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THE BRITISH GOVERNMENT'S WHITE PAPER
ON
EMPLOYMENT POLICY

The White Paper represents a revolution in official thinking about the trade cycle. The important proposals in this document have long been advanced by progressive economists and it is not the originality of the approach that is significant but the fact that for the first time the Government have broken with the "orthodox" conception of the methods of dealing with the trade cycle. The very conservative DAILY TELEGRAPH (May 27) begins a discussion of the White Paper with the remark:

Within the framework of democracy no Government has ever put forward so comprehensive a set of proposals for promoting full employment as were enunciated in the White Paper.

The economist, J.R.Hicks, in the MANCHESTER GUARDIAN (May 30) comments:

It is indeed the dawning of a new day when an all party Government is committed to shaping its policy in accordance with new ideas.

These two remarks are typical of the general reaction of the press and weekly journals. Most of them have some criticisms of detail but only the left-wing and

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irresponsible TRIBUNE and the professionally dissatisfied NEW STATESMAN AND NATION carry their criticisms so far as to receive the Paper with hostility or with grudging doubt. June 17, 1944

The White Paper is put out by a Coalition Government and consequently its proposals do not go much beyond the minimum measures required to implement effectively an active employment policy. They probably represent the maximum area of agreement which could be achieved in the Coalition. Even so, a clear cut and consistent statement has been obtained.

Probably the most "revolutionary" statement in the Paper is its opening sentence:

The Government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war.

After a long period of gestation a new official conception of Government responsibility in social and economic affairs has been born. It is significant that no one has yet challenged this principle. THE ECONOMIST points out that the acceptance of necessary authority automatically follows from the acceptance of responsibility and consequently the British Government are committed to take what measures may be necessary to secure their aim.

THE TIMES (May 30) remarks:

The White Paper itself and the way it has been received are significant of the remarkable change in economic and financial thinking which has occurred since the end of the last war, particularly during the last ten or twelve years. The heterodoxy of 1931 has become the orthodoxy of 1944. It is taken almost as a matter of course that the Government should accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war; that they should propose during the transition period to exercise a firm control over the location of industry and the flow of private industrial investment in order to make sure that the national interest is not subordinated to individual and sectional interest; and that as a long-term policy they should propose to offset fluctuations in the volume of private investment by control over the investment expenditure of local authorities and other public bodies, as well as by more direct means affecting both investment and consumption expenditure. Taken together these generally accepted ideas constitute a revolutionary change in the approach to social and economic problems.

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The second important general note struck by the White Paper is the call on the cooperation of "the community as a whole" and especially employers and workers in industry to ensure the success of the policies outlined. Voluntary cooperation and restraint are particularly important because the Government policy outlined depends to a very small extent on central powers of direction but rather is limited to bringing about conditions favorable to the maintenance of a high level of employment. Clearly, the Government will be able to limit its control if people will voluntarily do what they are asked to do.

The reliance on voluntary cooperation, particularly from private industry, has disturbed some of the Socialists and advocates of a "planned" economy. They complain that:

The White Paper, in effect, proceeds from start to finish on the assumption of a complete return to pre-war capitalism, without even the smallest infusion of Socialism at any point. It assumes that, if the State takes steps to ensure an expansionist financial policy, accompanied by an enlarged public works program of the traditional kind, and reinforced in case of need by revisions of contributions and taxes and other secondary measures for checking the pull of spendable incomes in bad times, private enterprise, under the stimulus of the profit motive, will do the rest. (NEW STATESMAN AND NATION, June 3).

On the other hand, the liberals accept the basic principles of the White Paper, although they are skeptical whether the measures proposed will be adequate to maintain employment (see below pp. 15-16); their criticisms are different from those of the Socialists in that they do not assert that the only way of effectively preventing unemployment is to establish a Socialist economy.

International and Industrial Background

This first chapter of the White Paper warns that the level of employment and the standard of living in Britain do not depend on internal policy alone but also on its ability to sell goods abroad:

It is therefore an essential part of the Government's employment policy to cooperate actively with other nations, in the first place for the re-establishment of general economic stability after the shocks of the war, and next for the progressive expansion of trade.

The White Paper then outlines the steps which the Government has taken to achieve international cooperation in this field: The Atlantic Charter, the Mutual Aid Agreement, the recommendations of the Hot Springs Conference and consultations with the Governments of other United

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Nations on the methods of carrying out these and other general agreements.

One of the keynotes of the White Paper, however, is that industry must take the responsibility for improving its efficiency and must exercise initiative in taking advantage of the favorable conditions created by the Government. The export industries are promised high priority in obtaining raw materials, labor and factory space after the war, but the responsibility rests on them to make the most of their opportunities. Special measures may be taken from time to time for particular industries but the White Paper primarily deals with the general measures necessary to secure a high level of employment throughout industries as a whole.

