

## STABILITY OR FULL EMPLOYMENT?

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THE level of unemployment rose steadily during 1958. On January 13th, 1.8 per cent of the insured population were out of work, but by December 8th this figure had risen to 2.4 per cent, and there was a further rise to 2.8 per cent by January 12th, 1959. Although these figures may be explained in part by recession abroad and a fall in British exports, the chief explanation is undoubtedly the effect on the economy of the raising of Bank Rate and the associated monetary measures taken to protect the pound in 1957. Important fundamental questions are raised by this rise in unemployment. It is clear that unless a government is determined to maintain the very low unemployment figures that we have become accustomed to in the post-war period, the level of unemployment is likely to rise as a result of changes in external circumstances or of measures intended to promote price stability at home.

Most people would agree that full employment and price stability are both desirable objectives. On the other hand, opinions differ as to whether or not the two objectives are compatible. Some Catholics may be inclined to believe that there is really no problem: if price stability can only be achieved at the expense of full employment, then the human waste and suffering caused by unemployment is too great to be contemplated with equanimity. They may feel that they have the authority of the Church behind them in taking this view. The *Scottish Catholic Herald* recently reported a statement by the Cardinal Archbishop of Bordeaux to the effect that unemployment should never be used as an instrument of policy and contrasted this with the view of some British economists 'who pretend that unemployment serves a useful purpose'.<sup>1</sup> There is always some danger in considering statements on social questions out of their context, and it is particularly easy for a highly condensed newspaper report to carry an implication that was intended neither by the original speaker nor the reporter. Indeed, it may have been impossible even in the original statement to introduce all the qualifications that are necessary to a full understanding of the subject.

<sup>1</sup> 13th March, 1959.

Cardinal Richaud's statement that unemployment should never be used as an instrument of economic policy is, of course, perfectly valid and of universal application. The mistake would be to assume that it would be wrong in all circumstances to adopt economic policies that increase the level of unemployment. Whether or not such policies are permissible will depend upon the particular circumstances and upon the other consequences of such policies, a matter where it is necessary to look for guidance to economic theory rather than moral theology.

It is desirable in considering recent events in Britain to look at the pre-war picture in order to get the right perspective. At the end of 1958 there was over half a million people unemployed or 2.4 per cent of the insured population. The average number unemployed during 1939, one of the more prosperous of the inter-war years, was over one and a half millions, just about three times as many. In 1944, there were two important documents published on full employment, a government white paper on *Employment Policy* and Sir William (now Lord) Beveridge's *Full Employment in a Free Society*. Both recognized the impossibility of achieving full employment in the literal sense of the words. The government white paper thought in terms of keeping unemployment to something like 8 per cent of the working population, quite a low figure compared with the disastrous levels of the early 'thirties. Beveridge was more optimistic, but even he thought that the level of unemployment could not be kept for any length of time below 3 per cent and that at times it would be higher. Thus although the level of unemployment rose during 1958, it remained low by pre-war standards. Should we be unduly alarmed by this recent rise in unemployment and do all in our power to reduce it again to the level of 1955-56, when it was barely over 1 per cent, or should we, whilst recognizing the evils that unemployment entails, refuse to be panicked into taking measures that whilst curing unemployment have other adverse effects on the economy?

It is important to realize that Cardinal Richaud's reported statement was that unemployment should not be *used* as an instrument of policy. This is not the same thing as saying that it is always necessary to avoid economic policies that *involve* a rise in the level of unemployment, though obviously such policies are ruled out if other policies can achieve the same desirable ends

without the harmful effect on the level of employment. To some, the distinction may appear to be hair-splitting, but it is one that is well established in dealing with cases involving a 'double effect'. In general, an action that is not intrinsically immoral is justified if the following conditions are satisfied: (1) the harmful or evil effects are permitted but not intended; (2) the good does not follow directly from the evil; (3) the good achieved is sufficient to outweigh the evil consequences; and (4) there is no reasonable alternative means of achieving the desired good.

