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# CAN LLOYD GEORGE DO IT?

*THE PLEDGE EXAMINED*

BY

*J. M. KEYNES*

*H. D. HENDERSON*

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# CAN LLOYD GEORGE DO IT ?

*An Examination of the Liberal Pledge*

BY

J. M. KEYNES and H. D. HENDERSON

THE NATION AND ATHENÆUM  
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1929

## PREFACE

As long ago as April 1924 the *Nation and Athenæum* opened its columns to a discussion, which remained for some months the principal feature of the paper, on the economic position of Great Britain. A number of our leading economists and industrialists contributed to it, including such men as Sir William Beveridge, Professor Bowley, Mr. R. H. Brand, Sir Alfred Mond, Lord Weir, the late Lord Montagu of Beaulieu, the late Sir William Acworth. The starting point of this discussion was the opinion which we had formed that Britain's post-war economic difficulties lay somewhat deeper than—as was then the fashionable view—the world impoverishment and disorganisation left behind by the war, and that it was essential to meet post-war unemployment by a positive policy of National Development.

It was to Mr. Lloyd George that we then turned as the man to open this discussion, because Mr. Lloyd George stood out at that time as the one leading public man who shared this opinion, who openly scouted the optimistic assumption that our post-war unemployment would shortly solve itself without anybody doing anything in particular about it, and who accordingly was exposed to the foolish reproach of being a pessimist and a "defeatist." The letter which Mr. Lloyd George contributed to the *Nation* (on April 12th, 1924) has stood the test of time remarkably well, and stands on record to prove how baseless is the charge, now being spread about, that his interest in the policy of National Development has been assumed belatedly for electioneering purposes.

The discussion in the *Nation* led to the question being taken up by the Committee of the Liberal Summer School, who, in conjunction with Mr. Lloyd George, set up the *Liberal Industrial Inquiry*. This body spent two years exploring the whole subject in the greatest possible detail, with the assistance of some of the leading economists and business men in the country. Their results were published at the beginning of 1928 in the famous Yellow Book ("Britain's Industrial Future"). At the end of March 1928, a special convention of the National Liberal Federation was summoned to consider them, when they were adopted by the Party in a series of resolutions.



## CAN LLOYD GEORGE DO IT?

"Britain's Industrial Future" remains the fullest statement of the Liberal Programme. Recently the Liberal pamphlet "We Can Conquer Unemployment" has been remarkably successful in crystallising the essence of the matter in a few broad and simple propositions. We are here supplementing this with a further brief contribution, which is specially directed to answering recent criticisms.

Behind Mr. Lloyd George's Pledge there lies four years of minutely detailed preparation, and, as we have good reason to know, a severe and lengthy process of thought and study.

J. M. K.

H. D. H.

May 1st, 1929.

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## THE PLEDGE

*If the nation entrusts the Liberal Party at the next General Election with the responsibilities of Government, we are ready with schemes of work which we can put immediately into operation, work of a kind which is not merely useful in itself but essential to the well-being of the nation. The work put in hand will reduce the terrible figures of the workless in the course of a single year to normal proportions, and will, when completed, enrich the nation and equip it for competing successfully with all its rivals in the business of the world. These plans will not add one penny to national or local taxation.*

*It will require a great and sustained effort to redeem this pledge, but some of us sitting at this table have succeeded in putting through even greater and more difficult tasks in the interests of the nation.*

*Extract from Mr. Lloyd George's address  
to Liberal Candidates on March 1st, 1929.*



# CAN LLOYD GEORGE DO IT?

## CHAPTER I

### MR. LLOYD GEORGE'S PLEDGE

MR. LLOYD GEORGE'S Pledge to reduce unemployment has been received by the great public with remarkable sympathy and enthusiasm. Some people have a suspicion that it must, surely, be a little exaggerated. But almost everyone, including the other political parties, have a much stronger suspicion that there is probably something in it after all.

Even those, therefore, who have hesitated to accept so grand an optimism, are—many of them—wholeheartedly supporting the Liberal policy. Even if it takes more than a year to get going, even if it costs the taxpayer something, even if it brings employment to no more than 400,000 or 500,000 additional men, what does it matter?—so feel these friendly doubters. It will be a move in the right direction. It will be far better than “the snoring and roaring policies” of each of the two other parties. No one has put this point of view more clearly than Lord Grey:—

“Even if the policy does not succeed in doing all that is hoped of it,” he says, “even if the pledge turns out to be over-sanguine, even if the policy takes two or three or four years to accomplish all the results we hope for, it will not be by any means a failure; it will still remain the right policy.”

In this pamphlet we propose to examine the various reasons for doubt and hesitation and the criticisms which have been offered in recent weeks; and we shall try to answer the questions which reasonable men are asking. We shall not shirk any of the difficulties, even when it is not easy to express the answer in popular language.

We hope to show that the Liberal policy is not only common sense, but follows, as the appropriate remedy, from a far-reaching analysis of the fundamentals of our position.

Is the Pledge too optimistic? Can Lloyd George do it?

No one can safely say beforehand what delays ingenious obstruction can interpose in getting on with business which will require



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a certain amount of legislation. But provided Mr. Lloyd George is able to get going without delay and without obstruction—and that is what the fulfilment of his pledge within his limit of time assumes—our conclusion will be that his optimism is reasonable.

We believe that the cumulative effect of renewed prosperity will surpass expectations. It may well turn out in practice that a smaller programme than that outlined in "We Can Conquer Unemployment" will be sufficient to set the ball rolling, and to shift the whole outlook of the country from depression to prosperity. The patient looks sick. But once he turns the corner, the rapidity of his convalescence may astonish even the doctors who have cured him.

Indeed, the most solid reason for hesitation as to the fulfilment of the Pledge within the stated period of time, we find, not in the difficulty of finding work to do or in the difficulty of financing it, but in the "transfer" problem—in the task of shifting men from industries where they are permanently redundant and settling them in their new work.

But this difficulty, if it proves such, is a reason not for delay, for holding back, or for timidity, but for pushing on with redoubled efforts. For the longer we delay, the more difficult will the task become and the harder will it be to employ those who have been forced into long-continued habits of unemployment.

It is useless to try to tackle the "transfer" problem seriously until the jobs have first been created elsewhere, and employers are crying out for men. That is why the efforts of the present Government in this direction have been so futile. It is useless to transfer men until there is something to transfer them to. Employers will have to be not merely acquiescent, but clamorous, before it will be easy to absorb—for example—many of the least efficient miners into new jobs in localities strange to them.

We should predict, therefore, that at a fairly early stage of the execution of the Liberal Programme there will be in many industries an apparent shortage of labour. Then, when men are being clamoured for, will be the time to tackle the transfer problem with both hands. The date at which Mr. Lloyd George can declare that his task is fulfilled will mainly depend on the rapidity with which this secondary problem can be handled.

To hold off from initiating the first stage—the stage of getting the

## MR. LLOYD GEORGE'S PLEDGE

great National Programmes of Development moving—out of doubts whether there are things worth doing and whether there is finance with which to do them, is utterly mistaken. This we hope to prove up to the hilt.

Forward, therefore, to the task—with the confidence, the bold optimism, the push and the drive, which tackled more formidable tasks in the War, and delivered the goods up to the scheduled date.



## CHAPTER II

### THE COMMON SENSE OF THE PROBLEM

THE Liberal policy is one of plain common sense. The Conservative belief that there is some law of nature which prevents men from being employed, that it is "rash" to employ men, and that it is financially "sound" to maintain a tenth of the population in idleness for an indefinite period, is crazily improbable—the sort of thing which no man could believe who had not had his head fuddled with nonsense for years and years.

