

FULL EMPLOYMENT IN A FREE SOCIETY

A Report

Lord Beveridge

THE WORKS OF
WILLIAM H. BEVERIDGE



THE WORKS OF WILLIAM H. BEVERIDGE

Volume 6

FULL EMPLOYMENT IN
A FREE SOCIETY

This page intentionally left blank

**FULL EMPLOYMENT IN
A FREE SOCIETY**

A Report

LORD BEVERIDGE

 **Routledge**
Taylor & Francis Group
LONDON AND NEW YORK

First published in 1944
Second edition published 1960

This edition first published in 2015
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon, OX14 4RN

and by Routledge
711 Third Avenue, New York, NY 10017

*Routledge is an imprint of the Taylor & Francis Group, an informa
business*

© 1944, 1960 William H. Beveridge

All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

Trademark notice: Product or corporate names may be trademarks or registered trademarks, and are used only for identification and explanation without intent to infringe.

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN: 978-1-138-82643-4 (Set)
eISBN: 978-1-315-73730-0 (Set)
ISBN: 978-1-138-83024-0 (Volume 6)
eISBN: 978-1-315-73734-8 (Volume 6)

Publisher's Note

The publisher has gone to great lengths to ensure the quality of this reprint but points out that some imperfections in the original copies may be apparent.

Disclaimer

The publisher has made every effort to trace copyright holders and would welcome correspondence from those they have been unable to trace.

FULL EMPLOYMENT
IN A
FREE SOCIETY

A Report by
LORD BEVERIDGE

Misery generates hate

London
GEORGE ALLEN & UNWIN LTD

FIRST PUBLISHED IN NOVEMBER 1944
SECOND IMPRESSION DECEMBER 1944
THIRD IMPRESSION 1945
FOURTH IMPRESSION WITH A NEW PREFACE 1953
SECOND EDITION 1960
SECOND IMPRESSION 1967

This book is copyright under the Berne Convention. Apart from any fair dealing for the purposes of private study, research, criticism or review, as permitted under the Copyright Act, 1956, no portion may be reproduced by any process without written permission. Enquiries should be addressed to the Publishers.

PRINTED IN GREAT BRITAIN
by Photolithography
BY JOHN DICKENS AND CO LTD
NORTHAMPTON

CONTENTS

	PAGE
PROLOGUE	1
PREFACE OF 1944	12

PART I—INTRODUCTION AND SUMMARY

Relation of the Two Reports	17
The Meaning of Full Employment	18
The Purpose of Employment	20
Preservation of Essential Liberties	21
Diagnosis of Unemployment	24
Analysis of War Economy	28
The Nature of a Full Employment Policy	29
Local and Qualitative Adjustment	32
International Implications	33
The State and the Citizen	36
Plan for Social Security—Policy for Employment	38

PART II—UNEMPLOYMENT IN PEACE

SECTION 1. FACTS OF UNEMPLOYMENT	40
Unemployment before 1914	40
Unemployment between the Wars	47
The General Level	47
Unemployment by Industries	49
Unemployment Rates and Employment Volumes	53
Unemployment by Localities	60
Duration of Unemployment	65
Age and Unemployment	69
Unemployment Compared before and after the First World War	72
The Old Problems in New Light	75
Fluctuation of Demand	76
Disorganization of the Labour Market	79
Occupational and Local Mobility	85
The New Problem: Deficiency of Demand	88

	PAGE
SECTION 2. THEORIES OF UNEMPLOYMENT	90
Unemployment Diagnosis of 1909	90
The Keynesian Analysis of 1936	93
Significance of Wage Bargaining	97
Offsetting of Saving by Investment or Consumption	99
Interplay of Theories and Facts	101
SECTION 3. THE NEW FACE OF UNEMPLOYMENT	105
 PART III—FULL EMPLOYMENT IN WAR 	
The Melting Away of Unemployment	110
Economic Analysis of War	114
Spectacular Achievements of War Planning	120
 PART IV—A FULL EMPLOYMENT POLICY FOR PEACE 	
SECTION 1. THE MEANING AND THREE CONDI- TIONS OF FULL EMPLOYMENT	124
SECTION 2. THE FIRST CONDITION: ADEQUATE TOTAL OUTLAY	131
Meaning and Classes of Outlay	131
State Responsibility for Total of Outlay	134
A New Type of Budget	135
Alternative Routes to Full Employment	142
The New Rules of National Finance and the Choice of Routes	146
A Post-War Picture	152
The Chosen Route: A Long-Term Programme of Planned Outlay	156
Contents of the Programme	159
SECTION 3. THE SECOND CONDITION: CON- TROLLED LOCATION OF INDUSTRY	166
SECTION 4. THE THIRD CONDITION: ORGANIZED MOBILITY OF LABOUR	170
SECTION 5. CHANGES OF GOVERNMENT MACHINERY	175

	PAGE
SECTION 6. SOME ALTERNATIVES EXAMINED	180
Stabilization of Total Investment	180
Expansion of Private Consumption Outlay	184
SECTION 7. A FULL POLICY FOR FULL EMPLOYMENT	187
The Prospects of Success	187
Social Demand	190

PART V—INTERNAL IMPLICATIONS OF FULL EMPLOYMENT'

Industrial Discipline	194
Determination of Wages	198
Price Policy	201
Monopolies and Trade Associations	203
Full Employment and Private Enterprise	205

PART VI—INTERNATIONAL IMPLICATIONS OF FULL EMPLOYMENT

SECTION 1. INTERNAL POLICY AND INTER- NATIONAL EFFECTS	208
SECTION 2. BRITAIN'S NEED OF IMPORTS	210
SECTION 3. BILATERALISM AND THE THREE CONDITIONS OF MULTILATERAL TRADE	215
The Meaning of Bilateralism and Multilateralism	215
The First Condition: Full Employment at Home	219
The Second Condition: Balance in International Accounts	225
The Third Condition: Continuity of Economic Policy Abroad	228
Economic Policies and Monetary Plans	228
SECTION 4. THE NEED FOR COMMON ACTION	231
SECTION 5. THE CHOICE FOR BRITAIN	234
Policy in Alternatives	238

	PAGE
PART VII—FULL EMPLOYMENT AND SOCIAL CONSCIENCE	
Unemployment and the Individual	242
Some Objections Answered	249
Social Conscience as Driving Force	254

POSTSCRIPT

The Government's Employment Policy	259
------------------------------------	-----

APPENDICES

A. The International Trade Cycle and other Fluctuations	275
B. Statistical and Technical Notes	315
C. The Quantitative Aspects of the Full Employment Problem in Britain, by Nicholas Kaldor	344
D. Explanation of Terms	402

LIST OF TABLES

1. General Unemployment Rate, 1921-38	47
2. Change of Employment and Unemployment in certain Groups of Industries	50
3. Employment of Males in certain Industries, 1929-37	55
4. Employment and Unemployment of Males in certain Industries in July 1929, 1932 and 1937	57
5. Unemployment Rates by Divisions, 1929-37	61
6. Changes of Industrial and Local Insured Populations, 1927-37	63
7. Industrial Transference, 1929-38	64
8. Duration of Unemployment among Applicants for Benefit or Allowances in Britain	64
9. Duration of Unemployment among Applicants at 21st June, 1937—Numbers by Divisions	67
10. Duration of Unemployment among Applicants at 21st June, 1937—Proportions by Divisions	68
11. Percentages of Unemployed Persons Classified as Wholly Unemployed, Temporarily Stopped and Casual Workers, 1929-38	68
12. Unemployment Rates by Divisions, 1912-14 and 1937	73
13. Unemployment in certain Towns in 1913-14 and 1937	75
14. Placing Index of Employment Exchanges, 1932-38	80

	PAGE
15. Unemployment in Dock and Harbour Service and certain Other Industries	83
16. Estimated Unemployment in the United States of America, 1929-41	107
17. Average Numbers Unemployed in Great Britain and Northern Ireland, 1928-44	111
18. Actual and Full Employment Outlay in 1938	139
19. Possible Full Employment Outlay in 1948	155
20. Disallowances of Unemployment Benefit, 1930-39	196
21. Exports of British Produce or Manufacture, 1936, 1937 and 1938	235
22. New Index of Industrial Activity in Britain, 1785-1938	310
23. Data in Index of Industrial Activity, 1785-1913	314
24. Consumer Industries: Contraction from 1929	289
25. Building Plans Approved, 1923-38—by Types of Buildings	291
26. Textile Industries: Contraction from 1929	292
27. Range of Cyclical Fluctuation in Various Periods	293
28. Unemployment Index Numbers by Groups of Industries, 1927-38	296
29. Unemployment Index Numbers, 1907-14	298
30. Unemployment Index Numbers, 1890-99	299
31. Industrial Activity and Official Export Values	301
32. Crests and Troughs of Cyclical Fluctuation in British Unemployment Rates, 1890-1932	303
33. Insured Persons, Employment and Unemployment by Industries, 1924-37	316
34. Unemployment in Declining Industries	322
35. Insured Males in Groups of Industries, 1929, 1932, 1937	323
36. Unemployment Rates in Counties and certain Districts, 1934, 1935, 1936 and 1937	324
37. Unemployment Benefit Paid through Associations and Direct, 1913-14	329
38. Trade Union and Unemployment Insurance Rates of Unemployment in 1913 and 1937	336
39. Net National Income and Expenditure in 1938	350
40. Share of Different Factors in the National Income	353
41. Taxation of Average and Marginal Incomes in 1938	354
42. Actual and Full Employment Taxation in 1938	355
43. Proportion of Available Incomes Saved	356
44. Private Incomes and Outlay in 1938	359
45. Gross and Net Private Investment in 1938	360

