Volume Title: Economic Research and the Development of Economic Science and Public Policy

Volume Author/Editor: NBER

Volume Publisher: NBER

Volume ISBN: 0-87014-115-5

Volume URL: http://www.nber.org/books/unkn46-1

Publication Date: June 1946

Chapter Title: Second Thoughts on the British White Paper on Employment Policy

Chapter Author: John Jewkes

Chapter URL: http://www.nber.org/chapters/c9709

Chapter pages in book: (p. 111 - 132)

Second Thoughts on the British White Paper on Employment Policy

JOHN JEWKES

Professor of Social Economics,
University of Manchester, England

I SAY 'second thoughts' because as an official in the office of the Minister of Reconstruction I was privileged to assist in the preparation of the White Paper on Employment Policy which the British Government published in May 1944. At that time I think the overwhelming majority of British economists were excited, and indeed relieved, that the document (supported by all the political parties in the then Coalition Government) had finally seen the light of day. Its first words seemed heavy with meaning: "the Government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war". Here was the formal and official acceptance of the Keynesian doctrine. Here was a technique for preventing mass unemployment that committed no one to any particular political creed and was applicable under different forms of social and economic organization. Most economists were conscious, of course, of the sketchiness of some details of the policy, of the evidence at some points, of compromise with the errors of the past and, indeed, of the fundamental inconsistencies of some parts of the argument. But the important point seemed to be that the Government had finally thrown off the view, expressed in the British Treasury Paper of 1930, that employment could not be expanded by public policy.

I still feel that the White Paper on Employment Policy is one of the most important declarations on economic matters ever made by a British Government. But I must confess the luster of that document and of its publication day has become somewhat dimmed. I think there are many reasons for this.

1) The present preoccupation of my country is with an extraordinary shortage of labor, with a dearth of investment goods, with a potentially inflationary position which makes the problem of unemployment seem remote and of little urgency.

2) The meaning of the White Paper has been misunderstood in some quarters. It is believed, for instance, in some circles that the White Paper implies that employment cannot be maintained at the full unless the State intervenes with detailed plans and programs for regulating the activities of industries and individual businesses—an attitude for which, in my opinion, the White Paper provides no support. The White Paper was concerned with controlling the economic weather, not in telling each person individually when he should put up his umbrella.

3) In the White Paper there were some obscurities which, in the two years that have since elapsed have not been cleared up, and promises of further action and enquiry on which no subsequent report has been made to the public.

   a) Great emphasis was laid in the Paper on the danger of industrial monopoly to a policy of full employment. A promise was made that "the Government will seek power to inform themselves of the extent and effect of restrictive agreements, and of the activities of combines; and to take appropriate action to check practices which may bring advantages to sectional producing interests but work to the detriment of the country as a whole". So far as the public is aware, no special measures have been taken to implement that undertaking.

   b) The obscurities of paragraphs 74-8 as to how far the Government should go in deficit financing have not been cleared up although here perhaps the statesman and the administrator may be wise in not taking hurdles until they have to be taken. It will be easier to reach final commitments on the doctrines of functional finance of Abba

Lerner and Michel Polanyi when George Terborgh and Alvin Hansen have got a little nearer agreement.

c) Further examination was promised of certain advanced measures for creating employment: such as greater variability in taxation levels; the regulation of hire-purchase transactions, and the placing of Government orders for consumer goods. No results of this further work have been published.

It may be unreasonable to expect new ideas to develop and new commitments to be made with any great speed in plans that will certainly not need to be put into operation for a year or two. But, now that I have foresaken an office for a study, the permanent marriage of theory and practice in employment policy seems to me to present more difficulties than it did at one time and certainly success calls for further research into many dim and perplexing corners of the economic and administrative mechanism. These are the subject of this paper.

Before, however, giving my catalogue of problems and of subjects on which I wish we knew more I make two general preliminary comments about them.

