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Contemporary *Unemployment* [1909]:  
Beveridge's first programme

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**Abstract**

The aim of this paper is to reexamine Sir William Henry Beveridge's (1879-1963) ideas on unemployment. Previous studies have either ignored or underestimated the importance of this topic. What is lacking is a consideration of positioning his *Unemployment* [1909] adequately in a history of economic thought.

After summarizing *Unemployment*, We shall consider the ideas of five contemporaries (Alden, Rowntree, Chapman, Hobson and Pigou). We shall conclude that, despite numerous similarities with the others, Beveridge's rationale, or way of thinking, was unique and original. In this paper, we refer to his comprehensive package of remedies for unemployment, including Labour Exchanges and National Insurance, together with the underlying principle of the National Minimum, as "The First Programme". This doctrine could also even be connected with his later programme in the 1940s.

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## **Contemporary *Unemployment* [1909]**

### **Beveridge's first programme**

Atsushi KOMINE\*

Preliminary version: not to be quoted

Abstract

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## Section 1 Introduction

The aim of this paper is to re-examine the ideas of Sir William Henry Beveridge (1879-1963) on unemployment. From a social policy point of view, the majority of the previous studies have simply ignored his earlier contribution. In the history of economic thought, a minority of the previous studies has considered his theory on a superficial level, by judging his framework being within an old fashioned neoclassical doctrine<sup>1</sup>. We maintain that these views are too simple to evaluate. Instead, here we shall conclude that, despite numerous similarities with his other contemporaries, Beveridge's rationale, or way of thinking, is unique and original. Besides, his doctrine could also even be connected with his later programme. Therefore, we ought to name his 1909 message as "The First Programme".

This paper is part of larger project. The goal is to re-examine and position Beveridge's contribution on unemployment properly in a history of economic thought. Following this plan, his career has been divided into three periods: his youth (before 1919), his middle (around the 1930s) and his later years<sup>2</sup> (in the 1940s). Additionally, we have determined to segment the early stage into three papers: the detailed investigation of *Unemployment* [1909] itself, the comparison with contemporaries, and the making of *Unemployment* [1909]<sup>3</sup>.

This paper is organized as follows. Section 2 summarizes *Unemployment* according to Komine [2001]. We can identify three major characteristics. Section 3 analyzes five contemporaries of Beveridge. It is essential to compare him with other contributors to debates on unemployment in Edwardian Britain to put his doctrine into a proper context. It is indispensable to compare with representative persons in order to determine Beveridge's similarities and originalities from others. Section 4 is a summary and conclusion.

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<sup>1</sup> This point has been described in Komine [2001] p.4, Note 3.

<sup>2</sup> Useful discussion on Beveridge and planning is given by Booth & Pack [1985] p.156.

<sup>3</sup> The first is Komine [2001]; the second is this paper.

## Section 2 Summary of *Unemployment*

This section deals with the essence of *Unemployment* [1909]. Since we have already discussed this point in Komine [2001], we shall merely summarize it in three aspects: the changed title, the reserve of labour and a coherent package of remedies.

Firstly, it is important to trace the change in the title. Around 1905, Beveridge wrote a draft challenging Alden's book, the title of which was *The Unemployed: An Economic Question*<sup>4</sup>. Around 1906, the title was changed to *Unemployment: A Problem of Industry*. This change symbolises the changed content. Beveridge completely excluded "the character and the control of individuals"<sup>5</sup> from analysis. He only dealt with the able-bodied who were in search of work, regardless of whether skilled or unskilled. He keenly realized the necessity of a "modern" treatment of unemployment.

Secondly, it was unique for anyone in this period to classify causes of unemployment, rather than to categorize the unemployed. Beveridge regarded the reserve of labour as tremendously meaningful. For substantial reasons - such as poor communication between employers and employees, irregular demand for labour, and numerous 'hawking'<sup>6</sup> workers -, there was always a chronic excess of labour. Most workers were forced to work only intermittently. This phenomenon was called the reserve of labour. People were, so to speak, under-employed. He pointed out other causes: seasonal and cyclical fluctuations, and changes of industrial structure. These three

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<sup>4</sup> The Beveridge Papers (microfilm), Reel 2, Section 3, Item 12, "Plan for The Unemployed: An Economic Question" (1905). See Komine[2001] p.4.

<sup>5</sup> Beveridge [1909] p.133.

<sup>6</sup> This was the term Beveridge used to describe unemployed unskilled workers. See the next sentence: "the prevailing method of selling labour is to hawk it from door to door" (Beveridge [1909] p.197).

were deeply rooted in the contemporary industrial world.

Thirdly, it was crucial to submit a set of remedies. Beveridge said, “there is no one labour market but only an infinite number of separate labour markets”<sup>7</sup>, a situation of complete disorder. “Mere mobility of labour is not enough. It must be organised movement and backed up by organised selection”<sup>8</sup>. Based on his analysis, the remedy for unemployment was a coherent mixture of three elements: first and foremost, the Labour Exchange was “to reduce to a minimum the intervals between successive jobs”<sup>9</sup>; second, insurance against unemployment “is required to tide over the intervals that will still remain”; third and least important, there would be a need of public works and a need of averaging of wages between seasons<sup>10</sup>.

In short, from his analysis to diagnosis, Beveridge was quite consistent and comprehensive, even from a modern point of view.

### Section 3 Comparison with Contemporaries

#### 3-1 Minister Alden

Percy Alden (1865-1944) was, in a sense, an early investigator of the “unemployed problem”. After graduating from Balliol College, he became famous for his collective and progressive (or radical) opinion<sup>11</sup> and his status as Warden of Mansfield House University Settlement (Canning Town) and Member of the Mansion House Unemployed Committee. He was also elected as an MP (1906-1918, 1923-1924) in addition to other high-ranking posts, such as Commissioner to the Board of Agriculture for

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<sup>7</sup> Beveridge [1909] p.70.

<sup>8</sup> Beveridge [1909] p.87.

<sup>9</sup> Both sentences are from Beveridge [1909] p.229.

<sup>10</sup> Beveridge [1909] pp.230-231.

<sup>11</sup> For details of Alden, see Harris [1972] p.227, p.230, and Brown [1972] pp.21-22.

