

Full Employment

Since 1938-9 the Australian social and economic structure has undergone a striking metamorphosis. Making full allowance for the abnormal conditions of the period of post-war transition it is possible to distinguish a number of structural changes to the economy, fundamental, and to some extent, permanent, in character. It is these changes rather than the out-dated issue of nationalisation versus private enterprise, which should be attracting the attention of politicians, business men and social thinkers.

The first is the realisation, temporarily at any rate, of full employment, which was generally accepted by the democracies during the war as the supreme aim of post-war economic policy. The second, and the most far-reaching in its implications, is the redistribution of the total product of Australian work in favour of the lower incomes at the expense of the middle and high incomes. The third lies in the great increase in the proportion of government expenditure to total national expenditure of all kinds. Allied to this is the fourth fundamental change—the development of government control and of central direction of the economy.

It is the present intention of the Editorial Committee to publish in successive issues of the "Review" a series of articles in which these major changes to the economy will be examined.

SINCE the end of the war the level of employment in Australia has been at an all-time high. The percentage of unemployment in the last six months of 1946 (according to trade union returns to the Commonwealth Statistician) averaged 1.4%. In the previous twelve months the average was about 1.3%. Nothing comparable with this has been achieved before

under peacetime conditions. In the three years 1936-7 to 1938-9, the average level of unemployment was of the order of 9%. Over the twenty years preceding the second World War the average was 14%. It is significant that the best figure previously achieved in peace-time was 6.5% in 1918-19 and 1919-20.

Conflicting Definitions.

Insofar as trade union returns—which cover only members of certain unions—can be taken as an accurate reflection of the level of unemployment over the whole economy, the present conditions surpass the most ambitious aspirations of the protagonists of the full employment economy. Sir William Beveridge, who probably gave birth to that school of thought which prefers to define full employment as a state in which there are “more jobs than men”—a definition adopted by the Commonwealth Government in its White Paper on full employment—was content to aim at an unemployment figure of 3%. Professor Copland attacked this approach on the grounds that it would involve an economy constantly under the threat of inflation and needing permanent controls over wages, profits and prices. He suggested that it would be better to shoot at a target somewhere between 5% and 8%. This is identical with the goal recommended in the United States by the Technical Committee of the National Resources Planning Board. A somewhat similar goal is implied in the White Paper on “Employment Policy” published by the British Government during the war.

It is not the intention of this article to argue the merits and demerits of these conflicting definitions of “full employment.” They have been mentioned merely to underline the fact that by whatever standards full employment is assessed, the present level of employment in Australia more than satisfies those standards.

Problems and Opportunities.

For almost two years now Australian industry, perhaps for the first time in

peace, has been operating under an economy of full employment. This economy has given rise both to problems and opportunities that did not exist where the normal state of things was a level of unemployment of somewhere around 10%. The fact that full employment has been attained—indeed more than attained—since the end of the war does not prove, however, that the policies for abolishing unemployment, which were thrashed out during the war as a result of intense thought and mental labour, have been successful. The present state of full employment is largely the natural outcome of the extraordinary financial and economic conditions of the post-war transition period—the banked up demands of governments, businesses and individuals supported by plentiful purchasing power pressing on short supplies of goods—rather than of any policy adopted by governments during the war for eliminating depression and maintaining a high level of employment. These policies have yet to be put to the test, which will not come until the abnormal supply-demand relationship brought about by the war has been succeeded by more normal conditions. Nevertheless, the fact that the level of unemployment in the years following World War II has been substantially lower than the level after World War I, on the face of it seems to suggest that we have made some advances in the practical management of economic affairs.

Hopes for Full Employment Not Yet Realised.

The condition of full employment—indeed of over-full employment—has not so

Full Employment (continued)

far proved to be an unmixed blessing. In fact many of the high hopes which were held for full employment have up to the present not been realised. These hopes were largely based on the belief that the automatic outcome of the elimination of the waste of resources, inherent in an economy with a persistent margin of unemployed labour, would be a higher level of national production and consumption, and, consequently, a higher average standard of life for all. Economists, most of whom foresaw some of the dangers of the full employment economy, were, nevertheless, over-ready to assume that full employment and prosperity were synonymous terms. Full employment, they said, implies the opposite of economic depression, and therefore, if we can achieve a permanent state of full employment, we will have eliminated depressions.

