The End of Full Employment*

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'The Government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war'. This is the opening of the White Paper on Employment Policy (Cmd. 6527) issued in May 1944 by the British Coalition Government, in which the three main parties were represented. This marked a revolutionary change in economic policy and undertook a commitment which no previous British Government would have contemplated. For the next three years the problems were those of transition, but as excess demand slackened the new policy had to be implemented. In November 1947 Sir Stafford Cripps succeeded Mr Dalton as Chancellor of the Exchequer and retained the portfolio he already held as Minister of Economic Affairs. As Director of the Economic Section of the Cabinet Office (later transferred to the Treasury and called Economic Adviser to H.M.G.), I became in effect his economic adviser, remaining in this capacity under successive Chancellors until my retirement in 1961. This paper is a short account of how the policy worked in practice and some reflections on later events.

* Much has already been written about the period covered by this paper but I cannot pretend to have read more than a small part of it. For the years 1947–61 the account given is from direct personal experience. In the years following I give my own views, those I think of someone well placed as an observer. For much of this time I was closely connected with the National Institute of Economic and Social Research and I have consulted its quarterly Reviews for the narrative.

When I wrote the first draft I did not know that Sir Alec Cairncross was preparing a lecture (since published as the Ellis Hunter Memorial lecture) called 'Farewell Full Employment'. Sir Alec himself persuaded me to go on with my own version, and I am indebted to him for many comments and suggestions.
The economic thinking of the White Paper was a combination of traditional theory and of the cyclical theory associated with the name of Maynard Keynes. In a market economy, employment is the result of bargains between employers and workers, and the traditional view was that the labour market, like all others, would tend to be cleared by price—here wage—movements. In equilibrium there would be no unemployment in a country with adequate resources. But as the parameters of the system—the pattern of demand for output, the supply of resources, and the methods of production technically available—are constantly changing, unemployment would be expected because of the time needed to adjust to these changes. Its amount would be a function of the speed and severity of the changes and of the adaptability of the system. This is usually called transitional or structural unemployment.

This general equilibrium analysis, first clearly expressed in the Walras—Pareto equations, gives the student a much clearer picture of the interdependence of the forces at work in a market economy than Marshall’s simile of balls in a bowl, each affected by all the others. The difficulty of applying them to actual affairs is to know to what extent real individuals and their behaviour conform to the definitions in the equations. The disparities can be lumped together as ‘market imperfections’. In the present context an obvious illustration is the definition of unemployment itself, raised by phrases like ‘involuntary unemployment’ which implies an objective test of a state of mind. Fortunately for its official economists, in Britain the official figures of unemployment had a clear meaning and for most of the period under review were consistent enough for their trend to be a good indicator.

This traditional view of unemployment as a necessary, and for the individual a transitory concomitant of change, was gradually found to be unsatisfactory because of the tendency in developed economies to swing between booms and slumps. The combination of human misery and unused resources in the slumps made it increasingly difficult to defend the market system. Wicksell and his followers began to argue that a system which depended on money for the whole functioning of the market was inherently unstable, but their ideas were little known in England and the rapid change there was due to the publication in 1930 of Keynes’s *Treatise on Money*. The *Treatise* was full of stimulating ideas and, like all great path-breaking works, allowed those who followed to find their own applications—much more so, in my own view, than the *General