	PAGE
46. Actual and Full Employment Outlay in 1938	363
47. Alternative Routes to Full Employment in 1938 with an Even Balance of Payments	365
48. Constituents of the National Output in 1938 and 1948	373
49. Net National Income in 1938 and 1948	374
50. Transfer Incomes in 1938 and 1948	375
51. Private Incomes under Full Employment in 1938 and 1948	376
52. Consolidated Budgets of Local Authorities in 1938 and 1948	377
53. Social Security Budget in 1938 and 1948	378
54. Central Government Expenditure in 1938 and 1948	380
55. The Consolidated Account of Public Authorities in 1938 and 1948	381
56. Yield of Central Government Taxation in 1938 and 1948	382
57. Taxation of Private Incomes	384
58. Incidence of the Burden of Taxation in 1948	385
59. Full Employment Income and Outlay in 1948	389
60. Alternative Frameworks for the National Investment Plan	391
61. Alternative Plans for Full Employment Outlay in 1948	392
62. History of the British National Debt, 1688-1944	396

LIST OF CHARTS

I. Employment Rate in British Trade Unions, 1856- 1926	42
II. General Employment Rate, 1921-38	48
III. Unemployment Index Numbers in Groups of Industries, 1927-38	78
IV. New Index of Industrial Activity in Britain, 1785- 1913	277
V. British Industry and Employment, 1860-1913, and U.S.A. Business	280
VI. Industrial Activity in Britain, 1920-38	280
VII. Industrial Fluctuation in U.S.A., Britain, and Europe	283
VIII. Unemployment Index Numbers, 1907-14	298
IX. Unemployment Index Numbers, 1890-99	299

References to paragraphs in the Appendices have the letter A, B, or C prefixed to the number of the paragraph. Numbers without a letter prefixed relate to paragraphs in the main text.

Prologue

FULL EMPLOYMENT SIXTEEN YEARS AFTER

This book was completed and published first in 1944. The whole of what was published then is printed today without change. Full employment in Britain has been accomplished. One of the possible dangers of full employment, foreseen in Part V of this book—inflation diminishing the value of money—has come upon us. I have added, therefore, this Prologue under the name shown above, describing in the light of today full employment and inflation, and examining thereafter the practical problem of whether and how inflation can be brought to an end, while preserving both sides of my original title—Full Employment and A Free Society.

Today's prologue replaces an earlier new preface added in the edition of 1953. While everything else in this volume stands as in 1944, I have with the help of Mr. Oswald George been able to carry on to the present date or near it some of the original statistics, such, for example, as those of Disallowances of Unemployment Benefit given in Table 20. These and other later statistics, though not relevant to the subject of this prologue, may well be of interest to students of full employment. They will be published as soon as convenient in the *Journal* of the Association of Incorporated Statisticians with which both Oswald George and I have many contacts.

I. FULL EMPLOYMENT

Full employment means having more vacancies for workers than there are workers seeking vacancies. It does not mean having no unemployment at all. In a progressive society there will be changes in the demand for labour, qualitatively if not quantitatively, and some men will be unemployed while waiting to pass from one job to the next. In 1944, as a guide to the amount of such temporary idleness as we might expect under full employment, I suggested a figure of 3 per cent of the total labour force, as likely to be idle at any time. Maynard Keynes, when he saw this figure, wrote to me that there was no harm in aiming at 3 per cent, but that he would be surprised if we got so low in practice. I described 3 per cent at the time as "a conservative, rather than unduly hopeful, aim to set for the average unemployment rate of the future under conditions of full employment."¹

In fact, during the twelve years from 1948 to 1959, the average unemployment rate for Britain, taking all industries together, has been not 3 per cent but half of that, 1.55 in exact terms.

¹ See para. 169 below for this and for basis of the 3 per cent estimate.

The unemployment percentages for each year from 1946 to 1959¹ are as follows:—

1946	..	(2·4)	1953	..	1·6
1947	..	(3·0)	1954	..	1·3
1948	..	1·5	1955	..	1·1
1949	..	1·5	1956	..	1·2
1950	..	1·5	1957	..	1·4
1951	..	1·2	1958	..	2·1
1952	..	2·0	1959	..	2·2

Omitting 1946 and 1947, as years of immediate post-war disturbance, the year's unemployment rate has never exceeded 2·2 (in 1959) and has been as low as 1·1 (in 1955).

These rates are calculated from statistics published regularly by the Ministry of Labour, in the *Labour Gazette* and elsewhere. Another set of unemployment rates, differing slightly from mine, was published in an article in the *Oxford Economic Papers* of February 1958, with accompanying figures of unfilled vacancies for labour, by J. C. Dow and L. A. Dicks-Mireaux. A chart based on this article, comparing unemployment and unfilled vacancies, from 1946 to 1957 is printed by the Council on Prices, Productivity and Incomes, on page 69 of their first report. The unfilled vacancies greatly exceed the unemployment in the early years, but from 1950 onwards, fluctuate in its neighbourhood, alternatively above and below. Full employment is here.

After World War I, Britain had returned to unemployment, with an average of 14 per cent of its workers idle throughout the inter-war period. After World War II to the present time the unemployment percentage has been 1½ per cent. What has brought this remarkable change, which is probably the largest single cause of British prosperity today?

The change cannot be explained away by describing our time since 1945 as years not of peace but of cold war. The cold war did not begin seriously till 1951, and in any case has made no call for labour remotely comparable to that of hot war.

Employment depends on outlay. Full employment cannot be attained unless outlay, whether public or private, whether for consumption or for investment, is sufficient in total to set up a demand for the whole of the labour that is available for employment. Only the State, by deciding on its own spending and by influencing through taxation and otherwise the spending of its citizens, can ensure enough outlay in total. So in 1944 I named, as the main instrument of a full employment policy, a new type of budget based on manpower, rather than on the assumed limits of taxation².

¹ The percentages for 1946 and 1947 are bracketed as based on the working of the Unemployment Insurance Acts. The later figures are based on the administration of the National Insurance Act of 1946.

² Para. 223. I named as two subsidiary instruments controlled location of industry and organised mobility of labour. Paras. 223-237.

Happily, the idea of a new type of budget had been accepted three years before, in 1941, by Kingsley Wood on the inspiration of Maynard Keynes,¹ who on the ousting of Neville Chamberlain had at last made his way into the Treasury and became its dominant influence.

The budgets of Sir John Simon to 1940 had been old style summaries of Government revenue and expenditure and nothing more. Kingsley Wood in 1941 made a complete change of fashion. He began, not with Government revenue and expenditure, but on a wider survey of "our financial and economic policy in relation to the war" and proceeded "to indicate some of the major problems with which we have to continue to deal," including "the inflationary gap."

The new fashion caught on and lasted. John Anderson, introducing the last war-time budget in April, 1945, started with a White Paper just published, which "seeks to measure the national income, that is to say the total money value of all the goods and services produced by the community and to show how that income has been spent." He announced policies of full employment and of stability of prices and wages.

The Labour Government which came to power in July 1945, in effect made John Anderson's White Paper into an annual. Acutely conscious of the need for economic planning with all facts in mind, they established an Economic Survey recording the past year, and looking forward to the coming years.

The first of the series of Economic Surveys was issued in February 1947; in the next year, Stafford Cripps as Chancellor carried the new fashion of budgeting one stage further, by causing the Economic Survey of 1948 and the budget proposals to be discussed together. The Economic Survey continues to this day, as a storehouse of economic history. In it the successive problems of recovery from war are presented in turn: making good the losses of men, equipment and dollars; devaluation of sterling in 1949; impact of re-armament in 1950; balance of payment crisis in 1951; inflation at intervals throughout. Only the last of these problems can be examined here.

2. INFLATION

In 1944, I called attention to two facts about wage bargaining in Britain: that in the past such bargaining had habitually been conducted sectionally by each craft and trade for itself, and that now a marked and presumably permanent increase in the bargaining strength of labour would result from full employment. In so far as this increase of strength led to labour as a whole gaining a larger share of the total product of industry, I welcomed it. But I went on to a warning: "There is a real danger that

¹ I owe most of what is said here about Keynes to two excellent broadcasts on him made by Professor R. F. Kahn in May 1956. Keynes was even more afraid of full employment leading to inflation than I was. But in the end he accepted full employment as something that we must have in any case.

sectional wage bargaining, pursued without regard to its effect on prices, may lead to a vicious spiral of inflation, with money wages chasing prices and without any gain in real wages for the working class as a whole.¹

For avoidance of this danger, I made two suggestions. The first was that "the central organisations of labour, such as the Trades Union Congress General Council, should devote their attention to the problem of achieving a unified wage policy which ensures that the demands of individual unions will be judged with reference to the economic situation as a whole." My second suggestion was for greater recourse to arbitration, though I did not think that arbitration could be made compulsory during peace in a free country like Britain.

It is not sufficiently realised today how fully the Labour Government of 1945-50 shared my fears of inflation and how strongly they argued against it.

In January 1947 came a White Paper from the Minister of Labour (George Isaacs) on "Economic Considerations affecting relations between Employers and Workers."² This was a long sermon on "the country's very serious economic position" and the overwhelming need for increased production per worker, not merely per hour but per annum. "At present there is too much money chasing after too few goods." Hugh Dalton, in his two budgets that followed in the same year of 1947, said that "we must strengthen still further and without delay our budgetary defences against inflation."

