without piped water) which are desirable both for there own sake and to check the drift away from agriculture, which is one of our serious economic problems. These and many other »social needs« are agreed by the nation, in the vague and yet definite sense in which democracies do agree upon their needs.

The task of deciding between these needs, and reducing them to a scheme of priorities must be the duty of the government. The methods to be used are still in course of evolution, and no doubt they will work clumsily, and be the subject of much dispute and criticism. But a merely passive policy of compensating the vagaries of private enterprise would be the least hopeful of all possible methods of solving the problems involved.

The »counter-cyclical« policy is subject to another objection.

It is very unpratical. It is not at all easy to switch on and off schemes of investment at a moment's notice, or even at six months notice. Besides, private and public investment are often closely bound up together. You cannot have factories built during the boom and wait for the next slump to make roads up to their gates.

It is essential for a sane employment policy that investment should be planned as a whole and not merely stabilised by »counter-cyclical« public works.

The second branch of the White Paper policy is to maintain consumption when investmet falls off. When investment falls, incomes decline and there is »secondary unemployment« due to the fact that consumers have less money to spend. The suggestion is that, at such a moment, the purchasing power of consumers should be increased, and the general level of demand for consumption goods kept up, so as to fend off the »tertiary unemployment« which follows when consumer good industries become less profitable, and investment in them in turn falls off.

The prejudice which still exist in the British Treasury (or which, at any rate, still existed when the White Paper was written) made it impossible to advocate remission of taxation and the deliberate creation of a budget deficit as a means of maintaining purchasing power. They did however suggest the creation of a deficit in the social insurance funds by reducing weekly contributions when demand threatens to fall. This would make rather a feeble contribution to solving the problem. Many more or less fanciful schemes for regulating purchasing power have been suggested by English economists. These seem often to be rather perverse. There is something repugnant to common sense in the idea of giving money to people to spend just in order to keep up the market for goods and make industry profitable. Ordinary people consider that they should be given money either because they deserve it, or because they need it, not just in order to make a market. It is necessary to provide at least the appearance of equity in releasing purchasing power even if the motive is to stabilise employment. The least arbitrary of these schemes is the device of »deferred pay« invented by Lord Keynes as a measure of war-time finance. Part of the income-tax paid is credited to the individual to be refunded at the decision of the Government. This provides a fund of purchasing power which people regard as their own money, which can be released when demand for consumer goods is threatening to fall.

This scheme was used, to a small extent, during the war, and the areas of tax credited to the public are held up at precent, to be released when the supply of consumer goods becomes adiquate — that is to say when normal demand no longer exceeds supply. The release of the credits would provide a stimulus to demand which counl be regulated, in time and in amount, so as to give a salutary shock to the economy when a failure of demand is threatning. There is no reason why this system should not be permanent, so that there are always arears of potential purchasing-power in hand, to be released when required to maintain demand.

These methods can be used to prevent an internal failure of demand. But for Great Britain, and equally in Denmark, the main danger does not lie inside the country, but outside — that is, in a fall in demand for exports, whether due to a slump in the outside world or to a long-period change.

This would present a difficult situation even for at fully planned economy. It creates two problems — how to maintain employment and how to deal with the balance of payments.

If demand fall in export industries, work must be found for the labour released. If exports are highly specialised this is by no means an easy matter. It is of little use just to increase purchasing power in general. Plans should be drawn up specificially for (a) buying up and using or storing products formerly exported, (b) turning labour to alternative products or (c) arranging an alternative foreign outlet to replace the lost market. Such plans are not easy to work out satisfactorily, and although there is much talk in England now about employment policy it may be doubted that plans on these lines are actually being prepared. If the world slump were to come soon there would be little difficulty, for the home market is starved of goods, and would eagerly absorb what is at present being exported. So far as miscellaneous consumer goods are concerned, actually the same goods could be sold at home. And where the same goods are not appropriate, alternative uses for labour could easily be formed. For a country whose exports are primarily agricultural the difficulty would probably be greater, and alternative employment might be harder to arrange.

If the immediate problem of mainting employment is solved by switching labour from the foreign to the home market, the further problem will arise of switching it back again when the foreign market recovers. This must require a fairly high degree of control over industry. For if we are to do without the brutal methods of a market economy — unemployment and bankruptcy — we must have other means for directing production.

The problem of maintaining employment when export demand falls off is complicated and difficult enough, but if it is solved a worse difficulty remains — the problem of the balance of payments.

