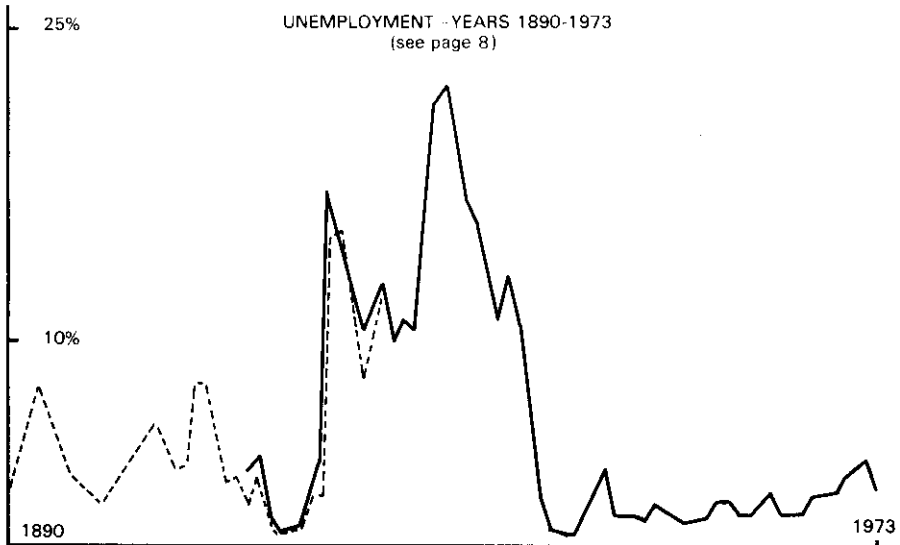


# UNEMPLOYMENT AND INFLATION

## THE NEED FOR A TRUSTWORTHY UNEMPLOYMENT INDICATOR

by

Jim Bourlet and Adrian Bell



No. 4

October, 1973

Price 40p

Published by

Economic Research Council

10 Upper Berkeley Street

London W1H 7PE

## ECONOMIC RESEARCH COUNCIL

*President:* The Rt. Hon. Lord Beeching

*Vice Presidents* Professor G. C. Allen  
Sir David Barran  
Professor P. Sargant Florence, C.B.E.  
Lord Killearn  
Sir Ian Mactaggart, Bt.

*Chairman:* Mr Patrick de Laszlo

*Hon. Secretary:* Mr Edward Holloway

---

**Object:**

**To promote education in the science of economics,  
with particular reference to monetary practice.**

**Membership** is open to all who are in sympathy with this object.

Individual subscription £2.50 per annum.

Corporate subscription £25.00 per annum.

Further information from  
Economic Research Council,  
10 Upper Berkeley Street,  
London, W1H 7PE  
Telephone: 01-262 8646

---

**This analysis of unemployment statistics was prepared by the Economic Radicals (Employment Study Group) and is published by the Economic Research Council, but members of the Council are not necessarily committed to the conclusions which have been drawn.**

# THE NEED FOR A TRUSTWORTHY UNEMPLOYMENT INDICATOR

"... we do believe that the present statistics on unemployment are unreliable and even specious . . . the real unemployed can only be a fraction of the total figure . . ."

*(Memorial to the Prime Minister, October 1972)*

"If . . . we were to try to cure by means of stimulating total expenditure . . . unemployment of a type due, not to the absence of jobs, but to the failure of workers to move to places and occupations where they were needed, we might create a dangerous inflation."

*(White Paper on Unemployment 1944 Paragraphs 56 and 81)*

*Jim Bourlet* is Senior Lecturer in Economics and Business Finance at the City of London Polytechnic. He obtained an M.Sc. (Econ.) at the L.S.E. after spending several years working in private industry.

*Adrian J. Bell* graduated in Economics and History from St. Catherine's Oxford, and now is an analyst with Hambros Bank in London.



*The publication of this report was made possible by generous donations to our research fund of which the Trustees are:*

LORD BEECHING

SIR DAVID BARRAN

PATRICK DE LASZLO

EDWARD HOLLOWAY

## CONTENTS

Foreword by Richard Body M.P .....	1
Introduction .....	5
The Authority of John Maynard Keynes .....	7
Keynesian Unemployment .....	9
Total Unemployment and Total Vacancies .....	11
Total Unemployment Dis-aggregated .....	12
Voluntary Unemployment.....	15
'Structural Change' and 'Economic Policy' .....	17
Future Policy.....	18
Conclusions .....	19
Appendix.....	20

## FOREWORD

by Richard Body, M.P.

