

BEVERIDGE REPORT

I have now had more leisure to study the Beveridge Report and to try and see it in prospective especially in its quantitative aspect. As you know I was initially rather prejudiced against it, particularly because I suggested that this particular kind of post-war reform should have acquired priority of consideration over others by a procedure that was somewhat obscure. Broadly I now think it should probably be accepted on its merits. When we add to its merits the great discouragement that would be caused by its non-acceptance, especially in view of the government's lack of any constructive ideas upon other post-war domestic topics, the case in favour seems pretty decisive. I only add that I have not discussed it with Frank (save to listen passively to some of his pep talk) or with Sir William himself or with anyone else directly concerned with it, but I have had casual talks with a good many people of different kinds.

Let us have the four main items. The rest are trivial.

1. Allowances for Children Here as you know I am adamant. I do not think there is any serious chance now of keeping the population much above $\frac{1}{2}$ of its present level, and I do not think you would wish it to go lower. The allowance is the minimum likely to make such effect on the financial side. But it is not enough. We need a middle class insurance scheme with contributions and benefits proportional to income, not only because of the intrinsic advantage of getting this class to breed again, but also because, owing to the prevalence of snobbery, no class will breed unless the one next above it in the social scale is doing so too. Well, this accounts for more than all of the immediate increase of burden on the Exchequer.

2. Unemployment Benefits. These I regard as desirable in themselves for trade cycle purposes. Beveridge or no Beveridge, I want to maintain as far as possible the consumption of those thrown out of work by the slump. The depression caused by a decline in the demand for capital goods or exports is aggravated by the fall in consumption of those thrown out of work. Under his scheme any increase of benefit payments in a slump would be a release of purchasing power not offset by any additional levies elsewhere; and this is what we want.

3. Medicine. I suppose it is broadly true that what one spends on health one gets back in increased production. Acceptance of the report would not commit you to any particular view about panel doctors, etc., as Beveridge leaves all this quite vague. Provisions could be made safeguarding individual freedom.

4. The Old. This is the only one, I think, open to serious criticism on financial grounds. The increase in rate does not, however, mainly take effect at once, and I suppose these investments could be made subject to certain conditions in regard to our national position being fulfilled. Personally I should like to say: let there be no increase until twenty years after the reproduction rate had risen to the replacement level; the coming generation of old have simply not had sufficient children to provide for them in old age; they have been selfish in their prime of life and must suffer the consequences. If the reproduction rate by some miracle jumped to the replacement level before 1945 the old would get the full rates as soon as under the Beveridge. And that would be all right. If we know we had the population coming forward to working age in the decades after 1965 we could stand the higher pensions.

But I am told that politically it is impossible to nibble at the old. I suppose that the voters, if in work and health during the election, are capable of thinking about other issues, but the old are always old at election as at other times.

So, as you see, I have very little to criticise. The Beveridge Scheme is not really nearly so Utopian as it is made out to be. And it might be great folly to miss cashing in on this prevalent idea that it is Utopian by not accepting it while that idea is prevalent. It is a practical certainty that we shall have to accept most of his proposed changes one by one in any case. I think you should consider this aspect carefully.

Then, looking at it globally, is £86 million such a great sum? Let us consider other magnitudes. Very careful estimates of production between 1924 and 1938⁹⁰ have recently appeared, showing a real annual increase per head an average of over 1 $\frac{1}{2}$ %. (The money increase was not so great owing to the fall of prices. But this fall is something which, as you well know, we want for many other reasons also to prevent occurring in coming decades.) This rise of output per head is much the same as the rougher estimates of increase in the greater part of the nineteenth century. It seems reasonable to have confidence in such a long lasting trend. Now at present prices this would mean an increase of about £100 million a year. Thus the Beveridge Report would swallow at a gulp nearly the whole increment due to one year. I do not think that is too terrible.

Of course we have to reckon on some external deterioration. I do not think it unduly optimistic to suppose that we may have to export £400 million of extra goods to buy the same imports as before. This would swallow the increment of 4 years. But there are certain things to set against it:-

- (i) If we ^cwould reduce unemployment by, say, 6 - a modest aim - we should have a ^{once-open} permanent increment of nearly £400 millions. Thus we could in effect make up for our external deterioration by setting unemployed to work.
- (ii) It seems probable that there is some cumulative increase of productive power going on during the war despite dislocation and war damage. Some of the new plant may be convertible and there are all the new tools and the war is said to have given a great stimulus to productive technique. We do not know much about the last war, but production per head of these "occupied" (i.e. including the unemployed) is deemed to have been about the same in 1924 as in 1914 despite (a) a general reduction from a 9 hour to an 8 hour day and (b) a fall of employment of about 10%. So there must have been a very good improvement per working hour in that period.

