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NATIONAL INCOME AND EXPENDITURE AFTER THE WAR

I propose the following amendments to this paper in the light of the criticisms which have reached me:-

I. For paragraph 2 (1) substitute the following:

(1) 1,000,000 men in H.M. Forces. Each 250,000 above or below this figure would make a difference of about £m50, apart from munitions, to the expenditure by the Government on goods and services; but a difference of no more than £m20 to the national income calculated by the conventional method adopted to measure the contribution to the national income of men in the Forces. A margin has been provided below in the first two post-war years to allow for higher figures during this period. A higher figure than 1,000,000 after the transitional period is perhaps best regarded as one of the competing demands on our resources of which we have to take account in estimating the "standard" expenditure on goods and services by the Government.

II. For (2) substitute the following:-

(2) Unemployment is due to -

- (a) the hard core of the virtually unemployable; (100,000)
- (b) seasonal factors (200,000);
- (c) men moving between jobs (300,000);
- (d) misfits of trade or locality due to lack of mobility (200,000);
- and (e) a deficiency in the aggregate effective demand for labour.

Pre-war statistics are not a useful guide, because at all recent dates before the war (e) played a significant part, whereas the probable heavy demands for labour in excess of the supply indicated below suggest that the most convenient "standard" assumption for the post-war period is the virtual absence of this factor. An attempt which was made by an official committee in 1935 to estimate the probable minimum level of unemployment, excluding factor (e), arrived at a figure of ^{760,000 or} 6 per cent. Subsequent experience suggests that this survey may have overestimated the number of the virtual unemployables, an actual count of insured persons who have been classified as unsuitable for ordinary industrial employment made on March 16th, 1942, having brought out

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(compared with 150,000 plus 50,000 casuals' unemployment assumed by the Committee. a figure below 25,000 / In view of this a "standard" assumption of 800,000 men unemployed (or a somewhat larger aggregate of men and women together, 10 women reckoning as the equivalent of 7 men for the purpose of this calculation), which is about 5 per cent of the insured population, seems quite sufficient / made up as indicated above between brackets. It compares with about 120,000 equivalent men, or less than 1 per cent, unemployed at the present time, when factors (b) and (c) above are virtually inoperative. Experience after the last war shows that, apart from a brief transitional period in the spring of 1919, the above estimate would have been more than enough to cover the facts up to the end of 1920, although Professor Pigou reckons that the slump must be regarded as having commenced in the summer of 1920. This should, however, be regarded as a standard assumption rather than as a prophecy; and it can be adjusted to any other assumptions by reckoning that each 250,000 above or below would make a difference of about £m100.

III. Add at the end of paragraph 2.(3):- a higher estimate of wage cost would make little substantial difference to the estimates below, since most of the figures given would go up proportionately, the most substantial consequences of such higher cost being -

(a) a smaller effective burden of the national debt and of certain other transfer payments, if they are not raised proportionately;

and (b) greater difficulty in marketing the necessary volume of exports, unless there is a corresponding increase in cost in other countries.

IV. At the end of paragraph 2. add -

(5) In the first post-war year national income is taken at the reduced figure of £m6,150. It is also assumed that Government expenditure on goods and services exceeds the standard assumption by £m 400. It is not easy to judge the adequacy of these allowances. But the reasonableness of their order of magnitude can be checked as follows:-

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In 1941 there were 3,500,000 men in H.M. Forces and auxiliary services and about 500,000 men in the munition industries proper in excess of June, 1939. This leaves us with an aggregate of 4,000,000 men to be dealt with, a figure which is not likely to be much greater at the end of the war, after allowing for wastage. In addition to these 4,000,000 there will be a further number to be reckoned during the period of the transition of the works in which they will be employed to peace-time activities. As against this, there will be some demands for labour, now unsatisfied, which can become effective immediately at the termination of hostilities. The above assumptions would allow for about 2,500,000 ^{unwanted} men either remaining in the Forces or in munitions and 1,250,000 men out of work. This is on the average of the first year and is, therefore, compatible with much worse conditions in the first half of it, and does not seem to involve too optimistic an assumption as to the rate of absorption.

(6) In the second post-war year income is taken at £m6,300 and government expenditure on goods and services in excess of the "standard" at £m200. It will be seen that this still allows for a considerable delay in demobilisation and in the absorption of the unemployed.

V. Before the concluding sentence of paragraph 5 add:-

It should be noticed that the "standard" income of £m6,500 is not reached until the third year after the war, so that two years of peace is added to the period of war experience in which to acquire the assumed increase of efficiency, thus providing a further margin for pessimism.

VI. In paragraph 8, bottom of page, for "(we need not...)" substitute:- "(we can assume that current output of additional munitions on the pre-war standard should suffice - at least for a time!)"

VII. For 13 (b) substitute:-

(b) But the curtailment (or slackened pace) of investment should be planned in the light of the actual availability of

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different kinds of resources when the time comes and not by an attempt than we can carry out.

The above estimate of the amount available for investment on certain assumptions is arrived at as a statistical residue and is subject

VIII. In the Appendix substitute "standard year" for "1944" throughout.

IX. An attempt will be made to simplify the form and language of the draft before it receives more general circulation.

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9.6.42