In February 1948, when Stafford Cripps had replaced Hugh Dalton as Chancellor of the Exchequer, came another White Paper on "Personal Incomes, Costs and Prices,"³ which set out the following doctrine:

"It is essential that there should be no further general increase in the level of personal incomes without at least a corresponding increase in the volume of production. . . .

"Such an increase . . . can only have an inflationary effect. Unless accompanied by a substantial increase in production, it would drive up prices and charges, adversely affect pensioners, children and other recipients of social service benefits, increase the money cost of our exports and so reduce their saleability, and by black market pressure make it almost impossible to operate the controls necessary in view of the continuing security of supplies and man-power."

There followed a definite conclusion against any rise at the present time in incomes from profits, rent or the like, or in wages or salaries except in exceptional cases, typified by possible need in the national interest to attract labour to a particular under-manned industry. "Each claim for an increase of wages or salaries must be considered on its

¹ See paras. 283-288 below for what I said in 1944 on Determination of Wages.

² Cmd. 7018. ³ Cmd. 7321.

national merits and not on the basis of maintaining a former relativity between different occupations and industries." This conclusion was backed by a warning—that if their views were disregarded, the Government would be ready to use the controls that they still possessed over many prices to prevent higher costs through wages and salaries from leading to higher charges against the consumer.¹

Stafford Cripps, in the budget of April 1948, rubbed in the moral of the White Paper on Personal Incomes, with all the vigour at his command. In his next budget, of April 1949, he claimed to have brought about "a comfortable and not excessive degree of disinflation, with a better balance between vacancies and workers." He dwelt on his Government's "tremendous achievements" of economic recovery and social security.

Undoubtedly, Government efforts to stimulate output succeeded at times, as in 1949. And retail prices have varied only by a point or two over much of 1958 and 1959. But, as history shows, the efforts of Labour and Conservative Governments alike to stabilise prices since World War II have had little success.

In August 1957, a Council of three persons, including Lord Cohen as Chairman, was established to study and report on Prices, Productivity and Incomes. Before Lord Cohen left for other public duties the Council published three reports relevant to the subject of this prologue.

In the first report, on page five, is a Chart of Retail Prices showing a practically continuous rise from 1946 to 1957, by 4 or 5 per cent each year, by 65 per cent in the eleven years as a whole. Other tables show wages, salaries and profits sharing in the rise; for the years 1948 to 1956 the total increase for wages and salaries is 81 per cent and that for net company profits is 76 per cent.²

Beyond question a persistent cause of rising prices and money cost of living in Britain since World War II has been that which I foresaw in 1944: the readiness, under full employment, of employers and their associations, on demand by trade unions, to raise money wages in relation to output and to compensate themselves by charging a higher price for the same article. George Isaacs and Stafford Cripps began a battle against poverty-making inflation which is far from being won.

In 1952 the organisation known as Political and Economic Planning published two excellent pamphlets on *Poverty Ten Years After Beveridge* and *Social Security and Unemployment in Lancashire*, whose common theme was destruction of private saving as a way to personal independence in misfortune. The aim of the Beveridge Report of 1942, as had been stated in it more than once, was the practical abolition of public charity—National Assistance under Means Test; it was to be replaced by security against want given as a right under social insurance, leaving freedom to

¹ Para. 10 of Cmd. 7321.

² Page 19. Figures given for other forms of gain than wages, salaries and company profits, e.g., by self-employment or by receipt of dividends or rent, show much smaller percentage rises.

every citizen to plan his life and that of his dependants above want. Ten years after, in 1952, more than 2,000,000 needed National Assistance ; social security had been destroyed by endlessly rising prices.

In 1953 the newspapers which reported on 21st May a speech of mine in the House of Lords calling attention to what was happening to social insurance and family life through wage demands and their acceptance by employers leading to higher prices, carried also notice of "three million more in the queue for higher wages."

In January 1956 battle against inflation was announced formally by the Prime Minister in a speech at Bradford. This was followed in February by an admirable broadcast on the same theme by the Chancellor of the Exchequer, Harold Macmillan, and on May 11 by an interview between all the leading Ministers of the Government and the leaders of the Trades Union Congress General Council. The latter admitted the seriousness of Britain's situation and said that they would see the Prime Minister again when they had completed a report on which they were engaged. But the report which came from the T.U.C. at the end of May was mainly a criticism of the Government for provoking higher wage demands, and by mid-June it seemed clear that the T.U.C. were unlikely to advise on wages.¹ A week later some Conservative members in Parliament urged control of prices and wages by law, but the Government rejected this as "not the right solution," without giving an alternative. The *impasse* was complete.

By 1957 average earnings per man had more than doubled as compared with 1946 (rising from 100 to 210), while output per man had risen by little more than a quarter (from 100 to 129).

In 1958 one in four of every man or woman in receipt of a State Security Pension was having to draw National Assistance as well.

In 1959, though prices have changed little, its closing month has witnessed a grant to 800,000 agricultural workers of higher wages and shorter hours, that can hardly fail to raise prices for their product, and demands backed by strike threats for more money and less work by one of the largest trade unions, concerned with transport.

The terms of reference to Lord Cohen's Council recognised that a reasonable stability of prices was desirable ; in opposition to some writers who argue that a continuous if slow rise of prices is good for trade, the Council concluded, after considering society as a whole, that the objective should be to stop inflation, not merely to moderate its course. After naming large classes of society not engaged in trade whether as employers or employees—such as pensioners, holders of fixed interest securities, and owners of land and buildings let at legally controlled rents, they decided that "the arbitrary re-distribution resulting from a steady rise of prices, even if slow, is very unjust." This list of classes subject to injustice by inflation is an interesting echo of the Labour Government's White Paper of 1948 that has been cited above.

¹ *Times*, June 14.

From my early contact with many different conditions of living in our great towns, I have long held the view that maintaining stability in prices is an essential duty of the State, ranking in importance with maintenance of peace abroad and order at home, or abolition of social evils like want, needless disease, squalor and ignorance. I am happy to find myself in full agreement with Lord Cohen's Council.

I believe that, in this, I represent one of the firmest and oldest traditional beliefs of the British people—they want the money in their pockets to keep its value. There is a contrary view sometimes found among professional economists as well as traders. If I understand him rightly, in his latest writings, on "Economic Growth and its Problem of Inflation," appearing in *Economica* of August and November 1959, Nicholas Kaldor who did much admirable work in writing the statistical Appendix C to my 'Full Employment,' inclines to this view. For me, money and prices should be considered from the point of view of ordinary citizens rather than of traders.

Since I wrote this first, I have seen with much interest, in the *Investors' Chronicle*,¹ an article by its editor, demolishing from the business man's point of view, the belief that inflation is beneficial to holders of ordinary shares and other equities. "Ordinary shares," he concludes, "and . . . the economy as a whole—benefit more from increased productivity, than they do from inflation. If only we could get this message across, in place of the defeatist doctrine that inflation is inevitable, how much better off we'd all be."

Lord Cohen's Council, speaking of the time since 1946, said that for Britain "there is no peace-time period of comparable length which shows anything like as big a rise in prices as that of the last eleven years." If one confines one's study to the last 300 years this is true. Prices have always risen in major wars, but they have fallen again when peace returned—after World War I, after the Napoleonic Wars, even after the relatively small Marlborough Wars of 1692-1702.

As has been pointed out by Professor Phelps Brown and Sheila Hopkins, in a fascinating article on "Seven Centuries of the Prices of Consumables compared with Builders' Wage-rates,"² features of English price history are the long periods of stable prices disturbed only by bad harvests. Subject to wars, this applies not only to the 300 years now ending but also to most of the first 300 years from 1260 to 1540 for which English prices have been published.³

But the intervening years, from 1540 to 1650, yield a different picture—of all but continuous rise of prices, subject again to harvests and to a slight temporary slackening under Elizabeth I. In the later part of this period of just over a century the rise of prices was due to inflow of silver brought by the Spaniards from America and to a considerable extent seized by the

¹ "Inflation and Share Prices," by Harold Wincott, December 25, 1959.

² *Economica*, November 1956.

³ By Thorold Rogers.

English. At the beginning of the period, a rise was brought about by Henry VIII.

Everyone knows that Henry VIII was extravagant in wives, with six of them. Not everyone knows that he was extravagant also in spending—always wanting more money, and that he found money by debasing our currency, that is demanding for the same amount of silver three or four times as many shillings as before. His immediate successors, though they made some attempts to restore a better currency, had little success. Happily for the British tradition, Elizabeth I, soon after she came to the throne in 1558, put this right, called in the bad shillings and gave us good money again, to buy goods, not indeed at the old prices, but at steady prices for a short time, at least, till the American silver began to flow in.

Today we have a number of powerful agencies—trade unions and business associations—in effect debasing our currency, by demanding more shillings for the same or less work or smaller product, an action that in the end does them little good and leaves many others—above all the old—in bitter want. One can only hope that Elizabeth II will find her Government and her people as firm for sound money, as Elizabeth I did. There are, of course, in our wage structure today injustices that call for remedy. But do any of them exceed or equal the injustice being done through destroying by inflation the value of pensions and savings provided for old age?