Some criticism has been expressed in the press of the White Paper's attitude toward the export trade problem. THE TIMES (May 27) takes exception to the "cautious" note struck by the White Paper in emphasizing that the possibilities of maintaining internal employment were conditional on the expansion of external trade. THE TIMES has frequently urged that Britain use her large internal market as a bargaining weapon to secure export markets. It agrees that Britain undoubtedly depends on a flourishing foreign trade for its prosperity but states:

....even in adverse conditions it should be possible to find customers for the exports needed to pay for essential imports. The bargaining power of the British market is an instrument in reserve if other means fail to secure effective international cooperation in promoting the exchange of goods and services. Pessimism in this context would certainly be premature.

THE ECONOMIST (June 3) agrees that the "necessity of a proper ordering of the country's overseas trading relationships cannot possibly be gainsaid," but doubts that in the present international discussions upon which the White Paper puts so much reliance sufficient account is taken of the problem facing a country trying to carry out a full employment policy:

The present White Paper does nothing either to increase or to remove these doubts....It is now acknowledged, as a deliberate act of policy, that depressions in home trade cannot be avoided or cured by removing all purposive direction from economic affairs. The same truth applies with equal strength to depressions in foreign trade. It may be that the Government have plans for the organized maintenance of the volume of overseas trade; if so, nothing has yet been said about them.

THE NEW STATESMAN AND NATION, on the other hand, along with other Socialist organs, has always assumed

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that Britain could maintain full employment and prosperity independently of the rest of the world. The White Paper's "if," therefore, has upset it:

But we had understood that one of the main claims of the advantages of full employment policy was that it could be used to maintain prosperity here even in face of depression ahead; and it is a little damping to be met at the outset with the.... conditional sentence.... what we want to know.... is whether it can be prevented if the condition is not satisfied: on that point the Government has chosen to hedge.

The White Paper goes all out for international cooperation and does not suggest the use of "instruments in reserve" but there is no doubt that in taking the responsibility for maintaining employment the Government recognizes that it also must take responsibility for doing everything possible to ensure that external trade is maintained. It wishes to do this through international collaboration and by encouraging initiative, efficiency and flexibility in the export industries. Other methods are not mentioned but the White Paper clearly recognizes that domestic employment policy will not be entirely successful if external trade is depressed.

The Transition from War to Peace

The White Paper recognizes that the period of transition will require special measures not only to facilitate the transition but also to prevent an inflation and a disruption of the economy which would lessen the chances of preventing serious deflation and post-war unemployment. Three dangers must be guarded against in this period:

1. The development of "patches of unemployment."
2. Inflation.
3. The failure of production to meet the most essential National needs first.

To avoid these dangers the Government will use the following methods to

.... secure, so far as possible, that labor and capacity no longer needed for munitions production shall be used for producing civilian goods of high priority; and that releases of premises, labor and material are coordinated in advance so as to reduce local or temporary unemployment to the minimum.

- (a) by assisting firms to prepare to switch over their capacity to peace time production as quickly as possible;

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- (b) by finding out in advance where the skilled labor which will gradually become available for civilian work will be most urgently required;
- (c) by arranging, so far as war conditions permit, that labor and raw materials will be forthcoming for urgent civilian work and ensuring that the machinery of allocation devised in war-time will be adaptable to the special conditions likely to obtain after the end of the war in Europe;
- (d) by arranging, so far as possible, that curtailments of munitions production shall take place in areas where the capacity and labor can be used for civilian products of high priority;
- (e) by arranging that the disposal of surplus Government stocks shall not prejudice the re-establishment and development of the normal trade channels for producing and distributing similar goods;
- (f) by regulating the disposal of Government factories in such a way as to help towards the early restoration of employment.

Price control, rationing, subsidies to maintain a "stable general level of costs," encouragement of savings, control of access to the capital market so that the flow and direction of investment can be regulated, control of labor and industrial staffs, licensing and raw material allocation to enforce priorities for the export trade, essential civilian consumption and the re-equipment of industry will be continued during the transition period. The White Paper believes that this period need not be long:

.... the recuperative powers of modern productive technique are very strong. Under favorable external conditions, it may not be very long before production becomes adequate to meet the various calls upon it. When that happens, the first aim of employment policy - the maintenance of an adequate level of expenditure on goods and services - will no longer be realised automatically, as a by-product of the war effort or of reconstruction, but will call for the application of a policy deliberately directed to that end.

The frank announcement of the continuance of tight control over demand, prices, costs, raw materials, capital and labor was calmly received by the press. It is recognized that these controls will be necessary in the general interest and although it is not possible to predict how long the public will put up with them, there is reason for thinking that there will not be great difficulty in maintaining them at least so long as the need is glaringly apparent.

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THE ECONOMIST approves: "Beyond question, this policy is on the right lines, and it is reassuring to see the need for maintaining control throughout the period of shortage so uncompromisingly stated." Even THE NEW STATESMAN AND NATION, with unusual grace, states "nearly all this section of the White Paper is unexceptionable...."

