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The Making of *Unemployment* [1909]:
Three Concepts Blended

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Abstract

The aim of this paper is to re-examine Sir William Henry Beveridge's (1879-1963) ideas on unemployment. What is lacking is a consideration of positioning his *Unemployment* [1909] adequately in a history of economic thought.

There were three processes in the evolution of Beveridge's ideas. The symbolic phrase of Period 1 (from September 1903 to December 1904) is 'from the unemployable to the unemployed'. The key expression of Period 2 (till June 1907) is 'from the unemployed to unemployment'. The abstract word of Period 3 (till January 1909) is 'perfection of the labour market'. It is the National Minimum principle that is of most significant in Beveridge's basic idea (Figure 1). The sentence 'one man at a living wage is better than two at half wage' is an emblem. The idea was continuously revealed in all the periods.

Beveridge only accomplished a coherent package of remedies for unemployment: labour exchanges with National Insurance on a basis of the living wage principle. These three concepts, which were perfectly blended, formed his original and unique standpoint.

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Section 1 Introduction

Why has Sir William Henry Beveridge (1879-1963) not been recognised as one who left his great mark on the development of economic thought? What is more, why has the link - between his early economic doctrine and his later idea of social security – not been amplified from the angle of the history of economic thought? Indeed, he is definitely one of the earliest contributors to solutions to unemployment tackling it as early as 1904, long before A. C. Pigou in the 1910s or J. M. Keynes in the 1920s. Furthermore, Beveridge's doctrine is sometimes beyond the orthodox economics of those days. Thus, we should be considered from a broader point of view.

As to the first question above, we have at least had two possible answers. Firstly, as F. A. Hayek contemptuously said, Beveridge “was completely ignorant of any economics whatever” and “never understood any economics”¹. This camp would say that Beveridge's works do not deserve any consideration, simply because he had never been an economist. Indeed, a majority of researchers², including Roll [1954], Stigler [1965], Blaug [1978]³ and Creedy [1990], merely ignored Beveridge in the context both

¹ Hayek [1994] p.83 and p.88.

² There is no name of Beveridge in the following books: Stark [1944]?, Taylor [1960], Brems [1986]?, Landreth & Colander [1989], Loasby [1989], Ekelund & Hebert [1990], Morgan [1990], and Mair & Miller [1991].

³ This is the third edition of his *Economic Theory in Retrospect*, whose first edition was published in 1962. From the fourth edition, Blaug began to refer to Beveridge. However, that is in the context of public works only. See Blaug [1996] p.662.

of the economics of unemployment in the 1900s and 1910s, and of the meaning of the Welfare State in the 1940s. (There are a very few exceptions that refer to Beveridge in the 1900s, such as Schumpeter [1954]⁴, Hutchison [1953]⁵ & [1978]⁶ and Backhouse [1985]⁷.) Regarding the second answer, Beveridge is regarded that he had no other focus than frictional unemployment, or at best a rationale of administrative difficulties⁸. Therefore, the general view of those who have published a majority of previous studies would be that “Beveridge’s own thinking on unemployment was not particularly original”⁹, or that “Beveridge’s attitude to unemployment ... was not a new one”¹⁰.

Instead, we will present a third possible answer in this whole project of

⁴ Schumpeter referred to Beveridge’s *Unemployment* in the context of frictional unemployment, “friction is no longer an obvious inadequate explanation ... In particular, the indictment should not have been directed against Pigou’s *The Theory of Unemployment* [1933]. For this period, see especially Beveridge’s *Unemployment* [1909]” (Schumpeter [1954] p.944).

⁵ Hutchison took up Beveridge’s *Unemployment* (Hutchison [1953] p.415 and p.421) because Hutchison made a point of controversies on public works in those days, especially in 1909, when the Minority Report of the Poor Law Commission was published.

⁶ Hutchison at this time connected the following events after 1909 together as ‘National Development’ programme: Lloyd George’s People Budget, Labour Exchanges, Unemployment Insurance, and Beveridge ‘monograph’ on unemployment (Hutchison [1978] p.160).

⁷ Backhouse noticed Beveridge’s *Unemployment* “went beyond their works [Booth and earlier Investigators] in looking at employment in a wider range of industries (Backhouse [1985] p.247). He also noticed two types of policy: labour exchanges and the extension of unemployment insurance (Backhouse [1985] p.248). Besides, mentioning even Beveridge’s *Full Employment in a Free Society* [1944], Backhouse said that “Beveridge was thus embracing the Keynesian approach to demand management” and “he saw as complementary to his earlier approach of encouraging the mobility of labour” (Backhouse [1985] p.399).

⁸ See Hutchison [1953] p.415.

⁹ Casson [1983] p.25.

¹⁰ Freedon [1978] p.211.

our research on Beveridge: his contribution as an economist has been overlooked (in a sense inevitably) because his doctrine superficially resembled the orthodox conclusion, that is to say, there is a preference for the perfection of the labour market. However, if we untangle Beveridge's complex but coherent thought, which was sometimes implicit even in his first book *Unemployment* [1909], then we can position his writings properly in the history of economic thought. It is also high time to re-focus on his other numerous articles before 1909.

Therefore, as a first step, in this paper, we examine the development of the framework within *Unemployment* [1909] from September 1903 to January 1909. In accordance with evolution of Beveridge's ideas, we divide the five years into three: Period 1: September 1903 to December 1904; Period 2: January 1905 to June 1907; and Period 3: July 1907 to January 1909. Three periods can be described respectively as: the fateful discovery of the unemployed, a zealous advocate for Labour Exchanges, and the completion of a coherent remedial package on a basis of the National Minimum principle.

This paper is organised as follows. Section 2, 3 and 4 argue the main points of each period. The first part of each section is a rough sketch both of social events and of Beveridge's personal information. Section 5 is a summary and conclusion.

Section 2 Period 1: September 1903 to December 1904

This stage, which we refer to as Period 1 (from September 1903 to December 1904), should be treated as a fateful encounter for Beveridge with the problem of the unemployed. There are three aspects to this 'fateful encounter'. He recognised that unemployment extended beyond the pauper class (and trade unionism) to the industrial workforce. He developed an empirical approach. However, he had no concrete remedies then. Before examining these elements in detail, we at first give a short

sketch of his background at this stage.

2-1 Background

Even in 1902 and 1903 after graduating from Balliol College, Oxford, Beveridge was still wondering whether his calling should be as judge or jurist. Although his father strongly wanted him to be called to the bar, he finally decided to live at and to work for Toynbee Hall as a sub-warden from 1 September 1903.

Unlike Beatrice Potter, we should not think that Beveridge started his career as a social worker from a philanthropic point of view. At the same time, he was not merely a legal or ideal reformer in the mould of Jeremy Bentham or Edwin Chadwick. Firstly, Beveridge expressed his dislike of ‘slumming’ and ‘good works’, after staying at Toynbee Hall for two days in his third year at Oxford¹¹. He even avoided the term ‘social problems’, since it always suggested ‘slumming’ and drink¹². However hard he would deny it, he certainly inherited this hatred from his father, who had a great contempt for ‘horny-handed mechanics’ and ‘soup-kitchens for the proletariat’¹³. Secondly, Beveridge disposed of the shade of Bentham in particular as a symbol of father’s power:

The last century has been one gigantic legal reformation; ... Then there is another class of legal reforms needed at the present day – vitally important and resembling neither Bentham reforms nor the legal emendation ... A reform of the sort is rather social than legal; it ... is a matter ... for a combination of political philosopher, economist and ... lawyer. (Beveridge [1953] pp.17-18)

In short, his determination differs from those of 19th century reformers.

¹¹ See Beveridge [1955] p.15.

¹² See Beveridge [1955] p.14.

¹³ See Harris [1997] p.75.

For a new type reformer with a macroeconomic perspective, Toynbee Hall provided a suitable opportunity, because this settlement redeemed him from his identity crisis, the dissociation between a philanthropic missionary and a cool social observer. On the one hand, the settlement in East London was full of philanthropic atmosphere. Samuel Barnett (1844 - 1913), who was Vicar of St. Jude's, founded Toynbee Hall in Whitechapel in 1884 in memory of Arnold Toynbee, 'Apostle' Arnold (1852-1881)¹⁴. On the other hand, Beveridge, who was scouted by Barnett, had plenty of free time with a not inconsiderable salary (£200)¹⁵, in addition to a generous scholarship (£120, later £200)¹⁶. Therefore, he could investigate actual conditions of worker's life, infer something from the minute data, attend numerous meetings on poverty and the unemployed, project and execute relief works, write articles in the *Toynbee Record*, and deliver addresses on social problems. Beveridge was eager to "know something about human society and working at some part of its machinery"¹⁷ and to experience the actual working of the 'Nation'¹⁸. Thus, his desire to do something for the sake of society was almost satisfied in this period.

Above all, Beveridge's first job enabled him to gain access to 'the problem of the unemployed'. Before the severe winter of 1903, Barnett and others advocated a revival of the Lord Mayor's Mansion House fund¹⁹ and organised the Salvation Army²⁰ in Essex on the basis of the raised fund.

¹⁴ He was the first historian to identify the British 'Industrial Revolution' in his *Lectures on the Industrial Revolution in England*, 1884.

¹⁵ See Beveridge [1955] p.16.

