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# UNEMPLOYMENT

By A. C. PIGOU, M.A.

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# PREFACE

I AM indebted to Messrs. Macmillan for permission to make use in this volume of a few passages from my books *Wealth and Welfare* and *The Principles and Methods of Industrial Peace* published by them. These passages appear within inverted commas, and page references to their position in the books from which they are taken are given in the notes. I have also to thank Mr. Terence Hickman for valuable help in the revision of the manuscript and for making the index; and Mr. Philip Baker for extensive criticisms and suggestions, by the adoption of which the book has, I think, been very much improved.

A. C. PIGOU.

*King's College, Cambridge,*
*November 1913.*

*The following volumes of kindred interest have already been published in this Library:*

24. The Evolution of Industry. Prof. D. H. MacGregor.
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# UNEMPLOYMENT

## CHAPTER I

### INTRODUCTION

It is thought by many that the attitude of economists in the face of obvious social evils is unduly contemplative; that conditions, which involve the misery of untold thousands and the withering of incalculable human promise, are for them no more than the theme for ingenious disquisitions, and the excuse for a number of scarcely comprehensible formulæ. Assuredly this is a mistaken view. The compelling motive that leads men to economic study is seldom a mere academic or scientific interest in the movements of the great wheel of wealth. It is rather the sense that, in the world of business and of labour, justice stands with biassed scales; that men, women and children stagger often into an abyss that *might* be fenced and guarded; that the lives of many are darker than they need be; that the wealth, on which western nations pride themselves,

bears but a faded flower of welfare. In these things lies the impulse to economic investigation; and the removal, or at least the mitigation, of the evils they portray is the goal of the economist's search. In the ideal of which he dreams, and, be it hoped, in the ardour and constancy of his vision of it, there is nothing that need divide him from the fiercest orator of the market-place.

What distinguishes economists from the less patient among practical philanthropists is not the spirit, but the method, of their work. They hold—and this belief is the result of the best thought of many minds—that the various aspects of the economic life of any modern country are bound together in an intimate unity. The consequence is that attempts to deal with any particular evil, as it appears at one point, may often be followed by important and not at all obvious effects, breaking out elsewhere and capable of more than neutralizing whatever immediate good may have been done. The only way in which it is possible to contrive measures of social improvement that shall be free from this great danger is to found them upon a close and thorough study of economic life as a whole. If the "art" of social reform is to be effective, the basis of it must be laid in a "science." The contribution towards the work of practice that

economists aspire to make is to provide for it this foundation. Their effort, though it may well be roused to action by the emotions, itself necessarily lies within the sphere of the intellect. Resentment at the evils investigated must be controlled, lest it militate against scientific exactitude in our study of their causes. Pity however sincere and grief however real are here intruders to be driven ruthlessly away. Stirred by their appeal we have entered the temple of science. Against them its doors are closed, and they must wait without for our return.

This volume is the work of an economist, and aspires, therefore, after the cold clarity of science. The *tone* of it is explained by this consideration. The *form* which has been adopted is determined by another circumstance. The book is addressed to a public consisting, for the most part, of persons who are in no way familiar with economic analysis. In view of this fact, an earnest endeavour has been made to avoid the use of technical terms, and to conduct the discussion in such language and in such a manner as to be intelligible to the ordinary citizen. But the problem of Unemployment is of so complex a nature that portions of the argument must inevitably appear difficult to persons unaccustomed to close reasoning on these matters. Further-

more—so far-reaching are the interconnections between different aspects of economic life—portions of it will probably seem, at first sight, remote from the main theme of the volume. These obstacles to understanding may readily be overcome by the careful reader. It is beyond the power of the author wholly to remove them from his path. For, though such a book as this is made better by an avoidance of the *language* of economic science, its value would be wholly destroyed if the *method* of science were abandoned. That method I am resolved to follow unswervingly throughout. The next chapter, therefore, will be devoted to a preliminary discussion of definition and measurement—a discussion which is necessarily somewhat tedious, but which, in view of the statistical ineptitude of much current writing, cannot safely be omitted.

## CHAPTER II

### THE MEANING AND MEASUREMENT OF UNEMPLOYMENT

UNEMPLOYMENT is one of those many terms in common use, the general significance of which is understood by all, but which it is,

nevertheless, somewhat difficult to define with accuracy. Are we, for example, to include among the unemployed those who are idle because they do not want to work? Are we to include sick persons, or workmen out on strike, or the various classes of individuals who are, for one reason or another, "unemployable"? Any decision upon these points is necessarily more or less arbitrary. There is no matter of principle involved: it is simply a question of the precise sense in which it is most convenient to use a particular common word. Hence, there are two conditions, and two only, that our definition must obey. It must be so fashioned as to prove a useful tool in the investigation we have in hand; and it must, subject to that condition, conform as closely as possible to the general drift of popular usage. The search for a definition, upon which we now enter, must be guided and controlled by these two tests.

