

The British White Paper on Employment Policy *

Use of variable rates of social insurance contributions in preventing a decline in consumer purchasing power and hence in employment is one of the methods advocated by the British Government in its proposed plan for maintaining high employment after the war. The following article outlines briefly that and other aspects of the proposed plan.

MAINTENANCE of a high and stable level of employment after the war is one of the basic assumptions underlying the Beveridge plan for a comprehensive system of social insurance. The Beveridge plan, in the words of its author, "is a plan to win freedom from want by maintaining incomes." But, he continues, "income security, which is all that can be given by social insurance, is so inadequate a provision for human happiness that to put it forward by itself as a sole or principal measure of reconstruction hardly seems worth doing. It should be accompanied by an announced determination to use the powers of the State to whatever extent may prove necessary to ensure for all, not indeed absolute continuity of work, but a reasonable chance of productive employment."¹

The recent British White Paper on Employment Policy² takes up this challenge and sets out a broad and comprehensive policy for the prevention of unemployment after the war. Ernest Bevin stressed the pioneering nature of this approach when he introduced into the House of Commons the motion—agreed to after debate—that "this House . . . welcomes the declaration of His Majesty's Government accepting as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war." After summarizing briefly the past attempts of the Government to cope with unemployment by means of the social services, public works, and other measures, he continued: "But all these were

merely measures to minimize the effect of unemployment, not a recognition that unemployment was and is a social disease, which must be eradicated from our social life. The State's job up to this date has been to deal with the after-effects of the disease, and not to take active measures itself to promote and maintain economic health. This Motion is an assertion that, while there will still be difficulties to contend with, and the social services must continue to play their part, the first consideration must be the way to remove the cause. Having tried relief in all its forms, we now propose to diagnose, and we hope to cure."³

The White Paper is concerned primarily with the prevention of mass unemployment in the post-reconversion period. It analyzes the general conditions required to maintain a high and stable level of employment and proposes specific measures to prevent a fall in total expenditure and hence in employment. It also deals with the particular problems of the transition from war to peace and of localized unemployment in particular industries and areas. Although the White Paper is concerned with domestic policy, it stresses throughout the important connection between the level of employment and the volume of Britain's foreign trade and emphasizes the need to expand British exports, not only by all appropriate internal measures, particularly through increase in industrial efficiency, but also by international collaboration and agreements.

General Conditions of a High and Stable Level of Employment

The three general conditions of a high and stable level of employment, as set out in the White Paper, are

³ *Parliamentary Debates*, House of Commons, June 21, 1944, p. 212.

maintenance of total expenditure on goods and services, stability of prices and wages, and mobility of labor between occupations and localities.

Maintenance of total expenditure is considered the first step in maintaining general employment. For, "assuming a given level of wages and prices, and full mobility of labour, workers will lose or fail to find employment because there is not a sufficiently large expenditure on the goods and services which they might produce." Of the constituent parts of total expenditure—private consumption expenditure, public expenditure on current services, private and public investment expenditure, and the foreign balance, i. e., the difference between exports and imports—private investment expenditure and the foreign balance are regarded as the elements most liable to sudden and spontaneous variation, and consequently as the most usual cause of instability in total expenditure. Accordingly, it is proposed that the guiding principles of the Government's general policy in maintaining total expenditure should be to do everything possible to limit dangerous swings in expenditure on private investment and to avoid an unfavorable foreign balance by making every effort to facilitate much greater exports than before the war.

Since, however, these two elements in total expenditure are not only those most likely to fluctuate but also those most difficult to control, the Government must be prepared to take additional measures. These should include the planning of public investment "to offset unavoidable fluctuations in private investment" as well as steps "to check and reverse the decline in expenditure on consumers' goods which normally follows as a secondary reaction to a falling off in private investment."

Unless prices and wages are kept reasonably stable, however, these measures are likely to be unsuccessful. For if the increased expenditure brought about at the onset of a depression through one or more of the policies outlined above goes to increase prices or wages, it will not lead to the desired rise in the volume of employment. Accordingly, the White Paper urges that employers, organized labor, and the Government do everything in their power to bring about

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¹ Beveridge, Sir William, *Social Insurance and Allied Services*, New York, 1942, p. 163.

² Great Britain, *Employment Policy*, New York: Macmillan Company, 1944, 31 pp. (American edition of Cmd. 6527, issued May 26, 1944.)

this essential condition of a successful employment policy. It is suggested that employers "seek in larger output rather than higher prices the reward of enterprise and good management"; that workers examine their trade practices and customs "to ensure that they do not constitute a serious impediment to an expansionist economy and so defeat the object of a full employment programme"; and that the Government "seek power to inform themselves of the extent and effect of restrictive agreements, and of the activities of combines; and to take appropriate action to check practices which may bring advantages to sectional producing interests but work to the detriment of the country as a whole."