¹⁶ See Beveridge [1955] p.10, p.18. This scholarship, which sustained him for 7 years till 1909, is the Stowell Civil Law Fellowship at University College, Oxford.

¹⁷ Beveridge [1955] p.14, a letter from W. H. Beveridge to his mother, 25 January 1903.

¹⁸ See Harris [1997] p.74.

¹⁹ In 1886, this fund swelled from £19,000 to £72,000 in the two days. The failure of the fund, as a remedy for the unemployed, forced the Committee to be in a state of suspended during 1895-1903. See K.D. Brown [1971a] p.14. Percy Alden was also a member of the Committee.

²⁰ William Booth, an independent revivalist, established the Salvation Army in the early 1890s. The movement soon became popular, not only because of an upsurge of

467 men were to set to work in labour (farm) colonies from December 1903 to March 1904. Their wives and children waited in London, receiving the wage. The relief work was continuous but simple. After staying for a few days or several weeks, they all left for London. The lack of funds prevented the Mansion House Committee from providing subsequent relief work. Young Toynbee Hall residents, such as Beveridge, H. R. Maynard (1873-?) and Harry Tawney (1880-1962)²¹, took part in this plan. Under the guidance of Vicar Canon Barnett, they came to be involved in an urgent issue, the unemployment problem. The Salvation Army (1903/1904) was both a great experience and experiment for them. This new type of relief work was labour colonies, unlike the earlier version of ‘money or food dole’.

Beveridge was forced to resign the Committee in February 1904, owing to long conflicts with a majority of other participants. The frictions arose from different attitudes towards workers. He disapproved of religious ‘influence’ – or imposition – on workers during the relief work²². Beveridge moved to another branch of the Mansion House Scheme.

2-2 Articles in Question and Summary

In Section 2, after reviewing five articles: Beveridge [1904a], [1904b], [1904c], [1904d] in the *Toynbee Record* and Beveridge & Maynard [1904] in the *Contemporary Review*, we summarise this period as follows. Firstly, Beveridge’s inference was based on numerous data and actual experience of the Salvation Army. Secondly, his argument included both the discovery that modern industry had a third and hidden class (i.e. casual workers), and a dislike for previous treatment of the unemployed in the 19th century. Thirdly, his analysis naturally led to his deeper recognition about industrial

humanitarian sentiment, but of a fear of violent rioters. See K.D. Brown [1971a] p.14.

²¹ Economic historian and leader of the Fabian socialists. He came to Toynbee Hall as resident.

²² See Harris [1997] pp.140-141.

fluctuations and the possibility of an economic role for the state.

2-3 Empirical Attitude

Unlike other philanthropists, Beveridge approached the problem of the unemployed in the manner of a natural scientist. He used the term ‘the science of Society or Sociology’²³. His attitude, derived from his respect for Thomas Huxley²⁴, could be seen in numerous hand-written charts and profiles in his memorandum²⁵ in this period. He collected those data both from formal documents (such as the *Labour Gazette* and the reports of Local Government) and from actual experience (relief work). Equally important, Beveridge inferred in both inductive²⁶ and deductive ways, by using strict logical steps on the basis of the collected information.

For example, let us pay attention to an article “The Making of Paupers”: Beveridge [1904c]. He compared the yearly percentages of unemployed trade unionists with the numbers of indoor paupers per thousand.

The unemployed					
Peak		1892-1894		1897	
Trough	1889		1896		1899

²³ This term was mentioned in Beveridge’s address “Economics as a Liberal Education” at the London School of Economics in 1920. See Beveridge [1955] p.247.

²⁴ Beveridge wrote that Huxley was his hero. See Harris [1997] p.68.

²⁵ See the Beveridge Papers (microfilm), Part 2, Series 2: Part 1. Reel 1, Item 5. Early Activities: Central (Unemployed) Body for London, conference reports, summaries of working colony schemes and related papers, 1905-1908.

²⁶ Beveridge himself referred to his scientific method, saying “I wish to see economics ... established as an inductive science of observation, nearer to biology than to mathematics or philosophy (Beveridge [1955] p.247).

Paupers					
Peak		1893-1895		1898	
Trough	1891		1897		1900

Table 1 Peak and Trough of the Poor, made from Beveridge [1904c] p.28

The above table indicates his way of thinking. In peak years, unemployment or pauperism culminated and began to decrease. In troughs, the number was the lowest and began to increase. At first sight, there seemed to be no clear relationship among annual figures of the two variables. Nonetheless indirectly, taking ups and downs per year into account as in the above table, Beveridge could induce that “the two curves do bear a very curious relation to one another. The pauperism curve follows the unemployment curve *at a year’s interval*”²⁷. Furthermore, he deduced and concluded:

Those who from time to time fall out of regular industry do not arrive at the workhouse and the casual ward till after a consideration interval. In a year of bad trade many will be dislodged from their positions in the industrial army; a year later, ... these people will reach the pauper level, and the percentage of pauperism will rise. (Beveridge [1904c] p.28)

This article is an excellent example which shows a mixed method of induction and deduction. Beveridge’s way of reasoning was certainly empirical, but not merely statistical.

2-4 Pauperism isolated

The experience and experiment of the Salvation Army induced Beveridge to discover the third or hidden class in modern industry: casual workers. The recognition was possible only after he made careful classification of the poor, or strictly speaking, after he was able to separate pauperism from

²⁷ Beveridge [1904c] p.27, emphasis in original.

his main analysis. The poor to be set to work in farm colonies were grouped in three classes. Class A indicates regular work. Class B means “casual or irregular work. ... Class C means out of work during the whole period”²⁸. In other words, Class A corresponds to the genuine workmen normally in regular work; Class B also indicates the other genuine workmen, though in irregular work; Class C corresponds to “the ‘unemployable’, who have no place in the industrial army”²⁹. What is noted here is that Beveridge was not so interested in Class A and Class C, mainly because the former were naturally protected by their trades unions, and the latter were less important for industry and fewer in number as a whole. Therefore, for Beveridge Class B were of great significance despite having been ignored for a long time, “since the classes most concerned are neither trades unionists nor paupers”³⁰. He ‘discovered’ the hidden class by classifying the poor. The Mansion House Scheme resulted in developing his idea.

This discovery stemmed from Beveridge’s dislike of predominant treatment of the poor. In particular, he criticised the ‘dole’ type of relief work:

... the system of scanty or intermittent “doles” either of money or of work, which tend to perpetuate, while they do nothing to remedy, the misery and demoralisation of a casual and dependent existence. ... Experience has invariably proved that doles on a large scale mean doles without discrimination. ... they corrupt the worker by the open encouragement of idleness and imposture.
(Beveridge & Maynard [1904] pp.635-636)

In short, unorganised “charity is worse than useless”³¹, because the problem

²⁸ Beveridge [1904b] p.13.

²⁹ Beveridge & Maynard [1904] p.633.

³⁰ Beveridge & Maynard [1904] p.635.

³¹ Beveridge [1904d] p.43.

of “unemployment is beyond the powers of charity and is wholly outside the scope of a Poor Law dealing with destitution in general”³². In this connection, Beveridge mocked the classical recommendation of thrift or sobriety³³, simply because workers under the poverty line could not afford to buy luxuries or save more. Again, we should say that he discarded the old-fashioned ideas such as thrift, self-help and self-respecting individuals.

In this period³⁴, Beveridge was favourable towards labour colonies. There are roughly speaking two reasons. Firstly, the colony system was cheaper than prison. Farm colonies were self-supporting and self-contained since they could produce their own food during the scheme. Secondly, they could keep “men in the habit of labour”³⁵. Actually, the main feature of the Salvation Army was “the offer of continuous work”³⁶. Then, the colony system aimed “at training its inmates for the return to some regular industry”³⁷. Here again, for Beveridge, it is significant for ordinary people to work on a regular basis. He preferred this system to either prison or dole money, because the latter two had no relation to work in industry.

Beveridge’s discovery and dislike, to which we have referred, gradually enlarged his modern view on unemployment. The development of his idea is summarised in three aspects.

Firstly, he reversed causality regarding the poor. Classical reformers had claimed that defects of character automatically caused people to be always unemployed. Namely, they had identified the unemployed with the unemployable or the vagrants (such as vagabonds, beggars, and debauchees). On the contrary, Beveridge maintained that “unemployment [was] creating ‘unemployable’”³⁸. Indeed, “good conditions ... produced a

³² Beveridge [1904d] p.46.

³³ Beveridge [1904d] p.46 and Beveridge [1904b] p.14.

³⁴ A few years later, Beveridge changed his opinion, and came to be unfavourable to the Salvation Army.

³⁵ “The provision of relief work is better than cash payments “(Beveridge [1904d] p.44).

³⁶ Beveridge & Maynard [1904] p.629.

³⁷ Beveridge [1904a] p.104.

³⁸ Beveridge [1904d] p.43.

marked improvement in the physique of the men”³⁹ in the Salvation Army. As we have discussed in 2-3, he concluded that in “a year of bad trade many will be dislodged from their positions in the industrial army; a year later ... these people will reach the pauper level”⁴⁰. Unemployment caused by bad trade leads to paupers, not *vice versa*:

... the problem of the unemployed – which is the problem of those able and willing to take employment but at particular time and place, whether for a definite or an indefinite period, *superfluous*.