---

As soon as Whitehall realised, two years ago, that the number of unemployed was going to top 1,000,000, the din of the alarm bells deafened members of the Government to the voices urging them to keep their nerve and hold fast to all the promises made in 1970. It was "Keynes knew best, — . . . he had the answer before the war . . . expand total demand and jobs will be found; and let the expansion be founded, as he would have advised, upon more spending in the public sector and less taxation".

In their haste to demonstrate their faith in the Keynesian remedies, they never paused to make sure what the maestro really did advocate nor to make sure that they were trying to help people who were unemployed in the sense that Keynes used the term.

Public expenditure was made to roar ahead, exceeding public revenue by £4,000,000,000 — the equivalent of five Maplins in a single year — the deficit to be made good by "borrowing". Unfortunately, when a Government borrows today we know it is effectively the same as "printing the extra money".

Now, two years on, the authors of this paper, which was prepared for the Economic Radicals, have shown what should have been done when those alarm bells first went off. It shows that of the 1,000,000 or more who were out of work in the winter of 1971-1972, probably no more than about 130,000 should have been classed as "*involuntary unemployed*". Yet this was the only category which Keynes had in mind when urging expansionist weapons against unemployment.

The Government embarked upon a course from which nine out of ten of those they intended to help were not likely to benefit. As a result, while less than 0.5% of the working population were to be given the chance of finding a job more quickly than they might otherwise, the whole population were to be subjected to a degree of inflation that is going to be staggering, frightening and cruel.

To those who question those adjectives, it can be said that the present rate of inflation doubles the cost of living every ten years. In the course of an ordinary working life, it will multiply no less than 32 times, so if a young man beginning his career saves £1 this week, it will be worth 3p on the day of his retirement.

The financial hardship caused by *involuntary* unemployment is—or can be—a thing of the past. There remains the demoralising consequences upon those affected. These are real and serious, but they need to be set against the hardship inflicted upon the rest of the population, especially the low wage earners, when a policy of inflation is deliberately pursued.

Inflation is a form of income tax which deprives the poorer part of the society of a greater part of their income than those who are richer. At the same time it provides compensation to the rich by making nearly all property more valuable.

This is why Keynes quoted Lenin so approvingly:

*"The best way to destroy capitalism is to debauch the currency by a continuing process of inflation. Governments can confiscate secretly and unobserved an important part of the wealth of their citizens. By this method, they not only confiscate, but they confiscate arbitrarily and while it impoverishes many, it actually enriches some."*

The crashing din of the alarm bells set off by the 1,000,000 unemployment figures started a chain of events that is a sad succession of *volte faces*, particularly for every Conservative. There is no need to set out the catalogue of U turns here: enough to say that they have one common denominator, all have followed from that massive increase of public expenditure with not one penny of the increase

matched by another pennyworth going into the Exchequer.

The result was an increase of nearly 30% in the money supply (M3 Definition) last year. A Memorial to the Prime Minister was written by eight distinguished economists and myself in which we explained that no Price and Incomes Policy could succeed unless the inflation of the money supply were curbed; and, moreover, prices generally would go on rising, regardless of controls, when the rate of increase in the money supply exceeded the rate of growth in the economy.

Mr. Heath's reply to us was most significant. It began, "Let me say at once that the Government attaches very great importance to controlling money supply", and he went on to add that, "the difference between the Government's view and those of the distinguished authors of the 'Memorial' is thus one of emphasis".

After explaining the need for controls over pay and prices with arguments now familiar to us all, he ended his reply: "But this is certainly not to say that monetary policy has no part in this process. A slowing down in the rate of growth of money supply is an essential part of the strategy".

The Government has since tried to narrow the gap between expenditure and revenue, and to that end some cuts in future spending have been announced. Nevertheless, the money supply continues to increase and the pace has even quickened slightly. The latest figures show the rate to be running at 33% in a year when growth is going to be no more than 6%.

If it is still the case that "a slowing down of the rate of money supply is an essential part of the strategy" to overcome inflation, then the Prime Minister must now give it his most urgent attention. When he comes to fulfil that promise we hope that this paper will convince him that he needs more reliable advice on unemployment.



# **UNEMPLOYMENT AND INFLATION**

## **THE NEED FOR A TRUSTWORTHY UNEMPLOYMENT INDICATOR**

by **JIM BOURLET and ADRIAN BELL**

### **INTRODUCTION**

The paramount objective of the Government in June 1970 was "Stable prices". In little more than twelve months it had become "solving the unemployment problem".

A decision was then taken by the Prime Minister to boost government expenditure by hundreds of millions of pounds and to make substantial cuts in the rates of taxation. In his opinion the unemployment figure had reached such a height that the attempt to reduce inflation had to be abandoned.

