

Lost—the “Era of Full Employment”

J. R. Campbell

THAT capitalist society had in some unexplained way entered “an era of full employment” was one of the commonest themes to be found in right-wing socialist literature up till recently. All the latest Labour Party policy statements make this assertion in a multitude of forms.

For example in the statement *Towards Equality* published in 1956 the assumption that full employment is now a permanent feature of the so-called “mixed economy” is to be found on page after page. We are told that full employment has exerted, and is exerting, a strong and wholesome influence on industry (p. 10); but that nevertheless “we do not delude ourselves that the changes we require can be brought about by the pressure of full employment alone” (p. 10). Not only so but “full employment has forced industry to make a major readjustment in its traditional wage policies” (p. 11). The Welfare State has reduced unemployment (p. 18) and full employ-

ment “has given many people the opportunity to save” (p. 29).

In the notorious *Industry and Society* published in 1957 the reader is left in no doubt that this state of affairs is not merely the result of a long trade boom due to exceptional factors such as has sometimes (though rarely) appeared in capitalist history. It is, the Labour Party says, quite definitely due to Government policy—not be it noted the policy of Labour Governments alone but in Britain at any rate to the policy of Tory Governments as well.

Thus we are told in *Industry and Society* that the stability of large capitalist firms is underwritten, not by their own resources *but by the avowed purpose of the modern state—to maintain employment and raise living standards*” (p. 55). “The need for state planning and control to maintain full employment is no longer seriously disputed” (p. 57).

“The machinery for maintaining full employ-

ment has been greatly strengthened" (p. 9), and there exist certain controls whose purpose is "both to prevent and encourage economic activity according to the nation's requirements" (p. 44). Evidently in the opinion of the Labour Party so great a control over the forces of capitalist society has already been achieved that the "level of economic activity" can be turned off and on like water in a tap. None of the pamphlets before us says how this can be done, but it appears that a pamphlet dealing with how capitalism can be controlled is on the stocks and will appear later.

I believe that the above assumptions are largely delusive; that a high level of employment has existed in many capitalist countries since the war (though not without fluctuations) whether they have claimed to be operating a policy of full employment or not; that it has been due to passing factors and that most capitalist countries (including our own) will shortly experience a higher level of unemployment than at any time in the post-war period.

Why Employment Was High

Among the factors which led to a high level of employment in the post-war world were the following:

The replacement of the basic capital of capitalist society. In a number of important capitalist countries this had been destroyed on a large scale during the war. Even in those countries where there was no war devastation stocks had run down considerably and fixed capital had been allowed to deteriorate. It was a situation which has some resemblance to that phase of a normal trade cycle, when it is just about to ascend, after bumping along the bottom for a considerable period.

The development of important innovations. The renewal of basic capital was accompanied by the development of a whole series of innovations which had been perfected during the war, namely electronics and the associated forms of control, engineering, plastics, synthetic textiles, synthetic rubber, in Britain large-scale oil refining and the production of a multitude of chemicals based on oil, detergents and of course the building of atomic power stations—to mention only a few developments. In most of them the capitalists sensed big possibilities of profit. These innovations, bunched together as they were, tended to prolong the boom.

The increased military expenditure in the post-war period. The effects of this in my opinion varied in different countries. In Britain the arms boom which started after 1950 was to transfer to arms production labour and equipment which

could have been used to (1) expand exports; or (2) increase the rate of capital re-equipment. I do not think this is true of the United States which went into a recession in 1949, and emerged from it during the Korean war. It is true that there were some signs of a recovery before the Korean war broke out. There can be no doubt, however, that "on top of a substantial recovery in the private economy there was added a new Government expansion based on war needs." (Mr. Ewan Clague, Commissioner of Labour Statistics, U.S. Department of Labour in *Labour News from the U.S.*, April 26th, 1958).

Mr. John Strachey (*Contemporary Capitalism*, page 246) says: "If we desire to demonstrate that the rearmament expenditure is not necessarily indispensable to sustain a contemporary last stage (of capitalism) at full employment, we may instance Western Germany where such expenditure has been nil and employment is now (1955) virtually full." This is really too much. It is precisely the arms boom in most Western European countries which gave an enormous impetus to the demand for German machine tools and heavy engineering goods generally and gave the necessary impetus to the whole West German economy. It was other people's military expenditure which gave the West German economy the necessary shot in the arm, but that is not the same as saying that the arms boom played no part in the level of German employment.

