

Conditions For Full Employment

Centre For
Policy Studies

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I

I seek common ground today in pursuit of a common objective: a substantial and lasting improvement in the bleak prospects for employment. Members of all parties demand an improvement. But rhetoric and sympathy will not help to create jobs or generate growth

This talk is a contribution to the debate on the underlying causes of unemployment for which the Manpower Services Commission has called. Analysis and understanding are prerequisites for humane and effective policies. Without them, I fear, that the economic and social consequences will be grave. Some of the remedies currently discussed are not merely shallow; they would raise unemployment to new peaks.

Since I have been accused of advocating or wanting unemployment, let me emphasise that there is nothing 'inevitable' about high unemployment. Government can create conditions which are likely to lead to lower unemployment. That is our intent. The quantity of unemployment in five years time depends on our policies, on their impact on the labour market, on human adaptability and readiness to react to changing circumstances. It depends on us and not on our stars, or on the gloomy predictions of Cambridge economists.

I aim to explain the processes by which high employment comes about; the reasons for the present amount of unemployment with the despair, indignity and impoverishment that — in many cases — accompanies it; the policies, understanding and attitudes necessary to restore full — or fuller — employment; and the fallacies in the false remedies now canvassed.

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Present attitudes to unemployment stem from the 1930s, when the conditions of the unemployed were very different.

The thirties were improving years for most of the people, but miserable years for a large, though falling, minority — the unemployed. As a result unemployment became the nightmare of the collective conscience between the Wars.

The determination, understandable and right, never to allow the recurrence of such miseries dominated the post-war priorities of the wartime Coalition government.

It was thought that the way to abolish unemployment was known: maintain high and stable levels of aggregate demand: iron out regional disparities, while speeding up structural change. Such policies would, simultaneously, ensure high growth and smooth out cyclical crises. What more could be wished?

The Coalition's commitment was not to 'full' employment but to a "high and stable level of employment", and even this was made conditional upon economic sense and good management. However, the pledge was translated into one of full employment and Beveridge's Report "Full Employment in a Free Society", though also full of sensible caveats, reinforced expectations.

For nearly a generation there was full, indeed overfull, employment — overfull in that there was a nearly continuous shortage of labour because demand was mostly kept artificially high. These were years of declining British competitiveness and discouragement to enterprise and effort, of an expanding state sector and a shrinking, increasingly regulated private sector. We did not manage, as Germany and Japan did, to combine full employment with competitiveness and negligible inflation.

The instrument used since the War to achieve full employment has been demand management — i.e., maintaining total spending at a level to provide work for all, regardless of the real supply and demand for labour and of wages and output. The conviction that this was sensible is no longer so widespread.

Some economists had continually warned that neo-Keynesian demand management — not a product of Keynes himself — was inherently inflationary. And world conditions made things more difficult. Increasingly severe peaks of inflation were succeeded by increasingly higher unemployment.

In 1976-77, the Labour Government belatedly recognised it could not reflate the economy when inflation was raging, and

because the IMF would not have extended our credit if it had. Labour jettisoned the neo-Keynesian 'solution'. Full employment policy was quietly killed off.

Expressing the new orthodoxy in a passage reminiscent of Milton Friedman, Mr Callaghan told the TUC in 1976: "We used to think you could just spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you, in all candour, that the option no longer exists, and that insofar as it ever did exist, it only worked by injecting bigger doses of inflation into the economy followed by higher levels of unemployment as the next step. That is the history of the past twenty years". Sir Harold Wilson summed up the new wisdom when he said that: "Inflation is the father and mother of unemployment". Yet, when I expressed the same truths at Preston two years earlier, I was accused by Michael Foot and Denis Healey of deliberately seeking unemployment. Labour politicians rejected with outrage my predictions that their policies of restraining unemployment by increased government spending would fail and that they would preside over record levels of post-War unemployment.

Nevertheless — however patchily and imperfectly — Mr Callaghan and the Labour Party have accepted that 'full employment' cannot be obtained by government spending and deficit finance.