1) I think it is to be assumed that British policy and technique regarding the maintenance of employment will be based on 'the national income approach'. It is in terms of national income that the British administration has learned its economics in the past few years. It is in these terms that we think of our problems. It is in these terms that we will solve our problems if they are to be solved. By the 'national income approach' I mean, of course, the procedure of making the best possible forecast for a future period of the national income and the various items of national expenditure—the Government being prepared to supplement private aggregate demand if aggregate expenditure threatens to be insufficient to maintain full employment. I mention this point because it is arguable, for

reasons I will return to later, that in 'the national income approach' we are trying to be too clever.[1] It may be that it would be safer, and in fact more truly scientific, if we simply watched the unemployment index and tried to do the right things after the event instead of engaging in the task of creating a national balance sheet for a forthcoming period with every item in that balance sheet a matter of estimate.

2) Most of the problems of the maintenance of employment I shall mention arise from the fact that the policy of full employment involves the danger of inflation. It is unfortunate but inevitable that the fattest fish are caught nearest to the rapids.

The Problem of the Target

My first problem is the level of unemployment we have in mind when we speak of full employment or of a high and stable level of employment. This issue has been brought sharply to a head in Great Britain by Sir William Beveridge who, in his recent book, *Full Employment in a Free Society,* claims that an average of 3 percent unemployment will give the economic system sufficient elbow room to carry out its essential adjustments. Other writers, with whom I am in agreement, believe that this is an impossibly high standard of achievement to set ourselves.[2] They point out that, even before 1914, the average rate of unemployment was at least double the Beveridge target and much more than double it between the wars. They point out further that the conditions of the postwar world may tend to raise the minimum of frictional unemployment; the widespread extension of the Social Services may reduce incentive, at least at the margin;

[1] There are two, very sobering, facts to which it is worth while drawing attention. The official estimates of the probable peak of unemployment in the United States during the transition period proved to be very wide of the mark. In Great Britain, in the year prior to the end of the war in Europe, economists in official positions were evenly divided as to whether the transition period would be one of a shortage or of a surplus of labor. Half of them, that is, proved to be wrong.

[2] It is significant that unemployment in Great Britain in August 1946 was 2½ percent although there was an acute over-all shortage of labor.

the aging of the population may discourage mobility; the rising standard of living and improvement of individual taste may mean a greater number of minor discontinuities in the manufacture of consumer goods; the tendency for capital equipment to become more specific may multiply the short period dislocations in the labor market, and so on.

Behind this clash of opinion as to the target lie two other considerations which are much more fundamental. The first is bound up with what is meant by an employment plan. The White Paper clearly envisaged that estimates should be made of what was likely to happen to national income and the various items of national expenditure, assuming that the Government pursued a normal financial course; that the deficiency or surplus of national expenditure should then be dealt with by specific Government intervention of one kind or another but that, at all times, the Government action should be sufficiently tentative and its weapons sufficiently flexible to enable it to adjust its own activities if, in fact, its estimates of aggregate private expenditure proved unsound. Clearly the margin of error in conducting such a policy is not inconsiderable.[8] Sir William Beveridge, with his associate Nicholas Kaldor, have a different conception of the employment plan. Having made their forecasts of private expenditure and having decided upon the appropriate level of Government expenditure they would seek to make the forecast come true by exercising controls for that purpose over the economy as a whole. (I feel that if the Planners could distinguish between a rigid plan and a forecast, and more sternly resist the inevitable temptation to turn a forecast into a plan, liberty in the world would be much safer than it is at the moment.) But whatever may be said on other grounds against the Beveridge-Kaldor approach, it probably reduces the margin of error in the

[8] Is it unreasonable to suggest that the British Government should have a public trial of its economic forecasting by publishing now its estimates of Income and Expenditure for 1947? A great deal might be learned from the failure or success of this trial. It would awaken public interest and enable economists to make their contribution in the improvement of the estimates.

policy of keeping everybody in a job. In short, the target we are looking for, the safe minimum distance from inflation at which we can operate is indeterminable. It depends upon how many controls the people will tolerate, what their choice will be between degrees of freedom and points in the unemployment index.