The result: a succession of new decisions and about-turns—which no soothsayer would have discerned from "A Better Tomorrow", and no Conservative believed possible three years ago.

The purpose of this paper is to show that the unemployment figures that caused the Prime Minister to change course so violently were deceptive; and they deceived him into prescribing policies contrary to those which should have been adopted and contrary to his declared objectives of 1970.

Its further purpose is to fill the gap left by the Government's White Paper, "Unemployment Statistics" Cmnd 5157, published in November 1972. This looked at the unemployment figures to see if they needed "to be subdivided, supplemented, or presented differently, in order to provide a

more accurate indication of the real level of unused labour resources in the economy."

We applaud one conclusion—that 2 million workers had not dropped out of the labour force between 1966 and 1971 as suggested by an alarming calculation published in *The Times* on 2nd March 1972.

It failed to answer the one major question, namely should all categories of unemployment be lumped together, as one global whole, when the Government makes changes in its expenditure or taxation to reduce the number of unemployed or should each category be looked at separately to make sure which of these is amenable to such help?

## The Authority of John Maynard Keynes

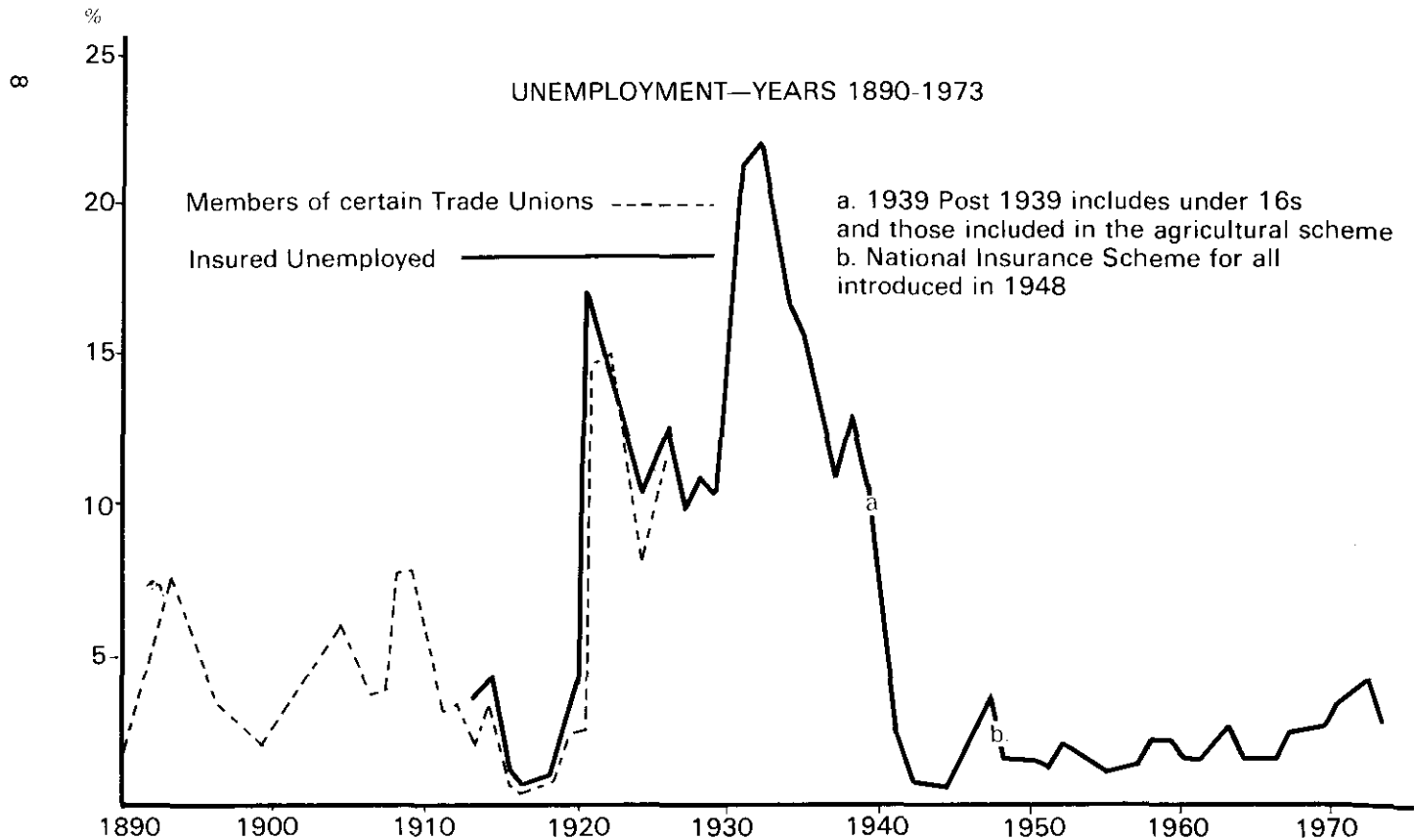
Before the "White Paper on Employment" published in 1944<sup>1</sup> and endorsed by all three political parties, governments considered it a prime responsibility to arrange their financial affairs in such a way as to maintain a balance between income and expenditure. Prices rose or fell, depending on a variety of economic factors and governments took no deliberate part in influencing them.