(Beveridge [1904a] p.100, emphasis added)

The term ‘superfluous’ symbolises the second progress of Beveridge’s economic thought, that is to say, the recognition that there were inevitable fluctuations and severe depressions in modern industry. For instance, the high rate of unemployment in the winter of 1903-1904 was not caused by seasonal factors, but cyclical⁴¹. The word ‘cyclical’, which was also expressed as “chronic”⁴², was defined by Beveridge as “extending over several seasons”⁴³. We should note that he paid attention to “the acceleration of general downward tendency in trade”⁴⁴. The duration in question is not a season (short-range), but over several seasons (middle-range). In the modern world, it was vital and indispensable for the poor to be suffering from continuous depression:

It may be that this periodical extrusion of the weaker at times of stress is an essential part in the machinery of modern industry or of industry however organised. (Beveridge [1904b] p.14)

³⁹ Beveridge & Maynard [1904] p.631.

⁴⁰ Beveridge [1904c] p.28.

⁴¹ See Beveridge & Maynard [1904] p.632 and Beveridge [1904b] p.10.

⁴² Beveridge & Maynard [1904] p.632.

⁴³ Beveridge & Maynard [1904] p.632.

⁴⁴ Beveridge [1904b] p.10.

Thirdly, Beveridge was able to point out the possibility that a legitimate role of the state should be to salvage inevitable long depressions. At the same time in this period (i.e. before December 1904), he could not propose how to deal with the distress. He had surely been heading in the right direction regarding solutions of unemployment when he said:

The problem of unemployment has thus been defined; how is the efficiency of unemployed workers to be maintained through period of depression? (Beveridge [1904c] p.29)

In other words, the “problem of maintaining the efficiency of workers through periods of depression ... [is the question] of preserving the unemployed as merely ‘unemployed’ not ‘unemployable’”⁴⁵. However, Beveridge had no concrete remedies for unemployment at this stage. He merely claimed that “a scheme is obviously beyond the scope of voluntary effort, and would need the co-operation of the central and local authorities”⁴⁶. Or, he maintained as follows:

The ultimate issue ... must lie between the provision of public work by the community, national or local, and the raising of all wages to a point sufficient to admit of adequate thrifty provision against the fluctuations incidental to each occupation, by practically universal trade unionism. (Beveridge [1904d] pp.46-47)

In another context, the last part of the sentence quoted is quite important, because it involves in the idea of the National Minimum, which functions as insurance against the contingency. However, there is no practical suggestion⁴⁷, and no clear preference for national systems.

⁴⁵ Beveridge [1904d] p.44.

⁴⁶ Beveridge & Maynard [1904] p.635.

⁴⁷ Although Beveridge suggested “the consideration ... of a comprehensive remedy”

In brief, Beveridge succeeded in isolating the unemployable from the main analysis of the distress. Consequently, he could clarify the third class, casual workers, who were forced to be sometimes superfluous and involuntarily idle. Although this realisation was the right way to deepen his understanding of ordinary people's life, there were no proper remedies for unemployment at this stage.

Section 3 Period 2: January 1905 to June 1907

This stage, which we refer to as Period 2 (from January 1905 to July 1907), should be treated as an elaboration term in theory and practice. Beveridge rapidly deepened his economic rationales and zealously advocated the labour exchanges.

3-1 Background

Although Beveridge resigned from the Mansion House Fund Committee, he was getting to be more and more involved in the problem of unemployment. The year 1905 was very crucial for him in three respects. Firstly, Percy Alden's book *The Unemployed: A National Question* was published in January. Beveridge immediately reviewed it in February. As we have shown in Komine [2001b], this book had a tremendous impact on the reviewer. Secondly, The Royal Commission on the Poor Laws and Relief of Distress was announced in December, when the Balfour cabinet was ready to resign. Through the Webbs, Beveridge came to be in touch with the Commission, which in turn allowed him the opportunity to become involved in bureaucracy. Thirdly, the Unemployed Workmen Bill was passed in December, as a parting gift of the Unionist Government. This legislation was an indispensable basis both for the following social reforms and Beveridge's life.

The Unemployed Workmen Act of 1905, which enlarged the function of

(Beveridge & Maynard [1904] p.629), he had no concrete plans.

the Central Committee for the Unemployed (London) in 1903, “marked a decisive turning-point in national policy”⁴⁸ as state responsibility for unemployment. Originally, Walter Long, the President of the Local Government Board, had a plan to combat the unemployment problem in London. Joint committees were required to present a united front against the urgent problem. The Distress Committees in each big town had to raise money from either charity or rates, and collect information about the distressed. The concrete measures they proposed were labour colonies and Labour Bureaux. The Central (Unemployed) Body for London was established under the Act.

Beveridge gradually made his mark as an able administrator or a specialist on unemployment. For instance, in July 1905, he became Secretary to the Committee on Unskilled Labour, set up by the Charity Organisation Society. In March 1906, he served as Chairman of the Employment Exchanges Committee of the Central (Unemployed) Body for London. During the two appointments, Beveridge changed his work from Toynbee Hall to the *Morning Post* in November 1905. Despite this surface transformation (from ‘social worker’ to ‘journalist’), his real life was unchanged, because he still had free time with a big enough salary to investigate ‘social problems’.

The year 1906 was also of great importance mainly in the history of social policy. As a result of its return to power, the new Liberal government immediately changed the previous hostile atmosphere to trade unions, by passing two bills: the Disputes Act and the Workmen’s Compensation Act⁴⁹. The former restored the legal immunity of trade unions, which had lost it in the Taff Vale case in 1901. The latter extended Chamberlain’s 1897 Act, by enlarging the range of employer’s liability for industrial injury from specific industries to almost all wages-earners. Although at the beginning, the Campbell-Bannerman cabinet was merely responsive to pressure from the working class, the year 1906 was the starting point of the Liberal

⁴⁸ Bruce [1968] p.188.

⁴⁹ See Hennock [1986] p.88, Hay [1983] p.52 and Bruce [1968] p.177.

Reforms.

Beveridge himself regarded this period as important because he met three “sets of people whom [he] was to owe much through most of [his] life”⁵⁰. They were Hubert Llewellyn Smith, Sidney and Beatrice Webb, and Jessy Mair. The first was a progressive bureaucrat, then permanent head of the Board of Trade. The second were Fabian socialists. The third would be Beveridge’s wife many years later. His exchanges with wider groups were, in a sense, a proof of his eclecticism. Beveridge was taught by A. V. Dicey (1835-1922)⁵¹, a conservative or traditional lawyer at Balliol, Oxford. He decided to move to the *Morning Post*, a conservative daily newspaper. On the other hand, he was on friendly terms with members of the C.O.S. and the Fabian Society at the same time. “This result is due to the fact that I was put forward that I believe both by the C.O.S. and the Socialists!”⁵²

The year 1907 was crucial because “the foundation of an alliance was laid between the Webbs”⁵³ and Beveridge. He persuaded them to adopt the idea of labour exchanges. They decided to summon him to the Commission as the first witness on unemployment in October. Before that, Beveridge went to Germany in August 1907 to investigate the labour exchanges and the contributory insurance against various causes.

3-2 Articles in Question and Summary

In Section 3, which deals with the second term, from January 1905 to June 1907, we review 12 articles and some unpublished memoranda or

⁵⁰ Beveridge [1955] p.34.

⁵¹ Dicey divided the nineteenth century into 3 phases: 'old Toryism' up to 1830; 'Individualism'; and 'Benthamism' up to 1870, succeeded by 'Collectivism'. He also lectured at LSE from 1896-1899. See also the following judgement: “although Beveridge never shared Dicey’s extreme political ‘individualism’, he was strongly influenced by Dicey’s analytical, ahistorical, ‘positivist’ approach to the law” (Harris [1997] p.485).

⁵² Beveridge [1955] p.39.

⁵³ Beveridge [1955] p.61.

leaflets of Beveridge's lectures for ordinary people. This elaborate investigation results in a need for the further division of Period 2 into three sub-periods. In Period 2-1, from January 1905 to around September 1905, Beveridge found an excellent remedy for the unemployed, that is to say, labour exchanges. However, he was still wondering about a relationship among labour exchanges, relief work and economic reasoning. In other words, he had merely a weak rationale to prove that labour exchanges were the best solution. In Period 2-2, till March 1906, Beveridge came to be convinced that labour exchanges were strong weapons against unemployment. He tried to shake off the previous thinking such as laws, trade unions and philanthropy. In period 2-3, till June 1907, Beveridge had almost established his own doctrine on unemployment, by deepening his economic thinking with the aid of Hobson's books, for instance.

3-3 A Discovery of Labour Exchanges

Alden's book, published in January 1905, was a big hint but merely one of prompts for Beveridge. *The Unemployed: A National Question* had a great implication because Alden was able to indicate several important elements, such as a separation of paupers, foreign examples of labour bureaux, and the importance of economic considerations. However, Alden's influence was limited, because he had no detailed economic argument. In particular, he could not connect casual labour with labour exchanges.