The Balanced Distribution of Industry and Labor

Part of the problem in the transition period will be to check "the development of localised unemployment" but the measures adopted will be continued in the longer period to handle localised unemployment." The White Paper, therefore, "turns aside from the main argument" to discuss the distribution of labor and industry.

The pre-war "depressed areas" were primarily areas that were largely dependent upon a single industry or group of related industries. The "first line of attack" on unemployment in these areas, the White Paper proposes, is to promote the efficiency of the basic industries. The general maintenance of purchasing power will also benefit these areas. In addition to the general measures, however, the Government proposes to attack the problems of localised unemployment by the diversification of industry, by "removing obstacles to the transfer of workers," and by "providing training facilities to fit workers from declining industries for jobs in expanding industries." The White Paper states flatly: "It will be an object of Government policy to secure a balanced industrial development in areas which have in the past been unduly dependent on industries specially vulnerable to unemployment." It then outlines a series of measures to be used in "encouraging" the establishment of new enterprises in these "development" areas. In addition, the Government will undertake to develop basic services such as dock harbors, transport, power, etc., in the development areas and will "organize research with a view to discovering what types of industry would fit most naturally into the long-term economy of each of these areas."

The list of "development areas" is expected to change as economic conditions change and the policy will be to revive economic activity in the areas. Only in special cases will an attempt be made to transfer population out of an area.

The responsibility for administering the policies relating to the distribution of industry will rest on several different Ministries, but the Board of Trade will be used as the channel through which the Government will deal with the public.

The Government will encourage the development of training and re-training facilities for workers, and employers providing approved courses will receive Government grants. Trainees will be granted allowances

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entirely separate from the unemployment benefit; a worker "will not be expected to wait until he has been unemployed for a long time before becoming eligible for re-training." Resettlement allowances will be given to workers transferred under approved schemes.

THE ECONOMIST calls this chapter of the White Paper

The most satisfactory chapter.... in many ways... Several important principles have been accepted. The first is that the Government has any responsibility in the matter at all. This in itself is quite a victory. The second reversal of policy is hardly less important. It is now accepted, as a general principle, that it is better, wherever possible, to take the work to the labor rather than the labor to the work. So far as whole regions are concerned, it is the Government's policy to take diversified industries into the Special Areas rather than to drain them of their population.

Although the White Paper proposes that the Government will assume certain veto powers over the location of industry, positive action is limited to various kinds of encouragement. There has been considerable criticism of the failure of the Government to assume greater power of direction of industry. THE ECONOMIST suggests that compulsion or direct financial assistance will be required. Sir William Beveridge, writing in THE OBSERVER (May 28), calls the White Paper statement that the measures proposed "will enable the Government to exercise a substantial influence over the location of new industrial development, as contemplated by the Barlow Report," a "welcome breach in the silence which has shrouded the attitude of the Government on the most thorny of domestic reconstruction problems." But "what is wanted," he says, "is not influence over the location of industry but control.

Nonetheless, the Government do possess important instruments of control, one of the most effective of which is the building permit issued by the Ministry of Works on the advice of the Board of Trade. Mr. Dalton, President of the Board of Trade, has called this "the most powerful lever for influencing the location of industry."

The White Paper is concerned with the location of industry only insofar as it is connected with employment policy. It is not concerned with a general policy of industrial diversification. The "balanced industrial development" discussed in the White Paper applies only to specially vulnerable areas. General problems of the location of industry and "land planning" as such are the subject of separate debates and discussions and the White Paper deliberately avoided these controversies except insofar as employment policy was specifically concerned.

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General Conditions of a High and Stable Level of Employment

This chapter, which is concerned with an analysis of the problem of maintaining employment in Britain, and the next one dealing with methods of maintaining total expenditure, are the heart of the White Paper and have aroused the most comment. The questions discussed in these two chapters have been the subject of much public controversy and comment in the past two years. The Embassy reported the British discussions on the maintenance of full employment after the war in Report No. 663 transmitted with Despatch No. 11897 of October 27, 1943. In that report the maximum area of agreement on the problem was outlined and it is clear that the White Paper adheres fairly closely to this maximum. Its proposals, of course, fall far short of those of most of the more progressive opinion in the country, including the opinion of people like Sir William Beveridge and of journals like THE ECONOMIST. The MANCHESTER GUARDIAN (May 27) has undoubtedly put its finger on the reason for this:

In the analysis of the causes of unemployment and of the ways in which the Government can help to prevent it, the White Paper shows a desire not to alarm those in industry, labor and finance who will have to revise their notions and customs if the scheme is to be effective.

The three conditions of a high and stable level of employment outlined by the White Paper are:

- (1) Maintenance of total expenditure on goods and services above the level at which general unemployment appears;
- (2) Reasonable stability of the level of wages and prices;
- (3) Mobility of workers between occupations and localities.

