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WAR AND UNEMPLOYMENT

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WAR AND UNEMPLOYMENT

IT is generally agreed that the White Paper on *Employment Policy* published last year marks a revolution in English official policy. My purpose—in spite of a rather ambitious title—is merely to offer a footnote to this revolutionary document by way of caution against expecting too much too soon. The White Paper, you will remember, accepts as one of the primary aims and responsibilities of Government the maintenance of a high and stable level of employment after the war. A country will not, it declares, suffer from mass unemployment so long as the total demand for its goods and services is maintained at a high level; provided therefore that the necessary expansion of external trade can be assured, widespread unemployment can be prevented by a policy of maintaining total internal expenditure. Immediately after the war, it goes on, there will be no problem of general unemployment; measures will be needed to relieve shortages and to prevent localized unemployment, but it is likely to be some time before the need arises to put into operation the long-term policy proposed for avoiding mass unemployment. A graph is appended to illustrate the fluctuations in employment over the period for which statistics are available; the text directs attention to the 'fairly regular cycle of unemployment —evidence of instability in our economic system'—revealed. The fact is mentioned that the average level of unemployment after the War of 1914–18 was higher than in the period before 1914; but only to attribute the difference to 'the special and continuing problems of the export trades'. It is this difference in average levels to which I wish to direct your attention; I shall try to show that it represents the effect of war on employment. If I am right, the unemployment problem with which the last war confronted the country had not been dealt with when the present war broke out, and the identical problem with which this war will confront the country will not be a transient condition which can be left to cure itself. Something more than the proposals of the White Paper in this matter—a continuation of controls to regulate prices and priorities and the erection of controls to direct the location of new enterprise—will be needed, if the influence of war in aggravating unemployment is not to be important for a generation or longer.

The materials available do not enable us to compare precisely the extent of unemployment before and after the last war. Before, the only index available is afforded by the records of the trade unions which paid unemployment benefit; since 1920 there has been a comprehensive record associated with a national system of unemployment insurance. The average rate shown by the trade union experience was 4·4 per cent., compared with an average of 14·2 per cent. for the years 1921–38 shown by the later register. Sir William Beveridge, after re-examining the evidence, has shown reason for raising the pre-war figure to 6 per cent.; after doing this the contrast is still striking—an increase to two-and-a-half times the pre-war average. Only in three years in the fifty-six years before 1914 did the average unemployment percentage for the year rise above 10, only in one year between 1920 and 1939 did it fall below 10, and the peak year (1937) of recovery from the depression of 1931–2 showed the same level of unemployment as the deepest depression (in 1879) in recorded experience before 1914. After every allowance has been made for changes in definition of unemployment and comprehensiveness of record it is clear that unemployment after 1920, though subject to similar fluctuations, was on a strikingly higher level than before 1914.

The significance of the change is perhaps clearer if we express it as a change in average experience, not of unemployment but of employment, not of failure to absorb but of success in absorbing available workers. The comparison then is between 94 or 95 per cent. before the war and 85 per cent. after the war, between absorbing 19 out of 20 before the war and only 17 out of 20 after. The change in volume of employment is even greater than these figures suggest, since hours were reduced after the war by a seventh.

One further comment, and then I must leave the contrast to speak for itself. In current economic discussion it is usual to point to certain elements in our economy conducive to unemployment, which call for alteration if unemployment is to be reduced; I refer to the unequal distribution of income, excessive saving, and restriction of Government expenditure. Comparing 1924–5 with 1913–14, Professor Bowley estimated that, after correcting money income for the rise in prices and deducting Income-tax and Sur-tax to arrive at net income, the number of incomes over £3,000 fell by more than a half, from 30,000 to 13,700;[1] while his sample survey of poverty before and after the war pointed to a reduction, also by a half, in the proportion of families falling below his poverty line, coupled with a great increase in the influence of unemployment in causing poverty.[2] Even more suggestive is his estimate of the distribution of income, pre-war and post-war, between Saving, Taxation, and Expenditure, which shows Saving reduced by nearly a third, Taxation nearly doubled, and Expenditure little changed.[1] If we confine our comparison to the years immediately preceding the present war, 1932–8, we find that interest rates were below

[1] *Some Economic Consequences of the Great War*, pp. 138 and 136.
[2] *Has Poverty Diminished?*

pre-war level, Government expenditure was expanded to five times any pre-war figure, and a combination of progressive taxation with State subsidies to social services and other measures lessened still further the inequality of distribution. Yet the average level of unemployment, so far from falling below the 6 per cent. of pre-1914 experience, was 16½ per cent., and in no year, as we have seen, less than 10 per cent. I am conscious that in drawing attention to this contrast I may be labouring the obvious; but in politics the obvious is also the important.