The objections which are raised are mostly not the objections of experience or of practical men. They are based on highly abstract theories—venerable, academic inventions, half misunderstood by those who are applying them to-day, and based on assumptions which are contrary to the facts.

When Mr. Baldwin discourses on this subject, it not only *is* nonsense that he talks, but it looks like nonsense to any simple-minded person who considers it with a fresh, unprejudiced mind. There is work to do ; there are men to do it. Why not bring them together ? No, says Mr. Baldwin. There are mysterious, unintelligible reasons of high finance and economic theory why this is impossible. It would be most rash. It would probably ruin the country. Abra would rise, cadabra would fall. Your food would cost you more. If everyone were to be employed, it would be just like the war over again. And even if everyone was employed, how can you be perfectly sure that they would still be employed three years hence ? If we build houses to cover our heads, construct transport systems to carry our goods, drain our lands, protect our coasts, what will there be left for our children to do ? No, cries Mr. Baldwin, it would be most unjust. The more work we do now, the less there will be left to do hereafter. Unemployment is the lot of man. This generation must take its fair share of it without grousing. For the more the fewer, and the higher the less.

Yet, in truth, Mr. Baldwin and his colleagues are not more capable of expounding the true economic science of the matter than they would be of explaining to you the latest propositions of Einstein. They would be much safer on the ground floor of common sense where Mr. Lloyd George—fortified, as it happens,

## THE COMMON SENSE OF THE PROBLEM

by a certain amount of economic science as well—has encamped his battalions.

Our main task, therefore, will be to confirm the reader's instinct that what *seems* sensible *is* sensible, and what *seems* nonsense *is* nonsense. We shall try to show him that the conclusion, that if new forms of employment are offered more men will be employed, is as obvious as it sounds and contains no hidden snags; that to set unemployed men to work on useful tasks does what it appears to do, namely, increases the national wealth; and that the notion, that we shall, for intricate reasons, ruin ourselves financially if we use this means to increase our well-being, is what it looks like—a bogey.



## CHAPTER III

### THE FACTS OF UNEMPLOYMENT

EXCEPT for a brief recovery in 1924 before the return to the gold standard, one-tenth or more of the working population of this country have been unemployed for eight years—a fact unprecedented in our history. The number of insured persons counted by the Ministry of Labour as out of work has never been less than one million since the initiation of their statistics in 1923. To-day (April 1929) 1,140,000 workpeople are unemployed.

This level of unemployment is costing us out of the Unemployment Fund a cash disbursement of about £50,000,000 a year. This does not include poor relief. Since 1921 we have paid out to the unemployed in cash a sum of about £500,000,000—and have got literally nothing for it. This sum would have built a million houses; it is nearly double the whole of the accumulated savings of the Post Office Savings Bank; it would build a third of all the roads in the country; it far exceeds the total value of all the mines, of every description, which we possess; it would be enough to revolutionise the industrial equipment of the country; or to proceed from what is heavy to what is lighter, it would provide every third family in the country with a motor car or would furnish a fund enough to allow the whole population to attend cinemas for nothing to the end of time.

But this is not nearly all the waste. There is the far greater loss to the unemployed themselves, represented by the difference between the dole and a full working wage, and by the loss of strength and morale. There is the loss in profits to employers and in taxation to the Chancellor of the Exchequer. There is the incalculable loss of retarding for a decade the economic progress of the whole country.

The Census of Production of 1924 calculated that the average value of the net annual output of a British working man when employed is about £220. On this basis the waste through unemployment since 1921 has mounted up to approximately £2,000,000,000, a sum which would be nearly sufficient to build all the railways in the country twice over. It would pay off our debt to America twice

## THE FACTS OF UNEMPLOYMENT

over. It is more than the total sum that the Allies are asking from Germany for Reparations.

It is important to know and appreciate these figures because they put the possible cost of Mr. Lloyd George's schemes into its true perspective. He calculates that a development programme of £100,000,000 a year will bring back 500,000 men into employment. *This expenditure is not large in proportion to the waste and loss accruing year by year through unemployment, as can be seen by comparing it with the figures quoted above. It only represents 5 per cent. of the loss already accumulated on account of unemployment since 1921. It is equal to about 2½ per cent. of the national income. If the experiment were to be continued at the rate of £100,000,000 per annum for three years, and if the whole of it were to be entirely wasted, the annual interest payable on it hereafter would increase the Budget by less than 2 per cent. In short, it is a very modest programme. The idea that it represents a desperate risk to cure a moderate evil is the reverse of the truth. It is a negligible risk to cure a monstrous anomaly.*

Nothing has been included in the programme which cannot be justified as worth doing for its own sake. Yet even if half of it were to be wasted, *we should still be better off.* Was there ever a stronger case for a little boldness, for taking a risk if there be one?

It may seem very wise to sit back and wag the head. But while we wait, the unused labour of the workless is not piling up to our credit in a bank, ready to be used at some later date. It is running irrevocably to waste; it is irretrievably lost. Every puff of Mr. Baldwin's pipe costs us thousands of pounds.



## CHAPTER IV

### THE LIBERAL PROGRAMME

THE Liberal policy of dealing with unemployment by a vigorous policy of National Development aims, on the one hand, at providing immediate jobs for a large number of men, and, on the other, at lifting business and industry out of the rut into which they have fallen and setting them again on the high road of progress along which they should then be able to move forward under their own steam.

Such large arrears of national development have been allowed to accumulate, that there is enough work waiting to keep the programme going for a considerable time ; more than enough to bridge the period during which men are being transferred from old industries to new and the country's industrial methods are being rationalised. The Government themselves take the view that the difficulties facing us are not of a permanent character, but look like covering a two to five year period. In particular, the Minister of Labour has pointed out that in the course of the next five years the pressure of new entrants into industry from the growing generation will be falling very materially. Thus it is no argument against the policy that it will be on a larger scale than could be maintained *permanently*.

The full Liberal programme has been set out in "Britain's Industrial Future" (Benn, 2s. 6d.), and certain parts of it have been developed in greater detail in "We Can Conquer Unemployment" (Cassell, 6d.).

These books have demonstrated that there is no lack of things waiting to be done. When an energetic Government gets down to the details, there will doubtless be much opportunity for wise selection. It is difficult to say with certainty, in advance, which of the projects are the most urgent, the most practical and the more capable of being put into execution with the least delay. In order to minimise the amount of "transfer" of labour required, it will be of great importance to select a *well-balanced* programme.

For fuller details we must refer the reader to the publications mentioned above. But a short summary will be in place here.

#### I. THE NATIONAL TRANSPORT SYSTEM

The biggest part of the programme consists in bringing our roads and railways up to date, and the services best provided by

## THE LIBERAL PROGRAMME

each of them into due correlation with those best provided by the other.

Roads are entirely a state concern, whilst railways are semi-privately owned. The employment which the modernisation of the former can furnish is more definitely calculable from outside than is the case with the latter. For this reason the roads take a foremost place amongst the concrete examples worked out in "We Can Conquer Unemployment."

This has given rise to the mistaken idea that the Liberal programme is practically confined to building roads, and that railways (and indeed most other forms of development) are left out of account. This is not correct, as can be found by consulting the text of the two publications in which the programme is expounded. For example, in "Britain's Industrial Future," it has been emphasised that the idea of developing road transport at the cost of railway traffic is fundamentally false.