At the same time, Beveridge was also wondering and wandering. We have three sources that imply his wavering in this period. Firstly, there is a syllabus or leaflet of his lectures at Bristol University College in March 1905⁵⁴. He delivered three lectures on 'The Problem of the Unemployed'

⁵⁴ The Beveridge Papers in the Archive Section, British Library of Political Science, London School of Economics and Political Science (hereafter as BP), b 3 (1905). On 30 March 1905, Beveridge pointed out the "need for a new local authority" and considered "relation of public relief schemes to the general industrial system", "the right of the individual to labour" and "the responsibility of the State".

on 16th, 23rd and 30th. In the syllabus, as remedies for the unemployed (not the unemployable), the first measure was Labour Registries or Labour Exchanges. Their functions were to obtain and distribute information, and to organise casual labour. Nevertheless, relief work had the most detailed description though it was at the bottom of the list. Secondly, his gradually increasing addresses were still restricted within the perspective of law, trade unions or socialism, such titles as ‘Trade Union (History and Law)’, ‘Municipal Trading’, ‘Socialism in Books and in Facts’⁵⁵, ‘Crime and Punishment’⁵⁶, ‘The Government of England’⁵⁷, and ‘Labour and Law’. Additionally, Beveridge wrote two papers on these topics: “the Question of Disfranchisement” and “The Reform of Trade Union Law”⁵⁸. Thirdly, in close relation to the second, Beveridge had not read many economic books by this time. This fact is revealed in a book list⁵⁹ he left for a lecture entitled ‘Labour and Law’ on 10th October 1905 at Toynbee Hall for University of London (University Extension Lectures)⁶⁰. Out of 20 books, He listed up only three, which could be classified as economic affairs. The books were: J. A. Hobson’s *The Evolution of Modern Capitalism: A Study of Machine Production* [1894]; W. S. Jevons’ *The State in Relation to Labour* [1887]; and A. Toynbee’s *Lectures on the Industrial Revolution in England* [1884]. The other books were on legislation (including A. V. Dicey) or on

⁵⁵ These three lectures were on ‘Social and Industrial Questions’ at Toynbee Hall in Period 1; on 19 October, 23 November, and 7 December 1904. BP, b 2 (1904).

⁵⁶ This lecture was undated in 1905 for Toynbee Smoking Debah (?). BP, b 3 (1905).

⁵⁷ There were three lectures at Toynbee Hall on 24 January, 7 February, and 14 March 1905. BP, b 3 (1905).

⁵⁸ Beveridge [1905b] and [1905c]. The latter deals with the Taff Vale case in 1901. Beveridge’s attitude to trade unions is very modest. It is neither conservative nor progressive, when he referred to “the complete recognition of trade unions as bodies within the law, with definite privileges and responsibilities, instead of relegating them” (Beveridge [1905c] p.149).

⁵⁹ BP, b 3 (1905), for the formal titles, see Appendix A and B.

⁶⁰ BP, b 3 (1905).

democracy and socialism (including the Webbs). In brief, Period 2-1 is the period that legal or general way of thinking was so dominant that Beveridge only formed a weak link between labour exchanges and economic rationales.

3-4 Penetration of Economic Thinking

During the summer and autumn of 1905, two big events happened to him. One was the passing of the Unemployed Workmen Bill on 7 August⁶¹. The other was the change of jobs to the *Morning Post* in November. The Act was a statutory ground that the jointed committees managed Labour Bureaux. Beveridge flourished in the Central (Unemployed) Body for London also established under the Act. Besides, his change of the job expressed his firm determination to cut off from philanthropy.

In Period 2-2, from around September 1905 to March 1906, Beveridge gradually recognised the right position of labour exchanges in a modern economy. This realisation can be seen in four of his articles⁶².

Beveridge welcomed the Act when he said in October 1905:

The Act bears within the seeds of a great reform in the future. An efficient system of labour exchanges would decrease the amount of involuntary idleness, particularly in casual and irregular occupations, enormously and permanently. ([Beveridge]? [1905d] p.10)

In the long run, it was necessary to establish “the organisation of the labour market by means of labour exchanges, perhaps the most important industrial reform”⁶³. In November, Beveridge noted that the Labour Exchange had the greatest utility because “its functions will be to increase the fluidity of labour”, and “increase knowledge of the prevailing

⁶¹ K.D. Brown [1971b] p.317.

⁶² [Beveridge]? [1905d] [1905e][1905f][1906a]. See Note 67 below.

⁶³ [Beveridge]? [1905d] pp.11-12.

conditions of employment”. He admitted that “considerable advance has been made during the past twelve months”⁶⁴. ‘Twelve months’ may indicate the term from the unemployment conference on 14 October 1904⁶⁵, at which Walter Long called all London guardians, to the passing and execution of the Unemployed Workmen Act around the summer of 1905. After the conference, the London Unemployed Fund was set up⁶⁶. In December 1905, Beveridge praised the report of the Fund, adding that a “Central Employment Exchange was established to act as a clearing-house for the labour bureaux already at work”. In February 1906, he even referred to the “complete failure of many exchanges in the past”:

First, the various exchanges have worked in complete isolation from one another. Each ... had no communication with the exchanges in other districts. ... The Executive Committee of the London Unemployed Fund established a Central Employment Exchanges to act as a clearing-house⁶⁷ between all the local exchanges in London. ...

Second, the management of many of exchanges has been ... perfunctory.

Third, ... a confusion of Labour Exchanges with relief work ... absolute separation of the Labour Exchanges as a piece of industrial machinery from all administration of relief ... is an essential element in the possibility of success. It is ... proved by the experience of Germany.
([Beveridge]? [1906b])

At this stage, Beveridge began to be convinced that “Labour Exchanges

⁶⁴ [Beveridge]? [1905e].

⁶⁵ K.D. Brown [1971a] p.37.

⁶⁶ The Fund was mainly based on volunteers, but sponsored by the Local Government Board, see Harris [1997] p.141.

⁶⁷ The four articles are again unsigned. However, we can observe the same terminology in many words, especially ‘act as a clearing-house’ in the *Toynbee Record* and the *Morning Post* at the same time. There was no one except Beveridge that wrote for the both media.

cannot make work at times of depression ... What they can do is to diminish the waste of labour, power and time, and consequent unnecessary irregularity of employment involved in the unorganised search of isolated workmen for work". Then, he concluded that the "unemployed problem is ... the problem of the casually employed", and appealed for a remedy "by unifying the labour market"⁶⁸.

Beveridge's penetration into economic thinking, to some but crucial extent, stemmed from Hobson's books, though previous studies had failed to grasp this point⁶⁹. Beveridge definitely read Hobson's *Evolution of Capitalism* [1894] by September 1905, and possibly read his *The Problem of the Unemployed* [1904] by November 1905. These books involved in further thinking of economic affairs. There are two aspects to prove our point. In the first place, Beveridge realised that "cyclical fluctuation of employment is an inevitable incident of modern industry", which was a "result of periodic over-production followed by stagnation"⁷⁰. Hobson [1894] and [1904] dealt with this theme, that is, a connection between over-production and unemployment⁷¹. Beveridge must have obtained useful suggestions from reading the two books, which described severe depressions accompanied with waste of labour-power as inevitable in modern capitalism. In the second place, more important, Beveridge must have borrowed a special phrase 'labour exchanges act as a clearing-house' from Hobson [1904]. This inference is highly possible because Beveridge began to use this word from December 1905, while Hobson used it in November 1904⁷². The word 'clearing-house' is very important in that

⁶⁸ [Beveridge]? [1906b].

⁶⁹ Some studies truly point out the importance of the 1906 Conference at the LSE. See Harris [1972] pp.22-23 and Phillips & Whiteside [1985] p.79. However, there is no reference to Hobson regarding a theoretical relationship with Beveridge in Harris [1997].

⁷⁰ Beveridge [1907b] p.328 and p.329.

⁷¹ For instance, see Hobson [1894] pp.176-179 and Hobson [1911(1904)] p.54.

⁷² The title of Section 2, Chapter 8 of Hobson [1904] is 'Labour Bureaux as Clearing-Houses'. He admitted that a clearing house system for labour would increase fluidity

Beveridge was able to describe a central labour exchange as a metaphorical symbol which made the labour market organised like those of other commodities. Hobson was at least one of the influences which broadened Beveridge's economic thinking.

We should here focus on special terms in Period 2-2, such as 'casual', 'fluidity', 'a Central Exchange', 'as a clearing-house', 'communication', 'a separation from relief work', 'unify', and 'organised market'. These words certainly point to his deeper economic consideration than in Period 2-1. Beveridge was not satisfied merely with his discovery of a labour exchange as a proper remedy for the unemployed. He also put most emphasis on casual labour, which relief work could never eliminate. He keenly realised a need of a Central Labour Exchange to combine other subordinate exchanges. Communication, between not only employers and employees but also labour exchanges, is the most crucial mechanism to arbitrate disordered and isolated labour markets. To sum up, Beveridge deliberated upon the necessity of Labour Exchanges in a modern vulnerable industrial society.

3-5 Quasi-accomplished

In Period 2-3, from April 1906 to June 1907, Beveridge almost completed his doctrine on unemployment. We can trace the process of his evolution by classifying it in the following manner: economic reasoning in four aspects; the perfection of the labour 'market' as an ultimate remedy; the National Minimum as a hidden idea; one missing idea. Here economic reasoning means: (a) demand for labour; (b) supply of labour; (c) economic conditions in modern industry; and (d) economic remedies.