I am inclined to think therefore that, provided we can have better employment, we can support our export deterioration and the Beveridge plan without loss to the real standard of living of the various classes. Of course we shall have other things - heavier armament in particular - but further increments should accrue in the years following.

^{All} ~~Ass~~ this assumes, as does Beveridge himself, that we have better employment. Now the argument for caution on which I mainly relied was that full employment ought to have priority over benefits as an aim, and that we should not offer the latter until we had counted the ^{cost} use of the former.

^{Cost} It might be suggested, therefore, that the right procedure, in view of Beveridge's unemployment assumption, would be to tell the public that an expert committee had been asked to report on the possibility of fulfilling this assumption and that the report could therefore not be accepted until the expert committee had answered the question.

But I do not really think that is the best line. If it is put in that way, there will not be sufficient impulsion upon the Committee to find a solution. They are bound to have doubts and reservations. But this would be intolerable: I do not mean because it would jeopardise the Beveridge Report, but because the ex-service men and others will be so damned angry if they are left out of work that they will create serious trouble in the state.

I should be inclined, therefore, to go exactly the other way about it - to accept the Beveridge report and tell the expert committee that it had got to find a way of fulfilling his assumption that unemployment will be reduced to 10 (= 8½ by old reckoning).

Of course that committee, if it were appointed, would have the central task in home economics, and should have the very best brains that can be found among Ministers, Officials and others.

Finally with regard to the Americans, I think the plan should be put across by reference to my arguments under the separate heads. The child allowance we regard as a paramount national necessity to prevent race extinction. The unemployment benefit we regard as a prime method of reducing periodic depressions - a matter in which they have a joint interest with us. The health benefits we regard not as an extra charge but as paying for themselves by higher production. Most of the increase of old age pensions, the one item with a purely humanitarian aspect, we are postponing, as proposed in the plan, owing to our generally exigent condition.

A small point - in the early stages the worker contributes 45% of what he gets back in cash, the rest being medical service in kind. (This part I regard as a careful investment in him which yields a dividend in production.) This does not compare badly with other schemes. Later his share is less owing to the growing proportion of the old; I am not clear what it would be in a normally distributed population, but considerably more than one quarter.

Another small point, which is worth considering - I had a letter from a good employer of a small firm stating that so far as the employer's contributions were concerned he would break even, because he had a club which provided some of the benefits that would accrue under Beveridge. Not that his employees get as much as under Beveridge but the employer was providing a larger share of what they did get. Now he is an efficient firm. There is a great deal to be said for levelling up the charges upon the inefficient; in so far they are driven out and my friend gets more orders in consequence national output is increased. The forces of competition have become too weak in all conscience and anything which gives the efficient a relative advantage compared with the existing state of affairs is to be welcomed.

21st December, 1943.

1. 140% seems a large increase of profit to be required, in addition to a guarantee of stable ^{prices} figures to elicit a 10% increase of output.

2. £50 million is a very heavy Exchequer burden to benefit some 300,000 people (i.e. about £170 p.a. each). To obtain a sense of proportion this should be compared with the Exchequer burden of the Beveridge scheme, under which £350 million (this includes the existing as well as the additional charge) benefits some 20,000,000 persons.

3. Does the table in para. 3 give £3 a week per ^{holding} holiday? The number of holders, I understand, falls short of this by some 230,000. Is a saving of £35 million possible here?

4. The question of distributive costs is not discussed. Is it not possible that if this problem were tackled the farmers could get much of their increase without cost to the Exchequer or the consumer? It might be urged that this can be fought out later between the Exchequer and the distributors. But that neglects the international aspect. If the money can be found by savings in distributive costs, we could avoid having to reserve our position in the international discussion about subsidies, import restrictions, etc. This matter should be looked into before, not after, we make promises to the farmers.

5. In the last analysis the cost is not £50 million, but an unlimited amount depending on the price level of importable foodstuffs. Is it really possible to undertake such an unlimited liability? Everyone would agree that if the cost of imports is at a level which makes it desirable to subsidise imported food to keep down the cost of living, home produced food should have an equivalent subsidy. But what if imported food drops far below this level?