What is the explanation of this change? If we attribute it to the war, in what ways did war have this effect? One turns to theory, and economic theory, not unnaturally, has concerned itself much more with unemployment since this striking, and apparently permanent, change in its level, than it did before 1914. I shall not attempt to summarize current and past theory; there is not time and it is unnecessary since Sir William Beveridge has done it. All that is necessary for my purpose is to pick out certain elements which throw light on my specific problem.

Nineteenth-century theory, it is not unfair to say, hardly faced the issue. Political economy was criticized as a gloomy science: but in this matter it was unduly optimistic. In its systematic treatises, at any rate, it demonstrated that industry could absorb all available resources and assumed that it would do so, paying little attention to its failures. In part this was explained by the concentration on long-term tendencies, which marked nineteenth-century theory. One of the chief tasks with which theorists had been faced had been to explain how a rapidly growing population, large savings, the extensive introduction of labour-saving machinery, and new supplies drawn from an ever-widening world, could be absorbed in industry without displacing labour and causing distress. This they did by showing that producers and consumers were broadly identical, so that an increase in the number or capacity of producers made possible, and normally led to, an increase in the number of consumers and volume of consumption. Marshall concludes his preliminary survey of distribution with the following statement:

> 'Under ordinary conditions of industry, production and consumption move together; there is no consumption except that for which the way has been prepared by appropriate production: and all production is followed by the consumption for which it was designed. There may indeed be some miscalculation in particular branches of production; and a collapse of commercial credit may fill nearly all warehouses for a time with unsold goods. But such conditions are exceptional and are not within our present view.'[1]

Elsewhere he begins a short discussion of fluctuations by quoting

[1] *Principles of Economics*, p. 524.

a passage from Mill which summarizes well the nineteenth-century doctrine:

'What constitutes the means of payment for commodities is simply commodities. Each person's means of paying for the productions of other people consist of those which he himself possesses. All sellers are inevitably, and by the meaning of the word, buyers. Could we suddenly double the productive powers of the country, we should double the supply of commodities in every market; but we should, by the same stroke, double the purchasing power. Everybody would bring a double demand as well as supply; everybody would be able to buy twice as much, because everyone would have twice as much to offer in exchange.'[1]

Marshall goes on to point out that 'though men have the power to purchase they may not choose to use it', and elsewhere demonstrates his concern with unemployment; but in this he is not typical of the nineteenth century. Say, who describes production as 'nothing more than a great process of exchange', dismisses trade fluctuations with the remark: 'if false calculations of unforeseen events have on some occasions led to the production of more objects of consumption than the state of society demanded; if needs by chance fell short of production, these vicissitudes are misfortunes like the vicissitudes of the seasons which produce sometimes more, sometimes less, grain than the population needs'—but, he adds, less important.

To offer the identity of producers' income with consumers' income as a reason for ignoring unemployment would be to beg the question; the identity persists whether employment is high or low, and it is the changes in level which call for explanation. But it may be worth while to glance at the reasoning by which this identity was established. The theory assumed free enterprise and freely moving prices in uncontrolled markets; it relied on enterprise to absorb labour in directing production to demands indicated by market prices and free adjustment of prices and wages to permit this absorption; demand as a whole was illimitable, so that there was no reason why all available labour should not be absorbed. Fundamentally, as Say expressed it, the process was one of exchange between producers; *on some terms*, all the products of industry could be exchanged. Unemployment therefore represented a failure to find, or agree on, the terms on which this mutual exchange could proceed until it exhausted productive capacity. This line of reasoning was not perhaps so inept as it seems to-day.

