

ECONOMIC CONDITIONS  
IN INDUSTRY.\*

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BY

B. SEEBOHM ROWNTREE.

*\* An address given at the Conference of the National Council of Women of Great Britain, held in York, October 15—19th, 1928.*

You may say: "But unemployment is nothing new. There are always ups and downs in the demand for labour, and cyclical unemployment is characteristic of modern large scale industry. These periods come and go; won't this one go if we grit our teeth and tighten our belts, and simply wait!"

My answer to that question is "No, it will not—within a practicable period." This period of unemployment has certain features which differentiate it from the ordinary cyclical movements of trade. The dislocation of industry through the war took place on so vast a scale that without exceptional measures it cannot be re-established. It is as though the complex industrial structure, complex almost beyond the power of imagination to conceive, had been subjected for four and a half years to a series of violent earthquake shocks, so that when the war ended, although for the first two years the inevitable post-war boom partly concealed the actual facts, British industry resembled a city that had been shattered by earthquake.

What is the problem we have to face? It is, that the balance of the world's industry has been seriously disturbed, and that that disturbance has been greater in Great Britain than anywhere else because of the extent to which Britain is dependent upon conditions in the rest of the world. In a primitive condition of society people produce largely for their own consumption or for that of their immediate neighbours, and any disturbance of balance is rapidly and easily adjusted. If too much of one crop is being produced the matter will be adjusted in the following season. If the number of carpenters is beginning to be in excess of demand, the carpenter will apprentice his son to the blacksmith, or the builder. The problem of balance becomes of supreme importance, however, with the development of modern industry and modern finance, when goods are being produced for a distant market (particularly when it is in a foreign country) and when production calls for the specialised application of large quantities of capital and labour. In such circumstances it is far more difficult to preserve a right balance between the different phases of economic life, and any disturbance of balance has serious effects, reflected in particular in large masses of unemployment. The problem is therefore difficult enough at any time, but the post-war situation in Great Britain is of peculiar difficulty. The great slump which occurred in 1921 was no doubt in some considerable measure simply a slump in trade of the ordinary pre-war type; but probably by 1924 this had passed away. In other words, but for abnormal conditions we should by 1924 have been back to the ordinary pre-war prosperity. Closely inter-

twined, however, with this typical downward cyclical movement in trade was a special disturbance, or series of disturbances, of balance, due primarily to the effects of the war. This disturbance can perhaps be considered under three separate heads.

There is first the abnormal disturbance affecting our foreign trade, and our export trade in particular. Of every £100 worth of goods produced in this country, £30 normally finds a market abroad. During the war Great Britain, "the world's workshop," could not supply the world, partly because its activities were otherwise engaged, and partly because of the submarine menace. In these circumstances other nations not engaged in the war, or less heavily engaged than ourselves, secured part of the markets which we had laboriously built up during generations. Some nations again, when they were unable to buy our goods, began to manufacture their own and have continued to seek to support these industries by high import duties and by other means. Meanwhile, too, the currencies of many countries went to pieces, and it became extremely difficult for us to trade with them. During the last seven years, therefore, our foreign trade has been carried on under severe handicaps, and part of these handicaps are more or less permanent in character. Here is one part of the explanation of our unemployment situation, reflected in particular in the Textile Industries, but affecting in greater or less measure the great majority of the industries of this country.

In the second place, during the war capital and labour were pressed into the Munition and kindred industries and consequently at the end of the war the amount of labour and plant associated with the Engineering, Iron and Steel, and Shipbuilding industries, and the industries related to them, including coal, were altogether in excess of normal post-war requirements. This situation was intensified by the movement towards disarmament and the fact that other competitive countries were in the same position as ourselves and therefore competition abroad in those industries was desperately keen. A special case, of course, was that of coal, because here the general situation was greatly intensified by the fact that for various reasons the world's normal demand for coal had slackened, in particular by the development of economies in its use, by the growth of water power and by the rapidly increasing use of oil. We had therefore, and still largely have, in these industries, large masses of men for whose services in these industries there is no demand. But for the abnormal demands of the war, these men would have grown up in other industries and a proper balance would have been preserved in the

economic life of the country. Instead of this, here they remain, unable to produce because the things they are specialised to produce are not wanted, and unable to pay for the things they themselves want because they cannot earn the wages with which to pay for them.