If our export markets are unfavourable and world food prices high it may be economical and necessary to have 15 million acres of arable; we may need more. But if the external position is more favourable, I do not think the public will stand for the policy

of maintaining 16 million acres of arable *coule que coule*. The cost might be passed to the consumers; but they will not like this. If we have to impose unwelcome burdens on the masses, it is better that they should shoulder a larger part of the defence expenditure or other necessary costs of government rather than pay more than £170 a year ~~and~~ to a limited class of people.

6. The plan is bad from a defence point of view, since it encourages cereals rather than livestock. From this point of view it would be better to encourage an increase of livestock fed on imported feeding stuffs. Thereby we get a reserve on the hoof to ^{eat} ~~eat~~ up during the war and a reserve of shipping to divert to war purposes. The plan before us envisages the home production of feeding stuffs. Our shipping position in this war would have been ^{wuch} ~~made~~ worse, had we not had some 5 or 6 million tons of importing capacity ready to be diverted from feeding stuffs in the early period before there had been time to increase shipbuilding. If we had not depended on imported feeding stuffs, these ships would just not have been there. The size of the mercantile marine (including the number of seamen) is adjusted from time to time to the tasks which it is required to perform.

The livestock policy could be re-inforced if necessary by a plan for holding buffer stocks of grain in the country. This would be a cheaper defence than high cost production and it would not tend to injure our mercantile marine.

7. Of course something must be done for the farmers to protect themselves from great oscillations. Steady prices are as important to them as high prices and, economically, much more desirable. If international schemes of price regulation do not come off or are insufficient, we can have our own private buffer stock scheme for our own people.

8. What is the answer to this dilemma? If our terms of foreign trade are unfavourable and food imports costly, the farmers will get what they want in the course of nature, and we shall have damaged ourselves quite unnecessarily by having to reserve our position in the international discussions in favour of subsidies,

quotas, etc. If on the other hand it proves quite easy to get plenty of cheap foreign food, the public will never stand for maintaining 16 million acres of arable at unlimited cost, our plan will break down, and we shall have damaged our position in the international discussions in vain.

6th January, 1943.

PRIMARY COMMODITY CONTROL SCHEMES IN THE LIGHT OF EXPERIENCEA. The Objects and Desirability of Control Schemes

1. Control schemes, as they will be discussed here, are schemes for raising, supporting, or stabilising the prices of primary commodities in the world market, by regulating the amounts marketed with the object of making the producers' incomes higher or more stable than they would otherwise be. This definition, it will be noted, excludes all those schemes of protection, subsidy and local monopoly which aim at raising or keeping the price, in a limited area, above the world price, although in practice they may be inspired by motives similar to those behind schemes included in the discussion. It also excludes any attempts to limit production or sale for, e.g. military reasons. Control schemes having been defined, it is useful to examine the desirability of their objects, first from the world, then from the British point of view, before going on to consider their methods of working in the light of experience.

2. In order to appreciate the case for or against control schemes, it is necessary to have some appreciation of the virtues and shortcomings of laissez faire in the production and marketing of the primary commodities in question. What is desirable from the general world point of view is presumably that the available resources should be used to satisfy the demands of consumers (including those who happen to be also primary producers) as fully as possible. It can be shown that this object is achieved (subject to the qualifications to be mentioned in the next sentence) if every commodity is produced and sold in such quantity that the price per unit is just equal to the extra cost which would be incurred in producing and selling an additional unit. The important qualifications which must be made with regard to this conclusion are: (i) that it takes no account of the possibility of increasing the total satisfaction of the community by changing the existing distribution of income among its members, and (ii) that it takes no account of the possibility of increasing welfare by increasing employment and demand. In other words, in any given conditions of employment and income-distribution, the above conclusion as to how much of each commodity should be produced holds good, but it may require modification if a deviation from it has the effect of modifying these underlying conditions.

3. The condition that the commodity should be produced to the point where the additional cost of producing an additional unit of it is equal to the market price is one which tends to be fulfilled in the long run in any industry in which the producers are small, numerous, and independent, except in so far as a change in output by one independent producer affects the costs of production which others have to meet. This qualification may not be of very great importance in practice, and, even if it is, the adjustment it calls for to make output conform to the above condition is not easy to determine. If there are some relatively large producers in the industry, who are responsible individually for substantial proportions of its total output, then the amount of the commodity produced will tend, in general, to be less than is consistent with the above condition, other things being equal, but in many branches of agriculture, this complication does not arise.