The second doubt I have about the target is more technical. If we aim at too precise a target, is there not a danger that the margin of error in the statistics collected for the 'national income approach' may be greater than the 'gap' between income and expenditure we are seeking to fill. I felt during the war that a lot of useless, if not positively mischievous, policy decisions were made, especially as regards labor allocations and commodity stocks, because the policy was worked out to finer limits than was justified by the accuracy of the statistics upon which it was based. No engineer would try to work to thousandths of an inch if his gauges recorded only to tenths of an inch; I fear the economic statistician, under pressure from the statesman, is not always so scrupulous. It is obvious that the danger of making economic 'howlers' increases with violent progression as we approach the limiting position. I content myself with two illustrations. An estimate of the employable population is crucial in the national income approach. But I do not think we know a great deal about the forces that determine the employable population. If wages increase, more people may be tempted to work; on the other hand, many workers (particularly married women) may then be inclined to drop out of employment altogether. Experience in my country suggests that taxation policy may have a marked, though not always a predictable, influence upon the number of people willing to work. Similarly with productivity, we cannot with safety accept the experience of the past as a secure basis for forecasting. Our recent experience in the coal mining and other industries suggests that increases in wage rates and high levels of taxation, or even the form of the tax, can play queer tricks with output per head.

On this matter of the target, therefore, I would draw two conclusions:

1) We need to know more about the minimum level of unemployment. I think a detailed statistical examination of past experience of friction in the labor market, of the effects of wage changes and taxation upon the supply of labor and productivity would amply justify itself.
2) Meanwhile, we should recognize the crudity of our measuring instruments and not set too narrow a margin to the control of expenditure. Nothing is more likely to bring the new economic doctrines into disrepute than the disillusionment that may come to the people if hopelessly optimistic views are allowed to gain ground concerning the accuracy of control guaranteed by the new methods.

The Identification of Structural Change

If a policy of full employment is to go along with a policy for a high standard of living (and the two are by no means synonymous), we must take care that the measures for keeping people in jobs do not reduce the rate of technical progress or the general flexibility of the economic system by which resources flow to the points of highest return.[4] That immediately poses a most prickly problem. How are we, in practice, to distinguish between what are usually described as 'structural' changes in the system and those changes (cyclical or sporadic) from which recovery can normally be expected without any serious modification of the general economic pattern? The question cannot be avoided. For in the former case the right policy is to take the medicine boldly, get the changes carried through quickly. In these circumstances, the maintenance of total expenditure has only a limited part to play and creates special dangers of inflation. In the second case, the maintenance of expenditure is the obvious remedy. Can we put our finger on some groups of unemployment and say these

[4] By a high standard of living I mean as high as is consistent with the native ability, the natural resources, and the capital equipment of a community.

represent unemployment attributable to permanent changes in demand or in technique? Could we, for example, have forseen in 1924 that the cotton industries of Great Britain and the United States were destined to show a permanent decline in employment in the subsequent fifteen years?

It seems to me vital that the economic scientist should strive to provide some objective basis for the decisions to be made in this field by the politician and the administrator. For it is precisely here that the full powers of vested interests, of easy going optimism, of political escapism will be brought to bear to justify doing nothing or doing precisely the wrong things. In an industry confronted with real structural changes the employer will be inclined to argue that if wages could be reduced a little, all would be well; the wage earner, that if the employer were only a little more efficient, all would be well; the statesman, that if both would work a little harder, all would be well. And the upshot can so easily be a nonliquidating restriction scheme which puts off the evil day only at the expense of making it more evil when it arrives.

I suppose the crucial query here is: can a declining industry, not a monopoly, be prosperous; can an industry suffer a relative shrinkage without creating all these forms of social distress in readjustment which so frequently have turned men's minds toward worse than useless restriction schemes? I think it is safe to say that in an economy not in full employment the answer is no. But what is the answer in an economy enjoying a brisk general demand for labor? On this, an analogy (dangerous as analogies are) often recurs to me. A man can grow old and still remain healthy within the limits of his dwindling physical powers. Why not an industry?

I come, therefore, to another batch of questions on which I would like to see more informed answers. The first concern the future. If a policy is successfully pursued of maintaining high demand for labor would this (a) increase or decrease the frequency of structural change and (b) facilitate or render more difficult the process of readjustment to a given degree of structural change?

