INTERNATIONAL LABOUR REVIEW

VOL. XXIV, No. 6. DECEMBER 1931

Is Unemployment Insurance a Cause of Permanent Unemployment?

by

Fernand MAURETTE

Chief of the Research Division, International Labour Office

A FEW months ago, under a carefully transparent anonymity, a distinguished French economist, Mr. Jacques Rueff, published in the *Revue d'économie politique* [1] an article forming a sequel to another published under his signature in the *Revue politique et parlementaire* [2] in 1925, and developing an argument which he put forward about the same time at a meeting of the *Société d'économie politique*.[3] In this article Mr. Rueff, on the basis of a diagram prepared by himself and showing two curves representing respectively the percentage of unemployed and the ratio of wages to wholesale prices in Great Britain from 1919 to 1930, claimed to prove :

(1) that the movements of unemployment have followed exactly the movements of the wages-prices curve ;

(2) that the root cause of the latter movements has been the fact that wages in Great Britain have remained stationary for eight years while wholesale prices were falling ;

---

[1] * * * : " L'assurance chômage, cause du chômage permanent ". Reprinted from *Revue d'économie politique*, March-April 1931, with preface by Charles RIST. Paris, 1931. VII + 41 pp.

[2] Jacques RUEFF : " Les variations du chômage en Angleterre ", in *Revue politique et parlementaire*, 10 Dec. 1925.

[3] Meeting of 5 May 1931.

(3) that the lack of adaptation of wages is thus responsible for permanent unemployment ;

(4) that what has made it possible for wages to remain stationary instead of following price fluctuations is the existence of unemployment insurance ;

(5) that in the last analysis unemployment insurance is thus responsible for the permanent unemployment from which Great Britain appears to have been suffering for the last twelve years.

The *International Labour Review* does not usually publish articles discussing or criticising theories, however distinguished or justly renowned in the political or economic world their authors or advocates may be. It is more concerned with the development of institutions and of legislation and with the views and demands of organisations or groups. If none of its usual contributors has so far dealt with Mr. Rueff's theory this certainly does not argue any lack of respect for him ; the reason is that there are many eminent and thinking economists who have a laudable capacity for setting their minds, and sometimes their imaginations, to work at high speed during these critical days. If all their arguments and proposals had to be discussed at length in these pages they would more than fill the whole of the *Review*. On that account it was originally thought more advisable, for reasons implying no disparagement of Mr. Rueff, not to reply to his invitation, which was in fact worded rather in the form of a challenge : " These are the facts ; . . . the correlation has been pointed out, some writers even claim to have proved it conclusively. It must either be refuted or allowed for ; it cannot be ignored."[1]

Mr. Rueff's theory had not been ignored ; it had been studied by the Office, which had decided that his conclusions were not irrefutable. Nevertheless, for the reasons mentioned above, no attempt would have been made to refute them, at least in this *Review*, if the situation had not changed during the last few months. In certain economic and also political circles Mr. Rueff's theory has had an enormous success. Certain people seem to be quite carried away by it. Recently it even seems to have

[1] " L'assurance chômage, cause du chômage permanent ", p. 14.

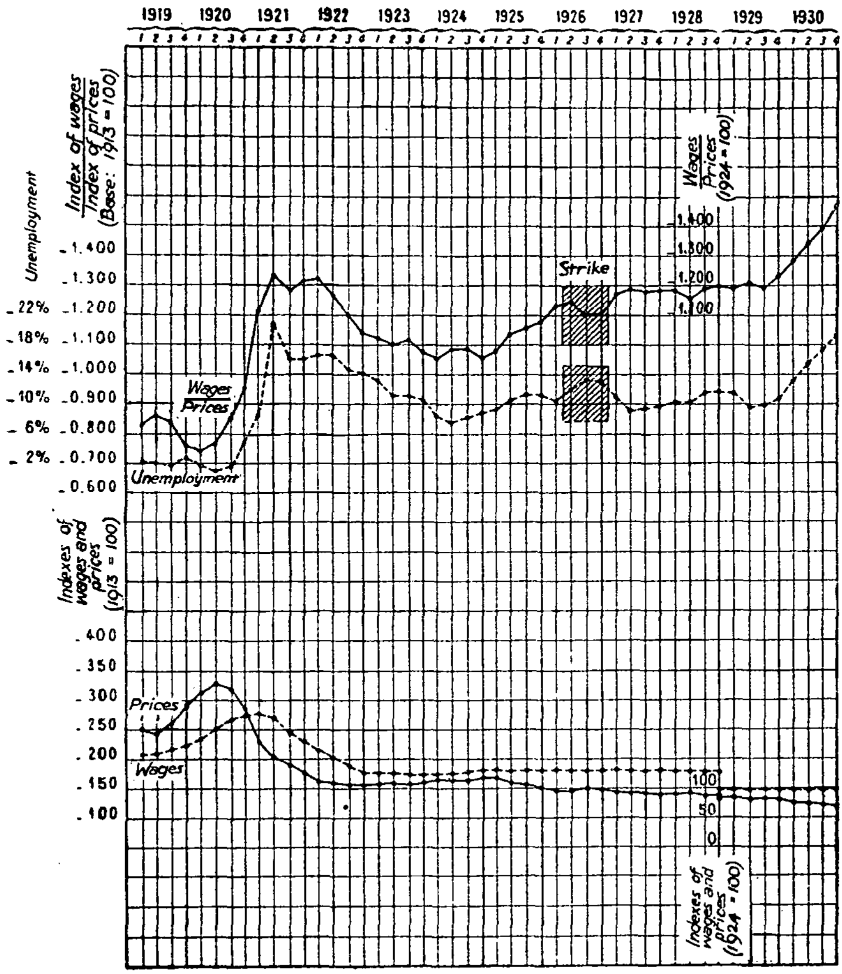
inspired a passage in a speech from the Ministerial benches of a Parliament. [1] It has thus become one of those collective doctrines which may lead to joint action, to governmental decisions, or even to a social policy with far-reaching effects. At this point it becomes the duty of the *Review* of the International Labour Organisation to consider this theory, and while not perhaps taking up a final and official attitude to it, at least to sift and analyse it so that all who wish to have a complete and accurate view of the question may find here the necessary materials on which to base their judgment.