Cultivation of Vacant Lands. He was the head of a charity settlement as well as a politician who had a wide acquaintance with liberal bureaucrats<sup>12</sup>. He published many books: *Housing* [1907], *The Unemployable and Unemployed* (with Edward E. Hayward) [1908], *Democratic England* [1912] and *Aspects of a Changing Social Structure* [1937]. Among these books, the most important was *The Unemployed: A National Question* [1905], not only because Beveridge reviewed it, but also because the impact, whether positive or negative, seems to have been large. Let us glance through Alden's book in order to clarify Beveridge's contribution to study in this field.

Alden's attitude towards the unemployed was consistent with one of the progressive opinions of the time. He criticized *laissez-faire* policy which was "ignoring a great social disease"<sup>13</sup> and claimed that "we must not forget the tendency of conditions and environment to create these evils"<sup>14</sup>. He also mentioned:

There is a growing conviction that some form of State interference on behalf of the unemployed is necessary. (Alden [1905] p.144)

The unemployed question is largely an economic question for which charity, however generous, is no solution. (Alden [1905] p.144)

On the other hand, probably because he was so prominent in the charity movement, Alden never forgot to point out that in the long run the ethical and co-operative factors were crucial. He said that "every effort is made to improve and strengthen individual character"<sup>15</sup>. However, we should underline Alden's emphasis on an economic perspective and state intervention. These were the very features that recurred in the work of

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<sup>12</sup> Alden expresses his gratitude to Llewellyn Smith (the Board of Trade) (Alden [1905] preface p.6).

<sup>13</sup> Alden [1905] p.144.

<sup>14</sup> Alden [1905] pp.143-144.

<sup>15</sup> Alden [1905] p.143.



Beveridge<sup>16</sup>.

Alden's book was reviewed (probably by Beveridge<sup>17</sup>) in the *Toynbee Record*, where the reviewer drew attention to Alden's classification system. In the book, Alden distinguished three sharply differentiating types of the unemployable (or unemployed): all able bodied men who are refused work, all able bodied men who refuse to work, and the physically and mentally deficient. For the third class, special care was needed. The second class was "the vicious vagrant ... who has not the slightest intention of working"<sup>18</sup>. Since the class was a danger to all peaceful citizens, the correct treatment was to keep them in detention in labour colonies<sup>19</sup>. The first class was "the genuine unemployed man who is in search of work"<sup>20</sup>. At the same time, they were "the genuine workers who are unable to find work"<sup>21</sup>. Alden confined his argument to the first class only, which had been unusual in the 18th and 19th centuries. He explained:

... from the point of view of the whole nation and, strictly speaking, from the point of view of the economists, unemployment is the labour that might be utilised in the production of wealth, that is not so utilised ... , and is therefore wasted. (Alden [1905] p.32)

This viewpoint is almost the same as in Beveridge's book. Both Alden and Beveridge were concerned with ordinary people or workers who were suffering badly from unemployment<sup>22</sup>, not with vagrants or the disabled of whom they judge the number to be relatively small. Alden certainly

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<sup>16</sup> For a discussion of labour and unemployment during 1904-1909, see Brown [1971].

<sup>17</sup> Beveridge ? [1905a] p.76. Strictly speaking, this article is unsigned. Nonetheless, according to Harris' study and taking the terminology into account, we determine this paper as Beveridge's. See Harris [1997] p.145, Note 25.

<sup>18</sup> Alden [1905] p.18.

<sup>19</sup> Alden [1905] p.18.

<sup>20</sup> Alden [1905] p.18.

<sup>21</sup> Alden [1905] p.32.

<sup>22</sup> On this theme, see Ball & Sunderland [2001].

recognized that the unemployed – not unemployable – represented as involuntary waste of the labour force.

The remedies were both interesting and important, because Alden, who undertook an inspection tour in Holland and Belgium in the autumn of 1904, introduced a range of European institutions<sup>23</sup>. At least some of them must have struck Beveridge in a very forceful way. In the concluding chapter, Alden advocated: (1) the establishment of a Government Department to deal especially with unemployment; (2) compulsory Labour Bureaux; (3) relief stations and labour homes; (4) a graded system of labour colonies; (5) Unemployment Committees; (6) the reclamation of foreshores and waste land; (7) the afforestation of waste land; (8) the improvement of canals; (9) the re-organization of the London Port; (10) government grants to trade union unemployed insurance; (11) shorter working hours for civil servants; (12) an abolishment of disfranchisement as a result of receiving Poor Law Relief<sup>24</sup>.

Some of these measures surely influenced Beveridge. The evidence can be seen if we categorize these twelve into six dimensions: (A) a necessity of administrative leadership ... (1), (5); (B) Labour Exchanges ... (2); (C) Public Works ... (6), (7), (8), (9); (D) Unemployment Insurance ... (10); (E) Workers' Health ... (11); (F) Reform of the Poor Law ... (3), (4), (12). As we have shown, Beveridge had intense sympathy with (A) and (B), and would have agreed with (C), (D), (E) and (F), in judging that Alden's book had "many admirable qualities"<sup>25</sup>. Class (D) is worth noting. Alden only suggested government grants to the unemployed insurance scheme run by some trade unions. Beveridge almost certainly thought this inadequate, as his later development of the concept of National Insurance against

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<sup>23</sup> There are German, Belgian, Danish, Dutch and New Zealand cases (Alden [1905] p.21, p.23, p.25, p.26, p.30). H. V. Toynbee also refers to the German and Belgian insurance system (Toynbee [1905] p.301), though there is no proof that Beveridge ever reads this paper.

<sup>24</sup> Alden [1905] pp.137-144.

<sup>25</sup> Beveridge ? [1905a] p.75.

unemployment shows. In sum, there are so many parallels, especially in their approach to and remedies for unemployment. If this is true, how did they differ?