4. Hence, there is some presumption that, in the long run, laissez faire in many primary producing industries will lead to such outputs of the various commodities as will maximise the general advantage, the existing distribution of real incomes and the existing level of employment being taken for granted. Even apart, however, from the qualifications implied in the last part of this sentence, the fact that this conclusion relates to the "long run" considerably modifies its practical applicability. In practice, the movement towards equilibrium under laissez faire may be slow and painful, so that, if alterations in technique and in tastes are frequent or rapid, the actual state of affairs is always far from the equilibrium towards which the forces of competition are pressing it. This is, in fact, the case in many primary producing industries. There may thus at any time be openings for deliberate interference with the price-levels and outputs resulting from laissez faire which will increase the satisfaction of consumers in general, even without substantially altering the distribution of real incomes or the level of employment. It is even more likely to be possible to interfere in ways which increase the real incomes of the needy at the expense of those who can bear the loss relatively lightly, and it may be possible (by the technique of control schemes) to influence the level of employment in a beneficial way. These matters must now be examined in greater detail.

5. The grounds on which measures to improve the incomes of primary producers by controlling the quantity marketed may be justified are discussed under (a), (b) and (c) below.

6. a)

Beneficial Transfers of Real Income: It may be that the primary producers benefitted are poor relatively to the mainly industrial consumers against whom the prices of their products are raised. This, in fact, is often the case, for the poorest communities in the world are mostly agricultural communities, while, in most countries, the average incomes obtained from agriculture or mining are considerably less than those obtained from manufacturing or by supplying "services". Primary producers for large-scale export (who get most of the benefit from control schemes as defined here), however, are generally better off than other primary producers. Such extremely poor areas as India and China and even Eastern Europe, where production for export is only a small proportion of total production, would be less benefitted by successful control than would areas such as Argentina or the British Dominions, which happen to be relatively wealthy, but there are some major exporting areas, such as the West Indies, so poor that the case for raising the world price of their products (in the absence of any more radical solution) is very strong. In practice, however, it appears often to be the case that the relatively well-to-do producers are better able to organise control schemes than are those whose need for assistance is greater.

7. b) It may be that the output of some commodity persistently remains in excess of the equilibrium amount under laissez faire (which for the moment may be assumed to be the optimum amount from the general world point of view), because unprofitable conditions do not readily bring about a reduction of output. It is then consistent with the most economical use of the world's productive resources to reduce output of the commodity demand for which has fallen off (or capacity to produce has been expanded too much) by deliberate limitation, so long as resources are thereby released which can be absorbed into some alternative employment. Maladjustment of the kind described is liable to arise in many branches of primary production, because:-

- 8.(i) the farmers, etc. (unlike most manufacturers) have relatively few money costs of production, and cannot therefore greatly reduce costs by reducing output,
- 9.(ii) how much is produced depends largely upon the farmer's (or other independent producer's) own labour, and he works harder - i.e. he can afford less leisure - when his product is selling cheaply than when it is fetching a good price.
- 10.(iii) large parts of the money costs of production consist of wages, which are easily reduced in time of depression in areas where there is no other industry to provide effective alternative employment for the workers, so that there is again little inducement to reduce output when prices fall.
11. If excessive supply of the commodity is due to (i), or (ii), it may be that some of the resources being uneconomically used in its production may be released by reducing the output of every producer to some extent by agreement, but this solution has the grave disadvantage that it prevents the replacement of the less efficient by the more efficient, which should be a normal and continuous result of technical progress. In so far as (iii) applies, however, (i.e. in so far as wages in the primary industry are easily reduced when the price of the product falls), it is plain that some, at least of the resources released either by a general reduction of output or by the systematic elimination of the least efficient producers from the industry, would have great difficulty in finding alternative uses, and would, indeed, simply become unemployed. If this is so, then the fundamental need is not for control but for some means of providing alternative employment or for facilitating transfer to it, i.e. for the establishment of new industries in the primary-producing areas or for making emigration from them easier.
12. In **this** case, however, there is still much to be said for a temporary control scheme as a means of preventing the ruin of primary producers in the interval until the conditions for their re-employment in other industries or areas are made, or become, more favourable. For the purpose of such schemes, which is to provide temporary relief, it would probably be found best to limit each producer's output, but, as transfer became practicable, the case for transferring the least efficient primary producers and relaxing the restrictions on the output of the remainder would become strong.
13. c) Effect on Level of Activity; It may be that the maintenance or increase of the prices of primary commodities is capable, under certain circumstances, of making the general level of activity and employment in the world higher than it would have been in the absence of such measures. In considering the question whether this is so, and under what conditions, it is necessary to avoid one very simple fallacy into which many have fallen in the past - namely, the view that, simply because high primary commodity prices and world prosperity are generally observed to go together, the raising of primary commodity prices is a means of inducing world prosperity. Professor Pigou rightly remarked that this is no more reasonable than a belief that, since salt and pepper are often found on the same table, the way to get pepper is to ask for salt.

