Chapter 1

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Introduction

In the years immediately after the Second World War the great aim of economic thought and policy was to achieve and maintain a state of Full Employment. The mood was much affected by memories of the Great Depression of the pre-war decade and by the promotion of Keynesian ideas. More recently, the emphasis of economic policy has turned onto the control of a threatening runaway inflation, a control which has been exercised at the expense of the recurrence of mass unemployment and of an increasing inequality between the incomes of the rich and the poor. Now once again Full Employment is seriously considered as a primary aim of policy. Can it be regained without serious inflation and increasing inequality?

To answer this question requires consideration of a whole package of separate but very closely related economic and financial policies. This book describes a much simplified macroeconomic model of relevant interactions between the various policies. These macroeconomic policies constitute an essential part of the problem of achieving and maintaining Full Employment, but the simple model presented in this paper neglects a number of the conditions which are essential for the final solution of the problem.

In the first place, the model presented in this paper is basically restricted to the relationships in a closed economy. In the present condition of a global world economy it may seem absurd to write anything substantial on a single country's domestic economic arrangements without giving the same degree of attention to the implications for that country's external economic and financial relations with the rest of the world. But we may refer to the great example of Keynes's revolutionary book *The General Theory* which concentrated on the problems in a closed economy, leaving much subsequent discussion and research to determine their international implications. Chapter 5 of this book does, however, very briefly sketch the direction in which the international implications of the present proposals would need to be considered.

In the second place, there would be no chance of implementing the proposed package of domestic economic reforms in the absence of a political consensus as to their desirability. In particular, society would need to appreciate them as a move in the direction of building a decent, equitable community of citizens rather than of concentrating on the freedom of the individual citizen to make the best killing that he or she can make, with the devil taking the unsuccessful.

Such a cultural change would certainly take some time; but the position is not necessarily hopeless. If political leaders could advocate moderate reforms in the desired direction the man or woman in the street may begin to listen. There may well be positive feedback between economic arrangements and the culture of society. As the economic reforms progress the attitudes of society may become more favourable to change and as the cultural attitude improves so the economic reforms may be made more radical.

There are two aspects of economic reform which play prominent roles in present discussions about possible Full-Employment policies. The first concerns the qualifications and adaptability of the UK's labour force and the second concerns the availability of efficient modern capital equipment and infrastructure.

Basic changes designed to improve the productivity, skills, adaptability and general qualifications of the working citizens are needed in the realms of training, education, health, caring for the children of working mothers, etc. They are of extreme importance, should be pursued with vigour, and are in no way incompatible with the macro-economic proposals which are considered in greater detail in this book.

There are, alas, at present many politicians and other influential persons who in designing present fashionable Full-Employment policies argue as if these supply-side quality reforms were alone of importance in the labour market. They put relatively little stress on the problems of maintaining moderation in wage claims – to the astonishment of some economists who, like the present author, consider that the supply *price* set for a good or service is as vital a factor as its *quality* in determining its saleability.

Basic changes are needed also in business attitudes, trade and industry policies, and in monetary and fiscal arrangements to ensure sufficient investment in effective capital equipment and the provision of an adequate and appropriate infrastructure.

I regard suitable widespread reforms in these two fields of supply of labour and of capital as of the greatest importance. But they are not studied in the present book which is concerned with a quite different set of economic and financial reforms, constituting an essential but sadly neglected necessary condition for achieving and maintaining Full Employment.

This neglected area of problems is concerned with the network of interrelationships between certain macro-economic variables such as the general level of money prices, the rate of interest, the rate of tax, the level of government expenditures, the budget deficit or surplus, and so on. An analysis of these interrelationships leads to proposals for a number of economic and financial control policies as being necessary to maintain Full Employment without an excessive inflation or an unacceptably unequal distribution of income and wealth. This analysis is based on a very greatly simplified and rather mechanical macroeconomic model which pays little attention to a number of important issues concerning expectations, incentives and administrative difficulties.

Nevertheless, in my opinion, there still remains a coherent, though limited, set of control problems. The positive propositions which result from this study may be summarised as follows:

(1) that Full Employment depends upon two main conditions: first, that there are proper demand-management arrangements to ensure an adequate and stable level of money expenditures on goods and services and thus to enable the output of a Fully-Employed economy to find a steady and reliable market; and, second, that the workers who seek employment in a free-enterprise economy, given their skills and qualifications, offer their services at a low enough real price for competing employers to employ them;
(2) that this price of labour at the low end of the income scale would in a free market almost certainly be so low as to present a socially undesirable distribution of income;
(3) that, combined with the seller's market for labour implied by an unemployment rate of 2 to 3 per cent, this relatively low wage would almost certainly lead to claims for wage increases on a scale which threatened an explosive inflation;

(4) that the basic economic problems of the future will be concerned with the distribution of the national income rather than with the production of an evergrowing output of goods and services;

(5) that Full Employment may thus increasingly become a question of part-time working with a greater use of leisure; and

(6) that Full Employment with a fair distribution of a high national income and with employment being relatively low-paid and increasingly part-time will necessitate very great changes in many of our existing economic and financial institutions and policies, the discussion of which constitutes the subject matter of the rest of this book.

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More information

Chapter 2

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Demand Management

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We may define 'Demand Management' as governmental control over the total money value of expenditures on domestically produced goods and services. This total may usefully be divided into three categories:

(1) expenditure by the government itself on goods and services, which excludes budgetary expenditures on transfers of money to the private sector such as interest payments on the national debt or monetary social welfare benefits;
(2) expenditures by individuals or by corporate bodies in the private sector on goods and services for capital investment purposes; and
(3) expenditures made by the private sector for consumption purposes.

Much expenditure in category (1) is, of course, relevant for employment purposes, such as expenditures on education, health, and social infrastructure etc. The government can itself directly control such expenditures. For this reason, this chapter is confined to government actions taken to influence private-sector expenditures in categories (2) and (3) indirectly by means of monetary and fiscal policies of various kinds.

The primary purpose of demand management is to maintain a high and steady market for goods and services, that is to say, to control the sum total of categories (1), (2) and (3) at a high enough level to absorb the total output of goods and services which can be produced in conditions of Full Employment and to prevent temporary fluctuations in that level of total expenditures.

But there is a second very important purpose, namely to control the split of the sum total of expenditures between expenditures on goods and services for capital investment and those for immediate consumption. This split is of very great importance for the future maintenance of Full Employment, since the greater the capital capacity in the economy, the higher will be the real demand for labour at any given real rate of pay. The consideration of the effects of different financial policies on capital investment expenditures (in category 2) and on consumption expenditures (in category 3) will thus form an important role in the present chapter.

We start then with a discussion of the first of these two ideas, namely the control of the total of all three categories of expenditures on domestic products. This idea of total Demand Management originated from the pre-war work of