But neither Mr Callaghan nor the Labour government have any inkling of the conditions necessary to restore full employment. Mr Callaghan has frankly admitted "We need more jobs, but I don't know the answer". He won't find it in socialism.

The Labour Party, born as the political wing of organised labour, claiming to protect the working man from the uncertainties of economic life, is intellectually bankrupt on employment. It has only subsidies and make-work schemes to offer and these, it frankly admits, are merely palliatives.

I am not suggesting that the high unemployment since 1974 could have been altogether avoided. To a significant extent, it is an inevitable side-effect — partly of world conditions, mainly of inflation and of restraining money supply in order to master inflation.

The increased monetary demand which leads to inflation causes unsustainable growth of most sectors of the economy. As a result, there are more jobs. But the jobs created last only as

long as the monetary stimulus is maintained and accelerated, and the monetary stimulus cannot be maintained without intensifying inflation. So the monetary stimulus has to be dispersed by decelerating the growth of money supply. As this occurs, malinvestment made under the hallucination of easy money becomes apparent — branch factories, opened during booms in the regions, are particularly vulnerable — and resources are readjusted according to the underlying conditions of supply and demand.

This painful but unavoidable process constitutes the depression. But the process embodies a recuperative element: the labour and resources shed by some industries are reallocated to expanding industries, to infant businesses and to new economic growth — provided they are not obstructed.

But this unemployment has certainly been worse and will continue higher than need be because of widespread ignorance of, and refusal to, face the realities that lie behind jobs and growth.

III

Full employment and rising living standards are not isolated phenomena. They are functions of the economy and of society as a whole. Growth and full employment, like happiness, are by-products. If pursued directly as prime objectives, they elude capture. Full employment — or nearly full — and rising living standards will provide themselves — if we let them. The market economy with safety nets has a stronger propensity towards full employment at high and rising living standards than an economy where government decisions constantly replace market decisions.

But a market economy means complexity of human relationships, adapting to change: it is flexibility, spontaneous, endless adaptation and innovation that reconciles the two great forces, demand and supply — to yield constantly rising living standards. Repress the adaptation and you diminish the degree to which demand calls forth supply, and supply generates demand — restricting in the process the fullness of employment and the standard of living alike. Full employment and rising living standards are by-products of adaptability.

And it is futile to suppose that change can be resisted in a Britain which trades with the world. If change is not allowed to take place by degrees, it will force itself by convulsion.

Every human being is a consumer: most are also producers, of services as well as goods — or potential or former producers. The consumers vary in number, tastes and effective demand. There are more consumers than producers. As the capacity to produce increases, so does the scope for consumption. Since God sends with every pair of hands a mouth and a whole range of actual and potential appetites, including voluntary leisure, the population as consumers will keep occupied the population as producers provided, of course, that the financial system is so managed as to allow this to happen.

The reverse is *not* true; producers will not satisfy consumers by producing the same pattern of goods and services. Consumers change their demands because of changing income, fashion, awareness, taste, invention, innovation, advertising and cannot be prevented from changing except by the coercion practised in socialist societies.

The trading sector of our economy has a double function. It has to trade effectively enough at home and abroad to buy the raw materials, as well as the goods and services that we need and want from abroad.

But it is also the profit-making part of the trading sector which provides the source of most of the taxes for government services. So jobs in the government sector, as well as jobs in the private, depend on the profitability and competitiveness of private enterprise. Overload the private sector by placing a top-heavy government sector on its back and the long-term job prospects in both will dwindle. We shall not have better hospital services, for instance, if we ignore this relationship.

Conversely, the more profitably competitive the trading sector, the more jobs it will provide in a growing number of firms — and the more government sector jobs we can afford.

The danger lies in treating either sector as if its function was to employ rather than to satisfy customers at home and abroad. Paradoxically, insofar as we focus on people as workers, rather than as consumers, we shall destroy jobs, because consumers here and abroad will buy from more competitive sources overseas. If we focus on consumers — both at home and abroad — then jobs will multiply.

Profits are essential to jobs and prosperity. Profit means that costs are covered, including replacing capital, with something

over to reward the risk-takers, the investors. The risk-takers, the investors, now are increasingly the wage and salary earners who, between them, own the pension funds.