It is quite possible that in the next few months other writers with better qualifications for the task may carry the criticism of Mr. Rueff's theory down to its statistical foundation. The purpose of the present article is merely a preliminary general and cursory criticism as a kind of introduction to more searching criticisms later : the writer wishes to explain in it why he personally is not convinced by Mr. Rueff's argument.

It must be clearly understood that there is no idea whatever of setting against Mr. Rueff's theory a counter theory giving in some twenty pages the present writer's own explanation of the unemployment crisis. Even when the subject is restricted to Great Britain the writer believes (others may say weakly, but he would prefer to say prudently) that the problem cannot be exhausted in a single article, and still less by any single formula. The present aim is purely critical—a study of the theory from an analytical standpoint. If sometimes the argument passes from the wages curve to general ideas, or oversteps the boundaries of Great Britain to embrace the whole world, Mr. Rueff has set the precedent. But the present writer's views on the crisis will not be mentioned except in so far as may be necessary to criticise Mr. Rueff's theory, which will be explained as a rule by quotations from his article and in the first instance by means of the diagram on which the rest is merely a commentary.

---

[1] In the French Chamber of Deputies on 12 November 1931 the Prime Minister, Mr. Pierre Laval, made the following statement : "I should not have undertaken to defend [before Parliament] unemployment insurance as it exists in certain countries. Mr. Blum asked what would have happened in England and Germany if unemployment insurance had not existed. I think I am entitled to turn to him and say : 'Do you not think that it is just because insurance against unemployment in those two countries was planned along certain lines that they have suffered particularly severely from the present crisis?' " (*Journal officiel de la République française, Débats parlementaires*, 1931, No. 95, p. 3796.)



I.

The first stage is to examine in some detail how the curves in this diagram have been constructed, what they are meant to represent, and how they represent it. This is particularly necessary in view of the scientific accuracy which the author claims for his diagram, and which it is acknowledged to have by those who have been convinced by his argument. Mr. Rist, in his preface to the offprint of Mr. Rueff's article, declares that the article constitutes " one of the most rigorous economic demonstrations " that he has ever met. Mr. Rueff himself does not conceal his conviction that as long ago as 1925 he formulated a " law " which is borne out by the curves in his diagram to the effect that there is " a correlation between the employment curve and the wages-prices curve . . . which is rarely equalled in precision even in the field of the physical sciences ". It will therefore be agreed that it is well worth while to study closely the exact degree of parallelism between the two curves, since this really amounts to testing the validity of a scientific law.

There is no need to discuss the author's sources in detail. He admits himself that they vary for the different phenomena analysed. For wages he has merely reproduced Professor Bowley's index numbers, which " as a first approximation " give " a sufficiently faithful " picture of the fluctuations of the cost of human labour per unit of output. There need be no difficulty in accepting this qualified estimate, especially as wages have not moved since the end of 1922, so that the index is stationary : whatever its precise value, it remains the invariable numerator of a fraction whose variable denominator is the index number of wholesale prices compiled by the Board of Trade. For unemployment Mr. Rueff has used the trade union unemployment percentages, showing the proportion unemployed of the total membership of a certain number of trade unions. None of these three series of figures is based on the " complete enumerations " recommended by Descartes ; each refers to a particular set of data which is not the same in the three cases. No doubt we are told that they give an adequate idea of the magnitude of the variations in the three sets of phenomena considered. No doubt, also, it was impossible to proceed otherwise ; the only course was to use the available figures. But all the same it should be pointed out that the data on which the " law " rests are not entirely beyond criticism.

From these data Mr. Rueff has drawn the curves shown in his diagram. The reader must first of all be warned against a possible optical illusion, although there is not the least doubt that Mr. Rueff would disclaim any wish to take advantage of it. On a first glance at the wages-prices curve and the unemployment curve, the general parallelism (which does not extend to details) of the two curves is striking. The unreflecting reader may easily conclude that the identity in shape of the two curves reflects a numerical equality in the variations of the two phenomena. In reality this is not a valid inference. For the result of Mr. Rueff's choice of units on the vertical scale for the wages-prices ratio and the unemployment percentage is that the same vertical height on his diagram represents entirely different magnitudes for the two phenomena (0.6, 0.7, 0.8, . . . for the wages-prices ratio ; 2, 4, 6, . . . per cent. for the unemployment percentage). For example, examination of the two curves between the second quarter of 1920 and the second quarter of 1921 not only shows that the wages-prices index and the unemployment percentage were both increasing, but appears to indicate that the movement was parallel and the increase the same in the two cases, as if unemployment had grown in the same proportion and at the same rate as the ratio of wages to wholesale prices. During the period under consideration, however, the wages-prices index increased by 73.5 per cent. and the unemployment percentage increased by 1,800 per cent. This possible mistake has been pointed out, not, as already emphasised, because there is any possible suspicion that Mr. Rueff wished to mislead his readers, but because the mistake does already appear to have been made, and might be made again. It is not in fact permissible to speak of a related *and equal* movement of the indexes of wages-prices and of unemployment, and of the increase in unemployment " corresponding exactly " with the increase in the wages-prices ratio.