In the third place, largely as a result of the stimulus of war necessities, developments in means of production have increased far more rapidly during recent years than is normally the case. Improved means of production are, of course, always being discovered and they inevitably result in a certain amount of dislocation, reflected in employment. As a result of progress, a given quantity of product can be produced with a smaller amount of labour power, and the men displaced as a result of this find other employment in supplying new wants in existing or new industries. The growth of new industries is a necessary condition to the preservation of balance in a developing society. However, the growth of industrial progress in recent years has been so rapid as to tend to outrun the growth of new wants and new industries. At the very time, therefore, when we have a great mass of unemployed, we are compelled by the necessities of the situation to follow a process of "Rationalisation," the immediate effect of which must be to increase the numbers of unemployed.

If this, then, is the problem, what is the remedy? It is clear that we should make every effort to increase our share of the world's foreign trade. The more attractive we can make our products and their price, the larger the volume of our export trade, the larger the numbers of unemployed shall we be able to absorb directly into our export industries, and indirectly into those industries which supply their wants. No effort should be relaxed in this direction. However, other nations are leaving no stone unturned in the same direction and as we have no monopoly of capacity, we cannot reasonably expect our progress in the sphere of foreign trade to be very rapid; that is to say, we cannot look to it to absorb within a measurable time the great mass of unemployment resulting not only from a disturbance of foreign trade, but from these other causes which I have mentioned. We must develop our home market. We must redistribute these workers left high and dry in the war industries. We must develop new industries to absorb those displaced by "rationalisation."

We cannot do this simply by transferring people from industry to industry. Those who are responsible for the transference of labour from the mines must remember that it is

futile to attempt to dump any part of the surplus upon industries which cannot absorb their own workers. At present, though practically all the employers in Britain have been circularised, and the circulars followed up by direct appeals from the officials of the various employment Exchanges, only about 400 men a week are being transferred from the mines—a rate at which it would take ten years to transfer the surplus miners.

Are we then simply to accept this great army of unemployed as a kind of post-war normal to which we must settle down? There is sometimes a tendency to do so, but surely there is no excuse for this. For a highly developed and intelligent country to acquiesce calmly in the fact that about a million of capable and vigorous men are unable to find work would be illogical and intolerable—nay, it would be despicable!

And why should we acquiesce in such a state of things? Here in this country we have not only a vast body of men who are willing and anxious to work, but we have any amount of capital. Most of the factories in this country are only partially employed. Money, labour and machinery are all available, and we have ample resources in the way of managerial skill. It is as though a fire were ready laid, with paper, and sticks and coal. And the heat of that fire is badly needed—yet no one will strike a match! Just one lighted match; that is all we want! We have the men, the money, and the management—put these together and they mean goods and services for the benefit of the whole nation. Why don't we put them together?

Suppose our unemployed were landed on an island of considerable size, do you think that they would starve? Not they—they would soon get to work; they would develop that island's resources, and build up a flourishing community! Are they to be paralysed because, instead of being on an island, an unkind fate has placed them in a normally Christian country at the heart of Western civilisation?

Here, as elsewhere, we are obsessed by precedent and routine. But the present situation cannot be dealt with by precedent. It is unique in history, and it must be met by unique methods. The problem is a war problem, and our unemployed represent Britain's devastated territory. The countries of Europe have displayed infinite courage, resource and initiative, in rebuilding the towns and areas which the war had ruined; and we must profit by their example, if we do not wish history to brand us as destitute of the high qualities that make reconstruction possible.

Let us try to get at the root of the trouble. What is the reason of this appalling slump—this industrial deadlock?

Manufacturers assuredly are anxious to sell more, and just as certainly, the bulk of our people are anxious to buy more. Why don't they? Simply and solely because they have not got the money. They are would-be consumers without purchasing power, and it is purchasing power that turns the wheels of industry. Our problem is to set these people to work producing goods for one another and exchanging them with those already employed. It is no use their producing goods which are already in excess of demand; they must produce goods or services which will not displace but supplement existing production. This points to the establishment of new industries, and to the doing of work which will not result in the immediate production of consumable goods. We must enable these people to obtain purchasing power, but without stultifying all our efforts by simultaneously throwing other people out of work. Only in this way can we restore that balance in our economic life which is what is required.