Would the general buoyancy of demand make business men readier to exploit technical improvement? Or would the reduction of cyclical risks make the risks of innovation loom larger in the mind of the business man? Would we retard technical development if the business man had rarely, if ever, to face the problems of depression? Would new industries spring up less rapidly if there were never again a pool of surplus cheap labor which, at least for a time, could be exploited? Would new ventures be less frequently risked if the employer could not rely upon some flexibility of wages to cover up any mistakes in his own calculations?

For any required degree of structural change, would a period of high and stable employment make labor more mobile, because of the absence of the fear of unemployment, or would it reduce mobility by creating the impression that the State can deal with unemployment without any initiative on the part of the individual? Would full employment, by preventing a business or industry from meeting its problems by cutting wages (since it would then lose its labor quickly) sharpen the pruning hook of competition and thus speed up natural economic readjustment?

I think we might approach some of these questions more confidently if we knew more of what has happened in the past. We have had some statistical and economic analyses of the pace at which industries expand but much less has been done concerning the decline of industries. In the light of the experience of industry in the last half century, can we say that competition will bring about industrial readjustment as quickly as is socially desirable? Or is it true, as is generally believed, that such changes go on far too slowly in what is usually described as 'a long drawn out agony'? I would like to see a detailed analysis of the pace of industrial change in Great Britain since 1890 and an examination of the causes. I fancy this would disturb many existing conceptions on this subject. I would like to see some comparative studies, as between countries, of industrial readjustment: for example a comparison of the history of the cotton industries in New England and Lancashire since 1900 is crying out to be done. I do not pretend that such long period studies will be easy. I recognize that they would bring the investigator sharply up against that heart breaking question: what is an industry? I am sure we would find that many industries in the nineteenth century changed in everything but name, thereby destroying the comparability of statistics. I agree that it will be difficult to isolate the consequences upon structural readjustment of changes in tariff policy, of restriction schemes, etc. But complex as are all such difficulties, they are less intractable than those involved in deciding, *before the event,* for the purpose of a sound full employment policy, which changes in the economic system are permanent structural changes.

The Problem of Foreign Trade

In many ways what I have said in regarding structural changes applies with special force to our problems of foreign trade. But even if consideration be confined to what may be viewed as normal oscillations in our foreign commerce there are awkward obstacles to surmount in maintaining full employment. Here my doubts are mainly those which have been expressed by others. In *Full Employment in a Free Society* Sir William Beveridge has established that during the nineteenth century export trade tended to be the initiating element in cyclical movements. E. A. G. Robinson has pointed out that between the wars the variations in British employment in the export trades were probably greater than the variations in employment due to fluctuations in home investment.[5]

I think it is fair to say that none of the recent British writing on full employment has faced up squarely to this issue. The White Paper itself really side-stepped it. For it concerned itself

[5] *Economic Journal,* April 1945.

with the need for a high *average* level for British exports, not with an export trade free from serious fluctuations.

The dilemma here has perhaps been sharpened by the return to power in Great Britain of a Labour Government. For to those who are attracted to the idea of a planned economy as the only sensible way in which a community can be master of its economic destiny there is something strangely inconsistent, if not positively exasperating, in the thought that the home economy must depend upon the uncontrolled movements of world trade. And yet I suspect that the vast majority of people in Great Britain subscribe to the view that only through much greater freedom in world trade can Britain hope to attain the average level of exports necessary to prevent a decline in the standard of living.

There may, in fact, be a fundamental choice confronting my country. How far are we prepared to accept increased fluctuations in exports in order to raise their average level? I do not know how the choice would go if it had to be made consciously. There is, as yet, no indication of any defined policy. But it may be a straw in the wind that the Parliamentary Secretary to the Board of Trade admitted, when discussing the taking over by the Government of the Liverpool Cotton Market, that some part of our invisible exports would thereby be sacrificed but, he continued, "remittances of this kind are essentially speculative, and therefore, are unreliable".

For the student of the economics of full employment, however, the task is to understand more fully the links, in the British economy, between the domestic and the export market. I suggest there are serious gaps in our knowledge of facts and of mechanisms.

