



2ND EDITION

W. H. HUTT

The Theory of Idle Resources

Introduction by Hunter Lewis

THE THEORY OF
IDLE RESOURCES

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IDLE RESOURCES

W. H. HUTT



Second Edition

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CONTENTS



Introduction	vii
Preface	xiv
I Definition of Idleness	I
<i>Appendix: On Definitions</i>	10
II Valueless Resources	12
III Pseudo-Idleness	22
IV Pseudo-Idleness in Labor	31
V Preferred Idleness	38
VI Irrational Preferred Idleness	45
VII Participating Idleness	52
VIII Participating Idleness in Labor	58
IX Enforced Idleness	72
X Withheld Capacity	78
<i>Appendix: On the Conceptions of “Collusive” and “Natural” Monopolies</i>	93
XI Strike Idleness and Aggressive Idleness	96
XII Conclusion	102
Index	107

INTRODUCTION



GENIUS DOES NOT always announce itself. This was especially true of William H. Hutt. There was nothing about him to attract attention. He was born in London of working class parents, earned a bachelor's degree in economics from The London School of Economics in 1924, worked for a London publishing firm, migrated to South Africa where he lectured obscurely in economics, before eventually retiring and moving to the U.S. in 1965. He was slight in frame and modest in manner, never pushing, always delighted to see the triumphs of others. He identified himself as a classical economist, not a member of any contemporary group or movement—how easy indeed to overlook him, but what a mistake to do so.

Hutt's mind was made for logic. It could see a logical problem from every side, draw every distinction and nuance, then penetrate right to the bottom of it. No fallacy was safe from him and, without being the least combative, he never flinched from telling the unvarnished truth.

The history of modern economics is full of destructive fallacies, beginning with the mercantilists, continuing through Karl Marx, and culminating with John Maynard Keynes. These false ideas have impoverished billions of people and caused no end of needless suffering. When Keynes published his *magnum opus*, *The General Theory of Employment, Interest, and Money* in 1936, a potpourri of fallacies supported by obscurity, shifting definitions, and other rhetorical tricks, many economists criticized it privately, but very few did so publicly. Why? Because Keynes was an intimidating figure, the best known economist in the world, a master publicist and polemicist, the editor of *The Economic Journal*, an essential venue for English speaking economists.

In the Preface to *The Theory of Idle Resources*, completed a year after Keynes's *General Theory* appeared, and published two years later in 1939,

Hutt says forthrightly: “I have been wisely advised not to touch on any of the major controversies which his contribution [Keynes’s *General Theory*] has aroused.”¹ But, then, with laser-like logic, he proceeds to demolish some of the most important intellectual props for Keynes’s *Theory*. Moreover, he does so, as he says, “as far as possible, in a non-technical way” so that “the reader who is unacquainted with the economic textbooks may follow my reasoning from point to point and himself decide on its validity.”²

Keynes’s argument may be simplified as follows. Full employment should be our goal. The market system will not get us there; it requires government help as well as guidance. This means, in practice, that government will continually print money, in order to reduce interest rates, ultimately to zero³, and also borrow and spend as needed. Booms are good, even economic bubbles are acceptable. Recession and bust must be avoided at all cost. As Keynes wrote: “The right remedy for the trade cycle is not to be found in abolishing booms and thus keeping us permanently in a semi-slump; but in abolishing slumps and thus keeping us permanently in a quasi-boom.”⁴

In a variety of books and articles, Hutt pointed out the absurdity of this. One cannot create wealth simply by printing more money or by borrowing and spending funds which can never be repaid. Moreover, the real source of unemployment is some disturbance in the price and profit system. Government cannot possibly help matters by intervening in ways which further distort and disturb that system.

In his *Theory of Idle Resources*, Hutt deconstructs even the initial premise of Keynes’s thinking, that we should want a permanent condition of full employment. Not only is full employment not definable; it is not even desirable. A moment’s thought will show this to be true. To grow, an economy must change. To change, assets and workers must be shifted from where they are less needed (less productive) to where they are more needed (more productive). These shifts will inevitably produce temporary unemployment. If there had never been unemployment, and thus no economic change, we would all still be living in caves, and there

1 William H. Hutt, *The Theory of Idle Resources*, p. xiv.

2 Ibid., p. xv.

3 John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (Amherst, N.Y.: Prometheus Books, 1997), p. 220.

4 Ibid., p. 322.

would be far fewer of us, because hunting and gathering would only support a small fraction of the present population.

This insight is not original to Hutt. The economic writer Henry Hazlitt, a friend of Hutt's, found similar observations in a paper written by John Stuart Mill during 1829–30 when he was age twenty-four, and collected in his *Essays on Some Unsettled Questions of Political Economy*. Mill's paper completely refutes Keynes's false contention that "classical" economists simply assumed that there would always be "full employment." But Hutt takes the examination of unemployment much further than the pioneering Mill. Indeed, he does not just examine unemployment. He examines unemployment as part of the larger phenomenon of unused or idle productive resources, including land, plant, equipment, and money as well as workers.

Hutt's careful reasoning demonstrates, through a variety of illustration, that we cannot just lump together (and falsely quantify) all the complexities of human choice and action working within a closely coordinated price and profit system. What looks like non-productive idleness may actually be very productive, indeed essential to the smooth working of the system. Is it more productive for a highly trained but unemployed engineer to bag groceries for pay or to invest time without pay in looking for an engineering job? If he or she took the grocery bagging job, Keynes would presumably be satisfied; we would be closer to full employment. But the economy would clearly not be more productive, which it must be to create new jobs. We should also keep in mind that an employment agency employee job searching for the engineer would be considered gainfully "employed," while the engineer doing the same work would still be "unemployed."

This brings us to Hutt's crucial concept of sub-optimal employment, not fully worked out in this book, but a crucial contribution to economic thought. Government intervention to stimulate the economy and increase employment not only reduces employment over the long run. It also creates an enormous amount of "sub-optimal employment," which means that it leaves people unable to find the work for which they are best suited.

A simple example of this may be drawn from the U.S. housing bubble that burst in 2007–2008. For the period 2002–2008, out-of-control Federal Reserve money printing and a host of other government policies and programs blew up the bubble. Millions of people

not especially suited for construction were pulled into this sector and put to work building homes that, in the end, no one wanted. When the bubble burst, even the most highly trained construction workers suddenly found themselves unable to get any construction work at all.

The underlying problem here is that, contra Keynes, we do not want employment for its own sake. It is a means, not an end. What we want is a productive economy, and government stimulus gives us, as Henry Hazlitt has said, “unbalanced production, misdirected production, production of the wrong things. . . , [all of which lead inexorably] to unemployment and mal-employment.”⁵

In speaking of optimal versus sub-optimal employment, Hutt, the master logician, was drawing a logical distinction between quality and quantity. This is an inconvenient distinction for Keynesian-derived macro-economists; there is no way to fit quality into their equations. But in economics, as in life as a whole, quality is even more important than quantity.

This is especially true in investment. Keynes said that any investment is better than no investment.⁶ Indeed, in the absence of his indefinable state of full employment, he thought that any spending, whether consumption or investment, was better than no spending. This is why government must keep printing money: the resulting reduction in interest rates should encourage more and more investment and spending.

There are many reasons why this is nonsense, but it suffices to recall that interest rates are a price. Like currencies, they are “big prices,” which affect the entire economy. The chief purpose of prices in a market system is to send signals about what consumers want and about the relative availability or scarcity of resources. When government intervenes to reduce interest rates, it therefore disables the price signaling system, which in turn leads investors to make decisions which, in the long run, turn out to be bad decisions, like the overdoing of technology in the 1990s bubble or the overdoing of housing in the 2000s, bad decisions which eventually lead, not to employment, but to massive unemployment.

⁵ Henry Hazlitt, *The Inflation Crisis* (New Rochelle, N.Y.: Arlington House, 1978), p. 79.

⁶ Keynes, *The General Theory*, p. 327.

Hutt's concept of sub-optimal employment applies to productive assets as well as people. Contra Keynes, it is generally better for productive resources to remain idle for a time than to be misused. Savers, whether in cash or gold, are not "hoarding," as Keynes charged, when they hold their investment capital out of an economic bubble. On the contrary, they are providing an immense economic service by ensuring that there will still be capital to invest after the bubble has burst. As Hutt says, the "availability" of a resource, whether plant, equipment, workers, or money can in itself represent a service. Another reason that investing in gold is not hoarding, again contrary to Keynes, is that the buyer and seller of the gold simply exchange cash for precious metal, which is to say, one form of money for another. No cash is actually withdrawn from the economy.

Hutt was an economist's economist. Unlike Keynes, he did not aspire to the world of politics or big business. He counted himself among "those . . . who are not selling policies in return for power,"⁷ and took pleasure in correcting logical errors, large or small, wherever he found them. He is best known for re-establishing Say's Law after Keynes's distortion and attempted demolition of it, but much of his best work is on unemployment, and much of that is in *The Theory of Idle Resources*.

Despite being an economist's economist, Hutt appreciates how the world actually works. For example, Keynes spoke of "the proceeds which entrepreneurs expect to receive from the employment of N [fill in the number] men."⁸ Entrepreneurs of course do not think this way. They think of products, prices, and costs, of which employees are one, all summed up in the computation of profit. The word profit is one that Keynes avoids wherever possible in his *General Theory*, though in earlier writings he acknowledged its central role in driving the economy. Hutt rightly looks askance at this.

Hutt further notes that "We cannot add together, say, the number of hours of utilization of a locomotive, of the track, and of the signals. Similarly, we cannot aggregate the employment of the engine driver, the fireman, the guard, and the signaller."⁹ Keynes tries to circumvent the difficulty of aggregating labor in a quantifiable series by regarding "individuals as contributing to the supply of labor in proportion to their

⁷ Hutt, *Theory of Idle Resources*, p. 92.

⁸ Keynes, *The General Theory*, p. 25.

⁹ Hutt, *Theory of Idle Resources*, p. 6.

remuneration.”¹⁰ Hutt retorts that: “Such a definition of employment must lead to the most absurd results. Thus, if the workers in a trade can organize and drive 10 percent of their number into inferior occupations, reduce by 10 percent the amount of labor supplied, and in so doing increase the aggregate earnings of that trade by, say, 20 percent, then the proportion of all employment enjoyed by them and the proportion of the total labor supplied by them must be regarded as increased!”¹¹

As the above quote suggests, Hutt was not a fan of labor unions. He was, so far as this writer knows, the very first economist to explain why higher wages earned by unions actually come out of the pockets of other workers, not out of employers’ profits, a point that is now well established but still little understood. This is true, in simple terms, because high wages reduce employment in unionized sectors, thereby increase labor supply in other sectors, which increased supply reduces non-unionized labor rates. In addition, workers are also consumers and may have to pay more for unionized sector goods. As a general rule, Hutt noted, “the poorest must . . . suffer most as consumers.”¹²

Although a foe of unions, Hutt regarded himself as a populist, in the sense of wanting what is best for ordinary and especially poor people. He even called himself, somewhat startlingly, an “equalitarian,” a word that is usually associated with socialism. So, how indeed, could Hutt be both a free market advocate and a self-described equalitarian? He could be both because, in his view, free markets, without aiming for equal outcomes, produce both more equal opportunity and more equal outcomes than any other system.

Hutt explains: “The clue to the understanding of the chief economic and sociological problems of today can be found, in my opinion, in a recognition of the struggle which is in progress against the disrupting equalitarian effects of competitive capitalism. Competition and capitalism are hated today because of their tendency to destroy poverty and privilege more rapidly than custom and the expectations established by protections can allow. We accordingly find private interests combining to curb this process and calling upon the State to step in to do the same; and unless the resistance is expressed through monetary policy, the curbing takes the form of restrictions on production. Hence there

¹⁰ Keynes, *The General Theory*, p. 42.

¹¹ Hutt, *Theory of Idle Resources*, p. 6.

¹² *Ibid.*, p. 64.

arises a clash between what I have called the ‘productive scheme’ and the ‘distributive scheme’; and wasteful idleness, both in labor and in physical things, appears to be due to the consequent restraint of productive power—a restraint imposed immediately [by government] in defense of private interests, but [sugar coated with legal minimum wages and unemployment insurance that ultimately just lead to lower wages and more unemployment].”¹³

Are some of the poor willing to accept government welfare rather than try to improve their prospects? If so, says Hutt, we should not necessarily regard them as either lazy or irrational. They may just realize that the crony capitalist system which presently prevails is completely stacked against them.¹⁴

If we really want to alleviate unemployment and poverty, Hutt continues, we must do something about this crony capitalism, with its privileged government-business and government-labor partnership monopolies, and its supporting out-of-control government and fiscal monetary policies. All such monopoly systems create “contrived scarcity,” “enforced waste,” and other completely irrational outcomes. Unemployment and poverty are simply “indications of its presence,”¹⁵ of the “triumph [of] . . . private interest . . . over social interest.”¹⁶

Hutt also correctly predicted that this problem would get worse before it got better. In an especially acute passage, he explained why the medical system would increasingly be drawn into the monopolistic crony capitalist framework.¹⁷

As the reader will shortly see, Hutt’s work in *The Theory of Idle Resources* is truly timeless, and being timeless, is just as fresh and relevant today as when first published in 1939.

Hunter Lewis

¹³ Ibid., p. xvi.

¹⁴ Ibid., p. 44.

¹⁵ Ibid., p. 74.

¹⁶ Ibid., p. 106.

¹⁷ Ibid., pp. 61–62.

PREFACE



IT IS CURIOUS that so important a subject as unemployment should have brought forth no treatise devoted to theoretical analysis of the condition. There have been many books purporting to deal with unemployment of labor, but these have either been descriptive works, like Sir William Beveridge's famous *Unemployment, a Problem of Industry*, or theoretical studies of demand, like Professor Pigou's *Theory of Unemployment*, or Mr. J. M. Keynes's *General Theory of Employment, Interest and Money*. This essay tries to fill the gap. The necessity became clear to me in the course of an attempt to envisage the institutions required for an equalitarian or competitive society. Having found no satisfactory analysis of conceptions which it seemed essential to employ, I was forced to provide my own textbook treatment.

My reason for using the term "idleness" instead of "unemployment" is that the latter term has, by tradition, become associated with the idleness of labor, and any satisfactory study must obviously be concerned with "idleness" in *all* resources. And having made "idleness" my topic, I have adhered strictly to it, and do not claim to have made any direct contribution to monetary or trade-cycle theory. I was at first tempted to venture into this province, but after many wanderings I could not feel satisfied that I had found my bearings with sufficient accuracy to try to guide others. Nevertheless, I have indicated a region which ought to be explored with the instruments that I have provided. My several critical references to the work of Mr. J. M. Keynes are due to the fact that his *General Theory* happens to be in the thoughts of all economists today. I have been wisely advised not to touch on any of the major controversies which his contribution has aroused. Certainly I have not avoided controversial topics. But it is my hope that all sides in the current debate on the monetary causes of idleness will find my analysis realistic and

useful, and that it will be of some help to them in searching for the origin of their differences.

Although I am offering a “theoretical” contribution, a mere contribution to conceptual clarity, my inspiration has throughout been the closest interest in practical affairs. The objective problem of inventing institutions which could foster security and equality has been the motive which has guided my study at each stage. I earnestly believe that policy-makers could find enlightenment in it. But I am sufficient of a realist to know that the chances of its exercising any influence on policy are small. The politicians in unemployment-cursed countries are too concerned with their immediate popularity to give much consideration to a dispassionate analysis such as I have attempted. For if they do glance at its pages they will soon see that its implications cannot be easily reconciled with ideologies to which they feel they must of necessity pander.

However, to encourage the policy-makers, I have endeavored to treat the subject, as far as possible, in a non-technical way. Any patient and intelligent layman should be able to understand my argument. I have reduced the current jargon and conventional technical conceptions to a minimum, and where I have employed them, their meaning should be sufficiently evident to the careful reader. In this way, my treatment differs from all the recent theoretical studies of demand which intend to deal with the causes of idleness. My suggestions need not be taken on authority. The reader who is unacquainted with the economic textbooks may follow my reasoning from point to point and himself decide on its validity. I welcome the layman not, as Keynes does in his *General Theory*, as an “eavesdropper,” but as one who can and should consider my thesis. I do not claim, however, to have produced a “popular” work. Where I have thought it helpful, I have not shrunk from exploiting the most abstract conceptions. And I have incidentally introduced a new jargon of my own. Hence, the reader who is inexpert in economics must persevere and have constant recourse to the summaries which may guide him through a labyrinth of notions.

It has not been my task in this essay to recommend specific reforms. Certainly I have hinted at desirable changes, but my aim here has been to determine causes. If would-be reformers feel bewildered by the practical difficulties which my analysis of causes discloses, they may be helped by my own attempt to face the basic obstacles in my *Economists and*

the Public, chapter XXI, entitled “Vested Interests and the Distributive Scheme.” The clue to the understanding of the chief economic and sociological problems of today can be found, in my opinion, in a recognition of the struggle which is in progress against the disrupting equalitarian effects of competitive capitalism. Competition and capitalism are hated today because of their tendency to destroy poverty and privilege more rapidly than custom and the expectations established by protections can allow. We accordingly find private interests combining to curb this process and calling upon the State to step in to do the same; and unless the resistance is expressed through monetary policy, the curbing takes the form of restrictions on production. Hence there arises a clash between what I have called the “productive scheme” and the “distributive scheme”; and wasteful idleness, both in labor and in physical things, appears to be due to the consequent restraint of productive power—a restraint imposed immediately in defense of private interests, but ultimately appearing to be reasonable and just because it defends an existing and customary distribution.

The original typescript of this book was completed more than two years before the present version was sent to the publishers. Several copies were put into circulation and I received advice and encouragement from so many friends that it is impossible to make adequate acknowledgments. But I have a special debt of gratitude to the following who at different times read the whole of the typescript as it then stood and whose comments led to substantial changes of terminology, exposition or content: Professor Lionel Robbins, Mr. Frank Paish, Professor Arnold Plant, Professor F.A. Hayek and Mr. H.A. Shannon.

W.H. Hutt
University of Cape Town
1939

CHAPTER I

DEFINITION OF IDLENESS



(I) *Similar causes exist for idleness in labor, equipment and all other resources*

THE OBJECT of this essay is to remove certain common confusions concerning the significance of idle productive resources. We shall endeavor to do so by the introduction of a new set of concepts and definitions. The problems at issue are generally referred to as those of “surplus capacity” in the case of equipment and “unemployment” in the case of labor. Similar causes of the different phenomena of idleness are, we shall argue, active in both cases.¹ Indeed, so true and important does this contention seem to be, that practically all recent attempts to analyze realistically the nature and causes of unemployment of labor have, we believe, gone seriously astray through failure to recognize it; or at any rate they appear to have been led into error through the necessary crudeness of attempts to deal with attributes common to all types of productive resources by considering their manifestation in one type only.² In the case of purely natural resources, no “problems” of idleness are usually regarded as arising, although the more careful economists have recognized that “produced” and “non-produced”

¹ But to recognize this truth is to lay ourselves open to the ever-recurring jibe about a philosophy which tolerates a market in which human life is bought and sold!

² This particular source of possible confusion is most marked in the work of Mr. Keynes and his interpreters. Mr. Keynes's analysis is made to depend upon an *aggregate demand function* in which demand means “the proceeds which entrepreneurs expect to receive from the employment of N men” (J. M. Keynes, *General Theory of Employment, Interest and Money* [New York: Harcourt Brace, 1935], p. 25). For completeness, he needs further functions in which demand means the proceeds which *entrepreneurs* expect to get from the employment of so many units of equipment, or other resources.

resources are governed by the same laws of utilization. We shall, then, deal with the various conceptions of idleness of resources in general.

(2) *Idleness has one appearance but exists in several senses*

We can define *idleness* in several ways. That is, we can use the term in various senses. Different causes produce idleness of different types and significance. Our main thesis is that confusion arises from a failure to recognize the consequences of this obvious truth. When there is a plurality of conditions each of which in its pure state has a *similar appearance*, and each of which has its own cause, what appears to be a simple quality may in fact be a mixture of quite separate attributes. Unemployment or idleness may exist in several different senses whilst all the states, in their “pure” form, may look alike.³ How serious the confusion can be will be realized when it is remembered that what constitutes idleness from one point of view may be utilization from another. Mr. Keynes has attempted (and his interpreters have followed in his footsteps) to simplify and give unity to the conception of unemployment of *labor* by using a definition of “disutility” which lumps together many quite different things.⁴ He defines “disutility” as covering “every kind of reason which might lead a man, or a body of men, to withhold their labor rather than accept a wage which had to them a utility below a certain minimum.”⁵ Now this definition draws a veil over many of the issues which we have to face. We shall show that the significance of withheld labor can be classed into at least six vitally distinct categories, the nature of the unemployment being radically different in each case.

(3) *The necessity for definition*

The analysis of *idleness* calls therefore for the isolation and definition of the various states which that broad term covers. But new definitions

³ E.g., in the case of a machine, its wheels may not be turning; but the significance of that fact may be any one of many things.

⁴ In Mr. R. F. Harrod's treatment the term “disutility” is at first used in an unobjectionable way, that is, when it is used to explain output (other than leisure) under Crusoe conditions. But when he jumps from this to the notion of “inducement to work” which embodies the parallel force in society (*The Trade Cycle* [London: Oxford University Press, 1936], p. 10), all our objections hold.

⁵ Keynes, *General Theory*, p. 6.

are irritating things, and the mere process of multiplying terms may appear to be both pretentious and barren. If we determine to have a new definition, said Malthus, “in every case where the old one is not quite complete, the chances are that we shall subject the science to all the serious disadvantages of a frequent change of terms without finally accomplishing our object.”⁶ Nevertheless, we feel confident that the terms here proposed *do* qualify under Malthus’s common-sense exception, namely, that “a change would be beneficial and decidedly contribute to the advancement of the science.”⁷ And we have tried to adhere to “the fundamental principle” which Professor Cassel has laid down. “The introduction of definitions,” he says, “should be based on a preliminary scientific analysis of economic reality. When this analysis has shown that a certain economic concept is of essential importance and can be distinguished with sufficient exactness, the time has come for giving a name to this concept, that is to say, for introducing a new definition.”⁸

(4) *Popular conceptions of unemployment of labor recognized by custom and law do not help us to define “idleness”*

But to analyze “economic reality” does not mean that we should try to make our conceptions harmonize with those based on popular usage, when that usage is confused. Even if popular but confused conceptions have been given recognition by custom or law we can seldom usefully adopt them. Thus, Professor Pigou’s attempt to handle unemployment by defining “desire to be employed” as “desire to be employed at current rates of wages,”⁹ and by regarding unemployment as the absence of employment at that rate, is an attempt which, in spite of its *intended* realism, dodges instead of encounters the difficulties of the subject. It is true that his definition corresponds roughly to an official British view of “suitable employment,” the absence of which has been held to constitute unemployment in the legal sense. But if it is made the basis of analysis, all the really fundamental aspects of idleness are passed over. It will

⁶ T. R. Malthus, *Definitions in Political Economy* (London: John Murray, 1836), p. 6.

⁷ *Ibid.*, p. 5.

⁸ G. Cassel, *Economics as a Quantitative Science*, p. 7. See [Appendix](#) to this chapter on “Definitions.”

⁹ A. C. Pigou, *Theory of Unemployment* (London: Macmillan, 1933), p. 4.

be seen, for instance, that under the definitions which we are about to put forward, if capitalist interlopers (e.g., “the bad employers”) are offering an unemployed worker £3 10s. od. a week for a job when the trade-union rate (the “current rate”) is £4, and he refuses to accept it out of loyalty to the union’s wage policy, it is, in the first place, clearly a case of “withheld capacity,” and *also*, in the second place, a case of “participating idleness” or one of “preferred idleness.” To ignore these aspects is, we believe, to overlook all the crucial issues.

(5) *The categories isolated here are based on logical rather than empirical criteria*

We shall here distinguish between the following types of idleness: (a) idleness of valueless resources; (b) pseudo-idleness; (c) preferred idleness; (d) participating idleness; (e) enforced idleness; (f) withheld capacity; (g) strike idleness; (h) aggressive idleness. A state of *utilization* which has been described as “disguised unemployment” in the case of labor, we shall recognize as (i) “diverted resources.” We believe that every kind of unemployment of resources which has been discussed in the wide literature dealing with unemployment of labor, and in the relatively few contributions which treat of the idleness of other resources, can be included under one or more of these headings. Other terms for the same conditions have been employed, but they have often covered, in a quite unjustifiable way, absolutely different things. Thus, books on the unemployment of labor use the adjectives: “seasonal,” “cyclical,” “slump,” “casual,” “frictional,” “technological” and so forth. But these descriptions are based on *empirical* rather than *logical* criteria. They are not the “precise conceptions” demanded by Sidgwick’s standards for definitions and terms.¹⁰ They will all be found, on analysis, to involve factors which *must* be expressed through the causes set forth above. It will be shown that, although empirical definitions undoubtedly have their appropriateness in particular studies, until they are regarded from the angle demanded by our logical scheme, it is difficult for their true significance to be plain. For in each case one of the factors we have indicated will be seen to be *the proximate cause*. We mean by this that the removal of the one factor would lead to the utilization of the resource,

¹⁰ See *Appendix* to this chapter.

or else to the continued idleness of the resource in some other sense only and from some other cause. In certain cases, more than one of these causes (with its corresponding type of idleness) may be present whilst the removal of any one would mean the cessation of the others. In *other* cases the causes (and the appropriate types of idleness) are independent.¹¹

(6) *Rational policies must recognize our categories*

It must be admitted that knowledge of the category into which any type of idleness falls may not always be the most important knowledge, but it is *essential* knowledge in every case. Thus, for some discussions, to say that certain resources are idle because they fall into the “valueless resources” category will not be helpful if we stop there. States men and reformers will want to know *why* they are valueless. And discussion of the implications of this condition will therefore bring under examination the determinants of the margin between valuable and valueless resources. Nevertheless, we conceive it to be one of the supreme tasks in the present state of popular (and even academic) controversy to emphasize the consequences of the greater part of deplorable idleness *not* falling into this particular category.¹² We shall demonstrate (a) that idleness can be analyzed into logically separate classes, the relation of each of which to the wider conception of “waste” has not been sufficiently discussed; and (b) that whatever forces lying deeper in the social organism may be held to be responsible for idleness, in the absence of one or more of the causes that we have defined, the condition would not exist.