Recent theory finds its starting-point in a finer analysis of the relations of income with production. Instead of assuming that the producer will always spend the income which production yields him and, by spending it, provide a volume of employment corresponding with that which yielded him his income, it investigates the actual use of his income. It makes a disjunction between the acts of saving and investment. They are independent decisions, made often by different people. Instead therefore of the decision to save being automatically accompanied by a decision to invest the savings in some object which will give as much employment as if the income saved had been applied to current consumption—as was assumed in order to show that saving did not cause unemployment—it examines separately the influences determining both saving and investment, and leads us to realize that the saving by one person is often not offset by investment by anyone else, so that saving can and does cause unemployment. We are led further to realize that a contraction of expenditure by one set of people, whether due to saving, to loss of income through unemployment or to declining prices, reacts on other people who find the demand for their services reduced. It is to prevent this spreading of depression from one centre over the whole field of industry that the White Paper insists on the maintenance of expenditure *as a whole* as the first condition of a high and stable level of employment.

[1] Op. cit., p. 710.

This approach to the facts throws a new light on the nature of the problem of unemployment and provides Government with a new theoretical basis for dealing with it; but it supplements, rather than displaces, the nineteenth-century analysis—or perhaps I should say that the proposed application of it in the White Paper does so. Thus it assumes, like nineteenth-century economists, that labour generally will be sufficiently mobile, and industry sufficiently adaptable, to take advantage of increased demands in new directions offsetting declining demands in other parts of the field; otherwise there would obviously be no point in proposing that the Government take measures to expand demand in the parts of industry which it can influence in order to offset a declining demand from private expenditure, or indeed in insisting at all on the importance of maintaining aggregate expenditure without regard to changes in its specific application. Again, the White Paper proposes to counteract a fall in private expenditure and a tendency towards excessive saving in a depression by reducing taxation and social insurance contributions, and to counteract a rise by increasing them. Evidently it is assumed, as Say and Mill would have assumed, that money income is normally spent, or, if saved, invested currently in some way that gives employment: otherwise to relieve people of taxation, when the trouble is that they will not (in the aggregate) spend what they have already, would merely lead to additional hoarding, while increasing taxation in a boom would lead only to a further inflation of credit; it is indeed quite possible that the thrifty worker, warned by the Government's action that a bad time is coming, will in fact increase his effort to provide against it by personal saving. The same assumption, that receipts from sales are normally spent so as to maintain employment, underlies the insistence in the White Paper on the importance of expanding international trade. Nineteenth-century theory, consistently with its general position, assumed that imports would lead to exports, because the money proceeds of imports would not only be available to pay for exports but would in fact be used for that purpose; between the wars we have learned that, just as savings are sometimes not invested, so the sterling proceeds of our imports are often not used to buy our exports, the claims against us to which our imports give rise being balanced by realization of overseas investments, loss of gold or foreign exchange holdings, or accumulation of sterling balances by non-residents—none of which give employment in this country. I say, therefore, that the new approach supplements rather than supersedes the old.

To understand the nature of the problem with which we shall be faced after the war, it is necessary to press a little farther this analysis of income and its use which current theory employs. *Any* change in the use of income (and not merely the decision to save rather than to maintain expenditure) may affect employment. Industry is set to produce certain goods and services, the production of which yielded the income which now falls to be spent; if it is spent on the same goods and services, in the same proportions, employment will be maintained, but, if there is any change of direction, some producer will be disappointed of his expected market, and unemployment may result. Whether unemployment *does* result will depend on two factors—the extent of the change of direction, and the ability of industry to adapt itself to the change; if the diversion of demand is large, and labour (and other productive resources) not readily adaptable to new uses, there must be unemployment.

This possible effect of a shift in demand in causing unemployment is obvious enough. Nineteenth-century theory tended to ignore it (as it did the influence of saving in causing unemployment) with the same mixture of reason, since normally industry was able to adapt itself to a shift in demand (as it was able to utilize savings), and error, since on occasions industry was not able to adapt itself to the shift (as it did not always absorb current savings) with the result that workers specialized to the types of production from which demand had shifted were left stranded. Nineteenth-century theory was more right than wrong on both counts or the record of employment would not have been so good compared with our experience. The innovation in theory has coincided with a change in conditions.