Without profit, firms and jobs either vanish or are kept going by subsidies from more efficient firms — subsidies that could have been used to reduce taxes or to provide government services.

IV

Against this background we can consider employment and unemployment. The more profitably competitive is our trading base, the better paid our people will be, the more desired government services we can afford and the nearer to full employment we shall get.

Profitable competitiveness depends on what is provided, how it is provided and price.

The market creates the framework: but it is people who act within it. The endless adaptation of production to consumption, of supply to demand, is not achieved automatically. Resources do not allocate themselves: they have to be organised by people, above all by the entrepreneur — the individual, self-employed or in small, medium or large business, who perceives wants and organises to meet them — labour, land, machinery, money, materials, etc. Without the entrepreneur demand and supply remain unrelated.

Entrepreneurship is a skill, a talent — and a great leveller. Not everyone has it. Some managers are entrepreneurial. Some business heads are not. Entrepreneurs are not heroes. They are no better than anyone else. But they are indispensable.

In socialist countries it has to be exercised by politicians or bureaucrats who are usually inefficient or corrupt or both.

Yet there is in Britain hostility to enterprise and the entrepreneur. His role and function are scarcely understood. He is viciously taxed on earnings and capital: discouraged by regulations and controls: hampered by legislation and bureaucracy: may be obstructed by union Luddism: and is crowded-out by government spending, which uses the money that the private sector needs for expansion.

Some of the damage has been by a deliberate attack upon the making of wealth: some by well-meant but naive efforts to

eliminate imperfections. The combination of government overspending, overtaxing, overborrowing and over-regulating destroys jobs. Socialists, dedicated to full employment, have been busily discouraging the enterprise and adaptability on which it rests.

The results are stark. Medium sized and small firms have, in some cases, been discouraged from expanding. What is left after severe inflation on top of heavy income and capital taxation is not enough to reward the risk. Some entrepreneurs carry on: some refuse opportunities: some opt out: some emigrate to where the role of the wealth-creator is still understood and rewarded.

V

The entrepreneur's motivation matters. So does the motivation of people in the labour market which brings together the supply of and demand for skills.

We must try to understand how it works; and remove obstacles in a way that will cause least disruption and hardship. But in Britain it has become customary to look to government and to its agencies as a source and guarantor of employment. And politicians do not often confess how limited are their powers.

The labour market is preferable to the alternative — clumsy, coercive state direction.

Yet that is the trend with endless series of pay policies, norms and 'guidelines', with government encouraging the unions to coerce the workforce, with government directly employing a third of the labour force, with Ministers brandishing planning agreements and industrial 'strategies'. We are moving away from a spontaneous self-adjusting market and towards a corporate state in which people are allocated jobs by political, bureaucratic or trades union elites.

And when things go wrong as a result of interventions, the failures are used as the pretext for yet further intervention.

That way does not lead to full employment in a free society: but a labour market, given favourable conditions — including an adequate, but not excessive growth in money supply — inclines naturally towards equilibrium between the supply of and the demand for labour, via the balancing factor of flexible wage

rates, while maximising choice for employer and employee. The process *tends* — though there will always be some rigidities and distortions to mar the ideal — to provide about as many jobs as there are people wanting jobs. It is a process of endless change and adaptation, an integral part of a wider process which we call the market economy, involving a web of human relations more complex, more sophisticated and more sensitive than anything achieved by the most conscientious economic planners.

We have seen how the market adjusts itself to a jump in the supply of labour. Since the War, several million working wives — as well as many immigrants — were absorbed into jobs without action by government, without most people even being aware.

The buoyancy and effectiveness of the labour market depend crucially on human adaptability to change. Economic problems cannot be solved by politicians without adaptability by individuals. In a competitive world changes in the pattern of our industry and services are bound to come. What counts is the quality of our response: the responses of workers, of managers, and entrepreneurs. Preparedness to meet change — by new skills, different hours, moving house, new responsibilities, new jobs, revising plans and ambitions, perhaps starting a business — is essential if we are to reach higher employment and raise living standards.