1) I know of no adequate explanation for the fact that before the war fluctuations in British exports usually preceded movements in the trade cycle and may therefore have been an initiating cause. I think a detailed analysis is called for of British foreign trade during the nineteenth century to de-

termine whether what Sir William Beveridge has discovered is a statistical accident or whether there is sufficient generality in its truth, when individual export commodities and markets are studied, to make it much more.

2) Postwar British export trade is likely to be very different in constitution from prewar. The drive for enlarged exports, associated with the inevitable decline of the older staple exports, inevitably means a greater diversification of the goods sold abroad. Will this lead to greater stability in our total export trade from year to year and will it mean that any decline in exports, because it will be more widely spread industrially and geographically, will be more easily offset by a policy of domestic expansion?

3) Are there reasons for believing that, if increased collaboration between the nations results in a considerably expanded volume of world trade, then, given the probable constitution of that trade, fluctuations in exports will be smaller than in the past?

The Problem of Wage Stability

If a policy of full employment ever drifts into the frustration of inflation my guess would be that the immediate cause will be intemperate wage increases. Not so much, perhaps, because shortages of labor increase the bargaining power of the Unions as because, in a period of such shortages, employers are inclined to lose their heads and force wages to unduly high levels. The processes by which wages are moved up are complex but the experience in Great Britain during war suggests that one destabilizing element is this. The employer recognizes that he must retain, at all costs, his skilled key personnel; without them his other workers become valueless. Wages in this group, therefore, may rise markedly. But if there is a strong tradition among trade unions in favor of the retention of established wage differentials between classes of workers, the sharp increase in the monopoly value of key personnel tends to transmit itself to all classes.

The White Paper referred to the wages problem in language which I fear others will regard as a typical illustration of good old British muddling but the British would probably claim as an example of their sure intuition in practical affairs and their healthy suspicion of any too rigid application of cut and dried principles. The White Paper says "Action taken by the Government to maintain expenditure will be fruitless unless wages and prices are kept reasonably stable . . . it will be essential that employers and workers should exercise moderation in wage matters so that increased expenditure provided at the onset of a depression may go to increase the volume of employment." But "there must always be room for the adjustment of wages . . . there must be opportunity for the removal of anomalies in the rate of remuneration of different grades and categories of workers . . . The principle of stability does mean, however, that increases in the general level of wage rates must be related to increased productivity due to increased efficiency and effort."

The strict economic logician is sometimes contemptuous of policy couched in such vague phrases. But in its defense I would remind you that it was in terms of ill-defined compromise that, during the war, the British performed something akin to an economic miracle in redistributing their labor swiftly and in evoking enormously increased exertions without any dislocating rise in general wage rates.

There were, however, special features of the war economy that help to explain this success.

1) In wartime comprehensive economic control of itself (particularly rationing and high taxation) weakens the demand for higher wages. People fairly rapidly get tired of saving and of acting as a post box through which their wages are sent to the Treasury. But controls of this severity cannot be continued indefinitely if incentive is to be retained.
2) During the war the British public imposed upon themselves some odd practices of self-deception—such as that of watch-

ing the official cost of living index and pretending that it measured changes in the cost of living—which surely cannot be regarded as permanent.

3) The British Government, by subsidizing food and other articles very heavily, kept down the cost of living index. These subsidies are clumsy and inequitable and it is already obvious that they will have to be reduced gradually.

There are other good reasons for supposing that the present system of wage adjustment will be fully tested by a policy of full employment. The White Paper, as I mentioned, declared that "increases in the general level of wage rates must be related to increased productivity due to increased efficiency and effort". Putting this more bluntly, we may ask: Is there any way in which we could guarantee that average wage rates would not increase by more than, say, 1½ percent per annum, year in and year out? [6] On that I have three comments:

1) The wage system is, at least for the present, very rigid. For many years before the war we were drifting into the general acceptance of the idea that wages go up but never down. In the last seven or eight years, with the prewar armament boom and the war itself, *wage rates* cannot have been reduced in many instances. It may be that, in a system of full employment, this rigidity will decline, since workers may, to an increasing degree, meet wage reductions by moving to a new job and therefore be disinclined to fight wage reductions so energetically. But that change in attitude will not occur immediately. Clearly it will be more difficult to limit to 1½ percent per annum the upward general movement of wage rates, and yet bring about the appropriate distribution of labor, if some individual rates must go up but no rates go down than if rates can move easily in both directions.