The conference at the LSE on 4th April 1906 was of great significance⁷³.

and reduce waste of labour to a minimum (Hobson [1904] p.127). Hobson [1904] is the second (and revised) edition of Hobson [1894]. Beveridge [1909] referred to the third (and not revised from the second) edition (Beveridge [1909] p.58, Note 2).

⁷³ We have discussed another importance as to this conference. See Komine [2001b]

There existed at least four characteristics which showed Beveridge's evolved idea.

First, the term 'the reserve of labour' was used for the first time to indicate "a constant margin of unemployment" "necessary to meet sudden variations in demand". It was "always available though only occasionally employed"⁷⁴. Afterwards, this terminology, which referred to Point (a) above, became the key word for him. Second, Beveridge was able to classify the industrial causes of unemployment. By contrast, we should remember his argument in October or November 1904. In Beveridge [1904b] and Beveridge & Maynard [1904], his interest was to classify people directly into three groups. This time in April 1906, his concern had changed, from the unemployed to unemployment. Anyway, the three causes of unemployment were permanent changes in single trades (decay or changes of organisation), temporary fluctuations in industry as a whole, and casual employment. For the first and third cause, "an organised system of labour exchanges is essential"⁷⁵. It required "a reform of the conditions and method of employment in the industry itself"⁷⁶. For the second cause only, "the provision of temporary relief work [should be] designed to tide over a period of depression"⁷⁷. These three causes correspond to Point (c) and (d) above. Third, modern industry was always subject to over-production. Beveridge marked production on a large scale as "production for an *anticipated* demand"⁷⁸. Competitive producers targeted the same anticipated demand, and frequently resulted in periodic over-production,

Section 3-4.

⁷⁴ Beveridge [1907b] p.325. The proceedings from the conference in 1906 was published a year later.

⁷⁵ Beveridge [1907b] p.328.

⁷⁶ Beveridge [1907b] p.330.

⁷⁷ Beveridge [1907b] p.329. As to second causes, Beveridge also pointed out the other (less effective) measures: national business to counter the fluctuations of privately-controlled industry; the out-of-work pay (a grant).

⁷⁸ Beveridge [1907b] p.328, emphasis in original.

“collectively the competitors must overshoot the demand”⁷⁹. This is in accord with Point (c) above.

The fourth aspect is most important because it stealthily includes the National Minimum principle:

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. The greatest interest of a nation lies in having all its citizens efficient, healthy and happy ... The acceptance of this ideal of minimum average earnings ... marks merely the distant goal of national policy. (Beveridge [1907b] p.327)

This passage is definitely a declaration of the Welfare State. We now know ‘the distant goal’ was established by Beveridge himself when he published ‘the Beveridge Report’ in 1942. What is more, he clearly noticed that the goal embraced full employment⁸⁰:

Every place in *free* industry, carrying with it the rights of citizenship ... should be, so to speak, a “whole” place involving substantially *full employment* and average earnings up to a definite minimum. (Beveridge [1907b] p.327, emphasis added)

The citation reminds us of Beveridge’s *Full Employment in a Free Society* in 1944. The fourth point we have discussed should be regarded as a hidden

⁷⁹ Beveridge [1907b] p.329. Hutchison [1953] referred to Beveridge [1909] as to an explanation in terms of chronic over-capitalization (Hutchison [1953] p.387, Note 2). We should note that the explanation dates back to 1906.

⁸⁰ At the same time, Beveridge sharply distinguished the unemployable from the ‘efficient’ (ordinary workers), or dependence from independence of the state. The unemployable should be “removed from free industry and maintain adequately in public institutions” with “the complete and permanent loss of all citizen rights” (Beveridge [1907b] p.327). His attitude towards the unemployable was severe at this stage.

idea that previous research has missed.

Beveridge [1906c]⁸¹ has quite an interesting title: “Insurance against Unemployment: A Foreign Experiment”. Nevertheless, we are disappointed to find that the paper merely introduced a report on this topic. There were no original comments. Thus, it suggests that Beveridge probably had not yet thought of unemployment insurance thoroughly around 1906⁸².

Beveridge [1906d] deals with rather a rare topic: not labour exchanges but relief work. He admired the Mansion House Fund of 1903-1904, because the fund “was used, not for charitable doles, but for the provision of temporary work”⁸³. It was “the policy of giving regular and continuous in place of irregular work”⁸⁴. Besides, it was scientific in the sense that there was an automatic test, “making the relief-work less attractive than ordinary work, without making it either dishonourable or irregular and insufficient to provide a maintenance”⁸⁵. This test was possible because there was a separation from workers in Essex and their wives and children in London. Beveridge emphasised that the relief work should be less attractive by distinguishing the role of private and public sector. Although his emphasis reminds us of the principle of ‘less eligibility’ in 1834, the similarity is only superficial and a difference exists: in this test of 1904, there was no stigma. Beveridge considered relief work should co-exist with normal economic activity in modern industry. Of course, he already noticed that “the problem has probably no solution while casual employment remains”⁸⁶. Furthermore, he evaluated positively other ideas such as a training colony,

⁸¹ This paper is again unsigned. As to this paper only, there might be a possibility that another at Toynbee Hall wrote it.

⁸² An article of 16 February 1906 is an exception ([Beveridge]? [1906a]), though the author’s position is obscure. He was worrying about the funds, however “this exclusion of contributory insurance was accepted” (Beveridge [1955] pp.55-56).

⁸³ Beveridge [1906d] p.74.

⁸⁴ Beveridge [1906d] pp.77-78.

⁸⁵ Beveridge [1906d] p.75.

⁸⁶ Beveridge [1906d] p.78.

which may become “a channel for the permanent removal of individuals from the chronically overcharged labour market of London”. Therefore, “the day of such [emergency] funds is probably over - for better or for worse”⁸⁷.

Two papers⁸⁸ in the *Economic Journal* are regarded as the semi-final version of Beveridge’s evolutionary ideas. We can show why this stage is almost final, by summarizing it into four steps.

Firstly, Beveridge tried to implant the labour exchange system into business world. For instance, he preferred the term ‘exchange’ to ‘bureaux’ because “‘exchange’ is a good business word suggesting the organisation of a market for labour”⁸⁹. Next he again described “a Central Employment Exchange, [as] being the general controlling office for the whole system, [and as acting] a clearing-house”⁹⁰. Then, he said:

Labour exchanges have nothing to do with the relief of the unemployed; they can only eliminate gradually the causes of under-employment. They are business, not charity. They are prophylactic, not therapeutic, of distress. (Beveridge [1906e] p.439)

Secondly, supply and demand analysis was remarkably developed at this stage. This means that Beveridge first contemplated demand and supply respectively, and then reflected them in the labour market as a whole. As to demand for labour, there are “individual employers for a readily available reserve of labour to meet sudden expansions and contractions in the volume of their business”⁹¹. This phenomenon is “the overstocking of the labour market by the unorganised demand of individual employers for

⁸⁷ Beveridge [1906d] p.78.

⁸⁸ Beveridge [1906e] and Beveridge [1907a].

⁸⁹ Beveridge [1906e] p.437, Note 1.

⁹⁰ Beveridge [1907a] p.66.

⁹¹ Beveridge [1907a] p.66.

workmen”⁹². Further, Beveridge specialized two variables in the supply function of labour:

$$L_s = L_s (w, f)$$

Where w is mass and flow of work, f is its own fluidity, and L_s is supply of labour⁹³. Then, “supply of labour in every occupation is excessive just because it is insufficiently mobile”⁹⁴. Mobility or fluidity means a “mobile body of men directed hither and thither as required”⁹⁵. Moreover, the modern workman has two distinct functions, firstly “that of labouring; secondly that of finding a market for his labour”⁹⁶. The double burdens result in inefficiency in supply of labour. Thus, it is strongly necessary to introduce labour exchanges to “bring into more immediate communication employers seeking workmen and ... employers – to make the supply more fluid, to focus and organise the demand”⁹⁷. Labour Exchanges are the media to make the labour market most complete.

Thirdly, Beveridge well recognised the outcome of innovating labour exchanges. On the one hand, most workers can work on a regular basis. On the other, a small number of them inevitably become “a temporary surplus completely without employment”⁹⁸. He was so conscious of the would-be defects of this system that he countered the criticism in advance: first, he advocated emigration to reduce the surplus; second and more important, to “increase the fluidity of labour is to increase its working

⁹² Beveridge [1907a] p.68.

⁹³ Beveridge [1907a] p.71, equation above is our formation.

⁹⁴ Beveridge [1907a] p.76.

⁹⁵ Beveridge [1906e] p.438.

⁹⁶ Beveridge [1907a] p.76.

⁹⁷ Beveridge [1907a] p.68. These specialities took place against the background of industrial causes, whose content is the same as Beveridge [1907b] pp.325-326.

However, the terms are slightly changed: transformation of conditions; periodic fluctuations; chronic under-employment (Beveridge [1907a] p.68).

⁹⁸ Beveridge [1907a] p.80.

efficiency”⁹⁹. If this phase means increasing productivity of labour per capita or per hour, the total amount of employment may increase by way of increasing national income. There is a possibility to conjoin Beveridge’s argument with later a Keynesian effective demand.