VI

If a labour market is to maximise jobs wage negotiators must be free to determine pay on the twin bases of the supply of and the demand for skills and effort on the one hand, and of the demand for and profitability of the goods and services they produce on the other.

Serious discussion of employment and unemployment is meaningless without considering profitability and unit labour costs and the gap between the net rewards for working and for not working. These factors dominate the decisions of the employer considering whether to recruit and the employee whether to be recruited.

Flexibility in wage negotiations enables realistic and responsible negotiators to establish a wage rate for a particular skill or contribution.

Wage flexibility is the ally of full employment. If unions push wages too high, demand for labour will be reduced because customers won't buy. Similarly, wages which are too low — perhaps as a result of incomes policy or taxes — will fail to attract sufficient labour.

In those parts of the economy where there is labour shortage, wages are too low or the gap between net wages and net benefits is too low. In other parts, wages relative to output per man are remorselessly pricing people out of jobs.

It is in the interests of everyone to allow the supply of and demand for skills or effort to be reflected in the price of labour. Workers can price themselves — or be priced by their negotiators — into as well as out of work.

I will repeat that. Workers can price themselves — or be priced by their negotiators — into as well as out of work.

Some shopfloor negotiators implicitly recognise this truth by not pushing to implement large national wage settlements in full because they know that the consequences would be unemployment for some of their members.

Some economists say wages are not flexible because unions won't allow downward adjustments. This argument is specious. Unions can prevent a downward adjustment in *money* terms — at a cost in jobs — but cannot prevent a downward adjustment in real terms, caused by taxation and/or inflation.

The key factor for employers is unit labour cost, a compound of pay and productivity. Productivity is as important as pay: both enter into unit labour costs.

VII

We must, therefore, encourage enterprise and adaptability if we are to approach full employment. Alas, we are far from doing so.

Inflation, high government spending and borrowing; high personal taxation on income and capital; price, pay, dividend, rent controls; untaxed benefits; non-productive jobs with attractive perks; over-regulation; Luddism: all cumulatively suppress enterprise and adaptability.

Council housing policy and government destruction of private rented housing discourage mobility. Effective minimum

wage norms under the Equal Opportunities and Employment Protection Acts price some least skilled and least qualified workers — the very workers meant to benefit — out of work. Price controls squeeze out jobs and add a further hazard to investment and expansion. Regulations and their bureaucracies constantly harass and divert management.

These impediments to an efficient labour market help determine the rate of unemployment, which reflects the balance of the factors encouraging and discouraging the creation and the filling of jobs. Taken together, they raise unemployment far beyond what it would otherwise be.

VIII

Not that the monthly statistics of registered unemployed give an accurate picture of the labour market.

Despite all the obstacles, there are about nine million job changes a year. Only half appear in the unemployment figures. The rest are made without even notifying the state. In June this year, for example, 369,000 registered as unemployed and 381,000 left the register on taking jobs. Yet job vacancies get nothing like the same attention as unemployed. Employers register only a third either because they know that for many vacancies the Job Centres will have no candidates or prefer personal recommendation, advertisements or an agency.

Total, as opposed to registered, vacancies should be more publicised. They emphasise the persistent co-existence of high unemployment and high job vacancies in the country and even often in the same area. And this, in turn, underlines the 'real' factors determining employment which I have mentioned.

Moreover, there is now a sub-economy of moonlighting. Many in and out of work draw income from untaxed jobs.

When taxes are high, moonlighting is a temptation to people in work as well as unemployed — and it suits people as employers.

Comparing total vacancies of 600,000 with 1.3 million registered unemployed and recognising that while most unemployed are desperately seeking work, a minority — including some moonlighting — is not, the national gap between job-seekers and job vacancies is not huge. Only a small increase

in demand for labour would run us into familiar labour bottlenecks unless and until we remove the distortions discouraging people from making their skills and efforts available.

But small heed is paid to the real number of vacancies or to the distinction between unemployed desperately seeking work and others not vigorously seeking work.