Inflation has just been the subject of a book written by an old friend of mine, Sir Roy Harrod, and published in 1958, under the title: *Policy Against Inflation*. The book has a standpoint altogether different from mine in this prologue; it is concerned almost wholly with money and its management, with the gold standard, devaluation, and the like. In a chapter of twenty pages assigned to the topic of wages, out of 250 pages in total, the author recognises that wages may present problems. But in the chapter of conclusions that follows he lays it down firmly that “the recent protracted inflation” (meaning inflation well into 1957 and perhaps beyond) “has been the unavoidable consequence of the devaluation of 1949,” rather than a result of wage and price fixings under full employment.

More recently, Roy Harrod has come out with a suggestion that a steady rise of $2\frac{1}{2}$ per cent in real earnings should be held out by employers in general to employees in general.¹ Just how he proposes that such an undertaking should be guaranteed, I have no idea. It requires either that output per employee rises also by $2\frac{1}{2}$ per cent a year, or that British employers and importers, whatever happens to their costs, are able to carry on, without raising the price of anything that wage-earners think important to their way of life.

There are two points only, in regard to inflation, on which I find myself in sympathy today with my old friend.

¹ Letter to *The Times*, January 7, 1960.

One point is his conviction that keeping money stable is an essential duty of the State :

“The citizen body, including wage-earners themselves, do not wish that the currency should be debased. It is the positive duty of the government to implement the general will in this regard.”¹

He goes on to write of Elizabeth I in the same terms of praise as I do.

The other point is his conviction that if there should be any danger of wage bargaining leading to inflation, the danger ought to be dealt with by direct action of the State to stop such bargaining, rather than by damping down total demand for labour.

But the action that he contemplates, of formal prohibition, for a time at least, of any increase of wages, is far more drastic than anything attempted by any British Government since World War II and all but uniformly rejected by those in charge of wage bargaining. We are bound in Britain to explore more practical remedies for our troubles.

Inflation either now or in the past is by no means confined to Britain or most common there. Some of what I said about past history, I said also in an interview on inflation and social security which I gave in November 1959, to an American journal,² following on the same topic the Secretary to the U.S.A. Treasury, Mr. Anderson. I was happy to agree with Mr. Anderson on practically all that he said : that the Government of U.S.A. had a duty to stop inflation and give stable money to its citizens, that only the Government as manager of money could do this, but that the Government could not do this alone, without the co-operation of other agencies in the economic sphere—business institutions and associations of employees and employers which had become important and powerful. All this applies today to the Government of Britain also.

“All power is a trust,” wrote Disraeli. But he knew and we know that power may corrupt its owners and be misapplied by them. In the past, power was often used selfishly by inheritors of rank or wealth, used from the right, regardless of the liberties and happiness of ordinary people. Today, under full employment, power won by organisation can be used selfishly from the left and since World War II has been so used at times, to bring unhappiness to common people by destroying the value of their savings and pensions, and making their lives difficult and less free. How can this injustice be prevented for the future? What is the way to stable money in a free society under full employment?

3. THE WAY TO STABLE MONEY

Primary responsibility for the nature and management of money rests with the State. Money is created by the State, not for its purposes only or mainly, but to be used by citizens in managing their affairs and

¹ Harrod *op cit.* p. 212.

² *United States News and World Report.*

planning the lives of themselves and their dependants from youth to age. Money is an instrument of freedom and happiness. But money can be a good instrument for this on two conditions only: that it is so managed as to lead to full employment, and that it is kept stable in value, at least for the buying of all necessities of life.

Till recently, neither of these conditions was fulfilled, or even recognised, in the management of money, either in Britain or in other industrial countries like the United States. Till the outbreak of World War II, we had an alternation of booms and depressions in employment, accompanied by alternately rising and falling prices, which we called the trade cycle. Today the responsibility of the State for securing to its citizens both full employment and stable money is recognised not in Britain alone but in many other countries.

But in Britain at least, the powers of the Government are not the same in these two fields of responsibility. Through its control of money, the Government can on its own authority provide for its citizens the priceless gift of full employment; its duty to provide this is clear. For stable money the Government has no full power today. Its function cannot be put higher than as a duty to ensure in one way or another that the gift of full employment is not misused by some citizens to the damage of others, by inflation destroying the value of money. But the duty of the Government cannot be put lower than this.

The issue before us has many parallels in other fields. Today, for example, the State in Britain is engaged very rightly at great expense in improving facilities for road traffic. If every citizen could be trusted to use those facilities with due regard for others and never to attempt dangerous speeds, the State would have no need to control the use of roads. It is being driven in fact to more and more control.

The State in Britain since World War II has failed till now to keep money stable, because it has tried and failed to obtain free co-operation of the organisations of employees and employers that now settle wages and prices. The rise of prices, following wage demands conceded by employers, has been all but continuous and, to this day, shows no sign of ending.

If the State is to fulfil its accepted duty of preserving the value of money, must it have new powers of control, as a substitute for free co-operation?

Such control might take the form of saying that a rise of certain prices basic to the cost of living needed consent of an impartial authority, could follow a rise of wages only if the wages had been put up by arbitration, and only if the arbitrator recommended that prices rose also. Such control would be a powerful lever for higher output and removal of restrictions on output.

Such control by the State would accord with the responsibilities that the State has undertaken for health, housing, education, traffic, social security (above all of the old), and other forms of welfare. These responsibilities involve vast outlay that would be made larger still by rising prices and would call for higher taxation.

Control of basic prices, leaving choice of employment and determination of wages as now, preserves the essential freedoms of society. It is not open to objection on principle.

But it is far from simple in practice. Defining the articles to which it should apply, enforcing control everywhere, preventing evasion by use of substitutes, would be a heavy task. From experience of price control in two world wars, when it had patriotic acceptance and support, I am by no means anxious to see it return in peace as a possibly contentious measure.

Apart from this, I cannot forget my happy and fruitful dealings with trade unions and their leaders over many years, from their acceptance, in the citizens' interest in 1909, of the breaking in of the State into the field of unemployment insurance hitherto occupied by the trade unions alone, to the help that they gave in 1941-42 to discussion and formulation of social security to put all men and women *equally* above want. Let our Government, whatever its colour, make one more effort to secure freely, from organisations of employees and employers alike, co-operation in keeping our money sound and prices stable.

Should that effort fail, the issue facing us will be clear. If the organisations that now determine wages continue to demand and to give more money for less work, the people of Britain must choose between establishing some State control of prices and suffering endless inflation which will debase our currency, will make saving seem absurd, and will reduce to want and to need for public charity a growing number and proportion of our men and women, in the sunset of their lives.

PREFACE OF 1944

THE work presented here as a Report on Full Employment in a Free Society is a sequel to the Report on Social Insurance and Allied Services which I made to His Majesty's Government in November, 1942. In that Report I named three assumptions of the Plan for Social Security proposed in it, namely a system of children's allowances, a comprehensive health and rehabilitation service, and maintenance of employment. If Social Security is defined as security for the individual, organized by the State, against risks to which the individual will remain exposed even when the condition of the society as a whole is as good as it can be made, both children's allowances and medical treatment are parts of Social Security. Both of these assumptions were dealt with to some extent in my Report, and proposals were made for realizing them. The third assumption, of maintenance of employment and prevention of mass unemployment, was not dealt with there, and no proposals as to how it could be realized were made. Measures to maintain employment are not part of Social Security as defined above; they are measures of general application to make the economic condition of society as a whole healthy. I now complete, so far as I can, the work which I began with my earlier Report.

That earlier Report was prepared by me, at the request of His Majesty's Government, as Chairman of an Inter-Departmental Committee, on which all the other representatives were civil servants. Some seven months after the Committee had been appointed, it was decided by the Government that, in view of the issues of high policy which would arise, the departmental representatives should henceforth be regarded as my advisers and assessors, and that the Report when made should be my Report, signed by me alone, so that the departmental representatives would not be associated in any way with the views and recommendations on questions of policy which it might contain. No one else, therefore, had or has any responsibility for what I said in that Report. At the same time it could not possibly have been made by me, except with the help of the departmental representatives, and without having at my disposal the whole resources of the Government for investigation and consultation. In the Report itself, I expressed my debt to the departmental representatives as strongly as I could, without appearing to associate them in any way with responsibility for the views expressed, which were mine alone. On other occasions I am glad to have been able to express this debt more generously and more fully:

“There is another remark often made about the Beveridge Report—and that is that the Report is a one-man Report. Now, it is true that the Report is signed by one man only—myself—so that I am the only person that can be hanged for it. No one else can be brought to book for anything whatever that is said in it. No one else is committed to it. But it is not true that the Report was made, or could have been made, by one man sitting and thinking and studying by himself. I had sitting with me a Committee representing all the

Departments concerned with the problems under consideration—all the best experts in the Government service—and very good experts they are. They acted as a Committee in examining witnesses, in discussion and in criticism. They acted as my technical advisers. Without their help in all these ways the Report would have been a very different and much inferior document. I alone am responsible for all that it proposes, just as a Minister alone is responsible for everything that is done in his Department. I was like a temporary Minister for devising this particular piece of post-war reconstruction ; I could not have done the job otherwise.”¹

Only this help and, beyond it, my unrestricted recourse to all the information possessed by the Government made it possible for me, not merely to enunciate general principles, but to suggest the framework of a complete plan which, if accepted, could be used as the basis of legislation.