The third of these conditions can be disposed of fairly easily. The evils of unemployment are obvious enough, and because they are so obvious that may be exaggerated in relation to other evils. The evils of inflation are less obvious, and for that reason may be overlooked, especially by those who prosper during inflation as many employers, shareholders and employees do. There are, however, many people who depend on relatively fixed incomes, and who are forced to accept a lower standard of living as prices rise. Many pensioners are in this kind of position. Surely, the sufferings of old people who are robbed of the real value of their pensions by rising prices are just as worthy of our sympathy as those of the unemployed? And there is the further question of the injustice that is involved. Moreover, it is not enough to say that the State can relieve the sufferings of the retired and others in a similar position. To some extent it can, but we must beware of accepting this facile solution for it is one that makes a man dependent in old age or other misfortune upon the State instead of making it possible for a man whilst working to accept that responsibility for making provision for his own and his family's welfare which he should, as a rational creature.

There are people in Britain today who attribute the inflationary spiral to the unreasonable wage demands that are put forward with such regularity by the trade unions. Their approach to the problem of inflation would be deliberately to raise the level of unemployment sufficiently to undermine the bargaining power of the trade unions and thus to stop their demands. Even if their analysis of the situation were right, the remedy would be wrong. Unemployment is an evil, and the evil end would be intended and the good would follow from it. Other remedies would have to be sought.

In fact, however, there are probably few if any competent

economists who would accept either this analysis or remedy. A continuous spiral of rising wages and prices cannot be brought about by trade union pressure alone. In the absence of monetary expansion, the process of rising wages and prices would rapidly come to an end, and there would probably be some rise in unemployment independently of deliberate government action. For example, as wages rose some employers with limited working capital would be unable to pay the higher rates to all their workmen, even if they anticipated being able to sell their products at prices that would cover their increased cost of production. The higher wages and the existing level of employment could be maintained only if there was some expansion in the money supply and the banks were permitted to lend this new money to firms to provide them with necessary working capital.<sup>2</sup> Where such a monetary policy was pursued, there would be a tendency for prices generally to rise, and this might wipe out the gains achieved by the unions, which would then present further demands. In this way, a continuous inflationary spiral might develop. It is certainly no duty of a government to insist upon a monetary policy of this kind being adopted, even if the consequence of not doing so is to allow some increase in the level of unemployment to occur. But in this case there is no intention on the part of the government to raise the level of unemployment, and such an attitude would be quite legitimate.

Whilst most economists would agree that a cost (or more specifically a wage) inflation on the lines outlined above could occur, there would be no general agreement that the post-war inflation in Britain has been of this kind. The alternative explanation is that it has been brought about by an excessive demand for goods and services. There has been heavy government spending on defence and the social services, there has been heavy spending on investment in industry (though whether it has been sufficient is another matter), and the ordinary citizen has had money left in his pocket to spend freely on consumption. The sum of these demands has tended to run in excess of what our economy is capable of producing. It is for this reason that a balance of payments crisis, with imports exceeding exports, has been a common

<sup>2</sup> The analysis may be complicated but not fundamentally altered by the fact that inflation can occur without increases in the money supply if greater use is made of existing supplies.

feature of our post-war inflation: we have tended to import excessively to meet the demand that could not be met from our own resources. The scarcity of goods has been reflected in a scarcity of the labour needed to produce them, and competition among employers has forced wages up. There is good reason for believing that wages would have risen quite as rapidly in the absence of strong trade unions. The more rapid increase in earnings compared with basic wage rates is evidence for this view. The more rapid increase in earnings is not explained solely by the necessity for overtime working; employers have frequently had to offer 'over the odds' to attract the labour they require.

If this view of inflation is correct, the remedy would appear to be a restriction of demand. This can be done by high interest rates brought about by a restrictive monetary policy which aims at cutting investment, or by a budget surplus which mops up the excess purchasing power of the ordinary citizen and reduces expenditure on consumption. Such a policy would be likely to have, as one of its effects, some reduction in employment. There is no reason to suppose, however, that if the general state of the economy is healthy there should be any undue rise in unemployment; and this increase would not be the deliberate aim of the government.<sup>3</sup> Moreover, there would be no reason why any significant number of men should be without work for a prolonged period.

