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FABIAN TRACT 346

THE FABIAN SOCIETY

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July, 1963
I. Weakness through "Freedom"

The bankruptcy of conventional thought, both social and economic, in post-war Britain has never been demonstrated as crassly as after the General de Gaulle’s brusque veto on Britain’s entry into the Common Market. Once more the event caught the Government completely unawares. Yet anyone who visited Paris and talked to responsible officials had to realize the growing French hostility to the British Government’s ambivalent slide towards Europe, and the obstacles against our entry on fair conditions. The conventionally wise firmly averted their face, and were only saved from a complete and open humiliation of having to repudiate their own policy, by the General’s violent interruption of the patient and superbly clever manoeuvres of isolating Britain by the French technocrats. European solidarity was firmly maintained against Britain until de Gaulle’s dictatorial dismissal. The Germans, far more even than the French, were determined to exact conditions on British agriculture, Commonwealth food and manufactured imports and our pledges to our Free Trade Area partners which no one here could have defended without perfidy.

This strange performance has been topped by the abject absence of any thought or preparation of an alternative to the Common Market. It was as if the whole Establishment had been completely mesmerised. To enter into negotiation with supremely able experts not having such an alternative plan in reserve is surely an unprecedented degree of folly. Yet it is the ultimate consequence of the basis of British economic policy-making since 1914. Once the historically accidental reasons for British supremacy of the late XVIII and XIX Century disappeared, no intelligent appreciation helped the rulers of Britain to master the inevitable growing difficulties of her position. Ten crises of the balance of payments beset the country since World War I, despite three devaluations of the pound. All of them were of the same pattern. All were leading to stagnation and undermining the basic economic strength of this country and thus her power to influence events. All show that the essential lesson was not learned: that only a purposive mobilisation of resources assuring social equity could halt the remorseless decay. The anachronistic yearning of the Established for an effortless superiority without conscious and expert planning, the Gadarene rush towards ‘freedom’ (from thought and foresight) and to the ‘automatism of the market’ was that which brought the country to where it now is, isolated, weakened and drifting, blaming the workers’ claim for decent wages for the discomfiture of the country, when purposive action could afford to give them rewards beyond their ambitions. The abject crawl towards the Common Market was so all-exclusive for these dilettantes because it gave further hope of escape from the need for deliberate intelligent thought, and of the possibility of subduing the Trade Unions through the unrestricted entry of competitive manufactures.

Labour’s Economic Policy

I assume that the aim of future Labour economic policy is:
(a) an accelerated yet steady growth of the national income and the achievement of its more desirable distribution; and
(b) the buttressing of the economy against possible interference or shock
from abroad, originating
(i) either in the fluctuation of income abroad, or
(ii) a possible long-run reversal of the present trend in Britain’s favour of the relationship of the prices between industrial and primary produce.

Both, I think, are extremely important, and I will first of all discuss whether, and in what setting these aims can be attained.

Policy making, in my opinion, must necessarily start from the realisation of the failure, even during the Attlee Government, but very much more since the Labour Government has been supplanted by the Tories, to achieve a satisfactory internal and external position. This failure, in my opinion, has been very grave, even though there has been some rise in the national income. It must be admitted, indeed clearly emphasised, however, that until recently—with growing unemployment and a visible confusion in the Government—few if any of the voting public were aware of failure. If the rise in our national income was slow, it nevertheless had a disproportionate social and political impact. The faster than average increase in the availability of durable consumer goods, and the spread of advertising and hire purchase together has sustained the feeling of the broad mass of people that Britain was rising towards becoming an affluent society like America. This greater ease of life was due to a considerable extent to the further impoverishment of the wretchedly needy countries producing our food and raw materials, since the price of their exports fell. However, this was not so much disregarded as simply not thought about. Ignored also was the decline of our influence abroad, our waning capacity to contribute both to the defence of the West and to the speeding, through aid, of the prosperity of the non-privileged parts of the world. Jack, in the 1950s seemed—at least at election times—to feel all right. And both at election times, and in between, the Gallup Poll came to dominate policy.

There were obviously claims on the British economic system which could not be met, because of the insufficient growth of the economy. Chief among them were social investment in housing, education, and health. Town planning, the creation of a modern, agreeable and culturally satisfying environment, especially in the northern towns, was an equally important victim. Finally, and from the viewpoint of economic policy the most damaging, Trade Union demands for higher wages could not be satisfied in real terms. As they could not be resisted in conditions of quasi-full-employment, the rise in money wages was inevitably nullified by a rise in prices: the rise in the former was some 6 per cent, while the real advance was only 2.7 per cent. This struggle was one of the causes (if not the main cause) of our recurrent international discomfiture; as prices and incomes increased at home, imports rose, and our competitive export strength was impaired.

The periodic deficit in export trade usually ended in speculative attacks on the pound, which were, due to the same conventional wisdom, inevitably met by restrictive policies, especially cuts in investment, accompanied by a monotonous chorus of ministerial platitudes, echoed in the City and the financial Press, about the need to ‘stiffen the economy’, ‘cut the cloth’ etc. and so on. Far from curing our economic ills, this policy accentuated them.
### Table 1

Annual Rates of Growth of Gross Domestic Product and of Output in Major Industrial Divisions, 1950 to 1960*  
(Percentage)

<table>
<thead>
<tr>
<th>Country</th>
<th>Gross domestic product</th>
<th>Agriculture</th>
<th>Mining</th>
<th>Manufacturing</th>
<th>Utilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>9.5</td>
<td>4.7</td>
<td>4.6</td>
<td>18.1</td>
<td>9.9</td>
</tr>
<tr>
<td>Germany (Federal Republic)</td>
<td>7.6</td>
<td>2.2</td>
<td>3.8</td>
<td>10.1</td>
<td>9.2</td>
</tr>
<tr>
<td>Italy</td>
<td>5.9</td>
<td>3.5</td>
<td>10.1</td>
<td>9.0</td>
<td>7.3</td>
</tr>
<tr>
<td>Austria</td>
<td>5.9</td>
<td>3.0</td>
<td>5.6</td>
<td>7.1</td>
<td>10.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.7</td>
<td>2.3</td>
<td>2.1</td>
<td>6.1</td>
<td>7.4</td>
</tr>
<tr>
<td>Finland</td>
<td>4.6</td>
<td>2.4</td>
<td>8.8</td>
<td>6.0</td>
<td>8.0</td>
</tr>
<tr>
<td>France</td>
<td>4.3</td>
<td>2.0</td>
<td>6.6</td>
<td>6.5</td>
<td>10.9</td>
</tr>
<tr>
<td>Australia*</td>
<td>3.9</td>
<td>3.2</td>
<td>8.7</td>
<td>5.7</td>
<td>7.4*</td>
</tr>
<tr>
<td>Canada</td>
<td>3.8</td>
<td>1.8</td>
<td>8.7</td>
<td>3.4</td>
<td>9.8</td>
</tr>
<tr>
<td>New Zealand*</td>
<td>3.5</td>
<td>2.9</td>
<td>6.4</td>
<td>4.6</td>
<td>7.7*</td>
</tr>
<tr>
<td>Norway</td>
<td>3.5</td>
<td>—</td>
<td>6.4</td>
<td>5.1</td>
<td>5.9</td>
</tr>
<tr>
<td>Denmark</td>
<td>3.4</td>
<td>1.9</td>
<td>—</td>
<td>3.3</td>
<td>8.4</td>
</tr>
<tr>
<td>United States</td>
<td>3.3</td>
<td>2.4</td>
<td>1.9</td>
<td>3.6</td>
<td>8.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.2</td>
<td>1.0</td>
<td>4.7</td>
<td>3.3</td>
<td>—</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.9</td>
<td>2.1</td>
<td>1.4</td>
<td>4.1</td>
<td>5.4</td>
</tr>
<tr>
<td>United Kingdom*</td>
<td>2.7</td>
<td>1.7</td>
<td>0.6</td>
<td>3.5</td>
<td>5.2</td>
</tr>
</tbody>
</table>