We are wholly in agreement, therefore, with those who are urging that a foremost place should be accorded, alongside the road programme, to the modernisation of the railways. An immense amount of work might be advantageously done under this heading, on the improvement of yards and terminals, on the electrification of certain lines, and, above all, on the replacement of the present system of small wagons by large wagons, such as nearly all foreign railway systems now employ. In this year's Budget, the Government have recognized the need for improvements of this character. They have repealed the Railway Passenger Duty on the understanding that the railway companies will devote the capital equivalent of the duty to capital improvements. This is excellent so far as it goes, but it goes only a very little way. The capital sum in question (£6½ millions) is clearly quite insufficient to provide for the big reform of the 20-ton wagon.

The Liberal "Yellow Book" proposed to facilitate work of this character by means of guaranteed loans on the lines of the Trade Facilities scheme. The same technique might also be used, as has been proposed by the Joint Conference on Industrial Relations, to provide the fresh capital required for approved schemes of amalgamation and reconstruction in the depressed industries.

The scope for useful development work of this character is, we believe, very large. But it is not possible, of course, to say definitely



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on what scale such work could be pressed forward, because this is a matter which depends on co-operation between the State and other interests. In the case of the railways, for example, the Government could encourage, assist, and urge the railway companies on, but it would be for the railway companies to set the work in hand. Clearly, therefore, work of this character does not lend itself to detailed calculations regarding expenditure and employment, such as are given for other projects in "We Can Conquer Unemployment." But the fact that railway improvement could not form a reliable basis for the pledge implies no disparagement of its desirability or urgency. And in practice, we entertain little doubt that it would prove practicable to get work of this character going on a substantial scale.

As regards Roads and Bridges, it is proposed to spend a capital sum of £145 million over two years. We are satisfied that this is not an excessive sum to sink in road improvements. The replacement cost of our existing road system is probably at least £1,500 million, so that the scale of extension and reconstruction represented by the proposed outlay is the comparatively modest one of 10 per cent. In view of the rapid development and immense potentialities of road transport, there is nothing extravagant in a road improvement programme upon this scale. And since, according to the high authority of men like Sir Henry Maybury and the late Lord Montagu of Beaulieu, we have not been keeping pace in recent years with traffic requirements, there is everything to be said for pressing forward energetically with the work.

In practice, however, we do not believe that it would be necessary, in order to carry out Mr. Lloyd George's pledge, to concentrate on roads to the maximum extent which would be feasible if required.

### 2. NATIONAL HOUSING

For complete details of the Liberal Programme under this heading, we refer the reader to the same two publications as before, supplemented by Mr. E. D. Simon's book "How to Abolish the Slums" (Longmans, 4s. 6d.).

The Conservative policy of cutting subsidies must result in such a restriction of building that there will be no hope of getting more than about 100,000 houses built each year (the pre-war number).



## THE LIBERAL PROGRAMME

The Liberal policy is to continue building 200,000 houses a year and to pay the necessary subsidies.

The Conservative policy would be just about sufficient to meet the increase of population and to replace houses which have to be pulled down to meet the needs of industry or for other reasons. It would provide almost no houses to reduce the over-crowding in the slums or to allow for slum clearances ; slum conditions would, in spite of whatever can be done by reconditioning, tend to get worse instead of better.

The Liberal policy, on the other hand, would provide in ten years a million houses to meet the needs of the slums alone. These would go a very long way both in the reduction of overcrowding and in clearing out a large proportion of the worst plague spots. At the same time it would provide continuous employment for an additional 150,000 men. During this ten-year period there would be a saving in unemployment benefit amounting to no less than £75 million. The cost of all these benefits would be a burden of about £12 million a year on the national exchequer at the end of ten years, and a further burden of about £6 million a year on the rates.

Moreover the building industry is now one of the industries in which unemployment is most prevalent.

These National Transport and Housing programmes must be so carried out as to facilitate the now urgent task of Rural Preservation. The time has come for taking decisive national action to preserve the downs, moors, lakes, woods, hills and commons of the countryside, and to conserve their beauties and their amenities for future generations. We owe a great deal to private munificence and to such bodies as the National Trust and the Commons and Footpaths Preservation Society. But as the population increases, and as it is spread more evenly over the land, as a result of better roads, motor-transport, electrical power supply, and that decentralisation of industry and of population which we hope to promote, the preservation of Britain's open country passes outside the power of private persons or of societies interested in public welfare. It is, therefore, the Liberal policy to take power to schedule as national open spaces such areas as the Surrey Commons, the South Downs, Salisbury Plain, Dartmoor, Exmoor, and parts of the Peak and Lake Districts. The expense would not be great ; the benefit to the future would be immeasurable.



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### 3. OTHER DEVELOPMENTS

Whilst Transport and Housing are much the biggest individual items, this must not lead us to overlook the innumerable minor projects, collectively of great magnitude, which are waiting to be carried out as the result of the prolonged negative policy of recent times.

For several years past, Royal Commissions, Departmental Committees, Government Departments, Public Boards, Local Authorities, and semi-official bodies have been having their favourite offspring smothered by the Treasury. There are innumerable schemes pigeonholed in Government offices, the children of the most active and progressive brains in the country, which only have to be fished out to provide a great quantity of employment widely distributed in kind and locality.

As soon as we have a new atmosphere of *doing things*, instead of one of smothering negation, everybody's brains will get busy, and there will be masses of claimants for attention, the precise character of which it would be impossible to specify beforehand.

Many such projects, however, are outlined in the previously published Liberal publications. Those which come first in order of magnitude are Telephone Development, Electrical Development and Land Drainage, which could, it is estimated, employ 150,000 men and women.

We place great reliance on the multitude of miscellaneous projects, small individually, but impressive in the mass. We have already referred above to the extension of the Trade Facilities Act for the assistance of private enterprise.

The endeavour should clearly be to press forward with development and reconstruction work on the most extended front—railways, docks, harbours, no less than roads, housing, electricity and telephones.

We believe that the Liberal pamphlet underestimates rather than overestimates the amount of work which is waiting to be done, and also the effects upon employment of expenditure on a given scale. The stress that has been laid by critics, since the Liberal pamphlet appeared, on the scope for railway improvement, illustrates how large and various is the work of a development character which is available.



## CHAPTER V

### THE GOVERNMENT'S CASE

BEFORE Mr. Lloyd George gave his pledge at the luncheon of the Liberal candidates on March 1st, the favourite line of the opponents of national development was not to attack it directly, but to pooh-pooh and minimise its possibilities. The principle of pressing forward with desirable public works in times of exceptional unemployment was admitted to be sound ; but it was argued (or implied) that the Government had already been so zealous in acting on this principle that its possibilities were now exhausted. This remarkable proposition has received its latest and most authoritative expression in the Final Report of the Balfour Committee on Industry and Trade. After stating that the "arguments are all in favour" of pressing forward as rapidly as possible with "necessary public work" in times of exceptional unemployment, the Balfour Committee proceeds as follows :—

Nevertheless it would be wrong to expect too great results from action of this kind. A large part of the public work which is susceptible of postponement or acceleration is work of special kinds, which could not provide employment in their own trades for any considerable number of unemployed persons. Moreover, the experience of the post-war depression, when considerable inducement was held out by the Government year after year to local authorities and others to expedite necessary work in order to provide immediate employment, shows that in a long-continued depression the possibilities of *bona fide* anticipation become rapidly exhausted. In these circumstances employment so provided may tend to lose its economic character and to become hardly distinguishable from ordinary relief work.

Another way in which, until recently, it was sought to show that there was "nothing in" the policy of national development was to minimise the amount of employment which a given capital expenditure could provide. Thus Mr. Churchill declared as follows in the House of Commons on November 8th last :—

Most careful study has been given during the last few months by the public departments to possible relief works. . . .

(The use of the phrase "relief works," to describe projects of



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capital expenditure, is characteristic of the Ministerial eagerness to confuse the issue.)