It is possible to argue that anti-inflationary measures in this country have been continued too long. Although the average level of unemployment for the country as a whole can hardly be described as catastrophic, another change is more significant. Whereas over much of the post-war period the number of unfilled vacancies notified to the Ministry of Labour has been substantially greater than the number of men out of work, the number of such vacancies fell steadily throughout 1958 whilst the number of unemployed rose. Whilst there are many who would regard Beveridge's definition of full employment, a state where there are

<sup>3</sup> If the distinction between deliberately creating and permitting an increase in unemployment still appears to be splitting hairs, it is well to recall the use of a similar distinction in a field where Catholics at least are quite agreed, though their attitude is by no means shared by those outside the Church. Thus a therapeutic abortion in a case where the mother's life is endangered by the pregnancy is never permissible because of the deliberate intention to kill the unborn child; on the other hand, a hysterectomy is permissible in a case of malignancy even though this kills the unborn child, because here the evil result is only permitted.

always more unfilled vacancies than unemployed workers, as one that is bound to involve inflation, the reverse situation is equally unsatisfactory. The increasing ratio of unemployed to vacancies must inevitably mean that the average duration of unemployment is increasing. At the beginning of 1958 there were 55 vacancies for every hundred men unemployed; by the end of the year this figure had fallen to 31, and the proportion of men out of work for eight weeks or more had risen from 42 per cent to 49 per cent. What is even more disturbing about this kind of development is the fact that older men will be the first to lose their jobs and will frequently be passed over in favour of younger men when vacancies are filled, so that they may virtually have no chance of obtaining another job.

Although it would be wrong to regard the average level of unemployment over the whole country as disastrous, there are certain elements in the situation that call for careful attention. First, any spell of unemployment must involve hardship for those affected. Even if the level of unemployment should fall again to the extremely low levels that characterized much of the post-war period, the effect on the individual will not be greatly changed although fewer individuals will be involved. Secondly, the average figure for unemployment over the whole country conceals considerable variation between regions. Thus in January 1959, the percentage unemployed in the London area was 1.7, in the Northwest 3.9, in Wales 4.6 and in Scotland 5.4. Of the London area, it could well be said that there was no problem of unemployment at all, for in general it would be extremely difficult to reduce the figure of 1.7 per cent. On the other hand, the amount of unemployment in Scotland, for example, was certainly greater than could be tolerated with equanimity in any community that values social justice.

The inadequacy of unemployment insurance has attracted little attention compared with retirement pensions. In the long run, however, it is a much more important question, for it is one that will always be present. Unemployment insurance is something that is probably beyond the ordinary channels for providing insurance facilities, whereas in time, given a reasonable level of earnings and employment, people could make their own provision for retirement pensions quite independently of any state scheme. Nor should it be difficult to overcome the practical problems

that would be involved. Within the framework of the present National Insurance scheme both contributions and benefits could be raised, though it might well be desirable to abandon the present system of flat rate benefits and contributions and to relate both to normal earnings.

The objection that is most likely to be put to this proposal is that the lower paid worker could not afford the higher contributions. This argument is not without some basis, but it is wrong in that it assumes that the increase in contributions could not be combined with other changes that would relieve the lower paid worker of other burdens he now carries. The man earning £9 a week, for example, a wage well below the present average earnings for adult men, pays on average roughly 10s. a week in tobacco duties. Taking beer duties into account as well, this figure is raised to about 15s. a week. There is therefore ample scope for introducing more realistic benefits and contributions into the National Insurance scheme or any modified scheme and shifting the burdens of taxation needed for general government spending to classes better able to bear them.<sup>4</sup>

