CHAPTER VI

THE RELATION BETWEEN MOVEMENTS IN MONEY INCOME AND IN EMPLOYMENT DURING THE BOOM, THE SLUMP AND THE DOLDRUMS

THE question how far monetary movements entailing large upward and downward swings of money demand, and so money income, were *responsible* for the changes in the volume of employment with which they were associated, in the sense that, had banking policy been directed successfully to keeping money incomes stable, these changes would have been smaller than they were, is not one to which any complete answer can be given. Nevertheless, some light may be thrown on it.

Looking back to Chapter III of Part II, we find that, whereas between the Armistice and April 1919 employment in all occupations, including both the Forces and domestic service, contracted, according to my calculation, by round about 1½ million persons, the recovery during the Boom year from April 1919 to April 1920 amounted only to some half a million, *i.e.* 3 per cent of all persons attached to gainful occupations, or, at all events, to not very much more. This is a surprisingly small accompaniment to the tremendous monetary Boom. There was, of course, during the same period, a very large transfer from war work to peace work. None the less, in the light of what happened in other industrial fluctuations, there can be little doubt that the increase in employment which actually took place could have been "carried" by a much smaller monetary change; which implies that the monetary Boom could

have been held greatly in check without important injury to industrial recovery.

The relation of the monetary Slump to the associated industrial *débâcle* was more intimate. It is evident, indeed, that, provided the proportionate share of total income going to wage-earners remains constant, if money income falls in the proportion $\frac{100-x}{100}$ and money wage rates fall in the proportion $\frac{100-y}{100}$, the volume of employment must fall in the proportion $\frac{100-x}{100-y}$. *Prima facie*, therefore, a fall in aggregate money demand, *i.e.* money income, need not affect employment should money wage rates fall in the same proportion, but is likely to affect it adversely should they fall in a smaller proportion. In fact, however, as we saw in the last chapter, money wage rates continued to rise for some time after income and prices had begun to fall. This, as we also saw, inevitably discouraged and restricted the activity of business men. They would turn over their balances less quickly and borrow less from the banks ; so that the monetary Slump was accentuated and, therewith, the Slump in employment also. At a later stage, from the middle of 1921 onwards, when money rates of wages were tumbling faster than prices, this movement of theirs must, we may reasonably assume, have alleviated the situation and contributed towards bringing the Slump to an end.[1]

Between April 1920, when the Boom broke, and January 1923, when the Slump may be said to have ended, employment fell by over 10 per cent and non-financial

[1] Even those economists who maintain that, in a closed community, general reductions in money rates of wages would not help employment, because they would entail corresponding reductions in prices and money income, do not maintain this for an open community whose prices are determined, as ours were during this period, by a monetary policy based in the main on foreign exchange considerations.

clearings, corrected for seasonal changes, our rough index of money income, by 34 per cent. There can be little doubt, in view of what has been said, that the monetary movement, while itself partly an effect of the real situation, exercised also a very important causal influence ; so that a more liberal bank policy, had our preoccupation with exchange parity allowed of it, would have mitigated substantially the collapse of employment. It should be added that, had the monetary Boom been checked, with its associated up-swing in money wage rates, then, even though in the Slump period money demand for the services of productive resources, and so money income, had stood no higher than it actually did, a substantially higher level of employment could have been maintained.

The Doldrums, or, rather, that part of them in which we are interested, falls as regards employment into two divisions : first, a recovery from the Slump, then a relapse.[1] The former covered the whole of 1923 and the first half of 1924, the latter the remainder of our period. From January 1923 till June 1924, according to the Trade Union figures, the percentage of employment (employment minus unemployment) rose from 86·4 to 92·8 ; and in the same period the index of money wage rates rose from 177 to 178½ ; so that employment multiplied by money wage rates rose by about 9 per cent. If we use the insurance figures instead of the Trade Union figures, the rise works out at about 5 per cent. Non-financial clearings corrected for seasonal variations stood in June 1924 at 531, as against 527, practically the same figure, in January 1923. But both June 1924 and January 1923 appear to have been abnormal months. If we compare either May 1924 with December 1922, or July 1924 with February 1923, we find a rise of about 4 per cent, practically the whole of which occurred in the first six months of 1924, to set against the

[1] Cf. *ante*, p. 40.

rise in the wages bill. Between June 1924 and March 1925 employment, according to the Trade Union returns, fell from 92·8 to 91·0, while money wage rates rose from $178\frac{1}{2}$ to 181; which gives a negligible change, a rise of less than $\frac{1}{2}$ per cent, in the money wages bill. Insurance figures also give a negligible change. Meanwhile non-financial clearings had risen, allowing for the abnormality of June 1924, between 1 and 2 per cent. It thus seems that during 1923 and the first half of 1924 money income expanded sufficiently to allow employment to improve alongside of a small increase in money wage rates; the upward movement in non-financial clearings being associated, as was shown in Part V, Chapter II, with a period of cheap money. After the middle of 1924 the upward movement of non-financial clearings was checked by a stiffer bank policy — again as was shown in the chapter cited; but money wage rates, under the impetus they had received, continued to rise. In these conditions it was to be expected that employment would again fall off; as in fact it did.