When I was in the United States in 1921, there were from four to six million people unemployed. America was then in the condition in which we find ourselves to-day, or even worse off. But, fortunately for her, there arose spontaneously, at that time, a tremendous demand for capital goods, through the development of the enormous automobile industry, which is now the second biggest industry in the States, second only to agriculture. Obviously, a huge amount of labour was employed in creating the buildings and machinery—or the capital goods—requisite for this vast and comparatively new industry, and that labour, paid for week by week, meant a tremendous addition to the volume of purchasing power among builders, mechanics, engineers, and countless other workers, *not* counterbalanced by any immediate corresponding production of consumable goods. It was that increased spending power, reacting on other industries which was so largely responsible for ushering in a period of general prosperity.

There was at the same time—though I hesitate to mention it, because I know that some people think it a very dangerous thing—a great development of instalment buying! What *is* instalment buying? It means that you buy something which you cannot pay for all at once, but which you pay for gradually, as we pay for capital goods. I am not going to argue the pros and cons of the matter, but undoubtedly, just when purchasing power was most necessary, and when orders were most needed, instalment buying helped to set the wheels of American industry going. As to the ultimate reactions of the system of instalment buying, I feel much more doubtful.

After the Napoleonic wars, there was a tremendous development of railways in Great Britain which created a great demand for capital goods, and thus increased the consuming power of the workers in a time of very general industrial depression.

Now, we need something of this kind at the present time, and we need it on an enormous scale, on a scale sufficiently large to employ at least 650,000 men at, say, 55s. a week. I am not calling that a satisfactory wage—I suggest it as the minimum—but, nevertheless, 55s. a week each for 650,000 men would mean another million pounds of consuming power a week. By the million, of course, I mean a million net—a fresh million over and above the sum which the unemployed now get from the Unemployment Insurance and the Poor Law.

Now, perhaps we cannot do what America has done, in practically creating a new industry. We have done something in a smaller way. We have our artificial silk, our gramophones and our wireless industries, as well as our motor industry, but we certainly have nothing corresponding to the automobile development in the United States. Failing the fortunate synchronisation of such a development with the need for additional consuming power, then some more direct, and more deliberate methods of increasing our consuming power must be found.

I believe there is absolutely nothing for it but to appeal to the State, and to say: "It is your duty to create a demand for capital goods sufficient to employ 650,000 men." Look at Great Britain as one huge trading establishment—look at it, if you like, as the potential workshop of the world. Surely, it is desirable that such a workshop should be healthy, well laid out, and well equipped in every possible way if it is even to hold its own, let alone take the lead among other great national workshops. Take the question of our transport facilities. Some of the capital goods at which we set our unemployed to work must take the form of improved roads. There should not be a bad road in Britain, or even a narrow road, if the traffic demands a wide one. There should not be a dangerous corner, or a weak bridge. Take electricity. We have in this country abundant coal and a highly efficient electrical engineering industry, but nevertheless the electrical equipment compares very unfavourably with that of some of our chief industrial competitors. A scheme for dealing with the situation has passed into law. Surely it should be pressed on as a matter of the greatest urgency. It is an admirable method of providing widespread employment of just the character we want in the present situation. We should sweep away our slums; we should afforest wide areas of our waste land. We should adopt all the improvements and developments

suggested by one Coal Commission after another. We should see to it that we no longer lay ourselves open to the criticism: "Though Britain contains many wise and many brilliant people—as a nation she often appears to be mentally defective!"

Our credit and technical skill are second to none in the world. Let us take advantage of our position, and use them in order to increase our national efficiency and make us ready, when the time comes, to cope with a boom in trade.

That would give a fresh start to industry.

We have many of us seen an engine with such an enormous fly wheel that before the whole thing gets going a little donkey engine must be employed to turn the fly-wheel round. I think that industry needs a little donkey engine, and to supply it is the business of the State. I don't mean for a moment that we industrialists should ask to be spoon-fed. It is up to industry itself to do everything that is humanly possible to deal with the present depression, but there are tasks that no single section of the community can undertake. After all, the present impasse was not of industry's making; it was due to national and international causes; and we may rightly look to the State, which led us into it, to lead us out again—just as the devastated districts in France and Belgium have looked for help to the States to which they respectively belong.

If the above suggestion were adopted, the workers who are now abnormally distributed would redistribute themselves. In York, there are already 2,000 men unemployed; it is at present impossible for us to make openings for surplus miners, and wherever they go, it is the same, so they hang on to the mines in sheer despair. But if once that great fly-wheel were moving, every staple industry would be quickened by the greater demand for goods; the coal industry itself would reabsorb large numbers of its miners, and those who were still superfluous would have a genuine chance of finding fresh work elsewhere.

