

# POLITICAL ASPECTS OF FULL EMPLOYMENT<sup>1</sup>

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## I

**A** SOLID majority of economists is now of the opinion that, even in a capitalist system, full employment may be secured by a Government spending programme, provided there is in existence adequate plant to employ all existing labour power, and provided adequate supplies of necessary foreign raw materials may be obtained in exchange for exports.

If the Government undertakes public investment (e.g. builds schools, hospitals, and highways) or subsidises mass consumption (by family allowances, reduction of indirect taxation, or subsidies to keep down the prices of necessities), if, moreover, this expenditure is financed by borrowing and not by taxation (which could affect adversely private investment and consumption), the effective demand for goods and services may be increased up to a point where full employment is achieved. Such Government expenditure increases employment, be it noted, not only directly but indirectly as well, since the higher incomes caused by it result in a secondary increase in demand for consumption and investment goods.

2.—It may be asked where the public will get the money to lend to the Government if they do not curtail their investment and consumption. To understand this process it is best, I think, to imagine for a moment that the Government pays its suppliers in Government securities. The suppliers will, in general, not retain these securities but put them into circulation while buying other goods and services, and so on until finally these securities will reach persons or firms which retain them as interest-yielding assets. In any period of time the total increase in Government securities in the possession (transitory or final) of persons and firms will be equal to the goods and services sold to the Government. Thus what the economy lends to the Government are goods and services whose production is "financed" by Government securities. In reality the Government pays for the services not in securities but in cash, but it simultaneously issues securities and so drains the cash

<sup>1</sup> This article corresponds roughly to a lecture given to the Marshall Society in Cambridge in the Spring of 1942.

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off; and this is equivalent to the imaginary process described above.

What happens, however, if the public is unwilling to absorb all the increase in Government securities? It will offer them finally to banks to get cash (notes or deposits) in exchange. If the banks accept these offers, the rate of interest will be maintained. If not, the prices of securities will fall, which means a rise in the rate of interest, and this will encourage the public to hold more securities in relation to deposits. It follows that the rate of interest depends on banking policy, in particular on that of the Central Bank. If this policy aims at maintaining the rate of interest at a certain level that may be easily achieved, however large the amount of Government borrowing. Such was and is the position in the present war. In spite of astronomical budget deficits, the rate of interest has shown no rise since the beginning of 1940.

3.—It may be objected that Government expenditure financed by borrowing will cause inflation. To this may be replied that the effective demand created by the Government acts like any other increase in demand. If labour, plant and foreign raw materials are in ample supply, the increase in demand is met by an increase in production. But if the point of full employment of resources is reached and effective demand continues to increase, prices will rise so as to equilibrate the demand for and the supply of goods and services. (In the state of overemployment of resources such as we witness at present in the war economy, an inflationary rise in prices has been avoided only to the extent to which effective demand for consumption goods has been curtailed by rationing and direct taxation.) It follows that if the Government intervention aims at achieving full employment but stops short of increasing effective demand over the full employment mark, there is no need to be afraid of inflation.<sup>1</sup>

<sup>1</sup> Another problem of a more technical nature is that of the National Debt. If full employment is maintained by Government spending financed by borrowing, the National Debt will continuously increase. This need not, however, involve any disturbances in output and employment, if interest on the Debt is financed by an annual capital tax. The current income after payment of capital tax of some capitalists will be lower and of some higher than if the National Debt had not increased, but their aggregate income will remain unaltered and their aggregate consumption will not be likely to change significantly. Further, the inducement to invest in fixed capital is not affected by a capital tax because it is paid on any type of wealth. Whether an amount is held in cash or Government securities or invested in building a factory, the same capital tax is paid on it and thus the comparative advantage is unchanged. And if investment is financed by loans it is clearly not affected by a capital tax because it does not mean an increase in wealth of the investing *entrepreneur*. Thus neither capitalists' consumption nor investment is affected by the rise in the National Debt if interest on it is financed by an annual capital tax.

## II

1.—The above is a very crude and incomplete statement of the economic doctrine of full employment. But, I think, it is sufficient to acquaint the reader with the essence of the doctrine and so enable him to follow the subsequent discussion of the *political* problems involved in the achievement of full employment.

It should be first stated that although most economists are now agreed that full employment may be achieved by Government spending, this was by no means the case even in the recent past. Among the opposers of this doctrine there were (and still are) prominent so called "economic experts" closely connected with banking and industry. This suggests that there is a political background in the opposition to the full employment doctrine even though the arguments advanced are economic. That is not to say that people who advance them do not believe in their economics, poor though these are. But obstinate ignorance is usually a manifestation of underlying political motives.