There were two main points about which Beveridge complained. The first was a lack of substantial “economic” arguments. He said that “perhaps the most fundamental criticism ... is that ... he has given so little space to the economic side of the question, to the phenomenon of trade fluctuations”<sup>26</sup>. He further classified the causes of genuine unemployment into three: dislocation of an industry, a temporary depression, and seasonal or casual fluctuations. Beveridge considered the third as the most crucial. Nevertheless, Alden gave only seven pages<sup>27</sup> to this issue. Beveridge’s dissatisfaction was with casual labour. The second complain is the gap regarding neat cures for unemployment. Alden’s remedies were so huge that readers would regard them as out of focus. At this stage, Beveridge referred only to a coherent treatment of unemployment, by saying “he has hardly mentioned the possibility of changes in the methods and tenure of employment”<sup>28</sup>. As we have discussed in Section 2, he would come to find a more complete system in a combination of Labour Exchanges and National Insurance against unemployment.

We can conclude that, despite Beveridge sharing a large part of Alden’s argument, and being much influenced by Alden’s ideas, he himself still had to develop his approach further.

### 3-2 Reformer Rowntree

B. S. Rowntree (1871-1954) is, like Charles Booth, a representative of the Social Scientific Investigation of Poverty, and also a typical Edwardian social reformer. After studying chemistry, he undertook a ground-breaking survey of poverty in York, published as *Poverty: A Study of Town Life*

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<sup>26</sup> Beveridge ? [1905a] p.77.

<sup>27</sup> The first is 21-page, the second is 28-page. See Chapter 5 and 6 of Alden [1905].

<sup>28</sup> Beveridge ? [1905a] p.77.

[1901]. He collected copious and detailed data on the working class and estimated the poverty line. These investigations were significant in the understanding of poverty and unemployment. Rowntree's work had an impact on the Poor Law Commission (1905) and later on Beveridge's book (1909). Afterwards, in turn, Rowntree wrote about unemployment, not poverty, in 1911 (with Bruno Lasker), in *Unemployment: A Social Study*. The latter book is worth study for the insight it gives into thinking on the unemployment problem around 1910.

At this stage, Rowntree shared several features with Beveridge. He worked from concrete data. He counted up 1278 unemployed in York out of 82,000 inhabitants on July 7, 1910<sup>29</sup>. He approached the problem from "economic conditions which affect the whole social structure"<sup>30</sup>. Although "the social conditions in the long run reflect the soul of a people"<sup>31</sup>, "it is quite a mistake to regard the unemployed problem as primarily one of the character and efficiency of the workers"<sup>32</sup>. As well as the subtitle "A Social Study", the following passage shows his scientific attitude:

... closer investigation gradually resolves them into distinct groups, each afflicted with some definite social ill, and allows the social physician to diagnose the causes of disease and to prescribe its treatment. (Rowntree & Lasker [1911] p.311)

He even defined unemployment or the unemployed – not the unemployable – precisely as follows:

A person is unemployed who is seeking work for wages, but unable to find any suited to his capacities and under conditions which are reasonable, judged by local standard. (Rowntree & Lasker [1911])

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<sup>29</sup> Rowntree & Lasker [1911] pp.301-302.

<sup>30</sup> Rowntree & Lasker [1911] p.303.

<sup>31</sup> Rowntree & Lasker [1911] p.303.

<sup>32</sup> Rowntree & Lasker [1911] p.305.

p.301 and preface p.13 , original in italics as a whole)

Here again, the object is ordinary workers who are involuntarily forced to be unemployed. These features resemble Beveridge's.

Rowntree had six remedies: (1) training for youth to affect morale and technical abilities; (2) public works to neutralize cyclical and seasonal fluctuations; (3) afforestation; (4) decasualisation of labour (Labour Exchanges); (5) Unemployment Insurance; (6) decentralisation of town populations. He was also alive to potential difficulties with his remedies. For instance, a central agency like the Labour Exchange is, on the one hand, "the most effective remedy for the evil"<sup>33</sup>. However, the system must squeeze out a good proportion of casual workers. Thus, it is necessary to absorb this portion of the under-employed. What is more, insurance, which mitigates the evil of unemployment, can do little to lessen deleterious effects on a man's character<sup>34</sup>. As to public works, it is likewise obvious that he supported counter-cyclical measures.

It is useful to quote from a correspondence between Rowntree and Beveridge in 1913:

I have talked to Lloyd George and Churchill about dealing with the casual labour problem. If you read George's Middlesborough Speech you would see that he definitely referred to it, ... I think I can press the matter with two or three Ministers,... and the chance of getting something done will depend very largely on our being able to supply him with a policy when he is in the mood.<sup>35</sup>

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<sup>33</sup> Rowntree & Lasker [1911] p.309.

<sup>34</sup> Rowntree & Lasker [1911] p.309.

<sup>35</sup> S. B. Rowntree to W. H. Beveridge, 17 November 1913, the Beveridge Papers in the Archive Section, British Library of Political Science, London School of Economics and Political Science (hereafter as BP), b 13. Although we have contacted both the Joseph Rowntree Foundation and the Joseph Rowntree Charitable Trust in October 2001, we could not find the copyright holder of the above correspondence.

What the passage makes clear is that Rowntree was convinced of his large influence over politicians, and that he was in partnership with Beveridge in combating casual labour. Again, in brief, Rowntree's ideas<sup>36</sup> are similar to those of his contemporaries including Beveridge.

### 3-3 Stray Chapman

S. J. Chapman (1871-1951) could also be a touchstone of prevailing economic thinking. Educated at Trinity College, Cambridge, he had been Professor of Political Economy at the University of Manchester (1901-1917). Later he became a leading administrator as Secretary of the Board of Trade (1918-1927). He was elected Vice-President of the Royal Statistical Society (1916). His published books are numerous: *Local Government and State Aid* [1899], *The Lancashire Cotton Industry* [1904], etc. He was a success as both scholar and bureaucrat.

However, reconsidering his profile, he seems to waver between theory and practice. We enter into his book (co-written with H. M. Hallsworth, probably his pupil) *Unemployment: The Results of an Investigation made in Lancashire and an Examination of the Report of the Poor Law Commission* [1909]. At the beginning, he classified the problem into personal (human) and impersonal (economic or mechanical) elements. He insisted that the unemployed problem "cannot be grasped without a comprehension of the mechanism of economic functioning"<sup>37</sup>. The causes of unemployment consisted "partly in friction ... , partly in a mal-adjustment between production and spasmodic demand ... , and partly in other detailed arrangements or disarrangements"<sup>38</sup>. Yet, the story cannot stop here. He recognized at the same time the importance of the qualities of people in addition to demand and supply relations. These qualities included worker's

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<sup>36</sup> Rowntree mentions to Beveridge about the labour exchange, see Rowntree & Lasker [1911] p.138, note 1.