The belief was widespread that come what may capitalist Governments were determined to maintain full employment. Mr. Strachey was quite confident of this. "The working of the contemporary democratic mechanism . . . does appear to have produced a genuine determination on the part of the governments of the leading capitalist democracies to avoid wide economic oscillations, if they possibly can" (*Contemporary Capitalism*, p. 205).

A similar estimate is made by the notorious Cohen Council: "Many governments undertook to so direct their policies as to maintain what was at first described as 'high and stable employment' and afterwards as 'full employment'. The commitment thus undertaken has not only influenced the size of the government's own expenditure; it has acted as a powerful supporting force to those of other people. *In particular it was taken by businessmen as a signal that there would be no general drying up of the demand for their products and thus encouraged them to maintain a high level of capital expenditure.*" (Our italics.) (*Prices, Productivity and Incomes*, p. 24.)

There can be no doubt that during the last few years the capitalists in the United States, West

Germany, France and Britain behaved as if it was virtually impossible to create excess capacity in any line of production. Full employment was assumed, or at least that any recessions would be very ephemeral ones. The caution in capitalist circles in regard to the creation of plant which might not be fully utilised when constructed—a caution that was dominant between the wars—was thrown on one side. In the upsurge which followed the recessions of 1949 and 1953 an enormous amount of excess capacity was created by American big business.

The United States Crisis

The present crisis in the United States was touched off by the dear money policy which was introduced in order to combat the so-called danger of inflation. Yet in the years between 1954 and 1957 the United States shared with Switzerland the distinction of having the lowest increase in retail prices—5 per cent in four years. Yet at the very moment that the dollar was growing stronger in relation to all other currencies, Mr. Chesney Martin of the Federal Reserve Board was talking as if a startling depreciation in its value was imminent.

America with no balance of payments problems, with more than half of the world's supply of gold stored in its banks, was depicted as if it was on the verge of runaway inflation similar to those of France and Germany in the 1920s. Even when signs of slackness in a number of industries could no longer be concealed, Mr. Martin continued to make speeches on the assumption that there was excess demand existing throughout the American capitalist economy that must be squeezed out. Mr. Martin's proof that there was excess demand was very simple. The cost of living continued to rise and therefore there must be excess demand everywhere. The idea that demand for the products of an important group of industries could be declining, while other industries and services were still in a position to push prices up, and that the first trend was the most important, was never mentioned by Mr. Martin.

I am of the opinion that, as far as the U.S. was concerned, the arguments about the dangers of inflation were phony. The real purpose of the dear money policy in U.S.A.—as later in Britain—was to check the trade unions whose demands in the U.S. at any rate were becoming more sweeping. They could not be restrained by argument, but perhaps they could be convinced, if a moderate amount of unemployment was created. That, I believe, was Mr. Martin's real idea—only he got more unemployment than he bargained

for. The dear money policy touched off the depression in the U.S.A. but it would be a mistake to think that it caused it. At the bottom, there was tremendous over-production of goods and the tremendous creation of over-capacity in a number of industries. The great motor firms went ahead as if the country could absorb an ever-increasing number of cars, year after year, without end. Each large firm pushed ahead on its own, as if it alone was called upon to supply the market. All of them proceeded on the assumption that millions of people would year by year exchange perfectly good cars for other and more expensive ones on the ground that they would be more ostentatious than the old. All the industries producing durable goods—refrigerators, television, radio, the thousand and one household gadgets supposed to be essential to the American home—likewise increased their productive capacity enormously.

The capitalists have sometimes in the past behaved as if booms were designed to last for ever. Marx noted their tendency at times to develop the productive forces under their control without regard to the actual capacity of the market "as if only the absolute power of consumption of the entire society would be their limit." With the two previous post-war depressions proving to be little ones, with the huge arms programme being maintained year after year, with all the ballyhoo about the Government promptly intervening if there was the slightest tendency to a depression, is it any wonder if the American employers after 1953 behaved as their forebears did in the headiest booms of the past?