¹¹ Professor Pigou's discussion of the causation of unemployment (*Theory of Unemployment*, part I, chap. VI) seems to overlook what we here regard as fundamental because he apparently conceives of a plurality of causes of a *homogeneous* condition which can be called “unemployment.”

¹² The only reference to this basic truth that we have noticed in economic literature is in a recent article by R. F. Kahn. He says, concerning the unrealistic assumption of “full employment” in Professor Pigou's *Economics of Welfare*: “That the existence of uncultivated land does not invalidate the methods and conclusions of the *Economics of Welfare* is sufficiently obvious. That the existence of unemployed labor upsets all these arguments is equally obvious. But in what way labor differs from land is not completely apparent.” But Dr. Kahn says that this “is a matter for separate discussion” (*Economic Journal* [March 1935]: 1).

(7) *There can be no measure of utilization or idleness*

We shall conceive of “unemployment” or “idleness,” in all the different senses that we propose to distinguish, as a condition or quality. It cannot be thought of quantitatively. In so far as different types of resources can be defined in terms of quantity, it is possible to talk of the amount of resources which are in the condition of being utilized or employed. We can also realistically refer to the proportion of total time, or the proportion of the conventional working days in a year (or some other time standard) during which the services of particular resources (e.g., looms or weavers) are being utilized. But we cannot talk of the amount of employment in any other way. We cannot add together, say, the number of hours of utilization of a locomotive, of the track, and of the signals. Similarly, we cannot aggregate the employment of the engine driver, the fireman, the guard, and the signalman.

(8) *Mr. Keynes's attempt to measure “employment” has absurd implications*

But Mr. Keynes *does* try to conceive of employment of labor as a measurable condition. He discusses the sum of all the employment involved in all the different occupations of labor, expressed in terms of “men.” The only major difficulty that he appears to recognize is that which arises through differences of remuneration; and he thinks that it is sufficient for his purpose to get over the difficulty by “taking an hour’s employment of ordinary labor as our unit and weighting an hour’s employment of special labor in proportion to its remuneration.”¹³ In other words, he regards “individuals as contributing to the supply of labor in proportion to their remuneration.”¹⁴ Such a definition of employment must lead to the most absurd results. Thus, if the workers in a trade can organize and drive 10 percent of their number into inferior occupations, reduce by 10 percent the amount of labor supplied, and in so doing increase the aggregate earnings of that trade by, say, 20 percent, then the proportion of all employment enjoyed by them and the proportion of the total labor supplied by them must be regarded as increased! Apparently this is so in spite of “the level of employment,”

¹³ Keynes, *General Theory*, p. 41.

¹⁴ *Ibid.*, p. 42.

N , being expressed in terms of “men.” Curiously enough, Mr. Keynes recognizes that “the community’s output of goods and services is a non-homogeneous complex which cannot be measured . . .”;¹⁵ he sees that there is no solution of the “problem of comparing one real output with another”;¹⁶ and he is clearly aware of the connected difficulty arising out of the vagueness of the “price level concept.”¹⁷ But by substituting the notion of “employment” he has not escaped the impossibility of defining aggregate output. For, if different sorts of “employment” are regarded as having values, are we not really thinking of them as the output of services? What else *can* be valued? And one can no more measure “employment” in the sense of the output of productive services in general than one can the output of consumers’ goods and consumers’ services in general to which they lead. Yet the whole of Mr. Keynes’s general theory, developed “with a princely profusion of reasoning,”¹⁸ is erected on an “Aggregate Supply Function” which assumes that “employment” so conceived *can* be measured. The function (expressed as $Z = \varphi N$, N being a level of employment induced by an expectation of a return, Z) hides what may possibly be a serious fallacy in the apparent definiteness of an equation. In avoiding the use of the meaningless term “output,” he has not avoided the concept itself. For N is nothing but output at an early stage of production. His weighting leaves no meaning in the unit “men” at all. We cannot, as he assumes, “aggregate the N ’s in a way which we cannot aggregate the O ’s”¹⁹ (O being an output). ΣN is no more a numerical quantity than ΣO . We shall here assume that all such attempts to devise a logically tenable quantitative concept of utilization or employment are misconceived. This assumption will in no way hinder the sort of analysis of the problem which we conceive to be realistic and useful.

¹⁵ Ibid., p. 38.

¹⁶ Ibid., p. 39. Mr. Keynes’s disciples have not all followed him here. Thus, Mr. R. F. Harrod talks of “the level of output as a whole,” and even of “the equilibrium level of output of the community as a whole” (*The Trade Cycle*, pp. 13 and 30).

¹⁷ Mr. Keynes’s qualifies his position in an obscure way when he says that these difficulties “are ‘purely theoretical’ in the sense that they never perplex, or indeed enter in any way into, business decisions and have no relevance to the causal sequence of economic events, which are clear-cut and determinate in spite of the quantitative indeterminacy of these concepts” (*General Theory*, p. 39).

¹⁸ Harrod, *The Trade Cycle*, p. 120.

¹⁹ Keynes, *General Theory*, p. 45.

(9) *Orthodox theory does not, as has been alleged, assume “full employment”*

Mr. Keynes also alleges that classical and orthodox theory “is best regarded as a theory of distribution in conditions of full employment”²⁰ (apparently because some writers have assumed “full employment” as a methodological device in abstract analysis). His assertion has subsequently been emphasized and repeated by several writers who have been impressed by this startling revelation. And the “man-in-the-street,” who is also anxious to believe that orthodox economists have been astonishingly stupid, has been pleased to find his predilections confirmed. We believe, however, that the types of idleness analyzed in the pages which follow are all of a kind which are implicit—if not expressed in sufficiently clear terms—in orthodox teaching. This essay is felt to be original only in the sense that, through more careful definition, it seeks to clarify what is already known and understood. It is pure orthodoxy, as we understand that term. But it nowhere assumes the absence of the conditions it discusses. Mr. Keynes says that since Malthus there has been a “lack of correspondence between the results of (the professional economists’) theory and the facts of observation.”²¹ Under our own interpretation of their writings that has not been so. And the present discussion obviously recognizes the continuous and necessary existence in society of idle resources in many different senses. It may be that the classical economists overlooked many important aspects of demand in a dynamic economy. But they were realists, and their discussions imply an awareness of aspects of utilization to which their modern critics appear to be blind. Certainly the important issues here dealt with have not been faced in recent controversies.

(10) *“Full employment” has no meaning as an absolute condition*

As a matter of fact, it will be an implication of our subsequent analysis that the notion of “full employment” *as an absolute condition* can have no meaning. Given some basic ideal, e.g., consumers’ sovereignty, any particular resource may be said to be “under-employed” or “idling” when that ideal would be better served by the transfer of resources from

²⁰ Ibid., p. 16.

²¹ Ibid., p. 33.

other uses to cooperate with it. It would be “fully employed” in that sense if there would be no advantage in attracting other resources to cooperate with it. But it might then be working very slowly (as compared, say, to its former working). Even if continuously employed, the resources would appear to be “idling”; and yet they would be fully employed in the only rational connotation we can suggest for “full,” i.e., as a synonym for “*optimum*.”²² We can conceive of “fuller” employment but not “full” in the sense of “complete.” The term “full employment” might also be used in an historical or a comparative sense, to mean the degree of utilization originally expected, or achieved at a former period, or realized in similar resources elsewhere. But it is clear that none of those writers who use the term have such comparisons in mind.

(II) *“Idling,” meaning “under-employment,” is a parallel conception to “idleness”*

The conception of “idling” is allied to that of “idleness.” The former is partial, the latter is absolute. In each of the senses of “idleness” distinguished in paragraph 5, there is a parallel conception of “*idling*.” It means “under-employment.” Thus, many productive instruments may be used intensively or extensively. A machine may work at various speeds, for instance. It may be used, say, in the production of one hundred articles a day either by being operated for the whole of the conventional day of eight hours, or by being operated at twice that speed, producing the same output in four hours and standing idle for the other four hours. From some points of view, the position is identical in these two cases. But in this exposition we shall concentrate on the condition of “idleness.” All that can be said about its significance applies with equal relevance to “idling.” And “idleness” is a distinguishable, indisputable and absolute attribute common to many different states.

²² The conception of “full employment” *in general* is that of a “wasteless economy.” It excludes the possibility of “diverted resources” as well as all forms of non-productive idleness. For the meaning of “diverted resources” see chap. IX, paras. 3 and 4.

APPENDIX TO CHAPTER I
ON DEFINITIONS



THIS ESSAY might be described as a study in definition. Now there have always been those who were impatient of the process of meticulous definition. Richard Jones, Auguste Comte and Thorold Rogers as well as Malthus are mentioned by J.N. Keynes as having held that concentration on definition is pedantic and useless. “Political economy is said to have strangled itself with definitions.”²³ Some explanation or defense of our method of basing an analysis of idleness upon careful definition may therefore be called for. Of course, this essay is itself an obvious defense of the method, but the pronouncements of the logicians of economic science may also be relied upon. J.N. Keynes himself has not agreed with the writers he quotes. He says, “There is nothing arbitrary or unessential in *analyzing the precise content of a notion* in the various connections in which it is involved.”²⁴ Cairnes, indeed, seemed to envisage the necessity for *constant* redefinition. “Students of the social sciences,” he said, “must be prepared for the necessity of constantly modifying their classifications and, by consequence, their definitions. . . .”²⁵ And in endeavoring “to make our conceptions as precise as possible,”²⁶ we feel that we have been able to illustrate, in an important field, Sidgwick’s observations that “reflective contemplation is naturally stimulated by the effort to define”²⁷ and that *as much if not more importance attaches to the process of defining as to the resulting definition itself*.

²³ J.N. Keynes, *Scope and Method of Political Economy* (London: Macmillan, 1891), p. 153.

²⁴ *Ibid.*, p. 156 (italics added).

²⁵ J.E. Cairnes, *Character and Logical Method of Political Economy* (London: Macmillan, 1875), p. 146.

²⁶ H. Sidgwick, *The Principles of Political Economy* (London: Macmillan, 1901), p. 62.

²⁷ *Ibid.*, p. 60.

We have tried also, in the analysis which follows, to avoid the “formal definitions” of which Cannan disapproved, in the sense in which he disapproved of them; for we have taken heed of his other warning and endeavored to avoid “the formation of an economic language understood only by specialists.”²⁸ Such new terms as we have introduced should be immediately comprehensible by the layman. The term “participating idleness” gave trouble, but Cannan would surely have approved of it. And, further, an attempt has been made to adhere to the rule that Cairnes quoted from J.S. Mill, namely, that in the nomenclature of definitions “the aids of derivation and analogy” should be “employed to keep alive a consciousness of all that is signified by them.”²⁹ This applies, we believe, even to our original but seemingly highly important conception of “participating idleness” as well as to the vaguely recognized conceptions that we have termed “pseudo-idleness” and “aggressive idleness.” But in choosing terms for our definitions, we have not been able to make use of Malthus’s suggestion that, in introducing distinctions which cannot be described by “terms which are of daily occurrence,” the next best authority is that of the “most celebrated writers in the science.”³⁰ For, strange as it may seem, our “celebrated writers” have never specifically analyzed idleness in the very simple but apparently basic way that is here attempted. Hence it has been quite impossible to avoid this attempt to burden economic science with new terms.

²⁸ *Palgrave's Dictionary*. Article on “Definition.”

²⁹ J.S. Mill, quoted in Cairnes, *Method of Political Economy*, p. 151.

³⁰ T.R. Malthus, *Definitions in Political Economy* (London: John Murray, 1836), pp. 4–5.

CHAPTER II

VALUELESS RESOURCES



- (1) *Valueless idle resources are those which it would not pay any individual to employ, even if no charge were made for their use*

THE FIRST form of idleness, we have termed “valueless resources.” Two conditions might be understood by this term: first, resources of no capital value; second, resources which at any time it would not pay any individual to employ for any purpose, even if no charge were made for their use.¹ We shall adopt the second meaning as some resources may be usefully regarded as temporarily valueless; and some resources may have no capital value or a negative capital value, and yet provide valuable services and be valuable in our sense. It is easy to illustrate the conception in the case of natural resources. Orthodox economics has at all times recognized that there exists a huge amount of unemployed natural resources of this type, more and more of which, with developing technique and expanding population, have been observed first, to be drawn into active exploitation; and second, when they are scarce, to acquire capital value. Much unoccupied land falls into this category. Another example is that of the tides which are a source of immense potential power which it seldom pays, at present, to exploit. Equipment, and even the powers of human beings, *can* be conceived of as falling under the heading of “valueless resources,” although it is less easy to think of instances.

- (2) *The range of valuable resources may expand or contract*

Resources may be employed but valueless. Uncongested rivers, and oceans, and the air that we breathe, may be regarded as examples. No

¹ The phrase “even if no charge were made for their use” covers all but one unimportant special case discussed below (para. 11).

scarcity, or an infinitesimal scarcity attaches to the services of marginal resources in such cases. No social problem arises, as Hume pointed out in 1777,² in respect of the utilization of productive powers of this kind. If they are not employed, it is clearly because cooperant resources can be better employed elsewhere. They make no claim on the value of what is produced. But the more important examples of utilized but valueless resources are to be found where economic change is tending to confer value on them; and they are important because of the light which they throw upon the nature of the employment of resources which lie *within* the range of valuable resources. The case of land is clearest because we can conceive of the range in terms of the economically arbitrary notion of area. But the conception of a boundary or margin within which resources have some value and outside of which they are without value can apply to all resources, although there can be no idea of measurement of the range so imagined. The position of this boundary may change: it may be extended or it may be drawn in. That is, the compass of resources possessing *some* scarcity may vary.

- (3) *The range of valuable resources does not reflect the effectiveness of the response to consumers' (or some other) sovereignty*

Such variations are of importance in studies of idleness; but it must be recognized that they do not indicate the extent to which the preferences of the community are receiving the most effective satisfaction. In other words, variations in the range of valuable resources do not correspond in any certain way with any of the conceptions to which different definitions of social or national income have attempted to give concreteness. As we have already argued, there can be no criterion of the size of production as a whole. The conception of the effectiveness of response to consumers' sovereignty or some other sovereignty, a response which is not subject to numerical measurement, is the only logically satisfactory criterion of effective production. We make this point at this stage in order to emphasize the error of the very likely assumption that, if the range of valuable resources happens to contract, it is *necessarily* a phenomenon to be deplored. The point may be illustrated

² D. Hume, *An Inquiry Concerning the Principles of Morals*, opening of chap. III, part (i) "Of Justice."

by consideration of the case of an increased demand for leisure, which is one of the causes of what has been termed a “decreased propensity to consume.” Although, *ceteris paribus*, some physical resources *tend to* lose value in such a case,³ the result itself is in no sense to be regretted in the light of the consumers’ sovereignty ideal. On the other hand, if there is a similar decreased willingness to cooperate through exchange, owing to a collusive (or State enforced) reduction of the hours of labor, with work-sharing intention, there will be a similar tendency for some cooperant physical resources to lose value (and perhaps to fall valueless) in a manner which *does* conflict with the ideal. It is probable that most withholdings of capacity (through price or wage-rate fixations, output restrictions, or other protections of private income-rights) have the effect of causing the range of valuable resources to contract; and it is only when these policies are the origin of such idleness that there is any social loss reflected.⁴

- (4) *The vague phrase “increase in economic activity” can only have meaning if it refers to a fall in the proportion of valuable idle resources to all valuable resources*

The question of the position of the margin between valuable and valueless resources may be important for some purposes but it is obviously not the problem with which those writers who use phrases like “an increase in the general level of economic activity” are concerned. If that phrase is taken to mean an improvement in the efficiency with which consumers’ preferences (or some other sovereignty) are being satisfied, it has no obvious relation to this margin. If, on the other hand, that phrase means a fall in the proportion between resources which have value but are idle and all resources which have value, it does have some meaning, although most abstractions of the nature of “general levels” are dangerous.

³ See below, para. II.

⁴ One can conceive of circumstances in which resources as a whole could fall in price without any of them falling *valueless*; and it is even possible for the range of valuable resources to increase whilst the general tendency is for prices to fall. E.g., in the case of land, technical inventions might confer value on land which was formerly outside the margin but at the same time cause the aggregate value of land to fall. That is, the inventions could render the poorer types of land relatively valuable.

(5) *Purely valueless equipment can have no net scrap value*

In the case of equipment, the definition of “valueless resources” is not as easy as with the “gifts of nature.” We have the complication that the idle resources may have a net positive scrap value although no immediate hire value. (We can define “scrapping” as the process of destroying specialization.) *Equipment* of a given degree of specialization may be thought of as valueless when it would not pay any individual to use it, for any purpose, even if no charge *greater than the interest on its net positive scrap value were made*. But, *ceteris paribus*, equipment *will* be scrapped when its net positive scrap value exceeds its specialized value. *Purely* valueless equipment can exist only when the costs of scrapping are greater than the scrap is expected to realize.

(6) *Resources are not valueless because the costs of depreciation cannot be earned*

The fact that, in any instance, depreciation might not be covered if a particular piece of equipment were employed in production (i.e., if the earnings did not cover the sum required to maintain its original physical state) would not bring it into the valueless resources category. To permit a machine to wear out may be socially (or privately) the most profitable way of scrapping it. The excess of its immediate hire value above the interest on its net value as realized material or parts can be regarded as reflecting the immediate specialized value of its services.

(7) *Idle unscrapped resources possessing scrap value may be in pseudo-idleness*

But if a plant whose services are valueless in this sense (i.e., as specialized resources), yet has a positive net scrap value, is allowed to remain unscrapped, then its continued idle existence may be due to the fact that it is waiting for an expected revival of demand or an expected fall in costs.⁵ If these expectations alone account for its continued idle existence, it falls into a different category which we shall explain later,

⁵ This is simply a special case of the general position which exists when the present hire value of unscrapped plant is less than the interest obtainable on the capital realizable from scrapping.

namely, “pseudo-idleness.” We use this term for the case in which the supposedly idle resources *do* have scrap or other market value. They are in “pseudo-idleness” when they are being productively withheld from some other use, “scrapping” being one of these other uses.

- (8) *Idle resources with capital value but no scrap or hire value are “temporarily valueless”*

If equipment has no positive net scrap value *and* no immediate hire value, whilst it still has capital value, it must be regarded as *temporarily valueless*. Of course, its capital value reflects expectations, not prophecy; and the word “temporarily” merely implies an individual’s estimate.

- (9) *The idleness of equipment is seldom due to its being purely valueless*

The practical implications of these considerations are important. Cases of *purely valueless* plant and equipment (i.e., whose costs of scrapping are estimated to be greater than the value of the scrap),⁶ seem hardly likely to be frequent, although exhausted mines and derelict jetties on silted rivers are clear examples. With railways and other public utilities, instances are *imaginable*, but very difficult to discover in practice. Common-sense observation suggests that the condition is virtually non-existent in the idle plant and equipment which we occasionally contemplate in the industrial world. It always seems that in any price situation in our present experience, there is hardly any specialized plant in the industrial system that an *entrepreneur* (protected from the coercive power which monopoly confers on others) could not use profitably if he were allowed free access to it; if, that is, no charge for hire entered into his costs. Moreover, we believe that the “most profitable” use would seldom involve scrapping, the destruction of specialized capacity.

- (10) *Full utilization of existing resources is more likely to cause the range of valuable resources to expand than to contract*

But such an empirical judgment may be misleading, for it is based on the assumption of the continuance of the existing price situation. If

⁶ The presence of this condition alone obviously does not make resources valueless. It is simply one necessary condition. If it is absent, valuelessness is not present.

our economic system permitted the community to make full use⁷ of available resources, the existing price situation would *not* remain. The effect might conceivably be that in any representative case the cheapening of the product through the full utilization of all available resources would exterminate a large part of the value of much equipment, and so cause it to be realized as scrap or, if it were highly specialized, to push it into the category of valueless resources. But we can hardly assume with confidence that this would happen more often than not if the full capacity in *many* individual industries were utilized. And even if it were likely to happen, it does not follow that the *general* release of productive power would have this effect; for the manifold fields of profitable employment of resources when their services are cheap, and the growing diversity of consumers' preferences which can be expected to result (from economies achieved in realizing ends which we are already able to satisfy under the present regime⁸) suggests that it is much more likely that the bounds outside of which "valueless resources" lie will be *extended*. Increased "scrapping" might be resorted to; but that does not mean increased idleness. Unless leisure, or other things requiring less of the services of physical resources, happen to be more wanted in consequence of the release of productive power, the willingness to cooperate through exchange will tend to increase and the range of valuable resources to extend.

(II) *Resources which have negative capital value but provide valuable services are unimportant*

Resources are not valueless in our sense simply because the liabilities attached to their possession are equal to or greater than their value as assets, or because their continued existence involves costs equal to or greater than the revenues they can earn. Indeed, the resources may be of negative capital value, but still have hire value, and hence be valuable as resources so long as they exist. Thus, an edifice like the Eiffel Tower may well cost more to preserve than the receipts obtainable from its use. It may, nevertheless, be preserved because, if neglected, it will be a public danger whilst the interest on the cost of scrapping it is greater

⁷ See chap. I, para. 10, for conception of "full employment."

⁸ For the prices in one industry are costs to a coöperant industry.

than the sum required to preserve it. In the meantime, however, it can provide valuable (i.e., scarce) services. Hence it will not be valueless in our sense. Again, consider the dumps of coal mines which are often a nuisance to development. It has been recently discovered that they can be used for brick-making. Now it is conceivable that in some circumstances they could be utilized for this purpose provided the manufacturer of the bricks was paid a subsidy by the mining corporation for removing the dumps. Thus, the materials would be sold at, so to speak, a negative value; but they would at the same time be valuable resources. Their negative value would be small or large according to whether the demand for bricks was large or small. It might be more realistic to regard the material in the dumps as a by-product of services rendered to the owners of the mine. But the point which must be made is that the resources would not be utilized even if no charge was made for their use. The subsidy, or a contract to remove the dumps, would be a necessary condition. The situation arises when resources obtain value because their utilization enables other costs to be reduced. It is a special case of joint supply, and of hardly any practical importance. We have mentioned it for completeness and because it might lead to misconceptions.

(12) *Except for imbeciles, the sick and children, there are no parallels to valueless resources in labor*

In the case of labor it is even more difficult to conceive of examples of "valueless resources." Imbeciles and the seriously sick might be regarded as qualifying, in the sense that there are no means of making their employment profitable. Convicts, the condition of whose punishment or isolation makes impracticable their undertaking work in competition with free labor, fall under this heading also. But if their services are not utilized because "convict labor" is thought of as, say, "unfair competition," they cannot be classed as "valueless resources."⁹ Concerning children; although we are not in the habit of regarding the young as *property*, there is a sense in which they can be thought of as having capital value

9 It is not necessary, as our argument in the previous paragraph made clear, that the costs of housing, feeding and clothing such convicts should be covered by what they can be made to earn, in order to take them outside the category of "valueless resources." These costs have to be incurred in any case.

from the outset. Hence, they might be described as “temporarily valueless.” Parents, guardians and society may, however, be observed to be investing in the young from their birth onwards. In *this* situation they are best thought of as employed; although, as we shall show later, the actual position is often difficult to interpret. When they reach the age at which they are capable of remunerative work (and we know from history that this is a very early age), they may be withheld from the labor market (a) because to enter it would interfere with their education (i.e., the process of investment in them); or (b) because early employment may destroy their powers and hence the value of their services later; or (c) because leisure is demanded on their behalf as an end in itself; or (d) because their unpaid domestic service inside the home is worth more to their parents than they could add to the family earnings from work outside; or finally, (e) because their competition in the labor market is not wanted. In the first and second cases they do not happen to be in the labor market, but they are employed in the sense in which capital equipment in the course of its own production is employed. In part, both cases may be regarded as examples of “pseudo-idleness.” In the third case it is a type of “preferred idleness.” In the fourth case the children are not idle in any sense. And in the fifth case it is an example of “enforced idleness” or “withheld capacity.” The idleness of the very old is usually “preferred idleness” of the leisure kind, but where the receipt of a pension is contingent upon remunerative work not being undertaken, it must be classified as “participating idleness.”

(I3) *The “unemployed” are not valueless*

If we consider the actual “unemployed,” it is impossible to regard them as “valueless resources.” They are not unemployed for *that* reason. At low enough wage-rates they could practically all be profitably absorbed into some task, even if their earnings were insufficient in many cases to pay for physically or conventionally necessary food, let alone clothing and housing. In a slave economy, such people might be allowed to die off; or they might, for sentimental reasons, be kept alive. But in the latter case, their efforts would still be available and they would not be “valueless resources” so long as the utilization of their efforts produced more than the *extra* outgoings incurred. Imagine a society which decides that a national minimum of subsistence shall be provided for those whose

earnings fail to procure a tolerable standard of living (tolerable, that is, in the collective judgment). It is obviously unnecessary in such a society that an individual's earning power shall equal or exceed his freely received allowance in order that his capacity shall be regarded as having positive value. And where philanthropic poor relief exists, the same principle holds. Because a blind man in receipt of services and pocket money equivalent to 30s. a week from a charitable institution can contribute to its funds from the basket-making which he is called upon to do a mere 15s. a week, it would be wrong to think of his services as valueless. Thus, both in respect of *capital equipment and labor*, idleness due to absence of value is almost certainly rare and unimportant. That temporary absence of hire value, accompanied by a positive net scrap value which we shall call "pseudo-idleness," is an entirely different sort of condition.

