

THE FULL EMPLOYMENT PROBLEM

THE employment situation over the last few months has given rise to growing concern. Reported large-scale retrenchments in public projects because of shortage of finance have been followed by announcements of pay-roll reductions in a number of private industries.

The facts of the situation are not easy to unearth. The only thing certain is that so far the overall unemployment position is of comparatively small dimensions. This does not rule out the possibility that in some sections of industry and in certain trades the scale of unemployment has assumed more or less serious proportions.

Official statistics show that in the eight months from November, 1951 to July, 1952, the numbers employed in private business had fallen by 95,000. This was partly offset by an increase in government employment of 21,000, so that the net position shown by the statistics is that approximately 74,000* less people were employed in July this year than in November last year. Even this is not so serious as it seems since most of the dismissals in private industry comprise women, a large proportion of whom would be married. Of the net decline of 95,000 in private employment, women account for approximately 53,000. The following table sets out the broad position over the whole range of employment.

DECLINE IN EMPLOYMENT November, 1951 to July, 1952

	Males	Females	Total
Manufacturing incl. Gov't.	21,600	37,100	58,700
Retail Trade	6,000	10,500	16,500
Wholesale Trade	6,400	2,300	8,700
Hotels and Restaurants	2,300	4,400	6,700
Private Building	3,000	—	3,000
All Other incl. Gov't.	2,700	1,600	4,300
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	42,000	55,900	97,900
Deduct increases in Government employ- ment and a few private industries, e.g. coal mining	18,100	6,100	24,200
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	23,900	49,800	73,700

NOTE: This analysis excludes employment in rural industry, domestic service and the defence forces, in all of which employment has probably increased.

* This general estimate does not take into account the number of new applicants for employment (arising from migration, juniors leaving school and so on), coming on to the labour market, over the eight months in question. The figure must be around 50,000, although retirements would offset it to some extent.

In the field of government employment the main increases took place in rail and air transport, the post office and other departments, and in public works which alone, surprisingly, show a rise in employment of 500. Defence forces also increased by 19,600.

The industries hardest hit in manufacturing are textiles and clothing, boots and shoes, plastics, food preserving, some electrical goods, sporting equipment and products subject to heavy sales tax, light engineering, motor bodies, rubber and paper. There have also been reductions in employment in retail trade and in private building. On the other hand employment in basic industries has increased. For instance, the iron and steel industry has increased its labour strength by roughly 1,000 in the last six months.

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FOR the great part of the time since the end of the war, and particularly over the last two or three years, the economy has been in a state of over-full employment with considerably more jobs offering than people available to fill them. The employment recession of the past few months has altered a situation to which we had become accustomed through long acquaintance, and the continued existence of which we had begun to take almost for granted. But judged by any pre-war standards, and indeed by the meaning attributed to full employment by many economists, the level of employment at the time of writing is still remarkably high. If we no longer have over-full employment, we cannot be far short of full employment. While there are pockets of unemployment of more or less significant dimensions, taking the economy as a whole the general volume of employment is still satisfactory. The real anxiety lies not so much in the present level of unemployment—which is not serious—but in the fear that the unemployment situation might rapidly worsen and get out of control. This is a possibility that cannot be altogether ruled out and that should be faced up to frankly.

One thing seems fairly certain—that we are not likely to see again, for some time at least, the highly inflated boom conditions of the last few years with a large excess of jobs over job-seekers. The end came with the dive in wool prices

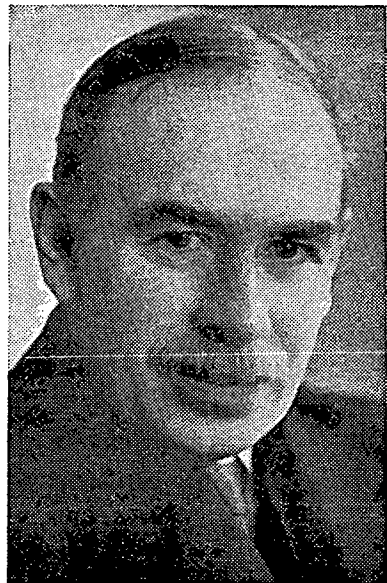
from the economic stratosphere. This was quickly followed by a very substantial falling away of the flow of private capital from abroad seeking investment in Australia. The wildly optimistic expectations of both governments and private business, based on the indefinite continuance of the boom, were thus disappointed. The reaction, naturally enough, has been one of disillusionment and some considerable irritation which has at times verged on childish petulance.

NOT AS SIMPLE AS WE THOUGHT

We were almost assuming that the full employment problem had been solved for good and all. But the problem is now beginning to look not nearly so simple as many seem to have imagined.

The belief that full employment is a relatively straightforward easy matter seems to have become widespread since Lord Keynes. Experience since the war has served to strengthen the grip of this belief. Before the war unemployment generally ranged between 5 and 10%. And in the great depression it rose to nearly 30%. Full employment was the rare exception.