14. Let us first consider the effect upon economic activity of raising the prices of primary commodities (e.g. by output-restrictions), assuming for the moment that new enterprise is neither encouraged nor discouraged by these changes, i.e. that the only change in the gross investment of any area resulting from the price-raising is that due to the change in its balance of trade with other areas. It can be shown that, under these conditions, the trade-balance of the primary-producing areas is virtually certain to become more active, and that of the other areas (manufacturing areas) more passive. The demand for practically all primary commodities is inelastic, i.e. a given percentage change in their price brings about a smaller percentage change in the amounts of them which are sold, so that raising their price raises also the value of sales of them. This will lead to a convergent series of increases of income in the primary-producing areas, as their increased income from exports is spent and re-spent, and thus to some increase in their demand for imports from manufacturing areas, but it can be proved that the increase in the value of the manufacturing areas' exports is extremely unlikely to be as great as the increase in the cost of their imports so long as the people in the primary producing areas save any of their increments in income.

15. The passive trade balance of the manufacturing areas will give rise to a convergent series of decreases in income there. Whether the total decrease of income in these areas is greater or less than the total increase in the primary-producing areas can be shown (ignoring a few minor qualifications) to depend on whether the fraction of a small increment in income which is saved is greater in the primary producing or the manufacturing areas. The total money income of the world will, in the conditions postulated, rise or fall according as the savings of the manufacturing or the primary producing countries are more sensitive to fluctuations in income.

16. This simple picture must, however, be modified. The rise in incomes in the primary producing countries will encourage real investment there in e.g. equipment, roads, railways, public utilities, and perhaps also in manufacturing plant of certain kinds. This is likely to be largely financed by borrowing from the manufacturing countries, and, in any case, it will involve the importation of a good deal of equipment thence.

17. In an extreme case, indeed, this importation of equipment etc. may wipe out the manufacturing areas' passive balance of payment. It is possible, indeed, that the manufacturing areas' trade balance may become active as a result of investment in primary producing countries.

18. Firms in the manufacturing countries which specialise on exports of any kind to the primary producing areas may also feel justified in extending their plant. On the other hand, the fall of incomes in the manufacturing areas resulting from their passive trade balance is likely to lead to a curtailment of enterprise there, and to the curtailment of investment (in equipment etc.) on the part of those primary producers who are dependent upon markets in manufacturing areas. Whether the net result of these further effects is to increase or decrease the world's money (and real) income depends on the relative sensitiveness of new enterprise to prosperity among those who are adversely affected and those who are favourably affected respectively by the initial consequences of the price-control scheme.

19. There is one further factor in the situation about which rather more definite statements can be made. As a result of the raising of primary commodity prices, those who have to buy them in the manufacturing countries are likely to procure more bank (and other) credit than formerly, and this may partly counteract the depressing influence of the passive trade-balance, of high raw-material costs. This is the only solid reason which can be given for supposing that the depressing effect exerted by the price increase in the manufacturing countries will be less than the stimulating effect which it exerts in the primary producing countries. Any other presumption that the net effect upon the world as a whole is stimulating must be based on an assumption that the people of the manufacturing countries save more of any increment in their incomes than the people of the primary producing countries, or on an assumption that the volume of new investment which they decide to undertake is less sensitive to their prosperity than is the case in primary producing areas.

20. The paucity of data makes it very difficult to bring substantial evidence either for or against these two assumptions, especially the first. As regards the second, it may perhaps be conjectured that the manufacturers, being more closely in touch with sensitive capital markets, and more dependent upon man-made instruments of production than primary producers as a whole, will vary their purchases of capital goods more widely in response to given variations in their prosperity and apparent prospects, but it would be unsafe to rely upon such conjectures.

21. In general, therefore, there is no solid justification for advocating control-schemes as a means of raising the world level of economic activity and employment. There remains a considerable probability on balance that the effect of such schemes (despite the possibilities suggested in paragraph 17) will be to increase activity in the primary producing areas and to reduce it in the manufacturing areas.

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