

The ECONOMICS of UNEMPLOYMENT

I.—THE MEANING OF UNEMPLOYMENT.

THE questions which this article is an attempt to answer are the following :—What is the cause of unemployment ? Will that cause still be operative in a Socialist society, and can one prove that Socialism would be a cure for unemployment ? What effect is the existence of unemployment having to-day on the position of the working class ?

Now, there are two distinct things covered by the term “unemployment,” which it is often important to keep separate. First, there is the strictly economic sense of the word—that certain workers are not employed on work for the present, because it is not expedient for them to be so employed. Second, there is the “common or garden”—human—sense in which the term is used, to denote the fact that workers are turned on to the streets to starve without means of adequate maintenance. For the sake of giving it a label of some sort, I am going to call the former “*non-employment*,” and to keep the term “*unemployment*” to describe the broader fact that workers are not only not employed on work, but are thrown on the streets destitute. It does not need much explanation to show that “unemployment” is essentially a thing peculiar to a class system. It is due to the existence of a dispossessed class without means of livelihood except on the terms offered them by the master class, who “monopolise” economic property. But in a Socialist community “unemployment” will not exist, because the basis of the community will be that all workers are joint owners of communal economic resources, and therefore all have a right to “maintenance” even when there is not work for them to do.* In other words, the burden of “non-employment” will be shared equally by all, and will not fall only on the economically weakest.

But “non-employment” may exist in a Socialist society as well as in a capitalist society, as is happening in Russia to-day. “Non-employment” means an economic wastage to the extent that labour-power is standing idle ; and hence the total national product will be lessened by this amount. It may be retorted that in a Socialist

* Although, of course, society will reserve the right to deprive certain people of this maintenance on the principle of “he who will not work, neither shall he eat,” and it may be expedient, at any rate during the transition period, to make the level of “maintenance” lower than the full pay when on work.

community there would be no need for this "non-employment," since production would not be for profit, and hence there would be no difficulty about finding work for labour-power to do. But this is a fallacy. It neglects the fact that wastage will occur just as much if part of the community's labour-power is employed, in places and in uses, where it is *relatively* unproductive. For instance, there may be so many workers attached to the boot industry and so few attached to the cotton industry, as to mean a very great advantage to the community if workers were transferred from Northampton to Lancashire. There would be economic wastage under this bad distribution of labour-power to the extent that the total national product was less than it might be, if workers were so transferred; and maximum productivity would not have been reached, until labour had been transferred up to the point where no additional product could be expected to result from fresh transfers. For the sake of convenience, therefore, the term "non-employment" may be applied to this form of economic wastage as well; for it might happen that in this way some workers were consuming more than under the circumstances they were adding to the total product, in just the same way as if they were not working at all. It is for the merely technical convenience of measuring how far labour-power is being employed in its relatively most productive uses that probably some kind of price-system, coupled with a system of costing, would be found necessary in any form of Socialist or Communist society.

The point is, therefore, that although under Socialism the economic wastage of "non-employment" may occur, the human wastage and misery of "unemployment" is peculiar to a class system. The question remains, then, how far is Capitalism more likely to fail to adjust supply to demand, and so to cause "non-employment," than a Socialist community would be?

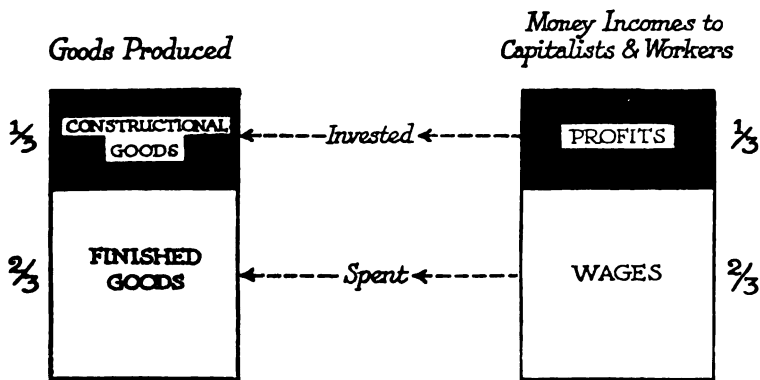
II.—CAUSES OF "NON-EMPLOYMENT."

Now, it is often argued that "non-employment" occurs under capitalism because the workers receive in wages only *part* of the total money income of the community; therefore the workers can only purchase *part* of the total stock of commodities produced. Consequently there exists a "surplus" of goods, which cannot find a market, and this results in over-production and unemployment. This is the *Under-consumption Theory*. It is not Marx's Theory, as is often supposed, although many Marxists subscribe to it. If its origin can be traced, it is attributable in a less crude form to an old French economist, Sismondi. *Forward* had a recent editorial giving this as the explanation of "crises." E. B. supported it in the January *Labour Monthly*. Somewhat similar is

J. A. Hobson's theory that unemployment is due to too much money being saved and too little money being spent. To this doctrine the Labour speakers in the House of Commons debate last session subscribed.