Could Controls Have Worked?

In view of the situation it is worth asking how the existence of controls "to prevent and to encourage economic activity, according to the nation's requirements" could possibly have worked.

Perhaps the Government agencies—the President's advisers or some such body—should have foreseen in 1954 that there was a danger that several important industries were in danger of overproducing, of creating excess capacity, and should have recommended steps to stop the expansion. We should remember, however, that it was precisely this expansion of productive capacity for future use which was the necessary condition for the high level of employment which existed from 1955 to the autumn of 1957. If the expansion had been stopped sooner, the U.S. depression of 1953-54 would have got worse. It was not enough to foresee that the creation of over-capacity was on in certain industries and to

stop it. It was necessary to provide employment elsewhere. There is still an immense amount to be done in the U.S.A.—housing, new schools and colleges, roadways, hydro-electric power, land reclamation etc. There is a great mass of people who need products of U.S. industry, whose income only allows them to buy restricted quantities of them. But to stop the headlong creation of excess capacity, to speedily create new avenues of employment, to sharply raise wages and to improve social services in order to provide employment—runs sharply counter to capitalist profit-making, and presupposes central planning—frowned upon by capitalists and right-wing socialists alike.

The theory that employment can be increased or diminished by manipulating a few controls is being refuted by U.S. experience. For when the Federal Reserve System was forced to go over to a cheap money policy, it had little or no effect on the depressed industries. If the great motor firms had installed capacity to produce many more cars than were demanded at the very height of the recent boom, they were not likely, however cheaply they could borrow money, to instal further additional capacity. If the steel industry has already installed capacity far in excess of what it could use, it is not likely, however cheap money becomes, to desire to construct new plants.

It could be that cheap money might induce some firms, outside the depressed sectors, to take some plans off the drawing boards and proceed to an expansion of their capacity. But as against the stimulus of cheap money there is the dampening effect of the depression in general. It is not easy to stimulate a rise in activity when the facts about excess capacity become widely known. Up to the moment at any rate the attempt to re-activate the American economy by means of cheap money is not showing any results.

British economists are also expressing doubt if cheap money and the end of the credit squeeze will stimulate British recovery.

“If the Chancellor finds himself presently in a position to release the brakes, will the economy pick up again its earlier momentum? This is a question which is causing increasing concern.

“The high level of activity of the last few years has been allied to a huge level of investment in the nationalised industries and in manufacturing. The latter in turn has been inspired by a high level of expansion in home and export demand and a high confidence in continued expansion.

“The capital investment of the past few years has added as yet scarcely at all to output and the justification for its continuance in a world

that is moving into a recession must be in question.

“*It is by no means clear that a mere lowering of interest rates and relaxation of other temporary limitations will restore industrial investment in the present climate.*” (Our italics.) (Professor E. A. G. Robinson in *London and Cambridge Economic Bulletin*, June 1958.)

For good measure Professor Robinson adds: “There is good reason to think that as a recession deepens, it becomes more difficult to reverse, and that in an anti-cyclical policy one of the most essential ingredients is promptness of action.”

This throws a sharp clear light on the assertion in *Industry and Society* that (as a consequence of nationalisation)

“the machinery for maintaining full employment has been greatly strengthened. . . . With its various agencies, including the nationalised industries, directly responsible for some 50 per cent of the total physical investment, the state has gained a much greater power over the general level of investment. Providing the governments are prepared to use this power, they have in those state agencies, a powerful weapon for counteracting a fall in investment by private industry” (p. 9).

Yes, but as the whole passage shows the state agencies only go into operation when the fall in investment in private industry has already taken place. There can be quite an interval between the fall in private investment and the rise in state investment.

The Time to Act

In fact one of the problems in the operation of the so-called “machinery for maintaining full employment” is that the “experts” take a long time in making up their minds if the boom is over and the depression has commenced. They took a very long time to make up their minds in the United States, and then went over to argue whether any state intervention other than accelerating the so-called defence orders was necessary or whether it was better to wait and see whether this would, after a lapse of a few months, lead to a new upswing in the economy. To wait for a period of several months, while millions of workers are unemployed, before deciding whether anything further should be done, hardly amounts to “maintaining full employment”.

