

'FULL EMPLOYMENT CAPITALISM' AND THE LABOUR PARTY

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I

'Full employment capitalism' will have, of course, to develop new social and political institutions which will reflect the increased power of the working class. If capitalism can adjust itself to full employment a fundamental reform will have been incorporated in it. If not, it will show itself an outmoded system which must be scrapped.

But perhaps the fight for full employment may lead to fascism? Perhaps capitalism will adjust itself to full employment in this way? This seems extremely unlikely. Fascism sprang up in Germany against a background of tremendous unemployment and maintained itself in power through securing full employment while capitalist democracy failed to do so. The fight of the progressive forces for full employment is at the same time a way of preventing the recurrence of fascism.

(Michael Kalecki, 1943)

Assuming that the next general election produces a Labour majority, the over-riding objective of the next Labour Government must in my view be the creation and maintenance of full employment. Few socialists will question the validity of this purpose in today's circumstances. In this essay, I shall argue two propositions: first, that it is a realisable objective within the existing framework of a parliamentary democracy. However, in view of the state of the economy which a Labour Government is likely to inherit, major institutional changes in the functioning of the mixed economy will be required, heralding a significant shift in the balance of power between labour and capital. Secondly, I shall argue that a Labour Government, and only a Labour Government, is now capable of restoring full employment without jeopardising or seriously eroding the fabric of the current democratic order. Finally, I shall examine the question whether this single-minded pursuit of full employment in the short and medium term by a Labour Government is also likely to further the long-term goal of socialism in Britain.

II

The havoc wrought on the U.K. economy under the present Conservative administration is too visible to require an elaborate characterisation. In terms of recorded statistics, despite the very considerable bonanza of North Sea oil, the economy, and particularly the crucial manufacturing sector, has been undergoing a rapid and unprecedented contraction since

the last quarter of **1979**. From that quarter to the last quarter of **1980**, manufacturing production fell by **13.5** per cent. In December **1980** it was in fact **15** per cent lower than in December **1979**, and had fallen to a level last recorded in **1967**. Historically, the decline in the U.K.'s manufacturing output during **1980** was greater than ever before recorded in a twelve-month period—larger than those during the Great Depressions after **1873** and after **1929**. The maximum annual fall in manufacturing production in the first Great Depression occurred between **1878** and **1879** and was **5.5** per cent; that in the second Great Depression was **6.9** per cent between **1930** and **1931**. Although the figures are not directly comparable, as the composition of the manufacturing sector has obviously changed over time, the corresponding year on year reduction from **1979** to **1980** was **10** per cent.

The severe contraction has certainly brought about a significant reduction in the annual rate of inflation, which from a high of about **20** per cent has fallen to lower double figures; this incidentally is still higher than when Mrs Thatcher's government came to office. However, another consequence of the decline in manufacturing and overall production has been an enormous increase in unemployment—to more than **2.8** million workers in July **1981**, or well over **10** per cent of the labour force. In manufacturing industry, which has suffered the greatest loss of jobs, the employed labour force fell by nearly **1.3** million during **1979** and **1980**. This represents nearly one in seven of those employed in manufacturing; the number of jobs lost during this 2-year period was a fifth more than the total number lost in the previous **20** years.

There are three further aspects of these unemployment statistics which deserve comment. First, there does not exist a one-to-one correspondence between a reduction in employment and an increase in unemployment, since many of those who lose their jobs do not register as unemployed. Statistics suggest that only two out of three workers who have lost their jobs actually register. Further many potential newcomers to the labour market are discouraged from registering. There has also been a significant increase in short-time working which is not reflected in the unemployment figures. The recorded rate of unemployment of **10** per cent is therefore a considerable under-estimate.

Secondly, most analysts of the U.K. economy expect recorded unemployment to increase appreciably under present Government policies, to reach over the next two or three years the levels recorded during the worst days of the **1930s**. Thirdly, and very importantly, as far as Britain's disadvantaged regions are concerned, the present average unemployment rate of **10** per cent for the country as a whole already signifies a Great Depression. In Northern Ireland, at the end of **1980** the actual rate of unemployment was **16.3** per cent (compared with a U.K. unemployment peak of **13.5** per cent of the working population for the **1930s**, reached in

August 1932). In the Special Development Areas taken together (including much of Merseyside, Clydeside and Tyneside) registered unemployment was already 14.4 per cent by the beginning of this year. Steel closure towns such as Corby and Consett are currently experiencing registered unemployment of more than 20 per cent, while three towns in Northern Ireland have unemployment rates of higher than 30 per cent.'