To some extent, another approach is also possible. It might be possible to give many workers a greater measure of security in their jobs than they possess at present. Most industrial workers are subject to a week's notice; many may be liable to even shorter notice. The ordinary industrial worker can never expect to be given the same security of tenure as the teacher or civil servant, who is virtually ensured of continuous employment so long as he does not show gross incompetence or is guilty of some form of serious misconduct. Even quite senior employees of industrial firms are subject to a month's notice, and may be dismissed if the top management feels they are not getting satisfactory results. Nevertheless, where there is a question of redundancy arising because there has been a shift in demand or because there are new techniques being introduced which require fewer people there seems no reason why the ordinary manual worker should not be given at least a month's notice. On the whole, it should be possible to foresee redundancy that far ahead. In addition, facilities might be given to men during the period of notice to look for other jobs. In this way, some men might succeed in finding new jobs

<sup>4</sup> There would be a strong case for providing greater help for families at all levels of income, but this raises wider issues.

and starting at them before their period of notice had expired. In this way, much of the temporary unemployment which is now regarded as inevitable in a progressive economy could be avoided, and lower levels of unemployment achieved without the risk of inflation. This approach cannot, however, be the whole answer to temporary unemployment and its associated problems. There will always be cases where a man must be dismissed at short notice. A firm may be faced with some sudden crisis, or a man might be taken on who proves incapable of doing his job. There will always be some unemployment if men have to change jobs, and this can only be dealt with by some scheme that will give them adequate unemployment benefit during the period between jobs.<sup>5</sup>

The problems raised by localized unemployment are more difficult to solve. Two approaches are possible. The first is to try to bring work to the area of heavy unemployment and the second to move people to areas where jobs are available. Both may be needed to some extent, and both have this in common; they can be achieved only by deliberate action on the part of the state. The working of market forces alone will not bring about the necessary adjustments.

It is easy enough to understand why people are not always willing to move in search of jobs. They may have little knowledge of what jobs are available in other areas. Anything that could be done to improve such knowledge would be all to the good, but, even if this difficulty were overcome, others would remain. A family might not wish to move because it would mean breaking ties with relatives and friends living near them. Moving is both difficult and costly. It may not be easy to find accommodation from a distance, even if it is assumed that suitable accommodation will be available. Those living at subsidized rents in council houses, or in rent-controlled houses, will certainly not be able to find accommodation except at a considerably higher cost. Even if it is felt that some people are at present enjoying undeserved privileges in this matter, it does not alter the fact that it will make them disinclined to move. Finally, the cost of moving furniture, buying curtains and other household items where the old cannot be used again, personal fares, all add up; and generally this will all be in the *hope* of finding a job. The manual worker will rarely

<sup>5</sup> Unemployment benefit equal to something like two-thirds to three-quarters of normal earnings might be taken as a desirable target.



be engaged for a particular job *before* he moves, and if he moves and fails to get a job he is out of the frying pan into the fire.

It may be less obvious that industries will be reluctant to move to areas of heavy unemployment. At first sight, it might appear that there would be substantial advantages in moving to such areas rather than to areas of full employment. It would be easier for a firm to recruit the workers it needs in an area of unemployment. Basic wage rates may not be lower than elsewhere, because trade unions now generally secure uniform rates for the whole country, but with an adequate supply of workers, overtime working (which is expensive because it is paid at higher rates and because productivity falls) should be unnecessary and so should payments over and above the agreed rates. On the other hand, consumer goods industries now tend to concentrate near the markets, and areas of unemployment are by their very nature poor markets. Transport costs to the main markets will be higher. Where a new firm is entering an established industry, it may prefer to be near other firms in the industry. Even if labour is scarce, it will be able to get a share of experienced labour. The unemployed workers elsewhere may lack experience in the particular type of work.