Finally, a high degree of mobility of labor between occupations and localities is considered essential if unemployment is to be reduced to a minimum. While the White Paper stresses that "every individual must exercise to the full his own initiative in adapting himself to changing circumstances," it advocates that the Government facilitate this process by such measures as retraining programs, resettlement allowances, and adequate low-cost housing for workers who have to move to a new locality.

Methods for Maintaining Total Expenditure

To carry out the general policies for maintaining total expenditure outlined above, specific proposals are made for stimulating private investment activity, planning and facilitating public capital expenditure, and encouraging expenditures on consumption goods.

As a first step in stabilizing capital expenditure, the Government will consider the possibility of influencing such expenditure by the variation of interest rates. "Monetary policy alone, however, will not be sufficient to defeat the inherent instability of capital expenditure. High interest rates are more effective in preventing excessive investment in periods of prosperity than are low interest rates in encouraging investment in periods of depression." To supplement monetary policy, the White Paper proposes that the Government encourage privately owned enterprises "to plan their own capital expenditure in conformity with a general stabilisation

policy," pointing out that this should not be too difficult to accomplish "For to a strong and well-established business . . . there are obvious attractions in executing plans for expansion or for the replacement of obsolete plant at times when costs are low." It is also suggested that a system of deferred tax credits might be considered, since it would provide business with a further inducement to undertake capital expenditure at the onset of a depression.

The authors of the White Paper do not place too much confidence in the efficacy of these measures, and they believe that public investment can be used more directly as an instrument of employment policy. They accept the principle that public capital expenditure should not, as it usually has in the past, fall in times of slump and rise in times of boom but "should actually expand when private investment is declining and should contract in periods of boom." Since by far the greatest part of such expenditure is undertaken by local authorities and public utilities, it is proposed that the Government induce these agencies to plan and carry out their investment activities in this way. It is suggested that the Government should require local authorities to submit 5-year public works programs prepared in the light of the prospective employment situation, coordinate these programs and set a target for the whole volume of public works in the succeeding year, and use the existing mechanism of loan sanctions or grants to slow down or accelerate the execution of these programs as the employment situation may warrant.

If, despite all these measures, capital expenditure and employment should fall, the White Paper suggests, as a second line of defense, steps to influence the community's expenditure on consumption in order to prevent a progressive decline in expenditure and employment. It favors "a scheme for varying, in sympathy with the state of employment, the weekly contribution to be paid by employers and employed under the proposed new system of social insurance." A standard rate of contribution would be assessed on the basis of the estimated average level of unemployment in such a way that the social insurance fund would be in balance over a number of

years. But the rate actually levied "would exceed the standard rate at times when unemployment fell below the estimated average level and would be less than the standard rate at times when unemployment exceeded this average."

It is pointed out that such a program, once introduced, should operate as automatically as possible. "It would not be expedient to put it into operation in the unsettled economic conditions which are likely to prevail in the period immediately after the end of the war, when inflationary tendencies will be at work. Even after the end of that period there may be circumstances in which this remedy would be less appropriate and effective, e. g., if there were serious unemployment confined to particular industries but not accompanied by a significant general fall in employment throughout the country. Nevertheless, after the end of the transition period, a sliding scale scheme, though subject to possible suspension on occasion, could be essentially automatic in character."

An appendix to the White Paper submits a tentative rate schedule for the proposed plan. Assuming an average level of unemployment of 8 percent (the level assumed in the Beveridge report) and taking the Beveridge report's rates as the standard rates, it is suggested that the weekly contribution of adult male workers, for example, might range from the standard rate of 4s. 3d. to a maximum of 5s. 6d. if unemployment fell below 5 percent and to a minimum of 3s. if unemployment rose above 11 percent. Similarly, the weekly contribution of the employers of these workers might vary around the standard rate of 3s. 3d., between a maximum of 4s. 6d. and a minimum of 2s. Above a certain level of unemployment, a rise of 2 points in the unemployment percentage would decrease the total social insurance contributions of workers by an estimated average of £500,000 a week, quite apart from the reduction in the costs of employers. The authors of the White Paper believe that "the additional money thus left in the hands of many millions of people would help to maintain the demand for consumers' goods, thereby offsetting, at least in part, the decline in the expenditure of those who had lost their employment. This maintenance of purchas-

ing power would reduce substantially the variations in total expenditure and employment."