Fourthly and lastly, the National Minimum principle again made its appearance when he said that “one man at a living wage is better than two at half wage”¹⁰⁰. Regular work or decasualisation is absolutely necessary to secure the minimum wages. This rooted thought made Beveridge for argue the abolition of casual work. That is why he was eager to implant the perfect labour market. The most efficient way to introduce the organised labour market was to establish Labour Exchanges.

At this stage, Beveridge almost accomplished his deliberate doctrine on unemployment. What was lacking was the relation between labour exchanges and the other important device, National Insurance.

Section 4 Period 3: July 1907 to January 1909

This stage, which we refer to as Period 3 (from July 1907 to January 1909), should be treated as a completion term. Beveridge ultimately created a coherent remedy package on a basis of the National Minimum. It was not possible until he recognised the double functions of labour exchanges. His final breakthrough occurred just before his investigation trip to Germany.

4-1 Background

By the end of March 1908, Beveridge got acquainted with several persons

⁹⁹ Beveridge [1906e] p.438. See his other paper, “Provision of labour exchanges would increase industrial efficiency by relieving the workman, whose primary duty is to work, form the secondary function [searching for work, or hawking] thrust upon him by developing industrial conditions, of also bringing his labour to market” (Beveridge [1907b] p.331).

¹⁰⁰ Beveridge [1907a] p.81.

of renown in the political world, mainly through Beatrice Webb, who had formed an alliance with him. They were, for example, Lord George Hamilton (the Chair of the Royal Commission on the Poor Laws) before 1907¹⁰¹, Gerald Balfour (the ex-president of the Board of Trade) in October 1907¹⁰², and Winston Churchill (the later president of the BOT) in March 1908¹⁰³. Beveridge also met Ramsay MacDonald (the Labour Party Secretary) in February 1908¹⁰⁴. He persuaded them either to abandon their disapproval, or be more convinced than ever, of labour exchanges. His zeal resulted in his evidence to the Royal commission on the Poor Laws in October 1907, his report on behalf of the BOT in November 1907, and finally his appointment in the BOT as a permanent bureaucrat in July 1908.

When Campbell-Bannerman resigned and Asquith succeeded him, the pace of the Liberal Reforms quickened¹⁰⁵. The Old Age Pensions Act in August 1908 was a typical example. This Act introduced a new principle into social policy in that the payments were financed from national, not local, funds (general taxation)¹⁰⁶. The Act enabled ordinary persons¹⁰⁷ over

¹⁰¹ Beveridge [1955] p.62.

¹⁰² “Can you come to dine to meet Mr Gerald Balfour next Monday, 14th, 7-30 morning dress to discuss the question of Labour Exchanges and the organization of the Unemployed?”, a letter from Beatrice Webb to Beveridge, October 1907, Mackenzie (ed.) [1978] p.274 (Letter 513).

¹⁰³ “My dinner last night was of course very interesting and mainly about Labour Exchanges.” (a letter from Beveridge, 12 March 1908, Beveridge [1955] p.66). “March 11. Winston Churchill dined with us last night, together with Masterman, Beveridge, Morton; we talked exclusively shop” (in Beatrice’s daily, Drake & Cole (ed.))[1948] p.404).

¹⁰⁴ They met at the Royal Economic Society. “He’s been one of the people who had abused Labour Exchanges. Now he writes and says he had been thinking them over” (a letter from Beveridge, 13 February 1908, Beveridge [1955] p.65).

¹⁰⁵ Aikin [1972] p.81.

¹⁰⁶ See Bruce [1968] p.178 and Searle [1992] p.112.

¹⁰⁷ If their incomes exceeded 31 pounds a year, they had no right to receive the pensions. The payment was paid through the Post Office. The Act was “the first national service and no offices existed to administer them (Bruce [1968] p.181).

the age of 70 to receive their pension as a right, which meant that this system was separate from the stigma of the Poor Laws¹⁰⁸. In contrast to the Labour Exchange a year later, there was no special office to handle the pensions. The pensions were non-contributory, though Beveridge strongly opposed this type because the insurance that had no basis of individual contributions, which invaded private areas (such as voluntary thrift). He developed a campaign against non-contributory pensions in many leaders of the *Morning Post* in 1907-1908.

In July 1908, Beveridge began to work at the BOT, but he was allowed to deliver lectures on unemployment at Oxford. This draft¹⁰⁹ directly bore fruit into the book entitled *Unemployment: A Problem of Industry*. He corrected all the proofs in November after the contract with Longmans in September. He sent a copy to Beatrice Webb, who praised him upon the ‘excellent’ work and wanted to quote from it as soon as possible¹¹⁰. The book was finally published in February 1909¹¹¹. In August 1909, the Labour Exchanges Act received the royal assent. The BOT was now in charge of managing the system. At the same time, he promoted himself as Director of Labour Exchanges at a salary of £700¹¹². The year 1909 was also when the Trade Boards Act was passed. Representative Boards were created under the Act to negotiate minimum wages and maximum working hours in certain ‘sweated’ trades¹¹³. We should note this type of

¹⁰⁸ See Fraser [1984] p.153.

¹⁰⁹ In the Beveridge Papers, there is part of another draft entitled “The Organisation of the Labour Market” in 1908 (BP b 6 (1908)). This document corresponds directly with a section of Chapter 9 in the published book (Beveridge [1909], the Labour Market, pp.197-209).

¹¹⁰ “Congratulations on your book which seems to me excellent. Will it be sufficiently near publication by the beginning of January for me to quote you? It would be a small advertisement of the book “, a letter from Beatrice Webb to Beveridge, 13 December 1908, Mackenzie (ed.) [1978] p.319 (Letter 554).

¹¹¹ See Beveridge [1955] p.69.

¹¹² Beveridge [1955] p.72.

¹¹³ See Hay [1983] p.52, Bruce [1968] p.196 and Phelps Brown [1959] p.309.

negotiation could possibly to interfere with freedom of contract. Real Acts seemed to catch up with Beveridge's new concept of the government roles. State interference and his involvement in bureaucracy progressed more and more, by affecting each other.

4-2 Articles in Question and Summary

In Section 4, which deals with the third term, from July 1907 to January 1909, we review about 10 papers and some unpublished memoranda or leaflets of Beveridge's lectures. July 1907 was the month just before his journey to Germany. January 1909 was the month before his *Unemployment* was published. This phase shows one outstanding feature: a final connection between labour exchanges with insurance against unemployment on the basic idea of the National Minimum. Apart from this feature, his rationale had not changed since the second term. The book *Unemployment* was almost complete during the Michaelmas Term in autumn 1908¹¹⁴.

4-3 Insurance discovered

A final break occurred to Beveridge in July 1907, just before he went to Germany in August to investigate for himself the system of labour exchanges. In the signed articles of 20 and 23 July, he admired trade unions' treatment of unemployment, by describing it as "a great system of insurance". He first condemned the Poor Law because "it has no control or supervision of the labour market". By contrast, he pointed out that labour registries of trade unions automatically played a crucial role in paying the unemployed. This role was possible because the registries could check the member's power and willingness to pay the subscriptions, and because the

¹¹⁴ Beveridge delivered nine lectures at Oxford, whose notes were published as a book. The lecture title was 'the Economics of Unemployment'. See Beveridge [1955] p.69 and BP Reel 2, Item 11.

central office could pay the proper persons at a proper time. If the State wanted to solve the problem of unemployment, it was necessary to control the labour market sufficiently to check unnecessary pay claims. Beveridge concluded that “each Exchange might be made the centre of an insurance system analogous to that established by the trade unions”. This marks the final breakthrough to the complete version of Beveridge’s vision. He at last combined labour exchanges with insurance against unemployment, or precisely speaking, “insurance against industrial risks – whether of unemployment, or disease, or death”¹¹⁵. The exchanges are subsistent not only because of bringing employers and employed into communication, but also because of an automatic industry test regarding unemployed benefits. The State could solve the problem as a whole only if it was developed on the same line as the trade unions. We should keep in mind that Beveridge’s enlightenment was just *before* his journey to Germany in late August 1907, *not afterwards*. This fact shows that his evolution was purely spontaneous, not simply from external examples.

In turn, the journey of investigation intensified his conviction concerning the necessity of the National Insurance. This intensification is confirmed in both a series of articles in the *Morning Post* in September 1907 and subsequent addresses and lectures.

Firstly, Beveridge wrote five articles¹¹⁶ in detail on the German system of industrial insurance as a special correspondent of the *Morning Post*. The “principal emergencies of industrial life – sickness, accident, infirmity, unemployment – are always demanding public attention”¹¹⁷. The British system was still incomplete, whereas the German one had been successful thanks to the principle of compulsory insurance with labour registries. For instance, insurance against infirmity and old age (founded in 1891) was contributory in character. The funds came from three sources: from the

¹¹⁵ All the quotations in this paragraph are from Beveridge [1907c]. The first is from the subtitle of the 20th article, the others from 23rd.

¹¹⁶ Beveridge [1907f] and [1907g], signed articles from Berlin.

¹¹⁷ Beveridge [1907f], 12th September 1907.

Imperial Treasury, the employers and the employees. Beveridge finally gathered from specified German facts that the workhouse test, which formed the important pillars of the Poor Laws, had been so costly and inefficient to the ratepayer that the “only alternative ... is an industrial test”¹¹⁸. This new test should be executed in the central offices where workers and employers all come together. These special telegrams show his discovery that the German system of insurance should be a concrete model for the British one.