(1) Maintaining Total Expenditure

To maintain total expenditure the

Government are prepared to accept in future the responsibility for taking action at the earliest possible stage to arrest a threatened slump. This involves a new approach and a new responsibility for the State.

The analysis of the White Paper is briefly as follows:

The key to the maintenance of employment is the prevention of a minor decline in expenditure, for if a fall in demand and consequent unemployment occur in one industry a cumulative process may be set in motion which will develop into a major depression. Consequently,

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if the Government step in quickly to offset the decline in one sector of the economy by appropriate Government investment, the depression can be avoided. Thus quick action and a moderate amount of Government expenditure will suffice to maintain employment.

Total expenditure is made of five components: private consumption expenditure, public expenditure on current services, private investment expenditure, public investment expenditure and the foreign balance (the difference between exports (visible and invisible) and imports (visible and invisible)). Of these, private investment expenditure "is the most usual and most potent cause of instability in total expenditure, and consequently in employment." Instability of foreign trade is another serious cause of fluctuations in employment. These two items not only have the most influence on fluctuations in employment but are the most difficult to control. The guiding principles, therefore, of the Government's policy in maintaining total expenditure are set forth as follows:

- (a) To avoid an unfavorable foreign balance, we must export much more than we did before the war.
- (b) Everything possible must be done to limit dangerous swings in expenditure on private investment - though success in this field may be particularly difficult to achieve.
- (c) Public investment, both in timing and in volume, must be carefully planned to offset unavoidable fluctuations in private investment.
- (d) We must be ready 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.

The analysis of this section has been widely welcomed as a clarification of the ideas regarding kind of weapons needed to combat the trade cycle and an indication of the extent to which the British Government has accepted modern economic thought. The DAILY TELEGRAPH (May 31) expresses the general opinion as follows:

.... the sudden overwhelming onset of depression in 1929 not only found us with no weapon in our armoury to defeat it but with the most confused ideas as to what weapons were needed. The results of recent analysis are crystallized by the White Paper when it specifies fluctuations in private capital expenditure and in foreign trade as the prime sources of the trade cycle.

The clear recognition of the nature of the problem expressed in this section is one of the chief reasons for the enthusiastic response of the press to the pub-

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lication of the White Paper. The methods to be used in translating principles into action are discussed in the subsequent chapter.

(2) The Stability of Prices and Wages

If wages and prices are not kept reasonably stable:

Government action to maintain expenditure will be fruitless....This does not mean that every wage rate must remain fixed.... (it) does mean, however, that increases in the general level of wage rates must be related to increased productivity due to increased efficiency and effort.

To achieve this end the White Paper calls for the cooperation of employers and workers: workers "must 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 program." Employers must not raise prices to increase profit margins and thus absorb Government expenditure and "frustrate" Government action to maintain employment.

In this section comes the Government statement promised in January on cartels and monopoly. It is meagre and disappointed those who hoped that the Government position would be made know in this White Paper as Lord Woolton had implied it would. The statement reads as follows:

There has in recent years been a growing tendency towards combines and towards agreements, both national and international, by which manufacturers have sought to control prices and output, to divide markets and to fix conditions of sale. Such agreements or combines do not necessarily operate against the public interest; but the power to do so is there. The Government will therefore 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.

Although the last sentence announces a definite Government policy, many commentators, including Mr. Fry, the Financial Editor of the MANCHESTER GUARDIAN (June 1) asks: "How much does all this amount to?" Mr. Fry points out that a report published in 1931 by the Board of Trade on "restraint of trade" discussed the undesirability of certain monopolistic practices and also stated that the question might be examined at a later date.

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The question raised by the present White Paper is whether the time has now arrived for such an inquiry or whether the Government merely wants to "seek power" to look into the matter at some future date.

Similarly THE ECONOMIST speculates on the meaning of these sentences:

Few sentences in the whole White Paper are more enticing or more ambiguous than the one that promises a Government inquiry into the extent and effect of restrictive practices and the taking of "appropriate measures" to check them. It may mean a great deal or it may mean almost nothing at all. In default of further information, and in the absence of any sign of willingness on the Government's part to take the initiative in its general industrial policy, it seems the more probable interpretation that the sentence means very little.

Embassy Despatch No. 16301 of June 15, 1944, gives a more complete discussion of cartel and monopoly questions in relation to the White Paper.

(3) Mobility of Labor

The third condition for maintaining employment is a reasonable mobility of labor. Government policy in this field was outlined in the section dealing with the transition period. But if short-term unemployment is to be reduced to a minimum:

.... every individual must exercise to the full his own initiative in adapting himself to changing circumstances....It would be a disaster if the intention of the Government to maintain total expenditure was interpreted as exonerating the citizen from the duty of fending for himself and resulted in a weakening of personal enterprise.

Methods for Maintaining Total Expenditure

The following is a summary of the methods the Government plan to use to maintain total expenditure:

1. Capital Expenditure

- (a) Manipulation of the rate of interest.
- (b) Encouragement of privately owned enterprises "to plan their own capital expenditure in conformity with a general stabilization policy," including methods of "influencing" private investment such as deferred credits.
- (c) Planning of public expenditure.