- (14) *Natural resources which have once been valuable seldom lose all their value, so that any subsequent idleness must be due to other causes*

It is not usual for "practical" writers and reformers to think of unexploited *natural* resources as "unemployed." But they are not essentially different, economically, from labor and *produced* resources. Now it can be observed *as a fact of experience* that once natural resources have acquired value and been utilized or specialized they hardly ever become valueless (a) unless their physical nature changes (as under soil erosion or exhaustion, for example); or (b) unless they are the refuse from production (mine dumps, for example); or (c) unless huge shifts of demand (as from war to peace, for example) take place; or (d) unless communities migrate (from exhausted mining districts, for example). In settled communities, the writer can think of very few cases of land going out of cultivation *and* pasturage, except under the coercions or collusions of agricultural "cooperation" and State policy, or where soil exhaustion has destroyed its productive qualities, or under apathetic ownership in the case of "social farms," or where estates are reserved as public or private parks.¹⁰ Still less can instances be found of land, once occupied, losing all capital value; and the *continued*¹¹ existence of some capital value in such land suggests that in spite of apparent idleness, some services of an

¹⁰ This is a particular case of utilization.

¹¹ I.e., it cannot be explained as "temporary absence of hire value."

income nature are being provided by it. This serves to illustrate further our main point that, whilst it is theoretically conceivable that certain types of labor, capital equipment and once utilized resources can pass outside the margin of profitable employment (when, say, demand is transferred from one set of preferences to another), valueless resources in a “pure” form other than untouched natural resources seem to be rare, and an unimportant type of idleness. The phenomena which reformers deplore when they discuss trade depression are not of this nature.

CHAPTER III
PSEUDO-IDLENESS



- (1) *Uncompleted equipment in process of construction must be regarded as employed*

HOW SHALL WE regard productive resources which are in process of being specialized? Surely they must be thought of as employed. The materials in a half-completed ship are no more idle, in any useful sense, than the stocks on which it rests. But this form of employment may be accompanied by other forms of idleness, a possibility of some importance which complicates the position. Uncompleted equipment is only fully employed (in our sense of *optimum* utilization) when investment in it is proceeding at the social *optimum* rate, given existing expectations. Thus, while the vessel “534” which became the *Queen Mary* was actually under construction, the fact that it was not actively earning did not mean that the resources embodied in it were unemployed. But when work on it was stopped because the proposition ceased to be “profitable” to the company owning it—in the light of indications from the ocean freight market—it stood idle in one or more of the other senses which we have to discuss.

- (2) *Individuals adding to their powers through education are employed*

We find parallels in the case of labor. The clearest example is in the case of young children. At the outset, they have no usable powers; but as such powers do develop, the most profitable use of them (given contemporary standards of social goodness) is usually their improvement through that form of investment represented by the costs of upbringing and education. And throughout life, when individuals are out of the labor market because the addition to their future hire value from education

more than compensates for immediate earnings foregone, they ought properly to be regarded as employed. The determining consideration is whether investment in them is proceeding *at the social optimum rate*. Thus, the raising of the age of voluntary school leaving may have the real object of keeping more juveniles out of the employment market, and it is sometimes quite frankly demanded for this reason. Their condition then obviously partakes of the nature of what we call “withheld capacity” or “enforced idleness” rather than that of being subject to investment. If the standard of schooling available should be such that the juveniles are likely actually to benefit in the long run, then, whatever the motive, the process of investment in them is the explanation of their condition.

(3) *Individuals conserving their powers through rest are employed*

Similar to the case of training is that of the maintenance of physical and mental efficiency in human beings by rest and recuperation. Thus, normal sleeping hours cannot be regarded as idleness; and there is a recuperative (and hence productive) aspect about most leisure.¹ Genuine efficiencies achievable through the mere postponement of children’s earnings may conceivably be the best employment of their powers, i.e., irrespective of the education which it incidentally permits.

(4) *Individuals actively “prospecting” for remunerative jobs are employed*

These specific cases of employment have, however, never been mistaken for unemployment. But other cases falling into the same category have been so mistaken. Thus, a worker in a non-unionized and unprotected trade² whose firm closes down in depression may refuse immediately available work in a different job because he feels that to accept it will prevent him from seeking for better openings in his own regular employment or other occupations for which he is peculiarly fitted. Let us for a moment ignore the case in which he is passively waiting and merely preserving his availability. When *actively* searching for work, the situation

¹ But leisure is, however, usually to be thought of as “preferred idleness.”

² We make this assumption for simplicity. It avoids the complications referred to in chaps. VIII–X.

is that he is really investing in himself by working on his own account without immediate remuneration. He is prospecting. He is doing what he would pay an efficient employment agency to do if the course of politics had allowed that sort of institution to emerge in modern society. He judges that the search for a better opening is worth the risk of immediately foregone income. If his relatives, or his friends, or the State are keeping him then, in a sense, they also may sometimes be regarded as investing in him, and it may still be wrong to think of him as idle. But this condition is very difficult to distinguish *in practice* from the various types of “preferred idleness.” Thus, unemployment insurance may lessen his incentive to find work and an apparent or supposed search for the best employment opportunities may be a mask for what is known as “loafing.”

- (5) *Pseudo-idleness resembles passive employment but is not an identical condition*

These last examples of employment are seldom treated as employment, but as the workers concerned are serving the community best in their apparent idleness, and as they themselves are remunerated for the service (when their judgment is right—i.e., when their powers have really been guided to employers who can use them most profitably), we ought properly to think of the idleness as spurious. The purpose of this chapter is, however, to draw attention to a *similar* category of employment which is even more easily mistaken for idleness. But it is not quite the same, and we allot to it a separate category which we call “pseudo-idleness.” It is a condition which is common and has many forms; and it constitutes a phenomenon of the greatest importance in any study of unemployment of labor, or “surplus capacity” in material resources.

- (6) *Pseudo-idleness exists when the capital value of resources is greater than their scrap value, whilst their net hire value is nil*

One of the most common forms of “pseudo-idleness” is that which exists when resources are being retained in their specialized form (i.e., not being scrapped) because the productive service of carrying them through time is being performed. This condition exists when their

capital value is greater than their net positive scrap value, whilst their immediate hire value is nil. This last phrase may require some explanation. Resources must be reckoned as of “no hire value” even if they can be hired out but (a) the price obtainable is insufficient to cover depreciation and loss of specialization, *and* (b) there is a greater *consequent* loss or a smaller *consequent* gain to capital value. That is, we must conceive of a net hire value equal to gross hire value minus depreciation. For when depreciation is not covered, the supposed hire price in part covers the realization of resources as scrap. Thus, suppose expectations concerning the revival of demand to remain unchanged, then, for a piece of equipment to be in “pseudo-idleness,” it *is* necessary that an *entrepreneur* should be unable to utilize it profitably whilst *maintaining its physical efficiency*. The proceeds of the complementary use must be insufficient to finance depreciation in order to bring it into the socially productive category which we call “pseudo-idleness.”

- (7) *The service rendered by resources in pseudo-idleness is that of “availability”*

Thus, the essence of pseudo-idleness is the preservation of *availability*. For example, in a Communist country, a seaside hotel run for foreigners might become the free abode of the local poor during the “off-season”; but if the resulting dilapidations and costs of supervision could not be covered by some small charge, then the best employment of the building would be to close it down. Such a condition would be socially productive,³ and it could therefore be brought under this heading. Another example is that of a piece of building land which is kept vacant in anticipation of site scarcity in subsequent years. It is obvious also that, in any given state of knowledge and institutions, there are resources which perform their most wanted services through their mere passive existence—the service of “availability.” The resources concerned might be capable of being hired out for certain other purposes, but they would then *directly* lose their availability for some special task (which *entrepreneurs* are prepared to bet will be wanting their services later). Hence their present utilization comes to be regarded as likely to

³ Assuming, of course, that the hypothetical Communist government was trying to give recognition to the consumers’ sovereignty ideal.

bring about a more than countervailing loss in capital value. The loss of availability is a particular case of loss of specialization. Applying our definition in paragraph 6, therefore, they should be rightly regarded as of no immediate net *hire* value.

(8) *Pseudo-idleness can be illustrated in capital consumers' goods and capital producers' goods*

The simplest illustrations of the productive service of mere availability seem almost fatuous. Consider capital consumers' commodities of occasional utilization like the gramophone which is played only at odd times, the silk hat which is worn only at weddings and funerals, or the picture which is only providing obvious "satisfactions" when it is actually looked at. To refer to these as in "pseudo-idleness" may appear ironical. But closely parallel cases clearly involve problems of some importance. Thus, I may have a dozen suits of clothes, three cars (two of which are always in the garage), and so forth. One obvious aspect of all these things is that they are purchased "to be available." A good deal of plant in the industrial world is also in this state. It exists because from time to time it will happen to be wanted. The most indubitable cases in the field of *producers'* goods are those in which the phenomenon of "pseudo-idleness" has some regular periodicity. Thus, the plant of a salmon canning factory will not be working out of season, but it will not be unproductive because of that. Ploughs and harvesting machinery may have no alternative uses until the return of the appropriate season. The bottling apparatus of a jam factory may be still for the early hours of each conventional working day. Such regular, recurrent idleness can be confidently classed as "pseudo-idleness." Spasmodic "pseudo-idleness," on the other hand, can often be distinguished from idleness in other senses only with much uncertainty.

(9) *"Availability" may be regarded as continuously purchased in the form of capital investment until utilization takes place, or as continuously enjoyed and consumed in the form of income*

The net loss of income from resources in pseudo-idleness may be regarded as the cumulative investment of an unrealized income. A sum

equal to the interest on the scrap value can be thought of as being continuously invested in the resources. Considered from this angle, it must obviously be believed that from such a cumulative investment a return will someday be forthcoming. This unrealized income and investment aspect is present in many cases of “pseudo-idleness.” The ends of production seem to be better served if productive resources (which can wear out or otherwise be consumed with use, or which can be specialized into other forms) are kept for purposes which *entrepreneurs* are prepared to bet will be *more* wanted later.⁴ “Availability” is purchased as capital. In other cases, the availability itself is more realistically regarded as the income. Thus, all my unutilized consumers’ capital goods in my home, from my radio-set to my telephone and fire-extinguisher, bring me *continuous* satisfactions simply through my knowledge that they are there. Or again, the armaments of a country in time of peace also supply a service in the threat which their existence implies to foreign powers. And we cannot say that a fire station has provided no services in a month in which there have been no fires.

(IO) *The purchase of availability is taking place, even when it is preserved without actual idleness*

Resources may, however, be held up for some more wanted employment in such a way that they are not actually idle. The process of investment in them, or of continuous receipt of “availability” services is still present. But the resulting condition of the resources is seldom regarded as idleness; it cannot be very appropriately described as “pseudo-idleness”; and it can hardly be usefully termed “pseudo diverted resources,”⁵ although that term suggests its real category. Thus, the building land kept vacant in anticipation of site scarcity (which we have just considered in this connection) might be employed and bring in some income in the meantime by being used as a car-park or as a playing field. It is then performing a *double function*; it is giving day-to-day services *and* it is preserving its availability or “mobility.” Whenever resources are withheld from immediately more profitable specialization or despecialization because of expectations of a different situation in the future, a

⁴ The most common cause of such a situation is an expected revival of demand or an expected fall in costs.

⁵ See chap. IX, paras. 3 and 4.

productive service is being performed. When this service is expressed in its pure or simple form, it constitutes the “pseudo-idleness” that we have defined.

- (II) *The indivisibility of an efficient unit of specialized equipment is a common cause of pseudo-idleness under fluctuating or spasmodic demand*

One of the most important causes of “pseudo-idleness” in the modern industrial system is what has been called “the technical factor,” combined with specialization. That is, the efficient unit of equipment in relation to the relevant market for the product may be large whilst its appropriate output may be small. This is sometimes referred to in abstract discussion as the quality of “indivisibility.” The essence of the situation is that the capital cost of the “indivisible” plant may not be negligible in comparison with all costs, whilst the equipment itself is only occasionally, or partially, utilized. A most obvious example of this is to be found in the petrol supply apparatus provided by *competing* retailers of that commodity. The services of the equipment they possess may, in sparse districts, be actually demanded for a very small proportion of the day or week only. But if the relations of the retailers are truly competing, the occasionally used equipment represents no waste or unwanted duplication. It is continuously providing the service of “availability.” Obviously, therefore, under an “advanced” system of specialization of resources, that is, under a highly developed “roundaboutness” in productive processes, there is likely to be a relatively large extent of “pseudo-idleness” in equipment. But there is no inherent waste involved. The economies of “roundaboutness” in industry may, of course, involve continuous “scrapping” as an alternative to recurrently or spasmodically idle plant; and it is a crude (although common) error to suppose that either “pseudo-idleness” or “scrapping” are evidence of the wasteful use of resources.

- (12) *Indivisibility may also cause pseudo-idleness under constant demand*

But pseudo-idleness may also be present under constant demand for the equipment’s services. It is, however, much less important than the

cases which arise under fluctuating or spasmodic demand. We have seen that “full employment” is a relative conception. That is, a piece of indivisible equipment is fully employed when other resources cannot be usefully (e.g., from the standpoint of consumers’ sovereignty) diverted from other occupations to cooperate with it. When there is a fluctuating demand, the extent of “full employment” varies inversely with pseudo-idleness; and when there is a constant demand, there may be physical idleness for, say, a constant part of the working day, which may also fall into the pseudo-idleness category. The condition can arise when the unit of equipment can provide more services than it is economic to utilize, whilst it is impossible to obtain at all, or impossible to obtain except at a higher cost, a smaller piece of equipment providing fewer services. The test for the simplest case of pseudo-idleness under constant demand is this: Has the equipment a net positive hire value during the idle periods? If it *has*, the “surplus capacity” is presumably “withheld capacity” and not in “pseudo-idleness.” But the apparent withholding will be spurious if some productive function is performed by the exclusion of cooperant resources during the idle period. In that case, the “surplus capacity” will still be describable as in “pseudo-idleness.”⁶ We shall deal with this case (which is probably of hardly any practical importance) in chapter x, paragraph 13.

(13) *Reserves of goods in course of liquidation may be in pseudo-idleness*

Most stocks of goods for sale, but not all, must be thought of as in “pseudo-idleness.” Consumers’ goods, for instance, are clearly being distributed over time in accordance with consumers’ demand. The criterion of absence of immediate hire value is not obvious here. But we can make use of the same principle through the rule that the balance of a “surplus” of consumers’ goods (accumulated through seasonal supply and continuous demand, or continuous supply and seasonal demand, or a fortuitously accumulated “surplus”⁷) is in a state of “pseudo-idleness” when its rate of liquidation is being determined

⁶ The same applies, in the abstract, to pseudo-idleness under fluctuating demand. It is most clearly illustrated under the constant demand assumption.

⁷ But accumulated stocks may often represent “withheld capacity” and *conceivably* even other forms of idleness, e.g., “aggressive idleness.” See W. H. Hutt, “Nature of Aggressive Selling,” in *Economica* (August, 1935), p. 312 *et seq.*

by expectation of the future demand and supply position as modified by the costs of holding. The most important case of this is that of stocks which are in the nature of a “reserve” to meet the vagaries of day-to-day or week-to-week demand. Consider consumers’ goods held in the course of the marketing process, e.g., the stocks kept in a retail shop. The consumer *pays* for their availability. The mere presence of the goods in that place is the performance of a productive function, sometimes called by writers on marketing “the function of assembly.” Thus, those who occasionally wear silk hats will actually purchase them on unpredictable occasions. Yet they will expect them to be available in the shop when they chance to require them. To secure availability, therefore, reserves will be necessary. When this condition applies to consumers’ goods, however, it is never thought of as involving any problem by practical people. But it is quite important, nevertheless, for the same phenomenon receives manifestations in the field of producers’ goods (capital goods) and is then more frequently regarded as idleness than recognized as utilization.

PSEUDO-IDLENESS IN LABOR



- (I) *As skill once acquired is seldom lost, pseudo-idleness in labor due to feared loss of specialized skill is rare*

“PSEUDO-IDLENESS” in labor is important. But its manifestation differs from that in other resources because it arises very seldom from the existence of *specialized skill*. Moreover, it is not easy to apply the criterion which is so clear in the case of equipment, namely, that the capital value of the workers shall be greater than their positive net scrap value, whilst their immediate net hire value is nil. There is no such thing as the scrapping of a human being’s *powers*, and hence no conception analogous to scrap value in respect of skill. The improvement and specialization of a person do not resemble the specialization physically embodied in a machine. They are the result of environment and upbringing in which deliberate training and education are important. What has once been learnt may often be remembered for life. An individual’s specialization may be *unutilized* and may deteriorate (as a machine may depreciate) but it is never purposely destroyed. For most types of skill, there is no reason to suppose that work in another job will cause the loss of skill or loss of adaptation to the main occupation faster than idleness. Nor can it often be necessary to destroy one skill in order to supplant another. In general, the skilled worker whose services are dispensed with is free to employ his acquired talents again, if circumstances should be once more propitious. Thus, when an unemployed linotype operator becomes a shop assistant, it is evidence of a much smaller loss of capital than is indicated when a linotype machine is completely scrapped and the steel turned into shop fittings. We cannot say that the specialization of a linotype operator is as good as “scrapped” because his wage-rate in that trade has fallen below what he can earn as

a shop assistant (without special training). He leaves the printing-works for the counter; but if it is expected that the demand for printing will revive, there is nothing in his temporary shop employment which will prevent his specialization from being utilized later on. Labor is, therefore, usually in a very different position from plant and equipment.

(2) *The destruction of skill*

But although rare, the acquisition of a new skill *does* sometimes happen to weaken one which already exists. To take an extreme case, displaced musicians employed on road-making may have subtlety of touch destroyed. Where such loss of specialization is important, “pseudo-idleness” may arise through it. The individual may refuse available temporary work because to accept it will cause him to lose skill or his adaptation to the tasks of his main profession faster than physical idleness. His condition ought, therefore, to be thought of as “pseudo-idleness.” He is paid for the condition, although his remuneration for the service of preserving his specialization from destruction is postponed until an opening for his special powers *has* been found in the labor market.

(3) *Important cases of pseudo-idleness arise when supplementary employments will destroy simple availability for more profitable employments*

There is, however, a very important form in which “pseudo-idleness” in labor occurs. Its presence may sometimes be manifested in the “casual labor” condition, and it will be best if we consider it in connection with that problem. The essence of the idleness is again availability, in spite of specialized powers as usually understood not being a factor in the situation. “Labor reserves” exist because those forming them have no *immediate hire value*, this last phrase being interpreted in a rather special sense. The acceptance of supplementary employment will cause a more than countervailing decline in long-run expectations of earnings through the loss of availability for relatively more profitable employments. *Availability* is, as we have said, a form of specialization.

- (4) *Workers in pseudo-idleness are paid to keep themselves attached to a trade*

To consider the “reserve of labor” (as it has been called) which tends to become attached to certain occupations, let us for the moment ignore the possibilities: (a) of the labor reserve being the product of a wage-rate fixed at above the true market rate; and (b) of casual work being preferred (in any sense) to regular employment by those engaged in it. If the reserve then exists, the idle workers are, in fact, paid to keep themselves attached to the trade. To the extent that any trade is known to be risky from the point of view of continuity of employment, so must an increment to compensate the workers for such idleness as is liable to be experienced be reckoned as forming part of the remuneration. This has been a commonplace of labor theory at least since the time of Adam Smith. But its significance requires further discussion.

- (5) *The payment for pseudo-idleness in labor is not a retaining fee, but favorable “expectation of earnings”*

To think realistically of a “reserve” of labor attached to any occupation, we must envisage this service of *availability*. In the case of a true labor “reserve” it is advantageous to pay for it during actual employment through the ruling wage-rates. The irksomeness and cost of attracting labor from temporary occupations when it is wanted makes some payment for continuous availability economical. Under casual labor the increment is received by the workers, not in the form of a *retaining fee* as compensation for the value of their chance of temporary earnings elsewhere, but through the net estimated advantageousness to them of being attached to the occupation being more than they could command in other occupations.¹ The equilibrium is determined

¹ Adam Smith brought in an additional suggestion to explain an element in the remuneration of casual employment. “What he earns,” wrote Smith, “while he is employed, must not only maintain him while he is idle, *but make him some compensation for those anxious and desponding moments which the thought of so precarious a situation must sometimes occasion*” (*Wealth of Nations*, Cannan Edition, vol. 1, p. 105. Italics added.). This is obviously an important factor determining the “net advantageousness” among those with a certain psychology and tradition. But among the poorest classes, the anxieties are probably more than countervailed by the “benefits” of recurrent “leisure” of the type

by equality of “expectation of earnings,” which may be defined as the “wage-rate multiplied by the chance of employment.” From the workers’ point of view, they remain “attached to” the casual trade (and in the extreme case refuse other casual work) because *immediate* availability at all times is a condition of their employment in their principal trade, owing to the *methods of recruitment* believed to be most economical in practice.

- (6) *If “floating labor,” unattached to a particular trade, is a necessary consequence of productive technique, it is in pseudo-idleness and remunerated through “expectation of earnings”*

“Labor reserves” based on such availability are of even greater importance, however, than the last paragraph would suggest. There are *general* as well as *special* (i.e., attached to particular trades) reserves. Exactly the same considerations apply to those who are “out of work” owing to what are usually called the “inevitable delays” met with in changing from one job to another; the class who, when idle, are not specially attached to any trade at all. The workers affected may be induced not to hide themselves in inferior occupations which might prevent them from being available for more valuable employments which the chance workings of a dynamic society will disclose sooner or later. And the element which remunerates them for this is the extra value of their services in the employments which they expect to find. Perhaps the best example of the situation is that of the “floating labor” in the pre-war United States which was unattached to any particular job. This could conceivably have been regarded as falling in part into the “pseudo-idleness” category. The quantity of such idleness is likely to be least, in any given set of technical institutions, where competition can be most effectively secured. As Sir Sydney Chapman wrote in 1908, “. . . to augment the quantity of displacement (of labor) is not to augment the quantity of lengthy unemployment, for the very forces which create the additional displacements induce the re-absorption of the labor displaced. And it is hardly likely that more competition will bring about a better disposition of the

discussed in chap. v, paras. 6 and 7. If Adam Smith’s classical assertion concerning the influence of the risk burden does happen to be true of this class also, it does not in any way invalidate the analysis in the text.

old percentage of the population normally employed without increasing it.”² But in so far as “floating labor” is a necessary consequence of modern technique it is a definitely productive condition and subject to remuneration. The “reserve” represents that disposition of resources which, *given any set of labor market institutions*, is the most productive employment. And for this reason the accompanying “reserve” must be regarded as a case of “pseudo-idleness.”

(7) *The reality of remuneration for pseudo-idleness may be simply demonstrated*

To suggest that these “inevitable delays” are “paid for” may at first seem most unrealistic; and a careless reader may well be indignant at such a suggestion. But its truth may be simply demonstrated. Improved institutions which reduced the delays of labor transference (commercially run employment exchanges, for instance) would undoubtedly cheapen labor. That is, the amount of productive effort obtainable from a given expenditure on wages would be greater. The saving achieved would represent an economy on the former payment for the availability (not the use in other senses) of a greater quantity. Reserves of labor in certain fields, or completely generalized reserves would be economized. The average period of actual employment for each worker would be longer; and in the light of the principle of equality of expectation of earnings, wage-rates would not have to be so high in order to attract a given number of actual workers to any trade which needed their efforts.

(8) *The typical poverty of casual workers does not affect the issue*

Misconceptions are, however, still likely to arouse indignation when the reader considers the casual labor question, for the workers concerned may in this case be desperately poor. But the fact that their average earnings in casual employment are often pitifully low must not be allowed to distort our judgment on this point.³ The poverty typical of such workers is due to other causes. Casual labor simply happens to have been

² L. Brassey and S.J. Chapman, *Work and Wages* (London: Longmans, Green, 1904), vol. II, p. 349.

³ No one objects to casual work in a well-paid occupation like, say, that of barristers.

the haven into which those debarred or ousted from other trades by labor monopoly have found a permanent or temporary refuge. In spite of its containing only the dregs of employment opportunities, it has provided the sole considerable palliative to social injustice. Immigrant workers from countries in which opportunities of employment are still less favorable may nevertheless have their inertia overcome by the relatively high earnings obtainable even in the worst labor markets of more favorably situated countries; and their competition may further depress rates of earnings of unskilled and casual labor. In books on the unemployment of labor there seems to have been a curious and perhaps significant reluctance even to mention, let alone bring into discussion, this very crucial fact. But occasionally it *has* been remarked upon. Thus, the Charity Organization Society Committee on Unskilled Labor pointed out in 1908 that “the skilled unions have limited the labor market in their trade. The inevitable result has been to maintain a continual glut in the low-skilled labor market.”⁴ It is usually held, however, that there is an obvious injustice in the casual labor system.

(9) *“Labor reserves” are purchased through wage-rates, and cannot be “forced” unless employers’ monopoly can destroy labor mobility*

Yet “the requirement in each trade of reserves of labor to meet the fluctuations incidental even to years of prosperity”⁵ is often regarded as an evil in itself. Some of the discussions of this question have even written in tones which imply that instead of being *paid* to be thus available, the workers are *forced* by “the employers” into a soul-destroying, cruel and wasteful idleness. But unless that section of capitalists which benefits from the maintenance of “reserves” has some means others than payment of preventing the workers attached to the trade from obtaining alternative employment, we cannot see how it could be. No one has ever argued, as far as we know, that such a power has existed or been exploited.⁶ The “reserves” of labor under casual employment are, in

⁴ Quoted in P. Alden and E. Hayward, *The Unemployable and the Unemployed* (London: Headley Brother, 1907), p. 78.