Secondly, after September 1907, Beveridge began to include insurance against unemployment or employment registries into his numerous addresses or lectures. There are four examples¹¹⁹. (1) On 15 October 1907, he delivered an address entitled ‘Labour Exchanges and Trade Union’ at the Women’s Industrial Council. His emphasis on the role of the trade unions is clearly different from that of around 1905¹²⁰. This time, he focused on trade unions because they held a key to how the labour market might be organised. His interest in 1907 and afterwards was not on the legal side, but on the economic. (2) He also gave a lecture on unemployment in Germany. One of six classes, which began on 31 October 1907, was on ‘Unemployment Insurance’. Such a title is not seen before September 1907. (3) On 5 November 1907, Beveridge delivered an address entitled ‘Employment Registries in Germany’ at Toynbee Hall. He again introduced the German trade unions and their exchanges. “Union men registering at exchanges and having unemployed benefits paid out to their members”. Germany had organised labour markets through artificial contrivances. (4) In March 1908, he published the third paper of the *Economic Journal*. His conclusion is of great moment:

Unemployment cannot be met by insurance except in so far as a fairly complete organisation of the labour market affords a direct test of

¹¹⁸ Beveridge [1907g], 21st September 1907.

¹¹⁹ The first three examples are from BP b-5 (1907).

¹²⁰ See Section 3-3, especially Note 58.

unemployment; industrial crises cannot safely be met by emergency measures unless the State is provided with an accurate and automatic indication of the beginning, existence and ending of the crises.

(Beveridge [1908b], reprinted in [1909] p.252)

A complete organisation is a presupposition of insurance or business prospects by the government. Insurance against industrial risks should depend naturally on the national basis.

4-4 Final Development

At this stage, Beveridge developed a few arguments. However, we should judge that they are minor and minute evolutions, compared with the combination of the two factors mentioned above. We take up five papers or drafts.

Firstly, in ‘Employment Registries in Germany’ previously mentioned, Beveridge interestingly compared a labour exchange with a corn or stock exchange. He said:

An exchange is not the place for making work any more than a Corn Exchange is a place for making corn. Nor for placing “unemployable” any more than a Corn Exchange is a place for selling unsaleable corn. It is, in fact a business organisation. ... It is more surprising that hitherto labour is the one thing for which no market exists¹²¹.

For him, labour exchanges are symbols of business organisation. At the same time, they are managed and controlled by municipal or central government. There are no contradictions in his thinking.

Secondly, Beveridge left a draft for addresses entitled ‘The Organisation of the Labour Market’¹²². This must be his favourite title. Indeed, in 1908

¹²¹ BP b-5 (1907).

¹²² BP b-6 (1908), undated in 1908. This is a proof sheet since Beveridge corrected

he read the topic three times in Liverpool, Farringdon (London) and London. Besides, this draft would almost be appropriate for a section¹²³ of *Unemployment* [1909]. In this draft, the notice ‘Boy Wanted’ was described as stranger than the one ‘Boots Wanted’. It is because the notice ‘Boy Wanted’ itself clarified there were no markets for labour. Then, the “chronic under-employment of the casual labourer is no inexplicable or exceptional phenomenon. It is the resultant of normal demand and supply”¹²⁴. This sentence means that even if supply and demand work normally, there still remains some maladjustment. This statement deviates from orthodox economics, and we might say it was a resultant of a heretical influence such as from J. A. Hobson.

Thirdly, Beveridge’s paper entitled ‘Unemployment and its Cure: the first step’ is the compact corpus of his arguments. A casual worker is a part of industry. There “is an effective demand for him ... when standing idle he is in reserve rather than superfluous”. He is “not simply as unemployed, but as a man badly employed, under-employed”¹²⁵. To improve industrial conditions, the “State having diagnosed the disease of under-employment ... must lay upon employers the responsibility ... of putting the State in a position to prevent it”¹²⁶. Personal solutions are impotent in front of complicated modern industry.

Fourthly and lastly, in December 1908, Beveridge defined the term ‘insurance’ as “sacrificing a present advantage to guard against future risk”¹²⁷. Then, inevitable depressions should be mitigated by public works or by “a system of compulsory insurance against unemployment. This might be done by compelling all employers and workpeople to contribute

some of misspellings.

¹²³ ‘The Labour Market’ in Chapter 9 ‘Principles of Future Policy’, Beveridge [1909] pp.197-209.

¹²⁴ See also Beveridge [1909] p.202.

¹²⁵ The two citations are from Beveridge [1908a] p.388.

¹²⁶ Beveridge [1908a] p.392.

¹²⁷ [Beveridge]? [1908d] p.48. The articles are unsigned. However, according to Harris’ remark, they are regarded as Beveridge’s (Harris [1997] p.165, Note 112).

to funds for the purpose”¹²⁸. It is a tax upon wages. “We must imitate Germany and organise ... labour exchanges”¹²⁹. Each body has its own responsibility: workers and employers must contribute the funds of unemployed benefits, and the State must create the system of well-behaved labour market. During 1908, Beveridge accomplished his framework on unemployment.

4-5 Living Wages

Pursuing these papers before 1909, we almost reach the core of the secret background of Beveridge’s doctrine on unemployment: that is to say, the National Minimum¹³⁰, or to use his own word, ‘the living wage’. Again in Period 3, he continuously argued that it was strongly necessary for everyone to work on a regular basis. Why?

Because irregularity of earning resulted in such lower wages -- even than the weekly servant working -- that workers could not afford to contribute money to insurance against industrial risks. They were simply dependent on other individuals. Although trade unions had introduced insurance, the “week allowance is never a ‘living wage’ even to start with”¹³¹. Thus, insurance in its strict sense might be partly abandoned, and it was the State’s own turn. “The State might simply decide to give what money it had to spend on the public aid of the able-bodied wholly in the shape of

¹²⁸ [Beveridge]? [1908d] p.22.

¹²⁹ [Beveridge]? [1908d] p.21.

¹³⁰ Of course, this term was first used precisely in the Webbs [1897]. The National Minimum means “the prohibition of all such conditions of employment as are inconsistent with the maintenance of the workers in a state of efficiency as producers and citizens” and “the requirement not merely of daily subsistence and pocket-money, but also of such conditions of nature as will ensure the continuous provision, generation after generation, of healthy and efficient adults” (Webbs [1898] p.771). By 1905, Beveridge definitely read the Webbs [1897], see Appendix A & B.

¹³¹ Beveridge [1907c], 20th July.

their unemployment, irrespective of previous contribution”¹³². Furthermore, Beveridge pointed out the importance of regular work:

Again, if the principle of the living wage means anything at all, it means not simply a certain rate of pay, but also *a minimum continuity of employment*. The best rate per hour is a mockery unless the average number of hours per week and of weeks in a year keeps up to a certain level¹³³. (Emphasis added)

The last part of the quotation shows his criticism against a simple minimum wage. The concept was argued in the process of passing the Trade Boards Bill in 1909. A moment minimum wage was not enough unless it was based on regular work.

‘The living wage’ is the key concept to understand Beveridge’s hidden idea. He always put emphasis on improving industrial conditions. The most important condition was to abolish casual work, though that type of working was inevitable in modern industry where crucial fluctuations were regular and intense. The most efficient means to combat casual work was to establish a system of the labour exchanges with insurance against unemployment. The functions of the labour exchanges were twofold: firstly, they facilitated communication between employers and employees (mobility of labour); secondly, they worked as a register to execute the industrial test. The test checked the potentiality of the workers to pay contributions or work honestly. After the labour exchanges were properly established, casual workers could disappear and the living wage would be guaranteed. Out of the wages, workers could afford to contribute money. The other devices were merely means to realise this end. Additionally, the process would not naturally develop. The State must first establish the labour exchanges, then contribute a portion of the funds: the National

¹³² Beveridge [1907c], 23rd July.

¹³³ ‘The Organisation of the Labour Market’, p.9, BP b-6 (1908). See also Beveridge [1909] p.207.

Insurance. The living wage was the final goal Beveridge sought. For ordinary and independent citizens (not as pauperism) in the 20th century, it was necessary to secure the minimum wage. The other devices were merely means to realise this end. In brief, Beveridge successfully connected the three concepts: the living wage (or the National Minimum), the labour exchanges and the National Insurance (especially against unemployment). Each conception may originate with other pioneers. Nonetheless, this connection among three ideas is his unique doctrine on unemployment.

Section 5 Concluding Remarks

We arrive at a conclusion and subsequent suggestions.