[6] Of course this 1½ percent could be increased if it were possible to contemplate a redistribution of returns between capital and labor that did not disturb the total product of industry.

2) The British Government has quite firmly rejected the suggestions put forward in some quarters for a 'national wages policy'. They prefer to leave wage fixing to the traditional process of bargaining between the two sides in each industry. But, for better or worse, the Government cannot refrain from exercising its influence to bring about an increase in wage rates in certain directions. For example, in Britain we are committed to what is elegantly described as 'a healthy and well balanced agriculture' and the immediate food problems of the world reinforce the case for agricultural expansion. This policy, in effect, makes inevitable the raising of agricultural wages to bring them more into line with wages in other industries. Or, another example, the present Government has committed itself to a measure of 'planning'. Now, as the President of the Board of Trade said in the House of Commons on February 27, 1946: "No country in the world, so far as I know, has yet succeeded in carrying through a planned economy without compulsion of labour. Our objective is to carry through a planned economy without compulsion of labour. The general idea is that we should use a number of controls, in order to guide production into the necessary channels, according to the plan we have formulated". Clearly one of these controls would be wage adjustment. In our country, therefore, we are likely to have a 'hybrid' system of wage control. The Government will intervene, on occasion, to try to clear a particular labor bottleneck by recommending a wage increase. Over the broader field of industry the established process of collective bargaining will operate with the workers taking, as one of their guiding principles, the maintenance of the traditional differentials within the wage structure. I cannot help but think that this hybrid system will have a powerful levering effect on wage levels as a whole.

3) There is a third factor which, to my mind, is likely to exert an upward pressure on wage rates in Great Britain in the next

few years. There has for some time been a public campaign for increased production per manhour in British industry. That has led to a demand for extensive capital re-equipment. No one would deny that increased efficiency at this, as indeed at all times, is much to be wished for. But the campaign has led to the assumption that increased efficiency and increase of production per manhour are the same thing, i.e., that capital costs can be ignored. There seems to be a popular chain of reasoning which, so far as I understand it, runs thus. If we can increase output per head, wages can be raised. The way to increase output per head is to re-equip industry. If wages can be raised, employers will be forced to re-equip because they will seek ways of keeping labor costs down. Therefore wage increases are positively helpful in the process of reconstruction. I think this sort of reasoning is the more likely to lead to errors in action because the British Government, for many reasons, but particularly because of the enormous national debt, is inevitably committed to a policy of low interest rates which, whatever its other advantages, deprives the rate of interest of a part of its normal function of acting as one of the most important stabilizing prices in the system.

In these matters I think there is scope for fact finding by the student.

1) Whilst there has been much enquiry into the facts, and the causes, of changes in the price structure, there has been much less work done, at least in my country, upon changes in the wage structure. Do the facts support the view that wage rates are less flexible than they used to be? If so, why? Are the causes such as are likely to be increased or decreased by the success of a policy of full employment?
2) I think it would be well worth while to make a detailed and comprehensive examination of the rationale of British Trade Unions with respect to wage changes. Now that we have officially accepted the policy of full employment, the British

Trade Unions may well be compelled to think hard regarding their future policy. A purely objective analysis of their past procedure may be a useful starting point for their thinking.

3) In particular, if in my country we are for a time to follow the double aims of full employment and a measure of planning, it seems vital to decide just how far, and how quickly, redistribution of labor can be brought about by wage differentials and here an examination of the past is the only objective base from which to judge.

Administrative and Political Factors in a Policy of Full Employment

I come finally to a question that might seem outside the ambit of the economist were it not for the fact, as I believe, that economic and administrative problems are now becoming so inextricably mixed that it is impossible to isolate the two subjects.