Keynes' theories and proposals were based on pre-war experience and particularly—so far as his advocacy of heavy government spending was concerned—on the special circumstances of England itself.* He attacked the problem of chronic underemployment which he analysed as basically due to insufficiency of effective de-



JOHN MAYNARD KEYNES
1st Baron of Tilton, 1883-1946

* This led a great American economist, Joseph Schumpeter, to write in an essay on Keynes: "... practical Keynesianism is a seedling which cannot be transplanted into foreign soil; it dies there and becomes poisonous before it dies. But ... left in English soil, this seedling is a healthy thing and promises both fruit and shade. Let me say once and for all: all this applies to every bit of advice that Keynes ever offered." An exaggerated judgment perhaps, but one worth bearing in mind.

mand. The remedy lay in measures of policy to stimulate and maintain demand at a level which would be sufficient to provide for full employment of all resources, including labour. Many of the followers of Keynes—and they include the majority of modern economists—seem to assume that all that is necessary in order to achieve full employment is to maintain demand *through the manipulation of monetary and fiscal measures*. These ideas have been given practical expression in the expansionist financial policies of the post-war period of easy money and credit conditions, low interest rates, and heavy governmental expenditure.

IT is true that Keynes advocated all these things. But, as we have seen, Keynes was concerned essentially with the chronic under-employment of the pre-war years. The Keynesians, whose influence on economic policy since the war has been paramount, applied the master's philosophy to the entirely different circumstances ruling during the post-war period. These were circumstances not of under-employment and depression, but of buoyant economic conditions brought about by war-caused scarcities and a huge pent-up demand made effective by the plentiful spending power accumulated during the war years. Even had there been no Keynes, it is probable that full employment would have been the normal condition of the years that followed the war.

The application of the Keynesian philosophy thus had the effect of throwing petrol on to what was already a healthy economic blaze. An artificial inflation was heaped on a natural inflation. The natural post-war boom conditions were excited and intensified by policies which were really applicable to times of depressed economic activity. Keynes himself is reported to have said in 1930: "Twenty years from now Government departments all over the world will be talking about my doctrines, and by that time they will be quite obsolete and dangerous."

FAILURE TO CONTROL THE BOOM

What has all this to do with the present position in Australia? Just this—*that a large part of our present economic difficulties, including the tightening employment situation, is attributable to our failure to damp down the fires of the boom*

years, from the general over-confidence to which the boom gave rise, and from lack of economic foresight. We know now that Australia would have been in a much sounder and healthier position today had the boom been put on a tighter rein. Our present discontents are in great measure due to the let-down from the economic high spirits of the boom years, a reaction which was sooner or later inevitable. The forces making for the recession which we are now experiencing were in fact set in motion by the boom itself. The great classical economists used to insist that in economics, as in physics, every excess generates its opposite reaction. Nowadays we seem to have forgotten this truth. The policies that were pursued in the boom years look, in retrospect, to be sadly mistaken. The responsibility for these policies cannot rightly be laid at any single door. All authorities were infected with the Keynesian virus—Government advisers, politicians of both parties, industrial tribunals, the trade unions and many sections of private business.

Most of us have exhibited a sublime and rather naive confidence in the doctrines of Keynes. After Keynes had spoken, the full employment problem, we thought, was as good as solved. All that remained to be done was to faithfully apply the ideas of the master. Economic stability and full employment would follow as naturally and easily as night follows day.

The work of Keynes did, of course, mark a great advance. It did reveal some of the points where we were going astray. It demonstrated that compensatory government expenditure could play an important role under certain conditions; also that governments could exercise a vital influence on the level of economic activity through the instrument of the budget. The employment White Papers of the various English-speaking governments issued directly after the war reveal this confidence in Keynesian doctrine, on which they were in large part founded.

But two very significant limitations to Keynes were either overlooked or, at least, not given their proper measure of importance. Both of these limitations are especially relevant to the Australian position at the moment.

THE FIRST LIMITATION

The first is that the Keynes' theories in their formal aspect were evolved largely on the assumption of a self-contained economic mechanism—that is, one in which the economy of a particular country is regarded as closed-off from the rest of the world. The effects of international trade on the economy of a single country were thus excluded from the reckoning.* But this assumption, unfortunately, has little or no relation to the facts of the Australian economy of which international trade forms a significant part and in which fluctuations in export income exert a potent—almost dominant—influence on the state of internal economic conditions. *In fact, the Australian economy is tragically vulnerable to the price the world is prepared to pay for one product—wool. This has been brought home to us with stunning force over the last twelve months.*

Full employment, on the Keynesian analysis, depends on the maintenance of effective demand. But what happens where there is a collapse in spending power caused by a fall in export income? It is not at all clear—as has been suggested in some quarters—that this can be satisfactorily offset, and the total of effective demand maintained, through attempts to bolster spending by an expansionist internal monetary policy. There is, for instance, the problem of the adverse trade balance which follows from the drop in export income. An internal inflationary policy, because it increases buying power, including spending on imports and on products otherwise exportable, must be expected to aggravate this problem—unless, of course, harsh import restrictions are imposed, as has been done in the present crisis of the trade balance.

But how far can import restrictions be pushed without leading to unemployment?—since so many industries and public projects in Australia depend on imported supplies of raw materials, parts and capital equipment. Also, quantity import prohibitions have unhappy effects on standards of living and on the rate of industrial development.