What then were the conditions under which the optimistic theory that income created by employment would be wholly expended either on current consumption or on capital objects, and so maintain employment, came within some 6 per cent. of being correct? The first and essential condition was the existence of a fundamental balance among the different groups of producers between whom exchange took place. While this existed, specific supplies corresponded closely with specific demands; such shifts of demand as occurred could be met by small adjustments which were well within the capacity of industry. Not only were the resources of industry and labour distributed between capital equipment and consumption demands in such a way as to correspond fairly well with the distribution of money income between saving and current consumption; but in industry generally capacity and markets were in balance. There was growth and change, but not at a rate to upset this fundamental balance and cause persisting unemployment. This underlying stability was supported by two favouring conditions: society was poorer and had less income to devote to discretionary as opposed to necessary expenditure, with the result that consumers' habits were more stable; and, while the main task of industry was to make more of the same sort of things, wealth was growing steadily and any mistakes were quickly corrected by the general expansion of income and expenditure floating off the resources stranded by the mistake.

A consequence was a greater stability also in the relations between different groups of prices and between wages in different occupations; such stability is a condition of confident expenditure and investment, and when it fails its absence puts industries out of step and causes depression. Investment again was helped by an optimistic outlook, which was accustomed to continuous expansion and to peace, and had little experience of currency or exchange instability.

The second condition was clearly the existence in industry of sufficient adaptability to cope with such changes in demand as confronted it, and particularly sufficient mobility in labour to take advantage of compensating offers of employment in new directions as old openings were closed. The White Paper stresses the need of this adaptability if the new policy is to be a success; I will suggest reasons in a moment for believing that there was an important loss of adaptability after the last war as compared with the period before 1914.

Given this fundamental balance between different groups of producers, and consequently between specific demand and specific supply, and given a high degree of adaptability in enterprise and of mobility in labour, we need not be surprised that unemployment was confined in most years to modest proportions. Our percentages, it is true, conceal much that was crude and cruel. The adaptability of industry meant, among other things, that firms had a high birth-rate and a high death-rate; bankruptcy operated to force a re-direction of enterprise and investment with a ruthlessness that we have forgotten. The mobility of labour involved a more frequent and wholesale breaking up of homes than we should contemplate with equanimity to-day; the Cornish tin-mining population moved in large numbers to the Witwatersrand, the linen industry left Yorkshire, cutlery and shipbuilding left London. Coal-mining populations consisted largely of immigrants to the coal fields, which they were forced to leave as seams were worked out for new pits in new areas. Trade unions were weaker and protected a much smaller proportion of the wage-earning population; so that wages and prices were more plastic. The only provision against unemployment except the Poor Law was the benefit paid to a small minority of wage-earners by the richer unions, so that the unemployed worker was forced to seek any employment that offered. Yet even in the nineteenth century, and in periods of good trade, there were limits to the adaptability of industry and the plasticity of prices and wage-rates which prevented employment from ever reaching the 100 per cent. which contemporary theory might lead one to expect.

At whatever cost, however, unemployment was kept within the limits we have seen without any assistance from Government. Let us against this background now ask ourselves what was likely to be the effect of war. The answer is obvious, though we were reluctant between the two wars to draw the practical conclusions to which it points. War involves a wholesale diversion of demand from accustomed to new channels; it effects therefore a fundamental dislocation of the peace-time balance between the different groups of producers. As a secondary consequence it dislocates established relations between prices in different industries and between wage-rates; and it undermines, because it alters all the indices on which consciously or (more usually) unconsciously he relies, the confidence in his judgement of the future which is needed if the entrepreneur is to maintain the regular investment of savings and direction of society's resources to society's needs.

This effect of war is familiar to this generation; but it may be worth while briefly to illustrate it. I leave on one side the first and most obvious effect—the transfer into the armed forces, and the re-transfer to peace-time employment, of a quarter of the adult male population, though we should remember that when a war lasts four years or longer it is a changed collection of workers who have to be fitted into a changed world. Let us look only at the transfer

of a similar number of workers to munitions production and the corresponding re-transfer to peace employment which this entails. Between the census years 1911 and 1921 the Metal Engineering and Shipbuilding group of occupations absorbed three-quarters of the whole increase in the male population of working age in this country. Had there been no war they would presumably have absorbed their proportion, or a little more since they were expanding; but their disproportionate recruitment during the war left them with a mass they did not succeed in digesting for a decade. And of course there was a similar diversion from peace purposes of capital and equipment, entailing a similar superfluity when war demands ceased. Or take the interruption of normal market connexions. Before 1914 the Cotton Textile Industry exported 85 per cent. of its output and did two-thirds of the whole world's export trade in cotton manufactures. During the war its markets had to look elsewhere for supplies, or to manufacture their own; the industries so established or expanded claimed and received protection as soon as Lancashire was in a position to resume supplies; with the result that the Cotton Industry lost two-thirds of its export trade and was continually contracting between the two wars without ever getting down to a level at which full employment was achieved. The United States before 1914 was withdrawing from the business of exporting wheat; during the war, to meet the needs of their European allies, they expanded wheat production by three-fifths, and were left with an inflated and ill-balanced agriculture when peace-time relations of supply and demand were restored.