On general grounds we are opposed to such a system, especially when directly conducted by the State. It is surprising to see, in the examples which we have lately studied, how meagre are the results in actually relieving the particular problem of unemployment with which we are coping, compared with the outlay in every case.

In this contention, too, the Ministers have been able to claim the support of an official inquiry. Thus the Industrial Transference Board, in the scanty and insipid section headed "Creation of Artificial Employment," which disfigured their report, wrote as follows :—

As instances of the cost involved we may say that it has been estimated that to give 1,350 unskilled men work on trunk road reconstruction for one year would cost one million pounds. On land drainage, for the same sum, about 1,000 unskilled men could be employed for two to three years. These figures make it clear that any attempt by the State to provide for the problem before us by the creation of a substitute employment market, on a scale sufficient to have any effect at all, would be prohibitive in cost.

Such contentions and such figures, when put forward by official committees, with access to official information, are apt to carry great weight with the British public. An intelligent and open-minded man, impressed by the authority of such bodies as the Balfour Committee and the Industrial Transference Board, might not unreasonably have supposed, until a few weeks ago, that it had been conclusively shown that the policy of national development, however right in principle, could only have a negligible influence upon employment. Ministers did their utmost to spread this impression. "It is all very well to urge us to do things in general ; just tell us some of the particular things that you would have us do"—such was for a long time a favourite Ministerial retort. For example, in the speech from which we have already quoted, Mr. Churchill challenged his critics in the following terms :—

The right hon. gentleman said that we had the choice between paying for idleness or paying for work. We would find no difficulty in making that choice if he explained to us what were the methods by which we were able to choose the one instead of the other.

We deal in Chapter VI below with the argument that the work provided will be inadequate in quantity and unsuitable in kind.

## THE GOVERNMENT'S CASE

But the novelty of the Liberal answer to this challenge in "We Can Conquer Unemployment," lay in its reducing the matter to concrete terms. It is now impossible for Ministers to treat the Liberal policy of National Development, originally set forth in the "Yellow Book" ("Britain's Industrial Future"), and formally adopted by the Party in March 1928, as a mere vague idea.

Accordingly the line of defence has been shifted. It is now maintained, not that there is nothing to be done, but that anything which is done merely diverts employment from other things. We deal with this in detail in Chapter IX.

Meanwhile the Government has been living up to its principles. The number of houses built under State schemes, which rose to the high figure of 212,000 during the year ending September 1927, fell away, as the result of the cut in the subsidy, to only 101,000 in the following year. The work of road improvement has been so restricted that, according to the late Lord Montagu of Beaulieu, "hardly a mile of new trunk road has been planned and constructed during the last two years." In these two facts we have a reason why employment has been so disappointing during what Mr. Churchill calls "the longest lucid interval that I can recall since 1914."



## CHAPTER VI

### HOW MUCH EMPLOYMENT WILL THE LIBERAL PLAN PROVIDE ?

IN examining the Liberal claim, two distinct points arise, namely, (1) the amount of employment which a given expenditure would provide, and (2) the suitability of the employment to those who are now out of work.

On the first point, the calculations of "We Can Conquer Unemployment" have been the subject of a controversy which has resulted in their vindication. It will be convenient, therefore, to take this point first.

#### §1. THE AMOUNT OF EMPLOYMENT FOR EACH £1,000,000

The Liberal pamphlet claims that each million pounds spent annually on road improvements would employ, directly or indirectly, 5,000 workpeople. The passage in which this claim is made runs as follows :—

"Expert opinion is that some 80 per cent. of total expenditure represents the amounts paid directly or indirectly in wages. This would mean some 5,500 men per £1,000,000 of total expenditure. Of these, from 2,000 to 2,500 would be employed directly, and the remainder in production of materials and their transport. A very safe total figure is 5,000 men per annum for every £1,000,000."

Now this is nearly four times the figure given by the Industrial Transference Board in the passage which we have already quoted. Their estimate, we may recall, was that "to give 1,350 unskilled men work on road reconstruction for one year, would cost one million pounds." It is true that they said "unskilled men." It is, indeed, quite easy to account for the discrepancy between the two estimates. They were ignoring (1) the skilled labour employed directly on the roads, and (2) the whole of the indirect employment on making road materials. But the point is that the Industrial Transference Board used this figure of 1,350 as though it gave the full measure of the employment resulting from expenditure on road improvements. They gave no hint that there was any indirect employment to be considered; and proceeded to infer from the figure of 1,350



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the conclusion that a development policy could not make a real impression on the unemployment figures.

Fortunately, this matter has now been cleared up. Cabinet Ministers were rash enough to assert that the Liberal estimate was a gross exaggeration. On March 4th, a few days after Mr. Lloyd George gave his pledge, Sir Philip Cunliffe-Lister, the President of the Board of Trade, used the following words :—

“ I have inquired of the Ministry of Transport how many men can be employed to make roads out of relief. They tell me that if you spent £1,000,000 it would employ only 2,000 people for one year.”

Of course, Sir Philip Cunliffe-Lister too was forgetting indirect employment. After this, questions were put in the House of Commons which resulted in extracting from Colonel Ashley, the Minister of Transport, the following reluctant admission :—

“ If the works were undertaken predominantly in urban areas on the most economical terms, a figure of 2,000 men employed *direct* on the work for a year for each £1,000,000 expended would probably be a reasonable estimate. If the works consisted largely of selected schemes in rural areas, which admitted of a high proportion of manual labour, the figures might be increased to as much as 2,500.

“ No sufficient data exists to enable a useful estimate to be framed as regards the volume of employment provided away from the actual site of the works ; but it is commonly assumed that for every man employed on the actual works, another man would be indirectly employed in producing and transporting materials and in other ways, and this assumption may not be unreasonable.”

Thus we now reach an official admission that the Liberal estimate is not in the least fantastic. In putting the direct employment at from 2,000 to 2,500, Colonel Ashley confirms the precise figures given in the Liberal pamphlet, and he admits that it “ may not be unreasonable ” to double these figures to allow for indirect employment. In view of previous Ministerial assertions, Colonel Ashley is naturally anxious not to admit more than he must, and he puts this allowance for indirect employment decidedly on the low side. We do not believe that the Liberal pamphlet overstates it in describing its estimate of 5,000 men as “ a very safe total figure.” But what Colonel Ashley now admits is sufficient to show that the Liberal pamphlet indicates correctly the order of magnitude of the employment which road-building would provide, and that the impression



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conveyed by Cabinet Ministers and by the Industrial Transference Board was quite incorrect.

Generally speaking, we believe that employment for 5,000 men per £1,000,000 of capital development is a safe average figure for the various items in the Liberal programme, taken as a whole.

### §2. THE IMPORTANCE OF INDIRECT EMPLOYMENT

This episode is instructive in several ways. The calculations of "We Can Conquer Unemployment" have been upheld on the one point on which they have been the subject of specific challenge. This helps to confirm the claim made in the pamphlet that these calculations are based throughout on reliable technical advice. It certainly entitles us to accept the similar estimates as to the effect on employment of a given expenditure on housing, telephones, etc. But that is not all. The roads admission shows how extremely careless and slipshod is the reasoning on which the official case against development is founded. The Industrial Transference Board either forgot, or thought it fair to ignore, the whole factor of indirect employment in connection with the building of roads; and it is evident that this factor is similarly ignored in all the more general assertions as to the "meagre" results of development expenditure. But why should this factor be ignored? There is nothing fanciful or fine-spun about the proposition that the construction of roads entails a demand for road materials, which entails a demand for labour and also for other commodities, which, in their turn, entail a demand for labour. Such reactions are of the very essence of the industrial process. Why, the first step towards a right understanding of the economic world is to realise how far-reaching such reactions are, to appreciate how vast is the range of trades and occupations which contribute to the production of the commonest commodities. That a demand for a suit of clothes implies a demand for cloth; that a demand for cloth implies a demand for yarns and tops, and so for wool; that the services of farmers, merchants, engineers, miners, transport workers, clerks, are all involved—this is the A B C of economic science. Yet our Ministers and our Industrial Transference Boards argue as though the making of a suit of clothes employed none outside the tailors' shops. Such are the elementary fallacies by which our policy has been dominated in recent years.



