

In response to pre-war mass unemployment and poverty planners and politicians of the 1940s responded to public concern that there should be no return to the 1930s. It has been a commonly held view that government gave a commitment to full employment in the Economic Policy White Paper of 1944. But as the Chancellor of the Exchequer Gordon Brown pointed out last year the commitment was actually to “*high and stable levels of growth and employment*”.<sup>1</sup> The White Paper however did reveal a belief in the future of Keynesian economics when it went on to say, “*Total expenditure on goods and services must be prevented from falling to a level where general unemployment appears.*”<sup>2</sup>

The architect of Britain’s welfare state, William Beveridge, defined full employment as a rate of unemployment of no more than three percent,<sup>3</sup> a position that was attained in 1948 and lasted until 1970. Did Britain achieve this state of full employment because of government policy and did it later collapse because of economic mismanagement? Was full employment reached because it became the common goal of society or did it become a global phenomenon in which Britain consequently shared in its demise? Is full employment a fallacy, when there has never been full employment in some parts of the United Kingdom?

It could be said that Britain has had full employment because it was the primary economic policy since 1945, introduced by a Labour government, endorsed by Conservative governments and then finally abandoned by another Labour government in 1976 when the policy changed. However government policy priority alone cannot account for full employment, concern for unemployment was a feature of pre-war governments but that in itself could not dent the queues for unemployment benefit. The principle feature that has been ascribed to the post-war policy was the adoption of *Keynesian* demand management of the economy. According to Michael Stewart, “*but for*

*Keynes and the General Theory the twenty years after the Second World War would have been like the twenty years after the First*".<sup>4</sup>

There were many adherents to the view that demand management founded on a Keynesian analysis of the economy would achieve the objective of full employment.<sup>5</sup> Sinclair, Ryan and Walker describe the period 1958-66 as a period of "*high Keynesianism*" with a sharp increase in government expenditure, planning and intervention in the economy creating organisations like the National Economic Development Office.<sup>6</sup> However modern Keynesians like Will Hutton have argued that governments did not tread a true Keynesian path to full employment running budget deficits without reforming the financial system.<sup>7</sup>

Despite the apparent political consensus it has been suggested that Britain has not performed as well as other countries. In a study of unemployment rates in sixteen countries from 1920, David Worswick, points out that Britain was usually in the top five for the highest rate in every decade.<sup>8</sup> The relatively poor economic growth record of Britain, Sidney Pollard calls it "*abysmal*,"<sup>9</sup> has been suggested as one factor that has led to the end of full employment. Pollard paints a picture of British economic management being driven by short-term crises, first balance of payments and then inflation. The long-term strategy of full employment was ignored in attempts to resolve the immediate problems by various phases of expansion and contraction known as "*stop-go*".<sup>10</sup> A different analysis of Britain for the period of slowing growth rates, rising unemployment and inflation is pursued by Robert Bacon and Walter Eltis in *Britain's Economic Problem Revisited*. They suggest that Britain was different from other countries in that the growth of the state was much greater from the 1960s onwards. The British problem was that greater resources were taken in taxation combined with a massive expansion of public sector jobs.

It has been argued by G. Thompson that it was not only the post war world trade boom which led to and sustained full employment for almost thirty years and that Britain was no different from any other economy. He further claims that the United Kingdom pursued

deflationary policies and ran budget surpluses from 1952 to 1975, low public expenditure as a proportion of GDP which encouraged high levels of private investment. It was the particularly high level of investment that was to sustain high levels of employment.<sup>11</sup> In contrast Grant and Nath argued that it was because of the government priority given to full employment that reduced uncertainty in the market and promoted long-term investment that reinforced employment levels.<sup>12</sup>

The most widely held view as to the cause of post-war full employment is that of the high levels of investment. Mathews has described it as a post-war investment boom.<sup>13</sup> The backlog of investment built up during the late 1930s and during wartime led to a huge surge that rode on a wave of post-war optimism combined with low interest rates and a massive expansion of world trade.