The present Report is made under different circumstances. Regarding it as a sequel to the earlier Report, I should naturally have been ready to deal with it on the same lines, if that had been the wish of the Government—to make a survey and proposals on my own responsibility but at the request of the Government and with all the help that they could give me. Such a survey could have covered both stages of the problem—demobilization and the permanent structure—in one continuous programme. Since this possibility was not open to me, the present Report is made by myself as a private citizen, and with only such resources as could be made available to a private citizen during the war. This has two consequences. First, the Report is much inferior to what it would have been had I been able to draw, in the same way as for the original Report, upon the resources of the Government. I can only hope that the gap between what I have been able to do as a private citizen and what I did before with the advantages normally reserved for Ministers, will not be too glaring. Second, the present Report is more limited in scope than it might otherwise have been. It does not deal at all with demobilization. It is concerned not with what should happen when total war ends, in order to bring about a smooth transition from war to peace, but with endeavouring to suggest the structure of peace-time industry and economics to which the transition should be made, with a view to preventing any return of mass unemployment. Even for that narrower purpose I should have welcomed any help that the Government had felt able to give me, by way both of expert criticism of my proposals and of information on questions of fact rather than of Government policy. I could have made my own proposals more concrete in many ways—more of a Plan and less of an outline of policy. But the main basis for constructing a better economic system in the next peace than we had in the last peace is to be found, not in the facts of war, but in the study of conditions before the war. On that study, with special reference to unemployment, I was engaged when the war broke out and for most of the first year of war. Part II of this Report and Appendix A are based mainly on this former research ; that Appendix began as a paper to be read at the bi-centenary of the University of Pennsylvania in September 1940.

¹ Speech at the Caxton Hall, 3rd March, 1943, printed in *The Pillars of Security*, pp. 140–1 (George Allen & Unwin, 1943).

Nevertheless, though made by myself in a wholly private capacity, the Report on Policy for Full Employment is no more a one-man affair than was the Plan for Social Security, in the sense that it was made or could have been made by one man sitting and thinking and studying by himself. So far as was possible in the difficult circumstances of the war, I reproduced for myself in this new enquiry the technical assistance which I had obtained from the Government Departments in the first enquiry. I have had continual consultations with economists outside the Government Departments, some of whom have read and criticized nearly all that I have written ; from them I have taken arguments, similes, phrases without number. I have examined memoranda written by many others, and I have discussed the more important of these memoranda with the persons or organizations submitting them. Finally, taking advantage of my association with the Nuffield College and with the admirable series of conferences in connection with the College, organized originally by Mr. G. D. H. Cole, I have submitted most of my proposals in draft to scrutiny by gatherings widely representative of business, of public administration, of labour organisations and of economic science ; the exposition in Part VI of the three conditions of multilateral trade between nations is the fruit of one of these conferences. The new Report remains, like the old one, a document for which no one can be hanged except myself, but it is not one which I could have produced myself, without the cordial and helpful co-operation of many others.

One practical difference—of timing—arises out of the different circumstances in which this Report and my earlier Report were prepared. After I had signed my earlier Report on the 20th November, 1942, by a notable effort of printing the Government were able to publish both the Report and Appendices and its companion volume of Memoranda from Organizations, altogether not far short of 400,000 words, within a fortnight, on 1st December ; they took steps to make an American edition available at similar breakneck speed. The present Report I completed substantially and sent to the printer on 18th May, 1944, but I have no idea when it will see the light. Meanwhile, the Government have published a White Paper on Employment Policy. That cannot be dealt with in any way in the body of my Report, and has not led to any change in the Report, but forms the subject of a postscript.

It is at the request of those who have helped me most, that I do not thank any of my helpers by name, taking freely what they have given freely towards better understanding of our common problems. To one part only of what is written here by another than myself, it has seemed appropriate to attach the name of the author. To my Report on Social Insurance and Allied Services, there was appended a Memorandum by the Government Actuary on the financial aspects of my proposals. So to the present Report is attached in Appendix C a Memorandum by Mr. Nicholas Kaldor on the Quantitative Aspects of the Full Employment Problem in Britain. Mr. Kaldor's figures, naturally, are more speculative than those which could be given by the Government Actuary in 1942 for Social Insurance. They are hardly, I think, more speculative than the actuarial estimates that were made at the introduction of the first limited scheme of unemployment insurance in 1911 or by the Government Actuary at the time of the extension of unemployment insurance in 1920. They are not nearly as visionary as the hopes

of those who trust to establishing full employment by leaving things alone. For those who use figures, the Policy for Full Employment can be made most easily intelligible by figures, such as are given by Mr. Kaldor. But the policy does not stand or fall by those figures. It stands on its argument—on the need and on the possibility of intelligent flexible planning with means of adjustment to changing circumstances.

Though naming no other helpers, it would be inappropriate for me not to record, in memory of my long and happy association with the administrators of Labour Exchanges and Unemployment Insurance, the indispensable help given to me by the Ministry of Labour, before this war and in the opening year of the war. The diagnosis of unemployment in Part II and a large part of Appendix A on the International Trade Cycle rest on information, much of it not previously published, which was placed at my disposal from official sources.

I have pleasure in recording the help given to me by the Institute of Statistics at Oxford by statistical computation and by preparing the charts which appear in this Report. The Institute has done much to keep alive independent expert study of economic phenomena during the War. Many of the difficult economic problems briefly noticed in this Report are the subject of special study in a volume on the *Economics of Full Employment* prepared by members of the Institute and published (B. H. Blackwell, Oxford) almost simultaneously with the Report.

I thank my three friends to whose generosity I owe the material means of making my investigation and preparing its results for publication.

The text on my title page I owe to my wife. It comes from the account given by Charlotte Bronte, in the second chapter of *Shirley*, of the hand-loom weavers who one hundred and twenty-five years ago were being driven into unemployment and miserable revolt by the introduction of knitting frames. "Misery generates hate. These sufferers hated the machines which they believed took their bread from them ; they hated the buildings which contained the machines ; they hated the manufacturers who owned the buildings."

This text is my main text. The greatest evil of unemployment is not physical but moral, not the want which it may bring but the hatred and fear which it breeds. So the greatest evil of war is not physical but spiritual, not the ruin of cities and killing of bodies, but the perversion of all that is best in man's spirit, to serve purposes of destruction, hate, cruelty, deceit and revenge.

There is another passage in *Shirley*, describing in Chapter 8 a conversation between a workman and an employer, which illustrates another leading theme of what is written here. "Invention may be all right," says the workman, "but I know it isn't right for poor folks to starve. Them that governs mun find a way to help us. . . . Ye'll say that's hard to do—so much louder mun we shout, then, for so much slacker will t'Parliament men be to set on a tough job." "Worry the Parliament-men as much as you please," replies the employer, "but to worry the mill-owners is absurd." To look to individual employers for maintenance of demand and full employment is absurd. These things are not within the power of employers. They must therefore be undertaken by the State, under the supervision and pressure of democracy, applied through the Parliament men.

The problems dealt with in the present Report are more difficult than those of

the earlier Report. My proposals cannot be set out without the use of technical terms and close argument ; economics is a science, not a business of hit and miss. The justification for my proposals cannot be given except by use of statistical data such as occupy Part II and the various Appendices. Those who are content to accept the brief summary of results from these data which appears in Part I can pass from that part direct to Part III and need not proceed to the Appendices. I have endeavoured to free the argument of needless difficulties. I have made the use of indispensable technical language as painless as possible by giving in Appendix D an explanation of terms.

The problems dealt with in the present Report, while technically difficult, are of vital importance to every citizen. I have given in this volume both proposals and the facts and arguments on which they rest. I have endeavoured to make the main results accessible to all, by summarizing them for early publication in a pamphlet with the same title.

But I hope that as many people as possible will desire to understand and to criticize the argument and the data on which it rests. Unemployment cannot be conquered by a democracy until it is understood by them. Full productive employment in a free society is possible but it is not possible without taking pains. It cannot be won by waving a financial wand ; it is a goal that can be reached only by conscious continuous organization of all our productive resources under democratic control. To win full employment and keep it, we must will the end and must understand and will the means.

W. H. BEVERIDGE

June 1944

Part I

INTRODUCTION AND SUMMARY

Relation of the Two Reports (paras. 1-2). The Meaning of Full Employment (paras. 3-7). The Purpose of Employment (paras. 8-9). Preservation of Essential Liberties (paras. 10-18). Diagnosis of Unemployment (paras. 19-29). Diagnosis of War (para. 30).

The Nature of a Full Employment Policy (paras. 31-5). Local and Qualitative Adjustment (paras. 36-7). International Implications (paras. 38-43). The State and the Citizen (paras. 44-7). Plan for Social Security—Policy for Employment (paras. 48-50).

RELATION OF THE TWO REPORTS

1. THE Report on Social Insurance and Allied Services which I presented to His Majesty's Government in November, 1942, takes freedom from Want as its aim, and sets out a Plan for Social Security to achieve this aim. Want is defined as lack of income to obtain the means of healthy subsistence—adequate food, shelter, clothing and fuel. The Plan for Social Security is designed to secure, by a comprehensive scheme of social insurance, that every individual, on condition of working while he can and contributing from his earnings, shall have an income sufficient for the healthy subsistence of himself and his family, an income to keep him above Want, when for any reason he cannot work and earn. In addition to subsistence income during interruption of earnings, the Report proposes children's allowances to ensure that, however large the family, no child need ever be in Want, and medical treatment of all kinds for all persons when sick, without a charge on treatment, to ensure that no person need be sick because he has not the means to pay the doctor or the hospital.