Since 1944, governments have been quite wilful in allowing the £ to fall in value year after year without exception. Before Lord Keynes wrote his "General Theory of Employment, Interest and Money" in 1936, every pundit would have denounced it as bad economics and worse ethics. This monumental work, by the most outstanding economist of this century, has given us a wider understanding, and a greater control over our economic destiny than anyone before him had dared to consider possible.

Lord Keynes inspired the idea of "managing the economy". His influence made us jettison our instinctive dislike and distrust of deficit financing and its inflationary consequences. *Today, politicians still refer to Keynes to justify reflationary measures to "solve the unemployment problem", but they completely disregard what Lord Keynes said about the type, or category, of unemployed who could be helped by such measures.*

---

1. Employment Policy 1944 H.M.S.O. Cmd 6527.



## Keynesian unemployment

Would Keynes consider that there now exists unemployment on a scale sufficient to justify reflationary action? Let us begin by referring to the various types of unemployment as set out in his "General Theory" between pages 5 and 16.<sup>2</sup>

1. Frictional unemployment
2. Voluntary unemployment
3. Those unemployed for a variety of special reasons such as the "unemployables" (sometimes referred to as the "hard core")
4. *Involuntary* unemployment

*Keynes expected policy makers to dis-aggregate unemployment statistics and apply reflationary measures only when "involuntary unemployment" existed.* This is a category of person whose ability to obtain a job depends on the general buoyancy of the economy not on his personal circumstances or preferences. In these circumstances reflation should not lead to serious labour shortages or general wage and price rises.

The "Unemployment 1890 to 1973" chart reminds us of the high levels of unemployment during the inter-war years when Keynes wrote his "General Theory". Unemployment levels of 15% and 20% included a great many workers who were "*involuntarily* unemployed". But does "*involuntary* unemployment" exist today when levels of unemployment reach only 4%?

The table of unemployment by industry for 1932, 1937 and 1972 shows many industries where, in 1932, unemployment reached over 30% and 40%. The 1972 figures were only 4% and 5%. Is it therefore surprising that, at the present time, many key sectors of industry are reporting

---

2. Keynes categorises unemployment (see Appendix page 20) and then states "My definition is that men are involuntarily unemployed if, in the event of a small rise in the price of wage-goods relative to the money-wage, both the aggregate supply of labour willing to work for the current money-wage and the aggregate demand for it at that wage would be greater than the existing volume of unemployment". The findings of the Economic Research Council analysis "Excessive taxes lead to Stagflation" are relevant here. They find that real wages, after tax, have risen slowly in recent years (though at a slower rate than productivity) but this does not appear to have led to either a change in the supply of labour nor the aggregate demand for it.