The diagram contains four curves, but only two of them are important for Mr. Rueff's theory. The first two, showing the movements of the indexes of wages and of wholesale prices, are intended merely to supply the material for constructing the third curve, which shows the movements of the ratio of wages to wholesale prices. This is Mr. Rueff's important original contribution. In a recent publication [1] the International Labour Office tried to show the connection between fluctuations in the wholesale price index and fluctuations in the percentage of unemployed (a comparison which Mr. Rueff holds to be illegitimate and unsuccessful) ; Mr. Rueff introduces a third factor, the money wage, and claims that an exact and continuous connec-

[1] *Unemployment Problems in 1931*, chapter entitled " Unemployment and Monetary Fluctuations ". Studies and Reports, Series C (Employment and Unemployment), No. 16. Geneva, 1931.

tion exists between the ratio of this figure to wholesale prices and the percentage of unemployed.

There is no need to discuss here whether it is legitimate to construct this ratio ; the point will be dealt with later. The important matter for the moment is the actual construction of the diagram and the alleged new information it offers. It may well be asked how far the new idea which is here introduced can alter the fact, which has been demonstrated over and over again in books and articles, that when the level of prices falls the commercial situation grows worse and unemployment increases. From 1923 to 1930 the index number of wage rates in England remained practically stationary ; to use it as the numerator s of a fraction whose denominator is the level of prices p simply means inverting the curve of p. The curve showing the variations of p moved downwards during the period 1923-1930 ; that showing the variations of $\frac{s}{p}$ will move upwards ; but since s is constant the new curve is merely the previous one inverted and shows only the fluctuations of p just as the first one did. In so far as the new curve follows the movements of the percentage of unemployed it does so as a function of the only one of its components that has varied, namely, the level of prices.

Writing on this subject some little time ago, a correspondent of the Office pointed out, not without humour, that for the eight years 1924-1931 one could divide *any* unchanging index (e.g. the index of average height, age, or weight of the population) by the price index and prove just as convincingly that unemployment is entirely due to the population being too tall, too fat, or too old. And for the years 1919-1922, when the wages index varied (though to a less extent than the index of wholesale prices), the two curves of the price index and the wages-prices ratio moved, in opposite directions of course, at almost the same rate, so that if the former is inverted it is almost exactly the same as the other. The present writer is not convinced that Mr. Rueff has made any new discovery by introducing the element of wages into the comparison between the movement of wholesale prices and the movement of unemployment, or that the notion of an approximate relation between the fall in prices and the increase in unemployment must be abandoned in favour of the notion of an absolute and exact relation between the latter and the increase in the ratio of wages to prices.

We have spoken of an absolute and exact relation ; but is it really true, as Mr. Rueff asserts, that his diagram shows " an amazing correlation " between the curves of unemployment and of the wages-prices ratio ?

On a diagram on such a small scale as that published by Mr. Rueff it is not always easy to grasp the exact direction of each portion of the curve, especially in the case of the wages-prices curve, which moves within a very narrow range at certain periods. With the further help of the figures in Mr. Rueff's table (reproduced on page 671), which are shown graphically in the diagram, it may however be affirmed with certainty that of the 48 quarters of the twelve years under consideration 32 show the alleged correlation while 16 present divergencies. In some cases one curve rises while the other falls ; in others one remains horizontal while the other rises or falls. This is the case in the second and fourth quarters of 1919, the second of 1920, the fourth of 1921, the second and fourth of 1924, the fourth of 1925, the first, third, and fourth of 1926, the first three of 1927, the first of 1928, and the second and third of 1929.

It is no doubt true, as Mr. Rueff says, that " the correlation ceased to exist during the general strike of 1926 and the whole of the succeeding years . . . it could not well be otherwise ", because " during the strike . . . wage fluctuations have no effect on the employment of labour ". But he may be further asked whether this explanation also holds good for the period immediately preceding (the last quarter of 1925 and the first of 1926), when the strike had not yet broken out and when the correlation no more existed than it did during the strike. It may likewise cause surprise to find that in 1921, when the miners' strike completely paralysed the whole of British industry for a number of months, the correlation continued to exist. With all this, and leaving out of account the months of the strike in 1926, the correlation that Mr. Rueff claims to have established holds for less than three-fourths of the cases over the relatively short period of twelve years. Surely this a rather narrow and also rather unsteady basis on which to establish a " law ".