The consensus of economic opinion suggests that it was inflation that unpicked the commitment to full employment. It being mutually exclusive to have both full employment and low inflation. As Aldcroft has argued, inflation, “*led to a serious price-cost adjustment lag at a time when real wages grew above the warranted rate; profits were badly squeezed and this in turn depressed investment, output and employment*”.<sup>14</sup> In the 1960s an increasing labour shortage, particularly skilled labour pushed up wages and prices but the 1970s saw inflation as the major problem. Although inflation cannot be attributed to any one single factor, the first OPEC oil price rise in 1973 is seen as the trigger by many to the inflation explosion and economic downturn that would see the unemployment rate rising above three percent. The monetarist, F.A.Hayek however argues that inflation has been a direct consequence of Keynes “*erroneous*” theories that employment could be regulated by demand management.<sup>15</sup>

Once it became *de rigueur* amongst politicians that public opinion had changed and that electoral success depended not upon full employment but control of inflation the priorities altered.<sup>16</sup> Consequently once the task of fighting inflation was the priority then full employment could no longer be a sustainable policy.<sup>17</sup> In 1976,

Jim Callaghan the Prime Minister said, “*the government’s economic objective is to reduce inflation... .. Our second objective is to make inroads into the unacceptably high level of unemployment.*”<sup>18</sup> A month later in July 1976, a piece of evidence to support this change of policy, according to Grant and Nath, the Labour government decided to control inflation by allowing a shift in unemployment up to two and half percent.<sup>19</sup> However, the “decisive” change according to Holmes was the speech to the Labour party conference in October 1976 by the then Prime Minister, Jim Callaghan.<sup>20</sup> Although what he said was little different in substance from the June 1976 speech to the Commons or the signal given by the change in government policy it can be argued that it was this speech in Blackpool that was the public execution of the policy of full employment that had begun in the 1940s. As I was a witness to that speech and the debate it opened throughout the country I am certain that it can now be seen as the moment when one economic era closed and another opened.

It has been said that full employment was the central objective of government economic policy from 1945 up to at least the late 1960s.<sup>21</sup> It is certainly true that both major political parties signed up to the policy with the Conservatives following a little more slowly, but by 1950 the Conservatives were able to say in their manifesto, “*We regard the maintenance of full employment as the first aim of a Conservative Government.*”<sup>22</sup> Similar pledges were renewed in all their election manifestos up to 1964. The Conservative Chancellor in the mid 1950s, Butler acknowledged that the consensual economic policy “*spoke the language of Keynesianism*”.<sup>23</sup>

A number of economists associated with the monetarist school have suggested that one of the reasons why Britain had under performed in comparison with other western countries is because of the power of the trade unions. They argue that high wage demands have fuelled inflation and thereby affecting employment by making labour costs too high. This explanation has been disproved according

to Worswick who explains that Britain was a “*laboratory experiment*” under the Thatcher government of the 1980s for labour market deregulation, reducing trade union powers and by abolishing Wages Councils removing a form of minimum wage. The experiment however did not work, unemployment remained at a very high level.<sup>24</sup> However, Sinclair, Ryan and Walker contend that both managers and unions accepted job losses instead of pay cuts when demand for labour was low and so added to long-term unemployment.<sup>25</sup>

In 1979 the Conservative government took the step of deflating the economy rather than increasing demand at the height of a recession and unemployment rose to over three million as mainly manufacturing industry shed jobs. Brendon Sewill suggests they took these steps because in their view trade union power was the cause of Britain’s sickness. Sewill implies, Margaret Thatcher was so determined to tackle “*union power*” that interest rates and unemployment were allowed to rise, but the recession that followed went so deep that it massively curtailed the countries manufacturing industry.<sup>26</sup>

In the post-war world Britain was not alone in adopting a new method of economic management, Grant and Nath have stated that most western economies pursued *Keynesian* policies of varying budget balances according to demand to maintain a high level of employment.<sup>27</sup> In the introduction to the “*Legacy of the Golden Age*”, Alec Caincross describes the period 1945-73 as the ‘Golden Age’ for economic growth and low unemployment. Britain was no different to any other industrialised country, it enjoyed high growth, increased productivity and high employment driven by the economic powerhouse of the United States exemplified in the Marshall Plan. The ‘Golden Age’ being ended in a combination of the OPEC oil price rise and a massive rise in world commodity prices caused by a world economic boom when all the industrialised economies were in simultaneous expansion.<sup>28</sup>