The image of the 1930s glosses over the differences between then and now and stokes a mixture of real and synthetic outrage.

Some unemployment — in the sense of changing jobs whether or not it means going onto the register — cannot be avoided. Demand shifts — for all manner of reasons — and supply has to adapt. The same man who as worker loses his job because consumption changes, as consumer helps squeeze others out of work by changes in what he buys.

There is special sympathy for the unemployed young. But the duration of their unemployment is less than for any other group. They suffer less financial hardship than does a family man. Nevertheless, unemployment has risen faster for the young than for others, perhaps because they are no longer seen as labour that is versatile and good value for money. But this is partly because employers must now pay the full rate at 18, including full national insurance contribution, and partly because self-discipline, numeracy and literacy have deteriorated. Barriers have thus been erected to the employment of the young.

IX

There is damage to living standards and jobs not only from our tendency to scorn entrepreneurs and discourage adaptability, enterprise and effort but also by lack of co-operation between some managements and the shopfloor.

Economic progress has come by using profit to increase investment, thus raising the output of labour, reducing costs and raising earnings. This beneficent process, opening up markets and creating more jobs than it eliminates, depends upon co-operation between management and workforce.

It is management's task to win co-operation from the workforce by convincing them of the facts of economic life.

The larger the unit, the stiffer the task of management. Management's task has been made hard by socialist and trade union mythology — as described by Geoffrey Howe in his 7 August 1978 speech: it is made harder every time militancy has won and/or governments have rescued economic suicides. Some managements have succeeded. Some have, perhaps, not tried or tried ineffectively. Much management has been shell-shocked by the shift of power — without responsibility — to the shopfloor and their own deteriorating economic condition.

While some trade unions and some shop stewards co-operate admirably with management, others do not. Some, particularly in the nationalised industries, have challenged, as with Sunday post, the prerogative of management to manage. Most firms contain no dramas but manifest a pervasive low level of productivity.

Management quality may vary from the outstanding to the bad, but it is still true that the shopfloor can, and often does, block efforts to increase productivity.

Some unions have used their strength to squeeze profits and to impose overmanning via restrictive labour practices, thus both reducing the investment that would otherwise have taken place and keeping real pay lower, costs higher and, therefore, markets smaller and jobs fewer than they would otherwise have been.

Overmanning is not always or only on the shopfloor. It permeates much clerical and administrative work. Overmanning and restrictive labour practices are neither capitalist nor socialist. They are especially widespread and bad in Britain. They *appear* to be in the interests of those in employment, yet by raising unit labour costs, thus blunting our competitiveness, and reducing profit, they reduce both the number of jobs and their pay. Overmanning is wrongly perceived as a net augments of jobs when it is, in fact, a net destroyer of jobs.

The charge is not that some trades unions and shop stewards seek the interest of their members: that is their function. Some unions and some shop stewards — perhaps, in some cases, where management has not tried to convince them of the consequences but also in some cases where they have — seek their members' interests in so unenlightened a way as to damage the interests of their members and the whole country.

Trade unions can improve the lot of limited groups or individuals for limited periods, but the general effect of what I have described is to depress living standards and to reduce

employment, compared to what they could otherwise be. Can trades union officials and shop stewards — or managements — be happy that we are now almost the least productive and the lowest paid of industrial nations — and that by being less competitive, we generate fewer jobs?

Of course, if people wish to overman, they are free to try to do so. People may prefer less prosperity and more unemployment as the price of overmanning rather than adapt. We politicians must explain the consequences.

X

Socialists have made the task harder by teaching the wrong lessons: that profits are at the expense of the workers: that governments can cure all economic problems: that producers matter more than consumers: that employers and workers have conflicting interests.

Many people may think that employers and workers have conflicting interests. But their common interest is how to increase the amount available to be divided. Unless firms are competitive and profitable, the wages and employment of the workers are at risk.

After all, when you consider the economy as a whole, there is a whole complex of common interests. The worker as consumer wants low prices; the worker as investor, as beneficiary of occupational pension funds, wants high dividends; the worker as job-seeker wants high profits, yielding extra jobs.