But the law appears to lack a sound basis not only in time but also in space. The law, if it exists (which the present writer

AVERAGE QUARTERLY VALUES OF THE INDEXES UTILISED[1]

Year and quarter	Wages : Professor Bowley's index (1913 = 100)	Wholesale prices : Board of Trade index (1913 = 100)	Ratio of wages index to prices index	Number of unemployed per cent. of membership of trade unions
1919 : 1st	207	249	0.831	2.7
2nd	209	242	0.863	2.2
3rd	216	258	0.837	1.9
4th	221	288	0.767	2.9
1920 : 1st	231	309	0.747	1.9
2nd	250	324	0.771	1.1
3rd	267	314	0.850	1.7
4th	273	284	0.961	5.0
1921 : 1st	276	227	1.215	8.5
2nd	268	201	1.333	20.9
3rd	244	190	1.284	16.0
4th	228	174	1.310	16.0
1922 : 1st	215	162	1.327	16.5
2nd	202	160	1.262	16.4
3rd	189	157	1.203	14.5
4th	178	156	1.141	14.1
1923 : 1st	177	158	1.120	13.0
2nd	177	160	1.106	11.2
3rd	174	156	1.115	11.3
4th	173	161	1.074	10.4
1924 : 1st	174	166	1.048	8.3
2nd	177	164	1.079	7.2
3rd	179	165	1.084	8.0
4th	179	170	1.052	8.8
1925 : 1st	181	169	1.071	9.1
2nd	181	160	1.138	10.6
3rd	180	157	1.153	11.3
4th	180	153	1.176	11.1
1926 : 1st	180	147	1.224	10.4
2nd	180	145	1.241	12.0
3rd	180	150	1.200	13.4
4th	180	150	1.200	13.0
1927 : 1st	181	143	1.265	11.0
2nd	181	141	1.282	9.0
3rd	180	141	1.277	9.3
4th	180	141	1.280	9.8
1928 : 1st	180	141	1.279	10.2
2nd	179	143	1.254	10.1
3rd	179	139	1.286	11.6
4th	179	138	1.296	11.7
4th[2]	99.5 [2]	83.1 [2]	1.197 [2]	11.7
1929 : 1st	99.5	83.6	1.190	11.5
2nd	99.5	82.2	1.210	9.9
3rd	99.3	82.1	1.194	10.0
4th	99.0	80.7	1.226	10.8
1930 : 1st	98.7	76.9	1.283	13.2
2nd	98.3	73.4	1.339	15.3
3rd	98.2	70.7	1.389	17.1
4th	98.2	67.0	1.466	19.3

[1] The figures in the second, third, and fifth columns are taken from the *Monthly Bulletin* of the London and Cambridge Economic Service.

[2] From the fourth quarter of 1928 onwards the indexes of wages and prices have been reduced to the base December 1924 = 100. In the diagram the base lines and scales have been adjusted so as to make the curve of the wages-prices ratio continuous and the curves of the indexes of wages and prices practically so.

doubts), makes its appearance only in England. In Germany, which, like England, has unemployment insurance and collective agreements, the wages-prices curve rose continually and rapidly from 1924 to 1931 ; this rise has been very regular and its rate is impressive, for in 1931 the wages-prices index was almost double what it was in 1924. During the same period, the fluctuations of the unemployment curve in Germany have been numerous and violent, bearing a visible relation to certain natural phenomena, such as the seasons, but having no discernible connection with the amazingly regular rise of the wages-prices index. The two curves have been parallel only from the third quarter of 1929 onwards; since then the unemployment curve has been rising as regularly and as rapidly as that of the wages-prices index, and it is still doing so. But surely a " law " cannot be deduced from two years' parallelism and five years' discordance.

In the United States there is no unemployment insurance nor are collective agreements widespread. Yet from 1920 to 1930 the wages-prices index rose steadily. In 1930 it was 60 per cent. higher than in 1920 ; in 1927 it had already reached that figure ; but in 1927 there were very few unemployed, and in 1930 there were several millions. How does the " law " work in this instance ?

It is true that Mr. Rueff's article is definitely confined to England ; his study deals with England, and with that country alone. But this point must be stressed, for it appears that during the discussion of his paper by the *Société d'économie politique* Mr. Rueff, as a result of a rather daring assertion by some one in the course of the discussion as to the confirmation of the " law " in Germany, was tempted out of his strongly entrenched position and seemed to support the idea that his " law " was also borne out by the experience of post-war years in Germany. In point of fact, this does not at all appear to be the case.

II.

This article might perhaps stop at the point that has been reached. In effect, the form of Mr. Rueff's argument is strictly deductive : it consists of a train of reasoning which, in his opinion, follows from a single fact. This fact is the one which to his mind is shown by his diagram : the parallelism and absolute concordance between the movements of the percentage of unemployed and the ratio of wages to prices. If it is believed, rightly or wrongly, that the demonstration of this fact is not convincing, there might seem little reason for criticising the arguments deduced from it.

Nevertheless, we propose to examine these arguments more closely, for it seems that, even if this parallelism existed between the two sets of phenomena, it would not necessarily follow that the causal connection which the author of the diagram claims to infer from it by a process of induction can be justified as fully and indubitably as he thinks.