The decline in investment further weakened our competitive power and our ability to grant a satisfactory rate of increase in the real standard of life. The fact stands out that in Germany, France and Japan, the improvement in workers’ earnings and social benefits was at a rate two to three times as high—despite a worsening of the distribution of income. The continual weakness of the balance of payments necessitated at regularly recurring intervals a reversal of such very timid expansionary steps as had been forced on the Tory Government, patently aiming at breaking, or at least reducing, trade union bargaining power by retarding growth.

They were forced to undertake such expansion by the growing discontent caused by unemployment and the stultification of expectations of the better life. Before elections, both in 1955 and in 1959, this reversal of the policy was quite blatant. In order to derive the maximum partisan advantage, moreover, it was mainly consumption demand that the Tories released whenever a favourable turn in trading relations, or considerations of employment, permitted a relaxation of restrictions. Restraint on investment, dear money and tight conditions in the capital markets, were retained. It was encouragement of hire purchase, and cuts in taxes on luxury goods which were used to stimulate economic activity. Thus the relative inferiority of British industry was further confirmed—but Tory popularity was maintained. The rate of growth of productivity in Britain between 1950 and 1960 was at 2.3 per cent, less than a fifth of that in Japan or U.S.S.R., less than a third of Italy and less than a half of that of France.

1 Countries arranged in descending order of annual rate of growth of gross domestic product.  
2 1950/51 to 1959/60.  
3 1950/51 to 1960/61.  
4 Electricity only.
It should be added that throughout this period the Government relentlessly abandoned the wartime controls which had enabled Britain to mobilise her economic strength and which—suitably adapted—might have assured us sufficient and sufficiently productive investment to safeguard our economic strength, our capacity to help others and thus our international influence and our future prosperity. This would have been the only alternative in Britain to the economic miracle of Germany, France and Japan based on a violent re-distribution of income towards profits, which enabled entrepreneurs to increase investment, and provided the necessary stimulus to do so.

The Tory Government’s feeble and futile attempts to imitate them by creating purposefully a ‘margin of unused capacity’, showed that in the British social framework stability could not be assured in this way without sacrificing growth. Within the limits of laissez-faire the rise in prices could only be met by restriction, and restriction could only result in aggravating the ultimate reason of the malaise, the insufficient investment, insufficient increase in productivity, and the insufficient increase in real income, and especially wages. The conventional analyses, accepted even by some Labour writers, ignore the lessons which should have been learned from the British Labour Government’s defeat in 1951, and that of the Democratic Party in the U.S. in 1952, that no progressive government can survive a continuous and appreciable increase in prices. Yet this is unavoidable in a system which does not have a coherent system of planning; the tendency for wages to over-shoot the increase in productivity is persistent and is caused by the nature of wage-bargains. It causes a continuous rise in prices which is bound to become cumulative.

Thus it seems impossible to assure stability and make it compatible with steady and accelerating progress if some way is not found to reconcile the claims of the Trade Unions and the rate of increase in productivity. The present malaise in Britain is mainly due to the complete failure to realise both that a one-sided regimentation of labour, which has been attempted ever since 1951 is impracticable, and that an income policy must be evolved which commands Trade Union support. An effective

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1 It is interesting that Prof. Meade’s ‘Liberal Socialist’ solution of the British problem involves direct control of wages, while the offsetting price control is rejected as administratively impracticable. To make matters worse he wishes to introduce wage control at the precise moment when a devaluation or the ‘free floating’ of the pound would tend to increase prices and cut real wages. (U.K. Commonwealth and Common Market. A reappraisal 2nd ed. 1962. Hobart Paper No. 17.) His hopes of truly ‘gigantic’ gains in real income as a result of unilateral tariff cuts, or even a multilateral freeing of trade, are unrealistic and unsupported by evidence. Britain is not Gabon or Nicaragua. There are hardly any fields in which Britain cannot support larger scale industry. I have dealt with these matters at length elsewhere (cf. Unequal Partners Vol. I. Theoretical Introduction). Prof. Meade as economic adviser to the Labour Government was mainly responsible for the repudiation of long range physical planning in the Economic Survey for 1947. (Cf. Planning and the Price Mechanism, esp. p. 11.) Prof. Meade has a large share of responsibility for the support lent in war time by the British government, to the International Trade Organization which in the form accepted as GATT hamstrung this country in building a viable trading system in the Commonwealth Sterling Area, and led to our present weakness and isolation. For a critical discussion of the theoretical fallacy underlying his approach, cf. Unequal Partners, Vol. II, especially Sec. 3, 5 and 6.
income policy demands an over-all plan because in order to obtain willing co-operation by Trade Unions, reasonable assurance must be given in advance not merely that equity in sacrifice and greater social justice will be assured, but also that the sacrifice will not be in vain, that the restraint on wages on which the restoration of British prosperity depends would in the due—and not too distant—future yield positive results in increasing living standards.\(^1\)

This assurance cannot be given credibility without comprehensive planning and institutional arrangements to put these plans into effect.\(^2\) This is far beyond anything contemplated by liberal Keynesians, even including Galbraith, let alone our own ‘radicals’. In its absence monetary decomposition follows, unless a periodic relapse into deliberately deflationary politics is accepted. Thus the drive towards full employment in a democratic economy with decentralised decision-making necessarily results in a relapse towards stagnation and low growth. It is not accidental that recessions have increased both in duration and depth here and in the U.S.

