

Planning Full Employment*

Joan Robinson (Attributed to), *The Times*, January 22 & 23, 1943

I. The Need For a Constructive Approach

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A National Investment Policy

The government have promised that after this war, mass unemployment will not be allowed to recur; but beyond vague allusions to public works policy, there has been very little official discussion of the means necessary to implement that promise. It is not long since the "Treasury view" that public expenditure could not increase employment still dominated official opinion, and the abandonment of that view appears to have left a vacuum in its place. For 10 years economists, under the leadership of Mr. J. M. Keynes, carried out a campaign against the Treasury view of 1929. The campaign, on the plane of argument, was almost completely victorious; and now war-time experience seems to indicate that public expenditure and public control on a sufficient scale can remove unemployment. The onus of proof is at any rate upon those who argue that it cannot. But it is not enough to win victories in argument. A constructive approach to the problem is now required.

It is widely agreed that the fundamental cause of mass unemployment lies in the failure of consuming power to keep pace with productive power in an unregulated economy. A Beveridge plan (or a super-Beveridge plan), combined with minimum wage legislation, would put purchasing power into the hands of those who would need it most, and so ensure an enlarged and stabilized home market for consumption goods. But the demand for investment goods continually fluctuates with the prospect of profit, and this is the prime mover in the general fluctuations of trade. If the authorities had control over a sufficient proportion of the demand for new capital equipment, these fluctuations could be damped down, if not completely eliminated. By these means a higher and more stable level of useful productive activity could be maintained for the community as a whole.

The Balance of Trade

The first obstacle lies in the difficulties which such a policy involves for the balance of trade. A continuous high level of activity in this country must increase the demand for imported goods. But our means to pay for even our pre-war level of imports have been seriously impaired by the loss of foreign assets, the earnings of which formerly brought us tribute from the world, and the outlook for our export industries, including shipping services, is unsettled. Under the old system the balance of trade was forcibly maintained by the high level of unemployment. A sufficiently low rate of industrial activity, and a sufficiently large proportion of the population living in

* Source: [Gary Langer](#). Reprinted in Joan Robinson, *Collected Economic Papers*, vol. I, 1951, pp. 81-88.

penury, automatically cuts down the consumption of imports to the measure of exports. But if this is the only solution which laissez-faire has to offer, it can scarcely be doubted that the answer of the British people will be: "So much the worse for Laizzez-faire."

If full employment is sought, the balance of trade must be maintained, on the one hand by controlled direction and stimulation of exports, and, on the other hand, by a system of priorities for imports which will give precedence to the more over the less necessary. If imports are controlled, the stimulation of productive activity at home, through public investment or any other means, leads to an increased home consumption of home produced goods, and constitutes no threat to the balance of trade. The controls at present operating over the foreign exchanges and over imported raw materials provide the foundation for a system which can at one and the same time regulate the balance of trade and allow home activity to rule at a level which would make it possible to fulfil the promise to abolish mass unemployment. A corollary is continued control over international capital movements so that home policy is not at the mercy of the sudden flights of "hot money" which wrecked many national experiments in the last 10 years before the war.

On the purely technical economic level a solution can thus be found for the problem of unemployment. But the fact must be faced that formidable difficulties on another level are bound to arise. In economic matters it is a good wind that blows nobody ill and it is impossible to find any policy which does not damage some sectional interest within the community.

Public-works policy is a case in point. The leaders of industry, represented by the report of the Federation of British Industries on Reconstruction by the 120 industrialists who signed "A National Policy for Industry," have accepted the principle of public works, and rely upon them to rescue industry from a threatening slump. But (to quote the latter document) they must be "confined to 'public' works, i.e., new roads, water supplies, housing, and the like." That is to say, Government investment must be confined to spheres which in no way compete with profitseeking capital. These spheres are narrow. It is possible to imagine a point beyond which road building and the like might become an even less advantageous method of curing unemployment than the famous expedient of digging holes in the ground and filling them up again. This method at least leaves no traces behind, while unnecessary roads occupy space that might be better used.

Uneconomic Risks

If a sufficient volume of useful investment cannot be found in purely "public" works, the industrialists suggest that private investment should be subsidized:

For alleviating unemployment the State might be called upon to take, on suitable terms as to interest and repayment, a share of what would be an uneconomic risk for private industry.