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Generally speaking, the indirect employment which schemes of capital expenditure would entail is far larger than the direct employment. This fact is one of the strongest arguments for pressing forward with such schemes ; for it means that the greater part of the employment they would provide would be spread far and wide over the industries of the country. But the fact that the indirect employment would be spread far and wide does not mean that it is in the least doubtful or illusory. On the contrary, it is calculable within fairly precise limits. We are satisfied on this matter that the estimates given in " We Can Conquer Unemployment," taken as a whole, understate rather than overstate the case.

### §3. THE CUMULATIVE FORCE OF TRADE ACTIVITY

But this is not the whole of the story. In addition to the indirect employment with which we have been dealing, a policy of development would promote employment in other ways. The fact that many workpeople who are now unemployed would be receiving wages instead of unemployment pay would mean an increase in effective purchasing power which would give a general stimulus to trade. Moreover, the greater trade activity would make for further trade activity ; for the forces of prosperity, like those of trade depression, work with a cumulative effect. When trade is slack there is a tendency to postpone placing orders, a reluctance to lay in stocks, a general hesitation to go forward or take risks. When, on the other hand, the wheels of trade begin to move briskly the opposite set of forces comes into play, a mood favourable to enterprise and capital extensions spreads through the business community, and the expansion of trade gains accordingly a gathering momentum.

It is not possible to measure effects of this character with any sort of precision, and little or no account of them is, therefore, taken in " We Can Conquer Unemployment." But, in our opinion, these effects are of immense importance. For this reason we believe that the effects on employment of a given capital expenditure would be far larger than the Liberal pamphlet assumes. These considerations have a bearing, it should be observed, on the time factor in Mr. Lloyd George's pledge. It is a mistake to suppose that a long interval would elapse after, let us say, the work of road con-



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struction had been commenced before the full effect on employment would be produced. In the economic world, "coming events cast their shadows before," and the knowledge that large schemes of work were being undertaken would give an immediate fillip to the whole trade and industry of the country.

### §4. THE SUITABILITY OF THE EMPLOYMENT

One of the commonest objections brought against the policy of development is that the majority of the unemployed are not fitted for the kind of work which would be offered.

This objection is only plausible if the whole factor of indirect employment is ignored. To argue as though it were proposed to put the great mass of the unemployed on outdoor work like road construction is a mere caricature of the Liberal scheme. As Mr. Lloyd George has shown, no fewer than forty-seven different industries play their part in the building of roads, and the greater part of the employment which road building would provide would be in these forty-seven industries, and not on the roads themselves. It is irrelevant, therefore, to point out that only a proportion of the unemployed are fitted for heavy labouring work.

It is equally irrelevant to point out that only a small part of the unemployment figures represents workpeople who can be said to be permanently unemployed, and that the majority are either on short time or have been out of work for a short period only, and have reason to hope that they may again obtain employment in their own trades. This fact makes the task simpler and not more difficult. Development expenditure will give a wide and far-reaching stimulus to industry, and will enable many industries to re-absorb the unemployed or short-time surplus which now attaches to them. This will mean fully as genuine a reduction of unemployment as the absorption of people in new occupations.

For example, the development scheme will involve a large demand for iron and steel. To meet this demand it will not be necessary for the iron and steel industry to draw in labour unfamiliar with the trade. There is a sufficient margin of workpeople unemployed or on short-time attached to it. But the absorption of this margin will mean a genuine reduction of unemployment. It is untrue, therefore, to say that men unemployed for short periods only are



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not "available" for development schemes. Those on short time in the iron and steel industry are certainly available. Moreover, the substitution of full-time for short-time will mean, both in reality and statistically, a reduction of unemployment.

The comparative constancy of the aggregate unemployment figures for the past eight years conceals the most significant changes in their distribution among industries. In 1924, there were nearly 1,200,000 men on the books of the colliery companies ; in August, 1928, there were less than 900,000. The number of miners unemployed was only 26,000 at the former date, and nearly 300,000 at the latter. It has since fallen to 145,000, partly owing to increased work at the mines, but mainly owing to transference to other occupations. In building, on the other hand, unemployment increased from 64,000 in March 1926 to 104,000 in March 1929 ; in works of construction such as road-making the change in the same period is from 26,000 to 37,000.

The existing unemployment is not of such a character that a general fillip to trade, concentrated in the first instance on the building and contracting industries, is an inappropriate remedy. The unemployment is somewhat widely spread, and transference is duly proceeding out of the industries where the curtailment of opportunity looks like lasting. It is the general failure of industry as a whole to show absorptive power which is keeping the aggregate of unemployment at so high a figure.

### §5. HOW LONG WILL IT TAKE ?

The suggestion that it is impossible to reduce unemployment to normal proportions within a year by a sufficiently vigorous policy comes with a peculiar irony from the members of the present Government. For, within the last few weeks, they have not hesitated to base their legislation on this very assumption that unemployment will fall to normal in a year. At the end of 1927, the Government introduced and passed an Unemployment Insurance Act, based on the recommendations of the Blanesburgh Committee, which contained what is known as "the thirty contributions rule." This rule disqualifies from unemployment benefit anyone who has not paid thirty contributions within the past two years—*i.e.*, anyone who has been continuously out of work for a long period. If allowed to operate



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it would disqualify most of the surplus miners. But the Act provided that this rule should not take effect for eighteen months. The Government spokesmen in the House of Commons defended both the clause, and the postponement of its operation, by declaring their belief that unemployment would be reduced to normal proportions before it took effect.

By the beginning of the present year it had become certain that this expectation would not be fulfilled. In March, accordingly, the Government introduced an amending Bill, which postponed the operation of "the thirty contributions" clause for a further year, but only for a further year; and the Minister of Labour repeated, though somewhat more vaguely, his optimistic assurances. It is thus still the formal position of Cabinet Ministers that unemployment may fall to normal within this period, without any active exertions on their part. In contrast to Lord Grey, they believe in the pledge but not the policy. Why should it be reasonable to assume, as the basis of an Act of Parliament, that unemployment will fall to normal, of itself, but fantastic to claim that a sufficiently vigorous and determined policy might really bring this about ?

## CHAPTER VII

### WHAT WILL IT COST ?

MR. LLOYD GEORGE has given a pledge that the execution of his programme will not mean an addition to taxation. He has added that, of course, this does not mean that it will cost nothing, but that the cost will be less than the money which it will save in other directions *plus* the buoyancy of the revenue attributable to it *plus* economies on such things as armaments.

Perhaps this part of his pledge has attracted the most criticism from the cold-footed. But this must mean that his critics have not tried to work out the sum. We think he could safely have promised that it will cost *much less*.

Let us begin by weighting the scales against him as much as we can. Let us assume (1) that his programme costs £300,000,000 before it is finished ; (2) that not a single item in it brings in one penny of return ; and (3) that we are thinking of the gain or loss, not to the national income or well-being, but to the Budget in the narrowest sense of the term. Let us assume, further, that the necessary loans cost 6 per cent. per annum for interest and sinking fund.