2. The Report which I now present is a sequel to my earlier Report, in that it is concerned with what was named in that Report as one of the assumptions of Social Security: the assumption that employment is maintained, and mass unemployment prevented. But it is more than a sequel. Maintenance of employment is wanted for its own sake and not simply to make a Plan for Social Security work more easily. The new Report takes as its aim freedom from Idleness and sets out a Policy for Full Employment to achieve that aim. Choice of the term Idleness has two implications. Idleness is a different word from unemployment; freedom from Idleness secured

by full employment does not mean that there must literally be no unemployment at all. Idleness is not the same as Want; it is a positive separate evil from which men do not escape by having an income. These two implications must be examined in turn.

THE MEANING OF FULL EMPLOYMENT

3. What is meant by "full employment," and what is not meant by it? Full employment does not mean literally no unemployment; that is to say, it does not mean that every man and woman in the country who is fit and free for work is employed productively on every day of his or her working life. In every country with a variable climate there will be seasons when particular forms of work are impossible or difficult. In every progressive society there will be changes in the demand for labour, qualitatively if not quantitatively; that is to say, there will be periods during which particular individuals can no longer be advantageously employed in their former occupations and may be unemployed till they find and fit themselves for fresh occupations. Some frictional unemployment¹ there will be in a progressive society however high the demand for labour. Full employment means that unemployment is reduced to short intervals of standing by, with the certainty that very soon one will be wanted in one's old job again or will be wanted in a new job that is within one's powers.

4. Full employment is sometimes defined as "a state of affairs in which the number of unfilled vacancies is not appreciably below the number of unemployed persons, so that unemployment at any time is due to the normal lag between a person losing one job and finding another."² Full employment in this Report means more than that in two ways. It means having always more vacant jobs than unemployed men, not slightly fewer jobs. It means that the jobs are at fair wages, of such a kind, and so located that the unemployed men can reasonably be expected to take them; it means, by consequence, that the normal lag between losing one job and finding another will be very short.

5. The proposition that there should always be more vacant jobs than unemployed men means that the labour market should

¹ See Explanation of Terms in Appendix D.

² This definition is taken from the Nuffield College Statement on *Employment Policy and Organization of Industry after the War*. The Statement adds that full employment in this sense "cannot be completely attained so long as there exist structural maladjustments needing to be put right."

always be a seller's market rather than a buyer's market. For this, on the view of society underlying this Report—that society exists for the individual—there is a decisive reason of principle. The reason is that difficulty in selling labour has consequences of a different order of harmfulness from those associated with difficulty in buying labour. A person who has difficulty in buying the labour that he wants suffers inconvenience or reduction of profits. A person who cannot sell his labour is in effect told that he is of no use. The first difficulty causes annoyance or loss. The other is a personal catastrophe. This difference remains even if an adequate income is provided, by insurance or otherwise, during unemployment; idleness even on an income corrupts; the feeling of not being wanted demoralizes. The difference remains even if most people are unemployed only for relatively short periods. As long as there is any long-term unemployment not obviously due to personal deficiency, anybody who loses his job fears that he may be one of the unlucky ones who will not get another job quickly. The short-term unemployed do not know that they are short-term unemployed till their unemployment is over.

6. The human difference between failing to buy and failing to sell labour is the decisive reason for aiming to make the labour market a seller's rather than a buyer's market. There are other reasons, only slightly less important. One reason is that only if there is work for all is it fair to expect workpeople, individually and collectively in trade unions, to co-operate in making the most of all productive resources, including labour, and to forgo restrictionist practices. Another reason, related to this, is that the character and duration of individual unemployment caused by structural and technical change in industry will depend on the strength of the demand for labour in the new forms required after the change. The greater the pace of the economic machine, the more rapidly will structural unemployment¹ disappear, the less resistance of every kind will there be to progress. Yet another reason is the stimulus to technical advance that is given by shortage of labour. Where men are few, machines are used to save men for what men alone can do. Where labour is cheap it is often wasted in brainless, unassisted toil. The new lands empty of men are the homes of invention and business adventure in peace. Stimulus to labour saving of all kinds is one of the by-products of full employment in war.

7. The full employment that is the aim of this Report means more vacant jobs than unemployed men. It means something else

¹ See Explanation of Terms in Appendix D.

as well. If there were 2 million chronically unemployed men in Britain and $2\frac{1}{4}$ million vacant jobs which they could not or would not fill, there would be more vacant jobs than unemployed men, but to call this state of affairs "full employment" would be mockery. It is not enough to say that there must be more vacant jobs than idle men—more or about as many. It is also necessary to be sure that the number unemployed, or rather the duration of unemployment in the individual case, is not excessive. Full employment, in any real sense, means that unemployment in the individual case need not last for a length of time exceeding that which can be covered by unemployment insurance without risk of demoralization. Those who lose jobs must be able to find new jobs at fair wages within their capacity, without delay. This means that the demand for labour and the supply of labour are related qualitatively as well as quantitatively. The demand must be adjusted to the kind of men available or the men must be capable of adjusting themselves to the demand. In the light of the facts of unemployment set out in Part II, it is clear that the qualitative and local adjustment of demand for labour and supply of labour has to be approached from both ends, that of demand and that of supply. The demands must not only be sufficient in total but must be directed with regard to the quality and the location of the labour that is available. The labour supply must be capable of following the changes of demand that are inseparable from technical advance.

THE PURPOSE OF EMPLOYMENT

8. Idleness is not the same as Want, but a separate evil, which men do not escape by having an income. They must also have the chance of rendering useful service and of feeling that they are doing so. This means that employment is not wanted for the sake of employment, irrespective of what it produces. The material end of all human activity is consumption. Employment is wanted as a means to more consumption or more leisure, as a means to a higher standard of life. Employment which is merely time-wasting, equivalent to digging holes and filling them again, or merely destructive, like war and preparing for war, will not serve that purpose. Nor will it be felt worth while. It must be productive and progressive. The proposals of this Report are designed to preserve all the essential springs of material progress in the community, to leave to special efforts its rewards, to leave scope for change, invention, competition and initiative.

9. In so far as room is left for change and for freedom of movement from job to job, room is left for some unemployment. The aim of this Report is expressed in numerical terms in paragraph 169 as a reduction of unemployment to not more than 3 per cent, as compared with the 10 to 22 per cent experienced in Britain between the wars. But though the Report assumes the continuance of some unemployment and suggests a figure of 3 per cent, it is the essence of the proposals made in the Report that this 3 per cent should be unemployed only because there is industrial friction, and not because there are no vacant jobs. For men to have value and a sense of value there must always be useful things waiting to be done, with money to pay for doing them. Jobs, rather than men, should wait.

PRESERVATION OF ESSENTIAL LIBERTIES

10. The labour market in the past has invariably, or all but invariably, been a buyer's market rather than a seller's market, with more unemployed men—generally many more unemployed men—than unfilled jobs. To reverse this and make the labour market always a seller's rather than a buyer's market, to remove not only unemployment but the fear of unemployment, would affect the working of many existing institutions. It would change and is meant to change fundamentally the conditions of living and working in Britain, to make Britain again a land of opportunity for all. There are some things in Britain which neither full employment nor the means of achieving it should be allowed to change.

11. The Report, as its title indicates, is not concerned simply with the problem of full employment. It is concerned with the necessity, possibility and methods of achieving full employment in a free society, that is to say, subject to the proviso that all essential citizen liberties are preserved. The precise effect of the proviso depends on the list of essential citizen liberties. For the purpose of this Report they are taken as freedom of worship, speech, writing, study and teaching; freedom of assembly and of association for political and other purposes, including the bringing about of a peaceful change of the governing authority; freedom in choice of occupation; and freedom in the management of a personal income. The proviso excludes the totalitarian solution of full employment in a society completely planned and regimented by an irremovable dictator. It makes the problem of full employment more complex in many ways, of which four call for special notice.

12. First, in a free society the governing authority is liable to be

changed at short intervals by peaceful methods of political organization and voting. There must be reasonable continuity of economic policy in spite of such changes of government. The machinery of government, while responsive to general changes of opinion, must be resistant to "lobbies"—that is to say, organized sectional pressures.

13. Second, freedom of association for industrial purposes raises the issue of wage determination. Under conditions of full employment, can a rising spiral of wages and prices be prevented if collective bargaining, with the right to strike, remains absolutely free? Can the right to strike be limited generally in a free society in peace-time?

14. Third, freedom in choice of occupations makes it harder to ensure that all men at all times are occupied productively. It makes it impossible to retain men forcibly in particular work or to direct them to it with the threat of imprisonment if they refuse to go. One assumption underlying this Report is that neither the Essential Work Order nor the powers of industrial direction which have been found necessary in war should be continued when the war is over. In Britain at peace the supply of labour cannot be adjusted by decree to the demand for labour; it can only be guided by economic motives. From another angle, freedom in choice of occupation raises also the issue of industrial discipline. Under conditions of full employment, if men are free to move from one employment to another and do not fear dismissal, may not some of them at least become so irregular and undisciplined in their behaviour, as to lower appreciably the efficiency of industry?