The »natural« remedy for a fall in exports, under *laisser faire* conditions, is a fall in employment and in income which reduces demand for imports also (though not necessarily to the same extent). But if employment is successfully maintained then the demand for imports does not fall, and the balance of trade runs into a deficit. For a country with ample monetary reserves this would not matter. But for Great Britain it would present a very serious problem. Discussions are going on now as to means to help countries which do their duty to the world by maintaining their demand for imports in face of at slump elsewhere. Let us hope that some world agreement will be arrived at on these lines, for the provisions of the Bretton Woods funds only scratch the surface of the problem.

The main remedy for a trade deficit envisaged under Bretton Woods is exchange depreciation. But this is not a remedy appropriate to the disease. If the trouble is caused by a decline in total world demand, there is first of all very little reason te expect that depreciation would bring about a recovery of exports for a particular country. Depreciation works by reducing the *relative* price of the country's exports, and, in a general slump, there are probably very few commodites for which price-elasticity is high. Moreover, even if it does do good from the point of view of the country in question, it can do so only at the expense of other countries, for it works by improving the competitive position of the depreciating country, and securing for it a larger share of the shrunken world trade, by reducing the share of its rival producers. No remedy is beneficial to the world as a whole that does not increase the total of world demand.

Behind this balance of trade problem again lies a further difficulty — the difficulty of distinguishing cyclical from long-period changes in foreign demand. The remedies required are quite different in the two cases. If demand for exports has fallen temporarily, the capacity of the export industries should be preserved with the utmost care, and any transfer of labour from them made with an eye to restoring it to them as soon as possible. Imports should be kept up as far as reserves permit. But if the change is permanent it is necessary as quickly as possible to reduce the productive capacity of the trade which has lost its market — to foster, if possible, alternative exports, and if that cannot be done, to set about cutting down imports. Thus a misdiagnosis of the situation would lead to a totally wrong policy being pursued; the medicine for one disease is poison in another, and diagnosis will never be easy since long-run and cyclical changes are often mixed up together.

At the present time framing of policy is particularly difficult, for one great unanswerable question hangs over everything — what will the U.S.A. do in the coming slump? We can be pretty sure that history will not repeat itself, and to plan now for the return of the 1930ties would be like the generals who are accused in peace-time of planning to win the last war.

The most that one can say is that we must prepare for a flexible policy and for an intelligent and quick response to event.

Flexibility requires control. It is a popular error that bureaucracy is less flexible than private enterprise. It may be so in detail but when large scale adaptions have to be made central control is far more flexible. It may take two months to get an answer to a letter from a government department, but it takes twenty years for an industry under private enterprise to re-adjust itself to a fall in demand.

For this reason full employment policy requires a high degree of central control over the economic system. Just how much control remains to be seen. The problem of combining the necessary degree of control with the traditional methods of democracy is the dominating political problem of the present time.

If all these problems are successfully solved, certain difficulties arise from the very success of the full employment policy.

For people who have a secure income in any case, full employment is a great nuisance. There are no domestic servants, the theatres are always full and the holiday resorts overcrowded. Goods are in short supply, not because less are produced but because other people are consuming more. Shopkeepers become over-bearing instead of obsequious.

For managers in industry discipline is hard to preserve because workers are no longer frightened of loosing their jobs.

Unpleasant tasks such as coal mining cannot recruit labour on the old terms.

All these »drawbacks« are of course the reverse side of the advantages of full employment for the mass of the people.

Finally, there is the problem of preserving the value of money. If the demand for labour is strong, money-wage rates tend ro rise, and since the demand for commodities is also high, prices rise with costs. A successfull employment policy, just because it is successful, entails a chronic danger of inflation.

Up till now, in England, the »vicious spiral« has been kept within bonds, but we have no definite wages policy, nor are we likely to have one, for individual Trade Unions are jealous of their independence.

The danger of an all-round rise in wages could probably be dealt with by one over-all understanding with the Trade Unions, but the problem of relative wage changes is not easy solve. There are many trades, of which mining is the chief example, where wages are obviously too low, whether we consider it from the human point of view of the disagreableness and danger of the work, from the economic point of view of the need to attract labour away from less onerous occupations. So long as unemployment was general a completely irrational wage system could persist but, once there is full employment, wages must conform broadly to the text book rule of equalising the »net advantages« of different occupations. The process of raising wages which are too low involves raising the general level of wages (no-one advocates lowering wage rates which are relatively high) and therefore is likely to involve a rise in the cost of living. Thus even right and necessary wage changes contain the threat of the »vicious spiral«.

All this sounds pessimistic, but only because dangers and difficulties can be clearly foreseen. Whatever may happen, we are better off if our eyes are open, and nothing that can happen now can be so bad as the blind misery of the great slump.