The diversion of resources and interruption of market connexions had a secondary effect on prices and especially wage-rates. Divergent movements of wages created discontent and caused unrest; a strike or lock-out was often the only way of ascertaining what wage an industry could pay. Prices (like supplies and markets) had changed so much that their future course was incalculable. At no time since 1920 has the business-man been able to forecast his probable costs and receipts with the assurance that was possible before 1914.

War has a political effect which reinforces this economic uncertainty; it undermines the stability of Governments and States, and this political uncertainty creates a new series of economic risks. In peace the value of currencies had not worried business; not only were men without experience in their own lifetime of the complete loss of value by any important currency, they had not even, on the old Gold Standard, to worry over the possibility of exchange fluctuation cancelling the profits of a deal, or, still less, of its leading to a stop on transfer of payment. The 20 per cent. change in the exchange value of a currency which the Bretton Woods proposals provide for (in a scheme aimed at exchange stability) is quite enough to wipe out the margin of profit on most foreign contracts.

Thus modern war confronts a community with the need of repairing deep and widespread dislocation of its economic relations, and restoring its resources to a normal distribution among different uses; while at the same time it interrupts the process of continuous piecemeal adjustment by which in peace-time industry adapts itself to shifts in consumption and changes in technique. It poses the highly speculative but unavoidable problem of defining a new *normal* condition of affairs; is it surprising that the forecasts which industry is forced to make are often wrong, and fluctuations in economic activity are exaggerated?

I said a moment ago that there were reasons for believing that the mobility of labour and the adaptability of industry declined between 1914 and 1939. The adaptability of industry depends in the main on two factors—the enterprise, and especially the willingness to take risks, of the people who direct industry and provide employment; and the ability of these people to command capital. Enterprise, as I have tried to show, has been handicapped and discouraged by the shifting of landmarks, the change in environment, the falsification of traditional or customary guides, which the deluge of modern war effects. Availability of capital is essential, because every change of direction—whether it be to a new market or a new process or a new product—usually involves expenditure. By this constant shift and enterprise, I suggested, industry was able to meet changes in tastes and technical innovation before 1914; and not only shifts of demand of this character—the ability to direct industrial resources to new products, new processes, new markets, is a significant factor in lessening the amplitude of trade fluctuations, since it enables industrialists often to turn the flank of a general depression and start industry again on the up-grade. But availability of capital is an essential condition.

Now it appears still to be thought that British industry relies for capital on the London capital market. This is not so. The London market had two main functions—the export of capital by issues on overseas account, and the transfer of the ownership of existing capital assets from one holder to another; not only the Stock Exchange, which obviously exists to effect transfers of ownership, and not to provide new capital, but the issuing houses were mainly occupied in transferring to the public (by flotation) the ownership of businesses which had already accumulated capital and applied it to their purpose. The source of capital out of which British industry has grown, and on which it still depends, is British industry's own profits, the profits retained in the business. And this method of

financing expansion is more economic than any other, because the earning of profits, which makes expansion possible, is the best indication in practice of the need of additional capital and the possibility of its fruitful use.

The effect of war on this system of finance has been unfortunate. War involves an increase in taxation, maintained long after hostilities have ceased; under our fiscal system the easiest tax to increase has been Income-tax, and the most important object of the Income-tax has been business profits. Before 1914 these profits out of which industrial expansion and change were financed were taxed at the rate of a shilling in the pound or thereabouts; since 1920 the rate has varied from 4*s*. to 10*s*. Nor is this the whole story; Sur-tax, which in 1913 had recently been imposed at a rate of sixpence in the pound on a small proportion of incomes, is now levied on all businesses in which the income per principal exceeds £2,000 a year at rates that, even in peace, reached three and sixpence in the pound. Thus the funds out of which the elasticity of industry and its capacity for growth were maintained have been subject to a rate of tax never less than fourfold the highest pre-1914 rate.