**TABLE 1 Unemployment in selected industries 1932, 1937 and 1972**

	%	%		%
	1932	1937		1972
Fishing .....	22.0	24.2	Agric., Forestry & Fishing.....	5.3
Coalmining.....	34.5	16.1	Mining & Quarrying.....	5.1
Bricks, tiles, pipes etc.	21.5	8.2	Food, Drink, Tobacco.....	3.6
Pottery & Earthenware	36.2	17.5	Coal & Petrol Products.....	3.4
Chemicals .....	17.3	6.8	Chemicals & Allied Ind.....	3.0
Pig Iron.....	43.8	10.7	Metal Manufactures.....	4.8
Iron & Steel Smelting..	47.9	11.4	Mechanical Engineering.....	3.8
General Engineering...	29.1	5.8	Instrument Engineering.....	2.2
Electrical Engineering.	16.8	3.1	Electrical Engineering.....	2.6
Vehicles & Aircraft.....	22.4	5.0	Shipbuilding & Marine.....	6.1
Ships.....	62.0	24.4	Vehicles .....	2.8
Electric Cables. Man...	13.3	5.0	Metal Goods .....	4.4
Cotton Textiles.....	30.6	10.9	Textiles.....	4.4
Wool Textiles.....	22.4	8.8	Leather Goods & Fur .....	4.3
Linen Textiles .....	29.7	16.2	Clothing & Footwear.....	2.6
Tailoring.....	17.6	12.3	Bricks, Pottery, Glass	
Dressmaking.....	11.5	7.5	& Cement.....	3.9
Boots and Shoes.....	18.0	12.1	Construction .....	11.0
Bread and Biscuits.....	12.2	8.7	Timber, Furniture etc.....	3.4
Drink.....	14.4	7.7	Paper, Printing, Publishing....	2.4
Sawmilling & W'work.	22.0	10.7	Other Manufacturing.....	3.7
Furniture .....	21.7	9.8	Gas, Electricity, Water.....	3.0
Printing .....	11.0	6.7	Transport & Communication.	3.2
Building.....	30.2	14.6	Distributive Trades.....	3.3
Gas, Water, Electricity	10.9	8.3	Insurance, Banking, Finance.	1.9
Railway .....	15.7	6.5	Prof. & Scientific Service.....	0.9
Docks.....	33.3	27.5	Public Admin & Defence.....	2.6
Distributive Trades.....	12.6	8.9	Misc.....	4.3
National Government..	12.4	11.7		
Local Government.....	18.2	17.6		

Figures for 1932 and 1937 are taken from the Department of Employment "Historical Abstract" Table 164 and are averages of the percentages in January and July of each year.

Figures for 1972 are taken from the Department of Employment "Gazette" averaging January and July.

acute labour shortages, rising earnings and overtime working which often represents 20% to 30% of wage packets?<sup>3</sup>

In answering these questions we look first at the total number of unemployed and the total number of vacancies and then we seek to disaggregate total unemployment so as to indicate the possible extent of "involuntary" or "Keynesian" unemployment today.

3. Department of Employment "Gazette". December 1972.

## Total unemployment and total vacancies

The 1971 census returns showed that there are some people who are out of work and would like a job, yet have not registered at an Employment Exchange. There are possibly at present between 200,000 and 300,000 in this position.<sup>4</sup> *Thus the total number unemployed in January 1972 was probably about 1,200,000. Today it is probably about 800,000.*

It is commonly suggested that there are fewer vacancies than there are unemployed. For example, in 1971 monthly average vacancies notified and remaining unfilled were **.100** [REDACTED]. *However only a small proportion of vacancies are notified to Employment Exchanges.* Employment Exchanges place about 1½ million persons in jobs each year<sup>5</sup>, whilst the total number of job changes each year as shown by Inland Revenue returns is between 10 and 12 million.

The fact is that most people obtain their employment through newspaper advertisements, private agencies or the "grape vine" and only about 15% obtain them through the Government's Employment Services. *Until an adequate survey has been made, the total number of vacancies can only be guessed. It could be two, even three, million.*

---

4. Unemployment Statistics. Cmd 5157. Paragraph 5.3.

5. Unemployment Statistics. Cmd 5157. Paragraph 4.17.

# **Total unemployment dis-aggregated**

Table 2 shows unemployment by duration as given by the Department of Employment for January 1972 and for July 1973. Following Keynes we define the categories given below and table 3 shows a first estimate of the likely size of each category.<sup>6</sup>

## **1. "FRICTIONAL" UNEMPLOYMENT**

These are workers who are without a job because their expected employment or previous employment is not available to them. New jobs which they are capable of undertaking are available at wage levels comparable to their previous employment and it is only a matter of time before these are found, arrangements made, and employment commenced. This category includes most of those registered as unemployed for 8 weeks or less.

## **2. "VOLUNTARY" UNEMPLOYMENT**

These workers are without a job because their expected or previous employment is not available to them and they are refusing jobs because the wages offered are lower than those which they hope to obtain. This category includes most of those registered as unemployed for between 8 and 26 weeks and a proportion of those registered for longer.<sup>7</sup>

## **3. "HARD CORE" UNEMPLOYMENT**

These are workers who are not fit for normal and regular employment. They are people who may require the

---

6. A detailed analysis has been given in John Wood "How Much Unemployment?" I.E.A. Research Monograph No. 28.

7. J. M. Keynes. General Theory. Page 6. "Voluntary" unemployment is defined as "unemployment due to the refusal or inability of a unit of labour, as a result of legislation, or social practices, or of combination for collective bargaining or of slow response to change or of mere human obstinacy, to accept a reward corresponding to the value of the product attributable to its marginal productivity".



care and attention of the social services, rather than simply "work" and perhaps should not be counted in the "unemployment" category at all.<sup>8</sup> They include many of those registered as unemployed for more than 26 weeks and a proportion of those registered for shorter periods.