The classic method of meeting an adverse external position was that of internal deflation—the exact opposite of the

* Keynes of course was very well aware of the importance of international trade in the employment problem, and he was indeed the outstanding advocate of the need for international financial institutions to minimise the effects of international fluctuations.

Keynesian ideas. This led to a reduction in costs, a fall in money wage rates, and some unemployment. The reduction in costs tended to correct the trade deficit by discouraging imports and encouraging exports and also, eventually, the unemployment position through the restoration of business confidence. This policy was admittedly serious and unsatisfactory in its short-term effects; but can we be sure that we have yet found an effective alternative, especially in cases where the decline in export income is of large proportions?

THE SECOND LIMITATION

The second limitation of the Keynes' analysis is that it was concerned specifically with the problem of *general* unemployment—that is unemployment spread more or less evenly throughout the entire economy—and with the problem of *general* under-demand. But there is also the problem arising from *particular* unemployment in certain industries, occupations or localities caused by a falling away in demand for *particular* commodities or services. This can clearly be a most significant aspect of the whole problem. Indeed it is very largely the one we are facing in Australia at the moment.

It raises, too, important questions about the true meaning of "full employment," on which there is a great deal of confusion. "Full employment" cannot possibly mean a situation in which there is always a job suited to each man's capabilities, experience, or special technical qualifications. Nor can it mean that there will always be ample jobs available close to the present place of living of the labour supply. It cannot mean, for instance, that if there are 100,000 carpenters in a community, there will always be 100,000 jobs for carpenters. Or that a person now employed in the paper trade can expect that that trade will always be able to provide employment for him; or that in a particular district there will always be sufficient jobs for the people who live there. *At best, full employment can only mean that in the economy as a whole there are sufficient jobs of one kind or another for the total of available workers.*

Clearly this can act rather harshly on the people concerned who should, however, constitute no more than a small minority of the total working population. But it is surely

better that there should be jobs of some kind available than no jobs at all. *No economic system yet devised, or that can be conceived, could overcome this problem of the need for changes of occupation, industry or place of work.* The most that economic policy can hope to do is to minimise the extent of these changes; it cannot eliminate them.

It was a Labour Prime Minister, a man to whom full employment was a fetish, the late Mr. J. B. Chifley, who stated these truths in blunt terms.

"No guarantee can be given to anybody that they can stay put in a particular industry, but there will be work for all. It is realised that there will have to be transfers of workers, and in many cases transfers of whole communities to other forms of work.

"The most any Government can do is to see that there is work for everybody.

"I am quite certain that everybody will not be able to stay at home, because there will have to be transfers of labour if there is going to be expansion."

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NOTWITHSTANDING the optimism of the Keynesians, the provision of full employment is anything but simple. In fact it is the most complex problem of a free society. We are certainly nearer to its solution since Keynes. But there is much still that we don't understand.

Full employment demands, too, not merely a right economic diagnosis; but, even more important, a most ingenious and efficient administration of the treatment prescribed by the doctor.

The economic body is a complex and delicate mechanism. If it is abused or if it is subjected to treatment based on superficial diagnosis or on lack of understanding, it will respond just as badly as the human body under similar circumstances.

When a man indulges to excess in alcohol or tobacco or late nights, he pays the consequences, in a lowering of general bodily health and an increased susceptibility to disease. The body economic, similarly, cannot be maltreated without impairing its capacity to function effectively. When the economic mechanism has been thus abused, it is hardly likely to be restored to good health by two tablespoonfuls

of the patent medicine (of Treasury Bills) in a glass of water. Oh, that it were only as simple!

The greatest danger of all arises from political interference with economic processes, the application of policies based on political motives rather than on economic needs. In politics, short-range considerations are usually paramount; the soothing drug is preferred to the surgical operation or the long-range deep therapy treatment; or, to change the metaphor, a hectic night-out of enjoyment for the community, regardless of the hangover in the morning. But in economics the longer perspective must be kept constantly within view. Economic problems respond only to conscientious diagnosis and to faithful and steady observance of the measures indicated by such diagnosis.

These truths are forgotten in the chase of the politician after political popularity, and in the pressure of different sections of the community for temporary financial or political advantages. The ultimate economic consequences of these things can be highly unpleasant—as the present economic predicament of Australia bears witness—and possibly disastrous. When a real crisis occurs, there is no escape from placing economics above politics. But must we always wait for a crisis?

There is need for economic policy to be constantly under the review and guidance of a body divorced from political considerations or the influence of pressure groups. As Mr. Churchill said years ago, the modern nation is interested primarily in economics not in politics. It is abundantly clear that the present-day machinery of democratic government and administration is unfitted for the proper and efficient solution of economic problems. The establishment in Australia of a Council of Economic Advisers, similarly constituted to the body of this name in the United States, would assist in bringing the government machine more into line with inescapable modern requirements.* If that were done, the prospects of economic stability and continued high employment would be, if not assured, at least considerably brighter.

* See article "A C.E.A. for Australia" in May/June "Review."