⁵ W. H. Beveridge, *Unemployment: A Problem of Industry* (London: Longmans, Green, 1909), p. 13.

⁶ J. S. Poyntz says (in *Seasonal Trades*, edited by S. Webb and A. Freeman [London: Constable, 1912], p. 60): “There are many trades where the employer undoubtedly finds it to

fact, paid for and to the interest of those workers who form them. The labor supplied is often necessarily cheap labor; and that being so, it may often pay to employ it extensively rather than intensively. But if the standards of living which earnings can command from this field are deplorably low, it is the causes of the cheapness of the labor and not the methods by which it pays to utilize it which must be blamed. And the labor is cheap because other opportunities of employment are barred to those who provide it.

his advantage to keep a large fringe of superfluous labor attached to his business in case of extra demand.” But as this phenomenon is supposed to be specially prominent in the “sweated industries” where “employers” are notoriously uncombined, the allegation is obviously misconceived. “The army of men and women standing at (the employers’) beck and call,” says the same writer, “cost him nothing except for the actual hours that they are at work” (p. 7). This sort of confusion has probably been responsible for an immense amount of avoidable poverty.

CHAPTER V

PREFERRED IDLENESS



- (1) *Preferred idleness is found in labor only. The simplest case is preference for leisure*

THE CASES which fall under the heading “preferred idleness” are unique because they apply realistically to labor only. There are no important parallels to be distinguished in respect of capital equipment;¹ and with natural resources, the only realistic parallel is that of parks and estates, which are better thought of as utilized. The most obvious actual case is leisure, the preferred alternative to earned money-income. Holidays are *in part* to be regarded as leisure. Non-working hours may *usually* be rightly thought of as leisure (although a genuine yearning for leisure has seldom been a powerful factor in agitations for collective or enforced reductions of the working day²).

- (2) *Things like pride, prestige, boredom or laziness may lead to idleness being preferred to the return from employment*

But there are other kinds of idleness which, whilst they might not be understood as leisure in ordinary parlance, partake of its nature and are accurately described as “preferred” idleness. Consider the person who refuses available work because it is *infra dig*. The acceptance of

¹ The consumption of leisure on the part of the workers, and the necessity of rest and sleep for them, become expressed in social habits and institutions. Indirectly, therefore, these things certainly contribute to the idleness of tools and plant during non-working hours. The multiple shift device could conceivably be widely adopted, however, without necessitating any sacrifice of leisure on the workers’ part.

² See W. H. Hutt, *Economists and the Public* (London: Jonathan Cape, 1936), pp. 176–77, 279–80.

a much lower salary may so wound the pride of a displaced middle-class employee that he will for long fritter away his own savings or the earnings of his family and friends, and endure relative penury, rather than admit to himself (or the circle that knows him) the loss of income-status to which he has been subjected. A similar case is that in which it is the nature of available work itself, more than the salary which it commands, which makes idleness the preferred alternative. The Poor Whites in South Africa have been most reluctant to take on “Kaffir work,” even when it has been offered by the State at subsidized rates more than double those paid to the despised Natives. Moreover, there are sets of people whose social environment and sources of income are such that they are not impelled to spend much of their time or any of their time in remunerative employment. Work for which they are qualified may seem to be so irksome or boring that they will do almost anything to avoid it. The disutility of such work, as some economists prefer to say, may be high. Especially will this be so if custom or public opinion in any social class condones, or does not condemn “laziness,” “sponging” or “parasitism.” It has long been recognized that with many primitive races brought suddenly into the industrial system, the supply of labor in terms of hours of work offered will be more likely to fall than rise if their rates of earnings are increased. And the same phenomenon is occasionally experienced under the industrial system. As Professor Pigou has put it, “the effort demand of workers for stuff is inelastic”³ in conceivable situations. Larger earnings will mean that more leisure will be purchased.

- (3) *The preference for idleness may depend upon attachment to a district where an individual has relatives or friends and a customary mode of living*

One of the circumstances in which these considerations are of importance is in respect of the geographical incidence of unemployment. The so-called immobility of labor, the inertia which prevents “labor transference,” is due largely to the individual’s fondness for a district in which he has long resided, perhaps the district of his birth. If he leaves a “distressed area,” say, he must bid good-bye to his friends and sometimes

³ A.C. Pigou, *Theory of Unemployment* (London: Macmillan, 1933), p. 6.

forsake his customary mode of living. Certainly his “lack of initiative” may be deplored on the grounds that it is against his “true interests”; but given the absence of social inducements to migrate (e.g., sufficiently attractive wage-rates in other parts) or the absence of social coercions enforcing migration,⁴ his unemployment must be regarded as the fulfillment of his preferences.

- (4) *Given the social will, preferred idleness implies no wrong use of resources but might be deplorable on moral grounds*

In modern societies we usually regard a high demand for leisure in the senses just discussed (when it occurs among those condemned to a relatively low standard of material living) as evidence of demoralization. In extreme cases, those in the poorer classes who express such preferences are classed as “won’t-works,” described as “work-shy” and so forth; and they are thought of as a social problem. Now the cause of unemployment in this case is a preference. It implies no wrong use of resources, given the social will. If it is a condition which we happen to deplore on *moral* grounds, then the method of reform lies either in changing the preferences directly (through preaching or teaching) or in changing the environment which apparently gives rise to the despised preferences.

- (5) *Preferred idleness among the “work-shy” tends to vary according to the income available without work*

The preference of the “work-shy” for idleness is almost certainly subject to the law that the smaller the individual’s savings, or the smaller the available assistance of his relatives, his friends, an insurance fund, or the State, the less likely will he be to demand it. The *importance* of this empirical law (which might well be reversed under different traditions from those which exist today) is rather indefinite: the *fact* of its existence is indisputable.⁵ There have always been men who have

⁴ Social coercions enforcing migration will be effective if there is no unemployment insurance or other local source of income.

⁵ There are cases which are difficult to interpret. Thus, if a wife leaves the wage-paid labor market when her husband succeeds in earning more, it may be to devote more time to the adequate performance of household services. If so, it would be most realistic to regard her condition not as “preferred idleness” of the leisure variety but as

frankly said: "I don't feel any obligation to work as long as I can live by other means."⁶ And there have been authorities who have regarded such an attitude as being so common among large groups of people as to constitute a major cause of idleness in labor.⁷ Thus, the Departmental Committee on Vagrancy reported in 1906 that "were it not for the indiscriminate dole-giving which prevails—idle vagrancy, ceasing to be a profitable profession, would come to an end."⁸ What will not be denied is that, as things are today, the availability of an income without work acts as a stimulus to "preferred idleness." And if we believe that this is to be deplored, we can devise appropriate reforms. Education, the creation of an ambition-awakening tradition, the stimulation of public contempt for the individual who draws from the pool without contributing to it, the cutting down of unconditional help⁹—all these may prove to be remedial policies. But as philosophers we must keep

employed, she having exercised a new preference not involving idleness in any sense. More domestic services are purchased at the cost of the wife's money-income foregone. If she seeks household work because she enjoys it, we may or may not find it convenient to think of her work as a leisure occupation like, for example, the hard day's work which an amateur gardener puts in. But if we *do* call it "idleness" or "unemployment" we must recognize it as a "preferred" condition. The refusal of wage-paid labor by the "unemployed" worker who possesses an allotment which brings him some income in kind is a similar case. If we think it realistic to describe his state as "idle," then we must regard it as "preferred idleness." It is not necessarily a condition to be deplored.

6 See P. Alden and E. Hayward, *The Unemployable and the Unemployed* (London: Headley Brother, 1907), p. 46.

7 There have been penalties for vagrancy in England at all times, ancient, medieval and modern. This suggests that there must have been a taste for it. It suggests also that physical existence has been fairly easily maintained in respect of food and clothing by those who survived childhood. For in spite of the occurrence of periodic starvation until the industrial revolution was firmly established, the loss of large numbers in that way was always regarded as a catastrophe.

8 Quoted in Alden and Hayward, *Unemployable and the Unemployed*, p. 26.

9 "Preferred idleness" of the type which might be deplored is probably least where the funds on which the individual lives are provided by himself, his family or his friends. His family and friends will prevent what they would regard as abuse of their support. There has so far been no "unemployment problem" in the popular sense among the urban Natives in South Africa partly, it seems, because, having been political and social pariahs, no system of organized relief has been devised for their unemployed. They are maintained by their friends who know them. But it must be remembered also that the absence of tacit or formal labor organization and the absence of wage-fixation in the fields of employment in which they are permitted to compete, results in "enforced idleness" or "withheld capacity" being absent among them as well.

quite separate in our minds the traditional and environmental factors¹⁰ which seem to give rise to demoralizing preferences like laziness, and *the fact* of those preferences.

(6) *Preferred idleness may arise through a preference for jobs giving intermittent leisure*

Having dealt with the nature of preferred idleness, we can consider a more complex form, namely, that which is spasmodic, recurrent. This is a factor contributing to the “net advantageousness” of “casual labor” from the worker’s point of view. The intermittent leisure may be an end for which a sacrifice will be made. Nearly a century ago, the connection between the irksomeness of regular laboring work and the existence of vagrancy and casual labor was noticed by Senior who said: “We believe, after all, that nothing is so much disliked as steady, regular labor; and that the opportunities of idleness afforded by an occupation of irregular employment are so much more than an equivalent for its anxiety, as to reduce (such wages) . . . below the common average.”¹¹ This assertion has obviously much less truth in Great Britain today than it had at earlier times; but in 1911 Messrs. Rowntree and Lasker commented on the same fact. They regarded it not as the manifestation of an inherent preference but as in itself a result of irregularity. They remarked of some youths whose first employment was as casual laborers: “Frequently they play about in the streets for so long that when they actually begin work they resent discipline, and will throw up a job on the slightest provocation. Many of them soon learn to prefer an easy life as casual ‘hands’ with considerable intervals of loafing at street corners, to regular work.”¹²

(7) *If cases of preferred idleness are held to be “demoralizing,” decasualization might be a remedy*

If it is true that “preferred” idleness of this kind is the product of a demoralization which that idleness itself creates; if the psychological

¹⁰ E.g., the ineffectiveness of current moral instruction, or what we may hold to be distributive and other injustices.

¹¹ *Political Economy*, 4th edition, 1858, p. 208. Adam Smith stressed only the anxiety aspect which, he thought, tended to make average earnings in casual occupations above, not below the average. See chap. IV, para. 5 (footnote 1).

¹² S. B. Rowntree and B. Lasker, *Unemployment* (London: Macmillan, 1911), p. 6.

effect of an irregular income is to create a degrading dislike for continuous work;¹³ if, in other words, the taste for casual labor is a bad taste, and also self-perpetuating, a case for decasualization can be made out. But so far as youths are concerned, a more effective remedy seems to be compulsory education during the intervals of idleness. And compulsory decasualization for adults has many dangers. Indeed, the justification for such a restraint of preferences must rest upon grounds which, as far as the author's knowledge goes, have never been appealed to on this topic in the whole literature relevant to the question, namely, the grounds justifying the *educative restraint* of adults.¹⁴ And the arguments for such restraint must be viewed in the light of considerations relative to "pseudo-idleness" and "labor reserves" (which we have already discussed in chap. IV, paras. 3 to 9) and "participating idleness" (which we shall discuss in chap. VIII, paras. 8 to 10). All three conceptions: "pseudo-idleness," "preferred idleness" and "participating idleness" must complicate realistic study of the casual labor problem. The enforcement of such decasualization might be achieved by the removal of the alternatives which militate against continuous work. Thus, to the extent to which this form of "preferred idleness" is due to the conditions noticed in paragraph 5 (namely, knowledge that relief to prevent actual physical suffering will almost certainly be available when required), the administration of relief with greater stringency will supply the coercion for an increased measure of "desirable" decasualization.

- (8) *The "reckless" and "lazy" casual laborer in preferred idleness may simply be relying upon the fact that he will not be allowed to starve*

Whether we are justified in regarding the taste which demands "preferred" idleness in these circumstances as a deplorable taste, or as the

¹³ It is very common to argue that "irregularity of income is a much more important source of pauperism than low wages" (H. Feldman, *The Regularization of Employment* [New York: American Management Association, 1925], p. 24). But the ultimate verdict of sociologists will probably be that the source of demoralization is the lack of hope and the absence of outlets for the achievement of any form of distinction and social respect. The physical side of poverty has been greatly over-stressed because the propagandist has found it easier to win support by emphasizing that side than by arguing the superficially less plausible case against environmental factors which are not in such concrete evidence.

¹⁴ See Hutt, *Economists and the Public*, chap. xvii, on "Educative Restraints of Freedom of Choice."

expression of a wholly regrettable irrationality, is by no means clear. The fact that such poor appear to “live for the moment,” to have no foresight, to be extravagant with their earnings which “come in spurts,” and to be willing to rely upon relief when they have no money, may simply show that, even in their poverty, the physical side of existence means less to them than other things. They want the excitement which can be purchased by the pathetic “extravagances” in which they are led to indulge when they have the means. The social philosopher who accepts the liberal ideal has some reasons for seeing in preferences of this kind a longing for “higher and better things.” In spite of the condemnation of thriftlessness by the conventional moralists, the “fatalism,” the “absence of worry,” the apparent recklessness and the laziness of the poor may be viewed as their very realistic appreciation of the fact that they will not be allowed to starve. If that is so, who can blame them? Are the individual mental adjustments which lead to such traditions so very foolish? After all, are not the poorest classes condemned, under our present social arrangements, to permanently low incomes?

CHAPTER VI

IRRATIONAL PREFERRED
IDLENESS¹



- (I) *Consumers are apt to be more vigilant in respect of the price than the quality of a commodity*

AT THIS STAGE, we must consider a very important element in those preferences whose fulfillment is found in idleness. All human tastes seem to be fashioned in part by contact with irrational influences. Wicksteed, in particular, has drawn our attention to this. If the price of a thing falls, we are apt to buy more of it simply because it is “so cheap,” irrespective of whether at its reduced value that new distribution of expenditure most effectively contributes to (what must be irrelevant in any purely economic study) the economy of our “private world.” If we have been saving to provide for the future, our strivings are apt to become embodied in habit, and we may develop miserly traits which the philosopher might have grounds for saying are contrary to our “real interests.” Moreover, we seem usually to be much more vigilant in respect of the *price* of a thing that we buy than we are in respect of its *quality*. Un-announced reduction of quality is a frequent response of producers (under imperfect competitive institutions) to a rise in their costs or a fall in their supplementary receipts.² They may recognize, rightly, that the substitution to their detriment of consumers’ demands is much less likely if there is no obvious and

¹ The term “irrational preferred idleness” needs some explanation. A *taste* as such can hardly be “irrational”; but that term can be applied to a *choice* or *preference* because it may be based upon a false expectation due to its consequences having been wrongly thought out.

² The same policy may be followed in other circumstances and with other motives, of course. Thus, under tariff protection plus “rationalization,” electric lamp manufacturers may deliberately lower the life of their bulbs with a view to “stimulating consumption,” and by so doing bring greater “prosperity” to the industry.

visible rise of price. Whether such policies are morally defensible does not concern the economist. The social philosopher might well defend them if he rejects the consumers' sovereignty ideal. He might regard those moralists who have a fastidious objection to venial deception as trouble-makers. And if physical productivity is the philosopher's ideal (not that *we* can suggest any principle of measurement for physical productivity) he may have grounds for deploring policies which cause consumers to be critical of the content of the things their money buys. For ready acquiescence on the consumers' part will bring a greater measure of "orderliness" in the productive system in the sense that inefficient *entrepreneurs* will not suffer losses. Of course, if the deterioration in quality should be suddenly noticed, a difficult situation might arise. But when the goodness of consumers' sovereignty is frankly denied, all difficulties vanish and the "rationalization" or "planning" of consumption can be advocated.

- (2) *Similarly, workers in general tend to be more concerned about wage-rates than about the purchasing power of wages, and in depressions may collectively prefer unemployment to employment at lower wage-rates*

This apparently irrelevant excursion into the field of ethics is necessary because similar irrationalities in respect of reactions to changes in wage-rates may be a factor of some importance determining the extent of "preferred" idleness; and in so far as this is so, the same issues of policy arise. Workers in general are indignant at wage-cuts, and their indignation may become one of the determining factors in certain of their choices. In practice, their objection *as wage-earners* to downward wage-rate adjustments seems to be much more serious than their anger *as consumers* at price increases. How far their attitude is the product of teaching or propaganda may be a question which the formulators of policy should consider. But the fact may often be (and it is alleged by some that in practice this is a matter of great importance) that many workers will prefer to reject certain available employment when a wage-rate is cut, while they will accept that employment in the absence of a cut, although an equal or greater reduction in the rights conferred by the wage-rate is effected. Concerning those already in employment, for example, so long as they receive the same money wage-rate they are relatively satisfied: what are

usually called their “real wages” matter less to them. Perhaps the importance of maintaining the *nominal* wage-rate lies principally in the fact that the dignity of the worker is thereby secured.³ He does not have to confess to reduced earning power. Moreover, all other workers are similarly burdened when the price of “wage-goods” rises. His line of employment is not *singled out*, so to speak, for a wage-cut, to the detriment of his status and self-respect. As some economists prefer to put it, the “disutilities of work” are greater when the nominal wage-rate is lower.⁴

(3) *Mr. Keynes seems to argue that much idleness is due to irrational preferences which, he implies, orthodox economists overlooked*

If we have properly understood Mr. Keynes’s arguments, one of his suggestions is that an important part of what we have called “preferred idleness” is to be attributed to this cause. He calls it “involuntary unemployment” but nevertheless conceives of the condition in terms of willingness to work. One might almost infer that he is trying to distinguish the wage-earners’ *real* will and their *expressed* will! Orthodox economists, he says, have assumed that all of “those who are now unemployed though willing to work at the current wage will withdraw the offer of their labor in the event of even a small rise in the cost of living.”⁵ It is difficult to believe that many economists could have been so stupid. They may possibly have misjudged the importance of this type of irrationality. The issue is greatly complicated by the fact that irrationality bears not only upon the determination of “preferred idleness” but also upon that due to what we call “withheld capacity.” Restrictionism is not always rational. And, at times, Mr. Keynes’s

3 A worker’s commitments, which are incurred in money, may also make it *important* for him that his earnings shall not fall. But this consideration will not lead to “preferred idleness,” unless consequent vindictiveness, worry or frustration makes work seem less desirable.

4 A worker might object for another reason to his line of employment being *singled out* for a wage-cut. It might well be that if *all* wage-rates above the competitive were reduced, all workers would be better off; but reductions would, nevertheless, be resisted because no single group of workers could be convinced that the process would be universal, and if it were not widespread the group consenting would be the losers. This is, however, an individually rational but collectively irrational objection to wage-cuts, and is a separate point. There is a privately beneficial withholding of capacity. This type of situation is dealt with in chap. x, paras. 7 to 12.

5 J. M. Keynes, *General Theory of Employment, Interest and Money* (New York: Harcourt Brace, 1935), p. 13.

“involuntary unemployment” is obviously intended to apply to the results of irrational judgment *in so far as it crystallizes in current restrictive policies*. But his conception of this is never clearly differentiated from the determinants of “preferred idleness”—as we have defined it—which at other times he seems to be considering.⁶ Let us at this stage consider the effect upon “preferred idleness.” In this case, the orthodox employment theory of the past has in no way been invalidated. Common attempts to apply it may have been misconceived.

- (4) *Although the conception of “irrational preferences” lies outside the province of “pure theory,” this has not meant that the economists have been blind to their existence*

In “pure theory,” the irrational origin of preferences may be taken as part of the data in the light of which a particular result may be explained. As soon as we bring the question of “irrationality” into discussion as a phenomenon to be deplored, we have, strictly speaking, left the field of *economic* controversy. In spite of Mr. Keynes’s adjective “involuntary,” the idleness that we are considering is the fulfillment, not the frustration of a preference.⁷ If, as economists, we are asked for its cause, our answer is simple: Well, they prefer idleness to work at that rate and they take it. Yet this attitude can be so easily misunderstood and so easily misrepresented that we must hasten to add that the economics which gives such a neutral answer to a fiercely debated question is by no means a useless analysis to the statesman who is asking how, as a matter of practical policy, “preferred idleness” (deplored on moral grounds) may be reduced.

- (5) *The orthodox economists have realistically recognized the significance of irrational preferences in relation to scarcity through the conception of “net advantageousness”*

In practical studies, the economists have always been realists. Have they not always recognized and accepted as data (to which their scientific

⁶ This is one of the consequences of the inappropriate simplicity introduced by Mr. Keynes to which we have referred in chap. 1, para. 8.

⁷ There is, however, an entirely different conception of “involuntary unemployment” in Mr. Keynes’s book, entangled with the ones we are here discussing. He seems to hold that if money wage-rates greater than the competitive are cut, even if universally, it will not lead to the increased employment which a rise in wage-good prices would stimulate. We do not here attempt to discuss the grounds on which this theory is based.

method has been applied) certain important sources of irrationality? Have they not frequently stressed the truth that diffused and unseen impositions on the individual are acquiesced in and conspicuous burdens objected to? Have they not taken into account in any practical judgments which they have been called upon to make the fact that increases of prices of consumers' goods are often *hardly noticed*? Was this not, indeed, a central theme of Bastiat's *Ce qu'on voit et ce qu'on ne voit pas*, which he regarded as *L'Economie Politique en une Leçon*? And is this not one of the paramount issues which the serious reformer must always consider? The truth is, of course, that the orthodox economists (when venturing to point out the implications of their science) have been under no illusions as to the existence of pig-headedness, mere pique, feared loss of prestige and dignity, or resentment at "capitalist exploitation," all of which may work to cause wage-cuts to be more indignantly viewed than equivalent or greater rises in the prices of "wage-goods." They have certainly never built on the assumption which Mr. Keynes attributes to them that the supply of labor is "a function of real wages as its sole variable."⁸ On the contrary, the classical and orthodox theory of wages has been dominated by the conception of "net advantageousness"; and even if the economists' judgment of the importance of the peculiar elements of disadvantageousness which Mr. Keynes stresses has been faulty (and we do not believe that this is so), it gives no shred of justification to his sweeping assertion that, in consequence, "their argument breaks down entirely."⁹

- (6) *It is the statesman rather than the economist who is concerned with the avoidance of the results of irrationality in preferences*

The problems that emerge in attempts to consider the "irrational" elements in individual estimates of net advantageousness are not of the kind which economic analysis can solve. The statesman must ask questions of the following kind: Can the results of consumers' or income receivers' irrationality be avoided whilst the irrationality itself is allowed to persist? Is there an *essentially* educative aspect of recommended policies which are otherwise indefensible? Can workers in general be deceived "for their own good" in a manner which will not necessitate

⁸ Keynes, *General Theory*, p. 8.

⁹ Ibid.

further deceptions later on? What sort of authority can really be trusted to deceive workers “for their own good”? Thus, suppose immediately inflationary policies are being considered. The “deception” issue may obviously be relevant, and these further questions also arise: Is an increase of wage-good prices justified because it protects the dignity of certain workers whose preference for work is thereby preserved? Can we ignore the corresponding effects upon the claims of creditors who may not be irrational in respect of their contractual income-rights? Economic theory can give no answer to these questions. It can throw light upon the nature of inflation, but that is not our present concern.

(7) *Sources of irrationality unconnected with wage preferences are probably much more serious*

Moreover, if we are concerned about *one* type of irrationality in the worker's tastes or in his response to the economic complex, surely we ought to consider it in the light of the whole of his tastes and responses, which must be similarly evaluated according to our principles of rationality whatever they may be.¹⁰ If there is some measure of regrettable unemployment due to one cause, must we not envisage this factor in relation to similar causes which operate to the worker's detriment, even if not expressed in “idleness”? Suppose we think (as social reformers) that his concern with nominal rather than “real” wage-rates is the result of his placing undue importance on his income status; suppose we regard it as a manifestation of an unworthy snobbishness; and suppose we see in it a contributory cause of degrading idleness; can we not pass equally or even more severe strictures on his preferences in respect of many other things? Consider the laborer's expenditure on the cinema, wireless, holidays, sport, gambling and drink. Can we not criticize his wisdom in wrongly estimating consequences in respect of these also? And do we not find in them expressions of irrationality which *most* reformers would admit are of incomparably greater social urgency? Thus, it has been estimated that the average British workman with an income of £2 a week who is not a total abstainer, spends on an average 6s. 6d. on alcohol and 5s. 6d. in net gambling losses; and that a similar workman with £3 a week spend 10s. on alcohol and 8s. in net

¹⁰ I.e., according to our judgment of the individual's long-run real interest.

gambling losses. Hence, if we do venture into the field in which we criticize the wage-earner's bad judgment in seeking leisure and spending his income on his own and his family's behalf, should we not ask (in the light of our standards) whether his concern about his income status, or his pigheadedness, or his hatred of his employers and so forth, has an importance anything like the importance of his bad judgment or foolishness in the matter of many other things. In relation to the individual's own "real welfare" and that of his family, is it not clear that his attitude towards his income-status (or whatever else happens to be the cause of his indifference to "real" wage-rates) must be a relatively negligible factor? Surely the specific "disutilities" of work discussed in this chapter do not possess the great significance which has been attributed to them. Surely it is doubtful whether "preferred idleness" (as we are regarding it) is so greatly affected by the store which the workers irrationally set on the maintenance of nominal wage-rates. Their resistance to plasticity of wage-rates seems, in fact, to have an entirely different origin to which we have referred briefly in paragraph 3, and which we shall discuss in chapter x, paragraphs 14 to 16.