How far those who are responsible for Britain’s decline are from realising this is clearly shown by a typical intervention by Lord Plowden\(^3\) in the House of Lords debate on the Common Market. ‘Without some radical change, such as entry into the Common Market, no amount of planning would be likely to get us out of the economic straitjacket in which we have been labouring ever since 1955’. The real task facing Britain could most readily be expressed in an exactly contrary way: unless we have planning we could not, in sanity, risk entering the Common Market, nor can we hope to exist without deadly danger outside.

If, then, from the domestic social viewpoint alone a speedy break with the policies of the past two generations is indispensable to Britain’s survival, the need becomes imperative if we consider the international economic scene. We have seen that much of the feeling of affluence was made possible by the improvement of the terms on which we get our food and raw materials. The relentless progress of our competitors has already made our position uncomfortable. Our trading partners cannot afford to buy so much from us and turn to cheaper supplies. Those who advocate devaluation really mean us to acknowledge this fact without quite facing the domestic consequences.

**Tory Policies**

It must be said that the Tories were not altogether unmindful of the

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\(^1\) Those who, in the Labour Party, are opposed to such planning have sedulously played down the need for an income policy. They contributed to the confusion caused by *laisser-faire* economists who blamed monetary expansion for the rise in prices and advocated restrictive policies.

\(^2\) The present position and powers of N.E.D.C. completely lack credibility. The willing Trade Union co-operation with it, shows how ripe the position is for determined leadership. Mr. H. Wilson’s Four Year Plan (New Statesman, 1961) clearly points to the direction which such planning has to take.

\(^3\) (House of Lords, Vol. 234, No. 121, Col. 241) Having had no training as an economist, Lord Plowden was chosen by Sir Stafford Cripps as the so-called chief planner for the Labour Government. His dislike of and disbelief in planning, which is evident in the above quotation was well known.
dangers of Britain's weakening internal, and the consequent threat to her 
external, position. Their policy—and even more their propaganda—under-
went a revolutionary change. Their utter hostility—on rather misguided 
grounds—against the Common Market was manifest at the outset, though 
they disdained opposition when there was still time to prevent its coming 
into being. They subsequently, and even more misguidedly, espoused the 
idea of a European Free Trade Area, restricted to industrial products, 
to rob the Europeans of all the advantages they had acquired through the 
formation of the Common Market. Once this absurd plan had been 
destroyed by the French, however, the Conservatives became aware—as 
'rethinkers' in the Labour Party still are not aware—that a drastic change 
was required.

They sued abjectly for admission into the Common Market and, when 
the French showed increasing obduracy, they made it clear that they would 
be prepared to waive all of their initial conditions safeguarding British 
agriculture, the interests of the Commonwealth, and the pledges to the 
countries of E.F.T.A. They hoped that the shock caused by joining would 
succeed in producing faster industrial progress. In addition there was 
a desire to weaken trade union bargaining power through increased com-
petition from abroad, which must have been another powerful motive of 
some of the adherents in the Government of our entry into the Common 
Market. An emulation of German and French miracles, a cut in real 
wages could be administered through devaluation. A rise in profits and 
investment and the restoration of the viability of Britain might then be 
hoped for.

This revolutionary revision of Tory policy, the sudden abandonment 
of all claims to be for 'King and the Empire', showed their flexible appreci-
ation of the danger of the country—even if they continued to supply 
the wrong answers, and seemed completely unaware of the grave risks 
implied in their proposals.

On the domestic front, too, their about-turn was especially drastic and 
sudden. They had won three elections on shrill propaganda for economic 
freedom. But by 1961 Jack did not seem quite as all-right as before. The 
Tories then suddenly espoused planning. The establishment of N.E.D.C. 
to trace out, and try to influence, if not control, the economic destiny of 
the country, is at any rate a plausible instrument for planning. The inno-
vating capacity of the Conservatives, especially when faced with political 
obliteration, must not be questioned. No doubt N.E.D.C. has more electoral 
than economic attractions. No doubt its powers are so little commensurate 
to its task that to the expert it is more than suspect as yet another 
gimmick to win power. But the ingenuity must be admired—and be 
guarded against.

Nor should their sense of reality be under-estimated. They did not 
hesitate to manhandle the sacred establishment of the Civil Service when

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1 The Government took the unusual step of permitting a high Civil Servant— 
Sir Edgar Cohen—to expound (completely wrongly conceived) objections against 
our entry into the Common Market. Oddly enough, in view of what happened 
later, the main objection put forward was that our entry would fatally reduce 
our competitive power in world markets.

2 Cf. see p. 16.
they realised the complete bankruptcy of the instruments of policy-making in their hand. They carried out two pretty ruthless (though admittedly still insufficient) reforms which displaced heads of the Treasury and by-passed the line of succession. The Conservative attitude to foreign affairs, economics, or the Establishment, the Civil Service structure, as to Europe or the Commonwealth was not embarrassed by weak-kneed sentimentality or principle.

Mr. Harold Wilson’s election to leadership has made a coherent planning of future Labour strategy easier. In planning this strategy we should try to learn from the past.¹

In this essay I shall try to show that a deliberate and coherent planning of our economic destiny is essential if we are to be able to provide a better life at home, and to restore our influence abroad. An incomes policy is the essential basis of such planning. It can be successful only if it is accompanied by institutional reforms securing higher investment, industrial innovation, and the suppression of speculative excesses.

I shall deal, on account of shortage of space, strictly with British home economic policy (including, of course, our balance of payments), though it is obvious that the case for planning, for a Socialist approach to the problem of how to secure a balanced expansion, is even more urgent in poor, than in rich, countries. In Western Europe and North America, the return to market economies meant social unbalance and spiritual emptiness. In poor areas its effects were even more disastrous. I feel strongly that all our influence should be thrown in favour of long term regional planning of development in the primary producing countries, buttressed by controls and large scale public enterprise. In my opinion well-planned aid, which might make use of idle capacity in the donor countries, applied at strategic points is far more important and urgent than an increasing trade or even bulk-purchase agreements at favourable terms. International monetary reform, on lines suggested by Mr. Harold Wilson, in his speech to the Anglo-American Chamber of Commerce on May 15, 1963, would be imperative if such a policy is to secure full growth and employment, and a steady mitigation of international inequality which, at the moment, is still increasing.

Planning in this rather limited sense will not in the long run bring about social balance. The belief that taxation can enforce revolution in social relations is derived from a naïve disregard of historical and sociological insight. A considerable extension of public ownership is an essential

¹ The so-called new ‘Radical Rethinkers’ wanted nothing better than to continue the policies of the Attlee government—without the incubus of nationalisation. Their analysis and policy recommendations were refuted by the slowing down of progress and reappearance of long spells of unemployment for a great number, both here and in the U.S., once again seem to undermine the prospects of the old and the morale of the young. The Kennedy administration’s tribulations and failure to restart growth and eliminate long term unemployment are a severe lesson to be learned. In Britain the futility of this approach has become even clearer. Even the Conservatives have gone further than our ‘Radicals’ in accepting the need for co-ordinating the investment plans of individual firms and industries, and evolving an agreed policy on incomes. “Progressive” academic economists firmly resisted such candid analysis (e.g. “Britain in the 1950ties”. Oxford, 1963, esp. pp. 12 - 21). So long as these lessons were not learned no policy could be prepared to cope with Britain’s problems.
means to assure stability, and balance in expansion, and in the use of our increasing material resources. It would be sad if our best hopes for the next 25 years would be limited to approaching today's American way of living. Something much more happy and satisfying is both needed, and possible.