It is the opinion of the present writer that this whole idea of "under-consumption" is a complete fallacy, and for this reason :

It is true that profits are not for the most part spent directly on immediately consumable goods, like food and clothing. But profits, after being paid to the capitalists, are not in these days locked up in a strong box or buried in the ground. They are re-invested ; and investment of money in setting up new factories implies the purchase with the capital invested of constructional goods (*e.g.*, machinery). Thus, let us suppose that one-third of the national income goes in profits and two-thirds in wages ; and let us suppose for the sake of simplicity that all profits are re-invested. It is true that only two-thirds will be spent for the present on finished commodities ; but the other one-third will be *spent on constructional goods*. All it will mean is that national production must be distributed in the proportion of one-third industry producing constructional goods and two-thirds producing finished goods ; and there will be no necessary over-production so long as these proportions are maintained. This diagram may help to illustrate this :—



It has just been said that there will be no over-production, *if these proportions are maintained*. The point about Marx's theory of crises was that under the capitalist anarchy of production there is no guarantee that these proportions (or any other proportions) will be maintained. Writers since Marx have pointed out that there are certain definite reasons why the constructional trades always tend to expand faster than the rest of industry, and consequently for there to be *relative* over-production of constructional goods ; this being the starting-point of a general trade "slump."

Space does not permit the reasons why this maladjustment takes place to be explained in detail. They will be found in *The PLEBS Economics Textbook* in the chapter on "Crises."

The matter can be put in a different way like this : The market for the products of the cotton industry consists in the money incomes distributed in the course of production in all other industries (or that part of those incomes spent on cotton goods). Now, suppose all industries expand production 50 per cent. The production of cotton goods will have expanded 50 per cent. But so also will the market for cotton goods ; for the expansion of production in other industries by 50 per cent. means a 50 per cent. increase in incomes distributed in the course of that production. But if production in the cotton industry expands 100 per cent., while that in other industries expands only 50 per cent., there will be relative over-supply of cotton goods. In the case of constructional goods, however, the expansion of other industries will have to be *greater in proportion* than expansion in constructional trades for harmony to be maintained, since machines are used in other industries, but only constitute a *part* of the cost of production there.

Mr. Hobson is wrong, therefore, in attributing unemployment to over-saving. It is not the absolute proportion of saving to direct spending which matters. It is the *distribution* of investments *between various industries*. However little may be saved and invested, if too much of it is invested in shipbuilding and engineering, and too little in the textile and leather industries, there will be maladjustment and crises just the same.

This is no mere academic question. It has very important practical implications ; for it lies at the basis of working-class policy on unemployment. If Mr. Hobson's theory is true, then, as he claims, a lessening of inequality of income by liberal reformism will cure "non-employment" by increasing spending relatively to saving. On the other hand, if the more extreme form of the Under-consumption Theory is true, then "non-employment" cannot be cured even in a Socialist community. For, as Marx said, Labour can never get its full product, because a part of the annual income will always have to be devoted to repair, development, and improvement—probably as large a part as is at present re-invested.

If, however, it be true that maladjustment of the economic mechanism, producing "non-employment," is due to the capitalist "anarchy of production," then a Socialist community, in so far as it diminishes this anarchy by a co-ordinated system of social production, will involve very much less "non-employment" than does capitalism. It will only be able to do so, however, in so far as it develops a scientific method of distributing economic resources in the best proportions as between their various uses.

The capitalists themselves try to get rid of this wastage by eliminating competition in certain branches of industry. But the result is that giant national combines are formed and they are more able to control the State for their own economic interests, and they use the State consequently in their competition with the rival national combines of other countries. This is the Imperialist stage. It is the partial removal of competition from the national sphere, and its transference in a more militant and destructive form to the international sphere ; instead of a competitive price-cutting in Middlesbrough or on the Clyde, you have the military occupation of the Ruhr.

III.—UNEMPLOYMENT AND CAPITALISM TO-DAY.

Formerly, unemployment as a social factor was of benefit to the capitalist class, because it increased competition among workers and so weakened the bargaining power of workers relatively to employers. Since the war, however, owing to the intensification of the class struggle, the capitalist class run a risk from the existence of unemployment of riot and revolution, greater than any benefit they get from the existence of a "reserve army" of unemployed. The unemployed become a "reserve" for the Red Army rather than for the capitalist workshop. Hence, especially in Central Europe, capitalist states are burdened with huge insurance premiums against revolution in the shape of unemployment doles, bread subsidies, etc. This, combined with debt charges, makes it impossible for these states to balance their budgets. Three ways are open to capitalist states to remedy this excess of expenditure over revenue :—

- (a) By increasing taxation on the capitalist class, *e.g.*, income tax, profits taxes.
- (b) By borrowing from the banks, and as a necessary condition of this *inflating* the currency, or by inflating directly.
- (c) By throwing the burden on to the workers by cutting down expenditure to benefit the workers, *e.g.*, housing, unemployment relief, etc.

It is usually impossible for a capitalist state to do much by (a). Fierce resistance will be met with from the capitalists. Moreover, it will cut into Surplus Value, the source from which capital accumulation under capitalism comes, and so diminish production and increase "non-employment." Most European countries have hitherto used (b) as the easiest way out. We need not dwell on the evil effects of even moderate inflation. The most spectacular instances are the "slump" of the mark and the krone.

During the last year, however, with the intervention of the financiers of London, Paris and New York, method (c) has been

adopted in Austria ; and it is to be adopted in the near future in Germany. In Britain it was started by the " Economy " campaign—reducing expenditure on housing, education, etc. That blessed word " stabilisation " means the transition to this new policy. Therefore, however liberal and generous in intention individual capitalists may be, the circumstances of world capitalism to-day compel them to throw a major part of the burden of the war on to the workers, and with regard to unemployment to revert to their old attitude towards it—to use it as a weapon to reduce the resistance of the workers. Unemployment to-day is therefore one of the ways in which this burden is felt, and at the same time it is one of the conditions of capitalist reconstruction. But since its effect is almost certainly to increase the class struggle, it may well prove the rope with which, if it is lengthened sufficiently, capitalism may hang itself.