Sadly, Labour and trades union mythology has increasingly diverged from realities. Class antagonism has been fomented in some sections of Labour, reflecting the hostility of many socialist academics to a free society. Given that mood, class struggle, indeed struggle, becomes a good in itself, intensifying restrictive and obstructive acts by group of workers, opposition to change, to technological advance, even to anti-pilfering devices. And the result is to discourage and to obstruct the creation of new jobs.

XI

We cannot over-ride considerations of efficiency in the name of convenience, and yet demand higher living standards. This is an inherent contradiction of socialism. It has now reached a magnitude which prevents it being ignored.

And almost everyone is worse off for it. This has only recently become apparent. First, some groups of workers exploited their strength to gain extra buying power at the expense of other workers who lost their jobs and the rest of the population whose real income fell. The immediate losers were the professional and managerial classes, owners of fixed interest stocks and securities, institutional investors, and groups of low-paid workers, many of them immigrants.

Union pressure plus expanding government spending have squeezed the share of real profits in national income and thus cut the scope for expansion and investment.

But now the chickens are coming home to roost. Almost all trades unionists, irrespective of their industrial muscle, are poorer than their fellows in other industrialised countries, poorer than they could be. The relative decline has been sharp. The buying power and living standards of the average British family and elderly is now well below that of the average West European equivalent. Perhaps relative decline doesn't matter. But continuing relative decline based on cumulatively increasing losses of home and world markets leads, inevitably, albeit delayed by North Sea oil, to absolute decline — that is, a deteriorating rather than improving standard of living — slipping back as well as slipping behind.

Moreover, the union movement itself, though apparently more powerful than ever before, has less power than it had over the shopfloor. Unions can decreasingly honour agreements made by them in good faith. Union leaders with a socialist government have been gaining control over politicians but losing control over their own shop stewards. Conversely, in many cases the shopfloor and the powerful shop steward groupings, misled by Labour mythology that they must defeat the employer, are able to obstruct and restrict. But the real employer turns out to be the customer, and they are not advancing their own and their fellow-unionists' longer-term interests as they could if they helped instead of obstructed profitable competitiveness.

XII

What are Labour's proposals for returning to full or nearly full employment? They give us no analysis of how jobs come into existence. They express horror and outrage about unemployment. They pin their hopes on a revival of world trade. The Prime Minister has confessed his lack of understanding of what otherwise can be done.

In this vacuum five evasions of the right policies are canvassed in the Labour Party: the industrial strategy; job-creation; work-sharing; protection; socialism.

The industrial strategy depends upon the government identifying 'winners' and backing them with the public's money. It is flawed because group pressures force government to back losers rather than winners. Moreover, government cannot identify winners in advance. Anyway, winners do not need tax-payers' money — and losers waste it.

The second evasion, job-creation, is based on a fundamental misunderstanding. Work is the creation of value by service to the consumer. Once the concept of a job is divorced from its social function of creating value by satisfying wants, a job is transformed from a factor of production into an article of consumption something to be given for the recipient's benefit — and given at the expense of others. In consequence, the whole economic nexus on which full employment and rising living standards depend is distorted and disrupted.

The use of emotive terms clouds the issue. Those who shout most about the 'right to work' are silent over the concomitant duty to work productively and co-operatively.

Productivity in the service of the customer — measured by the customer's readiness to buy the product at a profit — is the basis of employment; those who undermine it, destroy employment.

This truth is not always understood, so government spending on job-rescue and job-creation may sound plausible. Some jobs not justified in the service of the customer can be sustained for a time by subsidies. But subsidies do not come out of thin air! They can be created only by yet more taxing, borrowing and/or printing money — at the expense of others, reducing buying power and, therefore, jobs elsewhere.

The whole process of make-work, job-rescue, job-creation destroys jobs. Whitehall admits one job destroyed for every two

jobs created: I argue that it is at least one for one. You cannot save the job of Peter without sacking Paul. True, Peter is visible and identified — and has a vote. Paul is invisible and unidentified because no one knows which job will be destroyed, by the extra taxing, borrowing, printing or which orders lost in unsubsidised competitors. But Paul is real. His job is destroyed so that Peter's job can be saved. We need a statue to the 'unknown unemployed' whose job is destroyed by government job-creation.