/2. Consumption

2. Consumption Expenditure

- (d) Variation in social insurance contributions.
- (e) The Government are also considering a system of deferred tax credits; the possibilities of timing the purchase of its own needs of consumer goods; the possibility of Government purchase and sale of consumer goods; and the regulation of hire-purchase (instalment sale) transactions.

3. Central Finance

- (f) Short-term unbalancing of the Budget.

The Rate of Interest

The White Paper announces that a cheap money policy will be maintained "for some time after the end of the war." After that:

the possibility of influencing capital expenditure by the variation of interest rates will be kept in view. The experience gained since 1931 of cooperation in this field between the Treasury and the Bank of England and the Joint Stock Banks will make it possible to operate a concerted and effective monetary policy designed to promote stable employment.

These sentences have caused considerable perturbation in the financial press but most writers have carefully explained that they do not necessarily mean very much. The FINANCIAL NEWS (May 27) comforts itself:

Presumably, the Government has not yet thought out the question in detail; otherwise it would hardly have disposed of a matter of such grave importance in a single paragraph. That interest rates should have some elasticity in the varying phases of the economic cycle is reasonable enough in the abstract. The difficulty, however, is that, as a result of the success of cheap money policy before and during this war, we shall be starting, in all probability, from a point at which it will be decidedly easier to raise interest rates to check any incipient future boom, than to lower them still further as a stimulant in depression. Successive Chancellors of the Exchequer have emphatically reaffirmed the Government's intention of maintaining cheap money. If "elasticity" is to be reintroduced, it is highly important to know within what limits it will be exercised, and where the mean point will lie. The text of the White Paper needs supplementing, if only because of its suggestion that its authors have

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not a particularly high opinion of the efficacy of low interest rates in encouraging investment during depression.

In a later editorial the FINANCIAL NEWS (June 5) was feeling more cheerful and there expresses the general position taken by the financial journalists:

Undoubtedly a second, or a tenth, reading tends to soften the apparent asperity of the first impression....On close examination, therefore, the monetary policy announced in the White Paper seems to come to this: that when the transition period is over, the authorities will still regard "cheap money" as a normal state of affairs, though they will reserve liberty to bring about a temporary rise, in cooperation with the market, whenever the economic system seems in danger of being over-stimulated. This, after all, is not really intimidating for Gilt-edged holders - it is probably as much as they could ask for, anyhow.

The Financial Editor of the MANCHESTER GUARDIAN (May 27), points out that there will be no question of using a higher interest rate to assist in the general anti-cycle policy until:

the pressure for capital subsidies....Even then it will only be "kept in view." All this means, of course, that direct control of new issues will last much longer than most City people expect. The next question is whether an export of private capital to other countries with higher rates of interest could be prevented for long by the sort of light-handed exchange control proposed in the new currency plan. The answer is probably that no one knows.

Influence on Private Investment

The Government proposals regarding the control of private investment, "one of the elements (of total expenditure) likely to fluctuate most" are limited to "encouragement" in the hope that the larger private enterprises may be willing to follow, in their own interests, the example set by the Government in the timing of public investment and to adjust their activities accordingly." It is pointed out that business itself has an interest in evening out fluctuations in capital investment but if this together with Government encouragement is not enough:

.... a further inducement would be provided if it were found practicable to adopt a device similar to that of the deferred tax credits mentioned in paragraph 72 below and calculated to stimulate capital expenditure at the onset of a depression. This and other possible methods of influencing the volume of private investment will continue to be studied as knowledge and experience of the new technique for maintaining total expenditure are accumulated.

THE ECONOMIST considers that the policy outlined by the White Paper, "if it is to be regarded as a final statement, cannot be called anything but weak." It calls for:

a really thoroughgoing policy of influencing private capital expenditure which is prepared to use every weapon, including those of taxation and control, to whatever extent is necessary to achieve the result.

Many of the critics of the White Paper center their criticism on the mild nature of the Government's proposal for the control of private investment. Even the FINANCIAL NEWS (May 27), although pleased that there is to be less "central direction and 'interference' than was generally expected," states that perhaps there is not enough of it "to realise the plan's objectives." The DAILY HERALD (May 29) considers that the "diluting influences of the Coalition are plainly apparent in this respect of the plan....

'Encourage' and 'may' are not impressive words. A surer course is indicated in the Labour Executive's proposals:

'Increase the range of public enterprises, to include in particular fuel and power in all its forms, iron and steel, and transport. Every extension of Socialism makes it easier to plan employment as a whole.'

But the present Government is not a Socialist Government. It remains for us to press upon public opinion these further measures which we consider necessary to the full effective operation of the Employment Policy.

Despite this shortcoming - and others which we shall have to point out as discussion of the plan proceeds - we are entitled to welcome the plan, as a whole, as a great gain for a principle which our Movement has long and tirelessly urged.