The same perplexity exists in Britain. Professor Robinson, in the article above referred to, says that one of the difficulties in taking action against a depression is “the inevitable lack of unanimity as to the timing of action”.

“At the moment both the United States and the United Kingdom are fighting the last battle

and in the case of the United Kingdom the critical battle against rising prices.

"There can in the circumstances be no unanimity that the time has come to fight against the depression.

"But the danger of the moment is that in achieving the last victory against rising prices Britain may fail to play its part in organising a collective fight against recession."

Contrary to the Labour Party, Mr. Harry G. Johnson, Professor of Economic Theory at the University of Manchester, has a very low opinion about the "machinery for maintaining full employment". He says:

"Under modern conditions detailed plans and not merely the general intention to stimulate demand by some appropriate means when the time comes, are essential, if the Government is to deal successfully with the slump.

"One reason for this fact, easily and often forgotten, is that there has been no experience of an attempt to maintain full employment in the face of strong deflationary tendencies and no certainty that it can be satisfactorily achieved, even where the deflationary forces are of internal origin and so presumably within the Government's control." (Our italics.)

"The aim of preserving full employment is generally accepted and the methods of a full employment policy are generally understood; but the capacity of existing administrative techniques to execute such a policy in adverse conditions has not been tested in practice" (*District Bank Review*, June 1958).

So the so-called "era of full employment" is found on examination to have nothing to do with (1) any organic change in the capitalist system, or (2) any policy that Governments are pursuing. It has simply been a long-drawn-out boom, based on conditions that are now passing away.

There does not exist in any capitalist country machinery for preventing a slump taking place. All that exists are blue-prints of varied merits about what a Government faced with a developing slump ought to do. These amount to policies for mitigating a slump once it has taken place. They have nothing to do with preventing slumps taking place or with ridding society from slumps altogether.

A Policy to Counter Slump

Far be it from us to suggest that a policy to counter a slump is useless. Indeed some of the measures proposed by Mr. Johnson such as (1) accelerating the long-term programme of the nationalised industries; (2) sweeping reductions of purchase tax, and (3) an expansion of building by means of a slum clearance programme, are admirable in their way. But they amount to doing

something to cure a slump that one has been unable to prevent from taking place. They are not a policy for maintaining full employment.

In fact recent developments in the U.S.A. and Britain prove that full employment cannot be maintained by policies whose basic aim is to counter adverse developments arising from the capitalist system itself. Full employment must be planned for, and this can only be done when the overwhelming majority of large-scale industries and services are socially owned and are the basis for a definite socialist plan for national development. Piece-meal interference in the economy in the post-war years has often led to the opposite results from those aimed at. In 1954 in Britain a powerful effort was made to increase investment in capitalist industry. The result was an unexpected balance of payments crisis within a year, and this was only remedied by methods which led to under-utilisation of the new equipment installed. The run on the pound in 1957 is countered by policies which threaten a run on the labour Exchanges in 1958.

For the economy to run smoothly there must be a balance maintained between the present and the future, between consumption and investment, between production for the home market and production for exports, between factories and houses. The industrial changes taking place must be allowed for, so that workers are encouraged to enter the developing industries and to master the new techniques that are emerging.

Only through such planning can we obtain the objectives of a rational society of expanding production, full employment, stable prices, constantly rising wages and social services and growing economic and social equality in every sphere. Such aims cannot be achieved blindly. They can only be realised when they are planned for.

Capitalist society may achieve certain balances but it can only do so blindly, through grossly inflated booms and through deep destructive slumps. These are not accidents. These are the very conditions of capitalist development.

Whatever steps are taken to mitigate the evil effects of these developments, they will at best be temporary. That is not an argument against them being made. It is an argument for getting beyond them, for developing the struggle for something better than a hit-or-miss anti-slump policy—namely, for a genuine policy of maintaining full employment through socialist planning as laid down in *The British Road to Socialism*. For the lesson of the crisis of 1958 is that policies of controlled capitalism, either of the Tory or the right-wing Labour brands, simply will not do. A socialist planned economy is the only safe foundation for full employment.