Mr. Rueff's article is built up like a symphony. The first eleven pages define the theme, namely, that there is a parallel movement between the two curves representing the percentage of unemployment and the ratio of wages to prices. This theme has been analysed above and the present writer has expressed the doubts it arouses in his mind. In the succeeding pages, Mr. Rueff indulges in numerous well arranged variations relating to the economic depression, and whatever his subject at the moment may be, the original theme continually reappears as a *leitmotiv*. Is there " permanent unemployment " in England ? The reason is the immobility of wages at a time when everything else is changing. Has the present economic depression, with its sudden and unexpected turns demanding constant adaptation, sometimes been charged in England to the inertia of the manufacturer, the banker, the public authorities ? There is only one inertia which is of importance here — the inertia of wages. So it goes on ; the *leitmotiv* is repeated and elaborated right up to the conclusion, where England is not even mentioned and where a universal rule is laid down : " By immobilising wages, the level of wages of workers who are in employment can be kept at a slightly higher level than it would be in a system of free competition ; but others are thereby condemned to unemployment and exposed to sufferings which unemployment insurance can do but little to mitigate. Further, the policy causes far-reaching depressions, whose effects gradually spread and expose the economic system of the whole world to the gravest danger." Here is the justification for the title of the article, " Unemployment insurance as a cause of permanent unemployment ", because it is only with the help of unemployment insurance that wages can be kept stationary.

This conclusion is sufficiently categorical. Its tone contrasts strongly with the modesty of the premises, in which Mr. Rueff, after formulating the influences which in his opinion (but not so obviously to the present writer) might be drawn from his diagram, merely stated : " This does not imply the existence of a causal connection between the movements of wages or prices and the movements of unemployment. We merely find that in the past changes in unemployment have always been accompanied by changes in the same direction in the ratio of wages to prices, and we conclude that, other things being equal, this will also be so in the future, either because the two factors are mutually dependent or because they both depend on a common third factor." This carefully qualified statement occurs on page 10 of the article ; the categorical assertion is on page 34. What then has Mr. Rueff demonstrated in the twenty-four intervening pages to enable him to pass from scientific doubt to the triumphant affirmation of a certainty ? Several times in the course of his argument he states that it is based solely on facts and on reasoning. The facts are those which he reads from his diagram, and the writer has already expressed his opinion as to their value. It remains to examine the logical chain of reasoning which leads him from prudent non-committal to dogmatic assertion.

Mr. Rueff gives the following explanation of the fact that immobility of wages in a period of falling prices increases unemployment. As far back as 1923, wages, which were falling, reached a level below which they have not been able to descend because the unemployment benefit, or " dole ", offered to the unemployed was so high that the margin between wages and unemployment benefit would not have been large enough to induce the unemployed to try to find work. It was therefore the dole which was responsible for the two concomitant phenomena, the immobility of wages and permanent unemployment. " The worker prefers to draw the dole rather than work for a wage which would amount to little more than he gets without working." The dole is responsible for this deplorable situation : unemployment for the workers and their refusal to seek work elsewhere when there is none to be had close by.

Against this assertion of Mr. Rueff's we may set the testimony of certain eminent British authorities. Professor Pigou admits that the immobilising of wages at a high level in consequence of the dole is a contributory factor in unemployment, but only to a very slight extent, which he estimates at 5 per cent.[1] One of the greatest economic authorities in Great Britain, Sir Walter Layton, disputes the assertion that the dole has prevented the adjustment of wages by depriving the unemployed of an incentive to seek work elsewhere.[2] It is true that he does not deny that readaptation would be a slow and difficult process in certain very localised and specialised occupations, such as coal mining ; but he points to a number of very extensive movements of labour in England between 1923 and 1929 which clearly prove that unemployment benefit has not been a " fatal obstacle " to any movement of this kind. During the same period, the number of workers in Wales and the North of England scarcely varied (4,066,000 in 1929 as against 4,083,000 in 1923), but in the Midlands and the South the number rose from 4,704,000 to 5,279,000, which seems to indicate that half a million workers had perhaps left districts where the local industries were more affected by unemployment to seek work in areas in which the industries were not so hard hit. There was a similar movement of labour within certain industries over the same period.

Industry	*Number of workers* (millions)		Index (1923 = 100)
	June 1923	June 1930	
Silk and artificial silk	34.9	67.7	199.6
Scientific apparatus	16.6	25.7	159.2
Electrical apparatus	57.0	80.8	144.4
Electric wires and cables	67.0	89.6	139.3
Motor cars	173.5	230.4	134.4
Cotton	445.4	478.7	107.5
Wool and woollen goods	250.8	205.4	85.2
Steel works	166.8	144.3	89.6

It thus appears that the workers in receipt of the dole have not been as inert as Mr. Rueff believes. The same point was made and supported by figures by Mr. Lawson, British Government representative at the last Session of the International Labour Conference in June 1931. He stated that of those who received unemployment benefit from 1923 to 1930, 30 per cent. of the males and 40 per cent. of the females had received it in one

[1] *Economic Journal*, Sept. 1927, pp. 355-368.

[2] Sir Walter T. Layton : " Situation économique de l'Angleterre ", in *Revue de Paris*, 1 April 1931, pp. 568 and 577-579.

calendar year only out of the seven ; 50 per cent. of the males and 60 per cent. of the females in not more than two years ; and only 1 per cent. of the males and 0.3 per cent. of the females in each of the seven years under consideration. Out of the 2½ million registered as unemployed in May 1931, there were only 120,000 who had been continuously unemployed for more than a year. All this gives no support to the theory of the immobility of labour owing to the pernicious effects of the dole, or of the workers' laziness in seeking employment, or of the existence of that army of permanently unemployed workers that we have heard so much about.