There has been considerable support in the press (see Embassy's Report No.663 of October 27, 1943) for the creation of a National Investment Board, and some disappointment is expressed that this has not been done. Sir William Beveridge in his forthcoming report on employment policy will recommend such a Board to control private investment.

Planning of Public Expenditure

The Government propose to use their influence on the expenditure of local authorities and public utility undertakings. The limits of this policy are recognized but "within those limits the Government believe that

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they can influence public capital expenditure to an extent which will be of material value for the purpose of maintaining employment."

The local authorities will be asked to submit annually a five-year program of capital expenditure to the appropriate Department, and these plans will be coordinated and adjusted "in the light of the latest information on the prospective employment situation." The Government will use their powers of granting or withholding loan sanctions to influence the timing of the investment programs.

The White Paper asserts that the timing of public investment is crucial for...

if a decline in demand can be caught quickly enough and corrected, a comparatively modest amount of compensating expenditure will be sufficient to restore the balance.....The Government believe that in the past the power of public expenditure, skilfully applied, to check the onset of a depression has been underestimated.

These proposals of the White Paper have also been criticised for not going far enough and some economists are doubtful that the "pump priming" technique will restore the balance with a "comparatively modest" amount of expenditure. This last point, however, is a question to be decided by experience and the White Paper stresses the extent to which the methods and policies in practice adopted will depend on the experience obtained when the task of maintaining employment is actually attempted.

Consumption Expenditure

The White Paper recognizes that swings in capital expenditure may occur in spite of the Government's efforts to prevent them. In order to prevent these swings from leading to "progressive degeneration of the state of trade" the Government proposes to take measures to maintain consumption expenditure.

Here again, speed will be essential. The ideal to be aimed at is some corrective influence which would come into play automatically - on the analogy of a thermostatic control - in accordance with rules determined in advance and well understood by the public."

The method proposed in the White Paper is a variation of the weekly contributions paid by employers and employed under the proposed new system of social insurance.

The standard rate of contribution would be assessed on the basis of a forecast of the average level of unemployment, in such a

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way as to keep the social insurance fund in balance over a number of years. But the rate of contribution 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.

In order to avoid confusion during the introduction of the new social insurance system and because the scheme is not suitable for the transition period, it will not be put into operation until the abnormal condition of the post-war years has passed.

In addition, "If experience should show that the variation of social insurance contributions was of value in keeping employment steady at a high level, but that another instrument for operating upon the volume of consumption was also desirable," the Government may consider "whether in prosperous times rather more taxation should be raised than was necessary for the Budget requirements of the year and that excess treated as a credit repayable to the taxpayers in bad times."

These measures would help to sustain consumers demand; the Government might also time its own orders for consumer goods and will study the possibilities of direct Government purchase of consumers' goods for resale to the public and of the regulation of hire-purchase transactions.

Central Finance

This section of the White Paper is peculiarly evasive. It points out that:

None of the main proposals contained in this Paper involves deliberate planning for a deficit in the National Budget in years of sub-normal trade activity....The designed variations in the capital position of the social insurance fund will not affect the Revenue Budget. Financial inducements to public authorities to expand capital expenditure will mainly take the form of an annual grant towards meeting recurrent charges on the loans raised and their burden will consequently be spread over a long period.

"Surely," says J.R.Hicks, writing in the MANCHESTER GUARDIAN (May 30):

"this is a quibble. How else would the interest burden be spread if the Government borrowed directly? It is high time that our rulers began to realise that any future commitment, fixed in money terms, is financially equivalent to a debt charge."

The White Paper appears to be concerned that as little as possible of the cost of maintaining employ-

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ment shall fall on the central budget. It implies that local authorities can bear most of the burden: much of the public capital expenditure by local authorities is remunerative in the commercial sense; if, in addition, the finance of non-remunerative kinds of expenditure is "prudently administered" and if "a proper relation is kept between the growth of capital expenditure and the buoyancy of rate income," the growth of the indebtedness of local authorities should not involve an "intolerable burden on local rates."

The Government would, however, "contemplate" helping finance the capital expenditure of local authorities undertaken for reasons of employment policy if such expenditure would involve an "intolerable burden on local rates."

The Government appear to take the position that local finance should carry most of the burden because of the disadvantages of a continuous growth in the debt of the central Government. This debt is already very large and will become larger and much of it is a "dead weight" debt.

Whatever problems may arise from the growth of productive or semi-productive debt, they will be mitigated if we can move as soon as possible into a state of affairs in which an effective reduction can be made from year to year in that part of the public debt which is a dead-weight war debt.

On the one hand:

The policy of steadily decreasing the dead-weight debt, while other forms of debt are increasing, does not mean a rigid policy of balancing the Budget each year regardless of the state of trade. Such a policy is not required by statute nor is it part of our tradition. There is nothing to prevent the Chancellor of the Exchequer in future, as in the past, from taking into account the requirements of trade and employment in framing his annual Budget.