Just as the unemployed worker may be ignorant of the prospects of finding work elsewhere, the industrialist may be ignorant of the possibilities of success in the areas of unemployment. Nevertheless, there will be cases where the industrialist would really run into higher costs if forced to move to one area rather than another of his own choice. How far is it desirable that industrial development should be steered to areas of unemployment, even if costs are raised? In considering this question of higher costs, it is important to realize that this is not merely a question of money. If money costs are higher, it is almost certainly a reflection of the fact that extra inputs of labour and capital are required to secure a given output in one area compared with another. Thus by steering industrial development to the areas of unemployment, a smaller output will be obtained from our limited productive resources. If this approach seems too materialistic, it may be added that extra production would enable us to give more assistance to less developed countries as well as providing more luxuries for ourselves with our reasonably high standard of living. This, however, is only an argument in favour of encouraging the mobility of labour rather than steering in-

dustries towards the workless. It is clearly better than some development should take place in areas of unemployment, for this will bring about some increase in output compared with the situation in which men remain idle.

There is another strong economic argument for steering industrial development towards areas of high unemployment. Costs are important, but the costs the industrialist considers may not include all costs that are relevant. Part of the cost of choosing a particular location is, if it involves men and women moving from one place to another, the cost of building houses, schools, hospitals and so on for them. All these are already available where they are living, and these costs could be avoided if industry instead of people moved. The case for choosing the site where costs are lowest is only valid if *all* costs are duly considered.

Whilst due weight should be given to these economic considerations they are not the only ones that are relevant. Some economic sacrifice may be considered worth while in order to preserve the health of local communities. When people move to jobs, it is usually the younger ones who are involved. The community left behind becomes unbalanced; it has an unusually high proportion of old people, and the vigour of community life is thereby reduced. Just how great an economic sacrifice the nation as a whole is prepared to make for the sake of preserving community life is a matter of judgment, and opinions may differ. It is possible, however, to outline one or two relevant considerations.

First, it may be argued that a man has a right to work. This right also means a right to work for a just wage. It does not follow, however, that he always has a right to work where he is living now, any more than he has a right to work of a particular kind. If men want to stay in a particular town, they should be willing to make some sacrifices, and there is no reason why wages in an area should not be allowed to fall *to some extent* in order to attract industries. To this extent, there is an argument against the present highly centralized system of collective bargaining.

Secondly, no private business enterprise can be forced to an area where it sees no long run prospect of earning reasonable profits. The government can, of course, prohibit further development in areas like London that are already badly congested, and it can help attract industries to certain areas by providing cheap factory accommodation and so on. Such assistance may enable a

firm to make a profit and make it worthwhile for it to go to a particular area. The possibility of steering industries to areas of unemployment, even at the risk of incurring higher costs, is greater where some quite new development is concerned than where it is a case of a new firm entering an established industry, for in the latter case the firm will have to meet competition from more favourably located undertakings.

In some cases, however, it will be necessary to encourage people to move to other areas in search of work. If, for example, a coal-mine has to be closed, it is reasonable to expect the miner to move to another village where he can get work in another mine. If fewer miners are required, he may have to move to a nearby town, for many mining villages would be totally unsuitable for factory development. Generous assistance should be given to those having to move, including in appropriate cases the legal costs involved in selling and buying a house. Even at the present rate of unemployment benefit, the cost of assisting such movement would be quickly recouped, and this would be doubly so if more adequate benefits were provided as suggested above. In this case, attention would also have to be given to the danger that a man might prefer to stay put and continue to draw unemployment benefit instead of moving to another job. Willingness to move to another job should be a condition of drawing benefit, though very great care should be taken before exercising coercive powers. In normal cases, a man should not be compelled to move unless he has been allowed a reasonable period in which to find another job. The numbers who would have to move need not be excessive, and there should be provision for ensuring that a man was not compelled to move where there were serious domestic difficulties.<sup>6</sup> The problem of unemployment is above all a human one, involving not only the hardships consequent upon the loss of income but the frustration of being unwanted, of having no role to play in the community. The problem is also an economic one, and a solution that ignores the hard facts of economic life is unrealistic. The above argument has been trying to show that it is possible to solve the problems raised by unemployment such as this country has experienced recently in a manner that fully respects human needs and takes account of economic realities.

<sup>6</sup> Where a man had virtually no chance of re-employment unless he moved, an exception would have to be made to this rule. Everything possible should be done, however, to help him with his difficulties.