#### **4. "FRAUDULENT" UNEMPLOYMENT**

These are workers who have a job of sorts but who manage to register as unemployed at the same time.

#### **5. "CONVENIENCE" UNEMPLOYMENT**

The "prematurely retired" who only register as unemployed in order to obtain an insurance stamp.

#### **6. "INVOLUNTARY" UNEMPLOYMENT**

These are workers who would be willing to take a wide range of jobs within their capabilities, but who are offered no jobs at all or only jobs with low remuneration and little chance of advancement. They are a reserve of resources which the economy is failing to use. In July 1971, at the height of the "unemployment scare" there was probably no more than 130,000 in this category.

*Tables 2 and 3*

*appear overleaf.*

---

8. The White Paper 1972 Cmnd 5157 notes that "every Employment Exchange manager has people . . . who are exceptionally difficult to place . . . and who seldom hold down a job for more than a week or two".

**TABLE 2****Unemployment by Duration. January 1972 and July 1973**

<i>Duration in weeks</i>	<i>January 1972</i>	<i>July 1973</i>
1 or less .....	69,699	57,904
Over 1 and up to 2.....	60,636	43,643
Over 2 and up to 3.....	27,018	28,205
Over 3 and up to 4.....	38,283	21,708
Over 4 and up to 5.....	36,807	18,024
Over 5 and up to 6.....	37,698	18,180
Over 6 and up to 7.....	33,411	10,523
Over 7 and up to 8.....	29,646	12,386
Over 8 and up to 9.....	28,926	11,509
Over 9 and up to 13.....	102,426	36,379
Over 13 and up to 26.....	180,467	73,144
Over 26 and up to 39.....	89,499	44,374
Over 39 and up to 52.....	48,001	34,440
Over 52 .....	141,973	150,906

Department of Employment "Gazette" February 1972 page 182 and August 1973 page 780.

**TABLE 3****Unemployment by Category. January 1972 and July 1973**

Tentative estimates based on total unemployment (including those not registered) of 1,200,000 for January 1972 and 800,000 for July 1973.

	<i>January 1972</i>	<i>July 1973</i>
"Frictional" unemployment.....	315,000	225,000
"Voluntary" unemployment.....	400,000	175,000
"Hard Core" unemployment.....	200,000	180,000
"Fraudulent" unemployment.....	130,000	100,000
"Convenience" unemployment.....	25,000	25,000
"Involuntary" unemployment.....	130,000	95,000

## Voluntary Unemployment

Every politician fears "unemployment", it is an emotional issue. It needed thirteen years of office for the Conservative party to live down the charge that during the inter-war period it "ignored the fate of millions".

It is immensely difficult for any Government, and especially a Conservative Government, to look objectively at the various categories of unemployment. And so, underneath the hush of Government discussion, the inclusion of the "voluntarily" unemployed, in the "numbers unemployed" has bedevilled economic policy making.

Let an illustration underline the difficulty. Jones has recently been employed in a factory where he has earned, with overtime, £40 or £50 per week, and now finds himself redundant. Most of the opportunities offered to him are in the service sector and during several interviews he is offered jobs that would pay him about £25 per week. Naturally, Jones prefers to remain unemployed until he is offered a "proper job" paying him twice as much. In any case, since his unemployment payments are over £19 per week and he is due for an income-tax rebate, he can afford to stick out for something better for quite a long time.

- 
9. Such workers, being classified as "industrial" are seldom described by Employment Exchanges as "refusing suitable employment". In 1971 only 0.5% of disqualifications for unemployment benefit were made for "refusing suitable employment".

To some extent, officials have always been aware of this. The White Paper (Cmnd 5157) states:—

"4.22 It was a condition for 'uncovenanted' insurance benefit from 1921 to 1924 and for 'standard' unemployment insurance benefit from 1924 to 1930 that the claimant should be 'genuinely seeking work'. This condition came to have emotional overtones, was extremely unpopular, and was difficult to define and apply in practice . . . In 1929 the Morris Committee recommended that the words 'genuinely seeking work but unable to obtain suitable employment' should be abandoned. The Unemployment Insurance Act 1930 substituted provision for disqualification where the claimant refused, without good cause, an offer of suitable employment . . .

The difficulties of definition would make it almost as difficult to find objective criteria for identifying those 'not genuinely seeking work' in the unemployment statistics."