15. Fourth, freedom in the management of a personal income complicates the problem of full employment from another side. If men cannot be forced to buy just what has been produced, this means that the demands for labour and its products cannot be fitted forcibly to the supply. There may be continual changes in the kinds of things on which consumers want to spend their money, that is to say, in the quality of consumers' outlay.¹ There may be changes also in its quantity. For freedom in the management of a personal income includes freedom to decide between spending now and saving¹ so as to have the power of spending later. A totalitarian regime, even if it used money and price and wage differentials to stimulate and guide individual activity, might abolish freedom of saving. It might retain from the national income of each year that portion which it needed for investment,¹ i.e. for the sustenance of

¹ See Explanation of Terms in Appendix D.

persons engaged in making instruments and materials of further production, and might issue to consumers money which, like ration coupons, could not be saved for spending later. In a free society individuals must be allowed to plan their spending over their lives as a whole.

16. Many of the points thus briefly noted will be discussed more fully in Part V, in dealing with the internal implications of a full employment policy. Here it is sufficient to say that none of these freedoms can be exercised irresponsibly. Perpetual instability of economic or social policy would make full employment and any other social reforms futile or impossible. Bargaining for wages must be responsible, looking not to the snatching of short sectional advantages, but to the permanent good of the community. Choice of occupation means freedom in choosing between occupations which are available; it is not possible for an individual to choose to be an Archbishop of Canterbury, if that post is already filled by another. Work means doing what is wanted, not doing just what pleases one. All liberties carry their responsibilities. This does not mean that the liberties themselves must be surrendered. They must be retained.

17. In all the respects named, and possibly in some others, the problem of maintaining full employment is more complicated in a free society than it would be under a totalitarian regime. From one complication of some historic importance the problem, as posed here, is free. The list of essential liberties given above does not include liberty of a private citizen to own means of production and to employ other citizens in operating them at a wage. Whether private ownership of means of production to be operated by others is a good economic device or not, it must be judged as a device. It is not an essential citizen liberty in Britain, because it is not and never has been enjoyed by more than a very small proportion of the British people. It cannot even be suggested that any considerable proportion of the people have any lively hope of gaining such ownership later.

18. On the view taken in this Report, full employment is in fact attainable while leaving the conduct of industry in the main to private enterprise, and the proposals made in the Report are based on this view. But if, contrary to this view, it should be shown by experience or by argument that abolition of private property in the means of production was necessary for full employment, this abolition would have to be undertaken.

DIAGNOSIS OF UNEMPLOYMENT

19. The meaning and purpose of full employment and the limiting conditions under which it is aimed at in this Report have now been stated. The methods to be adopted depend on diagnosis of the evil to be cured. The Report on Social Insurance and Allied Services began with a diagnosis of Want. The present Report takes as its starting-point a diagnosis of unemployment. Part II, on "Unemployment in Peace," sets out, first, the facts of unemployment before the first World War and between the wars, and second, some of the theories of employment and unemployment by which economists have explained these facts. It combines facts and theories in a concluding section on "The New Face of Unemployment" (paragraphs 137-44). The broad results of this diagnosis are as follows:

20. The volume of unemployment at any time in any community depends upon factors of three kinds: on the factors determining the quantity of the effective demand¹ for the products of industry; on the factors determining the direction of the demand; and on the factors determining the manner in which industry responds to the demand. There will be unemployment if effective demand is not sufficient in total to require use of the whole labour force of the community. There will be unemployment if effective demand, though adequate in total, is misdirected, that is to say, is demand for work of a kind which cannot reasonably be performed by the available labour, or in a place to which the available workmen cannot reasonably be expected to move. There will be unemployment if industry is so organized, that in meeting effective demand it carries excessive reserves of labour standing by to meet local and individual variations of demand, or if there are obstacles which prevent labour from following changes in demand.

21. In Britain, throughout the period between the two wars, the demand for labour was seriously deficient in total in relation to the supply. Large parts of the country experienced chronic mass unemployment (paragraphs 75-82). No part of the country had demand for labour exceeding the supply except possibly for particular classes of labour for a few months at the top of each cyclical fluctuation.¹ In 1937, which was the top of a cyclical fluctuation, representing therefore the best that the unplanned market economy could do, there were in Britain 1 $\frac{3}{4}$ million unemployed, more than 10 per

¹ See Explanation of Terms in Appendix D.

cent of the labour force. There were not in the busiest month of 1937 more than a few thousand unfilled vacancies at the employment exchanges, that is to say there were always many times as many unemployed men as vacant jobs (paragraph 113). In most of the other years between the wars unemployment was much greater than in 1937.

22. The demand for labour was not merely inadequate but misdirected. If the demand as a whole had been so much greater quantitatively as to equal the supply as a whole, but had been directed locally in the same way, that is to say, preserving the same proportions between the different regions of Britain, this demand would have failed to abolish unemployment; there would have been large numbers of unfilled vacancies and of men who could not or would not move to fill them, and could not reasonably be required to do so. No doubt a high demand of this nature would have reduced unemployment by drawing more people away from the depressed areas to the relatively prosperous areas, but it would have done this only at the cost of still greater housing and transport congestion in the prosperous areas, and of still greater breaking up of families, destruction of communities and waste of social capital in the distressed areas. Deficiency of demand and misdirection of demand are two independent evils. A much higher demand than the actual demand, misdirected in the same way, would have left much unemployment untouched. On the other hand, the same total demand directed evenly to all parts of the country, while it would have avoided some of the social evils of concentrated unemployment, would have left the same total of unemployment spread evenly throughout the country. The evil of misdirection lay in the demand being directed to the wrong places rather than in its being directed to the wrong industries. The great changes that did, in fact, occur in the numbers following different industries between the wars show that the labour supply is more fluid as between industries than it is between localities (paragraphs 78-9 and 110-12). It is easier for men and women to change their occupations and it is much easier for boys and girls to choose their first occupations, with reference to the demand in particular industries, than it is for workpeople of any age to move their place of residence. For some people age and family ties make movement almost impracticable. Leaving home in pursuit of new occupations is often a tonic in individual cases, but is a poison if taken in large quantities, involving destruction of communities.

23. The organizational factors in unemployment, which were the

main theme of my first study before the first World War, continued between the wars, bringing about heavy unemployment in particular industries irrespective of the state of demand. The working of these factors and in particular the disorganization of the labour market, is illustrated by the high unemployment rates¹ in particular industries persisting through good times and bad times alike in spite of a rising demand (paragraphs 63-7); by the over-stocking with labour of the building industry, which between 1924 and 1937 simultaneously increased its employment by a half, and doubled its unemployment (paragraph 109): by the chronic 30 per cent of unemployment in dock and harbour service (paragraphs 107-8).

24. Of the various factors in unemployment named above, deficiency of total demand is the most important. It is true that in one sense there is no demand for labour as a whole because every demand is specific: for a person of a particular quality and sex to do particular work in a particular place. In the same sense, there is no supply of labour as a whole; there are only persons of different sexes, ages and mental and physical capacities, in different places, with varying degrees of specialization and adaptability and varying degrees of attachment to the places in which they are. This is true and the existence of friction in the labour market as a factor in unemployment must never be forgotten. But it is also true that the separate demands for labour in each industry and place at any moment add up to a total which in comparison with the total number of separate persons seeking employment at that moment may be relatively high or relatively low. This relation of total demand to total supply is the most important single element in the problem. It affects the position in every industry, without exception, whatever the special circumstances of the industry may be, because depression in one industry reacts upon other industries in two ways. It reduces directly or indirectly the demand for the products of these industries. It increases the number of people seeking employment in them, in relation to the demand. The excessive pressure during depressions to enter other industries which are least affected by it is amply illustrated by the facts set out in paragraphs 71-3.

25. Before the first World War the adequacy of the total demand for labour, except in times of recurrent depression through cyclical fluctuation, was generally taken for granted. The problem of unemployment presented itself as a problem, on the one hand of organizing the labour market so as to shorten the intervals between jobs and to "de-casualize" the casual occupations, and on the other hand

¹ See para. 54 and Explanation of Terms in Appendix D.

of mitigating cyclical fluctuation; this was generally supposed to be a monetary phenomenon susceptible of cure by banking policy. After the first World War unemployment in Britain was materially greater than anything experienced before, probably on an average two and a half times as severe as in the thirty years up to 1914 (paragraphs 90-2 and Appendix B, Section 3). The adequacy of total demand could no longer be taken for granted; the new economic theories taught that there was no automatic mechanism for keeping supply of labour and demand for labour painlessly in equilibrium (paragraphs 120-1).

26. The unemployment experienced in the United States between 1930 and the outbreak of the second World War was also materially greater than anything experienced before (paragraph 138 and Table 16). In Britain two factors were at work:

- (a) drastic reduction of overseas demand which, through failure of the market economy to develop any compensating home demand, led to chronic structural unemployment during almost the whole period between the two wars;
- (b) The cyclical depression which followed 1929 and though less severe in Britain than in the United States was more severe than most previous depressions.

The exceptional unemployment of the United States cannot be attributed to any outside factor such as failure of overseas demand; the depression in the United States was intensified and prolonged by the actions taken by other countries to deal with their difficulties, but to a large extent these were a natural consequence of the depression itself and would be repeated in similar conditions.

27. The Great Depression of 1931-32 was in itself of the same type as previous depressions. Although more severe than anything previously experienced and though its effects in Britain were increased by structural unemployment due to the secular decline of overseas demand, the cyclical movement from 1929 to 1938 is a lineal descendant of the successive fluctuations which have brought insecurity to all advanced industrial countries with an unplanned market economy ever since industry took its modern form (paragraph 100 and Appendix A). So far as the United States is concerned, there is no reason for confidence or even for hope that the economic system which produced this depression, if left to itself, will fail to reproduce similar depressions in future. So far as Britain is concerned, while there was after the first World War a special factor of failure of overseas demand, there is equally no assurance that

other special factors will not recur and if added to cyclical fluctuation will produce intolerable unemployment.