Job-saving and job-creation are described by the Prime Minister as 'palliatives'. But they are worse than that. They not only destroy as many jobs as they claim to rescue. They teach the wrong lesson — that jobs come from government and not from consumers. They worsen our bane — overmanning — they back losers at the expense of winners.

The third fashionable evasion is work-sharing. If wages were to be reduced proportionately, unit labour costs would remain unchanged, and some extra workers could be employed. But those who propose shorter hours do not intend wages to be cut proportionately. They insist on raising unit labour costs. Yet to increase unit labour costs would not only not lead to more people being employed but price some workers elsewhere out of jobs and add to the number of unemployed.

The fourth evasion increasingly paraded is protection. We must build up our competitiveness, it is said, behind a tariff wall. But who will become more competitive if protected from fair competition? And will other countries permit us to protect without retaliation? (Dumping is not fair competition).

No, attempts to preserve overmanned British business with government subsidies behind a tariff wall will produce a sluggish and ossified economy with bleak prospects for jobs, and a less and less free society, since that is how a siege society is.

A small minority hankers after full-blooded socialism. The assertion is that there is no unemployment in socialist societies. Nor is there unemployment in a prison. The Russians pay their unemployment benefit on the job: and they have police control of movement. Any society that adopts these techniques can control its visible unemployment. But you cannot achieve the Russian answer without the Russian methods.

Another small minority hankers after half-blooded socialism, with yet more nationalisation plus planning agreements with any large firms left in the private sector. There would then be

even less notice taken of the customer — domestic or overseas. Poverty and unemployment would grow rapidly as we became less and less competitive.

XIII

One panacea and one fear we can dismiss. The panacea is that more investment is *all* we need. Investment is a by-product of serving the consumer. If profitable competitiveness can be expected from it, investment will occur. If, because of overmanning, restrictive labour practices, inadequate market, price control, inflation, disincentive taxation or any other combination of reasons, no reward commensurate with the risk is likely, investment will not occur.

We have invested not much less a proportion of our national income as have on average our rivals — but we have much less benefit from it, partly because the shopfloor has too often insisted on overmanning.

The fear is that technical advance, which saves labour, necessarily increases unemployment. The history of the last 200 years, packed with labour-saving inventions, demonstrates the error. There is not a fixed amount of work to be done. There is a limitless demand for varying combinations of goods, services and voluntary leisure. Productivity growth increases not decreases jobs by increasing the number of people who can afford the product and by sparing resources to provide other individual wants, including voluntary leisure.

Even the imminent pervasiveness of the microprocessor should, if we adapt ourselves, enable us to reach higher living standards with less work. We may reach the four-day week or the forty-week year at rising standards of living and choice, but only if we improve our productivity enough.

XIV

The Prime Minister has openly confessed that he doesn't know what to do about unemployment. Socialism focuses on state action. But the state can only create jobs on the back of a thriving, profitable, competitive trading base. That thriving,

profitable, competitive trading base can only be created by myriads of individuals, entrepreneurs, managers, workers, each striving to serve his own and his family's interests. It is for the state to create a framework — of lower taxes, stiff competition, adequate but not excessive regulation and a healthier relationship than now between net earnings and the net benefits of the safety net — to harness that self-interest to the national interest.

Entrepreneurs have to bear the burden of failure — and more ventures fail than succeed. It is not possible to have more jobs and more wealth nationally without many individuals — those who take risks successfully — becoming wealthy. Perhaps socialists hate personal wealth more than they hate unemployment.

Only lack of understanding, coupled with shallow pretensions, can explain how a society obsessed with job security and with unemployment should have created conditions so inimical to the adaptation and profitable competitiveness needed for full or nearly-full employment.