There is much to support the view that in the 1950s and 1960s full employment was a goal generally shared by all in the western industrialised countries. What is not shared is how that policy started to unravel. Robert Solow suggests that the writing was on the wall in the 1960s but it was ignored. He indicates that the financing of the Vietnam War by inflating the US economy rather than by taxation as the culprit.<sup>29</sup> Solow adds that other factors included US monetary expansion and attempts to maintain the parity of the Dollar with gold built up an inflationary fire that the 1973 OPEC oil price rise only fanned. To emphasise the interdependence of the global economy the US economic sneeze gave the other western economies a cold and in the case of Britain a nasty one.

The end of the era of full employment according to Will Hutton can also be attributed to the end of the Bretton Woods system of fixed exchange rates. In his opinion fixed exchange rates, control on capital movement, free trade and expansionary economic policies were the recipe for the post war economic prosperity and full employment.<sup>30</sup>

Robert Mundell believes that the demise of the era of full employment was inherent in the world economic system after Bretton Woods when the Havana Charter collapsed and the proposed International Trade Organisation failed to materialise. Mundel says, *“There was no explicit arrangement for ensuring price stability or full employment at the international level. Global macroeconomic stability had to rest on the stability of the international monetary system”*.<sup>31</sup>

It could be argued that Britain never did have full employment. The national figures hid the regional and local differences, in some pockets high levels of unemployment persisted particularly in those areas associated with older declining industries such as shipbuilding. Worswick has pointed out that whatever the national rate of unemployment was, the position in Scotland, Wales and the north of England was always worse. He has calculated that between 1951 and 1990 there was a relative shift of jobs between the north and south of

about fifty thousand a year.<sup>32</sup> The widening of differences between the regions has also been highlighted by Caincross who has shown a growing disparity in growth between the South East of England and the remainder of the country.<sup>33</sup>

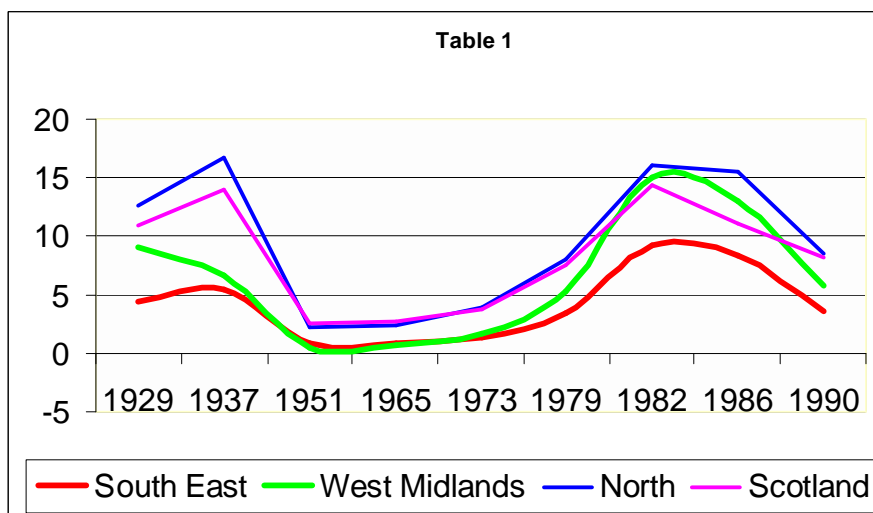


Table I <sup>1</sup> illustrates the continued variation of the unemployment rate between regions over more than seventy years. The methodology for data collection has changed over the years and since 1979 there have been numerous changes to the methods of calculation to reduce the 'numbers' such as not counting those on training schemes.