28. Though it is clear that unemployment between the two wars in Britain and in America was worse than it was before the first World War, we are not in a position really to say how bad things were before 1914 because there is no full record. Three facts, however, are certain. First, that in five years out of every six during the last thirty years before the first World War, the demand for labour generated in the British economy was deficient in relation to the supply (paragraph 56). Second, that cyclical fluctuation in Britain in the second quarter of the nineteenth century, though affecting a smaller proportion of the population, was in itself almost as violent as between the two wars (paragraph A 28 in Appendix A). Third, that shifting in the location of industry produced structural unemployment in Britain before the first World War of the same type, though not so serious in scale, as that experienced between the two wars (paragraphs 93-4).

29. While the main evil of unemployment is in its social and human effects upon the persons unemployed and upon the relations between citizens, the purely material loss of material wealth involved in it is serious. If the unused labour resources of Britain between the two wars could have been brought into use it would have been possible without any further change to increase the total output of the community by approximately one-eighth (paragraph 170).

ANALYSIS OF WAR ECONOMY

30. The diagnosis of peace conditions in Part II leaves no doubt as to the central weakness of the unplanned market economy of the past; its failure to generate sufficient steady demand for its products, with local misdirection of demand and disorganization of the labour market as subsidiary weaknesses, all issuing in unemployment. The repeated experience of war is that unemployment disappears. The conditions under which this happens include notorious interference with liberties that are essential for peace—by rationing, by direction of labour, by prohibition of withdrawal of labour in disputes. But the examination of full employment in war that is made in Part III suggests that these interferences arise from the special character of the war objective and its urgency, and are in no way essential to full employment. The examination shows that the supposed distinction between the destructive occupations of those who fight and the productive occupations of the civilian population

is unreal: both classes are required for vital purposes. The experience of war is relevant to peace: that unemployment disappears and that all men have value when the State sets up unlimited demand for a compelling common purpose. By the spectacular achievement of its planned economy war shows also how great is the waste of unemployment. Finally, war experience confirms the possibility of securing full employment by socialization of demand without socialization of production. With that the way is opened for outlining in Part IV a Policy for Full Employment in Peace.

THE NATURE OF A FULL EMPLOYMENT POLICY

31. As unemployment has three distinct sources, action against unemployment must be taken on three lines—of maintaining at all times adequate total outlay;¹ of controlling the location of industry; of securing the organized mobility of labour. The first of these is the main attack: the others are subsidiary—mopping-up operations. Employment depends on outlay, that is to say on the spending of money on the products of industry; when employment falls off, this means that someone is spending less; when employment increases, this means that in total more is being spent. The first condition of full employment is that total outlay should always be high enough to set up a demand for products of industry which cannot be satisfied without using the whole man-power of the country: only so can the number of vacant jobs be always as high as or higher than the number of men looking for jobs. Who is to secure that the first condition is satisfied? The answer is that this must be made a responsibility of the State. No one else has the requisite powers; the condition will not get satisfied automatically. It must be a function of the State in future to ensure adequate total outlay and by consequence to protect its citizens against mass unemployment, as definitely as it is now the function of the State to defend the citizens against attack from abroad and against robbery and violence at home. Acceptance of this new responsibility of the State, to be carried out by whatever Government may be in power, marks the line which we must cross, in order to pass from the old Britain of mass unemployment and jealousy and fear to the new Britain of opportunity and service for all.

32. Assuming that this decision has been taken, the outline of a Policy for Full Employment is set out in Part IV. The essence of the

¹ See Appendix D and paras. 175-9 in Part IV for explanation of the term "outlay."

Policy is the setting up of a long-term programme of planned outlay directed by social priorities and designed to give stability and expansion to the economic system. The main instrument of the Policy is a new type of Budget. The programme is not concerned simply with public outlay—undertaken directly by the State or by local authorities. In a free society the greater part of the total outlay on which employment depends will be the spending of their personal incomes by private citizens. In a society which preserves a large measure of private enterprise in industry, a substantial part of the total outlay will take the form of private business investment. The State, though in a free society it does not seek to control the spending of private citizens, either in amount or in direction, can influence their spending—cannot indeed avoid influencing it by taxation and other forms of fiscal policy. The annual Budget, therefore, is an instrument not only for determining public outlay, but also for influencing private outlay.

33. The long-term programme outlined in Part IV covers outlay of all kinds, under each of five heads. There is communal outlay on non-marketable goods and services, including defence, order, free education, a national health service, roads, drains, and other public works. There is public business investment in industries now under public control or which may be brought under it hereafter, increasing the sector of enterprise in which investment can be expanded steadily. There is private business investment; here through a new organ—described as a National Investment Board—the State, while preserving private enterprise, can, by appropriate measures, co-ordinate and steady the activities of business men. There is private consumption outlay—the largest head of the five; this can be both increased and steadied by State action in re-distributing income, by measures of Social Security, and by progressive taxation. There is a new head—described as joint consumption outlay—under which the State takes the initiative by placing collective orders—for food, fuel and perhaps other necessaries—with a view to re-selling them later to private consumers at a price which may at need be lowered by a subsidy. Under this last head the State can influence both the amount and the nature of private outlay, while still leaving it free.

34. The novelty of the new type of annual Budget will lie in two things: first, that it will be concerned with the income and expenditure of the community as a whole, not only with public finance; second, that it will take the man-power of the country as a datum and plan outlay to that datum rather than by consideration of

financial resources. The Minister introducing the Budget, after estimating how much private citizens may be expected to spend on consumption and on investment together under a condition of full employment, must propose public outlay sufficient, with the estimated private outlay, to bring about that condition, that is to say to employ the whole man-power of the country. This is the cardinal principle. It leaves unsettled the question of how the means are provided to meet this outlay—in particular the division between taxation and borrowing—and the question of the purposes to which outlay is directed—including the division between public and private outlay or between consumption and investment. These and other questions are examined in Part IV, where it is shown that there are several alternative routes to full employment. The best route at any time depends on the circumstances of the time.

35. A long-term programme of planned outlay does not mean an invariable programme. It will be adjusted continuously to changing circumstances by the annual Budget. Its whole character may change gradually, with rising productivity or changing views of social justice. The guiding principle is that of social priorities—of putting first things first. Different societies or the same society at different times may take different views of what comes first, that is to say of what are the most urgent needs. On the view taken in this Report, the most urgent tasks in Britain, once war is over, are, on the one hand, the making of a common attack on the giant social evils of Want, Disease, Ignorance and Squalor, and on the other hand, the re-equipping of British industry, whether in private or public hands, with new and better machinery to ensure a steady increase in the standard of life; industry for this purpose includes agriculture. It is to these tasks that the productive resources of the nation should first be directed, as they become disengaged from total war. These are the common tasks for what is described in this Report as the reconstruction period, perhaps 20 years long, that should follow the transition period, perhaps of two years after total war ends, through which we pass from war to peace; as progress is made with these tasks, new needs will come to the fore and new aspirations will have play. In attacking the four giant evils named above, we shall reduce also the evil of Inequality, at the points where it is most harmful. But when that attack has reached its objectives, it will still be desirable and may appear the best route to full employment to take continuing measures towards a more equitable distribution both of material resources, so that they are spent in place of being saved, and of leisure, so that leisure replaces unemployment.

LOCAL AND QUALITATIVE ADJUSTMENT OF LABOUR DEMAND AND SUPPLY

36. The Policy for Full Employment set out in Part IV, in addition to its main feature of adequate total outlay, includes two subsidiary measures—controlled location of industry and organized mobility of labour. The first of these is required in the main for reasons other than prevention of unemployment: to deal with the Giant Squalor, that is to say with the evils of congestion, over-crowding, ill-health, bad housing, and destruction of urban and rural amenities alike, which are described in the Report of the Royal Commission on the Distribution of the Industrial Population. But need to prevent local misdirection of demand for labour, and the unemployment that may result from it, is an additional reason for this control. It is better, and less of an interference with individual lives, to control business men in the location of their enterprises than to leave them uncontrolled and require workpeople to move their homes for the sake of employment. Control by the State of location of industry is the alternative both to the compulsory direction of labour and to the making of distressed areas. For this new function, a new organ of the State is needed. Planning of Town and Country, Transport, and Housing all hang together and should probably come under the general supervision of a Minister of National Development.

37. The other subsidiary measure is organized mobility of labour, not mobility as such. Naming it does not imply a view that under a full employment policy work-people will constantly need to shift their homes or occupations. On the contrary, most of them will be able to enjoy more stability than ever before. Much fruitless unguided wandering in search of work will come to an end. The industries which, by practising casual employment, have in the past accumulated and relied on excessive reserves of under-employed labour, will find this impossible under full employment in peace, as they have found it impossible in war. Whether or not the use of the employment exchanges is made compulsory for all classes of vacancies, it should be compulsory in respect of all persons under eighteen, so that the flow of adaptable youth into industries may be wisely directed. Changes in the demand for labour are inseparable from progress, that is to say from the raising of the standard of life. Organized mobility means that if and when change is necessary, men and women shall be willing to change their occupations and their places of work, rather than cling to idleness. It does not mean perpetual motion.