If additional measures to maintain consumption should become necessary, the Government might consider a system of variable rates of taxation or of deferred tax credits. It is also proposed that the Government "might directly sustain employment in consumer goods industries by placing orders at a time when the normal demand for their products was flagging."

The White Paper stresses that the proposed policies, while affecting to some extent the balancing of the budget in single years, "do not contemplate any departure from the principle that the Budget must be balanced over a longer period." This principle is regarded as essential for maintaining confidence in Government policy, both at home and abroad. It is proposed, therefore, that "the Government will have equally in mind the need to maintain the national income, and the need for a policy of budgetary equilibrium such as will maintain the confidence in the future which is necessary for a healthy and enterprising industry."

The Transition From War to Peace

Although the authors of the White Paper do not envisage the danger of mass unemployment during the transition from war to peace, they are concerned with the problems of this period because, unless these are well handled, the longer-term policy in the post-reconversion period will be much more difficult. Local unemployment, inflation, and a distorted expansion of civilian production are seen as the principal dangers in the years immediately following the war. To minimize them, the White Paper proposes a Government policy aimed at promoting the "orderly expansion" of peacetime industries; the continuation, for a time, of wartime controls, such as price control, rationing of consumer goods, and control over the capital market; and the establishment of certain broad priorities over raw materials and labor "to direct the efforts of industry towards the right tasks in the right order"—exports first, civilian necessities second, and industrial equipment third.

The Problem of Localized Unemployment

The White Paper deals separately with the problem of "depressed areas," i. e., areas largely dependent on an industry or group of industries which have declined because of "technical change, the trend of fashion, or the growth of foreign competition." Although it is pointed out that such areas will benefit somewhat from the Government's policy to maintain domestic expenditure and prevent mass unemployment, additional measures will be necessary to solve their problems. The first line of attack should be to promote the technical efficiency of the depressed industries. In addition, the Government should influence the location of industry so as to "diversify the industrial composition of areas which are particularly vulnerable to unemployment"; remove obstacles to the transfer of workers from one area or occupation to another; and provide training facilities "to fit workers from declining industries for jobs in expanding industries." The emphasis of the White Paper is on bringing the work to the men rather than the men to the work (an important reversal of policy), and the measures by which the location of industry is to be influenced by the Government are outlined in considerable detail.

Next Steps

Although the foreword to the White Paper states that "Unlike other Papers on post-war problems which the Government have presented or are preparing, this is not primarily an outline of projected legislation," legislation will undoubtedly be required to translate some of the proposed policies into practice. The debates on the White Paper in the House of Commons at the end of June resulted in acceptance by the House of the Government's general responsibility for securing a high and stable level of employment. Before the Government can seek powers to carry out the policies set out in the White Paper, however, it will probably be necessary to elaborate and strengthen some of them.

The proposals for maintaining private investment, for example, have been regarded as much too weak, and the statement on restrictive practices

has been criticized as being vague and ambiguous at best. While the proposal for variable social insurance rates has had a favorable reception, it is generally regarded as insufficient by itself to counteract fully a fall in consumption at the onset of a depression. As a matter of fact, it is questionable whether the rates suggested would achieve appreciably greater variation in contributions collected than a flat percentage rate of contribution such as is already in effect in the social insurance system in the United States.

Nevertheless, the White Paper is an important landmark. "It is true," the British *Economist* points out, "that full employment—and over-full employment—has twice been attained in this country in wartime. It is true also that some other industrial countries—Russia and Germany, notably—have attained it in peacetime—but only at the triple cost of employing a large part of their national industries on war preparations, of conscripting the persons and restricting the consumption of their citizens. What is now to be attempted in Great Britain is something quite new—and something much more difficult than any of these. For there are two unspoken assumptions in any full employment policy for a democracy. The first is that full employment is to be achieved without any departure from methods of persuasion and agreement; it is to be achieved under free criticism and without conscription. The second is that employment is to be devoted to supplying the idiosyncratic wants of individuals. No community, of course, can survive if its citizens insist on devoting all of what they produce to current consumption. But it is the democratic dogma that the people themselves shall decide how much they will consume, how much they will provide for the needs of the State and how much they will set aside for additions to capital. A democratic full employment policy must attain its goal while obeying these instructions. No country has ever done this. Until last week, no country had even announced a policy for doing it. Irrespective of the precise nature of its contents, the first formal resolution of democracy to shoulder a new responsibility on behalf of its members deserves a round of applause."