On these assumptions, which include the fantastic hypothesis that you can spend £300,000,000 in the course of three years on the best schemes of developing this country which can be thought of, without any of them bringing in a penny of revenue, the cost to the Budget will be £18,000,000 a year.

This sum is about  $2\frac{1}{2}$  per cent. of the existing revenue. If increasing the employed population by 5 per cent. were to raise the yield of the present taxes by  $1\frac{1}{2}$  per cent., and if expenditure on armaments were to be reduced by  $7\frac{1}{2}$  per cent., the bill would be met.

But this is, of course, far beyond what Mr. Lloyd George is pledging himself to accomplish. For he is relying on the actual character of his programme to cost much less than £18,000,000.

In the first place, the road developments will be financed entirely out of "betterment" and by pledging the existing assigned revenues of the Road Fund ; so that they will cost the Budget nothing.

In the second place, Housing Schemes, which are much the most expensive part of the programme, will, though they need a subsidy, bring in, in the shape of rents, an appreciable return on the



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money spent. Mr. E. D. Simon calculates that the Liberal Programme of building 200,000 houses a year, as compared with the Conservative programme of 100,000, and of subsidising them to the extent necessary to get them let to those for whom they are intended, would cost the Budget £1,200,000 a year ; so that at the end of three years of this programme, the annual charge on the Budget would have risen to £3,600,000. His plan would also involve the rates in a charge of £600,000 a year, or £1,800,000 after a three-year programme, making £5,400,000 altogether. On the other hand, this would provide employment for an additional 150,000 men.

In the third place, many of the miscellaneous items in the programme, as, for example, telephones and Trade Facilities loans, will pay for themselves.

To sum up, a Ministry of Unemployment, which had at its disposal, say, £2,500,000 a year to meet the additional recurrent obligations it was incurring, chargeable on the Budget, making altogether £7,500,000 (recurrent) for a three-years' programme, would be amply provided for.

On the other side of the balance-sheet, the task of improving the Budget by £2,500,000 each year, through improved revenue and economies on armaments, is literally a trifle. We should hope that a Liberal Government would do much better than that. It represents 0.33 per cent. of the revenue and less than 3 per cent. of the expenditure on armaments.

But this is not the end of the calculation. We have made no allowance so far for the gain to the Unemployment Fund through the reduction in the numbers of the unemployed. For, strictly speaking, the Unemployment Fund is outside the Budget ; so that its gains do not directly relieve the Budget. Indirectly, nevertheless, they will relieve the Budget ; since the existing deficit on the Fund will surely fall on the Budget sooner or later.

If the unemployed are reduced by 500,000, this will improve the position of the Fund by nearly £25,000,000 a year. Let the reader note the magnitude of this figure relatively to the annual costs of each year's programme which we have estimated above, namely, *ten* times greater. This includes no allowance for the saving to the Poor Law and, therefore, to the Rates.

A *quarter* of the *capital* cost of each year's programme will be balanced by the gain to the Unemployment Fund *within that year*.

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Probably an *eighth* would be recovered in that, or the subsequent year, through the gain to the revenue corresponding to the increased national income.

Thus, nearly a *half* of the *capital* cost would be recovered *at the time*. Accordingly there would be no appreciable national loss on the programme, even if it cost on the average 5 per cent. per annum and only brought in on the average  $2\frac{1}{2}$  per cent.

So far our calculations have related to the limited field of the national finances, and not to the national welfare in its totality. If we are allowed to reckon in the benefits to the unemployed themselves and the national advantage, accruing otherwise than in direct cash receipts, from such things as efficient transport and healthy national housing, surely the case is overwhelming.

Take as gloomy a view as you like—the maximum cost and the maximum risk is of the mildest description, disproportionately small to the possible benefits which may ensue.



## CHAPTER VIII

### IS IT SOCIALISM ?

WHY must the Government play a part itself? Why is it not enough to offer facilities and encouragement to private enterprise?

The answer has been given in the Liberal "Yellow Book" ("Britain's Industrial Future"). A very large part of those economic enterprises which absorb substantial amounts of capital have fallen under the influence or the control of Government Departments. It has been an inevitable trend which has proceeded uninterruptedly under whatever political party has been in power.

Whether we like it or not, *it is a fact* that the rate of capital development in the transport system, the public utilities and the housing of this country largely depends on the policy of the Treasury and the Government of the day.

If they restrict and curtail, nothing is done. If they choose to go to sleep, we drop behind. But if they facilitate and inspire, the equipment of the country moves forward. The choice between a well-equipped, up-to-date, go-ahead and efficient national plant depends on the mood and policy of the Government.

Thus it is not a question of choosing between private and public enterprise in these matters. The choice has been already made. In many directions—though not in all—it is a question of the State putting its hand to the job or of its not being done at all.

Roads, afforestation, reclamation and drainage, electrification, slum clearance and town planning, the development of canals, docks and harbours; these are the things which need to absorb large sums of capital to-day, and in every case the initiative necessarily lies with a public authority.

But there are other equally important items in the Liberal Programme where the object is to facilitate private enterprise. The rehabilitation of agriculture; assistance to the railways to modernise their equipment and rolling stock; an extension of the principles of the Trade Facilities Act by which loans are granted to private enterprise; these things are of no less importance than those activities which must be carried out, as well as set going, by public authority.

For the object is not to develop State enterprise as such. The object is to develop and equip the country through the instrumentality

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of such forms of organisation as already exist and lie ready to our hands.

That the Liberal Programme is not of a Socialistic character has been well emphasised by an impartial and strongly anti-Socialist organ, "The Investors' Chronicle and Money Market Review"—the weekly financial newspaper which has the largest circulation in the country amongst middle-class investors. In their issue of April 13th, 1929, they write as follows :—

### *ELECTION TACTICS*

A high standard of fairness in criticism is hardly to be looked for on political platforms when a General Election campaign is in progress, but it is rather surprising to find the *Times*, in a leading article on "cures for unemployment," deliberately representing the Liberal scheme as on all-fours with the policy of Socialist-Labour because they both propose "to find work for the unemployed through the agency of the State." Surely that is a perfect example of the half-truth made wholly false by its suppressions? For what Socialist-Labour proposed to do is to provide work (or maintenance) for everybody by withdrawing from private enterprise "the means of production, distribution and exchange," and substituting State control, while all that the Liberal scheme involves is the assistance of the State, in circumstances of emergency, towards prosecuting national undertakings of a kind which cannot be, or are not likely to be by reason of their character, carried through by private enterprise at all. If roads, for example, are not constructed and maintained by public authorities using public funds, who is to make and maintain them? Certainly private enterprise will not tackle the task, for we are long past the days of toll-gates!



## CHAPTER IX

### WILL IT MERELY DIVERT EMPLOYMENT FROM OTHER ENTERPRISES ?

THE objection, which is raised more frequently, perhaps, than any other, is that money raised by the State for financing productive schemes must diminish *pro tanto* the supply of capital available for ordinary industry. If this is true, a policy of national development will not really increase employment. It will merely substitute employment on State schemes for ordinary employment. Either that, or (so the argument often runs) it must mean inflation. There is, therefore, little or nothing that the Government can usefully do. The case is hopeless, and we must just drift along.

This was the contention of the Chancellor of the Exchequer in his Budget speech:

“It is the orthodox Treasury dogma, steadfastly held,” he told the House of Commons, “that whatever might be the political or social advantages, very little additional employment and no permanent additional employment can, in fact, and as a general rule, be created by State borrowing and State expenditure.” Some State expenditure he concluded, is inevitable, and even wise and right for its own sake, *but not as a cure for unemployment.*

In relation to the actual facts of to-day, this argument is, we believe, quite without foundation.