The effect of war on the mobility of labour is indirect, and more difficult to measure. The very increase in unemployment which war brought with it played a decisive part in forcing Government to expand a limited and experimental scheme of unemployment insurance into a comprehensive scheme. The persistence of a large volume of unemployment, even after the immediate post-war depression was past, forced Government repeatedly to amend the scheme, always in the direction of making it more comprehensive and nearer to providing an adequate subsistence. This was one of the great social reforms carried out between the wars; but, considered solely from the point of view of its influence on the mobility of labour, its effect was likely to be adverse. Where an uneconomic system of engaging labour obtained, as at the docks and in building, it supported the surplus labour attracted, so that, as Sir William Beveridge has pointed out, an increase in building employment was accompanied by an increase in building unemployment; but even where such uneconomic arrangements did not obtain, the provision of relief in unemployment lessened the pressure to move.

The answer, then, that I give to the question I set myself, why has the level of unemployment been so much higher since 1920 than before 1914, will be clear. War destroys the balance of the world's industries. By its diversion of resources to abnormal and transient purposes, by its dislocation of normal relations between groups of producers and between production and markets, and its consequent dislocation of stable relations between different groups of prices and of wages, it checks Say's 'great process of exchange' and handicaps the enterprise which provides employment. This loss of balance appeared not only in the immediate post-war period of demobilization and re-stocking; it was the underlying cause of the persistent depression of the so-called Special Areas, areas dependent on industries which had been over-expanded by war or left with a redundant population by the loss of pre-war markets to new competitors brought into the field by war. Nor was this loss of balance peculiar to this country; in America also war had led to an expansion of certain branches of agriculture and industry which could not find full employment at any level of prices covering their costs even in the general prosperity of the twenties. Had the same industries in America as were depressed in the United Kingdom been concentrated in a single State—textiles, bituminous coal, shipping and shipbuilding, and wheat-growing—they would have presented a spectacle of depression equal to that of Clyde or Tyne.

May I, in conclusion, carry forward these reflections on past experience to the time after this war when we shall be faced with a similar situation. The transfer of people from peace-time occupations to the transient needs of war has been even greater, and has lasted longer, than in the last war. The diversion of production and trade from peace-time channels has been even greater. Markets, particularly overseas markets, have been forced to draw on alternative sources, or to develop their own supplies, or to find substitutes for the products of British industry, much more extensively and for a longer time than in the last war; in spite of some change of opinion in America, it is unlikely that other countries will be ready to sacrifice after the war industries which they regard in part as an insurance against war needs, in order to draw supplies from this country once more. And this country, on which fell after the last war a disproportionate share of the burden of effecting an adjustment in world trade relations, has in this war been affected possibly less than most countries on the Continent of Europe. The task of re-adjustment, of restoring a stable equilibrium between branches of production and different areas in the world, will be greater than last time.

It will be easy in these circumstances to slip unconsciously into a policy of perpetuating the war economy. The problems which will present themselves if war controls are lifted will offer so terrifying an aspect that a totalitarian direction of the whole economy of the country may have less terrors. I hope we shall not drift into this solution. The sacrifices of freedom of choice—to spend our incomes as we choose, to exercise some choice in seeking a livelihood, to deal with the traders we prefer, to select our own luxuries and our own hair-shirts—so cheerfully made in war, were real sacrifices, and we shall be the poorer if we cannot escape them. On

the other hand it is hopeless to expect the unaided private individual to reintegrate the infinitely complex network of economic relations at his own risk in the circumstances that will face him after the war. If we wish to get back to a market economy we shall have to limit the task imposed on the private individual, to block out the main lines of development within which he can exercise his freedom of enterprise and contract, and to make some public provision for industries and districts which emerge from the war to find the former outlet for their energies gone, until they can fit themselves for an alternative.

The mistake made after the last war was to attempt to restore the *status quo*. It was a venial mistake; but the changes to which industry had to adjust itself were too great for the unaided working of a market economy. Industry has great powers of self-adjustment, provided that the individual changes are small and the process is continuous: war interrupts the process and exaggerates the scale. After this war the danger is rather that Governments may attempt more than their administrative capacity can carry through. A Parliament and Civil Service tired by five or six years' overwork and strain is not in a position both to deal with the complicated problems of assisting men and machines back from war-time to peace-time jobs and to fashion a new heaven and a new earth. They must select the essential tasks and concentrate on these, trusting in the diffused initiative of private enterprise to do the rest. In any such selection I would claim the first priority for the redundancies caused by the war. The shortages, which are the correlative result of the diversion of industry form its normal channels, are assured of attention. They cry out for remedy, and Governments can be relied on to do what they can. But the existence of excess capacity and redundant supplies tends to escape notice and to be left to undermine the prosperity, and even solvency, of whole industries and large areas, unless a deliberate and systematic attempt is made to deal with them.