PARTICIPATING IDLENESS



- (1) *Resources are in participating idleness when their idle existence confers the right to participate in monopoly-revenues*

WE COME next to the consideration of a condition which can very easily be mistaken, in some circumstances, for “pseudo-idleness.” We shall call it “participating idleness.”¹ The condition arises when, as the result of a price higher than the competitive, resources remain attached to, or are induced to attach themselves to an occupation in which they are not actually employed. The inducement which prevents their scrapping is the fact that their owners acquire *the privately or legally conferred right of participation in the monopoly-revenues* or the chance of so doing. The right is usually contingent upon some productive services actually being *offered* in the monopolized field by the participating individual or firm. And some of the services available may actually be utilized. But the resources providing those services are either only partially employed or else only intermittently employed. To discuss this question we must make use of the largely self-explanatory conceptions of “enforced idleness” and “withheld capacity,” whose full significance we shall endeavor to make clear later.

- (2) *Participating idleness may arise under a restrictive quota scheme*

“Participating idleness” in equipment is not always easily distinguishable as such in practice. Consider the case of machinery which is not

¹ It has been difficult to find a wholly appropriate term for this condition, the adjectives “induced” and “distributive” both having some advantages. But after some deliberation, the term “participating” has seemed most realistic.

working because of restrictive *quotas* imposed by a cartel in response to a fall of prices. Such equipment may remain unscrapped for various reasons. It is when its continued idle existence is due to the fear that quota rights will be lost if the capacity is exterminated, that participating idleness may arise. Participation rights may, of course, be obtained in other ways. For instance, arrangements *may* be come to enabling the plant to be scrapped. Compensation (in the form of a capital sum or its equivalent) may be paid to those who *exterminate* specialized productive capacity. But when compensation arrangements of this type are *not* resorted to, participating idleness is likely to occur.

(3) *Resources may actually attach themselves in idleness to a monopolized trade because of participation rights obtainable*

The extreme form arises when resources are deliberately specialized—although it is recognized that they will remain idle—because, given the existing methods of determining quotas, the right to contribute a large output, or the right to continue with the present output, is thereby secured. The “quota” is, of course, always economically indeterminate.² But the associated interests must have *some* formula for distribution, however arbitrary, or the whole scheme for exploiting the community will break down. They can be observed in practice to fall back upon the idea of “reasonableness.” According to this principle, the “just” output for any individual or firm seems to be one which stands in some relation to past output and existing capacity.³ But each potentially competing enterprise which merges its interests within a restriction scheme will still endeavor to *enhance* its own rights within it. Hence a firm in this position will often insist upon retaining its capacity, or will even deliberately add to its capacity with a view to pleading for a bigger quota. In this way there arises one of the most interesting forms of “participating idleness.” In the parallel case which concerns labor, we shall see that the distributive principle seems to be vaguely related to the equal moral right of each individual. This is absent in the case of the firm. Past

² That is, there are no determinants in the price mechanism which apportion output among those who share in the benefits of monopoly. From the social standpoint the division must be arbitrary.

³ On the question of “reasonableness” and the “just” quota, see W.H. Hutt, “Nature of Aggressive Selling,” *Economica* (August, 1935): 315–16.

output is frequently the apparent determining factor; but the amount of equipment possessed is also felt to give the right (on occasion, perhaps, the power) to contribute a certain output.

- (4) *Unless complete mergers are possible, unused capacity is likely to be maintained for "quota-hunting"*

Unusual capacity of such a nature seems to be of considerable practical importance in the modern world. Several economic phenomena typical of contemporary society arise out of it. The struggle for a "just" distributive arrangement among owners of potentially competing resources conflicts with arrangements for the curbing of productive power. In the case of a merger in which there is complete absorption of all competitors or former interlopers, it appears to be relatively easy to keep production in check and destroy capacity. But with cartels, price-rings and looser forms of association, the interests which submit to collective control are often reluctant and rebellious, threateningly dissatisfied with their quotas. It is for this reason that "withheld capacity" is likely to be *preserved*. The retention of actual capacity is expected to confer or to win rights of participation. And capacity may frequently be actually expanded for the same reason, a process commonly alluded to as "allotment hunting" or "quota hunting."

- (5) *Since participating idleness militates against harmonious output restriction, other distributive arrangements may be sought*

With equipment, it is usually recognized, however, that other distributive arrangements are possible. Indeed, there may be a strong motive for such arrangements. There nearly always exists the feeling that such "surplus capacity" ought to be got rid of. It is recognized that the psychological effect of large quantities of idle equipment militates against the "loyal" maintenance of prices. When this point of view asserts itself, another aspect of the idleness is coming to light, namely, its "*aggressive*" potentialities. Now whilst, as we shall see, the "aggressive" aspect strengthens the monopoly in that it defends it from external interlopers, the internal situation is frequently precarious unless the distributive scheme is accepted as patently just by all those who are subject to it. If it is not felt to be just, then each member with idle resources seems to

be constantly menacing the rest. The mere existence of “participating idleness” in these circumstances may, therefore, prevent the preservation of good internal relations within an output-curtailing group, just as armaments intended to bring security to individual nations appear at times likely to precipitate war. So long as “excess capacity” exists, the cartel organizers have a delicate task. It follows that, when practicable, a sort of disarmament scheme is brought into effect. The actual scrapping or physical destruction of plant is arranged with a view to removing the incentive for “allotment hunting.” Or, less drastically, internal financial arrangements lead to an agreement not to provide for depreciation or renewal of the less favorably situated plant, so that the “surplus capacity” is gradually wiped out. These *internal* quarrels between potentially competing interests are, however, always in danger of being patched up and the plundering of consumers given a greater measure of permanence. As peace is to the advantage of all nations considered collectively, so the preservation of the monopoly is to the advantage of the members of the restriction scheme considered collectively. If the members can only have confidence in one another’s integrity, then the presence of “participating idleness” will bring no disadvantage over and above the loss of interest on the scrap value of the “withheld capacity”; and as we shall see later, the corresponding “aggressive” function in respect of interlopers from outside will make its continuance an advantage. It will not affect the immediate optimum price for the output of the monopolist group; but it will make a higher long-run optimum possible.

- (6) *Interloping resources may be attracted in to share in the chance of employment in a monopolized field. The consequent participating idleness may be illustrated by the example of petrol retailing*

Possibly the most important cases of “participating idleness” are those in which there are no struggles for distributive rights other than the reliance upon a certain *chance* of sharing in the spoils. The condition may exist when there is no effective restriction on entry into a privileged field of production. The owners of the idle resources know that through their existence and disposition, a certain *chance* of sharing in the benefits of a particular restrictionism will be achieved. In this instance, therefore, no question of quotas arises. A good illustration of “participating idleness” of this type in equipment is found in the

provision of petrol supply stations *when the retailers own or hire the apparatus*. Let us assume, for simplicity, that there is competition between the companies producing and supplying petrol (i.e., competition *except* among the retailers themselves) so that the virtually standard nature of petrol is recognized, and that therefore separate tanks and pumps for the different brands of rival companies do not exist. Tacit or formal monopoly may still rule in the relations among the retailers themselves, and be expressed in tacit or formal price maintenance. If such relations have influenced the charge for retailing petrol in any district, and there have been no completely effective arrangements preventing interlopers from invading the market, more equipment is likely to be provided than would have been set up under competition. For there are benefits to be reaped by participation in the monopoly revenues, and the mere provision of equipment confers the chance of sharing in them. Hence the process continues, successively diluting the shares obtained by each participant. The theoretical limit is set by the situation which exists when the chance of employment (the average degree of utilization) has fallen to an extent which equates the value of an investment in the monopolized field with an investment outside. Such a theoretical limit would tend to be approached only when interlopers could really intervene successfully; and if this were so, any *tacit* monopoly would break down. That is, unless custom or coercion fixed the price of petrol, it would fall to a level which would be inconsistent with any idle plant other than that in “pseudo-idleness” (the case discussed in chap. III, para. II). Contemporary social arrangements very seldom permit so economical a process, however, and a measure of participating idleness under which the earnings of exploitation are fairly widely diffused is the most common phenomenon in the retailing of petrol. The condition is manifested in more idleness or more scanty use being made of part or all of the plant than is required by the indivisibility of the efficient unit of apparatus.⁴ There is some extra capacity which, in the absence of the price agreement or tacit understanding, it would never pay to provide. For, so long as the price maintenance persists, all interloping equipment renders unprofitable (*ceteris paribus*) the utilization of an exactly equal capacity (on the assumption, of course, that the most profitable output is known). In these circumstances, interlopers *insert* a quantum

4 Efficient, that is, in relation to any local concentration of demand.

into the output of services; they do not *add to* the output.⁵ An identical situation exists whenever we get that duplication or multiplication of plant which propagandist and other confused literature refers to as “the wastes of competition.”⁶

(7) *Participating idleness may easily be confused with pseudo-idleness or aggressive idleness*

We must recognize that in equipment the preservation of “excess capacity” under monopoly *may* often be due to other motives than the achievement of “participating” rights. It is difficult to interpret actual situations. “Pseudo-idleness,” in particular, may be mistaken for “participating idleness.” Thus, the associated owners of equipment may want to have it available at a later date because they think that a revival of demand will then make an expansion of output profitable. They may believe this, even if they have a complete monopoly of their specific product. And they are even more likely to be reluctant to give up (i.e., despecialize by scrapping) productive capacity if it is their policy to forestall the intervention of potential interlopers when better times arrive; for to pursue this policy they must not unduly exploit their monopoly in response to expanding demand, and they will then be glad to have the reserve plant available. But “aggressive idleness” is probably even more easily confused with “participating.” We shall return to this question.

⁵ See Hutt, “Nature of Aggressive Selling,” p. 315.

⁶ We must remind the reader that if the geographical (spatial) distribution of demand plus the indivisibility of the efficient unit of apparatus causes intermittent utilization there is no wastefulness present. There is “pseudo-idleness.”

CHAPTER VIII

PARTICIPATING IDLENESS
IN LABOR



- (1) *Participating idleness in labor is most clear under “short-time” work with “work-sharing” motives, the monopoly-revenues being shared equally*

PARTICIPATING IDLENESS” in labor is found in its clearest form in “short-time” labor policy with “work-sharing” motives. By withholding labor, the workers receive a sum over and above what would have been the competitive (natural scarcity) value of the total work supplied. But instead of some of the workers moving out to other jobs when the amount of work supplied is thus cut down, they participate in the extra revenues by sharing in the reduced supply of work. *Sharing the work confers the right to share the spoils.* If they move out, they lose such rights: hence they stay, in partial idleness. Having once obtained a footing in the trade, they can claim their share by exploiting the supposed moral sanction of the “right to work.” This means an equal share of the revenues per individual, for such equality is regarded as obviously equitable.¹

- (2) *Cessation of recruitment is a means of sharing monopoly-revenues among a declining number*

As those attached to a trade which has “withheld capacity” die off, however, their rights tend to die with them; and if things remain static, the monopoly-revenues will gradually come to be shared among a smaller

¹ The rights are not taken as completely equal where the question of grades comes in. If the proportionate numbers of workers in each grade (e.g., between bricklayers and their laborers) can be rigidly enforced, there can be *any* division of the spoils between the groups as such.

number of individuals. But other things do not remain static in practice. External causes can be observed to lead to the breakdown of this form of protectionism. Moreover, even when the restrictions are most strong, it may be felt that the sons of those employed, for instance, also have the “right to work.” And public opinion, which has to be considered, is influenced by the search for careers. Sufficient apprenticeship or recruitment will sometimes be permitted, therefore, to spread the proceeds over a number of individuals which does not diminish. But the existence of “short-time” usually seems to justify the refusal to recruit. And there is no necessary reason why those with control of entry should not limit recruitment until, following deaths and departures, all attached to the trade are employed for the full conventional working day, whilst sharing the plunder among themselves. The monopoly continues, but “participating idleness” has then vanished.

(3) *Participating rights are not conferred on a worker accepting another employment*

Now, curiously enough, the point of view which regards an equal division of the monopoly revenues as obviously equitable almost always vanishes if an individual does not remain in the actual employment. We say “curiously” because no imaginable equity would be disturbed if an individual could carry such rights with him. Distributive arrangements are *conceivable* under which the smaller supply of work could be provided by a smaller number of workers, each working for the full working day, the rest leaving the trade and getting their proportion of the proceeds of exploitation in the form of compensation. The burden on the community would be less if that course were followed, for the workers withdrawing could compete (i.e., society could utilize their services) in other fields. But we have found no case of this in practice. Either there has been no recognition of the surplus of monopolistic earnings over competitive earnings under labor restrictionism;² or, if the surplus has been clearly or dimly recognized, it has been felt that public opinion would not approve of more blatant ways of dividing it up.

² This is most frequently the explanation. The workers themselves, of course, do not recognize that they are in any sense sharing in the benefits of restrictionism. In the usual case, they may simply know that they have found the field which gives them the best attainable income.

- (4) *An excluded worker may remain unemployed and attached to a monopolized trade because his availability increases his chance of the privileged employment it may offer*

A rather similar and fairly common case is that which originates when a worker is *ousted* from his trade through an enforced wage-rate increase (which makes his continued employment unprofitable) or through wage-rate rigidity in times of depression. Work-sharing is not thought to be good policy and the benefits are held on to by those who are actually employed. Let us suppose also that there is no *partial* sharing through unemployment benefit. The ousted worker may then refuse other available work, not (as in the case of “pseudo-idleness”) because the *competitive* rate of earnings in his original trade makes his *chance* of employment there more valuable, but because his *chance* of sharing in the monopoly gains is thereby increased. If he has once been in the trade, his chance of this is higher than if he is *purely* an interloper. For, although his right to share equally in the spoils has been tacitly denied, it may still seem morally just that increased demand for the product should result in his being absorbed before any *further* exploitation of consumers should be practiced. His availability is, so to speak, privileged.

- (5) *Even if temporary employment would not destroy an excluded worker's availability it might weaken his right to privileged employment*

The amount of idleness may be enhanced in such a situation because the displaced worker is likely to regard it as good tactics to refuse other employments even when they do not reduce his actual availability in case of a revival of demand. For unless he has priority rights obtained through membership of a skilled union, the possession of another job may seem to weaken the force of his “right to work” in his former occupation. This factor probably works in very closely with another psychological consideration. The displaced worker may know that he will “lose caste” through accepting lowly paid work temporarily and that this will militate against his return to his main occupation. Thus J. S. Poyntz tells us³ how “one foreman says that a mechanic who is out of work would

3 In *Seasonal Trades*, edited by S. Webb and A. Freeman (London: Constable, 1912), p. 48.

not go to the gas-works in the winter; he believes that he would rather starve. It would count against him in his next job. They would say, "He is only a gas-stoker; he is no mechanic." In part, such refusal of work must be regarded as coming under the category of "preferred idleness," in that the feared loss of prestige is a fear of the loss of *amour propre*. The loss of the *right* to work (or the right to priority in recruitment) as a mechanic may, however, often be the main factor in this kind of circumstance.

- (6) *Interlopers may be attracted in to share in the chance of employment in a monopolized field. The consequent participating idleness may be illustrated by the example of stockbrokers*

"Participating idleness" of the type in which there is no struggle for distributive rights other than the reliance upon a certain chance of sharing in the spoils arises not only through those eliminated from employment in a trade remaining attached to it, but through interlopers actually being attracted in. When it is present, we have one of the circumstances in which the term "overcrowded," as applied to an occupation, has some meaning. The state can occur when the remuneration of those in a trade is fixed monopolistically at a high rate, whilst freedom of entry cannot be completely prevented, or priority of recruitment cannot be effectively enforced. The clearest example is that of stockbrokers whose charges are fixed whilst entry is only partially restricted. Many stockbrokers have little business to do for quite long periods, but owing to the absence of competition, there is still a sufficient chance of earnings to make it worth their while to enter and remain.

- (7) *Participating idleness in the medical profession*

In other professions, the participating idleness or idling is not so simply demonstrable. A complex and possibly important example is that of medicine. There are some grounds for fearing that the problem will become serious at some future time in this profession. But the situation is disguised in this case. Fees for medical services are not fixed as stockbrokers' charges are fixed. There is, indeed, nothing to prevent a doctor from practicing discriminatory charges as between his patients. But this

power in itself proves the existence of some personal or collective professional monopoly; and although not formally fixed, fees are controlled by “reasonableness” (tacit monopoly), custom (differing from district to district), understandings, and notions of professional etiquette. There is no “standard rate,” but the trade-union is powerful. On the other hand, the limitation of entrance through heavy charges for training, lengthy courses of study, and a process of elimination by examination cannot be completely effective. For apart from the possibility that public opinion would revolt against too conspicuous a restriction of entry, there are vested interests on the part of teaching institutions which can collect a tax for the privilege of competing for entry to the profession. The teaching interests are not likely to allow this valuable traffic to be killed by the practicing interests. There is also rivalry among the teaching bodies which weakens the tacit monopoly that gives rise to the tax. Fees for tuition and training are not so high as they could otherwise be fixed, and the percentage of passes at examinations is allowed to be higher. The result is that in the profession itself a system of sharing (of both work and remuneration) must sooner or later come into being, many practitioners earning a living more by the height of their fees than by the intensity of their work. The effects of overcrowding in this case would be seen in a certain leisureliness, or slackness, or padding, on the part of many practitioners; not in actual “idleness” in the usual connotation of that term. We may call the condition “participating idling.”⁴ As long as means of entry are not made too difficult or expensive, this dilution, both of services performed and of the monopoly-revenues, is likely to continue. Eventually, after successive dilutions, individual expectations of earnings within the profession must reach an equilibrium (a dangerously unstable equilibrium, perhaps) with those in other occupations. This equilibrium will depend upon the presence of under work—a diffused and disguised⁵ “withheld capacity”—in the protected profession.

4 The fact that the leisureliness is not very evenly spread (as it would tend to be if chance were the *only* factor) is due partly to the fact that differential reputation, social standing, personality (and perhaps differential skill), and the goodwill which is bought with a practice, and so forth, influence the amount of services rendered by individuals at the conventional or fixed fees.

5 Thus, consultations may take longer than would really represent economy of a practitioner’s time if he were trying to work at full capacity. This is one of the results of the situation which always arises when prices are fixed but not the output and quality

(8) *Participating idleness may exist in poorly paid casual trades*

Something of the same situation can exist in some of the casual and very poorly paid trades. Difficulty arises in studying this province, however, for in the interpretation of practice, we are faced with a very complex situation. In the first place, such employments are already “overcrowded” in a sense different from that which is implied by our term “participating idleness.” As we have emphasized earlier, badly paid occupations represent the opportunities left to all those who have been excluded from better ones by restrictionism in the labor market. Hence, rates of earnings are likely to be very low in the remaining opportunities *even if there is additional restrictionism* in them. Second, and this is a more serious problem, with which we must deal, there may be no *obvious* monopolization but yet *actual* monopolization among workers in the least privileged types of occupation. In the absence of wage-fixation (say by trade boards), it may seem that we have absolutely no parallel to the cases of “participating idleness” which we have already discussed. But a similar situation may in fact arise for the reasons explained in the following paragraph.

(9) *The odium attaching to employers of low-paid labor has the same consequence as wage-fixation*

In the matter of the remuneration of the lowest paid sections of the working classes, a thoroughly confused public opinion tends to view with disfavor those who offer employment to workers whose services are of low market value. Instead of condemning practices and institutions which *cause* their value to be low, it is customary to frown on the *entrepreneurs* through whose initiative they are connected with the most satisfactory remaining opportunities. Consider the common reprobation of “the sweater,” for instance. So stupid have typical reformers been, that they have expected *petty* capitalists, as well as important ones, to rectify a situation which is the product of widespread restrictionism. The whole system of distribution through the value mechanism has been influenced by coercive interferences in the labor market; and yet the “sweater” (the

of the commodity sold. Competition then tends to be expressed in other, less urgent things than prices (from the consumers' point of view).

“bad employer”) has been expected to put this right by paying more than the market rate for the dregs of the labor supply. Thus, when a “national minimum” has been advocated (on the grounds that great poverty is deplorable) the plea has not been for *distributive* arrangements to enable the community to pay (through taxation) for pensions or bonuses for the poor, which would remove the social conditions or injustices that offend it.⁶ On the contrary, the agitations have been unwittingly asking for production to be cut down (i.e., for scarcities to be contrived) in unmonopolized fields; for such is, of course, the actual effect of burdening any set of free productive operations with imposed costs. The poor are to be helped by the taxation of those who supply cooperant resources for the employment of the ousted poor, and by consumers being made to bear a wholly avoidable detriment. And as in general the poorest must also suffer most as consumers, and as those who are not poor usually manage to get part of the proceeds of contrived scarcities (especially “the good employers”),⁷ the ultimate result is to rob the under-dog of much more than is conspicuously distributed to him. It is widespread confusion of this kind which has led to the tragically misconceived anti-sweating propaganda and it is the same confusion which is indirectly responsible for “participating idleness” in the low-wage classes. It has meant that odium has attached to the employers of the poor. Hence, when “the employers” have been large corporations with some measure of “natural monopoly”; or when they have stood in tacit monopoly relation to their rivals (like, say, the London Dock companies in pre-war times), and when their managements have also been sensitive to public feeling; or when the humanitarianism of their directors has not been guided by social insight; they may have voluntarily offered wage-rates in excess of the market value of labor and so have burdened their economy with extra costs, restricted their demand for labor and recouped themselves from the consumer. In spite of the cause being misplaced altruism

⁶ In other ways, such direct redistribution *is* resorted to, especially through the “social services.” A good example is the case of subsidized housing schemes. But here the benefits in practice go to those organized in building rings, the suppliers of building materials, architects and privileged artisans. This appears to work to the actual detriment of the poor, as the subventions have the effect of bolstering up the various building monopolies. With the education services, professional parasitism has not been so effective and some part of the benefits have been allowed to reach the poor.

⁷ On the significance of “the good employers,” protected by wage-fixation, see W.H. Hutt, *Theory of Collective Bargaining* (London: Staples, 1930), pp. 100–04.

on the part of the employing corporations, or their conspicuous if reluctant response to public disapproval of low wage-rates, the effect in these circumstances is exactly the same as if wage-fixation had been resorted to by labor combinations or authoritarian action. Whether the origin of the policy is mainly altruistic or due to fear of odium is of no consequence. The *fact* must be recognized if the complexities of the unskilled labor market are to be realistically studied.⁸

(10) *Participating idleness is an important contributory cause of the casual nature of some poorly paid employments. In these circumstances, decasualization is inequitable*

We have to face, therefore, a curious result. A trade in which earnings would be regarded as low even under continuous employment for the conventional working day may yet be remunerated at so much above the market rate that, when all attached to it have a roughly equal chance of being taken on each day or each week, a sufficient number will share in that employment to reduce the average earnings of the marginal employees to what they could earn elsewhere. Surely this is an important contributory cause of “casual labor.” If this “participation” factor is the sole cause in any case, then the recurrent idleness of individuals cannot be regarded as the productive condition which can be called a “reserve.” The remedy in such a situation cannot be the arrangement of an imposed or collusive decasualization, unless those responsible for policy are prepared to enforce a less equitable division of the opportunities which the labor market offers. The reformer might regard that solution as the lesser of two evils. But, to be defensible, imposed or collusive decasualization ought to be advocated only after the fullest recognition has been given to these considerations.

8 There can be an additional cause of “participating idleness” associated with casual labor in a field in which there is free entry. When it is difficult for “the employers” to judge individual efficiency, it is very easy for tacit monopoly to arise among the workers employed. It will be expressed as “participating idling,” in the form of *ca’ canny*—not necessarily organized, but a spontaneous, hardly collusive withholding of efficiency with the immediate object of increasing the chance of employment—of making the job last as long as possible. But unless there is a barrier to the occupation, or unless there are no poorer classes capable of interloping, each extension of monopoly will result in a countervailing dilution, again until the *expectation of earnings* within is equated to that outside.

- (II) *Work-sharing arrangements resemble the quota systems of cartels; and unemployment benefits paid out of union funds resemble cartel bonuses to compensate for the withdrawal of output*

There is a very close analogy between cartel practice and current trade-union policy in the device of “short-time.” In so far as the latter represents deliberate work-sharing, it brings about a kind of under-employment similar to the effects of reduced quota allotments when the equipment, although having scrap value, is not scrapped. We have seen that alternative arrangements enabling participation in the spoils of restrictionism are conceivable. Such arrangements appear to exist under a trade union’s unemployment fund, or under an unemployment insurance scheme in which the funds are provided entirely by the workers’ own contributions. The object of unemployment pay is undoubtedly in part to secure the consent of those whose labor is displaced by high wage policy. They are potential interlopers, dangerous to the monopoly; and unemployment pay certainly makes their acquiescence more likely, or renders easier their loyalty to the unions in the advantages of whose restrictions they themselves may hope to share later on. The resemblance to the bonuses paid by some cartels for the idleness of certain plants is obvious.