On the other hand, "no departure from the principle that the budget must be balanced over a longer period" is contemplated.

The White Paper points out that:

Not only the national dead-weight debt in the narrow sense, but other public indebtedness which involves directly or indirectly a charge on the Exchequer or on the rates, reacts on the financial system. Interest and other charges thus falling on the Exchequer are often regarded as in the nature of a transfer income in the hands of the recipients and as imposing no real burden on the community as a whole. But the matter does not present itself in that light to the taxpayer, on whose

individual effort and enterprise high taxation acts as a drag.

Nonetheless, it proposes at the same time variations in the social insurance contribution. Hicks comments:

[The authors of the White Paper] do not favor the reduction of taxes in time of depression, but they are prepared to countenance a reduction in social insurance contributions, because the debt would fall on the social insurance fund. (Yet what is the social insurance fund but another of the Central Government's banking accounts?). The deficit on the social insurance fund might be very useful, but it could only be used to even out good and bad years, so that its potency would be distinctly limited.

It seems clear, however, that the Government recognizes the necessity of being free to adapt budgetary policies to the requirements of an employment program but at the same time it wishes to placate as much as possible the protagonists of "sound" budgetary policy:

An undue growth of national indebtedness will have a quick result on confidence. But no less serious would be a budgetary deficit arising from a fall of revenue due to depressed industrial and commercial conditions. Therefore, in controlling the situation, especially in the difficult years after the war, 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.

Like J.R.Hicks, THE ECONOMIST accuses this section of the White Paper of "quibbling."

The section of the White Paper devoted to the financial implications bears all the marks of a compromise. It starts with the statement that "none of the main proposals contained in this Paper involves deliberate planning for a deficit in the National Budget in years of sub-normal trade activity." But this, unless the word "deliberate" cloaks a verbal quibble, is equivalent to saying that "none of the main proposals in this Paper is conceived on a large enough scale." It is impossible to imagine a successful employment policy that did not involve a deficit in some years - as indeed a later paragraph seems to imply. Nor is it even quite certain that a successful policy is compatible with the balancing of the Budget over a longer period. In economic policy, as in war, it would be nice to combine victory

/with

with a balanced budget, but a deficit is better than defeat. In the very longest run, the test is whether the net interest burden of the National Debt is a rising proportion of the national income - as is also pointed out by the White Paper, which, in this section, is nothing if not catholic. But there are surely more ways of bringing Mahomet and the mountain together than by imposing any financial rigidities.

and even the FINANCIAL NEWS (June 2) writes:

....economic opinion would by no means unanimously accept the proposition that full employment can be achieved without some rise in debt in the long run. If the intention of the Government were to rule out "deficit spending" of any kind over a period, then considerable doubts would be felt about the prospective success of their policies.

On the other hand, the City Editor of the NEWS CHRONICLE (May 30) is "thankful" that "there is to be no 'deliberate planning for a deficit in the national Budget in years of sub-normal trade.'"

The Policy in Practice

This final chapter of the White Paper gives a general statement of the Government's attitude toward the problem of putting their policies into practice and proposes a central statistical and economic control unit.

....the Government recognize that they are entering a field where theory can be applied to practical issues with confidence and certainty only as experience accumulates and experiment extends over untried ground..... the whole of the measures here proposed have never yet been systematically applied as part of the official economic policy of any Government. In these matters we shall be pioneers. We must determine, therefore, to learn from experience; to invent and improve the instruments of our new policy as we move forward to its goal. And it would be no less foolish to ignore, than to be dismayed by, the certainty that unsuspected obstacles will emerge in practice."

The other important point is the proposal to establish "on a permanent basis a small central staff qualified to measure and analyze economic trends and submit appreciations of them to the Ministers concerned."

During the war this function has been fulfilled by a group of economists in the War Cabinet secretariat. The very conception of a central review of the national economic position as a basis for national economic policy is a war-time development, but it was soon realised that the instrument developed for the purposes of controlling a war economy could be used

/equally

equally effectively in peacetime. The White Paper outlines the kinds of statistics needed to enable the central staff to operate effectively. It proposes to:

Develop the annual White Paper on National Income and Expenditure by providing a much more complete analysis than has hitherto been possible of the constituent parts of the country's total expenditure. In particular, direct estimates will be made of the various types of capital expenditure and the various sources of savings. This will be, in effect, the Capital Budget of the nation's wealth.

Parallel studies undertaken by the Ministry of Labour and National Service of the manpower position will also be necessary.

The correlation of these complementary budgets - for total expenditure and for manpower - will thus play a vital part in the formulation of Government policy for the maintenance of employment.

The policy of using the presentation of the Budget to Parliament as an opportunity for reviewing and debating the "financial and economic health of the country as a whole and to consider the prospects for the coming year" will also be retained after the war.

