Employment and the National Dividend
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EMPLOYMENT AND THE NATIONAL DIVIDEND

I shall confine attention to but one of the questions raised by Mr. Keynes' book. What I have to say is much in the large and is simple, yet seems to me to deserve attention both because of the weight of Mr. Keynes' views, and because of their accordance with some current trends in economics (not indeed mentioned by him) whose divergence from the economics of earlier days is marked. On the wide scope, vigor, independence, originality, even audacity, which mark this volume, as they did the Treatise, it is superfluous to add to what has been said by the multitude of critics and followers.

The title of the book brings to the reader's attention at once the subject of the present note: General Theory of *Employment*, interest and money. Employment comes first; it is this with which Mr. Keynes is primarily concerned. Economists of the older generation were concerned primarily with output — with the national dividend. The national dividend is a matter of physical things (including of course services); whereas employment is a matter of man-hours of work, "jobs," measurable by the amount of money spent on employment.

The reason given for this shift of emphasis is that the amount of employment can be easily and accurately measured, whereas the national dividend can not. True, the amount of employment is said to be "a satisfactory index of the amount of the resultant output"; there is a "general presumption" to that effect. And Mr. Keynes believes that the total amount paid out in wages and salaries can be used as an accurate measure of employment. The money measure is satisfactory if the more highly paid manual and managerial workers are separately recorded, and their remuneration weighted as compared with the basic rate for ordinary labor. By such a procedure, it is argued, we can get figures for computing with exactness the amount of employment. A caveat might be entered here. While it is doubtless true that this measurement can be carried out with greater statistical accuracy and less difficulties of interpretation than the measurement of the national dividend and of changes in it, I am not sure that even over a short period ("ten years or one year" are mentioned as periods appropriate for the problems in hand) the method would give results so accurate that they could be used promptly as the basis for the kind of public action proposed. But the statistical problem is of no great relevance for what I have to say. That bears not on the possibility of ascertaining what is the total amount of output, but on that of ascertaining in *which way it moves* (for short periods as well as for long). Can we get any clues under what conditions it becomes more or less? and what short of indications on this point are supplied by changes or by stability in the amount of employment measured in terms of aggregate money wages?

What I have in mind is illustrated by two representative cases. One is the familiar one of protective duties. The old doctrine was that such duties cannot but lessen the national dividend. Now it is true — and the qualification seems never to have been considered in the older books — that in a period of depression they may not so operate; in the sense that, tho they do not make the dividend greater than it was during the preceding "normal" condition, they may prevent it from decreasing as much as would be the case if they were absent. If the persons employed in the new industries have been quite idle, if the prospect for their early employment is negligible, their qualifications for the new work adequate, they do add to the national dividend in the sense just indicated; that is, even tho the displacement of the cheaper imported goods by the dearer domestic ones means a loss, the loss may be offset *pro tanto* if the workers would otherwise be idle. Given the conditions, this means a net gain, i.e. a lessening of net loss, for the national output. On every ground it is better that during depression men should produce something rather than be doing nothing at all.[1]

1: I hope I am right in thinking it needless for the point in hand to stop for a consideration of the intricate problems raised by elasticity of

A second case of the same sort is simpler, at all events as regards the initial stage. Suppose public works to be undertaken during a period of depression — works that may add to the community's real outfit but do not add so much that they had been thought worth while under previous conditions. Suppose too that, in order to furnish as much employment as possible, hand labor is used, machinery (tho known to be of proved effect and to be had with ease) dispensed with as much as possible. I know of a municipal undertaking which involved digging and grading that would ordinarily have been done by the dramatically effective digging machines of modern times but was in fact done entirely by pick and shovel. Thereby more employment was created. The pace too was left deliberately slow; more men than needed, much standing around and waiting. These have been familiar happenings in our own public works, largely inevitable and not merely to be scoffed at; and something is added to the national dividend. But obviously, both in plan and in execution, the process does not maintain the "normal" dividend, still less maximize it.