Even if there were no objection on general grounds to subsidizing private investments, it would be an extremely weak defence against the onset of a slump. For the characteristic of a slump is the disappearance of prospective profits, and no practicable reduction in the cost of borrowing can induce firms to embark upon capital expansion when the prospects of profit are nil. It seems, then, that the

proposals of the industrialists may lead to an impasse. There may be a large mass of labour which they are unable to employ at a profit, but they may be reluctant to allow the State to embark on enterprises on a broad enough scale to employ it.

There are a number of spheres of activity in which operation through public corporations, on a non-profit basis, can be justified on its own merits, quite apart from the employment problem. If these were taken out of the hands of private enterprise, long vistas of useful investment would be opened up. A national medical service, such as Sir William Beveridge foreshadows, would require a large volume of investment, not only in the bricks and mortar of health centres and sanatoria but in training medical and nursing staff on a scheme of State bursaries. House-building is conceded, at least in part, by the industrialists to be a proper sphere for public investment, and this opens up a huge field. Public operation of transport opens another, fuel and power a third.

A New Setting

If such large spheres of investment spending were under control the whole setting of public works policy would be altered. Hitherto public works have been advocated as a makeshift device for stabilizing the trade cycle. The suggestion has been that private industry should always have the first pick, and that the State should find work on something or other to occupy the unemployed until private industry wants them once more. But if the main spheres of investment were under public control, operating within the framework of a general plan, the emphasis would be altered. The investment considered on general grounds the most advantageous would take precedence and investment in private industry would be rationed under a system of priorities. A combination of stability with rapid progress in capital accumulation could then be achieved.

But even if the problem of mass unemployment were thus solved, a fresh crop of problems would spring up; for it is by no means a simple matter to remove unemployment and leave everything else the same.

II. Alternative Solutions to a Dilemma

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Is There a Middle Course?

Full employment is an ambiguous concept. No one, at the most optimistic, expects a complete disappearance of unemployment, and no one desires the continuance in peace-time of the super-full employment which we are enduring now with all the social stresses it implies. Occasional and temporary unemployment, provided that social services are adequate, is not a grave evil, and we may suppose that the objective of the policies discussed in the preceding article is to reduce unemployment to a moderate amount. Supposing the policies are successful, fresh problems arise. Unemployment is not a mere accidental blemish in a private enterprise economy. On the contrary, it is part of the essential mechanism of the system, and has a definite function to fulfil.

The first function of unemployment (which has always existed in open or disguised forms) is that it maintains the authority of master over man. The master has normally been in a position to say: "If you don't want the job, there are plenty of others who do." When the man can say: "If you don't want to employ me, there are plenty of others who will," the situation is radically altered. One effect of such a change might be to remove a number of abuses to which the workers have been compelled to submit in the past, and this is a development which many employers would welcome. But the absence of fear of unemployment might go farther and have a disruptive effect upon factory discipline. Some troubles of this nature are being encountered to-day, but in war-time the overriding appeal of patriotism keeps them within bounds. In peace-time, with full employment, the worker would have no counterweight against feeling that he is employed merely to make profits for the firm, and that he is under no moral obligation to refrain from using his new-found freedom from fear to snatch every advantage that he can. Payment by results might overcome these difficulties to some extent, but would be unlikely to remove them altogether.

The Vicious Spiral

The change in the workers' bargaining position which would follow from the abolition of unemployment would show itself in another and more subtle way. Unemployment in a private-enterprise economy has not only the function of preserving discipline in industry, but also indirectly the function of preserving the value of money. If free wage-bargaining, as we have known it hitherto, is continued in conditions of full employment, there would be a constant upward pressure upon money wage-rates. This phenomenon also exists at the present time, and is also kept within bounds by the appeal of patriotism. In peace-time the vicious spiral of wages and prices might become chronic. This would bring a variety of evils in its train. It would greatly complicate the problem of controlling international trade, since it would require off-setting movements in exchange rates. It would make hay of the social security program. It would bring about an arbitrary redistribution of real income within the country, rentiers, salary-earners, and ill-organized workers losing relatively to the members of the strong trade unions, who would secure the greatest wage advances, and to the industrialists, who could recoup themselves for rising costs by raising prices. Finally, if it moved too fast, it might precipitate a violent inflation.