At the outset, it may be laid down that the term Unemployment should be used exclusively in relation to the sphere of work for wages. It is both contrary to usage and inconvenient for the purpose of our present problem to include among the "unemployed" those members of the professional, employer, or salaried classes, who are, either from choice or from necessity, from time to time

unoccupied. Hence, unemployment means unemployment among the wage-earning classes. Furthermore, it means unemployment among those classes in respect of wage-work. If a wage-earner happens to possess an allotment on which he can work when discharged from his ordinary trade, or if he is able, on these occasions, to turn his hand to wood-carving or some other domestic industry, we shall not, for that reason, decline to class him among the unemployed. Of course, the *effects* of unemployment in the case of such a man are very different from its effects on one who has no alternative non-wage-yielding occupation; and this distinction is not without practical importance. But convenience and usage alike decree that a wage-earner, unemployed at wage-work, shall be classed, whatever he is, in fact, doing, among the unemployed. The only persons then of whom unemployment *may* be predicated are wage-earners, and of these unemployment *must* be predicated when they are unemployed in respect of wage-work.

Even, however, when this is understood, it does not become possible to pass directly to a definition of unemployment. For unemployment clearly does not include all the idleness of wage-earners, but only *that part of it which is, from their point of view and in their existing condition at the time, involuntary.*

There is, therefore, excluded the idleness of those who are definitely incapacitated from wage-earning work by extreme old age, infirmity or temporary sickness. There is also excluded the idleness of those who are idle, not from necessity, but from choice. The fact that workpeople work eight or ten or twelve hours a day, instead of twenty-four, does not constitute the remaining hours of the day a period of unemployment. Yet again, there is excluded the idleness of the great mass of the vagrant class, whose ambition is, in large part, just to avoid work. And, finally, there is excluded the "playing" of those workpeople who are idle on account of a strike or a lock-out. Though, however, at first sight, the line of demarcation between unemployment and those forms of idleness, which are not involuntary, and which do not, therefore, fall under the name, seems fairly clear, reflection soon reveals a serious defect in the rough presentation of it that has just been attempted. For, whether a man wishes to work or to be idle, and, if he wishes to work, whether he wishes to work much or little, are not questions to which absolute answers can be given. Rather, the answers must depend on the rate of wage that is to be obtained as a reward of working. Hence, it appears that some greater precision of definition is

required. The amount of unemployment, let us therefore say, which exists in any industry, is measured by the number of hours' work—assuming, of course, a given efficiency for each hour's work—by which the employment of the persons " attached to " or " occupied in " that industry falls short of the number of hours' work that these persons would have been willing to provide at the current rate of wages under current conditions of employment. The precise definition of this rate and these conditions presents considerable difficulty. It has, however, been accomplished with reasonable success by the draftsmen of the British National Insurance Act. Unemployment prevails, from the point of view of that Act, when a man cannot obtain the work he desires (1) otherwise than in a situation vacant on account of a stoppage of work due to an industrial dispute, (2) in the district where he was last ordinarily employed, otherwise than at a rate lower, or on conditions less favourable, than those which he habitually obtained in his usual employment in that district, or would have obtained had he continued to be so employed, (3) in any other district, otherwise than at a rate of wage lower, or on conditions less favourable, than those generally obtained in such district by agreement between associations of employers and

of workmen, or, failing any such agreement, than those generally recognized in such district by good employers.[1] Unemployment, thus conceived, does not, it will be noticed, stand in any constant relation to the quantity of work performed, even within a single industry in which the length of the normal working-day is given. For, over any period of time, the same aggregate quantity of work may be associated, either with little unemployment balanced against little overtime, or with much unemployment balanced against much overtime. This circumstance is responsible, it must be admitted, for a certain awkwardness in our definition; but it is an awkwardness which cannot be avoided.

The result which has been reached has the advantage of being reasonably precise. And it has also, as will appear from the general course of this discussion, the further advantage of being well adapted to facilitate the conduct of our inquiry. It must, however, be clearly recognized that the definition we have decided to adopt departs in one important respect from the popular use of words. In common speech, unemployment is not infrequently contrasted with short time or the working of a reduced number of days in the week. In our definition these things appear as parts, or particular forms, of unemployment.