<sup>37</sup> Chapman & Hallsworth [1909] p.30.

<sup>38</sup> Chapman & Hallsworth [1909] p.30.

training, foresight, adaptability, initiative and resilience. He began by claiming that the problem was so complex that intensive study was more and more necessary<sup>39</sup>. When drawing his conclusion, he again referred to the distinction between personal and economic causes, admitting that “they cannot be exactly divided”<sup>40</sup>. He was certainly puzzled when saying:

The removal of ... unemployment may be brought about automatically in the course of economic evolution. ... On the other hand, it may be absolutely necessary to impose a cure ... because ‘nature’ may be dilatory in finding her own remedy. By ‘nature’ here we intend all those social forces acting independently of State interference.

(Chapman &Hallsworth [1909] p.151)

Chapman, first of all, succeeded in distinguishing the economic causes of unemployment from personal factors. Nevertheless, as soon as he meditated upon the economic aspects within orthodox economics, he found that there was only one rationale left, that is, the friction or dilatoriness of the labour market. In theory, there are no factors in the perfect labour market that generate unemployment. By contrast in practice, he well understood the necessity of appropriate remedies. Chapman had to be most careful in switching his way of thinking in accordance with inside or ‘outside lecture rooms’. This is one of the reasons why he seems to give an evasive answer on unemployment.

Anyway, he had three remedies: Unemployment Insurance, Public Works, and the Labour Exchange. Chapman somehow appeared passive about the first and second solutions. Of course, he admitted their potential effectiveness. Firstly, insurance against unemployment could be “a chief means of mitigating the distress due to”<sup>41</sup> it. Secondly, public demand for labour (public works) should “be made to vary inversely as the trade cycle,

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<sup>39</sup> Chapman &Hallsworth [1909] p.30.

<sup>40</sup> Chapman &Hallsworth [1909] p.150.

<sup>41</sup> Chapman &Hallsworth [1909] p.152.

being rendered most intense when market demand is slackest”<sup>42</sup>. All the same, he hesitates to propose these means. He proposed a way for unemployment insurance to continue to be supplied through trade unions and friendly societies rather than through the state. Besides, he placed such a high regard on personal savings that “encouragement of insurance and providence may be essential”<sup>43</sup>. He almost equated insurance with thrift in that both must be necessary for a rainy day.

In contrast, Chapman valued Labour Exchanges highly. For such a system was equal to other exchanges in “every modern community wherever any commodity is dealt with in bulk”<sup>44</sup>: cotton, coal, iron, and corn exchanges. Without these exchanges, complex business would have been impossible. Thus, labour exchanges could serve in industry. To be sure, the system cannot alter the demand for labour. Nonetheless, “it would bring it more rapidly into touch with supplies”<sup>45</sup>.

To-day the *social time-lag* intervening between the loss or voluntary resignation, of one position and the discovery of another by ordinary workman ... is serious. This high *time-lag* means waste which exchanges could reduce.

(Chapman &Hallsworth [1909] p.145, italics in original)

It is apparent here that Chapman believed that the institutional supports provided by formal market arrangements were essential for the efficient functioning of any market and that those arrangements were best if they were national in scope.<sup>46</sup>

This inference prompts the following question: if orthodox theoretical thinking resulted in a preference for Labour Exchanges to, in theory, reduce

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<sup>42</sup> Chapman &Hallsworth [1909] p.115.

<sup>43</sup> Chapman &Hallsworth [1909] p.152.

<sup>44</sup> Chapman &Hallsworth [1909] p.134.

<sup>45</sup> Chapman &Hallsworth [1909] p.144.

<sup>46</sup> Chapman &Hallsworth [1909] p.152.



the inefficiency of the labour market, was Beveridge's thought also confined within orthodox economics?

### 3-4 Heterodox Hobson

It is quite significant to mention J. A. Hobson (1858-1940) concerning controversies on unemployment. He is not only an outstanding heretic, but also an influence on Beveridge. In this part, we shall examine the relationship between the two, by examining the writings of both the 1890s and 1900s. Firstly, we briefly sum up Hobson's analysis. Secondly, we compare it with Beveridge's points.

#### (a) Hobson

Hobson's perspective was much broader than those of his contemporaries. He claimed a coherent and consistent system from his diagnosis to his remedies for modern capitalism. The problem of unemployment was simply a portion of his whole heterodox economics and "organic" social science<sup>47</sup>.

We should first turn to his *The Problem of the Unemployed* [1896], not merely because this was one of the earliest books<sup>48</sup> that tackled "unemployment" from a modern angle, but because Beveridge later read and criticized the third impression of the book (1906)<sup>49</sup>, which had been revised in 1904.

Hobson's method was straightforward and simple: It was first necessary

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<sup>47</sup> For this point, see Townshend [1990], for example, "the study of economics could be incorporated within his larger 'organic' project that facilitated the self-knowledge of society". Townshend [1990] p.44.

<sup>48</sup> We should note the first academic treatment on unemployment is his article "The Meaning and Measure of "Unemployment"" in 1895. Hobson recorded this paper in *The Problem of Unemployed* as it was (with minor changes). See Hobson [1895].

<sup>49</sup> The first edition is published in 1896, the second and revised is in 1904, and the third is in 1906 (no more revised). Beveridge refers to the third, see Beveridge [1909] p.58, note 2.