Unless we succeed in putting our own house in order, we shall continue to be unable to carry a fair share of the burden of aid for poor countries. Nor shall we be able to provide an example to them in their attempts to solve their own domestic social and economic problems. If Britain is to give such an example—and it is burningly needed—she will have to save herself first by her own exertions.

II. The Need for Planning

The Conservative verbal concession to the need for deliberately planning our economic development has come suddenly after an unsuccessful, if dogged, attempt to make their belief in freedom yield not merely electoral dividends but economic results. The recurrent crises 1955-1957-1959-1961, and the purposeless alternation of stop-and-go, enforced by the monstrously recurrent deficits in the balance of payments, have shown how idle this hope was.

We must not forget that this propaganda conversion has come after their complete victory at the polls over 'planning'. However, planning must be intelligent planning, implemented in a subtle manner. The first task, then, is to establish the exact causes of the failure of free markets and the price mechanism acting through the profit motive to co-ordinate the decisions of individuals and firms, and bring about the most desirable utilisation of available resources and secure their expansion at the best rate for the most urgent purpose, as economic writers have been expounding and claiming before and since the war. Only if this failure is fully analysed, and the planning mechanism geared to remedy the defects, can we hope to escape from a recurrence of our previous discomfitures.

The Defects of the Price Mechanism

The need for conscious planning arises on three distinct levels. The first of these concerns the allocation of existing resources, i.e. the efficiency of the system as it is. This was the problem which was almost exclusively at the centre of the pre-war dispute, and was thought to be resolved entirely in favour of the market system. Indeed most economists maintained that only the price mechanism could secure a rational use of resources. This they proved on the basis of an elegant mathematical model—accepted by all—based on given resources and perfect competition.

It is of course not easy to make much sense of the meaning of the notion of reallocation of given resources of which the most important of the non-human ones, capital, is to a very large extent specific and non-transferable. Thus it is in itself difficult to conceive of reallocation of unchanged resources independently of technical progress and growth. Even if it were, it is clear that it cannot, in the long run, exert anything like as important an influence as factors which are cumulative and
compound in their effect; that is factors which increase the amount, or efficiency, of productive resources.

The second of the reasons for planning is, then, the handicap imposed on a completely non-planned system by the functional defects of a system through the less than full utilisation of resources. This is the defect put into the forefront of economic discussion by Keynes. A fuller use of resources which would mean faster innovation and higher investment, i.e. factors which influence the rate of growth of the economy, are then seen as the decisive ones in assuring the success of a system in the conventional sense of the word of increasing the amount of goods and services available (valued at market prices). This was thought (wrongly, as it turned out) to have been solved by fiscal and monetary policy. As we have seen, this view has been falsified by the problem of inflation.

Finally there is what one might call the long-run structural defect of economies without a coherent plan. This stems from the inability of the non-planned system to devote as large a proportion of its total output to investment as might well be allocated even voluntarily if both savers and those responsible for investment were fully aware of the implications of increased investment to their own prosperity and that of the system as a whole.¹

The first, the allocative efficiency of the system, is perhaps the least important. When all is said, remedial action on this plane would only result in a once-for-all gain while the other two causes represent a cumulative threat.²

The Weakness of the Signalling System

In an economy which is not planned deliberately, where economic decisions are taken in a decentralised manner by individual owners and managers, it is essential that prices and profits should signal accurately the needs of the consumer and the relative economic efficiency of various techniques of production from among which the producer can choose. Only if these signals are accurate will the co-ordination of decisions be

¹ This is the problem of what economists call external economies, i.e. benefits which accrue to other people.
² This estimate is confirmed by the superior economic growth which has been achieved by the Soviet Union, measured in conventional terms. There can be little doubt that the Soviet economic calculus, the choice of techniques and projects, was gravely deficient in the past. These shortcomings of the Soviet planned economy were due partly to the neglect of the true opportunity cost of various factors of production, especially capital, and partly to their inability to achieve a balanced growth as between agriculture and industry. It is the crushing superiority on the front of industrial dynamism, by being able to achieve a more or less full utilisation of resources, and to devote a calculatedly higher proportion to investment and innovation, which was responsible for their progress. Its impact far outweighed the retarding effect of the inappropriate distribution of resources among productive tasks.

The question then is whether the non-totalitarian countries can achieve some compensation by overcoming their basic difficulties. This is necessary because several important structural changes in the non-Soviet economies have contributed to the weakening of the advantages inherent in self-reliant decentralised management based on the profit motive in their day-to-day decisions. Thus if the non-Soviet world is to meet the Soviet challenge, a strengthening of its growth potential is in order.
assured, even though no conscious attempt is made to do so.

Over the last half-century or so, several factors have weakened the efficiency of the price system acting on, and through, variation of profits, all connected—somewhat paradoxically—with the success of the system, with the increasing productivity and wealth of the community. The first of these factors is the concentration of economic power. The second is the problem of risk and its influence on investment. The third is the problem of the increasing importance of indirect gains and losses which ought to, but cannot, be taken into account by private entrepreneurs in their decisions; gains and losses apart from the impact of the fuller utilisation of resources and the problem of accumulation, that is, the widening divergence of social and private costs. Finally, there is the problem of collective needs.

The last two are increasing in importance, and that for the good, yet paradoxical, reason of the success of the individualist system. So long as people's most primitive requirements cannot be met, so long as people are hungry and cold, surely such general considerations as to whether they live in beautiful surroundings do not count for much. The serfs of Versailles in the dungeons, working the pumps for the French king, really did not care very much whether the surroundings above the ground were impecably beautiful. But with increased income, the beauty of the environment, the satisfaction to be gained in leisure hours, the increasing horror and exhaustion of the struggle to get to and from work, the need to uproot from friends and having to migrate to find work, all these increase in importance relative to the consumption of goods and services. Therefore the divergence between social considerations and private profit is widening. This increasing divergence is a result of our becoming richer, and therefore private wants becoming more and more satisfied, consequently relatively less urgent, and permitting collective wants to loom larger. The greater dissatisfaction in the U.S. than Britain with the new affluence is a measure of their superiority in material comforts, the measure of satiety which directs attention to the collective conditions of life.1

