

**John Maynard Keynes,
The Economic Position in England*
14 September 1925**

Space for Notes



1. Money wages in England are 80 per cent higher than before the War. The cost of living of the working classes is 73 per cent higher. Thus real wages have improved about 4 percent. Since working hours have been somewhat reduced, and since the intensity of work is also-according to most observers-less rather than more, the position of the working class is improved.

2. At least this is the case for those who are in work. The black spot is the large proportion of unemployment. From 10 to 12 per cent of the workers are without employment, including near 1 million adult male workers. Even the position of these, however, is much better than it would have been in similar circumstances before the War; for a married unemployed worker receives from the state about 40 roubles a month.

3. The unemployment is not equally distributed throughout industry, but is concentrated in those trades which compete for their markets with foreign goods-in particular shipping, shipbuilding, coal, iron and steel, engineering and textiles. In those industries which depend on the home market and supply goods to satisfy the very considerable purchasing power of the working classes, the position is entirely satisfactory. For example, in the building industry the whole of the productive capacity is employed; and the tobacco industry, the beer industry, the artificial silk industry (which makes the stockings which every English factory-girl and shop-girl now wears) are making greater profits than ever before.

4. The explanation of this situation is the obvious one-with sterling at gold parity, British prices and wages are too high relatively to world prices. I reckon that British wages would have to fall nearly 20 per cent to be in equilibrium with those in France, Germany, Italy and Belgium, and nearly 10 per cent to be in equilibrium with the world situation as a whole. The problem how to bring about this reduction is as much a political as an economic problem. Not much progress has been made as yet towards its solution.

5. The result is that the industries of the country fall into two groups what are called the 'sheltered' industries which are exceedingly prosperous and comfortable and the 'unsheltered' industries which are in great distress. The high prices of the goods produced by the prosperous 'sheltered' industries make wages and other costs in the 'unsheltered' industries so high that the latter are handicapped in competition with their foreign rivals.

6. This disequilibrium between the two groups is the fundamental problem for Great Britain; and this problem has been gravely aggravated by the restoration of the gold standard. A year ago sterling was 12 per cent depreciated compared with gold, and this depreciation provided a sort of bounty to the export industries. Now, when sterling is at par, the 'sheltered' industries maintain the same prices and wages, whilst the 'unsheltered' industries, which sell for export, realise 12 per cent less in sterling for what they sell than they realised when sterling was depreciated. The result has been to reduce some of them almost to bankruptcy.

7. The correct remedy would be a fall of wages in the 'sheltered' industries. But

since employment is good in these industries and the trade unions strong and determined to accept no reductions, it is very difficult to put pressure on them. On the other hand, in the 'unsheltered' industries, where the pressure of unemployment and bad trade exists in a high degree, the wages are already relatively low, so that these industries have a good case before public opinion and in justice for not suffering a further reduction.

8. The first example of an attempt to reduce wages-namely in the coal industry-has had a surprising result. This industry is the most exposed of all the 'unsheltered' industries. Accordingly the mine-owners were able to prove that if they continued to pay the present wages they would become bankrupt. On the other hand, the mine-workers were able to prove that, if the wages were lowered, their standard of life would be unjustly reduced below the standard in other industries. The other trade unions supported the mine-workers and declared that they would order an almost general strike if the Government insisted on the reduction. The Government, at a loss to know what to do, made the surprising decision to appoint a Commission to examine the case, and meanwhile for the Government themselves to pay the difference between what the mine-owners offer and what the mineworkers demand! This costs the Government at present about 20 million roubles a month.

9. The disequilibrium naturally results in brisk imports and reduced exports, thus impairing the balance of payments. This is being temporarily remedied by the Bank of England in two ways-partly by bank credits from America, and partly by prohibiting the financiers of the City from making new foreign loans. This prohibition now extends even to loans to other parts of the British Empire. This state of affairs also has its reaction on Russia and makes impossible what would in any case be difficult, namely new loans to Russia.

10. There is one other aspect of the case which has its application to Russia, namely the growth of population. The high level of unemployment and the difficulty in transferring labour out of the unprosperous industries into the prosperous industries is not a little due to the excessive growth of population and to the fact that the number of younger workers entering industry every year is much greater than the number of old workers going out. I believe that the poverty of Russia before the War was due to the great increase in population more than to any other cause. The War and the Revolution reduced the population. But I am told that now again there is a large excess of births over deaths. There is no greater danger than this to the economic future of Russia. There is no more important object of deliberate state policy than to secure a balanced budget of population.

11. In conclusion I emphasise that the economic problem of England is essentially a problem of solid and economic disequilibrium and not primarily a problem of poverty or of a lack of technical capacity to produce wealth.

*First of two lectures delivered by John Maynard Keynes in Russia as the official representative of the University of Cambridge at the Bicentennial Celebration of the Academy of Sciences held in Leningrad and Moscow between 5 and 14 September 1925. Scanned from Donald Moggridge (ed), *The Collected Writings of John Maynard Keynes, Volume XIX, Activities 1922-1929, The Return to Gold and Industrial Policy, in Two Volumes, Part I*, London: Macmillan (Cambridge University Press) 1981, pp.pp. 434-437.