“to relate ‘unemployment’ to waste of labour-power regarded from the social point of view”<sup>50</sup>. Next, unemployment was identified “as an aspect of Trade Depression”<sup>51</sup>. Then, trade depression was said to derive from under-consumption, that is, a deficiency in effective demand which would generate profitable production. “Industry ... is directly determined by the effective demand of Consumers”<sup>52</sup>. Finally, according to Hobson, under-consumption came from the unfair distribution of income and wealth, mainly because the working classes must spend all the earnings, whereas the rich can afford to save more. He concluded:

This is the only rationale of the simultaneous unemployment of labour, land, and capital which forms the problem of “unemployed”. Under-consumption is the economic cause of unemployment. The only remedy, therefore, which goes to the root of the evil is a raising of the standard of consumption to the point which shall fully utilise the producing-power... (Hobson [1896] p.98)

We note here that Hobson’s viewpoint is wider than most of the contemporary scholars. For Hobson, unemployment, as well as other idleness of land and capital, is simply a symptom of depression whether it is temporary or chronic. Progressive reformers had some success in dissociating individual character defects and the causes of unemployment. However, Hobson went much further and recognized systematic movement from an economic point of view. According to this broader approach, his remedy to conquer unemployment was not confined to the labour market only, but devoted to capitalism in general, especially the distribution system. Thus, Hobson is unwilling to concentrate merely on fluidity of labour, in other words, Labour Exchanges, saying:

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<sup>50</sup> Hobson [1896] pp.1-2, also Hobson [1895] p.415,

<sup>51</sup> Hobson [1896] preface p.8.

<sup>52</sup> Hobson [1896] preface p.8.

...no system of Labour Bureaux would materially assist to solve the problem of the unemployed. The ability to fill gaps in employment somewhat more easily will not considerably increase the net quantity of employment. (Hobson [1896] p.127)

Instead, Hobson proposed two major solutions: First, “a direct and progressive taxation of ground rents and values”<sup>53</sup> because in the hands of the rich there exists a surplus of consumption power (unearned income). Second, a higher wages policy for the working classes<sup>54</sup>. Both were associated with drastic political change, part of which was established by Lloyd George’s People’s Budget in 1909/1910<sup>55</sup>.

Hobson focussed the brunt of criticism on “the orthodox school of English economists”<sup>56</sup>. He maintained:

[The official view of the Labour Department] recalls the “economic man” of the old economists, with infinite capacity for calculating chances, an absolute freedom to select his employment, and a full power to extort from his employer a higher wage ... (Hobson [1986] p.4)

Now, no serious attempt has been made ... to explain why ... there can be in existence more labour, more capital, and more land, than are wanted. [They say] ... this was a malady of misdirection, general excess of producing-power was impossible./

This view has always been based upon an *a priori* assumption that whatever is produced can be sold and must be sold because it was produced for other motive. (Hobson [1896] pp.59-60)

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<sup>53</sup> Hobson [1896] p.100.

<sup>54</sup> Hobson [1896] p.103.

<sup>55</sup> For Hobson’s influence on the Liberal members, see Murray [1980] p.35, pp.37-38, and p.237. For instance, “the ideas of a New Liberalism, ... headed by J .A. Hobson and L. T. Hobhouse, began to penetrate the thinking of the Liberal leaders...”, Murray [1980] p.33.

<sup>56</sup> Hobson [1896] p.59.

This argument is clearly identified with an attack on “rational economic man” and on Say’s Law. For Hobson, “the problem of the unemployed” includes - or reflects- a protest against orthodox economics. What is more, his criticism was also directed towards social reformers who are apt to restrict their argument to within the labour market. Since they cannot see the deep root of the disease, therefore, they cannot advocate reasonable cures.

Then, what is Beveridge’s reply to Hobson’s challenge?

(b) Beveridge

There is little evidence of contact between Beveridge and Hobson<sup>57</sup>. Anyway, among the few records of exchanges, we shall refer to the following.

The first was a conference held by the Sociological Society at what was later to be called the LSE, on 4th April 1906. Beveridge made an address titled “the problem of the unemployed”, the same title as Hobson’s book. Among the audience were Hobson, H. R. Maynard<sup>58</sup> and A. L. Bowley<sup>59</sup>. The proceedings were recorded in the *Sociological Papers* in 1907. Surely, his address was itself impressive in showing the development of his ideas at that time. Yet here, Hobson’s reply deserves quoting:

... he seems to me to show a very commendable understanding of the problem *to a certain point*. He has carried his analysis to *the beginning* of an understanding of the vitals of this issue. ... the unemployed problem is not a labour problem merely; it is a problem of the

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<sup>57</sup> Hobson was educated at Derby School and Lincoln College, Oxford. Beveridge at Charterhouse and Balliol College, Oxford.

<sup>58</sup> Beveridge’s colleague in the Toynbee Hall. They wrote a paper together. See Beveridge & Maynard [1904], Beveridge [1955] p.23, p.31, and Harris [1972] p.151.

<sup>59</sup> He worked out statistical details of a policy proposal (counter-cyclical public works) of the Minority Report of the Royal Commission on the Poor Laws (1909). See Hutchison [1953] p.414.

simultaneous unemployment of *all the factors of production*... What we, therefore, must seek for ... is how to make the rate of consumption increase automatically to meet every increase in the power of production. (Emphasis added, Hobson [1907] pp.332-333)

These cited sentences are of great importance. The contrasting attitudes towards the labour market are obvious. In particular, for Hobson, the triangle of production elements (labour, land and capital) needed to be discussed together, and thus Beveridge's speech did not face up to the profound origin of unemployment.

Beveridge in turn made a sharp rejoinder:

I quite agree with Mr. Hobson in thinking it is an industrial problem. I know he possesses a peculiar economic theory which I am unable to follow, that there is a sort of permanent under-consumption. (Beveridge [1907] p.341)

This rejoinder is also crucial in two respects. Firstly, we can date when Beveridge read Hobson's book, which must have been before 4 April 1906, and probably after August 1904. Secondly, his reply raises a doubt about whether Beveridge was really unable to understand the under-consumption theory.

The second exchange is evident in the reference to Hobson in Beveridge's *Unemployment* [1909]. Beveridge devoted 7 pages to reconsidering Hobson's revised version of *The Problem of the Unemployed* [1906]. No other author was treated at such length in Beveridge's book. As we will infer, this version must impact upon his thought.

At first sight, Beveridge appeared to defend strongly "the competition theory" in the face of Hobson's attack. The theory meant that "the glutting of the market becomes apparent. Prices fall, production is checked, and a period of stagnation and unemployment ensues till accumulated stocks can

be cleared”<sup>60</sup>. The under-consumption theory “in no way offends economic doctrines as to the impossibility of general over-production”<sup>61</sup>. Beveridge concluded as if he had been an orthodox theorist: “It is no doubt true in the abstract, since commodities are only produced to exchange”<sup>62</sup>.