There are, however, even more direct indications that a first class political issue is at stake here. In the great depression in the thirties, big business opposed consistently experiments for increasing employment by Government spending in all countries, except Nazi Germany. This was to be clearly seen in the U.S.A. (opposition to the New Deal), in France (Blum experiment) and also in Germany before Hitler. The attitude is not easy to explain. Clearly higher output and employment benefits not only workers, but *entrepreneurs* as well, because their profits rise. And the policy of full employment outlined above does not encroach upon profits because it does not involve any additional taxation. The *entrepreneurs* in the slump are longing for a boom; why do not they accept gladly the "synthetic" boom which the Government is able to offer them? It is this difficult and fascinating question with which we intend to deal in this article.

The reasons for the opposition of the "industrial leaders" to full employment achieved by Government spending may be subdivided into three categories: (i) the dislike of Government interference in the problem of employment as such; (ii) the dislike of the direction of Government spending (public investment and subsidising consumption); (iii) dislike of the social and political changes resulting from the *maintenance* of full employment. We shall examine each of these three categories of objections to the Government expansion policy in detail.

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2.—We shall deal first with the reluctance of the “captains of industry” to accept Government intervention in the matter of employment. Every widening of State activity is looked upon by “business” with suspicion, but the creation of employment by Government spending has a special aspect which makes the opposition particularly intense. Under a *laissez-faire* system the level of employment depends to a great extent on the so-called state of confidence. If this deteriorates, private investment declines, which results in a fall of output and employment (both directly and through the secondary effect of the fall in incomes upon consumption and investment). This gives to the capitalists a powerful indirect control over Government policy: everything which may shake the state of confidence must be carefully avoided because it would cause an economic crisis. But once the Government learns the trick of increasing employment by its own purchases, this powerful controlling device loses its effectiveness. Hence budget deficits necessary to carry out Government intervention must be regarded as perilous. The social function of the doctrine of “sound finance” is to make the level of employment dependent on the “state of confidence.”

3.—The dislike of the business leaders of a Government spending policy grows even more acute when they come to consider the objects on which the money would be spent: public investment and subsidising mass consumption.

The economic principles of Government intervention require that public investment should be confined to objects which do not compete with the equipment of private business (e.g. hospitals, schools, highways, etc.). Otherwise the profitability of private investment might be impaired and the positive effect of public investment upon employment offset by the negative effect of the decline in private investment. This conception suits the business men very well. But the scope of public investment of this type is rather narrow, and there is a danger that the Government, in pursuing this policy, may eventually be tempted to nationalise transport or public utilities so as to gain a new sphere in which to carry out investment.<sup>1</sup>

One might therefore expect business leaders and their experts to be more in favour of subsidising mass consumption (by means

<sup>1</sup> It should be noticed here that investment in a nationalised industry can contribute to the solution of the problem of unemployment only if it is undertaken on principles different from these of private enterprise. The Government must be satisfied with a lower net rate of return than private enterprise, or it must deliberately time its investment so as to mitigate slumps.

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of family allowances, subsidies to keep down the prices of necessities, etc.) than of public investment ; for by subsidising consumption the Government would not be embarking on any sort of "enterprise." In practice, however, this is not the case. Indeed, subsidising mass consumption is much more violently opposed by these "experts" than public investment. For here a "moral" principle of the highest importance is at stake. The fundamentals of capitalist ethics require that "You shall earn your bread in sweat"—unless you happen to have private means.

4.—We have considered the political reasons for the opposition against the policy of creating employment by Government spending. But even if this opposition were overcome—as it may well be under the pressure of the masses—the *maintenance* of full employment would cause social and political changes which would give a new impetus to the opposition of the business leaders. Indeed, under a regime of permanent full employment, "the sack" would cease to play its role as a disciplinary measure. The social position of the boss would be undermined and the self assurance and class consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension. It is true that profits would be higher under a regime of full employment than they are on the average under *laissez-faire* ; and even the rise in wage rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices, and thus affects adversely only the *rentier* interests. But "discipline in the factories" and "political stability" are more appreciated by the business leaders than profits. Their class instinct tells them that lasting full employment is unsound from their point of view and that unemployment is an integral part of the "normal" capitalist system.

### III

1.—One of the important functions of fascism, as typified by the Nazi system, was to remove the capitalist objections to full employment.