III

Although the monetarist and free-market policies of the Thatcher administration are directly responsible for the extraordinary contraction of the economy in the last two years, these policies were super-imposed on adverse long-term economic trends which already existed. The story of the U.K.'s relative industrial decline during the last quarter century is well known. Briefly, since the middle 1950s the rate of growth of Britain's industrial output has been approximately half that of her main competitors. Consequently, the U.K.'s share of OECD manufacturing output fell from 9.6 per cent in 1960 to 4.5 per cent in 1976. As manufacturing productivity grows more slowly in the U.K. than in competitor countries, by 1974 it was 40 per cent lower than that of West Germany or France, whereas 20 years earlier it has been much the same in the three countries.

Between 1960 and 1976, the U.K.'s share in world exports of manufactured products nearly halved, whilst those of competitor countries (with the notable exception of the U.S.) either remained the same or increased. During the 1970s there was also a large increase in import penetration of U.K. home markets. These adverse movements in imports and exports cannot be blamed on wages or labour costs rising faster in this country than elsewhere. During 1964-76, owing to the depreciation of sterling, the U.K.'s costs and prices, in terms of a common currency, fell relative to those in competitor countries.³

Manufacturing industry is particularly important to the U.K. economy because the evolution of its structure over the last two centuries has made the country a net importer of food and raw materials, which have to be paid for mainly by exports of manufactures. Because of the growing failure of U.K. industry in world markets despite improved cost and price competitiveness, the economy has been unable to work at its full potential. Since the late 1960s, the U.K.'s current balance of payments have increasingly been going into deficit well before full employment is reached, thus preventing the attainment of that objective.

Analysis shows that the main reason for the current account disequilibrium has been trade not in services or invisibles, but in finished manufactures. Equally importantly, this deficit arises from the U.K.'s trade with other advanced economies rather than with the third world; with the latter, it has in fact recorded a growing surplus. Between 1977 and 1979, the period immediately preceding the new economic policies of the

Conservative administration, whilst manufacturing production was barely rising at all, imports were growing at an ever-increasing rate, and at 3 or 4 times the rate of growth of manufactured exports. Largely because of this disastrous trading performance in manufactures, it is estimated that even at the then high level of unemployment (6 per cent), without North Sea oil and gas resources the U.K.'s current account deficit in 1979 would have approximated £10 billion. To put the latter figure in perspective, it may be recalled that in 1978 the U.S. recorded a deficit of \$16 billion (about £8 billion); the U.S. economy is approximately seven times the size of the U.K.'s and the U.S. deficit was regarded as unacceptably large.

To sum up, the U.K. economy has been undergoing a long-term process of de-industrialisation—in the sense of a progressive failure of manufacturing industry to earn enough to pay for the full employment level of imports—before Mrs Thatcher's government came to office. Her economic policies, instead of reversing this process, have managed to greatly accelerate it, with the serious consequences in terms of production and employment already noted.

The previous Labour administration had also been unable to change these adverse long-term trends in the economy, although its record in terms of social welfare and other policies was incomparably better than that of the present Government. Although unemployment under Labour was about half what it is now under the Tories, it was still well above a million. More significantly, since 1967, when under a Labour Government unemployment for the first time rose to half a million, successive Labour Governments have not only tolerated increasing unemployment, but have also virtually abandoned any commitment to full employment. In addition, the last Labour Chancellor, Denis Healey, initiated restrictive monetarist policies in 1977, albeit in a mild form, which Geoffrey Howe has carried to their logical conclusion.

IV

The twenty years preceding the oil-price rise and crisis of 1973 may aptly be described as the golden age of world capitalism. During this period, most advanced capitalist economies (and many of the developing countries) experienced historically high levels of employment as well as increases in production and standards of living. Although the U.K. shared in this general prosperity—its economic performance was better than ever before—it was being outcompeted in world markets and eventually in its own home market.

Why did this happen? There is no agreement among students of the subject about the 'original' cause of the British disease. Some ascribe it to the laziness of British workers, others to shortcomings of management, or to diverse other factors. However, the fundamental point is, whatever the cause, once a competitive economy is in long-term disequilibrium of

the kind described earlier, this disequilibrium is likely to become worse if the country continues to participate in the world economy on the same terms as before, or if it does not make the necessary changes in its production system. In a free trading system the strong become stronger and the weak weaker; for institutional and other reasons, there may be no automatic forces to bring the economy back into 'equilibrium', as orthodox economics often supposes.

Thus if a country begins to lose its share of the world market, its firms will make smaller profits than before, leading to lower investment, less technical progress, less growth, and less ability to compete in the future. In contrast, economies which grow quickly are thereby enabled to achieve faster technical progress, more product innovation and improvements in other important spheres of competition. In addition, the take-home pay of workers in a faster growing economy will generally also be growing more quickly. Other things being equal, this is likely to lead to better relations between workers and managers, with consequent benefits to productivity and performance. Because of its slow growth, U.K. industry has suffered on both these counts. The result has been a vicious and cumulative circle of causation by which industry is increasingly unable to hold its own either overseas or home markets.