Jones' decision to remain unemployed in circumstances such as these is voluntary, explicable and understandable. The Government's action, in response to his swelling the "numbers unemployed" is understandable also, but not justified.<sup>9</sup>

It may be impossible to list all the factors which have led this category from being very small in the early post-war years to one of perhaps 400,000 in 1972. Certainly, greater prosperity and changing social attitudes have much to do with it.

There are however, some quite specific factors. It is well known that there is a tendency for the service sector to grow and the manufacturing sector, in terms of the numbers employed, to decline. The "shake out" associated with the growth of automation and new techniques must lead to many having to seek work in the service sector, and they must often feel disappointed with the wages offered there.

Then there is the increasing tendency for wives to go out to work. This must reduce the immediate pressure on the husband to accept a job, and he will surely feel that he should earn rather more than she does!

What part does education play in leading to increased "voluntary unemployment"? In obtaining a qualification, one not only acquires a skill, but also the higher expectation of above average earnings.

The increasing number who obtain a qualification leads to an increase in those who prefer to wait to get the "right" job. The hardship involved in 8 or 12 weeks unemployment is far less today. The car or television can be sold, or at least left unlicensed for a while. Family sizes are smaller — and more spaced out. Unemployment pay and earnings related benefit have risen. Rising real incomes may even mean that an occasional raid on savings will not be too traumatic an experience!

*A sample survey of those unemployed, recording previous earnings, is urgently needed to ascertain the size of this category.*

## **“Structural change” and “Economic policy”**

“Structural changes” relate to changes in the pattern of demand in relation to the pattern of supply. To take two obvious examples: during a “building boom” more workers are needed; and owing to the decline in the demand for coal fewer workers are now employed in that industry. Changing technology, changing tastes and changing government requirements are all important.

During recent years there has been a rapid rate of structural change. This inevitably led to more “frictional” unemployment as workers change jobs, and to more “voluntary” unemployment when workers prefer to remain unemployed for a while rather take jobs immediately available to them. However, since total demand has been maintained at high levels, this has not led to “involuntary” unemployment.

“Reflation” leads to a greater output being demanded from many sectors. This leads to more vacancies and, when there is little or no “involuntary” unemployment, to higher wages. This in turn eventually leads to higher prices.

At first all categories of unemployment are reduced. Even “frictional” unemployment is reduced despite a higher turnover rate, because workers can find jobs more quickly. An acute labour shortage can even enable some members of the “hard core” to find jobs—at least for a while. However, as prices rise, a lower output is sold and all categories of unemployment increase again.

*Since the last war, there has never been any significant amount of “involuntary” unemployment. Instead, fluctuations in the total numbers unemployed have been due to periods of excess demand, government intervention, and rapid structural change.*

## Future policy

There is a clear need to reclassify those registered as unemployed into meaningful categories before there is any more economic policy making. The changes in presentation proposed by the recent White Paper are useful but totally inadequate.

Should there at any time be a large nation-wide increase in the numbers "involuntarily" unemployed, reflationary measures should be undertaken. However, this has not occurred during recent years when the only significant numbers in this category have been in the Development Areas which has led to the introduction of Regional Policies such as the Regional Employment Premium.

Far from being a cause for alarm, *an increase in the numbers "voluntarily and "frictionally" unemployed may actually be a symptom of improved economic and social conditions* and of much needed structural change.

The following steps however, will help to reduce voluntary and frictional unemployment, though some of them may be disapproved of for a variety of reasons.

- (a) Improve the information available to those unemployed or likely to become redundant about future job opportunities.
- (b) Reduce the payments to those registered as unemployed.
- (c) Provide extra training and re-training facilities, especially for jobs providing relatively high wages or where shortages can be foreseen.
- (d) Improve mobility of labour and make improvements in the housing market.
- (e) Vigorously oppose all restrictive practices.
- (f) Raise the rate of interest, thus making it more attractive for employers to employ labour rather than capital.

It is also important to examine the part played by Government Expenditure. Rapid changes in policies can lead to increased "frictional" unemployment. A lower level of Government Expenditure, allowing higher private incomes can lead to a greater demand for those goods and services which are relatively labour intensive.

## Conclusions

If we are to take "Keynesian" measures to "overcome unemployment" then we should determine the extent, if any, of "Keynesian unemployment" (i.e. "*involuntary* unemployment"). Both a comparison of pre-war to post-war unemployment and an analysis of current statistics show that little or no "Keynesian unemployment" existed in 1971-72.

Surveys should be carried out to dis-aggregate unemployment statistics and to ascertain the true number of vacancies. These should be carried out by the Department of Employment, using sampling methods which need not be expensive.