Our post-war experience of full employment, brief though it is, has hardly served to bear out these hopeful predictions. In fact this experience has been so disillusioning that many people who formerly supported the goal of full employment as an admirable social ideal, have become dubious whether full employment can be made to work satisfactorily. A few have definitely turned against it and now pin their faith to the traditional "pool of unemployment" as the only means of assuring the progress which derives from hard work and industrial discipline.

Full Employment and Depression.

The post-war period provides abundant evidence that it is quite possible to have full employment without full production—that full employment and maximum production are not the "all weather" inseparable companions many have believed

them to be. More than this, it is becoming clear that full employment, if it can be permanently maintained, does not ipso facto mean that the devil of economic depression will no longer stalk the land. All that full employment implies is the elimination of depression in the old traditional meaning of the term, in which the level of employment was the accepted index of industrial health. Recent experience shows that it is possible to enjoy all the advantages of having no unemployment and yet still be in imminent danger from economic depression—a depression not of the old type but of one marked and caused by sheer failure to produce.

Poor Productivity.

Only a few weeks ago in evidence before the Commonwealth Arbitration Court, in the 40 Hours Case, Australia's best-known statistician, Mr. Colin Clark, gave it as his opinion that despite the great increase in the numbers employed over the last pre-war years real national income today is little or no greater than in 1938-9 and that productivity—output per manhour—is probably about 10% lower. This accords with the viewpoint expressed in the March issue of the I.P.A. "Review" and fairly closely with other expert economic evidence presented in the 40 Hours Case.

Dangers of Under Production.

The great dangers of full employment are those of under-production and of a level of costs and prices out of the reach of the incomes of the people. Under full employment where a man can walk out of one job into another, the "threat of the sack" no longer holds any terrors. On the other hand, under conditions of unemployment, one worker—and not merely

the factory employee but the office worker and executive—is under some compulsion to prove himself at least as efficient as the next. **Competition between employees for jobs is no less a potent means of ensuring productive efficiency than is competition between businesses for the available market.** The traditional “pool of unemployment” did unquestionably have the effect of maintaining worker efficiency and sometimes plant efficiency at a reasonably high level. It can be shown statistically that in periods of acute unemployment manhour output has often increased. This is what happened in Australia during the great 1929-33 depression. The less efficient workers were laid off, workers and executives on the payroll worked more efficiently, there was keen competition for the available jobs and the most inefficient machines and production units were closed down. It can also be shown that there is a close statistical correlation between the amount of unemployment and the number and intensity of industrial disputes. **Strikes tend to increase in severity in times of high employment and to fall away in periods of low employment.**

All this of course does not constitute an argument for a return to the pre-war “pool of unemployment.” Even if such a course were economically desirable, it would be socially most undesirable and politically impracticable. As the London “Economist” has so often reiterated, a conscious policy aimed to maintain full employment is a political “categorical imperative” for the government of a modern democratic state.

Australian Conditions.

Many of those things which were most feared for an economy of full employment

under peace-time conditions have come to pass in Australia since the end of the war. Industrial irresponsibility is fairly widespread. It is not easy for management to enforce even reasonable standards of discipline let alone to bring about a high standard of industrial performance. This applies as much, or nearly as much, to office as to factory workers. Absenteeism is considerable. Timekeeping is poor. For instance rest periods tend to exceed the allotted interval. After the specified commencing time work often takes far longer than necessary to get under way. Tools are downed and cleaning up at the end of the day's work often begins before the recognised time. Bad practices of this kind soon become the customary thing and acquire the force of a habit. It is widely agreed by most observers that in general labour does not do as much in an hour's or a day's work as before the war. There is less respect for authority. Labour operating in a seller's market is taking the “advantages” of that situation. Employers can hardly complain because in the past they have not been backward in exploiting the possibilities offered by a seller's market for their products. In both cases it is the consumer who suffers.

Record Turnover in Labour.

The turnover in labour is at record levels and involves a very serious addition to industrial costs. No assessment of what these costs mean to the economy can be made because—and this is a serious criticism of Commonwealth and State statistical departments—there is no attempt to measure the rate of labour turnover for Australian industry as a whole.

Full Employment (continued)

However, studies for individual factories or investigations made by certain companies for their own purposes reveal an extraordinarily high turnover in labour. This is no doubt partly due to the exceptional conditions of the post-war period, but it is largely an outcome of the labour shortage. If excessive labour turnover is to be a permanent accompaniment of full employment it will present a very serious obstacle in the way of achieving maximum standards of efficiency.