V

Any discussion of the political economy of restoring full employment must take place within the context of the actual state of the economy and of manufacturing industry, and the devastation visited on these by Mrs Thatcher's untimely and unfortunate economic experiment. It must also consider the long-term disequilibrium of the economy as a result of which, even before Mrs Thatcher, industry was at best able to grow at a very slow rate because of the balance-of-payments constraint. In addition, it is necessary to take into account the main institutional parameters within which the economy operates. The most important of these are:

- (i) More or less free trade, particularly within the Common Market.
- (ii) Free convertibility of currency and more or less free capital movements.
- (iii) A powerful trade union movement with a major influence on wages and related economic decisions. (In particular, this makes it difficult for a government to resort to the classic device of devaluation without risking inflation.)

Apart from special employment measures which a government may take with respect to the regions, youth and in other areas, the creation of full employment on a productive and permanent basis essentially requires a re-industrialisation of the country. It will be necessary to institute a massive investment programme; it is estimated that the economy will now need to grow at about 5 per cent per annum for about a decade to restore

full employment.⁴ Growth of about 3 per cent per annum would be required just to stabilise unemployment at its present level of 2.5 million. In view of the long-term record of the U.K. economy, economists on both sides of the political divide argue that such rates of expansion are not feasible within the existing institutional framework: one or other of the parameters listed above must change.

Mrs Thatcher's economic policies are basically concerned with altering the third parameter; namely the power of the unions and the labour movement. With the huge growth of money supply which has actually occurred, it is becoming even more obvious that the justification of these policies in terms of the economic doctrine of controlling inflation by controlling the money supply, is spurious. As Kaldor has rightly observed, this doctrine was always a smoke screen and the real purpose was to 'weaken the trade unions through the intensification of unemployment and through the loss of jobs, through factory closures and bankruptcies, and thereby succeed in bringing wage settlements well below the rate of inflation; that is to say to reduce real wages'. It is true that elsewhere, without a long tradition of bourgeois democracy, such an objective would have been achieved by more directly repressive methods. But the British government has had to resort to the tortuous and messy path of deflation, which, although it increases unemployment, also reduces capitalist profits.

If the government did succeed in eliminating or greatly weakening the power of the unions and of the labour movement, it could conceivably create an 'efficient' industrial economy on that basis. With a large enough cut in real wages, which it would be possible for example to achieve in such circumstances by massive devaluations without risking inflation, industry could regain its competitiveness in international markets. In addition, with tax and other incentives for the bourgeoisie, and in the new political climate, there might also be a large increase in private, including foreign, investment. Such an economy may be 'efficient' but it is not likely to have full employment: in fact a condition of its 'efficiency' may precisely be a large reserve army of the unemployed. However, although the trade union movement has recently suffered significant temporary setbacks, Mrs Thatcher is very far from success. The government policies are creating a growing and powerful resistance in all walks of life.

By contrast, the social democrats, and presumably the right wing of the Labour Party, believe that it is possible to re-industrialise Britain without altering the existing institutional framework of the economy at all. Although their economic policies have not been precisely and explicitly set out, leading social democrats, such as Roy Jenkins have indicated that these would basically consist of (a) reflation, (b) devaluation, (c) a large public investment programme on the basis of the revenues from North Sea oil and (d) an incomes policy.

Even if this whole package, including an incomes policy, were politically feasible, there are several reasons why it would be unlikely to restore full employment in the actual conditions of the economy today. First, it will be noticed that the policies are essentially the same as have been implemented by previous Labour Governments. They did not succeed in reversing the tide of de-industrialisation then, and today industry is in a far weaker condition. Consequently any significant reflation would lead to a balance of payments crisis much sooner than before. Secondly, external conditions are likely to be even more inauspicious for their success in the 1980s than they were in the 1970s—the world economy and world trade are likely to grow at a slower rate than previously. Thirdly, by the time of the next Parliament, a relatively little period of peak production of North Sea Oil will be left. A careful analysis of these policies reveals that even under reasonably favourable conditions (e.g. with respect to growth of world trade), and with a large depreciation of sterling, they are unlikely to bring unemployment down to below 3 million; they are also likely to be accompanied by a rate of inflation of 20 per cent or so.⁵