It is suggested that there may have been about 130,000 "*involuntary*" unemployed workers in January 1972, situated largely in the Development Areas. This did not justify reflation throughout the whole length and breadth of the national economy.

A combination of factors including higher unemployment payments, changing social conditions and a rapid rate of structural change have led to an increase in the numbers in each unemployment category during recent years. Each attempt to "solve" this through reflationary measures has lead only to a temporary reduction followed by escalating inflation.

We should accept a higher level of *total* unemployment than has been usual since 1945 and pursue non-inflationary policies to assist the unemployed. These policies should include extended retraining facilities, an attack on restrictive practices and efforts to remedy the housing shortage.

The extravagant inflationary "deficit" spending by the Government during the past few years — and especially since 1971 — has been justified on the grounds that it has been "Keynesian" in the sense that it was wholly incurred in order to reduce *involuntary* unemployment as recommended by Keynes. However, the public has been misled and the Government has apparently also been misled into believing that Keynes would have recommended such measures to deal with *total* unemployment. As a result the Nation has suffered and Keynes himself is becoming discredited.

Extracts from  
**The General Theory of Employment  
Interest and Money**  
by John Maynard Keynes

*From Pages 6 and 15*

"This (the classical wages theory) is compatible with what may be called "frictional" unemployment. For a realistic interpretation of it legitimately allows for various inexactnesses of adjustment which stand in the way of continuous full employment: for example, unemployment due to a temporary want of balance between the relative quantities of specialised resources as a result of miscalculation or intermittent demand; or to time-lags consequent on unforeseen changes; or to the fact that the change-over from one employment to another cannot be effected without a certain delay, so that there will always exist in a non-static society a proportion of resources unemployed "between jobs". In addition to "frictional" unemployment, it is also compatible with "voluntary" unemployment due to the refusal or inability of a unit of labour, as a result of legislation or social practices or of combination for collective bargaining or of slow response to change or of mere human obstinacy, to accept a reward corresponding to the value of the product attributable to its marginal productivity. The classical postulates do not admit of the possibility of the third category, which I shall define below as "involuntary" unemployment."

"We must now define the third category of unemployment, namely "involuntary" unemployment in the strict sense, the possibility of which the classical theory does not admit.

Clearly we do not mean by "involuntary" unemployment the mere existence of an unexhausted capacity to work. An eight-hour day does not constitute unemployment because it is not beyond human capacity to work ten hours. Nor should we regard as "involuntary" unemployment the withdrawal of their labour by a body of workers because they do not choose to work for less than a certain real reward. Furthermore, it will be convenient to exclude "frictional" unemployment from our definition of "involuntary" unemployment. My definition is, therefore, as follows: *Men are involuntarily unemployed if, in the event of a small rise in the price of wage-goods relatively to the money-wage, both the aggregate supply of labour willing to work for the current money-wage and the aggregate demand for it at that wage would be greater than the existing volume of employment.*"



# ECONOMIC RESEARCH COUNCIL

## LIST OF PUBLICATIONS

### PAMPHLETS

<b>"Can We Afford Politicians?"</b> by Patrick de Laszlo	13p
<b>Homes for the People</b> by Norman Macrae	13p
<b>Towards a High Wage, High Productivity Economy</b> by F. James Fielding	13p
<b>A Policy for Taxation</b>	13p
<b>An Approach to Corporate Planning</b> by Kenneth Corfield	25p
<b>Inflation and the Function of Monetary Policy in Britain</b> by Edward Holloway	40p
<b>A Built-in Basic-Economy Stabilizer</b> by L. St. Clare Grondona	£1.10
<b>Inflation</b> by Enoch Powell, M.B.E., M.P.	25p

### Research Studies:

<b>No. 1—The Great Turnaround in Britain's Financial Affairs 1964-70</b>	25p
<b>No. 2—Export Credit and Government External Monetary Debt</b> by P. de Laszlo	50p
<b>No. 3—Excessive Taxes lead to 'Stag-Flation'</b> (Research by Frederick Tooby)	50p
<b>No. 4—Japan and the Crisis in International Finance</b> by G. C. Allen	50p

### A Programme for National Recovery Research Papers:

<b>No. 1—out of print</b>	
<b>No. 2—Expansion without Inflation</b>	38p
<b>No. 3—Balance of Payments and Invisible Earnings</b>	38p
<b>No. 4—Taxation: The Financing of Public Expenditure</b>	38p
<b>No. 5—The Use of Resources in Britain</b>	38p

### BOOKS:

<b>Business Economics</b> edited by Martin Cadman (Macmillan)	£2.10
<b>Taxation Economics</b> edited by Martin Cadman (Macmillan)	£2.10