- (12) *Unlike unemployment benefits, cartel bonuses are not contingent upon the continued idleness of the resources in alternative employments*

But the existence of unemployment pay does not result in practice in the dissolution of “participating idleness” among displaced workers. This constitutes a possibly important distinction between the endowment of “withheld capacity” in plant and its endowment in labor. The factory owner who accepts a reduced quota (in return for a bonus) is free, if he wishes, to apply his “redundant” plant to some non-competing work: the displaced worker is *not allowed* to use his powers in other fields. Private and State unemployment insurance benefits are in practice virtually contingent upon the individual refusing any paid work, even outside the trade from which his colleagues have ejected him or from which he has “loyally” withdrawn. Moreover, similar conditions are insisted upon in respect of State and private philanthropic

“poor relief.” “Participating” rights in these circumstances are dependent upon virtually absolute idleness. Possibly because those responsible for policy are inhibited from regarding such contributions as bonuses for scarcity creation—the frank recognition of which might cause disconcerting misgivings in respect of the morality of the policy; or possibly because, in contrast with work-sharing, the distribution of the advantages or the incidence of the burden will seem unjust; or perhaps because of other sources of confusion which cause the contributions to be regarded as charitable payments, generously subscribed by warm-hearted colleagues; the workers displaced by labor restrictionism are given, not unconditional compensation to make up their income to something near to what they could earn in a free market, but a bounty for keeping out of the labor market altogether. The idleness resulting must be regarded as “participating” in spite of the distributive rights acquired happening to confer such a very meager portion.

- (13) *In practice, State-subsidized unemployment benefits support general restrictionism in the labor market and are contingent upon absolute idleness*

The position is complicated in practice because it is not only his union, or an organization representing “the industry” which buys the consent of displaced workers. The State also contributes. However admirable we may consider the political ideals which lead to the State contributing to unemployment funds, or however expedient we may consider the policy, we must admit that the effect is to provide an official support to private restrictionism in the labor market.⁹ Society, unconsciously—and given the past perhaps wisely—accepting the goodness of the *status quo*, endeavors to preserve the rates of earnings among the more favored groups of workers; and the pacification of those displaced is seen to be a more effective way of preserving traditional inequalities than wage fixations alone.

⁹ Post-war developments in England were realistically forecast by Sir Sydney Chapman in 1908. He pointed out how the subsidizing of trade-union insurance would eventually necessitate the State upholding trade-union policies and standards (L. Brassey and S.J. Chapman, *Work and Wages* [London: Longmans, Green, 1904], part II, pp. 325–36).

- (14) *Cartel arrangements are voluntary in a sense in which labor restrictions are not*

As the effect of unemployment insurance is in some measure a purchase of the cooperation of workers in a system which deprives them of the right to the more remunerative forms of work, we must regard their displacement as giving rise to “withheld capacity.” It is less easy to regard it as “enforced idleness.” At the same time we have to remember that the trade unionism or wage-regulation which brings about their exclusion is not voluntary in the sense that cartel agreements are voluntary. The latter are usually rational agreements. Cartel members insist upon adequate bonuses in return for their promise not to under-cut. But to an impartial and dispassionate observer it seems, on the face of it, that displaced workers get (from their union or the State) a mere sop. They appear to consent because they do not understand. The impression persistently asserts itself in the present writer’s mind that it is nothing but their ignorance which prevents them from insisting upon an *equal* sharing of the spoils in return for their agreement to refrain from “black-legging.” They apparently acquiesce; the unanimous voice of their teachers has, one feels, instructed them that the restriction of competition constitutes their great safeguard; but the question of the distribution of the benefits of such restriction is never raised. Surely the acquiescence of the unemployed is based on an illusion which survives only because it is to no one’s interest to dispel it. During the protests against “the means test” in Great Britain, this fundamental issue remained hidden.

- (15) *For justice, the compensation conferred by a union’s unemployment pay should be complete*

That the true nature of unemployment insurance is that of a bonus which is similar to, but in one crucial respect different from, the reward paid to a member of a price ring who cooperates by ceasing to contribute to output, has received hardly any recognition in the printed word. Blindness to this compensatory aspect of the “dole” has certainly colored the current moral attitude towards it in a quite unjustifiable manner. We can illustrate this point from a recent book by Professor Knoop. He appears to be arguing against subsidiary employment being undertaken by those in receipt of unemployment insurance benefits.

Of course, Professor Knoop is justified in deploring any breach of the law. Yet one feels that his attitude is dictated by his acceptance of the view that “the dole” should rightly be, not compensation, but a charitable payment to those for whom no other work whatsoever is available. Consider the following passage. He says that “... the Insurance Fund is being bled for purposes which ought not to be possible. For example, a suburban grocer, with a trade almost entirely concentrated on Fridays and Saturdays, may be paying his assistant 42/- per week. If such assistant were suspended from Monday to Thursday inclusive, he could draw 4 days’ benefit which in the case of a married man with one child would amount to 18/8d. The grocer might pay 25/- for his work on Friday and Saturday, so that the assistant would actually be better off than when on full work.”¹⁰ But why object to this? The *ideal* would surely be for the grocer to employ this man for the Friday and Saturday only for 25/- and leave him free to serve the community in some other regular job from Monday to Thursday, or in the almost unlimited casual employment for which the individual can bid in a free labor market. Could we *then* say that the grocer was “bleeding” the community? Could we in any way deplore *his* action when the shop assistant to whom *he* gives a regular two days’ work each week is paid 18/8d. out of the insurance fund on condition that he does not undertake *other* available work? And as for the shop assistant himself, if we bring in these moral issues, has he not a moral right to be “actually better off” than he would be if he depended on earnings alone? For has he not been ousted from, or persuaded to withhold his labor from the (individually) most profitable fields? We admit that many people will indignantly deny that the “ideal system” would leave such a person free to bid for whatever regular or casual work happened to be going during the first four days of the week. That, they will say, would cause him to compete and so to lower rates of earnings where they were already low. But if they argue this way, ought they not to contend also that compensation should be complete? If the leaders of organized labor really believe that “withheld capacity” generally practiced (taking the form of trade-union or State wage-fixation in the actual world, of course) can increase the earnings of the working classes as a whole, surely it is up to them to arrange an equitable system of sharing the benefits with those whom they force

¹⁰ D. Knoop, *Riddle of Unemployment* (London: Macmillan, 1931), p. 166.

out of employment or persuaded to withhold their labor. It is no answer to blame “the capitalist system.” This sort of injustice is obviously rectifiable in the present.

- (16) *Complete compensation would be insisted upon if the members of a trade-union regarded it as shareholders do a firm*

There would be a different story to tell if the members of a union regarded that body as shareholders do a firm. Displaced workers would then insist upon work-sharing or *full* compensation. Such an enforced dilution of monopoly increments might, of course, give added strength to the motives which make trade-unions into closed corporations. It is possible that patrimony, favoritism and bribery would be more powerful factors determining entrance to the better paid trades, and that age would repress youth, and men repress women, with even greater fervor. But the assertion of their rights by displaced unionists would also be likely to expose to the unprivileged classes the nature of the parasitism which condemns them to relative poverty.

- (17) *Organized labor has usually been hostile to the dilution of monopoly-revenues through work-sharing*

One feels that it has been a hazy recognition of such a threat to popular acquiescence in trade-unionism that has stimulated occasional opposition to “short-time” policy from the industrial and political labor camps. The arguments used have, of course, stressed the unfairness to the workers themselves; the injustice of placing the burden on those least able to bear it; the danger that incomes generally will be forced below the minimum required for the maintenance of physical efficiency; and other considerations which the social scientist cannot help suspecting have been devised to camouflage the real issue. It is very interesting to notice the “complete right about face”¹¹ on the part of Mr. Sidney Webb on the short-time question. In 1891, it was clearly the “withheld capacity” aspect of the practice which had caught his attention. He then stressed

¹¹ So described by F.C. Mills in *Contemporary Theories of Unemployment* (New York: Columbia University Press, 1917), pp. 98–99, footnote, from which the following passages from Mr. Sidney Webb are quoted.

(in *The Eight Hour Day*) the “beneficial results” in respect of employment creation achieved through shorter hours. But by 1912 he could argue (at the National Conference on the Prevention of Destitution) that “a reduction of the hours of labor could not do anything whatsoever to prevent the occurrence of unemployment.” Are we wrong in surmising that the “dilution” aspect of short-time was now in Mr. Webb’s mind, with all its menacing and ominous implications?

(18) *The failure of the poor to share their poverty is the most neglected aspect of the unemployment problem*

If those social reformers who have no political or financial axe to grind could only be brought to realize that their strivings would be better guided if the light of economic analysis were allowed to fall on the labor market which they try to explore, they might see a new problem. We believe that they would recognize the fact that the poor do not share their poverty as the most worrying and neglected aspect of unemployment as a labor problem. The incidence of unemployment, even when of the type which we class as “preferred idleness,” is one expression of the unjust distribution¹² of the direct burdens of restrictionism. It is part of the wider issue of the inequitable sharing among the workers of their aggregate earnings. Because each class tries to be parasitic upon the class beneath it (in the wholly false belief that it is the capitalist class which is in fact mulcted), and because some compensation or relief is offered by society, distributive injustices are largely manifested in “preferred idleness.”

¹² “Unjust” in the sense of *unequal*.

ENFORCED IDLENESS



- (I) *Resources excluded from or withheld from monopolized employments must, if they remain idle, be idle in some other sense also*

THESE IS another aspect of all resources which are in a state of “participating idleness” and of some which are idle in other senses. As any increment of resources which is in “participating idleness” could secure employment at any moment in the monopolized field by the process of under-cutting, it must either be “forced” into idleness or be voluntarily “withheld.” We can distinguish, therefore, two broad aspects of “participating idleness”; it is either “enforced idleness” or it is “withheld capacity.” These self-explanatory terms have already been used, but must now be further considered. They indicate causes of idleness just as the term “participating” does. If the enforcement is removed, or the motive to withhold is dissolved, the idleness disappears; and, on the other side, the loss of the “participating” rights or their conferment in other ways, will also cause the resources to be utilized, through scrapping or otherwise, in new fields. “Participating idleness” is not, however, the only form of idleness which results from coercion or the withholding of capacity. In the case of labor, the excluded or withheld resources may be left in a state of “preferred idleness”; and in the case of all excluded or withheld resources, they may be left in a state of “valuelessness” *in respect of any alternative employments* (absence of net scrap value when equipment is concerned), or in a state of “pseudo-idleness” *in respect of any alternative employments*. It is clear, therefore, that the exclusion or withholding of resources is never a *complete* explanation of their idleness. They must either be “valueless” for all other uses or be left idle in some other sense.

- (2) *Enforced idleness is caused by the exclusion of resources during the monopolization of production; but the term has a limited meaning*

Enforced idleness exists when specialized resources have (a) been driven out of one productive employment by legal enactments (fixing prices, or fixing output directly), by physical violence, by threats, by “moral suasion,” by strikes, by boycotts, or by the use or threatened use of discriminatory charges (as under “aggressive selling”) and yet (b) have not taken other employments because of some “participating” rights conferred by idleness, or for one of the other reasons we have mentioned. Hence the notion of “enforced idleness” has a limited meaning. It does not refer to resources which have been diverted from any employment by restrictionism, unless they are then idle for one of these additional reasons. Thus, workers who have been deprived of their customary jobs (for which they have acquired specialized skill) through the raising of wage-rates, or the maintenance of wage-rates in times of depression, do not come into this category unless they refuse to accept alternative employments. And plants which are forced to shut down because of charges imposed on their economy through restrictive industrial legislation¹ can only be reckoned as examples of “enforced idleness” if they remain in existence. We cannot usefully think of their scrap materials (directed to, the next best employment) as “idle.”

- (3) *Enforced idleness must be distinguished from two other forms of “waste”: (a) specialized “diverted resources” which happen to find inferior employments, and (b) the hypothetical resources which might have become specialized in the monopolized field but for powers of exclusion*

Although, in a sense, those who have been prevented from acquiring skill in any trade because of apprenticeship regulations or irrelevant educational requirements may be thought of as “excluded,” we cannot regard them as in “enforced idleness.” Nor can we bring into this category those who are kept from a trade, for which they could acquire

¹ Industrial legislation preserving some collective good obviously does not fall under the heading of “restrictive,” e.g., laws preventing the pollution of rivers or the atmosphere.

competence, by some trade-union demarcation, or sex bar or color bar, unless they had at some time enjoyed employment in it. Similarly, we cannot regard physical resources which would have become specialized for a particular employment in the absence of restrictive legislation or private coercion as representing a sort of hypothetical “enforced idleness.” When we think of “idleness” in one of the senses in which the condition can be deplored, it is simply a conception which enables us to distinguish the most conspicuous (certainly not the most serious) forms of waste from others. It helps us to envisage the nature of a particular set of symptoms of waste. Capital equipment, driven into subsidiary, makeshift uses under “planning” and suchlike policies designed to secure “prosperity” represents what may be called “diverted resources”; but resources which become specialized to inferior productive fields because of the power of exclusion cannot be called “diverted.” They represent waste in yet another sense. All monopolies—in other words, all *contrived scarcities*—involve enforced waste; but the different forms of idleness can only be *indications* of its presence. The absence of idleness does not imply the absence of waste. In searching for the reasons which result in *the manifestation of waste in idleness*, it is appropriate to connect the causes with the immediate acts of public or private policy that precipitate it. Hence it is profitable to distinguish between (a) “enforced idleness,” and (b) (i) “diverted resources” which (whilst specialized) find fields of utilization, and (ii) hypothetical resources (including those whose original specialization might have been appropriate but has been destroyed by scrapping) which might have become specialized in the monopolized field but for coercive or voluntary powers of exclusion. At what point the process of despecialization causes resources to pass from class (i) to class (ii) is not important. But the main distinction—between (a) and (b)—is important because “factional unemployment” and “technological unemployment” are commonly regarded as due in part to demarcations and rigid wage-rates which restrict mobility between not greatly dissimilar occupations. But whilst these things cause the *diversion* of resources, and deter otherwise profitable specialization, they need not, in themselves, precipitate “enforced idleness.” And the most serious productive developments which are deterred through the exercise of monopoly power find no manifestation either as “diverted resources” whose specialization remains, or as resources in “enforced idleness.”

- (4) *“Diverted labor resources” may be described as in “disguised unemployment,” but the condition is unimportant in relation to other forms of waste which are not expressed in idleness*

Now Mrs. Robinson² has suggested that it is desirable to describe as “unemployed” certain resources which fall into the “diverted resources” category. She suggests that we should say that those workers are in “disguised unemployment” who have lost their main occupation and, although in jobs which produce *some* earnings, are virtually unemployed from a realistic standpoint. If we have correctly understood her point, it is that their meager incomes merely hide or disguise what is most important in their condition. For conceivable practical problems, her term is, perhaps, serviceable and graphic. There is waste of capacity and a distributive injustice in such a situation, and statistical and empirical studies of “unemployment” can easily ignore this aspect of the condition of the “employed” population. But the evil in this case is not *idleness*, and doubts as to the appropriateness of the term “disguised unemployment” arise therefore. Nevertheless, if we confine the notion to “diverted *labor* resources” which have been driven into some inferior occupation it may have some usefulness. The inferior occupation must involve the non-utilization of specialization (i.e., natural or acquired skill relevant to a particular task) which would still have value under free exchange in the *original occupation*. The conception connects the excluded workers with an employment into which they could immediately *slip back* if the coercion were broken down or (as we shall see in the following chapter) if the motive to withhold their labor disappeared. It cannot helpfully apply to wasted productive power which has not been “diverted,” however. There is no “disguised idleness” in the non-utilization of the *potential* capacities of the labor force in trades to which they have never been allowed to “become attached”; and *it is this last effect which really constitutes the serious waste under restrictive wage and recruitment policies*. Thus, working-class women may have become specialized to household duties largely through the exclusiveness of men’s labor organization. But although excluded from well-paid employments, there is no waste of *specialized* capacity; they have not

² J. Robinson, “Disguised Unemployment,” in *Essays in the Theory of Employment* (London: Macmillan, 1937), p. 82.

been “diverted” in our sense. Hence they could not be regarded as in “disguised unemployment.” Even if many such women could be *immediately* employed as interlopers at cut rates in unskilled jobs now monopolized by men, they would not be in “disguised unemployment”; for they would never have become “attached to” those trades. Their existing powers would be wasted but not “diverted.” The essence of “diverted resources,” which we may call “disguised unemployment” in the case of labor, is that a reversal of policy would enable the specialized resources to slip back into their first use. But we must repeat that such cases of wasteful utilization are not important in relation to the aggregate wastefulness in the application of, and the process of specialization of, productive power. Just as wasteful idleness indicates the presence of, but by no means expresses the burden of, the curbing of productive power, so “diverted resources” must form a very small, if perceptible, proportion of all wasted resources.

(5) *Enforced idleness may be caused by the monopolization of cooperant stages of production*

We must also regard as falling into “enforced idleness” those specialized resources in “participating idleness,” or those which are “valueless,” the original demand for which has declined subsequently to the investment owing to some contrived scarcity in respect of cooperant resources. In other words, not only may collusion among competitors enforce idleness, but the monopolization of a cooperant stage of production may have the same result. Thus, if there is a small gas-works which earns just enough to pay for prime costs, a rise in the price of coal owing to a cooperative coal marketing policy may force it to cease operations. Idleness in that sense is “enforced” also. The position becomes very complicated in this type of case, however (i.e., when it is cooperant and not competing resources which are excluded by monopolistic policy). For the *entrepreneur’s* decisions in the process affected may also be giving effect to some *new withholding* of capacity which he judges to be profitable because of the contrived scarcity in the cooperant stages of production. Or the idleness may be in the nature of a strike (although not popularly recognizable as such) due to a quarrel about the division of revenues obtained by joint restrictionism. But monopoly in respect of one process (which may or may not involve “enforced idleness” or “withheld

capacity” in the resources specialized for it³) may undoubtedly enforce idleness in specialized resources devoted to cooperant processes. As Professor Knoop has pointed out, “because wages are forced up in some sheltered industry, it does not follow that that industry will be the one to experience unemployment; the prejudicial consequences may affect other industries. For example, high wages in the railway industry, by helping to keep up railway rates, may react unfavorably on the coal industry and the iron and steel industry, in both of which cost of carriage is an important item among the expenses.”⁴

³ Obviously monopoly does not involve “idleness” when resources have been deterred from specializing themselves for the monopolized production.

⁴ Knoop, *Riddle of Unemployment*, p. 128.

CHAPTER X
WITHHELD CAPACITY



- (I) *“Withheld capacity” or “diverted resources” arise from voluntary monopolization*

“WITHHELD CAPACITY” arises when the State, or an individual or firm owning a “natural monopoly,”¹ or a firm uniting the ownership and control of competing resources, or a group of individuals or firms acting in collusion, cut down the output under their control with a view to securing the private benefits of contrived scarcities.² In so doing they obviously reduce the degree of utilization of the resources at their disposal in the particular productive process restrained. The phenomenon of “withheld capacity” will then exist if, for some other reason, the redundant resources are neither scrapped nor devoted (whilst specialized) to some alternative occupation. Resources which *do* find some other uses are (as we have just pointed out) “diverted resources.” They represent “waste” but there is no “idleness.” Whenever a cartel reduces quotas or agrees to pay a bonus to a member in return for the non-utilization of the whole or some part of his plant, then the “withheld capacity” type of “participating idleness” will be brought about; or, if substitute utilization is resorted to, there will be “diverted resources”; or the “redundant” resources will be scrapped. Reductions of the working day with “work-sharing” motives are, as we have seen, a parallel in respect of labor.³ “Withheld capacity”

1 On the distinction between “natural monopoly” and “natural scarcity” see W.H. Hutt, “Natural and Contrived Scarcities,” *South African Journal of Economics* (September, 1935). See also Appendix to this chapter on “The Conceptions of ‘Collusive’ and ‘Natural’ Monopolies.”

2 In the case of the State, and when the resources are State-owned, taxation may be the motive.

3 Of course, slow running in the case of plant and *ca’ canny* in the case of labor may mean that there is no increase in the hours of conspicuous idleness. “Idling” may not

(like “enforced idleness”) can only exist in isolation when it is left as “valueless resources” in respect of non-competing utilization. It may then be said to be in its “pure” state. To be so regarded, equipment must have no positive net scrap value. If it is not in its “pure” state then it must be explained as being in “pseudo-idleness” *in respect of substitute employments*, or in “preferred idleness” (in the case of labor), or in “participating idleness.”

- (2) *Mr. Keynes’s conceptions, “expectation of return” and “disutility,” cause the distinctions which we have to discuss to be overlooked*

Mr. Keynes’s approach to the problem attempts to make complete abstraction of “withheld capacity” because of the notion of “expectation of return” which he regards as determining “the level of employment.” If by “level of employment” is meant the degree of utilization of a given set of resources induced by a certain expectation of return in any industry, then it will be different according to the extent to which social institutions permit the autonomous or collusive contrivance of scarcities. Surely, then, the first stage of discussion should be focused on such institutions. The amount of natural resources or equipment offered employment in any industry of homogeneous production will be greater in the absence of a restrictive labor policy bearing on that industry; and the amount of employment of labor in such an industry will be greater in the absence of monopolistic arrangements among the owners of natural resources and equipment. Hence the study of idleness should concentrate on such restrictions, i.e., withholdings of capacity. In the actual world, the most effective collusion for restriction of production is that arranged jointly among cooperant as well as competing parties. In other words, capacity is widely withheld under “joint monopoly,” rather than as a unilateral policy resulting in less “employment” being offered to the opposing parties. Apparently failing to see the significance of this, Mr. Keynes has unwittingly made “effective demand” depend on the productive power which the *entrepreneurs* who control productive power allow to be effective. “Effective demand,” according to him, is the aggregate proceeds “which the *entrepreneurs* expect to receive, inclusive of the incomes which they will hand on to

be visibly recognizable as “idleness.” But the problem is obviously similar. The “waste” is of the “idleness” type, not of the “diverted resources” type.

the other factors of production, from the amount of current employment which they decide to give.”⁴ His “effective demand” is, in short, consistent with, but just as useless as, his conception of “disutility” as “covering every kind of reason which might lead a man, or a body of men, to withhold their labor rather than accept a wage which had to them a utility below a certain minimum.”⁵ And other writers have followed him in this sterile approach. Thus, Mr. R. F. Harrod takes as his “determinant,” “any consideration relevant to the decision whether to do a given piece of work.”⁶ Unfortunately, “inducement to work” so defined not only places a screen round all the distinctions which this essay seeks to emphasize, but in particular diverts attention from the fact that considerations of private profit may induce a withholding of capacity for other reasons than the “utility” of leisure or the avoidance of “disutilities” other than the loss of monopoly revenue.

- (3) *If the monopolists' optimum outputs are everywhere attained before depression, the further withholding of capacity in depression cannot be simply explained*

The motive to withhold capacity has a more complex significance than may appear at first. When the money demand for a product is falling, a privately serious distributive situation may develop for the owners of an enterprise. That is, their proportion of the receipts may fall. Now if an *entrepreneur* has throughout taken the maximum advantage of price and output agreements and has been charging the monopolists' optimum price for the product, he may be unable to resist a decline in the revenues of his firm by simply cutting output. A further restriction may not help him at all. For price depression must be in part expressed through *entrepreneurs* in other lines of consumption undercutting for the consumers' favor. Hence the demand schedule for his product is not only likely to fall but to present no less elasticity over the relevant compass. In other words, his optimum output may not fall at all when producers in supposedly non-competing lines are observed to be competing. Thus, a theatre and cinema monopoly *may* find that it pays to lower

4 J. M. Keynes, *General Theory of Employment, Interest and Money* (New York: Harcourt Brace, 1935), p. 55.

5 *Ibid.*, p. 6.

6 R. F. Harrod, *The Trade Cycle* (London: Oxford University Press, 1936), pp. 9–10.

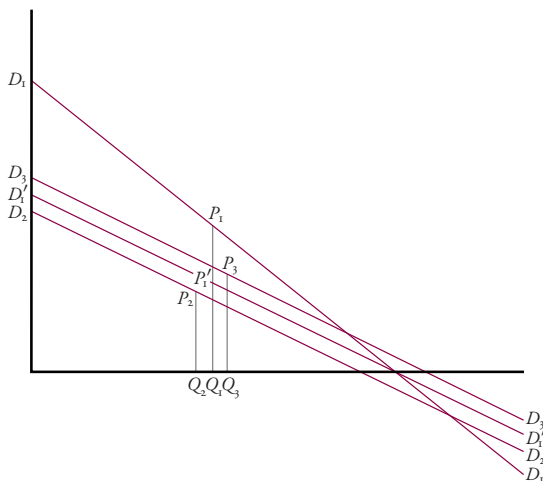
charges for admission in times of depression to a level which results in approximately the same number of attendances. Given the obviously valid assumption that demand schedules are not independent of one another, there are no grounds for assuming that monopolists' optimum outputs will fall, on the whole, in times of what may be called "pure price depression."

(4) *A "pure" price depression does not make the withholding of capacity more profitable*

The discussion of this point nearly forces us into a field which we here wish to avoid, namely, the problem of "demand in general." But we draw no controversial conclusions. Let us assume that the "depression" is *purely* a price depression, with no initial withholding of capacity.⁷ We can imagine the price depression to arise owing to an increased demand for an inelastic supply of money and money substitutes. The effect of this will be that money incomes, i.e., the money valuation of the services of all resources, will fall. *Ceteris paribus*, the effect upon demand schedules will be a mere change of scale. E.g., in the simplest case of a "costless" commodity the fall of demand can be represented as on the diagram below, in the shift from D_1 to D'_1 . In spite of the fall, the optimum monopoly output remains at OQ_1 , the optimum price changing from Q_1P_1 to $Q_1P'_1$. If it is argued that the *relative* demand for different types of services must necessarily be affected, then, if there is no withholding of capacity (and it is *this* phenomenon which we have to explain), some demand schedules will fall to, say, the position D_2 (i.e., a fall in relation to the new scale, so to speak) with the appropriate optimum outputs OQ_2 . But others will rise to the position D_3 , with appropriate outputs OQ_3 . The aggregate effect seems likely to be neutral. The presence of contractual obligations, avoidable costs, and specificities does not affect this conclusion; outputs OQ_2 will be larger than they would otherwise be in consequence of specificities, and outputs OQ_3 smaller.⁸

⁷ That is, we assume that the quantity theory in its simplest form is operative.