However, other angles should be noted since he pointed out significant weak points. As previous studies have revealed, Hobson’s “defeats” – using the Keynesian framework – are that he wrongly identified saving with automatic investment<sup>63</sup>, and that he could not grasp monetary aspects in industry, or the possibility of hoarding<sup>64</sup>. On the other hand, Beveridge was apparently conscious of the possibility of hoarding:

... commodities exchange for one another not directly but only ultimately and through the medium of money or credit, it seems quite possible that as a quite temporary phenomenon there should be a glut in every market, because every one is holding out for too high money prices. (Beveridge [1909] p.61)

Although we must be careful of his expression “temporary”, we should not ignore his assertion that it is dangerous to hold too much money lured by “high money prices”, which is equal to a high interest rate.

Another rejoinder is more interesting. In theory and in practice, saving, the means of production for the future, is realized as investment so that previous material progress has been possible. Both the competition theory and the under-consumption one share this recognition. Beveridge recognized of Hobson that “his attack is not upon saving but over-saving”<sup>65</sup>. Actually, “there exists at any given time an economically sound ratio

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<sup>60</sup> Beveridge [1909] p.60.

<sup>61</sup> Beveridge [1909] p.60.

<sup>62</sup> Beveridge [1909] p.60.

<sup>63</sup> See Backhouse [1990] p.126, Townshend [1990] p.73. This defect includes causation that investment is an outcome of saving.

<sup>64</sup> See Backhouse [1990] p.134.

<sup>65</sup> Beveridge [1909] p.62.

between spending and saving”<sup>66</sup>. Nevertheless, this excuse is not enough because “there is no criterion for saying beforehand what is *over*-saving and what is not”<sup>67</sup>. Hobson has not defined the way to calculate the proper ratio. This criticism is sound so that we can judge that Beveridge has found a discrepancy in under-consumption theory. The contradiction is: If saving increases, then investment rises (in a classical world). Thus, since investment is one of the ingredients of effective demand, it should obviate any tendency to over-saving under-consumption if the interest rate works accordingly to classical principles.

We should conclude that Beveridge’s term “unable to follow” did not mean that “he failed to understand”, but that “he won’t accept” or “he was unconvinced”. He understood more than had been expected. We must, of course, discount his thought in that he himself does not establish any explanation about the ratio. Nonetheless, pretending to defend the competition theory, he further recognizes structures of both theories.

Then, was Beveridge only a propagandist or a popularizer of orthodoxy?

### 3-5 Orthodox Pigou

The relationship between A. C. Pigou (1877-1959) and Beveridge is of great significance, though it has been little studied. We shall offer at least three aspects, however superficial they seem at first sight. Firstly, in his first book on unemployment, Pigou paid a great deal of respect to Beveridge’s book. This respect is clearly evident in Pigou’s proposed remedies for unemployment. Secondly, Beveridge reviewed Pigou’s *Unemployment* [1913] in the *Economic Journal*. Thirdly, in this comment, J. M. Keynes wrote an extremely important letter. We shall examine these three phases in detail.

#### (a) Three impacts

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<sup>66</sup> This passage is from Hobson [1922] p.8.

<sup>67</sup> Beveridge [1909] p.63, italics in original.

To begin with, the impact of Beveridge's *Unemployment* [1909] on Pigou's *Unemployment* [1913] is large<sup>68</sup>. Pigou's own words made the case:

The most elaborate English book devoted exclusively to the general problem discussed in this volume is Mr. Beveridge's *Unemployment, a Problem of Industry*. It is a work deserving study by all interested in the subject. (Pigou [1913] p.253)

As was usual in those days, references and notes are not numerous in this book. Nonetheless, Beveridge's book and article are cited at least three times, and his name is referred to at least five times<sup>69</sup>. Pigou advocates six remedies in the concluding chapter. Two of the six are directly borrowed from Beveridge's ideas<sup>70</sup>. We should naturally conclude that Beveridge's fame had reached an academic authority who had succeeded to the chair of at Cambridge in 1908. In fact, Beveridge calls Pigou "my old friend"<sup>71</sup>. We should not overlook their relationship any more.

Second, we should note Chapter 10 and 13 of the book. Besides the above quantitative influence, there is also a qualitative dimension. The titles are "the mobility of labour", and "insurance against unemployment" respectively. Pigou says:

Mobility means, ... to employ Mr. Beveridge's formula, not mere fluidity, but organized and intelligent fluidity. (Pigou [1913] pp.150-151)

The modern Labour Exchange, ..., not merely a bureau of information,

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<sup>68</sup> To simplify the discussion, we wish to limit the sphere to his *Unemployment* [1913]. This limitation<sup>68</sup> can be justified by the fact that both books tackle the same theme at about the same time.

<sup>69</sup> Pigou [1913] p.154, p.159, p.217, p.218, and p.253.

<sup>70</sup> Pigou [1913] pp.242-246.

<sup>71</sup> Beveridge [1955] p.293. Pigou celebrated Beveridge's appointment in 1941 as a full-time official in charge of the Military Service Department of the Ministry. Their friendship continued over for 30 years.



but an actual centre of engagement, will itself take over the task of searching for work. (Pigou [1913] p.215)

Pigou devoted 23 pages to the Labour Exchange. He placed high value on the neatness of the system, saying "the expenditure of public money in improving mobility would not merely lessen unemployment, but would, at the same time, increase welfare as a whole"<sup>72</sup>. In addition, "the National Insurance ... which deals with unemployment - is to be conducted in connection with ... the national system of Labour Exchanges"<sup>73</sup>. In short, among "these palliatives the most important are ... the device of insurance against unemployment"<sup>74</sup>. A direct influence of Beveridge on Pigou is manifest in these sentences.

Finally, we should not overlook Chapter 11, "direct state action to lessen unemployment". Pigou abandons the creed of Laissez-faire, declaring:

there is room also for direct attack through policies deliberately designed to lessen the fluctuating character of the demand for labour.  
(Pigou [1913] p.170)

We pay attention to the words "through policies deliberately designed". These indicate State intervention. The way to lessen unemployment is through counter-cyclical distribution of public demands<sup>75</sup>, to use modern terms. Pigou and Beveridge shared remarkable similarities in that they realized a new realm for the State to solve the unemployment problem. In this sense, the two were surely in the tide of progressive atmosphere in the 1900s and 1910s.