There were three processes in the evolution of Beveridge's ideas. The symbolic phrase of Period 1 (from September 1903 to December 1904) is 'from the unemployable to the unemployed'. Beveridge encountered 'the social problem' when he was able to extract a third class, casual workers. The first class was pauperism that the Poor Laws had dealt with. The second was regular workers that trade unions had protected. However, the third category had been omitted for a long time. He 'discovered' casual labourers, by paying close attention to interminable fluctuations (especially depressions). At this stage, he preferred labour colonies. This new alternative enabled the unemployed to work on a regular basis, and was more efficient than dole money. The key expression of Period 2 (till June 1907) is 'from the unemployed to unemployment'. Beveridge came to elaborately analyse the industrial mechanism, by almost removing personal elements from his consideration. Alden and Hobson were examples of influences. Beveridge described labour exchanges as a saviour. The system, which had a central bureau, sometimes acted as a commercial body and sometimes acted as a powerful governmental controller. The shorthand word of Period 3 (till January 1909) is 'perfection of the labour market'. Beveridge decisively accomplished his doctrine on

unemployment. He was able to link labour exchanges to insurance against industrial risks (unemployment in particular). It was a total package of remedies for ordinary people in distress. The three steps were inevitable for the theorist and pragmatist, who had to shed the old fashioned ideas of the 19th century.

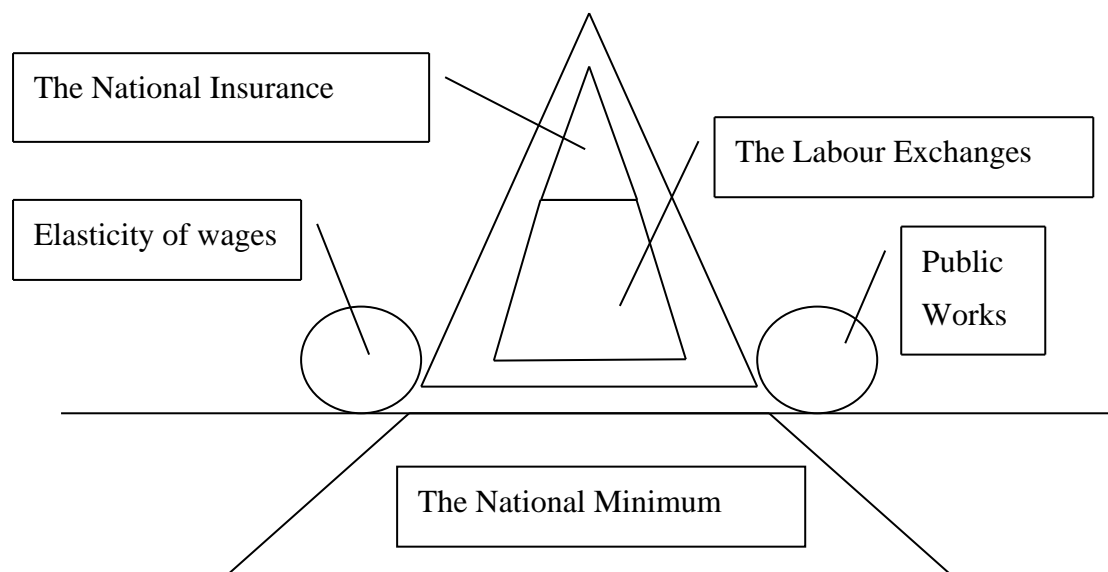


Figure 1 Beveridge's Concepts

It is the National Minimum principle that is of most significance in Beveridge's basic idea (Figure 1). The sentence 'one man at a living wage is better than two at half wage' is an emblem. The idea was continuously revealed in all the periods. Since previous studies did not spotlight this point¹³⁴, it is natural that they underestimated his theory on unemployment or did not combine his early economic ideas in the 1900s and his later social doctrine in the 1940s. Admittedly, most of Beveridge's ideas stemmed from other contemporaries, such as Alden (labour exchanges),

¹³⁴ Harris [1997] correctly claimed that "the structure of Beveridge's thought ... *can* be pieced together in a coherent way" (Harris [1997] p.482, emphasis in original). Nonetheless, the way was not the same as our emphasis. Ours is regarding the National Minimum or the economic theory on unemployment.

Booth¹³⁵ and Rowntree (casual work), Hobson (industrial fluctuations and a clearing house) and the Webbs (the National Minimum). Nevertheless, Beveridge only accomplished a coherent package of remedies for unemployment: labour exchanges with National Insurance on a basis of the living wage principle. These three concepts, which were perfectly blended, formed his original and unique standpoint. Further research should be in line with this viewpoint. Otherwise, we could not connect his early position on unemployment and his later on social security.

Additionally, Beveridge's doctrine in 1909 should impact on professional economists, such as Pigou, Keynes, D. H. Robertson, L. Robbins and Oscar Lange¹³⁶. This point has not been researched yet. Briefly speaking, Pigou decided to adopt 'the unemployed problem' into orthodox economics, after reading *Unemployment* [1909]. Yet his treatment remained within price mechanism. Thus the gap between the theory and remedies widened more and more, and at last the orthodoxy collapsed. Keynes succeeded to Pigou in order to reconstitute 'the economics'. Keynes felt somewhat out of place with Pigou's treatment of unemployment as early as 1914. That was an occasion when Beveridge reviewed Pigou's *Unemployment* [1913]. Then, the phrase 'one man at a living wage is better than two at half wage' reflects both Beveridge's strength and weakness. As to the defects, Beveridge had no adequate solutions to employ the latter half of the completely unemployed. Keynes finally gave an answer in the 1930s: an effective demand. Anyway, after specifying these arguments, we shall position Beveridge' doctrine appropriately in the history of economic thought. This paper serves the goal as a first step.

¹³⁵ Harris [1997] pointed out that the evidence of Charles Booth to a Committee was an influence on Beveridge in 1905 (Harris [1997] p.144).

¹³⁶ Robertson reviewed the new edition of *Unemployment* [1930]. As to Lange, see Komine [2001a].

Appendix A: Book of Reference in 1905¹³⁷ (Beveridge's original order)

W. Cunningham: "Growth of English History and Commerce." Vols. and :
Modern Times. (2)¹³⁸

Arnold Toynbee: "The Industrial Revolution." (15)

Shulze-Gaevernitz: "Social Peace." (14)

G. Howell: "Capital and Labour." (6)

J. A. Hobson: "Evolution of Capitalism." (5)

H. W. Macrosty: "Trusts and the State." (12)

S. and B. Webb: "Problems of Modern Industry." (17)

W. S. Jevons: "The State in Relation to Labour." (10)

S. and B. Webb: "Industrial Democracy." (16)

S. and B. Webb: "History of Trade Unionism." (18)

G. Howell: "Trade Unionism, New and Old." (7)

Brentano: "Gilds and Trade Unions." (1)

G. Howell and H. Cohen: "Trade Union Law and Cases." (9)

"The Case for the Factory Acts." Ed. by Mrs. S. Webb. (19)

Harrison and Hutchins: "History of Factory Legislation."

Mona Wilson: "Our Industrial Laws." (20)

G. Howell: "Handyboook of the Labour Laws." (8)

A. H. Ruegg: "Law of Employer and Workman in England." (13)

A. V. Dicey: "Law and Opinion in England." (3)

T. Mackay: "Public Relief of the Poor." (11)

Appendix B: Book of Reference in 1905 (Our arranged order)

(1) Brentano, Lujo [1870] On the History and Development of Gilds, and the Origin of Trade-Unions, etc., London :Tru?bner & Co.

(2) Cunningham, William [1???] "Growth of English History and Commerce." Vols.

¹³⁷ BP, b 3 (1905), see also Note 59.

¹³⁸ The figures with round brackets are our additions which correspond to Appendix B.

and : Modern Times.

(3) Dicey, Albert Venn [1905] Lectures on the Relation between Law and Public Opinion in England during the Nineteenth Century, London: Macmillan.

(4) Hutchins, B. Leigh and Amy Harrison [1903] A History of Factory Legislation, with a preface with Sidney Webb, London: King.

(5) Hobson, John Atkinson [1894] The Evolution of Modern Capitalism: a study of machine production, London: Walter Scott.

(6) Howell, George [1878] The Conflicts of Capital and Labour Historically and Economically Considered: being a history ... of the Trade Unions of Great Britain: London:.

(7) Howell, George [1891] Trade Unionism, London: Methuen.

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(9) Howell, George and Herman Cohen [1901] Trade Union Law and Cases: A text book relating to trade unions and to labour, London: Sweet & Maxwell: London.

(10) Jevons, W. Stanley [1887] The State in Relation to Labour, London: Macmillan.

(11) Makay, Thomas [1901] Public Relief of the Poor: Six lectures, London: John Murray.

(12) MaCrosty, Henry W. [1901] Trusts and the State: a sketch of competition, London: Grant Richards.

(13) Ruegg, Alfred Henry [1905] The Laws Regulating the Relation of Employer and Workman in England: A course of six lectures, etc. London: William Clowes & Sons.

(14) Schulze-Gaevernitz Gerhart von [1893] Social Peace: a study of the Trade Union movement in England, with a preface to the English edition. Translated by C. M. Wicksteed, and edited by G. Wallis, London: Swan Sonnenschein & Co.

(15) Toynbee, Arnold [1884] Lectures on the Industrial Revolution in England: Popular addresses, notes and other fragments, together with a short memoir by B. Jowett, London: Rivingtons.

(16) Webb, Sidney and Beatrice [1897] Industrial Democracy, London: Longmans Green & Co.

(17) Webb, Sidney and Beatrice [1898] Problems of Modern Industry, London:

¹³⁹ The book Beveridge referred to might be the first edition of the book [1876].

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f. personal finance

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- Section 9a. Published works
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- Section 10. "Varia" (pamphlets and offprints)
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