In the first place, there is nothing in the argument which limits its applicability to State-promoted undertakings. If it is valid at all, it must apply equally to a new works started by Morris, or Courtaulds, to any new business enterprise entailing capital expenditure. If it were announced that some of our leading captains of industry had decided to launch out boldly, and were about to sink capital in new industrial plant to the tune, between them, of £100 millions, we should all expect to see a great improvement in employment. And, of course, we should be right. But, if the argument we are dealing with were sound, we should be wrong. We should have to conclude that these enterprising business-men were merely diverting capital from other uses, and that no real gain to employment could result. Indeed, we should be driven to a still more remarkable conclusion. We should have to conclude that it was virtually out

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of the question to absorb our unemployed workpeople by any means whatsoever (other than the unthinkable inflation), and that the obstacle which barred the path was no other than an insufficiency of capital. This, if you please, in Great Britain, who has surplus savings which she is accustomed to lend abroad on the scale of more than a hundred millions a year.

The argument is certainly not derived from common sense. No ordinary man, left to himself, is able to believe that, if there had been no housing schemes in recent years, there would, nevertheless, have been just as much employment. And, accordingly, most ordinary men are easily persuaded by Mr. Lloyd George that, if his schemes for employment are adopted, more men will be employed.

But the argument is not only unplausible. It is also untrue. There are three resources which can enable new investment to provide a net addition to the amount of employment.

The first source of supply comes out of the savings which we are now disbursing to pay the unemployed.

The second source of supply comes from the savings which now run to waste through lack of adequate credit.

The third source of supply comes from a reduction in the *net* amount of foreign lending.

Let us consider these in turn, beginning with the first source. Individual saving means that some individuals are *producing* more than they are *consuming*. This surplus may, and should be, used to increase capital equipment. But, unfortunately, this is not the only way in which it can be used. It can also be used to enable other individuals to *consume* more than they *produce*.

This is what happens when there is unemployment. We are using our savings to pay for unemployment, instead of using them to equip the country. The savings which Mr. Lloyd George's schemes will employ will be diverted not from financing other capital equipment, but partly from financing unemployment. From the Unemployment Fund alone we are now paying out £50,000,000 a year; and this is not the whole of the cost of supporting the unemployed.

In the second place, the savings of individuals do not necessarily materialise in investments. The amount of investment in capital improvements depends, on the one hand, on the amount of credit created by the Bank of England; and, on the other hand, on the



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eagerness of entrepreneurs to invest, of whom the Government itself—as we have already seen—is nowadays the most important. So far from the total of investment, as determined by these factors, being necessarily equal to the total of saving, disequilibrium between the two is at the root of many of our troubles.

When investment runs ahead of saving we have a boom, intense employment, and a tendency to inflation. When investment lags behind, we have a slump and abnormal unemployment, as at present.

It is commonly objected to this that an expansion of credit necessarily means inflation. But not *all* credit-creation means inflation. Inflation only results when we endeavour, as we did in the War and afterwards, to expand our activities still further after everyone is already employed and our savings are being used up to the hilt.

The suggestion that a policy of capital expenditure, if it does not take capital away from ordinary industry, will spell inflation, would be true enough if we were dealing with boom conditions. And it would become true, if the policy of capital expenditure were pushed unduly far, so that the demand for savings began to exceed the supply. But we are far, indeed, from such a position at the present time. A large amount of deflationary slack has first to be taken up before there can be the smallest danger of a development policy leading to inflation. To bring up the bogey of inflation as an objection to capital expenditure at the present time is like warning a patient who is wasting away from emaciation of the dangers of excessive corpulence.

The real difficulty hitherto in the way of an easier credit policy by the Bank of England has been the fear that an expansion of credit might lead to a loss of gold which the Bank could not afford.

Now if the Bank were to try to increase the volume of credit at a time when, on account of the depression of home enterprise, no reliance could be placed on the additional credit being absorbed at home at the existing rate of interest, this might quite well be true. Since market rates of interest would fall, a considerable part of the new credit might find its way to *foreign* borrowers, with the result of a drain of gold out of the bank. Thus it is not safe for the Bank to expand credit unless it is certain beforehand that there are *home* borrowers standing ready to absorb it at the existing rates of interest.

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This is the reason why the Liberal plan is exactly suited to the fundamentals of the present position. It provides the necessary condition for an expansion of credit to be safe.

It is, of course, essential that the Bank of England should loyally co-operate with the Government's programme of capital development, and do its best to make it a success. For, unfortunately, it would lie within the power of the Bank, provided it were to pursue a deflationary policy aimed at preventing any expansion in bank-credit, to defeat the best-laid plans and to ensure that the expenditure financed by the Treasury *was* at the expense of other business enterprise.

Thus we accept Mr. McKenna's contention that an expansion of credit is the key to the situation. But if we were simply to increase credit without providing a specific use for it at home, we should be nervous that too much of this extra credit would be lent to foreigners and taken away in gold. We conclude, therefore, that, whilst an increased volume of bank-credit is probably a *sine qua non* of increased employment, a programme of home investment which will absorb this increase is a *sine qua non* of the safe expansion of credit.

The third source of the funds required for the Liberal policy will be found by a net reduction of foreign lending.

An important part of our savings is now finding its outlet in foreign issues. Granted that a big policy of national development could not be financed wholly out of the existing expenditure on unemployment and out of the savings which are at present running to waste, granted that, to meet the borrowing demands of the State other borrowers must go without, why should we assume that these other borrowers must be British business men? The technique of the capital market makes it far more probable that they would be some of the overseas Governments or municipalities which London at present finances on so large a scale. It is the bond market that would be principally affected by a British Government loan.

Now anything which served to diminish the volume of foreign issues would be welcomed by the Bank of England at the present time for its own sake. The exchange position is uncomfortable and precarious; the recent rise in Bank rate is proof of that. A diminution of foreign investment would ease the strain on the exchanges. Why, it is only a year or two since the Bank of England, with this end in view, was maintaining a semi-official embargo on foreign issues.



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The embargo was a crude instrument, suitable only for temporary use, and we do not suggest its renewal. But the need which that embargo was designed to supply still remains, if in a less acute degree. In relation to our less favourable balance of foreign trade, we are investing abroad dangerously much; and we are investing abroad to this dangerous extent partly because there are insufficient outlets for our savings at home.

It follows, therefore, that a policy of capital expenditure, in so far as it might go beyond the mere absorption of deflationary slack, would serve mainly to divert to home development savings which now find their way abroad, and that this would be a welcome result in the interests of the Bank of England.

It has been objected that if we lend less abroad, our exports will fall off. We see no reason to anticipate this. Immediately, as we have said, the reduction in *net* foreign lending will relieve the pressure on the Bank of England's stock of gold. But, ultimately, its main effect will be realised, not in a reduction of exports, but in an increase of imports. For the new schemes will require a certain amount of imported raw materials, whilst those who are now unemployed will consume more imported food when they are once again earning decent wages.

Here, then, is our answer. The savings which Mr. Lloyd George's schemes will employ will be diverted, not from financing other capital equipment, but partly from financing unemployment. A further part will come from the savings which now run to waste through lack of adequate credit. Something will be provided by the very prosperity which the new policy will foster. And the balance will be found by a reduction of foreign lending.

The whole of the labour of the unemployed is available to increase the national wealth. It is crazy to believe that we shall ruin ourselves financially by trying to find means for using it and that "Safety First" lies in continuing to maintain men in idleness.

It is precisely *with* our unemployed productive resources that we shall make the new investments.