Conclusion

The White Paper summarized above is a far-reaching and balanced document. It does not make the mistake that many of the popular discussions on full employment have made of placing so much emphasis on employment itself that the purpose of employment is overlooked. "A rising standard of living" is consistently linked with employment policy and the White Paper stresses the importance of improving the productivity and efficiency of industry.

Some of the critics of the White Paper have regretted that it did not cover wider, though collateral, issues; others have recognized that the proposals of this Paper form only a part of the Government's reconstruction program. "Food, work and homes" is the Churchillian summary of what Britain hopes to achieve in the post-war world. The Employment Paper deals only with work. Social security, medical services, housing, education and the location of industry are being dealt with separately.

THE SPECTATOR (June 2) points out that:

The new White Paper, therefore, must be regarded as embodying the latest, though not of necessity the last, of a series of far-reaching and closely related measures whose sole purpose is to advance the physical, material and mental welfare of the

mass of individual citizens who make up the population of this country....The White Paper....must not be considered in isolation... a Government which within twelve months can approve in principle a far-reaching social security program, carry through the House of Commons a measure reshaping the whole educational system of the country, frame a plan for a comprehensive National Health Service, and now produce an employment policy designed to ensure more or less congenial work for everyone prepared to work industriously and honestly, may deserve some of the hard things said about it, but certainly does not deserve them all.

The White Paper is remarkably undoctinaire; the term "personal enterprise and initiative" is used but not "private enterprise;" political ideology is not part of its function. It is a technical document, the proposals of which are designed to achieve high and stable employment within the existing system. It takes a long view - many of the measures would not be put into operation for several years after the war - but considers as well the immediate problem arising at the end of the war.

Thus the conservative DAILY TELEGRAPH (May 31) can approve, for:

It embodies a revolutionary change in the outlook of the State towards its role in the economic system without a revolution in the system itself.

Similarly, THE TIMES (May 30) approves the conservative nature of the White Paper:

....if the country is engaged, as it is, in making revolutionary changes, it is important that they should be effected in the traditional British way, step by step as necessity dictates, with all shades of opinion taken into account and every endeavour made to secure the widest possible support at every stage, even at the cost of some apparent weakness or inconsistency. It may be that, eventually, more direct measures will be necessary for stabilizing the flow of private investment and directing it into the right channels than are contemplated in the Government's long-term policy. That time and the experience of the transition period can be left to decide. In the meantime regulation not in every respect effective but secured with the cooperation and support of industrialists themselves may prove of greater benefit than a more complete system imposed upon them against their will.

/This

This quotation undoubtedly sums up the general attitude that the authors of the White Paper hoped to create in the country. Critics there are and will be, but the criticism is for the most part constructive and progressive - Britain has officially inaugurated, with this Paper, a new conception of the function of Government. Even Sir William Beveridge, who has himself a more far-reaching proposal on employment policy to make, writes:

The White Paper is the beginning of a voyage to a better world. It remains for the people of Britain to make certain that the voyage is completed.

It is too soon to say how the White Paper will be viewed by the country. The Home Intelligence Service, which surveys public opinion, reported almost no reaction to the White Paper. This is understandable, however, since the White Paper had to compete for public attention with the Italian victories and the European invasion. On the other hand, the sectional interests, such as the banking fraternity, the manufacturers, the exporters, the trade unions, the farmers, the local Government authorities, have not had time to digest the proposals and express their opinions. The only comments so far have come from the press and a few professional economists.

The views of the political parties will be expressed in a three-day debate which is scheduled to begin on June 21st. Sir John Anderson (Chancellor of the Exchequer), Mr. Oliver Lyttelton (Minister of Production), and Mr. Ernest Beven (Minister of Labour) will defend the White Paper, and while they may illuminate some of the more obscure parts of the Paper, it is unlikely that they will add or detract anything of real significance.

The debate will consist of a preliminary canter over the whole field, and it is already known that the major parties will officially give the proposals a fulsome welcome. In contrast, the handful of extreme right-wing Conservative back-benchers will almost certainly attack the proposals as little short of totalitarianism or Socialism, and the extreme left-wing of the Labour Party, supported by Commonwealth and the Independent Labour Party, will attack on the quite opposite grounds that the proposals merely perpetuate capitalism and therefore cannot possibly solve the problem of employment. The bulk of the Conservative, Liberal and Labour M.Ps will, however, find much common ground in the White Paper's proposals.

It will be some time before any full evaluation can be made of the political future of the White Paper. This will depend in part on whether the present Coalition Government is replaced by a new Coalition or a party Government. It is safe to say that whatever form the new Government takes - Coalition, Conservator or Labour - the basic conceptions as well as most of the proposals in the White Paper will be adopted as

Government policy. It has become almost universally accepted in Britain that the State has a primary and permanent responsibility for so ordering and steering the economic affairs of the country that a high and fairly stable level of employment can be maintained. It is also almost axiomatic that no Government can survive unless it is prepared to accept this responsibility.

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