In both these cases, it is to be noted that the question of measuring arises only as one of degree. In both, the *same* things are turned out by different methods; and the difficulties attacked with such mastery by Professor Pigou (*Economics of Welfare*, Part I, ch. VI and passim) do not arise. There is no doubt as to the way in which the national dividend is made larger or smaller, for the time being as well as in the end. The *extent* to which it is affected for either period can hardly be measured with statistical accuracy, but its eventual worsening is beyond doubt. In any case, and irrespective of simplicity or complexity of measurement, I can not accept it as a matter of course that (as Mr. Keynes puts it on p. 28) "in a given situation of technique, resources and costs, income (both money income *and real income*[2]) depends on the volume

demand for the goods, changes in the terms of trade, persistence of imports in the face of duties (the duties "paid by the foreigner"), the immediate effects on exports as distinguished from the ultimate effects, and the like.

2. Italics mine.

of employment." The real income depends not only on the existing outfit of capital and its utilization with all the labor properly available (i.e. involuntarily unemployed), but also on the way in which the outfit is handled and the direction to which it is turned.

I do not know whether considerations of this kind arose in Mr. Keynes' mind and were put aside because inappropriate to his chosen problem. Nor is it clear just what is meant by "a given situation of technique, resources and costs." Perhaps the assumption of a "given" situation would rule out a resort to hand labor rather than machine work in the case just mentioned; but is it to be assumed that the given situation is the technological optimum of the time? Apparently the assumption would not rule out the imposition of protective duties. Such possibilities are more likely to occur to an American than to an Englishman because the former has had more occasion to face them. At all events, I can not but believe that we must pause before reasoning on the basis of there being no (induced) changes in technique or "costs" even during the short period envisaged in this book. The difference between employment and the national dividend, between jobs and output, is not to be summarily put aside on the basis of assumptions which are neither stated with clarity nor shown to be probably in accord with the facts.

The question then arises how long a new situation, lessening the disadvantage for the national dividend in the short run but certainly disadvantageous for it in the long run, will remain. Is it likely to persist indefinitely? In regard to protective duties, the lesson of experience is clear. The likelihood of persistence is great. Industries encouraged and established by import duties clamor incessantly for the continuance of the aid and usually secure it. The national dividend is made less for a period indefinitely long by the diversion of labor and capital into channels to which they would not otherwise turn. So much, I think, Mr. Keynes would not deny. When it comes to public works and the like, the probabilities are not so easy to make out. Operations which are obviously of an emergency kind will hardly go on indefinitely. How great will be the difficulty and loss from the troublesome return to "ordinary conditions," how considerable the brake on technological progress, how important a factor the deterioration of morale, is hard to decide.

There is something of a different kind about long-period problems. Mr. Keynes' neglect of the national dividend and the conditions of its increase not only fits into his immediate concern but seems to be part of a deep-rooted change of attitude. He remarks (p. 40) that "the proper place for such things as net real output and the general level of prices lies within the field of historical and social description, and their purpose should be to satisfy historical and social curiosity." Propositions on them "are not without meaning and not without interest, but unsuitable as material for the differential calculus." This strikes me as claiming too much for the limitation of our inquiries to matters susceptible of rigid quantitative analysis. I say "our inquiries"; very likely Mr. Keynes had in mind the particular inquiries of this book, and was not speaking of economic inquiry in general. At all events there are questions about the national dividend the answer to which means more than the satisfaction of historical and social curiosity. The outstanding question is of course whether, given maximum employment — and given the optimum direction and character of employment — the output is such that we can be content to let it stand as it is. The technocrats say yes. If we use the outfit we now possess to the full, we turn out quite enough in the way of consumers' goods; there is no occasion for trying to get more. Marx took a similar position; the bourgeoisie has done its work, the command of nature's forces has been achieved, the task of the future is that of distribution, not production. Yet when one considers the average real income in the United States, which still is the most prosperous of modern countries; still more if one considers that of other countries less prosperous, there seems plenty of reason for saying that the march of material progress should not be disregarded or impeded but rather promoted. Very likely Mr. Keynes would admit this freely, and would ask his readers and critics to bear in mind that his analysis is quite deliberately that of a short-term (perhaps ten years) series of phenomena, and relates primarily to the business cycle. The expressions which I have cited may mean no more than that he would thus limit the range of the particular inquiry; yet they fit into the critical attitude which appears in so many of his utterances toward any speculations bearing on the long run.

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