According to Peter Scott, Britain has a structural employment problem that was recognised by World War Two economic planners. Hugh Dalton, the post war Chancellor and Cambridge Economist, became President of the Board of Trade in 1942 where priority was given to the thought that post war unemployment in the depressed areas would return to pre-war levels.<sup>34</sup> Dalton steered a substantial regional element into the 1944 Employment Policy White Paper that was largely enacted in the 1945 Distribution of Industry Act.

<sup>1</sup> Sources: Crafts and Woodward, *The British Economy since 1945* (1991), p.217 and D.Aldcroft, *Full Employment: The Elusive Goal*, (1984). p.11.

Government was able to control factory construction and direct it to the areas of high unemployment, designated “*Development Areas*”. Controls were in place that required government approval in the form of Industrial Development Certificates before any factory building could be built and therefore giving the power of veto in areas not considered an employment priority.

The regional policy initially a success, between 1945 and 1947 over fifty percent of the floor space for approvals for industrial building were in the Development Areas.<sup>35</sup> According to Peter Scott the success of the regional policy was short lived because the new factories in the Development Areas were still associated with old staple industries that would be the first to be hit in an economic downturn.

Patterns of employment have also changed. Between 1950 and 1984 the labour force rose by three and half million, not due to an increased population but due to a fifty percent increase in women working, and in particular married women entering the labour market for the first time other than during the war time emergency.<sup>36</sup>

Of all the social reforms that were proposed in the 1940s the only major one not to be enacted into legislation was any form of commitment to some form of full employment. The whole of the welfare state legislation is built on an assumption of a high number in employment to pay for the benefits for the few, in an age of mass unemployment the strains on the system are showing and government is now eagerly trying to find a solution. The early architects of the welfare state knew that huge economic differences between regions of the United Kingdom needed to be tackled, at first this was a major priority but when regional disparity was cloaked by the macroeconomic picture the differences were submerged. In debate over issues such as growth, inflation, balance of payments and the global economy regional unemployment was not a priority, this oversight is something future governments of the United Kingdom

may come to regret as the economy of one region overheats whilst another languishes in the cold.

Will there ever be a return to full employment? Philpott argues that “*never again will there be sufficient jobs to go round*”<sup>37</sup> and that there will not be a return to full employment. In his view the post war consensus amongst economic managers now no longer exists, and even if there was a political commitment there is no agreement on the policies to pursue to attain such a goal. With the change in the structure of employment over the past twenty years with the huge growth in part-time workers, low-pay jobs, people working two jobs, the definition of full employment as considered in the 1940s is probably now no longer applicable. Philpott suggests that perhaps the future lies in the question of how employment opportunities are distributed rather than trying to pursue policies of full employment.