The Concentration of Economic Power

The superiority of the price system was shown by a theoretical construction which assumed that individual producers are unable to influence prices. Moreover, the theory also assumed that the economy would not change. If nothing changes and everything recurs knowledge is perfect. Uncertainty and risk will retard decisions and thus retard adjustment to new situations. Moreover, in modern conditions firms will certainly have regard to the actions of their fellow competitors. Their prices and production are not determined for them. They are influenced by their own and their competitor's policy. Nor are prices independent of costs, because by increasing selling cost (i.e., advertising) they could increase demand and

1 An actual problem of this type is that of the railways. The instructions issued to Dr. Beeching precluded him from giving a sensible solution. The closing of railways would accelerate the drift of population, with its immense social cost, as it will be expected to repeat itself and reduces amenity. Dr. Beeching failed completely not merely to investigate these wider effects of his proposals but even to look at the immediate and reciprocal interrelations between rail and road, or make an attempt to analyse the impact of technical progress.
price. Cost is not independent of output, and output is not independent of sales policy. Thus we are confronted here with an indeterminacy worse than would be experienced by a totally planned system where selling costs can be regulated from the viewpoint of the community as a whole. Moreover, working for known clients it would not be in the firm's interest to try to snatch maximum profits in the present if this will prejudice their position in the long run. Thus determinate pricing on the basis of a perfect market goes. No doubt demand can be gauged pretty accurately in the short run. It is also probable that it will be fairly unresponsive immediately to changes in price. But the firm has to stay in business. It must therefore take into account the consequences of its own policy, as well as that of its competitors, on its relations with its clients. Competition among a few firms is more like a game of bluff than a mathematically determined play. All this increases the risk of mistakes. It certainly can no longer be claimed to be unequivocally determined by the inter-play of impersonal market forces.

There is a further difficulty. In the longer run adjustments will take the form of new or modified equipment. Thus changes here will not be reversible. Once the new equipment has been installed there will be no return to the original situation. Some equipment will be less productive but more flexible. There is then a choice between various techniques which depends on the judgment of the future, and especially on the stability of demand for a specific product. Thus the simplicity of a determinate signalling system which will result in optimal decisions in this respect too is destroyed.

If firms have to look over their shoulder to see what their competitors are doing, if they are unwilling to slash prices to run their plant at full capacity, and if, moreover, plant capacity is determined largely by technical considerations, there will be a substantial amount of excess capacity. Part of this capacity will in any case be required in an individual private enterprise economy by each firm for insurance against not meeting possible specific orders and thus prejudicing the future of the individual firm. An individualist economy will, therefore, in principle at least, have to carry a great deal more excess capacity than a centrally planned one. In addition, and especially in manufacturing, prices will not be fixed everywhere in the same relation to cost, and this further distorts the accuracy of the signalling system.

The growth of firms has another important consequence. The picture of new entrepreneurs forcing their way towards the top, innovating, opening up new ways, is a very attractive one. It has become outdated with size. Marshall, following Adam Smith, stressed this imponderable aspect of the

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1 This can be—and has been—offset, and more than offset, by failure in planning and bottlenecks in supplies. The hoarding of components was notorious and still remains one of the main handicaps to efficiency in the Soviet system.

2 The 'radical' policy-makers are at one with extreme laisser-faire writers in minimising this change. There can be no doubt that the behaviour of manufacturers in the last decade has shown the ubiquity of monopoly control.

3 In point of fact, the greatest innovators in Europe have been the nationalised Volkswagen and the nationalised E.N.I., both managed by geniuses unlikely to have come to the fore in a different framework in exceptional circumstances.
problem, and rightly so. In large firms, as in a state bureaucracy, innovators are not at a premium. They are uncomfortable to live with, they are not what the Americans call organisation men. The character of the oligarchy ruling oligopoly is deadening rather than invigorating, and it is only exceptionally that increased activity can be forced upon them by the outsider. In this respect the great basic advantages of the system with decentralised decision making are relatively on the decline.

In all these matters, therefore, a co-ordination of investment decisions, a reduction of the risk involved in being prematurely expansionist, might pay handsome dividends. Planning, in the sense of indicative planning, thus is justified already on the score of the weakening of the automatic co-ordinating system of the price mechanism.

The Dynamic Defects of the Price System

Far more important, however, are the dynamic shortcomings of the system, which have a cumulative weakening effect on its performance.

The first aspect of this problem is that of the combination of full employment and stability, the so-called problem of income policy. We have seen that this cannot be achieved without conscious planning.

There is, then, the somewhat related but long-range problem of growth, the problem of the determinants of savings, investment and innovation in a given society. In one sentence, the planned economy in this respect seems to have a twofold advantage, because on the one hand it can take into account in its calculations the indirect gains resulting from the new level of investment decisions, and on the other it can deliberately make available to all the advances in techniques which individual entrepreneurs must keep to themselves if they are to be able to pay for the research they have to undertake to gain the new knowledge. As the economist would say: a planned economy thus can externalise internal economies and internalise external ones.

In addition to the extra gains which can be made by single industries, or by a restricted number of industries linked together, from the increased scale of their development through increased productivity and returns, there is thus a source of more general gain due to faster or even accelerating growth. This would be of great importance even in fully industrialised countries, and much more so in under-developed ones. I hope to treat this vital problem in detail in a different context. Here I shall confine myself to a summary of the argument.

Neither individuals nor even corporations can fully realise the potential gains which would occur if their investment and growth were speeded up, because their successful realisation would depend on other people's action, especially on their investment and savings decisions. Thus there is likely to be an objective failure: the rate of growth might fall to a lower level than it would be if all concerned knew the reciprocal consequences of each other's actions and could plan them jointly.

On the investment side entrepreneurs settle down to a decision-making pattern which is influenced, if not determined, by the historical level

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1 The Political Economy of Coexistence, to be published shortly by G. Weidenfeld and Nicolson.
of their previous investment which proved successful. This follows from the fact that those controlling the majority of investment will decide whether all other investment (even if well-planned) will be successful. One investment justifies another. Or to talk economists' jargon: the 'marginal productivity schedule' is not fixed; investment does not 'exhaust' opportunities except in a short-run sense; it does not 'shift' upwards automatically either; the historical 'upward shift' is the result of coincident investment decisions. In other words, if a majority of firms were afraid to invest, those who did would lose out. The penalty of over-eagerness is failure and losses. ¹ ²

If investment plans are not co-ordinated no rise in investment might be expected, and none will then take place. In order to create the conditions of high domestic profit and progress, the opportunities have first to be created. Paradoxically, the existence of an overall co-ordination of individual plans might be needed, precisely in an economy not subject to central planning, to speed growth.

Financial and Physical Controls

Much has been made, especially in the immediate post-war period, of the difference between financial and physical planning. Physical planning was extolled as something especially praiseworthy, while reliance on financial incentives and penalties seemed to have been equated with the profit motive, and disparaged as rather more vulgar.