If this premise cannot be maintained, what becomes of the subsequent reasoning ? If the immobility of wages is not due solely to the existence of the dole, what other causes have contributed to it ? The reader will note the words " is not due *solely* . . . what *other* causes . . . ? " which have been used intentionally. It is indeed possible that the existence of the dole and of collective agreements may have helped to keep a certain number of people unemployed by enabling them to put off the search for work elsewhere or in another trade ; but it is probably of quite secondary importance here, and in any case its effects are difficult to measure. It is possible that it may have helped the trade unions to resist too drastic a readjustment of wages. But it seems very far from proved that the dole has been the only or even the chief cause. It is well known that in every important country, and not only in England, wages, like rents, dividends, and other deferred or periodical payments, cannot follow the almost daily fluctuations of the price curve. Even the adjustment of retail to wholesale prices is a slow process, and wages take account chiefly of retail prices, which determine the cost of living. But Mr. Rueff refuses to allow the ratio of wages to the cost of living—i.e. to retail prices—to be taken into account in this post-war England which is the object of his study. Yet it can be seen that *real* wages, in the fullest sense of the term, namely, those which determine the worker's purchasing power by showing the relation of his wage to the cost of living, have scarcely risen since 1914. This is shown by the following figures [1] :

[1] INTERNATIONAL LABOUR OFFICE : *Annual Review, 1930*, pp. 323, 325, and 329. Geneva, 1931.

Year	Index number of money wages	Index number of cost of living	Index number of real wages
1914	100	100	100
1924	170	171	100
1925	175	173	101
1926	175	170	103
1927	170–175	164	102–105
1928	170–175	165	103–106
1929	170–175	163	106–109
1930	170–175	157	110–113

Thus the purchasing power of the British worker in 1930 is practically the same as it was in 1914, with a margin of 10 per cent., which may easily disappear if prices rise when prosperity returns. And if the existence of the dole has helped, even to a very limited degree, to maintain a standard of living which is equally favourable to producers and to consumers, surely it should be held to carry with it certain definite advantages as well as a questionable disadvantage.

Here Mr. Rueff might reply that the disadvantage is by no means questionable and is extremely serious, since it is reflected in a volume of permanent unemployment which reaches the figure of a million. But here again the present writer is not convinced. There are weaknesses in Mr. Rueff's diagram which his theory cannot explain away, and, moreover, the logic of his argument is perhaps not beyond reproach. He gives an average rate of wages for all workers and a total for the number of unemployed in all industries. But in reality, although wages may all be stationary, they are not fixed at the same level in every industry and every occupation. Similarly, unemployment is not equally rife in all British industries. It would probably be useful to study in some detail those industries where unemployment is most serious and find out what wages are paid in them, so as to ascertain whether the alleged correlation holds good without exception.

In a recent study [1], Professor F. Zahn divides industries into two main groups : those which supply the means of production and those which supply consumers' goods. He finds, generally speaking, that labour costs are higher in the former than in the latter, whereas there is more unemployment in the latter than in the former. It may be pointed out that the author is

[1] Article on " Wages policy and its effects on the labour market ", in *Soziale Praxis*, 4-6 June 1931.

German and takes his examples from Germany, whereas the present article is dealing with a law which at present is supposed to hold good in Great Britain only. But we know that in Great Britain there are sheltered and unsheltered industries, non-exporting and exporting industries. Is it not the case that wages are especially high in the sheltered industries, the non-exporting industries ? Is not unemployment especially acute in the unsheltered industries, the exporting industries ? And most striking of all is the fact that, in a country in which collective agreements and the dole are accused of jointly and culpably abetting the efforts of the trade unions, some of the lowest wages and the most acute unemployment exist side by side in certain industries where the trade unions are strongest ; but all of these are exporting industries.

It might surely be inferred from this paradoxical situation (paradoxical from the point of view of Mr. Rueff's hypothesis) that *there must be some other factor,* and that, in particular, the level of wages and of unemployment in the exporting industries must be due to the export position and the conditions of production in those industries—conditions among which wages cannot be the only one of any importance.[1]

III.

" A study of the question of wages in the light of the facts observed in the United States shows that the main factor in the ability to meet foreign competition is not the rate of wages but the cost of production, which is determined not only by the activity and efficiency of the worker but also by the efficiency of the industrial equipment and of the management of the undertaking. If an industry is outstripped by its rivals, it can mend matters either by reducing labour costs or by improving its working methods." Thus Sir Walter Layton.[2] If the present

[1] An occasional correspondent to the *Manchester Guardian* recently pointed out, not without humour, that when Mr. Rueff asserted that the fall in prices was merely an incidental circumstance, whereas the immobility of wages was the real cause of the depression, he was arguing as if, on seeing a pedestrian knocked down by a motor driven at a dangerous speed, he decided that the excessive speed of the vehicle was only an incidental circumstance and that the real cause of the accident was the failure of the pedestrian to adapt himself to that circumstance.

