

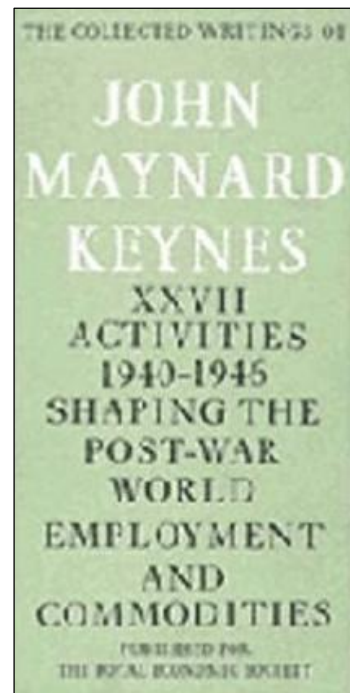
The Long Term Problem of Full Employment

J.M. Keynes, 1943*

1. It seems to be agreed today that the maintenance of a satisfactory level of employment depends on keeping total expenditure (consumption plus investment) at the optimum figure, namely that which generates a volume of incomes corresponding to what is earned by all sections of the community when employment is at the desired level.

2. At any given level and distribution of incomes the social habits and opportunities of the community, influenced (as it may be) by the form and weight of taxation and other deliberate policies and propaganda, lead them to spend a certain proportion of these incomes and to save the balance.

3. The problem of maintaining full employment is, therefore, the problem of ensuring that the scale of investment should be equal to the savings which may be expected to emerge under the above various influences when employment, and therefore incomes, are at the desired level. Let us call this the indicated level of savings.



4. After the war there are likely to ensure [sic] three phases- (i) when the inducement to invest is likely to lead, if unchecked, to a volume of investment greater than the indicated level of savings in the absence of rationing and other controls; (ii) when the urgently necessary investment is no longer greater than the indicated level of savings in conditions of freedom, but it still capable of being adjusted to the indicated level by deliberately encouraging or expediting less urgent, but nevertheless useful, investment; (iii) when investment demand is so far saturated that it cannot be brought up to the indicated level of savings without embarking upon wasteful and unnecessary enterprises.

5. It is impossible to predict with any pretence to accuracy what the indicated level of savings after the war is likely to be in the absence of rationing. We have no experience of a community such as ours in the conditions assumed, with incomes and employment steadily at or near the optimum level over a period and with the distribution of incomes such as it is likely to be after the war. It is, however, safe to say that in the earliest years investment urgently necessary will be in excess of the indicated level of savings. To be a little more precise the former (at the present level of prices) is likely to exceed £m1000 in these years and the indicated level of savings to fall short of this.

6. In the first phase, therefore, equilibrium will have to be brought about by limiting on the one hand the volume of investment by suitable controls, and on the other hand the volume of consumption by rationing and the like. Otherwise a tendency to inflation will set in. It will probably be desirable to allow consumption priority over investment except to the extent that the latter is exceptionally urgent, and, therefore, to ease off rationing and other

* in *The Collected Writings of John Maynard Keynes*, Vol. 27, London: Macmillan, 1980.

restrictions on consumption before easing off controls and licences for investment. It will be a ticklish business to maintain the two sets of controls at precisely the right tension and will require a sensitive touch and the method of trial and error operating through small changes.

7. Perhaps this first phase might last five years,-but it is anybody's guess. Sooner or later it should be possible to abandon both types of control entirely (apart from controls on foreign lending). We then enter the second phase, which is the main point of emphasis in the paper of the Economic Section. If two-thirds or three-quarters of total investment is carried out or can be influenced by public or semi-public bodies, a long-term programme of a stable character should be capable of reducing the potential range of fluctuation to much narrower limits than formerly, when a smaller volume of investment was under public control and when even this part tended to follow, rather than correct, fluctuations of investment in the strictly private sector of the economy. Moreover the proportion of investment represented by the balance of trade, which is not easily brought under short-term control, may be smaller than before. The main task should be to prevent large fluctuations by a stable long-term programme. If this is successful it should not be too difficult to offset small fluctuations by expediting or retarding some items in this long-term programme.

8. I do not believe that it is useful to try to predict the scale of this long-term programme. It will depend on the social habits and propensities of a community with a distribution of taxed income significantly different from any of which we have experience, on the nature of the tax system and on the practices and conventions of business. But perhaps one can say that it is unlikely to be less than 7 per cent or more than 20 per cent of the net national income, except under new influences, deliberate or accidental, which are not yet in sight.

9. It is still more difficult to predict the length of the second, than of the first, phase. But one might expect it to last another five or ten years and to pass insensibly into the third phase.

10. As the third phase comes into sight; the problem stressed by Sir H. Henderson begins to be pressing. It becomes necessary to encourage wise consumption and discourage saving,- and to absorb some part of the unwanted surplus by increased leisure, more holidays (which are a wonderfully good way of getting rid of money) and shorter hours.

11. Various means will be open to us with the onset of this golden age. The object will be slowly to change social practices and habits so as to reduce the indicated level of saving. Eventually depreciation funds should be almost sufficient to provide all the gross investment that is required.

12. Emphasis should be placed primarily on measures to maintain a steady level of employment and thus to prevent fluctuations. If a large fluctuation is allowed to occur, it will be difficult to find adequate offsetting measures of sufficiently quick action. This can only be done through flexible methods by means of trial and error on the basis of experience, which has still to be gained. If the authorities know quite clearly what they are trying to do and are given sufficient powers, reasonable success in the performance of the task should not be too difficult.

13. I doubt if much is to be hoped from proposals to offset unforeseen short-period fluctuations in investment by stimulating short-period changes in consumption. But I see very great attractions and practical advantage in Mr Meade's proposal for varying social security contributions according to the state of employment.

14. The second and third phases are still academic. Is it necessary at the present time for Ministers to go beyond the first phase in preparing administrative measures? The main problems of the first phase appear to be covered by various memoranda already in course of preparation. Insofar as it is useful to look ahead, I agree with Sir H. Henderson that we should be aiming at a steady long-period trend towards a reduction in the scale of net investment and an increase in the scale of consumption (or, alternatively, of leisure) but the saturation of investment is far from being in sight to-day. The immediate task is the establishment and the adjustment of a double system of control and of sensitive, flexible means for gradually relaxing these controls in the light of day-by-day experience.

I would conclude by two quotations from Sir H. Henderson's paper, which seem to me to embody much wisdom.

"Opponents of Socialism are on strong ground when they argue that the State would be unlikely in practice to run complicated industries more efficiently than they are run at present. Socialists are on strong ground when they argue that reliance on supply and demand, and the forces of market competition, as the mainspring of our economic system, produces most unsatisfactory results. Might we not conceivably find a modus vivendi for the next decade or so in an arrangement under which the State would fill the vacant post of entrepreneur-in-chief, while not interfering with the ownership or management of particular businesses, or rather only doing so on the merits of the case and not at the behests of dogma?"

"We are more likely to succeed in maintaining employment if we do not make this our sole, or even our first, aim. Perhaps employment, like happiness, will come most readily when it is not sought for its own sake. The real problem is to use our productive powers to secure the greatest human welfare. Let us start then with the human welfare, and consider what is most needed to increase it. The needs will change from time to time, they may shift, for example, from capital goods to consumers' goods and to services. Let us think in terms of organising and directing our productive resources, so as to meet these changing needs, and we shall be less likely to waste them."