The dislike of Government spending policy as such is overcome under fascism by the fact that the State machinery is under the direct control of a partnership of big business with fascist upstarts. The necessity for the myth of "sound finance," which served to prevent the Government from offsetting a confidence crisis by spending, is removed. In a democracy one

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does not know what the next Government will be like. Under Fascism there is no next Government.

The dislike of Government spending, whether on public investment or consumption, is overcome by concentrating Government expenditure on armaments. Finally, "discipline in the factories" and "political stability" under full employment are maintained by the "new order," which ranges from the suppression of the trade unions to the concentration camp. Political pressure replaces the economic pressure of unemployment.

2.—The fact that armaments are the backbone of the policy of fascist full employment has a profound influence upon its economic character. Large-scale armaments are inseparable from the expansion of the armed forces and the preparation of plans for a war of conquest. They also induce competitive rearmament of other countries. This causes the main aim of the spending to shift gradually from full employment to securing the maximum effect of rearmament. As a result employment becomes "overfull"; not only is unemployment abolished but an acute scarcity of labour prevails. Bottlenecks arise in every sphere and these must be dealt with by creation of a number of controls. Such an economy has many features of a "planned economy," and is sometimes compared, rather ignorantly, with socialism. However, this type of "planning" is bound to appear whenever an economy puts itself a certain high target of production in a particular sphere, when it becomes a "target economy" of which the "armament economy" is a special case. An "armament economy" involves in particular the curtailment of consumption as compared with what it could have been under full employment.

The fascist system starts from the overcoming of unemployment, develops into an "armament economy" of scarcity, and ends inevitably in war.

## IV

1.—What will be the practical outcome of the opposition to "full employment by Government spending" in a capitalist democracy? We shall try to answer this question on the basis of the analysis of the reasons for this opposition given in section II. We argued that we may expect the opposition of the "leaders of industry" on three planes: (i) the opposition on principle against Government spending based on a budget deficit; (ii) the opposition against this spending being

directed either towards public investment—which may foreshadow the intrusion of the state into the new spheres of economic activity—or towards subsidising mass consumption; (iii) the opposition against *maintaining* full employment and not merely preventing deep and prolonged slumps.

Now, it must be recognised that the stage in which the “business leaders” could afford to be opposed to *any* kind of Government interventions to alleviate a slump is rather a matter of the past. Three factors have contributed to this: (a) very full employment during the present war; (b) the development of the economic doctrine of full employment; (c) partly as a result of these two factors the slogan “Unemployment never again” is now deeply rooted in the consciousness of the masses. This position is reflected in the recent pronouncements of the “captains of industry” and their experts. The necessity that “something must be done in the slump” is agreed to; but the fight continues, firstly, as to “*what* should be done in the slump” (i.e. what should be the direction of Government intervention), and secondly, that “it should be done *only* in the slump” (i.e. merely to alleviate slumps rather than to secure permanent full employment).

2.—In the current discussions of these problems there emerges time and again the conception of counteracting the slump by stimulating *private* investment. This may be done by lowering the rate of interest, by the reduction of income tax, or by subsidising private investment directly in this or another form. That such a scheme should be attractive to “business” is not surprising. The *entrepreneur* remains the medium through which the intervention is conducted. If he does not feel confidence in the political situation he will not be bribed into investment. And the intervention does not involve the Government either in “playing with” (public) investment or “wasting money” on subsidising consumption.

It may be shown, however, that the stimulation of private investment does not provide an adequate method for preventing mass unemployment. There are two alternatives to be considered here. (a) The rate of interest or income tax (or both) is reduced sharply in the slump and increased in the boom. In this case both the period and the amplitude of the business cycle will be reduced, but employment not only in the slump but even in the boom may be far from full, i.e. the average unemployment may be considerable, although its fluctuations will be less marked. (b) The rate of interest or income tax is

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reduced in a slump but *not* increased in the subsequent boom. In this case the boom will last longer but it must end in a new slump: one reduction in the rate of interest or income tax does not, of course, eliminate the forces which cause cyclical fluctuations in a capitalist economy. In the new slump it will be necessary to reduce the rate of interest or income tax again and so on. Thus in not too remote a time the rate of interest would have to be negative and income tax would have to be replaced by an income subsidy. The same would arise if it were attempted to *maintain* full employment by stimulating private investment: the rate of interest and income tax would have to be reduced continuously.<sup>1</sup>

In addition to this fundamental weakness of combating unemployment by stimulating private investment, there is a practical difficulty. The reaction of the *entrepreneurs* to the measures described is uncertain. If the down-swing is sharp they may take a very pessimistic view of the future, and the reduction of the rate of interest or income tax may then for a long time have little or no effect upon investment, and thus upon the level of output and employment.

