

inflation interact, we must become clear about what precisely the full employment policies as now practised mean.

II

Full employment has come to mean that maximum of employment that can be brought about in the short run by monetary pressure. This may not be the original meaning of the theoretical concept, but it was inevitable that it should have come to mean this in practice. Once it was admitted that the momentary state of employment should form the main guide to monetary policy, it was inevitable that any degree of unemployment which might be removed by monetary pressure should be regarded as sufficient justification for applying such pressure. That in most situations employment can be temporarily increased by monetary expansion has long been known. If this possibility has not always been used, this was because it was thought that by such measures not only other dangers were created, but that long-term stability of employment itself might be endangered by them. What is new about present beliefs is that it is now widely held that so long as monetary expansion creates additional employment, it is innocuous or at least will cause more benefit than harm.

Yet while in practice full employment policies merely mean that in the short run employment is kept somewhat higher than it would otherwise be, it is at least doubtful whether over longer periods they will not in fact lower the level of employment which can be permanently maintained without progressive monetary expansion. These policies are, however, constantly represented as if the practical problem were not this, but as if the choice were between full employment thus defined and the lasting mass unemployment of the 1930's.

The habit of thinking in terms of an alternative between 'full employment' and a state of affairs in which there are unemployed factors of all kinds available is perhaps the most dangerous legacy which we owe to the great influence of the late Lord Keynes. That so long as a state of general unemployment prevails, in the sense that unused resources of *all* kinds exist, monetary expansion can be only beneficial, few people will deny. But such a state of general unemployment is something rather exceptional, and it is by no means evident that a policy which will be beneficial in such a state will also always and necessarily be so in the kind of intermediate position in which an economic system finds itself most of the time, when significant unemployment is confined to certain industries, occupations or localities.

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CHAPTER NINETEEN

Full Employment, Planning
and Inflation*

I

In the years that have elapsed since the war, central planning, 'full employment', and inflationary pressure have been the three features which have dominated economic policy in the greater part of the world. Of these only full employment can be regarded as desirable in itself. Central planning, direction, or government controls, however we care to call it, is at best a means which must be judged by the results. Inflation, even 'repressed inflation', is undoubtedly an evil, though some would say a necessary evil if other desirable aims are to be achieved. It is part of the price we pay for having committed ourselves to a policy of full employment and central planning.

The new fact which has brought about this situation is not a greater desire to avoid unemployment than existed before the war. It is the new belief that a higher level of employment can be permanently maintained by monetary pressure than would be possible without it. The pursuit of a policy based on these beliefs has somewhat unexpectedly shown that inflation and government controls are its necessary accompaniments—unexpected not by all, but by probably the majority of those who advocated those policies.

Full employment policies as now understood are thus the dominant factor of which the other characteristic features of contemporary economic policy are mainly the consequence. Before we can further examine the manner in which central planning, full employment, and

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