This obviously is quite unjustified. Planning in physical terms is essential in preparing an over-all co-ordination of investment projects in order to provide the basis of the modernisation of industry and the maintenance of an even employment situation while safeguarding growth. Once the physical target figures for the basic industries have been arrived at it depends entirely on tactical requirements whether or not the implementation is to be done through physical controls, financial incentives, or, probably, a mixture of the two.

A satisfactory system of planning demands a proper relationship of physical to financial controls. Physical controls should be so fashioned as to defeat rather than counteract market forces. Subsidies and discriminating tax measures can modify their interplay to help instead of hindering the achievement of the aims set by physical planning. So long as public ownership is not all-embracing, physical controls acting contrary to the profit motive will always be subject to the risk of evasion. Thus suitable modification of market forces through fiscal measures permits a much more flexible and less administratively arduous implementation of basic plans.

¹ The consistent unscientific propaganda of the I.M.F. suggesting that a 3 per cent. growth rate—grossly inferior to the Soviet one—is 'realistic', might have decisively contributed to the slowing down of growth in the non-Soviet orbit. It has done the work of Mr. Khrushchev.

² This view is in no way inconsistent with the fear that in poor countries the expansion of investment in the rich countries is likely to cause havoc (except in the case of countries endowed with natural resources the demand for which rises with increased investment). The problem is one of the likelihood of complementary rather than competitive (and destructive) investment. It is my contention that these probabilities are not symmetrical in weak and strong countries.
Admittedly in some cases the pull and push of these forces will prove insufficient. This is especially the case if full employment is maintained. The extent to which direct controls will have to join fiscal measures will depend on the width of public ownership and the degree of concentration of the private sector, that is, on the effectiveness with which agreed industrial investment plans can be expected to be implemented.

There are two main domestic fields—apart from foreign payments—in which the success of fiscal measures must be expected to be relatively low, both of them of increasing importance for a balanced economic policy in advanced nations, and in those underdeveloped ones which hope to achieve a rather rapid growth.

The first of these is the location of industry. This has been increasingly dominated not so much by consideration of costs and profits (except perhaps for heavy industry) but by consideration of convenience for management in choosing congenial places to live. It has proved difficult to modify location decisions by fiscal means in most countries of the world. The relative failure of the Italian Government in the South is one of the most impressive proofs in this respect, for lavish financial provisions, great knowledge, immense enthusiasm and idealism, and intense propaganda were deployed. Licensing of investment is accordingly required.

Another domestic field hardly less important now, and still increasing in impact, is the need of entrepreneurs to incite people to higher consumption in order to be able to maintain their profits. This is only partly achieved by the introduction of new products to fulfil existing or newly created need and especially by the continuous modification of products to push physical obsolescence through playing on inferiority or status-seeking, through making people dissatisfied. In this direction, too, fiscal encouragement or discouragement cannot be expected to do much.

It is thus clear that planning is required even in a democratic setting, if only to ensure stability in the system when resources are fully employed. The tendency towards decontrol has led, and is bound to lead, either to monetary instability, or to a far less than full employment of resources, and consequently to a slower rate of growth than would even be implicit in the voluntary decisions of the individuals making up the community, had full employment been secured. There is thus here a fatal functional defect in the system. The elimination of this defect requires conscious co-ordination of investment decisions, of income distribution, and the elimination of disturbing cumulative speculative excesses.

III. An Incomes Policy

Collective Bargaining and Stability

The need for an incomes policy has been amply demonstrated. The problem is how to get one implemented, even if the general support of trade union leaders has been secured. Some general co-ordination of collective bargaining is indispensable if unemployment as an essential

1 This has been made much more difficult by the attempt of the Conservative Government to impose direct unilateral restraint on wages through the ‘guiding
functional condition of the non-planned or mixed economic system is to be eliminated and expansion accelerated.

Even if the wage-structure were drastically simplified, it would be hopeless for a Central Board or Court to try to fix individual wages. No doubt more scientific methods of job evaluation would be a potent help to speed economic progress and still unnecessary (in contrast to inevitable) dissatisfaction. It is to be hoped also that the Industrial Disputes Tribunal will be revived. Employers and Trade Unions should be encouraged and helped to undertake scientific job evaluation and the simplification of the wage structure. It cannot and should not be forced on them. But the specific and limited problem of incomes policy could only be confused if these aims are raised prematurely and in conjunction with it.

In a dynamic economy—and if dynamism is not restored no system will work—the problem should be amenable to solution without interference with the basic features of the present system of collective bargaining. It is essential not to interfere with the free bargaining on individual wages, based on the detailed knowledge of the Trade Unions and Employers' Associations respectively. Any attempt at qualifying or modifying it at this stage would evoke distrust and fear. However, what is needed is to add to this sectional knowledge a due regard for the requirements of the general economic position. Where employers and Trade Unions are agreed, the collective agreement would merely have to be submitted to an Arbitration Board or Tribunal for registration. This Board or Tribunal, on which the Trade Unions should be represented, would have the right to postpone the coming into force of the bargain—if it were convinced by the Council of Economic Advisers or some such body that an early implementation of the bargain would not be compatible with continued stability of prices and/or the balance of payments. Even this mild proposal might at first evoke hostile reactions by Trade Union leaders who might feel the independence and thus status of their functions undermined. Fortunately there has been a very substantial change in this aspect, and it is by no means utopian to believe that at any rate in the first period of its office a Labour Government could count on Trade Union acceptance of such a system.

At a later stage, when the bountiful yield of the higher dynamism, attained as a result of this combination of policies, has manifested itself, and the quickening of the increase in the national income has permitted far greater increases in real wages than have yet been experienced, steps might be taken to centralise bargaining on the Swedish model. It should paradoxically, also permit a much greater responsibility in applying

light. This in turn came after its ill-considered efforts ever since 1952/3 to gain the same ends by deliberately causing unemployment and weakening the bargaining power of Trade Unions, efforts which were based on a fallacious analysis of the causes of inflation, discussed above.

The pseudo-scientism of those rabid econometricians who tried to demonstrate that a small degree of unemployment would automatically 'bring about' price stability, and of the 'classical' economists believing in monetary policy who made use of this Mumbo-Jumbo to push their deflationary policies, has cost us dear.

1 J. Cooper, Industrial Relations: Sweden Shows the Way. Fabian Research Series, No. 235.
national wage agreements at the factory on shop-level. The present estrangement between the rank and file and the leadership of Trade Unions, the floating of agreement by unofficial strikes, can only be overcome if more authority is entrusted to the local leaders, who—if they have no useful function to fulfil—become local trouble-makers.