⁸ We cannot here discuss the supposed repercussions of the rise in the rate of interest upon the propensity to consume or to buy durable goods; for although it can be argued that a new preference for less physical consumption (e.g., of things other than leisure),



(5) *Interloping is not less easy during pure price depression*

It may be thought that the tendency towards monopolistic restriction of output is likely to be strengthened during price depressions by the reduced probability that interlopers will find it worth their while to construct new specialized equipment. Receipts may be well above *avoidable* costs for those who already own equipment, whilst they are below them for interlopers, who must incur the cost of new equipment before they can compete, and to whom, therefore, such cost is “avoidable.” But this view assumes that the prices of the services which can make the equipment do not fall to an extent which makes interloping just as profitable. Only the withholding of such services would, in general, make interloping relatively unprofitable. The market value of existing equipment may maintain the same relative value to new equipment in times of price depression.

(6) *The withholding experienced in practice is due firstly to the relations of monopolistic coöperant producers*

Why is it, then, that an increase of idleness is such a common response to trade depression? There appear to be two sets of reasons. The first

or a new preference for more security (liquidity), can precipitate *valueless resources*, there are no grounds for assuming that they can lead to the further *withholding of capacity* in relation to the new preferences.

arises out of the relations between coöperant producers who can share to some extent in monopoly-revenues. If the whole chain of producers at all stages of the productive process were acting collusively⁹ and rationally in response to the demand schedule for the final product, the considerations we discussed in paragraphs 3 to 6 would still apply. That output (or that price) determined by marginal receipts and marginal costs for the whole group would be to the advantage of the whole. (The division of the maximized net aggregate receipts is a subsidiary matter.) And in times of price depression, the optimum output would, *ceteris paribus*, be unchanged. But such perfectly collusive arrangements do not exist. Machinery for ideal collusion cannot be set up. Hence the maintenance of the price of the unfinished commodity at one stage, by one coöperant producer, may be to his advantage. The price he fixes does not affect, of course, that price for the final product which could produce the largest margin between aggregate receipts and expenses. But it *does* affect the avoidable expenses of each subsequent producer. This is simply because his claim on the value of what is finally sold is expressed in terms of price per unit.

- (7) *The incentive, among coöperant monopolists, to arrange their collective optimum output is defeated in the scramble to preserve individual revenues*

Unless there is some recognition of the collective private loss which is incurred in that way, and so the introduction of some collusive mitigation of the situation, the position *can* arise that a further withholding of capacity is profitable at each successive stage towards the final product. Such a situation is more likely to be present, at any stage, the less effective competition happens to be. The private disadvantageousness of the cumulative restriction from the point of view of the whole chain of producers creates an incentive towards the exercise of "reasonable-ness."¹⁰ That is, there is an incentive towards collusion with a view to mitigating the results of general over-restrictionism, and if enlightenment happens to accompany this incentive, agreements and bargains

⁹ We use the terms "collusive," "collusion," etc., with no suggestion of nefarious design, but in the sense of "coöperative," "coöperation." The latter terms would, unfortunately, have been even more misleading.

¹⁰ See below, chap. XI, para. I.

resulting in the cutting of prices to consumers, and to producers at successive stages, are likely to eventuate. Now this will mean for each producer an output greater than that indicated by marginal receipts and marginal expenses before such agreements. The price fixed at any stage through negotiation may result in the demand or the supply schedule for the unfinished product rising. The extent to which this is possible cannot itself be expressed in schedules. The output of each cooperating producer and the price he obtains are as indeterminate as his share of the monopoly revenues. It seems therefore that it is the absence of institutions to facilitate the required negotiations for the optimum outputs which can cause the further withholding of capacity in times of depression. A fall of prices can precipitate a new scramble among cooperating monopolists to get as large a proportion as possible of the aggregate monopoly revenues. It may be set afoot by what are usually quite innocently motivated attempts by each to maintain his former money revenues. If the output of the final product had formerly been the optimum for the whole chain, the new output will clearly be below it. From the social point of view, however, there are grounds for assuming that the further withholding is not so serious as this suggests. For it appears probable that the monopolists' optimum output is often exceeded in normal times.

- (8) *The withholding is due secondly to outputs having previously exceeded the monopolists' optimum, probably owing to "reasonable" and not maximum profits having been sought*

This brings us to the next conceivable explanation of the withholding of capacity in depression. It is possible that, in spite of the monopolistic organization of modern society, it would be wrong to suppose that the maximization of private profits is generally or frequently the goal of *entrepreneurs*; or, if it is, in a vague way, the object of their policy, that they are fairly unsuccessful in attaining their aim. What seems to happen is that most often the aim of producers enjoying a monopoly position is that of earning "reasonable" not maximum profits. The typical output under monopolistic conditions is above the monopolists' short-run optimum and quite frequently above the long-run optimum. Whether this is due to a fear of the consequences of public indignation, or to a fear of giving undue encouragement to interlopers, or to a sincere

feeling of responsibility towards consumers, or to a belief that a price only slightly higher than that which has ruled in the past is obviously “fair,” the fact seems to be that few firms have really conceived of the notion of the monopolists’ optimum price, still less have they tried to seek it. Even in cost accounting the conception has never intruded, and until economic analysis has some impact upon the minds of business men and accountants, it will hardly affect conscious policy. Moreover, under what has been called the “tacit monopoly” or “oligopoly” relationship, the same holds true. In these circumstances, the apparently competing firms are pursuing the policy which is loosely described by the words “live and let live.” They act “reasonably” by refraining from price-cutting, in the knowledge that they would all suffer if they did start cutting prices. Such a situation is probably nothing more than the result of the rather passive, uncritical acceptance of a customary and therefore supposedly “reasonable” price. The monopolists’ optimum price of the product for the group as a whole under tacit collusion is, in the abstract, as determinate as under formal monopoly. But in the actual world that we know, the *entrepreneurs* concerned can hardly be regarded as groping to find it. All they want is “fair” prices, “remunerative” prices, prices which will enable their profits to expand in accordance with their “reasonable” expectations. Hence actual prices in those circumstances must often fall much below the short-run optimum and probably below the long-run optimum also; and when depression comes the *entrepreneurs* find that they are in a position to minimize their losses by withholding capacity.

- (9) *A group may withhold capacity in its short-run interest, and against its long-run interest*

But even when the withholding of capacity which most effectively protects the earning power of a producing group in the short-run is contrary to the long-run interests of those in it, the policy is still likely to be practiced. For in times of depression, *entrepreneurs* may often be dominated by the *short-run* situation. In respect of policy determined by company directors anticipating angry meetings of shareholders, this is very likely. For reasons such as these, therefore, an almost universal phenomenon of trade depression is the widespread attempt “not to spoil the market” (as the phrase goes), or to retain “fair” and “remunerative”

prices.¹¹ Those policies are nearly always thought of in terms of the securing of prosperity. But it is obvious that “prosperity” in those terms spells “waste,” and the “waste” may be manifested in “idleness.”

(10) *Irrational withholding of capacity is particularly likely owing to the practical indeterminateness of the monopolists' optimum*

Such irrational withholding by monopolists is particularly likely for another practical reason. Even if we imagine that the notion of the monopolists' optimum is vaguely or clearly understood by those *entrepreneurs* who are confronted with circumstances which can make restriction of output profitable; even if we assume that such *entrepreneurs* have some grasp of the connected notions of marginal receipts and marginal costs (which define the optimum); it does not appear probable that the long-run optimum will be located except in the roughest possible manner. In practice, the aim of maximizing profits must be pursued through halting, experimental price changes. And *entrepreneurs'* price strategy must be formulated in the knowledge that the short-run reactions will give a most uncertain indication of ultimate results. Furthermore, the trial and error of *immediate* policy must itself determine in part what the most profitable *eventual* price should be, through its repercussions upon tastes, consumers' views about price reasonableness, and interloping and substitutional development. This being so, it seems probable that although the long-run maximization of profits may on occasion be an ideal which is sought as rationally as is practically conceivable,

11 As a rule, the notion of “not spoiling the market” is hardly a rational one; it usually implies nothing more definite than is conveyed by the phrase “cut-throat competition.” But it may have a more definite meaning. This arises from the belief that a temporary fall in price may result in an increased elasticity of demand for a product at prices above that to which it falls. Such a phenomenon would be explicable on the grounds that purchasers get used to the lower price, come to regard it as just or as the correct price, adjust their other expenditure to it, and in further ways come to acquire an outlook which leads them to spend relatively less in buying the commodity when it returns to its former price. The loss in such a case is a private one, however. We must remain neutral on the question of the goodness of such a situation. But if, as the effect of the temporary fall, taste and preference are materially and widely altered, it may be interpreted as a desirable thing. We can regard it as having stimulated an experiment in the distribution of individual spending power leading to a deliberate change in that distribution. The fear of spoiling the market must be distinguished from the fear of causing the monopoly to break by price cutting.

the actual position will be but vaguely determinable by *entrepreneurs*. Hence a strong temptation to follow short-run policies may be expected to arise in times of difficulty. That is, it is especially probable that in a proportion of cases the further withholding of capacity will appear to be the most likely means of easing *private* (e.g., from the point of view of a firm) distributive difficulties. Trade depression is therefore liable to be met by the maintenance (or only slight lowering) of prices which have seemed “fair” and “reasonable.” This is possibly a very important cause of price and wage-rate inertia in certain monopolized industries, and so of the withholding of capacity during trade depression in those industries.

(II) *Withheld capacity may be “individually rational” but “collectively irrational”*

Now it is obvious that, whether privately justified or not, the “withholding of capacity” can never be to the advantage of all producing groups, considered collectively, if they all pursue the policy. That is, it cannot benefit society.¹² On the other hand, it may well benefit some groups considered individually, if they can follow it and the producers of other things (for which they are consumers) are unable to do so. Hence, it may be individually rational whilst collectively irrational. But the policy of one group which simply refrains from restriction cannot thereby *force* other groups to abandon their restrictive policies. Only collective action through the State can prevent the holding back of productive power in the private interest.

¹² It might be urged in criticism of this sort of assertion that it is based on an analysis which ignores the financial consequences of value changes. In the world as it actually is, the withholding of capacity might be held to be socially beneficial if used to obviate bankruptcies, insolvencies, forced sales and recapitalizations with all their disturbing effects upon financial markets. But all sorts of otherwise indefensible policies could be defended on similar grounds, namely, that they preserve a distributive situation due to faulty capitalization policy in the past from violent change and from consequent destructive repercussions. How far it is justifiable to ignore the long-run effects of protecting *entrepreneurs* from the consequences of their own erroneous actions we cannot here discuss; for we are not attempting to deal with the expediciencies which must dominate practical policies. We are simply concerned to make clear all the issues which should be considered in the formulation of policies.

- (12) *Withheld capacity may be “individually rational” and irrational for the group*

Moreover, as we have seen in paragraphs 6 and 7, in respect of the relations between producers in the different cooperant stages of production a similar situation can exist. The producers at one stage cannot *force* those at other stages to drop restrictive policies by merely themselves refraining from restricting. To evade such a monopoly, they must find (or be known to be in a position to find) interlopers who may be induced to break into the monopolized cooperant field of production. But private or State powers of coercion frequently make this impossible. It follows that, in times of depression, and under States which encourage or tolerate restrictionism, the maintenance of prices (i.e., the withholding of capacity) is often the most advantageous response from the private point of view. And the output for the industry may frequently be brought, therefore, *below* the optimum for the industry as a whole. In such cases the withholding may be said to be “individually rational” but irrational for the group. “Reasonableness” alone will enable withheld capacity to be re-utilized and the optimum for the industry as a whole to be reached, unless collective action through the State dissolves all restrictions.

- (13) *When indivisibilities are large, the withholding of capacity may not, in rare circumstances, conflict with the consumers’ sovereignty ideal*

In one set of circumstances, the withholding of capacity by an individual *entrepreneur* has some apparent justification in the light of the consumers’ sovereignty ideal, namely, in all those cases in which price discrimination by a natural monopolist is to any extent defensible. Such cases are, we believe, of negligible importance in practice;¹³ but for completeness we must mention them here. For simplicity, let us consider the situation in the absence of price discrimination. The problem arises owing to what has been called the “technical factor,” the indivisibility of the efficient unit of supply of certain kinds of equipment. For example, a machine capable of producing 100 units of service a day may be

¹³ See on this point Hutt, “Discriminating Monopoly and the Consumer,” *Economic Journal* (March, 1936).

purchased, whilst only 50 units of service are actually required, the reason being that a smaller machine is unobtainable at all, or unobtainable except at a higher cost. Hence, with a constant demand, there will be some continuous “surplus capacity.” If this “surplus capacity” has no hire value, it merely represents pseudo-idleness. If it *has* hire value, it appears at first to represent withheld capacity. But if competitors actually *had* the right to bid for its unutilized services in that case, they might be able to undercut the original *entrepreneur*. The “full employment” of that plant, if the sense defined in chapter I is crudely interpreted, might result in its capital value falling to less than was originally paid for it. It is theoretically possible, therefore, that only the ability to prevent interlopers from using that capacity in such cases would lead to the enterprise being undertaken at all. Under existing institutions, of course, natural monopoly already gives more than sufficient protection when this situation is in any measure present; and under competitive institutions, a limited right to “withhold capacity,” if that term is really justified in this sort of case, could be conferred on an *entrepreneur* by contract prior to investment, when clear cut indivisibilities acting in the manner here described could be proved. In such a case, the contractually permitted idleness ought to be regarded as pseudo-idleness, just as a patent restriction which is really in the consumers’ interest ought not to be regarded as leading to a contrived scarcity in the light of the consumers’ sovereignty ideal. There is really “full employment” of a piece of equipment in our sense if those who voluntarily make use of its product are called upon to pay a sum the expectation of which is the minimum required to make its provision profitable.¹⁴

¹⁴ If price discrimination is practiced, in the circumstances which justify that practice, full (i.e., optimum) employment may exist in spite of capacity being *apparently withheld* from those purchasers from whom the higher price is demanded, and in spite of that capacity being *apparently* left as “diverted resources” (i.e., utilized for the benefit of those purchasers from whom the lower prices are demanded.) But defensible discrimination (or the parallel withholding of capacity under uniform charging) is really nothing more than a means of enabling those classes of consumers for whom certain goods or services satisfy relatively urgent wants to induce entrepreneurs to invest the necessary capital. Discrimination enables the entrepreneur to recoup himself for such capital expenditure from the consumers who pay the higher price. After a while, that capital must be regarded as paid off, however; and then continued idleness *may* entail real withholding of capacity, and continued discrimination *must* entail real withholding of capacity and diversion of resources.

- (14) *Mr. Keynes's "involuntary unemployment" may be intended to refer to the case of withheld labor capacity which is "collectively irrational"*

We can now return to Mr. Keynes's conception of "involuntary" unemployment. In chapter VI, we pointed out that the workers' alleged resistance to wage-rate reductions and their alleged acquiescence in a rise in the cost of living might not be due to "irrational preferences." Such a situation *could* be due, instead, to irrational policies, which is an entirely different question. It is obvious from our discussion in paragraphs II–12 that there is no essential irrationality in respect of restrictive or exclusive policies *judged by standards of private advantage*. But there may be gross blindness in the failure to work for the collective removal of restrictions and exclusions which may be collectively burdensome to all; and other practical circumstances may lead to misconceived policies. We agree with Mr. Keynes (if this is his suggestion) that grave misconceptions frequently bear on policy in the field of labor whenever the workers endorse, or their leaders formulate, policies which withhold or exclude labor. The collective aspect of restrictionism may not be seen and the workers may be injured by their intended protections. In endeavoring to obtain the maximum earnings for themselves their attention may be focused on money-rates. What earnings can purchase for the recipients may be but dimly envisaged as a connected result. And the "cost" relationship of one industry to another may be equally vaguely perceived. If the leaders of organized labor really understood how private restrictionism burdened the laboring classes as a whole, they might recommend wage-rate reductions to prevent a futile, self-stimulating and cumulative withholding of capacity. But widespread reciprocal action, involving also the mitigation of restrictions imposed in the defense of dividends, might be necessary to make such a policy seem superficially tolerable.

- (15) *Mr. Keynes's conception seems to be based on the assumption that the power to withhold capacity cannot be restrained and that the resulting idleness can be avoided only through monetary policies*

The "involuntary unemployment" which Mr. Keynes discusses may possibly be meant, then, to refer to "collective irrationalities" in the sense which we have just discussed. If so, he seems to be arguing that restrictionism in the labor market constitutes an insurmountable barrier, and

that readjustments eliminating “involuntary unemployment” can be obtained only through the “real” rates of earnings of labor being reduced in a *tactful* way, i.e., by leaving money wage-rates untouched, a stratagem which can be best accomplished by inflating prices through monetary policy. Unless this is a misinterpretation of his view, he cannot rightly compare orthodox economists (who hold that restrictionism—whether rational or irrational—cannot be taken for granted) with “Euclidean geometers in a non-Euclidean world, who discovering that in experience straight lines apparently parallel often meet, rebuke the lines for not keeping straight.”¹⁵ Those orthodox writers who have sought to apply classical theory to social problems have thought in terms of institutions, human knowledge and the observed conduct of men. Experience of these things has never led to their being *expressly* described as inevitable by the critics of orthodoxy. How far can the social scientist so regard them? Suppose the source of rigidity in the labor market has to be ascribed to the necessity for saving the face and preserving the livelihood of trade-union leaders; or suppose it is believed to be due to the fact that the finance of a large political party and the maintenance by it of an immediately purposeful and popular program necessitates the continued belief on the part of the masses that wage-cuts represent the exploitation of the “have-nots” by the “haves”; or suppose we feel that the origin of such rigidity lies deeper and involves capital organization and ideologies as much as it does those of labor; are we, as practical economists or sociologists, to accept these facts as natural or as inevitable and so treat them as fundamental assumptions?

(16) *The economist cannot regard the withholding of capacity as inevitable*

The politicians may have to regard certain irrational monopolistic policies as inevitable during the present age. And as pure theorists, we may find it convenient, on occasion, to reason from the assumption that a rigidity based on palpable social blindness is unavoidable. If so, we must state that assumption explicitly. But as realistic students of society, we have to face the truth that such rigidities are based on institutions which it appears to be within the power of society to change.

¹⁵ Keynes, *General Theory*, p. 16.

The politicians may well retort that to be frank about this issue is to display a pathetic political naivety; that to question the sanctity of the right of “collective bargaining” must of necessity condemn the social scientist to impotence. But that can hardly deter those of us who are not selling policies in return for power. We need not, indeed we must not, accept the view that because the leaders of labor will not advise a strike for increased wage-rates against a rising cost of living, whilst they will be forced to resist wage-cuts, an inflationary policy is justified in the light of some accepted social ideal. As realistic students of contemporary institutions, are we not bound to recognize the stark fact that the system whose effects it is hoped to avoid by the inflation stratagem remains unshaken? Of course, Mr. Keynes’s case for the monetary policies he recommends rests upon much more subtle arguments than those which we have here examined; and he would certainly deny that his suggestions can rightly be called “inflationary.” But it does appear to be crude reasoning of this type which is most likely to win for his point of view the support of “practical men.”

ON THE CONCEPTIONS OF “COLLUSIVE” AND “NATURAL” MONOPOLIES



IN THIS DISCUSSION, we have used the term “monopolist” to cover controllers of natural monopolies as well as controllers of collusive monopolies. A monopoly is “natural” when it does not depend upon any amalgamation of interests through the purchase of competing resources or any other form of contractual or tacit collusion. In practice, the natural monopolist is one who owns some unique source of supply, or enjoys what the present writer has called “the advantage of site and size” (i.e., “geographical advantage” or “scale of production advantage”). Now, every *entrepreneur* confronted with a downward sloping long-run demand schedule is a monopolist unless his autonomy is limited in some other way. And one method of attempting to limit such autonomy in the case of natural monopoly, is public utility control. The object of public utility control is presumably to restrict *entrepreneurial* powers in such a way as to convert a monopolistic situation into a competitive one. We use the term “competitive” because the attempt is clearly to enable the disposal of the resources at the *entrepreneurs* command, not according to private interest, but in accordance with the interests of society; and the free movement and utilization of resources, regardless of private interests which are thereby injured, is what orthodox economists have in fact meant by competition. That was, by implication, the traditional meaning of the term until recent abstract expositions started applying adjectives like “monopolistic,” “imperfect” or “impure” to “competition.” Distinctive names may be more appropriately applied to the institutions within which the essentially homogeneous force of competition tends to bring about an equilibrium. One does not talk about “buoyant,” “imperfect” or “impure” gravity because there are balloons and aeroplanes.

The natural monopolist is in a position to benefit by allowing scarce resources or scarce available services to be wasted; and he is in a position also to exclude resources from coming in to cooperate in the field under his control. That is, he can limit investment to his own advantage. But he is in that position because of existing institutions. Hence Mr. Kaldor's suggestion¹⁶ that the notion of "institutional" monopolies should be confined to those based on "restriction of entry," and that natural monopolies (arising from economies of scale) should cease to be termed "monopolies" seems to be based upon misconceptions. Natural monopolies equally exist because institutions permit them. And they restrict "freedom of entry" in exactly the same way that collusive monopolies do. This is most clear in respect of the amount of *cooperant* resources which they allow in. Their demand for such resources is limited by the identical principles which limit collusive monopolists' demand for cooperant resources. But even when they waste part of the supply of "costless" but scarce homogeneous products (e.g., a mineral water spring, part of whose output is allowed to run to waste), they do so by "restricting entry" in the sense that they deny access to the supply. And when natural monopolists "withhold capacity," they do so for the same reasons as collusive monopolists, and with the same effects.

We have thought it necessary to make this point because there seems to be a rather vague tendency in some academic quarters to suggest that, because natural monopoly exists, and because to some extent almost all productive activities enjoy some uniqueness, attempts to create competitive institutions must be visionary. Such a view implies that withheld capacity is inevitable when it depends upon natural monopoly. We do not accept that view, although we cannot here discuss the institutions necessary to limit the autonomy of natural monopolies, just as we have not here been concerned with the actual means of dissolving collusive monopolies. But we admit that the problem of public utility control has so far received even less satisfactory discussion than the problem of anti-trust policy in respect of amalgamations and associations. And it may well be that control of the former constitutes a much more practically difficult problem than control of the latter. Nevertheless, the framers of social policy who are concerned with the idleness of resources and

¹⁶ N. Kaldor, "Professor Chamberlin on Monopolistic and Imperfect Competition," *Quarterly Journal of Economics* 3 (May, 1938): 523–29.

its connected problems need not be unduly perturbed by such difficulties. For apart from the large public utilities (which are in any case usually protected also by collusive agreements or legal enactment), natural monopoly can be observed in practice to be of relatively small importance *in comparison with collusive monopoly*.

In the absence of collusive monopoly (in conspicuous or unrecognized form) there can be little withholding of capacity.¹⁷ It is true that each individual in the labor market may, in addition to purchasing leisure, endeavor to maximize his earnings by holding back his services. But only in the case of rare skills, such as those of virtuoso musical performers, can any importance be attached to this possibility.

¹⁷ The reader must be reminded that the withholding of stocks has nothing to do with the withholding of capacity. Stocks of commodities are only withheld in our sense when their liquidation is proceeding at a rate slower than that required by the social interest (that is, under the consumers' sovereignty criterion, consumers' interest). See chap. III, para. I3.

STRIKE IDLENESS AND AGGRESSIVE IDLENESS



- (1) *The distribution of monopoly-gains among cooperant monopolists is indeterminate, and may depend upon “reasonableness”*

IN DISCUSSING the relations between cooperant stages of production in the **last chapter**, we ignored an important consideration which may arise when two or more of these stages are monopolized. Idleness of a different kind may result from the arrangement of distribution among the owners of *cooperant* sets of productive operations (e.g., firms, and groups of workers) who are sharing in the benefits of restrictionism. It has its origin in distributive considerations but is otherwise completely different from that which is the product of bargaining among the owners of *competing* resources. When purely cooperant activities are concerned, no question of quotas arises. But the proportion of the monopoly-gains which accrues to each cooperator is just as indeterminate as the size of quotas. The monopolists’ optimum output (which is to their collective interest) is again independent of the shares of the monopoly revenue which each cooperant party happens to get. If output falls short of the optimum at any time, then arrangements are conceivable under which no cooperant monopolist will lose whilst the whole will gain. As no principle of distribution exists, however, it is once again probable, as we have already pointed out, that “reasonableness” will dictate the solution. And “reasonableness” usually means in practice a division of the spoils not diverging greatly from the proportions in which aggregate revenues have been shared in the past. The result is expressed in the prices charged for monopolistically controlled cooperant services at each stage of the productive process. To some extent contracts may give permanence to any system of distribution which develops. But “vertical” monopolies which are

not held together by complete amalgamation appear to rest in the long run upon little more than tacit understandings reinforced by custom and the acceptance of the *status quo*. It is not surprising, then, that each cooperant firm or group still wishes to get more for itself out of the benefits achieved by exploiting consumers.

- (2) *The distribution of monopoly-gains may depend upon bargaining, in which case "strike idleness" may arise*

But as there are no principles other than that which is based on the maintenance of existing rights, it is obvious that a deadlock must sometimes arise. A price is demanded which the next cooperant producer in the chain of production refuses to pay at all. His response is not to *cut down* his purchases but to *cease buying* altogether. Consequently, two sets of resources stand idle; and unless there are stocks of semi-finished goods ahead, and unless previous cooperant producers can manufacture for stock, the whole chain of production will be brought to a standstill. This will be the result if interlopers (i.e., "blacklegs") are not attracted in and substitutes are not available. We can call it "strike idleness" because the strike, organized by a trade-union, is the most common cause of the actual phenomenon. But the term "strike idleness" as we have used it, applies to all of the resources rendered idle, and not merely to those owned by the party which takes the initiative in demanding a price change in respect of productive services being bought or sold. It is futile to try to distinguish "the aggressor" from "the defender," unless we call the party which demands a *change*, "the aggressor." The strike and the lock-out are of identical nature. Thus, in the labor contract issue, in both cases the workers collectively demand a previously existing or a new wage-rate (or conditions similarly affecting costs) and refuse to supply any labor at all unless it is conceded; and in both cases "the employer" (or "employers" collectively) refuse to engage any labor at all at the wage-rate insisted upon.