The Governments will be possessed of large stocks of goods with a commercial use. One industrialist of my acquaintance has argued that, since they were created for war purposes, these stocks should not survive the war, but be dumped into the Atlantic; otherwise by competing with current production for limited markets they will prevent industry from recovering its peace-time balance. The remedy is too heroic for any conceivable Treasury, but it brings out a problem; more than a quarter of the machine-tool makers in this country were forced into bankruptcy after the last war by the competition of war surplus supplies.

A second case is the expansion of specialized productive capacity. The aircraft industry, expanded twentyfold or thirtyfold in ten years, is the outstanding instance of a group of armament industries which cannot hope to find in peace an outlet for all their capacity. The choice is between blind competition driving a sufficient number of firms into bankruptcy (though bankruptcy does not necessarily eliminate capacity) and an ordered contraction, with some provision of relief and maintenance during the period of re-training, not only for individuals but for firms and districts. The Washington Agreement of 1920 offers an instructive precedent: it ruined two of the very few firms capable of providing armour-plate and other specialized equipment for naval vessels; they had to be resuscitated when rearmament began; it would have been cheaper to put them on a care and maintenance basis and subsidize their specialized labour till it found some other outlet.

A third case is the expansion caused by the interruption of normal sources of supply. The United Kingdom used to have the largest shipbuilding industry in the world; the United States has it now; the United Kingdom used to possess nearly a third of the ocean-going tonnage of the world; after the war the United States will possess two-thirds of a total world tonnage increased by a seventh. We can, if we like, leave this building capacity and these inflated fleets to be brought down into closer relation to normal requirements by competition and bankruptcy; but it should surely be possible to effect the same reduction with less social cost by agreement between shipowners, acting with the support of their Governments. Less obvious, but in the long run as important, is the expansion in new areas of textile manufacture, certain kinds of engineering, the production of aluminium, of rubber and rubber substitutes, and of many of the staple fibres and foodstuffs. The need for a deliberate survey of productive capacity and normal requirements has been recognized in the case of wheat, and is urged in the cases of cotton, sugar, rubber, tin, and copper. It is just as urgently called for in the case of coal, of cotton manufacture, of certain kinds of steel production, of aluminium, of oil.

If we cannot deal with this dozen to twenty cases of excessive capacity, we cannot return to freely moving markets without the certainty of loss and spreading depression. No doubt, a use could be found for all the product available, if America or any other country is prepared indefinitely to play the part of fairy godmother through some adaptation of Lend-Lease. But what we are seeking is a system of reasonably stable self-perpetuating commercial exchanges, and we cannot hope for that unless productive capacity is related to normal demand, so that products normally command a price that covers costs. And we seek such a system because it is the only alternative to a totalitarian direction of production and consumption which, whatever its merits, would impose an intolerable

burden on the machinery of Government in the difficult post-war decade.

So long as this fundamental dislocation caused by war is uncorrected mere expansion of Government expenditure can prevent unemployment only by inflation; the impact of the additional income created will force up prices where there is shortage and maintain them where there is redundancy; it will remove the existing pressure to redistribute labour in accord with long-term demands without substituting anything in its place. On the other hand, if, by a bold policy of segregating and attacking the major disequilibria which the war has caused, the conditions of self-perpetuating enterprise can be restored, we can look forward to a rapid recovery from the physical destruction of war and a resumption of the growth of wealth. Absolute security was not achieved in that pre-war world with which I have contrasted our own age, and is unattainable in a world of changing needs and changing technique; we waste our effort and create rigidities that aggravate the problem, if we plan the future too minutely. But we cannot escape the necessity of correcting some of the effects of war. We should set ourselves, systematically and deliberately, to restore the fundamental balance between the world's industries and markets, without which all trade is a risky speculation and no employment is secure.

> Our stability is but balance, and wisdom lies
> in masterful administration of the unforeseen.