3.—Even those who advocate stimulating private investment to counteract the slump frequently do not rely on it exclusively but envisage that it should be associated with public investment. It looks at present as if “business leaders” and their experts (at least part of them) would tend to accept as a *pis aller* public investment financed by borrowing as a means of alleviating slumps. They seem, however, still to be consistently opposed to creating employment by subsidising consumption and to *maintaining* full employment.

This state of affairs is perhaps symptomatic of the future economic regime of capitalist democracies. In the slump, either under the pressure of the masses, or even without it, public investment financed by borrowing will be undertaken to prevent large scale unemployment. But if attempts are made to apply this method in order to maintain the high level of employment reached in the subsequent boom a strong opposition of “business leaders” is likely to be encountered. As has already been argued, lasting full employment is not at all to their liking. The workers would “get out of hand” and the “captains of industry” would be anxious to “teach them a lesson.” Moreover, the price increase in the up-swing is to the disadvantage of small and big *rentiers* and makes them “boom tired.”

<sup>1</sup> A rigorous demonstration of this is given in my article to be published in *Oxford Economic Papers*.



In this situation a powerful block is likely to be formed between big business and the *rentier* interests, and they would probably find more than one economist to declare that the situation was manifestly unsound. The pressure of all these forces, and in particular of big business—as a rule influential in Government departments—would most probably induce the Government to return to the orthodox policy of cutting down the budget deficit. A slump would follow in which Government spending policy would come again into its own.

This pattern of a “political business cycle” is not entirely conjectural; something very much like that happened in the U.S.A. in 1937-1938. The breakdown of the boom in the second half of 1937 was actually due to the drastic reduction of the budget deficit. On the other hand, in the acute slump that followed the Government promptly reverted to a spending policy.

The regime of the “political business cycle” would be an artificial restoration of the position as it existed in nineteenth century capitalism. Full employment would be reached only at the top of the boom, but slumps would be relatively mild and short lived.

## V

1.—Should a progressive be satisfied with a regime of the “political business cycle” as described in the preceding section? I think he should oppose it on two grounds: (i) that it does not assure lasting full employment; (ii) that Government intervention is tied down to public investment and does not embrace subsidising consumption. What the masses now ask for is not the mitigation of slumps but their total abolition. Nor should the resulting fuller utilisation of resources be applied to unwanted public investment merely in order to provide work. The Government spending programme should be devoted to public investment only to the extent to which such investment is *actually needed*. The rest of Government spending necessary to maintain full employment should be used to subsidise consumption (through family allowances, old age pensions, reduction in indirect taxation, subsidising of prices of necessities). The opposers of such Government spending say that the Government will then have nothing to show for their money. The reply is that the counterpart of this spending will be the higher standard of living of the masses. Is not this the purpose of all economic activity?

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2.—“Full employment capitalism” will have, of course, to develop new social and political institutions which will reflect the increased power of the working class. If capitalism can adjust itself to full employment a fundamental reform will have been incorporated in it. If not, it will show itself an outmoded system which must be scrapped.

But perhaps the fight for full employment may lead to fascism? Perhaps capitalism will adjust itself to full employment in *this* way? This seems extremely unlikely. Fascism sprang up in Germany against a background of tremendous unemployment and maintained itself in power through securing full employment while capitalist democracy failed to do so. The fight of the progressive forces for full employment is at the same time a way of *preventing* the recurrence of fascism.

## SOME UNSETTLED QUESTIONS OF HOUSING POLICY

By MARIAN E. A. BOWLEY

### *I.—The Magnitude of the Post-War Housing Problem*

THE magnitude of the post-war housing problem depends on the way in which that problem is defined. In this the housing question does not differ from other social questions such as those of education, or nutrition, or social security. If sufficiently low standards are accepted, or state and community responsibility rejected, almost any social problem, including housing, can be defined out of existence. Choice of a definition of the post-war housing problem has therefore as much bearing on questions of policy as elaborate statistics.

It will be convenient to approach these questions by discussing a definition in terms of a post-war shortage of houses which seems to be gaining tacit acceptance. A general shortage of houses is bound to emerge after the war for three reasons. The number of families wanting separate houses has increased since the beginning of the war, but there has been an almost complete cessation of building. The blitz has destroyed or damaged houses, thereby reducing the available supply below pre-war levels. Finally, the war has meant that the slum clearance and decrowding programmes of local authorities have