- (3) *When competing firms operate over more than one set of cooperant productive processes, distribution may be arranged through "demarcations," which may be enforced by strikes*

We must now consider the fact that "withheld capacity" arrangements among a number of *competing* firms, each of which operates over *several*

stages of the productive process, may take a different form. Agreements may be expressed, not in quotas, but in “demarcations.” Each firm will consent to specialize for the future on, say, a particular process and give up the others. Especially where this policy has been followed, but in many other conceivable circumstances, the resulting *firms* may stand in both an *actually* cooperant and a *potentially competing* relationship to one another. And even where a cooperant firm or group cannot *itself* compete by invading other stages of production, it may frequently be in a position to supply interlopers in a subsequent process. Hence it may indirectly be in a potentially competing position. We frequently find a like situation in the *internal* relations of organized labor. The essence of the quarrel between “craft” and “industrial” unionism arises out of circumstances of this kind. In respect of the claims of cooperant groups, however, it is seldom a collusive *agreement* that binds the monopoly together; it is tradition and the recognition of a vested interest which determines each group’s functions (and indirectly their claims) under a demarcation scheme. In all of these circumstances, because of this twofold—cooperant and competing—relationship, the strike may be used against potentially *competing* firms or groups. When employed in this way, the “strike” has much the same significance as “aggressive selling.” It may be used to enforce “joint monopoly,” that is, to prevent cooperant monopolists from invading spheres tacitly or formally forbidden to them, or to prevent them from dealing with outside interlopers who may wish to operate in some other stage of the productive process. This is manifested in the relations of organized labor to “the employers,” i.e., the shareholders. The strike is used to prevent “the employers” from dealing with interloping labor. And all coercive enforcement of “demarcations” is one of the same nature.

- (4) “Strike idleness” does not arise from “withheld capacity” unless a cooperant producer resists in order to force a sharing of the monopoly-gains

It is important that the “strike” should not be confused with “withheld capacity.” Let us suppose that in a field of production in which competitive institutions are freely functioning at the outset, the workers

succeed in combining and suddenly demand together an increased wage-rate. If the capitalists *really* stand in a competing relationship with one another, the effect will be, as in any other increase of costs, that output will fall and the burden will be partly transferred (through a price increase) to consumers. The transfer may be either direct, or through the next stage of production. So far, there will have been “withheld capacity” on the part of labor. Suppose that there are no substitutes for the labor and no further labor-saving organization is possible; and suppose the resulting commodity price to bring the maximum aggregate receipts from the sale of the final product. The monopoly-revenue part of these receipts is available for sharing among *all* the parties to production. Hence, if the “capitalists” understand the position, and wish to preserve their former income, they *can* share in the spoils. They can do this by coming to a collective decision concerning the wage-rate which they will pay. *There is no strike* unless there is action based on such a decision (or unless the capitalists resist with altruistic intentions, being unwilling to see consumers exploited). Until the capitalists acting in collusion—or in the case of single capitalists possessing some monopoly advantage, acting singly—refuse to give employment except on terms agreed among themselves, the idleness caused is merely “withheld capacity” on the part of the workers. The essence of the strike is that it is temporary, and in intention coercive. The coercion is based on the power to dislocate the process of “roundabout” production by the withdrawal of temporarily or permanently, imperfectly or absolutely, irreplaceable resources. In a “pure” strike between two parties, each side believes that the other will be the more burdened or inconvenienced, and counts on the other side’s continued waste of its services forcing it to acquiesce. And the position can be equally simply conceived of when several cooperant parties are involved. But in practice the position is not so simple. It is complicated because potential interlopers usually stand ominously near, and because cooperant monopolists are tacitly threatening to bring in such interlopers if unreasonableness is persisted in; and because the coercion of the strike is used for other purposes than fighting over the distribution of the value of the product of a set of operations under conditions of monopoly. These problems do not now concern us, however. Our present object is to distinguish clearly between idleness of “withheld capacity” and “strike idleness.”

- (5) *“Aggressive idleness” arises from the maintenance of unutilized capacity with a view to aggressive selling against potential interlopers*

There is yet another reason why producers in a trade may desire the preservation of equipment in idleness. They may desire it collectively rather than individually, as a means of aggression against interlopers (the case of “aggressive idleness”). Far from being a disadvantage in these circumstances, the idle equipment must be thought of as a protection for the monopolists collectively, worth much more to them than its scrap value; for it confers the power to sell aggressively in order to crush *new interlopers*. Hence it stands as a constant menace to would-be interlopers. Restriction schemes are threatened less from *internal quarrels* than from the danger of competition from outside. It is probably *interlopers* rather than those who are already sharing in the spoils who most often cause the disintegration of collusive monopolies. Indeed, it seems probable that the greater part of that divergence of interest within, expressed chiefly through quota-hunting, would cease entirely if the permanence of a cartel could be assured by the suppression of all external competition. There is every motive therefore for keeping idle capacity in existence for the specific purpose of deterring interlopers. The motive may usually be but vaguely present in the minds of cartel authorities. But they are conscious of the power which it confers, even if hardly aware of its origin. We may call such idle capacity “aggressive idleness.”¹ It is relevant internally as well as externally because every member of a cartel, for instance, is a potential interloper. He actually becomes an interloper immediately he breaks the understanding or collective agreement by cutting price or exceeding his quota. The idle equipment may be aggressively employed (through discrimination or otherwise) on rare occasions only; but its aggressive function is fulfilled by the threat implied in its mere presence. When it is *engaged* in an act of aggression, it is, curiously enough, no longer idle. The distinction between “participating” and “aggressive” idleness is not always clear when internal relations are considered, although in principle the distinction is plain enough. Capacity provided with aggressive intent may lead to participating rights being conferred. If the maintenance of the capacity is then necessary for the continuance of these rights, it is

¹ See W. H. Hutt, “Nature of Aggressive Selling,” *Economica* (August, 1935).

in “participating idleness.” If that necessity is due to the requirement of a continuous threat to internal price-cutters, it is *also* aggressive. But rights acquired by internal aggression *need* not demand a permanent defense. Income-rights so achieved come to be regarded as “reasonable,” whatever their origin.²

² We can think of no parallel to “aggressive idleness” in the case of labor, although privileged labor groups may benefit from the condition in coöperant equipment.

CONCLUSION



- (1) *This essay has concentrated on “idleness” issues and ignored “demand” issues.*

WE HAVE now dealt with all the “causes” of idleness. Yet the subject matter of this essay differs fundamentally from that of most recent discussions of “unemployment.” This is because we have rigidly separated “idleness” issues from what are usually regarded as “demand” issues. Our approach has meant that the principal topics of contemporary theorizing, namely, certain forces behind the movement of demand schedules for the services of different sets of resources have been deliberately ignored. We have said nothing about the sort of things commonly discussed in connection with variations of “demand in general.” We are, however, justified in claiming that we have dealt with the “causes” of idleness. For whatever the demand schedule for the services of particular resources may be, if those resources are idle, then one or more of the causes appropriate to the different types of idleness that we have distinguished must be present. The movement of individual demand schedules is certainly relevant because the *extent* of the various kinds of idleness in the particular resources concerned will *frequently* tend in practice to vary inversely with such movements. But in respect of each type of idleness, considered in isolation, the removal of the one specific cause will lead to the complete cessation of the unemployment of the type in question, irrespective of the state of the demand schedule. This does not mean that an attempt to consider each type of idleness, in each case, in isolation, could lead to a realistic or useful view of the employment question; for different conditions of idleness in one line of production may obviously react upon those in others. The definitions we have introduced enable us to conceive of proximate

causes only. But such causes are important and there is an indefensible tendency to ignore them in contemporary discussions. We may say that forces expressed through the relevant demand schedules in particular sets of productive operations sometimes control the *potency* of the different causes; but in each case, apart from that of “valueless resources,” the idleness ceases with the elimination of *a cause which is independent of those forces*.

- (2) *The present analysis has introduced distinctions which are essential for any satisfactory study of the effects of demand variations.*

The peculiar scope which we have chosen may leave the impression that the most important aspects of idleness have in fact been overlooked. But the analysis here attempted seems to be absolutely essential if satisfactory studies of the effects of phenomena usually described as variations of “demand in general” or “general purchasing power” are to be made. If the chaotic controversies in which this study at present abounds are to be cleared up, the implications of the different types of idleness which we have pointed out may have to be faced. We are not sure of the manner in which an application of our distinctions would modify recent inquiries into the nature of general purchasing power. But that they have a most important relevance is surely obvious. Take, for instance, the conceptions of “glut” and “gluttability.” Does the existence of a glut of a commodity mean that all or some of the resources producing it are “valueless,” or that in the glut situation it pays to “withhold capacity”? Surely the whole problem takes on a completely different complexion according to which interpretation is appropriate.

- (3) *The application of the conceptions of this essay to monetary theory has yet to be done*

It has been alleged of more than one contribution to the social sciences that the author has left the impression of packing a trunk in preparation for a long voyage of exploration but has got no farther than his own doorstep. It may well be that others may set out on the travels for which we have here made preparations. We are not sure of what will be discovered, but a clear and simple map is urgently needed. At present,

either the thinking behind or else the exposition of time-preference and liquidity-preference studies is hopelessly confused.

(4) *The conceptions of this essay are relevant to the non-monetary aspects of idleness*

But this essay is intended to be much more than mere trunk packing. We believe that the conceptions which it isolates are directly relevant to contemporary policy outside the monetary field as well as to prospecting within it. Although currency controversies await solution, many of the most acute problems which confront the policymakers of today will survive any advance in scientific insight into currency theory, or growth of enlightenment in currency policies. May it not be that Marshall was shrewdly correct in his continuous preaching that the “only thing to be said about currency is that it is not nearly as important as it looks”? As the present writer emphasized some years ago, “it is easy to expect too much to be accomplished by an ideal monetary mechanism. The recognition of certain deficiencies in an existing regime may lead us to suppose that the right system of money, if we could only find it, would automatically correct the results of the refusal to make otherwise desirable adjustments in many spheres.”¹ But “the perfect monetary system would not prevent the perpetual fight between productive efficiency (enforced where competition is effective), on the one hand, and the vested interests which determine the division of the value of productivity (as they can do when competition can be restricted) on the other hand.”²

(5) *The conceptions of this essay are relevant to the trade cycle*

The notion of variations in “prosperity” can be realistically studied in terms which assume the existence of the ideal monetary system. For is not “prosperity” in fact a distributive rather than a productive concept? Is not a policy which brings “prosperity” in its popular sense one which protects or enhances rates of wages and rates of dividends? And are not these rates of return maintained or raised through the diversion

¹ Hutt, book review, *South African Journal of Economics* (December, 1934): 476.

² *Ibid.*, p. 477.

of resources, some of which find inferior employments, and some of which remain in idleness? Does not the distribution of wage-earners tend to be more biased towards the less well-paid types of employment the higher the rates of payment that are insisted upon? And is it not obviously true that typical methods of dividend protection mean that new capital developments are prevented from taking place when they would supply productive services which the market indicates are most wanted—because the competitive effect of such development is felt to be too serious? Is that not at least a partial explanation of the popularity of schemes for subsidized public works in depression? Would we not be still likely to have, even under an ideal monetary system, the occasional emergence (often regarded as a cyclical emergence) of situations in which the apparent reasonableness or profitableness of the monopolistic withholding of productive capacity in the interests of dividends or wage-rates is increased? Would an ideal monetary system in fact put an end to the powerful and painful equalitarian tendencies which all the current attempts to restrict competition have been unable completely to suppress?

(6) *The conceptions of this essay may suggest the correct approach to the monetary aspects of idleness*

Even before the days when the general form of classical monetary theory began to crystallize, it had been realized that the “quantity of money” was somehow a fundamental force in the determination of “prosperity.” Mercantilist speculations reflected the conviction that scarcity of money was a major disadvantage to be overcome by State policy. And the refinements brought about during the foundation of orthodoxy in the late eighteenth century never denied the phenomena from which Mercantilist beliefs had been derived. Hume observed that the entry of new money into the economic system had the effect of “exciting industry.” And a large part of subsequent study has been indirectly devoted to discovering the exact genesis of such “excitement” of production. In this connection two suggestions appear to be implied by the argument of the thesis here presented: (a) that inquiries in this field ought to be directed in their first stages to the problem of whether the “excitement” brings value to valueless resources; or whether the repercussions of the “excitement” are primarily expressed in the dissolution

of withheld capacity and enforced idleness, and only secondarily, if at all,³ in enlarging the range of valuable resources; (b) that inquiries in this field should examine the contention that both in the practical selection of monetary policies under political systems dominated by “pressure groups,” and in the less tangible psychological influences determining typical preference for or tolerance of inflationary theories, the distributive effects have subconsciously loomed more important than the productive. We have suggested that the “prosperity” envisaged in monetary discussions has, in spite of the implication that the condition is accompanied by the absence of idleness, been more of a distributive than a productive concept. And although it is true that the cyclical idleness of resources *seems* to be a phenomenon of production and not of distribution, it has never been shown that there is anything more than a random periodicity in such cycles of idleness. Our present hypothesis concerning their “occasional emergence” certainly fits the facts as well as most other theories.

(7) *Wasteful idleness arises through the restriction of competition*

Regrettable idleness, like other forms of “waste,” seems to be the product of arrangements which allow private interest to triumph over social interest. It arises, in other words, because our laws permit competition to be restricted. Hence, no improvement of the monetary system alone is capable of eliminating causes of idleness whilst other existing institutions remain. And this essay has incidentally drawn attention to some of the defects in these institutions. For reform, we shall probably have to wait for the embodiment of social ideals in a *consistent* philosophy of the functions of the State and the convincing exposition of that philosophy.



3 The release of productive power may cause the range of valuable resources to *contract* rather than expand. See chap. II, paras. 2 and 10.

INDEX



A

- Advantage of site and size, 93
- Aggressive idleness, 4, 11, 29*n*, 57, 100–01, 101*n*
- Aggressive selling, 73, 98, 100–01
- Aggressor, in strike, 97
- Alden and Hayward, 36*n*, 41*n*
- Allotment hunting. *See* Quota-hunting
- Apparent withheld capacity, 29, 88–89
- Availability, 25–26, 31, 32–33, 60
- Avoidable costs, 81, 82–83, 97, 98–99

B

- Bad employers, the, 4, 63
- Bastiat, F., 49
- Beveridge, Sir William, xiv, 36
- Black-legging, 68, 97
- Bleeding of Insurance Fund, 69
- Bonuses for scarcity creation. *See* Compensation
- Brassey and Chapman, 35, 67

C

- Ca' canny, 65, 78*n*
- Cairnes, J. E., 10–11
- Cannan, E., 11
- Cartels, 52–54, 66–67, 68, 78, 100

- Cassel, G., 3
- Casual labor, 4, 32–35, 36–37, 42, 63, 65, 68–70
- Causes of idleness, conception of, 5, 102
- Chance of employment in a monopolized field, 55–56, 60, 61, 62, 65
- Chance of employment in unmonopolized field, 33–37
- Chapman, Sir Sydney, 34, 67*n*
- Charity Organization Society, 36
- Children, 18–19, 22–23
- Classical theories. *See* Orthodox economics
- Collusive monopolies, 93, and *passim*
- Compensation for leaving a trade, 59, 66–71
- Compensation for withholding or exterminating capacity, 52–53, 55, 66–71, 78–79
- Competition, conception of, 93–94
- Consumers sovereignty, 13–15, 46, and *passim*
- Contrived scarcities, 64, 74, 76, 78, 89
- Cooperant processes and enforced idleness, 76–77

Cooperant processes and strike idleness, 96–99
 Cooperant processes and withheld capacity, 82–88
 Cooperation through exchange, willingness for, 14, 17
 Comte Auguste, 10
 Convict labor, 18–19
 Craft unionism, 98
 Cyclical idleness, 4, 106

D

Decasualization, 42–43, 65
 Deception of consumers for their own good, 45–46
 Deception of workers for their own good, 50, 90
 Defender in strike, 97
 Definition of idleness, chap. 1, App. to chap. 1
 Definitions, principles of, 2–3, App. to chap. 1
 Deflation, 81–82, 105–06
 Degradation through idleness, 38–44, 50–51
 Demand in general, studies of, xiv, 79–80, 81, 102–03
 Demarcations, 73–74, 97–98
 Depreciation, 15, 24–25, 31
 Destruction of skill, 31–32
 Dignity of the worker, 47, 49, 50
 Dilution of participating rights through interloping, 55–57, 61–62
 Dilution of participating rights through unemployment benefits, 59–60
 Dilution of participating rights, through work-sharing, 70–71
 Discriminatory charges, 61–62, 73

Discriminatory charging in the medical profession, 61
 Disguised unemployment, 4, 75–76
 Distributive scheme, xvi, 54–55, 68, 87, 104–06
 Disutility and inducement to work, 2, 79–80
 Diverted resources, 4, 9, 89, 73–77
 Dole. *See* Unemployment insurance and assistance

E

Economic activity, increase in, 14
 Educative restraints, 42–43, 49–50
 Effective demand, 79–80
 Empirical and logical criteria of idleness, 4–6
 Employment
 optimal, x
 sub-optimal, ix, x, xi
 Employment exchanges, 24, 35
 Enforced idleness, chap. ix, and *passim*
 Equality, xv–xvi, 35–37, 43–44, 64, 65–71, 105
 Equality of participating rights under work-sharing, 58
 Expectation of earnings, 33–35, 61, 65*n*
 Expectation of return, 7, 79–80
 Extermination of capacity, 52–53, 54–55
 Extravagances of poor, 43–44

F

Feldman, H., 43
 Firm, trade union regarded as, 70
 Floating labor, 34–35
 Frictional unemployment, 4, 74
 Full employment, viii, 8–9, 16–17, 28–29, 88–89

G

Glut and gluttability, 103
 Good employers, 64

H

Harrod, R.F., 2*n*, 7*n*, 80
 Hazlitt, Henry, x
 Holidays, 38, 50
 Hours of labor, 14, 52, 58, 70–71
 Household services, 19, 40*n*
 Hume, D., 13, 105

I

Ideal collusion, 38–39
 Idling, 9, 78–79*n*
 Immigrant workers, 36
 Income from availability, 26–27
 Indeterminacy of participating rights, 52–53, 58, 59, 82–86, 96–99
 Indignation at wage-cuts, 35, 46, 84–85
 Indivisibilities, 28–29, 56, 88–89
 Inducement to work, 2*n*, 52, 80
 Industrial unionism, 97–98
 Inevitability of restrictionism in the labor market, 90–92
 Inevitable delays in changing occupations, 34, 35
 Inflationary policies, 50, 90–92, 105–06
 Investment in availability, 26–27
 Investment in persons, 19–20, 22–24, 31
 Involuntary unemployment, 47–51, 90–92
 Irrational choice or preference, 45–46, 50–51
 Irrational preferred idleness, chap. vi
 Irrational withholding of capacity, 86–87, 90

J

Jones, Richard, 10
 Just output, 53

K

Kaffir work, 39
 Kahn, R.F., 5*n*
 Kaldor, N., 94
 Keynes, J.M., vii, x, xiv, xv, 1*n*, 2, 6–8, 47–49, 48*n*, 79, 90–91
 Keynes, J.N., 10
 Knoop, D., 68–69, 77

L

Labor reserves, 32–37, 42–43
 Labor transference, 35, 39
 Laziness, 38–39, 42–44
 Leisure, 2, 16–17, 19, 23, 38–42, 51, 81*n*
 Level of employment, 6–7, 79–80
 Live and let live, 85
 Lock-out, 97
 Loss of caste through low-wage employment, 60–61
 Loyalty in price maintenance, 54–55
 Loyalty in wage-rate maintenance, 66–67

M

Malthus, T.R., 3, 8, 10–11
 Marshall, A., 104
 Means test, the, 68
 Measurement of utilization or idleness, impossibility of, 6–7
 Medical profession, the, 61–62
 Mercantilist speculations, 105–06
 Mergers, 54, 96–97
 Migration of communities, 20–21
 Mill, J.S., ix, 11
 Mills, F.C., 70*n*

Monetary theory, 81–83, 103–06

Money and money substitutes,
quantity of, 81, 106–06

Monopolists' optimum output,
80–92, 96–97, 99

Monopoly, 16, 36–37, 52, 53*n*,
54–57, 58–71, 65*n*, 74, 76,
77*n*, 78–81, 78*n*, 83–85, 86*n*,
88–89, 93–99

Multiple shift device, 38

N

National minimum of subsistence,
19, 63–65

Natives of South Africa, 39, 41*n*

Natural monopoly, 64, 78, 78*n*, 89,
93–95

Natural resources falling valueless,
20–21

Net advantageousness of occu-
pations 32–37, 40–41, 41*n*,
47–48, 55, 57

O

Odium attaching to employers of
low-paid labor, 63–65

Orthodox economics, 8, 12, 47–49

Output, impossibility of measure-
ment of, 6–7, 13–14, 45–46

Overcrowded occupations, 63–65,
65*n*

P

Parasitism, 39, 64*n*, 70

Participating idleness, chap. VII,
chap. VIII, and *passim*

Participating idleness in labor,
chap. VIII, and *passim*

Participating idling, 61–62, 65*n*

Passive utilization, 22–24

Pensions, 64

Pigou, A. C., 3, 5*n*, 39

Policy-makers, xiv, 5, 20–21, 40–43,
45–46, 49–51, 65–66, 71, 87,
91–92, 94

Poor whites, 39

Poverty, 35–37, 38–39, 40, 42,
43–44, 63, 67

Poyntz, J. S., 36*n*, 60

Preferred idleness, chap. v,
chap. VI, and *passim*

Pressure groups, 106

Price discrimination. *See* Discrimi-
natory charges

Price-rings. *See* Cartels

Pride, 38–39

Priority of participating rights, 57,
59, 67, 72, 73, 100

Produced and non-produced
resources, 1–2, 20

Professional etiquette, 62

Propensity to consume, 14, 81*n*

Prospecting for employment,
22–23

Prosperity, 104–05, 106

Proximate causes of idleness, 4–5,
102

Pseudo diverted resources, 27

Pseudo-idleness, chap. III, chap. IV,
and *passim*

Pseudo-idleness in labor, chap. IV,
and *passim*

Public utility control, 93–95

Public works, 105

Purchasing power, in general,
81–82, 103

Pure price depression, 80–82

Purely valueless resources, 14–17

Q

Quarrels among collusive monopo-
lists, 54–55

Quotas, 52–54, 66–67, 100–01, and
passim

Quota-hunting, 54–55, 100

R

Range of valuable resources, 12–14, 16–17, 20–21, 106, 106*n*

Rare skills, 95

Rate of interest, 81*n*

Real wage-rates, 46–49

Reasonableness as determinant
of prices and participating
rights, 53–54, 61–62, 85–86,
88–89, 96–98, 100–01

Recklessness of poor, 43–44

Recruitment as diluting participat-
ing rights, 58–59

Recuperation, 23, 38

Reforms, Reformers. *See* Policy-
makers

Resentment at capitalist exploita-
tion, 49, 50–51

Reserves of goods, 29–30, 95

Reserves of labor, 32–37

Restriction of entry, 59, 61–68,
73–77, 94–95

Retirements and departures as
eliminating participating
idleness, 58–59

Right to work, 58–61

Robinson, J., 75, 75*n*

Rogers, J. E. Thorold, 10

Rowntree and Lasker, 42

S

Scale of production advantage, 93

School leaving age, 18–19, 22

Scrap value, 15–16, 20, 24–25, 27,
31, 55, 61–62, 65–66, 72, 70,
100

Seasonal idleness, 4

Senior, N.W., 42

Sharing of participating rights. *See*
Dilution

Sharing of poverty, 71

Short-time. *See* Work-sharing

Sidgwick, H., 4, 10

Slave economy, 19–20

Slump idleness, 4

Smith, Adam, 33, 33–34*n*, 42*n*

Soil erosion or exhaustion, 20–21

Sop, to displaced workers, 68–71

Spoiling the market, 86*n*

Stockbrokers, 61

Stocks of goods for sale, 29–30,
94–95

Strike idleness, 96–98

Strike, nature of, 76, 97, 98–99

Suitable employment, 3–4

Sweated industries, 36–37*n*, 63–65

T

Technical factor, the, 28, 88–89

Technological unemployment, 4,
74

Temporarily valueless resources, 12,
16, 19

Trade cycle, 80–92, 104–06

Teaching interests and entry to
professions, 61–62

Trade unions, xii, 70

Types of idleness, 4–5, 11

U

Uncompleted equipment, 22

Unemployment insurance and
assistance, 24, 40*n*, 66,
68–69

V

Vagrancy, 54–55

Valueless resources, chap. 11, and
passim

W

Wage-fixation, 41*n*, 63–65, 69

- Waste, xvi, 5, 28, 36, 53, 57*n*, 73–76, 78, 78–79*n*, 86, 94, 99, 106
- Wastes of competition, the, 57
- Webb, Sidney, 70
- Webb and Freeman, 36*n*
- Wicksteed, P.H., 45
- Withheld capacity, chap. x, and *passim*
- Work-sharing, 14, 66–67, 70, 78