Let me re-state as simply as possible a large element which has been ignored of the truth. Jobs occur, if allowed — jobs occur, if allowed. That is, the essence of it. They occur when people want the product of labour, the means exist to pay for it and the unit labour cost allows production at a price that attracts the consumer and yields a profit to the risk-takers. The production in turn recreates the means of payment. So long as these imperatives are disregarded the attempt to 'fight unemployment' and create jobs is like that of a man trapped in a bog: the more he struggles, the deeper he sinks.

We have high unemployment and will have higher and higher unemployment because many of our policies and attitudes, however well-intentioned, prevent jobs occurring or prevent the jobs that do occur from being filled.

We can recover more of our home market and win more world trade if we encourage instead of discourage entrepreneurs, the job-creators, the risk-takers and, if management wins the co-operation of workers in pursuit of service to the customer at home, both in the trading and the government sector, and abroad.

What is essential is to convince everyone that the real interests of the shopfloor — in jobs and living standards — lie in serving the consumer; and that, therefore, less tax at all levels, including

that on the successful entrepreneur, and more co-operation between management and workers to increase productivity are essential. This convincing cannot be done by politicians alone. Managements can explain far more vividly and systematically than can politicians.

XV

How will everyone agree to what is needed to allow jobs to increase? I will tell you how. When enough people start putting the relevant questions and making the relevant comments.

Politicians, academics, commentators, trade union officials and shop stewards who talk about unemployment should be cross-examined on the degrees to which they are ready first, to encourage job-creation by cutting marginal rates of tax at *all* levels of income and, secondly, to seek profitable competitiveness by co-operation.

Those who demand high direct taxes on potential job-creators, and protect overmanning and restrictive labour practices that price existing jobs out and stop new jobs being created, should be exposed to ridicule if they complain about unemployment.

It is informed public opinion that will change attitudes so that the ignorance, shallowness and occasional humbug that sometimes parade to-day as compassion are replaced by understanding and constructive action.

It has become widely realised that people can price themselves, or be priced by their negotiators, out of jobs. This understanding is an advance. What is now needed is the recognition that people can price themselves, or be priced by their negotiators, into jobs too — both by moderating pay claims and by increasing productivity.

In so many ways we have encouraged a passive attitude to jobs. There is a pervasive hostility in schools, in universities and even in polytechnics, taught by some academics, and the media, to the enterprise and adaptability from which jobs and prosperity flow. Jobs are seen as flowing from the government, not from individual initiatives and effort. This is totally to misunderstand the truth. Of course, government has a role and so do unions.

Governments can help hold the ring, provide infrastructure, maintain a stable currency, a framework of laws, implementation of law and order, provision of a safety net, defence of property rights and all other rights involved in the economic process. Unions can help by reconciling the narrower interests of their members with the broader interests of the economy on which, in the last analysis, their members' interests depend. As we know, things have not been quite like this.

Let us not call the intentions of anyone into question, but seek the causes in failures of understanding and in the clash between particular and general interests.

Perhaps current paradoxes will stimulate greater understanding. I seek to-day to contribute towards it. Understanding and co-operation will produce more jobs and better jobs. Ignorance and conflict, no matter how powerful the rhetoric, will produce more unemployment and decline.

It is mad to recognise that we have high unemployment plus much concealed unemployment in overmanning and yet to discourage the job-creators who are the entrepreneurs. It is mad to allow in public debate politicians, commentators and trades union officials and shop stewards to get away with ignoring the real sources both of jobs and of rising living standards.

In no other Western country, I believe, would a politician need to explain the realities set out in this talk. They would be too widely understood to need articulating. But here Labour and trades union mythology with their emphasis on class struggle, have so indoctrinated their followers against profit, earned in competition, against co-operation with management in the service of the customer, indeed against recognition of the supremacy of the customer, against the link between productivity and earnings, against the making of wealth by the successful entrepreneurship that creates jobs, that it is hard even for those Labour Ministers who would agree with all that I have said to carry through the necessary policies.

Full employment is not in the gift of governments. It should not be promised and it cannot be provided. The way to it can be explained and facilitated. Governments have their part to play in enabling it to happen. But for full employment to happen involves adaptability and co-operation by people. The first essential is understanding.