[2] Article cited, p. 575.

depression in England is affecting the exporting industries most severely and reacting on others only incidentally by decreasing the purchasing power of those who are dependent on the exporting industries, it is surely legitimate to think that the depression, in so far as it is specifically British, is due to difficulty in meeting the competition of certain rivals, this difficulty being due to the lack of adaptation of costs of production, and consequently of selling prices, to the possibilities of the foreign consuming markets. Now money wages are merely a fraction of the cost of production ; other factors are the efficiency of labour, the cost and efficiency of machinery, the rate of interest on capital, the price of raw materials, the relation between the prices of capital goods and consumption goods, between the prices of manufactured goods and agricultural products, etc., etc. Why then should money wages alone be considered ? Is it because wages have remained stationary and incapable of adaptation to circumstances ? But is it true that among the various factors in the cost of production enumerated above, wages are the only one to have lacked mobility and elasticity in British industry during recent years ?

In the issue of the *Revue d'économie politique* which contained Mr. Rueff's paper, there was an interesting article by Mr. Frederick C. Benham, a collaborator of Sir William Beveridge, who has given a favourable reception to the theory at present under discussion. Mr. Benham lays the chief blame for British unemployment at the door of the trade unions and the unemployment insurance system. But he adds : " Great Britain has not sufficiently lowered its production costs. . . . There is no doubt that the lack of adaptability and of a spirit of enterprise shown by many British manufacturers has also helped to aggravate the situation." [1]

The lack of elasticity in British industry—and not only in wages—has been noted, at least for the greater part of the post-war period, by Sir Arthur Salter, Mr. Loveday (one of the supporters of Mr. Rueff's theory), and Sir Walter Layton. Sir Walter Layton in particular, although very lenient, and perhaps with reason, in his judgment on British industry, nevertheless recognises that it has been very slow in adopting rationalisation

[1] *Revue d'économie politique*, March-April, 1931, p. 273.

methods, and that the British banks have been very slow in adapting to the needs of an industrial system for which transformation is vital a banking system planned entirely for the needs of international trade. For a long time past, indeed, everything in British industry has lacked mobility.

Here again Mr. Rueff would bring in his *leitmotiv :* all immobility, all lack of adaptation comes from the immobility, the lack of adaptation of wages, which is the prime cause of the whole trouble. England, he would say, has not been able to adapt itself because wages in the unsound industries have remained as high as if the industries had been sound, so that the necessity of readaptation has not made itself felt. It is the immobility of wages that has prevented readaptation. " The whole history of industrial progress consists in the rapid replacement of one industry by another : dyeing with madder is replaced by dyeing with alizarin, sailing ships are replaced by steamships. . . . Yet all these changes were carried out in the past, not indeed without suffering, but without any of them ever giving rise to permanent unemployment. Why was this so ? Simply because the necessary adaptations were made. In declining industries, wages *or profits* fell ; and the workers, seeing their wages falling or at least no longer rising, sought and accepted employment which was more remunerative for themselves and therefore more in harmony with the interests of the collectivity. "[1] The words " or profits " in the above quotation have here been put in italics, for while Mr. Rueff states what British workers would have done *if* their wages *had* fallen, he does not seem to have tried to ascertain what has been or would have been done by British manufacturers, whose profits *have* undoubtedly diminished. As for the more remunerative employment which the British workers are supposed to have sought, it is no easy matter to say where they could have found it in a world where economic depression and unemployment were universal.

It appears, however, that Mr. Rueff would have found an opening for them in England itself. Here more than anywhere else there is a danger of distorting his argument, and therefore it will be better once again to use a direct quotation. He begins

[1] " L'assurance chômage, cause du chômage permanent ", p. 22.

with a personal reminiscence, "during a journey in a certain country in Eastern Europe":

I was visiting the railways and the Director showed me all the signals worked by hand, each requiring the permanent presence of a man to work it. I was surprised at this situation and suggested that it would surely be advantageous to mechanise the signals so as to save the expense of the wages of the men required to work them. The Director assured me that such was not the case, but rather the contrary. A rapid calculation showed that in view of the very low price of a day's labour and the very high rate of interest in that country, the annual cost of the men to work the signals was considerably less than would have been the interest charges on the capital required to mechanise them.

This was by no means due to chance but was the result of the situation in that particular country: workers were very plentiful but capital was scarce.

If in the existing conditions a minimum level of wages slightly higher than the existing level had been introduced, either *de jure* by legislation or *de facto* by the adoption of an unemployment insurance system, the mechanisation of the signals might have become profitable. It would have been carried out, but the inevitable consequence would have been the dismissal of workers. These men could not have found employment elsewhere, so that there would have been permanent unemployment.

It is thus clear that if wages and interest rates are allowed to find their own level spontaneously, they will do so at a level such that the whole working population will *necessarily* be provided with work. In this case there can be no question of a surplus population for whom no employment can be found. At any given moment the whole existing population will always be certain of finding employment, but at a wage determined by market conditions. There can be no permanent unemployment unless a minimum level of wages is fixed above the level which would be spontaneously arrived at, since this means condemning to permanent unemployment all workers who could not find work except below this fixed minimum. [1]

Thus Mr. Rueff imperturbably carries his argument to its logical conclusion. And yet perhaps scarcely to its conclusion; for, taking all in all, and following him along the path of strict logic, we might conclude that for those countries which are rich in labour and poor in capital, instead of keeping the hand-signalling system, it would be still more expedient to do away with railways altogether and keep an army of carters, horse breeders, wheelwrights, navvies, and roadmen. However, he takes his stand on his rigorous conclusion (rigorous indeed in both senses of the word) that permanent unemployment cannot be abolished unless wages are allowed to adjust themselves as

[1] *Ibid.*, pp. 25-27.

freely as possible to the economic conditions of the moment. Economic science, he says, knows no other method.