The State help which I am proposing would not be continued indefinitely. But it must be given on a really adequate and comprehensive scale—not in dribbles—the widening of a road here, the making of a cemetery there. It is not a time for peddling, insignificant, measures which inspire no confidence and kindle no hope, either among the workers or the employers of the country. No, the government should approach industry and say: "The State is prepared to pledge itself to find work in the provision of capital goods on a scale sufficient to reduce the number of unemployed men to 400,000, and to keep this number down to 400,000 for at least a year."

That solemn pledge on the part of the State combined, as it must be, with prompt and widespread action, and the *bona fide* absorption of labour on an unprecedented scale, would create universal confidence. It would help to drag us all out of the economic slough of despond in which, at the present time, we seem to be struggling vainly. And I believe that the policy would be financially sound.

You may say: "Where would the money come from?" Such a scheme might cost in the first year 60 or 70 millions over the 40 millions a year that is already being doled out in Unemployment Insurance and Poor Law Relief to the men who would be affected, and for which, incidentally, we are getting very little, except the spectacle of queues of anæmic men, waiting miserably, for what the public seems determined to call their "dole." We are practically wasting this 40 millions a year. Would it not be wiser to spend another 60 or 70 millions on building up this country into an efficient business organization? When I am asked whether we can afford to do this, I answer that we cannot afford *not* to do it. What is 60 or 70 million pounds? The capital issues in London for one month sometimes exceed 30 million pounds. It would be easy enough to raise the money. As regards its repayment, in so far as it was used in productive directions it would, or would soon, be self-supporting; whilst the remainder, like accelerated expenditure on roads, would be paid off gradually through taxation. Moreover, if once the unemployed were back at work, the national exchequer would automatically receive much more both from income tax and super tax. There would be no difficulty therefore in financing the scheme. We can finance our devastated areas at least as readily as France!

But there is another question. It may well be asked: "Would another million and a quarter or so of consuming power per week do all you claim? It would only add about 3% to the present wage bill." True, but it would do much more than this. It would give confidence to the manufacturers: increasing sales and the knowledge that at long last this army of unemployed was to be very largely disbanded, and that the increasing purchasing power would be guaranteed for at least a year, would start the industrial machine going normally once again. Increased turnover would mean lower unit overhead charges in the industries not directly helped, and this, in turn, would mean lower prices and increased volume. The lower prices would, of course, help our foreign trade. Schemes for improving plant and productive efficiency at present suspended would be proceeded

with, and give a further stimulus to trade. The 60 or 70 million would be like the pebble thrown into a pond; the ripples would rapidly spread outwards. This, at any rate, would be so if the analysis of the situation I have given be true. In my opinion, we have reached a condition of economic inertia: what is needed is not a permanent driving force, but just sufficient to set going again the normal movement of progress.

Of course, I don't want those of us who direct industry to fold our hands and say: "God bless the government!" We only contend that the Government should tackle its own share of this national problem. As for us industrialists, we must do our utmost; we must work, and think, and plan, as we have never done before. We must raise the efficiency of every workshop and office to the very highest point. We must bring science to our aid to a degree never dreamt of in the past. We must command the markets of the world by the efficiency with which we manufacture our goods, and the enterprise with which we sell them. We must establish real co-operation between Labour and Capital, and stop the appalling leakage which is due to suspicion and mistrust. But we must avoid cutting wages. What we need most is more purchasing power for the people: 80% of the people belong to the working classes, and really, it is impossible to increase purchasing power by methods which simply reduce it! Both from the standpoint of the nation and the standpoint of the employer, well-paid labour is cheap labour, and low-paid labour is expensive.

Finally, and this is my last word, we must remember that industry is now an infinitely complex and delicate organisation. We can no longer believe blindly that if all employers are doing the very best they can for themselves as individuals, their aggregate efforts will bring about national happiness and prosperity. In the future, we must take a wider outlook, and consider industrial problems in their entirety. We must set up an economic watch tower, from which to observe the signs of the times—a watch tower that will send out storm signals. This will enable us to minimise, and even to avert in future the cyclical disturbances that have worked such havoc in industry, and created so much unemployment. It is quite possible to do this, with the judicious aid of the banks, which are mainly responsible for the amount of credit available. But here as elsewhere the State must co-operate with us, and we must co-operate with the State.