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<sup>72</sup> Pigou [1913] p.169. See also the following sentence, "Their efficacy is especially great when they are organized as an interconnected national system" (Pigou [1913] p.245),

<sup>73</sup> Pigou [1913] pp.216-217.

<sup>74</sup> Pigou [1913] p.246.

<sup>75</sup> See Pigou [1913] p.246.

(b) Book review

Secondly, although Beveridge greatly admired Pigou, he raised serious – however modest – queries about his core analysis.

In reviewing Pigou's *Unemployment*, Beveridge showed sympathy with the spirit on the one hand. Pigou had stated:

What distinguishes economists from ... practical philanthropists is not the spirit, but the method, of their work. (Pigou [1913] p.10)

This volume is the work of an economist, ... The book is addressed to a public consisting, for the most part, of persons who are in no way familiar with economic analysis. (Pigou [1913] p.11)

Beveridge judged that “this object has been very fully achieved”<sup>76</sup>. Additionally he approved Chapter 2<sup>77</sup>, which dealt with the definition of unemployment, on the grounds that Pigou's treatment is the first step to recognize “the recurrent idleness of the dock labourer at all time, of the bricklayer in winter”<sup>78</sup>.

On the other hand, however, Beveridge criticized the essence of Pigou's analysis. Pigou had said in Chapter 5:

...wage-rates at any moment and in every part of the industrial field can be so adjusted to the demand for labour of various grades that no employment whatever can exist. In other words, it has shown that unemployment is *wholly* caused by maladjustment between wage-rates and demand. (Italics in original, Pigou [1913] p.51)

Quoting the above last two lines, Beveridge disapproved of Pigou's perception because it was “a paradox of the lecture-room hardly worth

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<sup>76</sup> Beveridge [1914a] p.250.

<sup>77</sup> The title is “the meaning and measurement of unemployment”.

<sup>78</sup> Beveridge [1914a] pp.250-251.

putting into a work for the ordinary citizen”, thus “there is apparently no demand for their services at any price at all”<sup>79</sup>. In this context, Beveridge doubted whether a policy of “securing plasticity of wage-rates”<sup>80</sup> could be effective. In short, it is safe to say that Beveridge definitely denied the orthodox core of economic thinking, however superficially Chapter 5 and 6<sup>81</sup> were glorified as “the most valuable in the book”<sup>82</sup>.

(c) Keynes’s letter

Finally, in relation to the second point (Beveridge’s book review), Keynes left a very interesting correspondence with Beveridge:

Thanks also for the review. I am glad you criticise Pigou’s treatment of the plasticity of wages theory. I entirely agree with what you say about it. I do not think he commits himself to an actual recommendation to the working classes to allow great plasticity. But the natural suggestion of what he says is misleading<sup>83</sup>.

This letter gives an important insight into the thinking of both Keynes and Beveridge as a problem of a key point in the intellectual development of both men.

22 years before the *General Theory* [1936], Keynes was definitely aware that orthodox economics could not properly handle unemployment.

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<sup>79</sup> Beveridge [1914a] p.251.

<sup>80</sup> Beveridge [1914a] p.252.

<sup>81</sup> “Unemployment in a stationary state” and “the plasticity of wage-rates”.

<sup>82</sup> Beveridge [1914a] p.251.

<sup>83</sup> J. M. Keynes to W. H. Beveridge, 25 March 1914, the Beveridge Papers in the Archive Section, British Library of Political Science, London School of Economics and Political Science (hereafter as BP), b 13. Sentences before the above quoted are: “Thanks for your article, which is exceedingly interesting. I am getting it into print at once, although I am not at all certain to have space for it in the next number of the *Journal*”. “Your article” means “A Seventeenth-Century Labour Exchange”, *Economic Journal*, September 1914. See Beveridge [1914b].

Besides, he was also conscious of a split between Pigou's chivalry (his passion to save the poor) and economics logic, or remedies and analysis. Of course, at this stage, Keynes himself had no theory to cope with reluctant idleness of labour. He began a long struggle to slough off the orthodox thought. Previous studies, for example Hayasaka [1983], have already noticed this point. Nonetheless, the question is the date<sup>84</sup>. We definitely regard this letter as one of the earliest sign of the beginning of Keynes's long journey.

Previous analyses of *Unemployment* [1909] have tended to portray it as neoclassical writing in tone<sup>85</sup>. They have inferred that Beveridge has no logical structure except a frictional unemployment. However, the above review in the *Economic Journal* and correspondence disclose the difference between Pigou (the real orthodox) and Beveridge (the less committed). The former naturally thought of the price mechanism. The latter somehow considered that automatic wage adjustment was dispensable for even the organized labour market. In this sense, Beveridge's remedy was more consistent than Pigou with his doctrine, which employed an artificial framework such as the Labour Exchange system, instead of the natural price mechanism.

#### Section 4 The First Programme

This section, as a conclusion, explains that there is something special in Beveridge's first programme. These special features set Beveridge apart from his contemporaries, though at other points there are innumerable

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<sup>84</sup> Hayasaka [1983] explain Keynes' complaint over Pigou from a letter to Kahn. The date is 20 October 1937: "As in the case of Dennis [Robertson], when it comes to practice, there is really extremely little between us. Why do they insist on maintaining theories from which their own practical conclusions cannot possibly follow?" (Keynes [1973] p.259)

<sup>85</sup> See Hutchison [1953] pp.415-416 and Backhouse [1985] pp.247-248.

similarities. We maintain that the peculiarities are the clue to untangling Beveridge's complex ideas in this period.

#### 4-1 The Role of the Contemporaries

There is no difference between Beveridge and his five contemporaries with regard to the explanation of a "modern" treatment of unemployment. Here "modern" means the following: scientific or statistical approaches, objection to *laissez-faire*, preference for State intervention, adherence to impersonal or economic, not personal, factors, similar remedies such as counter-cyclical Public Works, mitigating Unemployment Insurance, some regional Grand Plan, and Labour Exchanges which reduce inefficiency of the labour market. In short, with a scientific and economic perspective<sup>86</sup>, they all have a new concept for an economic role of the State. Therefore, we cannot distinguish Beveridge from the other on those points. It is now necessary to look in more detail.