## Notes

- <sup>1</sup> Gordon Brown, The Mais Lecture, (19 October 1999), <http://www.hm-treasury.gov.uk> [http://www.hm-treasury.gov.uk/press/1999/p168\\_99.html](http://www.hm-treasury.gov.uk/press/1999/p168_99.html) [Accessed 15 February 2000].
- <sup>2</sup> Michael Stewart, Keynes and after (1972), p.186.
- <sup>3</sup> Michael Stewart, Keynes and after (1972), p.301
- <sup>4</sup> Michael Stewart, Keynes and after, (1972), p.187.
- <sup>5</sup> Peter Browning, The Treasury and Economic Policy 1964-1985, (1986), p.349
- <sup>6</sup> P.Sinclair, C.Ryan and M.Walker, 'Continuity, Change and Consumption: British Economic Trends, 1945-95', Contemporary British History, 10, 4, (1996), p.36.
- <sup>7</sup> Will Hutton, The State We're In, (1996), p.245.
- <sup>8</sup> D.Worswick, 'Has mass unemployment come to stay?', Contemporary Record, 8, 1, (1994), p.5.
- <sup>9</sup> Sidney Pollard, The Development of the British Economy, 1914-1980, (1983), p.345.
- <sup>10</sup> Sidney Pollard, The Development of the British Economy, 1914-1980, (1983), pp.408-409
- <sup>11</sup> G.Thompson, V.Brown and R.Levacic (eds.), Managing the UK Economy: Current Controversies, (1987). pp. 12-17.
- <sup>12</sup> W.Grant and S.Nath, The Politics of Economic Policymaking, (1984), p.128
- <sup>13</sup> R.C.O.Matthews, 'Why has Britain had full employment since the War', in Charles Feinstein (ed.), The Managed Economy: Essays in British Economic Policy and Performance since 1929, (1983), p.89.
- <sup>14</sup> Derek Aldcroft, Full Employment: The Elusive Goal, (1984), p.137.
- <sup>15</sup> F.A.Hayek, '1980s Unemployment and the Unions', D.Coates and J.Hillard (eds.), The Economic Decline of Modern Britain: The debate between Left and Right, (1986), p.111
- <sup>16</sup> W.Grant and S.Nath, The Politics of Economic Policymaking, (1984), p.148.
- <sup>17</sup> Derek Aldcroft, Full Employment: The Elusive Goal, (1984), p.129.
- <sup>18</sup> James Callaghan, Hansard, 9 June 1976, p.1458
- <sup>19</sup> W.Grant and S.Nath, The Politics of Economic Policymaking, (1984), p.143.
- <sup>20</sup> M.Holmes, The Labour government, 1974-79: Political Aims and Economic Reality, (1985), p.92.
- <sup>21</sup> G.Thompson, V.Brown and R.Levacic, (eds.), Managing the UK Economy: Current Controversies, (1987), p.12.
- <sup>22</sup> Conservative Party Manifesto, This is the Road: The Conservative and Unionist Party's Policy, (1950), <http://www.psr.keele.ac.uk/area/uk/man/con50.htm> [Accessed 21 February 2000].
- <sup>23</sup> R.A.Butler, The Art of the Possible, (1971), p.160.
- <sup>24</sup> D.Worswick, 'Has mass unemployment come to stay?', Contemporary Record, 8, 1, (1994), p.11.
- <sup>25</sup> P.Sinclair, C.Ryan and M.Walker, 'Continuity, Change and Consumption: British Economic Trends, 1945-95', Contemporary British History, 10, 4, (1996), p.45.

- <sup>26</sup> B.Sewill, 'Reflections on the demise of Full-employment', Contemporary Record, 9, 3, (1995), pp.651-656.
- <sup>27</sup> W.Grant and S.Nath, The Politics of Economic Policymaking, (1984), p.85.
- <sup>28</sup> Alec Caincross, 'Introduction', Frances Caincross and Alex Caincross, (eds.), The legacy of the Golden Age: The 1960s and their economic consequences, (1992), pp. 1-13.
- <sup>29</sup> R.Solow, '1970s trouble due to 1960s policy errors?', Frances Caincross and Alex Caincross, (eds.), The legacy of the Golden Age: The 1960s and their economic consequences, (1992), p.163.
- <sup>30</sup> Will Hutton, The State We're In, (1996), p.313.
- <sup>31</sup> R. A. Mundell, 'The European Monetary System 50 Years after Bretton Woods: A Comparison Between Two Systems', <http://www.columbia.edu/~ram15/ABrettwds.htm> [Accessed 24 February 2000].
- <sup>32</sup> D.Worswick, 'Has mass unemployment come to stay?', Contemporary Record, 8, 1, (1994), p.8.
- <sup>33</sup> Alec Caincross, The British Economy since 1945, (1992), p.301.
- <sup>34</sup> P.Scott, 'British Regional Policy 1945-51: A lost opportunity', Twentieth Century British History, 8, 3, (1997), p.360.
- <sup>35</sup> Peter Scott, 'The worst of both worlds: British regional policy, 1951-64', Business History, 38, 4, (1996), p.41
- <sup>36</sup> G.Thompson, V.Brown and R.Levacic, (eds.), Managing the UK Economy: Current Controversies, (1987), p.79.
- <sup>37</sup> J.Philpott, 'Looking forward to full employment: an overview', J.Philpott (ed), Working for Full Employment, (1997), p.4.

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