The only way British capitalism can provide full employment, whilst maintaining the present democratic order and workers' organisations, is by changing the other institutional parameters listed earlier, i.e. by abolishing free trade and free capital movements. Even then it would be an extremely difficult task. By substituting planned trade and external financial control for free trade and currency and capital movements, it would be possible to reflate the economy without running into a balance of payments crisis. This is a necessary condition for increasing employment, but, particularly in the present state of the British economy, far from being a sufficient one for restoring full employment. The state will also have to undertake itself, and induce large and small firms to undertake, a planned programme of re-industrialisation. The implementation of such a programme would require new instruments of planning both at the macro and at micro levels (e.g. planning agreements with large firms). Analysis shows that if this programme were implemented over a five-year period unemployment could be reduced to one million, and over a somewhat longer period, with the help of regional and other policies, full employment could be restored.

Reasons of space preclude a proper discussion of the planned re-industrialisation programme which a Labour Government would need to carry out.⁶ There are, however, two points on which I would like to comment. First, a programme of this type may run into serious opposition from the business community on ideological grounds even though it will generate greatly increased profits. If this led to reduced private investment or capital exports or both, the government would have to undertake more of the investment activity directly; in the end, it might also become necessary to nationalise the leading foreign multinationals operating in

this country. Secondly, contrary to the impression which is often conveyed (and not just by Sir Keith Joseph and Sam Brittan), control over imports and external financial control emphatically do not imply a so-called siege economy. The purpose of these controls would not be to improve the balance of payments, but to expand production; over the medium term, this would in fact make possible far greater imports than under free trade. (The reason for this apparent anomaly is simply that the primary determinant of imports is the level of economic activity.) This perspective should make it possible to negotiate a programme of controls with Britain's main trading partners, particularly if, as in France, there is also a left government committed to increasing output and employment.

VI

I shall now go back to the quotation at the beginning of this essay from Michael Kalecki—the great Polish Marxist Economist who is credited with having discovered the 'General Theory' independently of, and before, Keynes. Kalecki argued that full employment is not natural to capitalism; its creation and maintenance on a permanent basis would require the development of 'new social and political institutions which will reflect the increased power of the working class'. This is undoubtedly true of the U.K. economy today. Only the institution of planned foreign trade and a planned economy in the way outlined above can lead over time to full employment. These institutions will certainly reflect a significant shift in the balance of power towards working people.

Will the pursuit of full employment by the Labour Party and the Labour government be a step in the direction of socialism, or will it simply serve to make capitalism more 'efficient' and more enduring? In this connection, it is worth repeating the first paragraph of an appeal launched in Spring 1977 by a group of labour economists and political activists when unemployment had reached over a million:

Most of the major social and democratic advances which have been made in Britain since 1945 have been directly founded upon the fact that relatively full employment has prevailed for almost three decades. Upon this basis has been built a considerable development of social and community services, a notable advance of trade union organisation and influence, and a marked growth of self-confident democratic aspirations among large sections of the people.

Unless one believes that a working class, increasingly demoralised by unemployment, could spontaneously create a socialist revolution in this country in the foreseeable future, assigning priority to full employment should also advance the cause of socialism in Britain.

Thus the Labour Party must re-affirm its commitment to full employment as an overriding priority. More importantly, it must ensure that a Labour Government actually carries out this pledge and is willing to make

the major institutional changes which would be required. If Labour is, and is seen as, a party of full employment, it will not only have renewed support in the working class, but also much wider appeal.

NOTES

1. Unless otherwise indicated, the statistics cited in this paper come from, A. Singh, *U.K. Industry and the Less Developed Countries: a Long Term Structural Analysis of Trade and its Impact on the U.K. Economy*, Dept. of Applied Economics, Cambridge, March, 1981.
2. B. Moore and J. Rhodes, 'A Second Great Depression in the U.K. and its Regions – Can anything be done?', Dept. of Applied Economics, Cambridge.
3. In striking contrast, under the conservative administration, from the last quarter of 1979 to the first quarter of 1981, U.K.'s international price-cost competitiveness deteriorated sharply, which was one of the causes contributing to the contraction of the economy described in Section II. During this period not only was U.K.'s rate of inflation higher than in competitor countries, there was also a large appreciation in the exchange rate for sterling leading to a decline in cost-price competitiveness of the order of 25 per cent (measured in U.S. dollars).
4. See *Cambridge Economic Policy Review*, Vol. 7, No. 1, April 1981.
5. *Ibid.*
6. There is a large and growing literature on these issues. See for example, F. Cripps, 'Government Planning as a means to economic recovery in the U.K.', *Cambridge Journal of Economics*, 1981; S. Holland (ed.), *Beyond Capitalist Planning*, Oxford 1978; CSE London Working Group, *The Alternative Economic Strategy*, London 1980.