Two solutions of the dilemma presented by full employment are offered to the modern world. Under Fascism, the trade unions are broken; direct terror, supplemented by a mystical propaganda appeal, is substituted as a means of discipline for the fear of unemployment, wages and prices are controlled, and full employment, mainly directed to building armaments, is thus made possible. Socialism presupposes the opposite solution. The long and bitter antagonism between capital and labour is to be brought to an end when capital becomes the property of the community as a whole. An appeal, similar to the appeal of patriotism which saves us in war-time from the perils attendant on full employment, is to cement discipline and make State wage-regulations acceptable.

Is there a third course? Sir William Beveridge has spoken of a "British revolution." It was argued in the preceding article that to control employment it would be necessary to remove certain substantial spheres of activity from the hands of private enterprise. In the remaining sphere price control, limitation of profits, and full publicity in respect of costs (as advocated by the 120 industrialists in "A National Policy for Industry"), combined with a social security program at least as generous as that proposed by Sir William Beveridge, and with an extension of works councils which would give the workers a voice in the day-to-day affairs of the factory, might produce a situation in which the workers would be prepared to accept discipline to the necessary and reasonable extent, and to accept an over-all wage treaty which would prevent the vicious spiral from setting in.

Flexibility

A state of full employment would require a further modification of the status of the workers. No national plan, however skilfully devised, can guarantee everyone work in his own trade, and, even if it were possible, it would be highly undesirable to allow the distribution of labour which happened to exist at the outset of planning to exercise a permanent influence in distorting the pattern of production. If stability is to be combined with progress, obstruction from whatever source to the introduction of new techniques cannot be tolerated. And a high degree of flexibility, conflicting in many ways with rigid trade union rules, is a necessary condition for running industry at a continuous high level of activity.

Many practices which trade unionists themselves admit to be restrictive have their historical justification in the fear of unemployment. It is the right of a man to his trade which is defended by them, and the elaborate system of taboos which prevent one man doing another man's job has its justification in reluctance to take the bread out of someone else's mouth. Restrictive regulations upon employment are not confined to industrial trade unions. It is scarcely to be doubted that the difficulties placed in the way of women medical students have their roots in fear of increased competition in a limited market. National protectionism and monopoly restrictions of all kinds are based upon the same fear.

If a full employment policy were successfully carried out, the *raison d'être* of trade union obstructions to flexibility would disappear, and machinery could be set up for solving the problems involved, in a reasonable manner and in consultation with the workers themselves. Sir William Beveridge advocates retraining on a maintenance allowance as part of his scheme of unemployment relief. Greater flexibility of hours of work could be used to deal with minor fluctuations in activity, in place of the present brutal system of standing men off when trade is slack. These problems can all be solved. But they can only be solved after the problem of unemployment has been dealt with, since fear of unemployment lies at the root of them all. It is of no use to demand flexibility first. The trade unions will not give up their hard-won defensive positions in exchange for a mere pious hope that unemployment will not recur.

Facing the Facts

The foregoing discussion has brought to the surface a disagreeable dilemma, which must be squarely met if intellectual confusion and economic and social disaster are

not to ensue. The fact that unregulated private enterprise and continuous full employment are incompatible must be frankly faced, if we are not to drift blindly in the fog. The existing system is nowadays usually defended on two grounds. The first is that our existing Civil Service, so admirably adapted to *laissez-faire*, is often inept in handling industrial problems. This may well be true but it is irrelevant, since it is obvious that a wholly different type of organization would have to be created in order to carry through a positive economic policy. The second is that unregulated private enterprise has, over two centuries, brought about magnificent achievements of technical progress. This argument is also irrelevant: for whatever the past achievements of private enterprise, regulation is now required to ensure further progress. Once it is clear that mass unemployment is the price that must be paid, probably at an increasing rate, for the unregulated economy of the past, further argument becomes unnecessary—even if there were no other reasons why unregulated private enterprise is inadequate to deal with the problems of modern industry.