Working days wasted through strikes are at a peak only surpassed on one or two previous occasions in Australia's industrial history. This is partly to be accounted for by the industrial unsettlement inevitably following upon a world-shaking war, but is also, as past experience suggests, the result of absence of unemployment.

Full Employment Working Badly.

The full employment economy is not working well; it is working badly. The solution to the problems to which full employment has given rise does not, however, lie in a return to the pre-war "pool of unemployment" even if this were politically practicable or morally defensible—in fact it is neither. A return to unemployment, if it were desired, could very easily be achieved by simply neglecting to make plans against the time when war-time shortages will have been overcome, or against the ever-present possibility of a large drop in the price of Australian exports. We must assume, however, that those plans are being made, and we must hope that the large fluctuations

in employment and the chronic condition of under-employment of the pre-war economy will not recur.*

Can Full Employment be Made to Work?

How can the new economy of full employment be made to work effectively? The fundamental mistake has been to suppose than an economy composed of fallible human beings will operate efficiently in the absence of adequate compulsions or incentives. Not only has the compulsion of unemployment disappeared—that was right and necessary—but we have at the same time greatly reduced the incentives to hard and efficient work. Having decided to dispense with the "stick" of unemployment we should have at least maintained the number of carrots. We have not done this. At the same time as the removal of the stick from the donkey's back we have taken away the carrots from his nose. It is scarcely surprising that the donkey is not moving forward very rapidly or that full employment is not working out very satisfactorily. The old-time rewards for hard work, skill, enterprise and ambition must as far as possible, and as soon as possible, be restored. That is the first and by far the most important requirement.

Education in Industrial Economics.

The second need—long overdue—is that of educating the worker in simple industrial economics. This has been neglected

*This does not mean that the maintenance of employment at present levels, even if it were possible, would be desirable. The present employment situation has been aptly and rightly described as overfull employment. The supply and demand for labour is not in a healthy balance. There is an acute shortage of labour. While this condition continues the abolition of financial controls over wages, costs and prices would be fraught with risks. The complete removal of wage-pegging might easily lead to an inflationary situation of grave potentialities. In order to obtain a greater share of the short supplies of labour, employers would bid competitively against one another, and wages, costs and prices would be forced up at a much more rapid rate than at the moment.

in the past with consequences that are now coming home to roost. It is necessary to bring home to the man at the bench, in the shop and in the office, the simple truth that an increase in his real income and an improvement in his living standards can only be achieved out of the proceeds of greater production. He must be brought to realise that an increase in money wages will in the long run mean nothing to him unless it is accompanied by higher productivity. He should be taught the relationship between costs and prices, to understand the functions of profits. It is widely realised in Great Britain that the greatest single obstacle to the success of the "production drive" launched by the Labour Government is the difficulty of getting the individual worker to understand and accept these simple economic truths. This is not a job for any one group, or to be tackled by any one method. It is one for employers as much as trade unions, governments as much as employers.

Joint Consultation.

The third requirement, allied to the second, is an expansion in the practice of joint consultation. This is the most promising means yet devised for raising the sense of responsibility of the worker. Factory and production committees by placing more responsibility on workers themselves for the maintenance of discipline, will, sooner or later, prove to be the most efficient means of overcoming the indiscipline otherwise inevitable under full employment. Joint consultation also provides the machinery by which a great advance in the understanding of the worker of industrial realities can be achieved.

New Opportunities.

It is not enough, however, merely to take steps to ensure that full employment will work with reasonable effectiveness. Full employment offers a great opportunity for positive action to attain a level of productive efficiency far above pre-war levels. The restrictive "feather bedding" practices of labour—"the limitation of output," the "darg," production quotas, the opposition to incentive payments, regulations stipulating the number of workers required for a given machine, the "make the work go round" philosophy—are in large part the bad fruits of the uncertainties of the employment market. Equally, the restrictions imposed by employers on competition—the craze for stability rather than expansion, minimum prices, production quotas, international cartels—all these, as has been well said, "are the by-products of a long period of endemic depression" and of the fear of the treacheries of the market. Under full employment the markets both for labour and the products of industry are intended to be stabilised at reasonable levels in contradistinction to the widely fluctuating market of the pre-war system. The restrictions which were justified in the past will have little or no justification in the future under full employment.

It would be wrong and disastrous, therefore, if the comparative failure of full employment at the present time were to cause us to lose our faith in it as an instrument for great economic and social good. There is little doubt it can be made to work—not merely well—but in a way that will help to raise standards of living to heights undreamed of in the past.