We are left with a broad, simple, and surely incontestable proposition. Whatever real difficulties there may be in the way of absorbing our unemployed labour in productive work, an inevitable diversion of resources from other forms of employment is not one of them.

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This conclusion is not peculiar to ourselves or to Mr. Lloyd George and his advisers. The theoretical question involved is not a new one. The general problem whether capital developments financed by the Government are capable of increasing employment has been carefully debated by economists in recent years. The result has been to establish the conclusion of this chapter as sound and orthodox and the Treasury's dogma as fallacious. For example—to quote authorities of diverse gifts and experience—our preceding argument has closely followed Professor Pigou's reasoning in his recent volume "Industrial Fluctuations" (Part II, Chapter X), where he quotes a statement of the Treasury dogma and expressly declares it to be fallacious ; this conclusion is endorsed by Sir Josiah Stamp ; and it has been ardently advocated by Mr. McKenna (see, in particular, his 1927 Address to his shareholders, reprinted in "Post-War Banking Policy," p. 118) who, speaking as the Chairman of the greatest bank in the world, maintains, without hesitation, that an increase in the volume of money investable in business activity is possible without inflationary consequences.

Indeed, we have not been able to discover any recent pronouncement to the contrary, outside the ranks of the Treasury, by an economist of weight or reputation. It is an error to believe that Mr Baldwin and Mr. Churchill and Sir Laming Worthington-Evans are talking impeccable economic orthodoxy when they maintain that Government borrowing necessarily attracts to itself resources which would otherwise have been employed in private enterprise, and that Mr. Lloyd George is offering no better than a specious dodge when he maintains the contrary. Precisely the opposite is true. The theory underlying the Liberal Party's policy is the theory which is supported by the weight of expert opinion.



## CHAPTER X

### THE POLICY OF NEGATION

OUR whole economic policy during recent years has been dominated by the preoccupation of the Treasury with their departmental problem of debt conversion. The less the Government borrows, the better, they argue, are the chances of converting the National Debt into loans carrying a lower rate of interest. In the interests of conversion, therefore, they have exerted themselves to curtail, as far as they can, all public borrowing, all capital expenditure by the State, no matter how productive and desirable in itself. We doubt if the general public has any idea how powerful, persistent, and far-reaching this influence has been.

To all well-laid schemes of progress and enterprise, they have (whenever they could) barred the door with, No! Now, it is quite true, that curtailing capital expenditure exerts some tendency towards lower interest rates for Government loans. But it is no less true that it makes for increased unemployment and that it leaves the country with a pre-war outfit.

Even from the Budget point of view, it is a question whether the game is worth the candle. It is difficult to believe that, if this question were considered squarely on its merits, any intelligent person could return an affirmative answer. The capital market is an international market. All sorts of influences which are outside our control go to determine the gilt-edged rate of interest; and the effect which the British Government can exert on it by curtailing or expanding its capital programme is limited. Suppose, which is putting the case extremely high, that the effect might be as much as  $\frac{1}{4}$  per cent. This, applied to the £2,000 millions of War Loan, which are ripe for conversion, would represent a difference in the annual Debt charge of £5 millions annually. Compare this with the expenditure of the Unemployment Fund—over £50 millions last year.

Moreover, in the course of (say) ten years it is not unlikely that a situation will arise—as used to happen from time to time before the war—when for world reasons the rate of interest will be abnormally low—much lower than we could possibly hope for by Treasury contrivances in the exceptionally unfavourable environment of abnormally high world rates. This will be the moment for a

## THE POLICY OF NEGATION

successful conversion scheme. Even, therefore, if the Treasury could convert to-day at a saving of  $\frac{1}{4}$  per cent. or  $\frac{1}{2}$  per cent., it might be extremely improvident to do so. A premature conversion for an inconsiderable saving would be a grave blunder. We must have the patience to wait for the ideal conjuncture of conditions, and then the Chancellor of the Exchequer of the day will be able to pull off something big.

But apart from budgetary advantages and disadvantages, there is a deep-seated confusion of thought in hindering on these grounds the capital development of the country. The rate of interest can fall for either of two opposite reasons. It may fall on account of an abundant supply of savings, *i.e.*, of money available to be spent on investments; or it may fall on account of a deficient supply of investments, *i.e.*, on desirable purposes on which to spend the savings. Now a fall in the rate of interest for the first reason is, obviously, very much in the national interest. But a fall for the second reason, if it follows from a deliberate restriction of outlets for investment, is simply a disastrous method of impoverishing ourselves.

A country is enriched not by the mere negative act of an individual not spending all his income on current consumption. It is enriched by the positive act of using these savings to augment the capital equipment of the country.

It is not the miser who gets rich; but he who lays out his money in fruitful investment.

The object of urging people to save is *in order* to be able to build houses and roads and the like. Therefore a policy of trying to lower the rate of interest by suspending new capital improvements and so stopping up the outlets and purposes of our savings is simply suicidal. No one, perhaps, would uphold such a policy expressed in so many words. But this, in fact, is what the Treasury has been doing for several years. In some cases, the pressure of public opinion or of other Government Departments or Local Authorities has been too much for them. But whenever it has been within their power to choke something off, they have done so.

The futility of their policy and the want of sound reasoning behind it have been finally demonstrated by its failure even to secure a fall in the rate of interest. For, as we have seen above, if outlets for investment at home are stopped up, savings flow abroad on a scale



## CAN LLOYD GEORGE DO IT ?

disproportionate to our favourable balance of trade, with the result that the Bank of England tends to lose gold. To counteract this position, the Bank rate has to be raised.

So in the end we have the worst of all worlds. The country is backward in its equipment, instead of being thoroughly up to date. Business profits are poor, with the result that the yield of the income tax disappoints the Chancellor of the Exchequer and he is unable either to relieve the taxpayer or to push forward with schemes of social reform. Unemployment is rampant. This want of prosperity actually diminishes the rate of saving and thus defeats even the original object of a lower rate of interest. So rates of interest are, after all, high. And there is only one little compensation to set against all this—that the Conservative party will be driven out of office.

## CHAPTER XI

### THE BREATH OF LIFE

It is not an accident that the Conservative Government have landed us in the mess where we find ourselves. It is the natural outcome of their philosophy :—

“ You must not press on with telephones or electricity, because this will raise the rate of interest.”

“ You must not hasten with roads or housing, because this will use up opportunities for employment which we may need in later years.”

“ You must not try to employ everyone, because this will cause inflation.”

“ You must not invest, because how can you know that it will pay ? ”

“ You must not do anything, because this will only mean that you can't do something else.”

“ Safety First ! The policy of maintaining a million unemployed has now been pursued for eight years without disaster. Why risk a change ? ”

“ We will not promise more than we can perform. We, therefore, promise nothing.”

This is what we are being fed with.

They are slogans of depression and decay—the timidities and obstructions and stupidities of a sinking administrative vitality.

Negation, Restriction, Inactivity—these are the Government's watchwords. Under their leadership we have been forced to button up our waistcoats and compress our lungs. Fears and doubts and hypochondriac precautions are keeping us muffled up indoors. But we are not tottering to our graves. We are healthy children. We need the breath of life. There is nothing to be afraid of. On the contrary. The future holds in store for us far more wealth and economic freedom and possibilities of personal life than the past has ever offered.

There is no reason why we should not feel ourselves free to be bold, to be open, to experiment, to take action, to try the possibilities



## CAN LLOYD GEORGE DO IT ?

of things. And over against us, standing in the path, there is nothing but a few old gentlemen tightly buttoned-up in their frock coats, who only need to be treated with a little friendly disrespect and bowled over like ninepins.

Quite likely they will enjoy it themselves, when once they have got over the shock.

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