An accelerated growth should considerably ease the problem both of assuring greater equality and the related problem of increasing the portion of the national income which becomes available for social and collective expenditure. These are the integral conditions for the successful accomplishment of a policy of price stability and steadiness of growth. This is also essential from the viewpoint of entrepreneurial willingness to invest. Entrepreneurs must be convinced that all would come right in the end, and that failure to invest would mean lost opportunities and severe setbacks in relative competitive power. The penalty of not investing must be severe. Conversely, any severe and sustained attack on this psychological framework would bring with it shocking consequences, as we experienced in 1962/3.

If monetary restriction, within the limits practicable, results not in a fall of prices but of output and of productivity, little will have been gained by deflating the economy, even from the viewpoint of restoring its international competitive power. This is, in fact, precisely what appears to have been the case in the post-war period.

Moreover there can be no doubt that the willingness of British Trade Unions to tolerate technical innovations was very much impaired in the inter-war period of heavy unemployment. It was only with difficulty and diffidence that trade union leadership could bring the rank and file, even after years of full employment, to accept new, especially labour-saving techniques. A return to the pre-war sequence of booms and slumps, involving a relatively high average rate of unemployment overtime, would be disastrous from this point of view. It would certainly intensify wage pressure whenever expansion restarts, for the restraining effects of the increase in productivity would be much impaired.

**Income not Wages Policy**

The neo-Keynesian vision, of a perfectly working price-mechanism which is held at full employment level by slight changes in the long term rate of interest, reinforced, if need be, by fiscal policy and slight-Budget deficits and surpluses has faded with the harsh experience of the 1950s. “Planning” cannot be painlessly arranged so-to-speak by the automatism of prices. Professor Galbraith first postulated the possibility of this miracle by assuming the rise of countervailing forces, of the monopoly of employers being just matched by the rising power of the Unions.¹ When the hopes of a just equipoise were rudely smashed, Professor Galbraith fell back on the plea that the affluent society really did not need full employment, as it had sated its wants and had desperately to create new ones to keep employment up. An increase in unemployment as the stabiliser,² under these circumstances

¹ K. Galbraith, *American Capitalism.*
² *The Affluent Society,* Ch. XXI. Prof. Galbraith accepts that stability and full employment could only be maintained by “some public restraint on the large discretionary movements in prices and wages.”
would not be injurious, especially if unemployment is made morally accept-
able by providing for unemployment benefits increasing towards the full wage level as unemployment increased. This would not of course be able to deal with the grave psychological consequences (especially among the young), of not being wanted, of receiving an income for no work.

But outside the U.S. such arguments based on universal affluence can really not be maintained for a second, whatever their—doubtful—justification in the U.S. Yet precisely the same problems are encountered the world-over. The inflationary pressure in Western Europe due to the persistent tendency of wages to increase faster than productivity, is matched by the mischief caused by unregulated Trade Union bargaining in underdeveloped countries. In the poorest countries skilled workers, already well above the national average, demand increases of wages which endanger price stability and industrialisation (often egged on by the representatives of “free” Trade Unions from “rich” countries, terrified of the “unfair” competition by “cheap” labour—as if poor countries could accelerate their industrialisation without exporting simple manufactures, or could do so without relying on low wages, their only advantage). The problem of incomes policy is universal outside the Soviet.

Seeing the defeat of their views by the relentless pressure of events, the more perspicacious of the defenders of the price mechanism seem lately to have retired to secondary defence lines, and now demand that wages alone should be controlled, because it is not “administratively possible or economically desirable to deal with this part (other incomes) of the problem by direct controls over selling prices and profit margins.” A reform of taxation and social benefits is to deal with the inequality caused by this unilateral control.

Now I am sure that a reform of taxation and of social benefits is overdue (and should be undertaken by Labour Party), but surely it is not sufficient. In 1958 I wrote:

“It is clear that a double-pronged attack on the problem is the only one likely to succeed. Investment must be increased to accelerate the rise in productivity (and thus in the ability to satisfy wage demands) and wage demands must be mitigated first to permit an increase in investment and subsequently (and to a much lesser degree) to keep them within the bounds of the increase in productivity achieved.”

“Neither can be achieved without the whole-hearted co-operation of the trade unions. But such co-operation can hardly be expected if restraint is not imposed upon profits. Nor would it be equitable if the restraint on profits took the form of a mere dividend-limitation, for the accumulated undistributed profits represent an enhanced claim on future earnings and, through their capitalisation in the form of higher equity prices, also enable subsequent capital consumption without impairing wealth.”

1 American critics of Prof. Galbraith, often rather disingenuously, accuse him of disregarding the poverty in the midst of plenty. This is obvious nonsense. Prof. Galbraith was trying to make his analysis palatable to those opposed to direct planning and controls.
2 Cf. above p. 5 n. 1.
3 Prof. Meade, op. cit.
What is needed is an assurance that wage restraint will not yield increased profits and increases in private wealth. On the other hand it is also essential that taxation should not discourage the willingness to invest and that it should not impair savings and thus limit the ability of the community to invest: both a better distribution and higher net savings are needed.

It is difficult to outline, in detail, policy requirements. An incomes policy will obviously be most needed immediately after Labour enters office—afterwards, when the increase in productivity and production accelerates much greater latitude will be possible. But it is impossible to predict with precision the scope given by the existence of unused productive capacity and the conditions enabling (or limiting) its fuller use. Penalising taxes discouraging enterprise must be applied with prudence, and must be accompanied by strong discriminating tax concessions and, possibly, by guarantees of loans, and the provision of buildings and plant at favourable conditions, to encourage desirable investment. Wage restraint itself will act as a strong incentive. Capital export must be clearly controlled. Output could be increased by at least 10-15 per cent from the level of the first half of 1963. This would give Labour some £700-£1,000 per cent of resources. In the longer run, of course, the volume of resources available will depend increasingly—and after a time exclusively on our success in

(i) expanding productive investment,
(ii) securing a rise in productivity for any given level of investment by
   (a) an accelerated application of technical knowledge;
   (b) industrial reorganisation;
   (c) standardisation.
Public enterprise will be involved in all these aspects of our policy.

Well conceived, our programme should involve

(a) an accelerating increase in production; it should be our endeavour to obtain eventually a growth rate nearer to that in the Common Market—5-5¼ per cent per annum—than to the N.E.D.C. target of 4 per cent per annum. The latter has been conceived by a Council under the Chairmanship of a Conservative Chancellor and must not be permitted to limit our horizon;
(b) not merely a better distribution of income but also a more sensible and balanced composition of our national product in which
   (i) education,
   (ii) housing,
   (iii) health,
   (iv) a balanced urban existence including transport reorganisation,
   (v) leisure and the mitigation of aggressive competitive drives should receive greater recognition.