I am not concerned so much here with the thought that a full employment policy will demand of statesmen a high degree of courage and skill in bringing the public to understand and accept measures which, in some quarters and at some times, will be highly unpalatable. For in a 'planned' economy (even in an economy that is 'planned' only to maintain full employment) where freedom of speech still remains we can be certain that the Government will be blamed for everything that goes wrong. Whenever times are very good and incipient inflation threatens, the precautionary actions by the Government are bound to throw *some* people out of work. Those who suffer will find it odd that the Government should do this when all seems to be well. But I assume that statesmen will be paragons in courage and in power of exposition.[7]

[7] It is important to recognize how much we are demanding of statesmen in this respect. Take, for example, British building policy. The Government is energetically increasing the building labor force up to 1½ million in order to overcome the 'back-log' in houses as quickly as possible. But when the housing demand is satisfied, will the Government face up to the need for a contraction in the building

I further assume that these statesmen will be provided with the best possible economic advisers who have access to full economic information. Let me be even more reckless and assume that these advisers will in fact always be in a position to give the right advice; i.e., they will always know what point in the trade cycle we have reached and what addition to national expenditure will be required in the coming year to maintain employment at the full.

Given all this, however, there still remains a more subtle difficulty, essentially a task of administration, that has to be overcome: the procedure by which an economic adviser can transmit to his political chief the peculiar combination of experience and intuition that constitutes a sound economic forecast and transmit this delicate fabric of forecast to his Minister in such a way that the Minister can defend it with his colleagues, with Parliament, and with the public.

I am convinced that I am not making a mountain out of a molehill here. Business men have to make forecasts of this kind and perhaps they rely too much on intuition and too little on knowledge. But for the business man it is sufficient to make the right guesses and to act with speed. He need not, in addition, be fluent enough to explain why he reaches a particular decision or to spend time in justifying his decision. The fundamental administrative problem of a full employment policy is how best these essentially business decisions can be made by a bureaucratic organization where reasons must be clearly set forth for each step, where the intangible balancing of pro and con (which can so easily go on within one head) has now to go on when several heads are working together and where these heads, if they happen to conflict, can waste the precious days when action is called

industry? Will they not be tempted to choose the alternative way out of deciding that, in fact, the housing demand is not satisfied and that the community needs an even higher standard in houses, schools, town halls, etc.—anything, in fact, that will keep the building labor force busy. Wherever the Government intervenes in order to plan the size of an industry they will surely be tempted to maintain demand to justify that size. That is to say, they may interpret effective demand in terms of their own earlier decisions.

for. Now I am not saying that all this cannot be done. I am the type of optimist who declares that so much is bound up with a successful employment policy that it has got to be done. But I do think it is the most delicate and elusive task of administrative integration any organization has yet been called upon to perform.

It might at first sight appear that the economist or the economic statistician engaged in a university or a nongovernmental research organization can have little to contribute to the solution of this problem. I do not agree. It seems to me that by building up a specific body of knowledge of the past that may throw light on current questions he can limit the area of doubt. But he also has an important part to play in the development of concepts that reduce the complexity of the thinking required on certain subjects, which enable discussions to be carried on in a simpler form and hence help to dissolve the kind of administrative difficulties mentioned above. Let me give two illustrations. The concept of the net reproduction rate has contributed enormously to an understanding of the complex factors that determine the future size of the population and has, therefore, made it more likely that countries can arrive at population policies commanding general respect and cooperation. My second illustration is drawn from the field we are discussing today. In both our countries the absorption of the idea of national income into general thinking and the growing range and reliability of statistics of income have already had many important results. First, the public understanding of the economic system as a whole has been deepened and a relatively simple device provided by which the individual can set the national interest against his own private interest and thus increase the possibility of wise public decisions in economic matters. Second, it has made things easier for the statesman. Advice can be given to him in simpler terms. He can put forward to the public his policy in language more easily comprehended. He can, at need, justify a policy, which admittedly may have some minor drawbacks, in terms of a definable and accepted concept of the general interest.

This is all to the good. But we are not at the end of the benefits the ingenuity of the economic statistician can confer on us in devising simpler measures of essentially complex phenomena and thus opening up the way for that informed public participation in major economic decisions which the appalling intricacy of the subject has up to now precluded.