The present writer believes that economic science does know other methods. And it is well that it is so. For if Mr. Rueff were right, and if the working masses arrived at the conviction that the economic laws of the world in which they live condemned them to such a hard fate, they would doubtless draw the conclusion that it is high time to use every means, even force, to put some other system in the place of one involving such economic laws.

But we have not reached that point yet. At the beginning of his article Mr. Rueff uses a phrase containing a term that is frequently used in the statement of physical laws : his law, he says, establishes a relationship which will always hold good, " *other things being equal* ". The question is whether it is inevitable or desirable that other things should remain equal ; whether it is impossible or inexpedient to change them ; and whether in fact efforts are not being made to change them both in other countries and in England itself. The attempted adaptation may be applied to all the other items in the cost of production as well as to wages, and even to those others in preference to wages, if, contrary to Mr. Rueff's contention, the worker's wages are to be considered not merely as " the price of their work " (for, as has been often repeated, labour is not a mere commodity) but also as their means of securing an adequate livelihood and maintaining " a reasonable standard of life as this is understood in their time and country ", to quote Part XIII of the Treaty of Peace. The attempted adaptation should and can aim at maintaining purchasing power by keeping up the level of prices. There is no need to inform an enlightened economist like Mr. Rueff of the volume of literature which has come into being in recent years on the methods of maintaining the purchasing power of the masses. The present issue of the *International Labour Review* contains an article[1] which proves that in England itself the question has passed from the domain of the economists into that of official commissions. It is true that this literature is less abundant in French than in English ; but surely that is no

[1] See below : "Finance and Industry : The Macmillan Report as a Basis for International Action ", by P. W. Martin.

harm when it is a case of a problem which the author, at least at the outset, tried to restrict to Great Britain.

It is quite clear that there is no place in Mr. Rueff's theory for the maintenance of purchasing power. A fall in wages would enable prices to fall still more rapidly, and it has almost always been found that when prices are falling buyers delay their purchases as long as they can ; the more rapid the fall the more marked is this tendency to wait. Moreover, the purchasing power of the wage earners would be reduced still lower. There is no proof that such a course of events would lead to a reduction of unemployment and there is reason to think that it would be more expedient, and undoubtedly, all things considered, easier from the social and political points of view, to seek a solution along the lines advocated by the International Economic Conference, in the opening up of markets and their distribution by international agreements and in a campaign against protective tariffs. In his very laudatory preface Mr. Rist encourages Mr. Rueff to study the further problem of the abolition of tariff barriers. It is by no means certain that this abolition would necessarily be preceded or followed by a fall in the standard of living of the workers, who, as consumers, always find their real wages and their purchasing power unfavourably affected by a policy of protection.

At the beginning of his article Mr. Rueff asked his readers to take account only of facts and to build up their arguments on facts alone. Now trade unionism is a fact ; the desire of the masses of the workers to maintain " a reasonable standard of life as this is understood in their time and country " is a fact. To ignore these facts is to run the risk of social conflicts, which in themselves are dangerous facts. If the only virtue of unemployment insurance in Great Britain and Germany—a virtue whose value is difficult to assess—had been to maintain industrial peace for several years in the full course of a depression, surely that in itself would be an important fact which would become historical. If Mr. Rueff's theory were rigorously and absolutely correct (which the present writer doubts), if it involved an absolute immobility of wages which would be detrimental to countries that have an unemployment insurance system in competition with others that have not, then it would be just as logical to demand the general application of unemployment insurance so as to grant its benefits to everyone and prevent—to quote again from Part XIII of the Treaty of Peace—"the failure of any nation to adopt humane conditions of labour" from being "an obstacle in the way of other nations which desire to improve the conditions in their own countries". Here again the ideal solution may be, not to apply a rigid law which would in the long run destroy our painfully won civilisation, but to regulate working conditions internationally.

Mr. Rueff points out that the Unemployment Committee of the International Labour Office " made no allusion, at least expressly, to measures tending to immobilise wages ". It did not do so because there was not unanimity in the Committee on this point. But the Committee unanimously recommended, subject to certain conditions, the general introduction of unemployment insurance.

In this criticism of a study which was intended to begin and to remain in the economic sphere, it would be tempting (as can easily be understood in the *Review* of the International Labour Organisation) to change the standpoint for a moment and to examine the consequences of Mr. Rueff's theory from the purely social angle—which is that of the Organisation—of the protection of the workers and of social justice as a condition of peace. But the temptation has been resisted and this criticism of an economist's article may be concluded by quoting a few sentences from a British economist already referred to, in which nobility of feeling is far from dulling the author's lucidity of thought [1]: " These resources [the author is speaking of old-age pensions, widows' pensions, health services and the *sums paid by the State* for unemployment benefit] no doubt blunt the spur of poverty which formerly helped to stimulate economic effort. But it is perhaps better to have got rid of the most crying ills afflicting the manual worker. At the end of the nineteenth century poverty and the possibility of dying of hunger were factors whose existence was still tolerated by the social system ; today . . . we have erected a first barricade against poverty. "

Against poverty——Or, in the language of economists, against the loss of purchasing power.

---

[1] Sir Walter T. LAYTON : *op. cit.*, p. 562.