Alden, roughly speaking, influenced Beveridge in three ways. Firstly, the classification between the social and economic was vivid. The distinction shifted Beveridge's thought from the unemployable to the unemployed or unemployment. Secondly, Alden used many foreign examples, which broadened Beveridge's perspective, not only on Labour Bureaux, but also insurance against unemployment. This was a big chance for Beveridge to link the two institutions. Thirdly, treatment of casual labour was lacking in Alden's argument. This recognition induces Beveridge to contemplate the real economic problem, that is, industrial fluctuations and casual labour. By pointing out Alden's weakness, Beveridge deepened his own thinking. In the above sense, Alden was an influence.

Rowntree and Chapman were contrasts for Beveridge. Rowntree had a personal connection with Beveridge, whereas his argument on unemployment was not so outstanding. Rather, it would be preferable to

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<sup>86</sup> For the case of Webbs, see Webb [1907].

suggest that Beveridge's book in 1909 had a great effect on Rowntree. Of course, his *Poverty* [1901] influenced everyone. Rowntree's theoretical impacts were restricted to an indirect or general level. In contrast, Chapman has no personal connection with Beveridge as far as we have been able to ascertain<sup>87</sup>; his logic was, however, of great significance. Like Pigou, Chapman had two faces: of an eager social reformer, and of a calm economic theorist. This left him in an uncomfortable position; on the one hand, he built his hopes on natural forces of supply and demand in the labour market. On the other, he recognized well that proper cures for unemployment were urgently needed. Consequently, Chapman realized only a frictional unemployment or a time-lag explanation. Then, what was Beveridge's position?

First of all, Hobson is one of the tests. Beveridge seemed to defend "the competition theory" against the heretic Hobson. Actually, he rejected "the under-consumption theory"; not because he could not understand or he perfectly believed in orthodox economics, but because he became impatient with Hobson's theoretical defects. Firstly, he recognized that in a real monetary economy there was a strong possibility of hoarding. Useless monetary stock (hoarding) generates overproduction – though temporarily – in a different way from Hobson's theory. Secondly, he criticized the causality - or identity at the same time - of savings and investment. Although he did not have alternative economic theories at that time, Beveridge could criticize Hobson's decisive points. Beveridge would infer as follows: if saving increases, does it mean expanding effective demand as a result as much as increasing investment? Therefore, unlike his own modest words, Beveridge well understood both heterodoxy and orthodoxy.

Lastly, Pigou is another touchstone. From Beveridge, Pigou absorbed numerous new ideas, such as the necessity for investigating unemployment, for State intervention and for commonly accepted remedies (Labour

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<sup>87</sup> Chapman is Assistant Secretary of Board of Trade in 1918-1919. At the same time, Beveridge is the same status before he resigns to take up his post as director of the LSE in October 1919. See Beveridge [1955] p.158, Harris [1997] p.257.

Exchanges and Unemployment Insurance). He digested them into his own manner and fed them into Welfare Economics. In this sense, the relationship is of great substance. Simultaneously, there existed a very obvious difference between them concerning wage movement and labour market clearing. Beveridge, on the basis of personal study of the unemployed, appreciated that the price mechanism would not really work in the labour market. Hence, he refused an orthodox treatment regarding prices and advocates an artificial and national labour exchange and insurance against unemployment. Pigou still persists in orthodox modes of thought.

#### 4-2 Beveridge's Original Thought

Then, one final question remains; what is Beveridge's original idea at this stage, after comparison with his contemporaries?

The clue lies in the following passage:

It should be its object ... to reduce to a minimum the involuntary idleness ... This gives the clue to the general principle of state policy in the matter of the unemployed. The ideal should [be] ... an industrial system in which everyone who did find a place at all should obtain average earnings, at least up to the standard of healthy subsistence. ... Every place in free industry ... should be ... a "whole" place involving substantially full employment and average earnings up to a definite minimum. (Beveridge [1907b] p.327)

These sentences clarify his final target for national policy. That is to realize the national minimum. As we have shown, his broader and final aim is to abolish casual labour for ordinary people (citizens). If the Labour Exchange system is established as an ingenious device, most of the unemployed – or strictly speaking, the under-employed casual labour – should obtain regular work. This means that the earnings of most people

should be raised up to at least a minimum level. Even in that case, there are always strong possibilities or contingencies to interrupt their earnings. Then, National Insurance was necessary as a safety net. Indeed, Beveridge confessed that “from Germany with direct knowledge of social security ... I had to wait thirty-five years to use in writing the Beveridge Report what I had learned in 1907”<sup>88</sup>.

If we reconsider Beveridge’s intention in this manner, it is unjust to judge his theory on unemployment as merely a neoclassical one (frictional unemployment)<sup>89</sup>. His stress on perfection of the labour market should be understood, not by perfect competition, but by a broader angle; that is to say, a comprehensive remedy set of Labour Exchanges and National Insurance, in the connotation of the National Minimum. His first and final target is to save ordinary people who are below the poverty line, and always suffer from irregular earnings. Thus his focus is an abolition of casual labour. The most efficient means is to bring together more efficiently employees and employers. Insurance should cope with residual difficulties, though Beveridge did not fully consider the ways of absorbing the rest, the completely unemployed<sup>90</sup>. Nevertheless, this ambitious grand plan was, we should say, Beveridge’s “First Programme” in the 1900s.

Later, he developed his idea in social security theory along lines indicated in this “First Programme”; however, the central argument gradually shifted from Labour Exchange to Social Insurance, when he confronted the subsequent difficulties in unemployment insurance. Finally, he combined his social security theory with Keynes’ employment theory in the 1940s. We should note, however, that the germ of his “Final Programme” (the Welfare State) already existed in 1909.

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<sup>88</sup> Beveridge [1955] p.58.

<sup>89</sup> For instance, see the next judgement: “Beveridge’s own thinking on unemployment was not particularly original” (Casson [1983] p.25).

<sup>90</sup> Of course, this is his default at that time. Although he thinks of emigration and increasing productivity of labour (Beveridge [1907a] p.135) as absorption, it is not until the 1940s that he would combine Keynes’ idea that effective demand should be created.



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