Once expansion has started, and a well conceived plan is put before the Trade Unions, industrialists and finally before the public, the increased certainty that no repetition of the stop—go policy will inflict unexpected losses, will reduce the fear of risks. At that point taxes falling on profits and wealth could be further increased, and pressure exercised on profit margins. This latter task might well be possible

"by giving tax (especially investment allowance) concessions to firms which agree to a standardised method of book-keeping and the maintenance of prescribed profit margins. Even then a number of seemingly
perplexing problems will have to be resolved. What should be the policy for industries whose productivity is not increasing? How are price cuts to be enforced in those in which it is increasing more than the average? In an economy with a high rate of expansion these problems should be amenable to solution.\(^1\)

All that happened since has confirmed the view that some powers to influence profits are needed. In particular, American experience with steel prices, and our own with motor cars, amply confirms this verdict. At no other vital point is the lack of power of N.E.D.C. as a planning agency shown up quite as palpably, than in its handling of this problem.\(^2\) The Trade Union members were, quite properly, reluctant to commit themselves without any binding assurance that any concession on this vital issue will be matched by effective action on countervailing fields. But no such commitment can come from this body. Its suggestion on taxes are vague,\(^3\) its policy on guiding investment practically non-existent.

Under a Government dedicated to opposing controls and to limiting interference with private initiative nothing could be done. N.E.D.C., as Mr. Harold Wilson truly said, was “Planning in Vacuum” (New Statesman 1962). Its establishment must be considered mainly a political gimmick, an attempt to trump electoral attention away from the failure of Tory policy. Under a government dedicated to planning such an independent forum could perform a valuable service.

It should prove administratively quite practicable to generalise a policy of restraint and control strategic prices and margins (the latter with the help of introducing uniform accounting methods aided by tax reliefs, and the establishment of Industrial Councils). The Steel Board has done it quite successfully and in the heavy sections of manufacturing it should not be too difficult. Equally a control of rents would not present insuperable obstacles. Food prices could be stabilised by bulk purchase and import of basic supplies. This will in any case be advisable. The present system of deficiency payments has completely failed. The Tories frankly admitted this in connection with the Common Market negotiations. On strategic occasions food prices might have to be subsidised in order to assure the stability of real wages.

IV. Investment and Productivity

The N.E.D.C. plans

The N.E.D.C. plans envisage a very steep increase in the rate of growth of production from just above 2 per cent to somewhere near 4 per cent, to be accomplished by an increase of gross investment from only 18 per cent of the national income to 20 per cent. Between 1957 and 1961 investment increased from 16 per cent to 18 per cent. The increase in national income did not accelerate. The ratio of the increase in capital to the resultant increase in output was 7.5 to 1. N.E.D.C. hopes to increase the effectiveness of capital

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\(^1\) Productivity and inflation, *op. cit.*

\(^2\) Conditions Favourable to Faster Growth, 1963, pp. 44-51.

\(^3\) And rather unrelated to growth.
investment so much that it would fall to 4.8 or almost two-fifths. This is rather optimistic and can only be explained by N.E.D.C. as assuming that the substantial capacity unused at the moment would be brought into production. It should be noted that the first 1½ years of the five have already passed with little increase in industrial production. The N.E.D.C. targets can now be reached only by a considerably higher rate of advance than the 4 per cent per annum contemplated originally.

What inducements?

It is difficult to believe, however, on past experience, that on the basis of indirect policies, monetary inducements, even a considerable increase in the utilisation of capital could yield the contemplated increase in production. In the past few years a very large portion of total capital investment has been used for infrastructure investment of doubtful relevance, and it is difficult to imagine that this would suddenly and substantially change. Certainly there is no indication that there has been a substantial change lately in the direction of capital investment towards productive purposes and, without discriminating policies, none can be expected.

These discriminating policies must be on both the financial and the physical plane, on a coherent pattern. The inability after the war to co-ordinate these two related—or rather intertwined—planes of economic policy-making was certainly one of the main reasons of failure. Direct controls were thought of as something belonging to “abnormal” periods of war and shortage and looked upon as a sign of failure, of “totalitarian” planning, of interference with the subjects’ liberties, rather than one way of assuring optimal use of resources. Instead of reforming them they were permitted to lapse. It is to be hoped that the next Labour Government will prove flexibly pragmatic in their approach and intelligent and rapid in their analysis and diagnosis of the needs.¹

Labour will have to make use of purposive influence in three directions: the assurance of a fast modernisation of British industry; the prevention of cumulative speculative excesses, and, particularly, the prevention of speculative attacks on the pound.

Industrial modernisation²

It has become a commonplace observation that, in most British industries, the difference between the most and least efficient unit is more marked than

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¹ It took the Tories almost a decade to realise that the concentration of office building cannot be checked by persuasion or by subsidies to blighted areas; it can only be dealt with through direct control of office building in congested areas. Once they understood it, they threw over principles as quickly in this respect as in their policy to the Commonwealth.

² Nothing is more important for Britain than a reform of training, education, research and the speeding up of its application in industry. This might be achieved by (i) the unifying and broadening of the curriculum of the Sixth Forms and providing a uniform system of admission to universities; (ii) retraining to lengthen the overall period of learning before its breadth has been assured; (iii) reducing cost by altering residential exclusivity, and pushing the enlargement of large universities before founding new ones, none of which should be located in the South. They should provide the nucleus of urban renaissance in the North; (iv) unifying higher education by granting university status to Colleges of
that between American industry as a whole. If the less productive British firms could be lifted to the productivity of the best we could approach American standards. But there does not seem to be any powerful trend in this direction. This knowledge was not easy to accept. It has been violently resisted, not the least by economists, because it is in complete variance with their neat little mathematical models of the economic system. In those all inefficient firms are automatically eliminated by the irresistible force of competition, while all others are always fully employed.  

The reality is that firms efficient and inefficient, large and small, mechanised and primitive, co-exist over long periods. The inertia of the public, commercial and, last but not least, the reluctance of the large and efficient firms to eliminate all competitors for fear of being exposed to the public as monopolists; all those factors which we discussed above explain why the price mechanism no longer performs this particular function.

Sir Stafford Cripps seemed to have thought that the re-planning of British industry, through his working parties, could safely be left to the vested interests concerned (laced with laisser-faire economists and business-men from other industries). Development Councils created after he left the Board of Trade could have performed this precise task—had there been time. There was no time.

The task now is to start again under better conditions. The Councils must be representative. But their members might well be chosen from among the technically more competent and not necessarily from the larger firms or from among the more influential people. They must have an independent chairman and a competent staff, both with technical and economic knowledge.

Their functions should include:

(i) The collection of intelligence on the industry needed for the discussion with the national planning authority of the implications of the national plan, its periodic modification, etc. An intimate two-way flow of ideas and of statistical information to the industry is absolutely essential.

(ii) The central agency must be informed of the investment plans of the industry and suggestions should be made about whether any modifications are needed and how they could be induced (e.g. discriminating investment allowances, outright subsidies to re-equipment).

(iii) Plans must be elaborated to rationalise the industry without grave

Technology and bringing them under a Minister responsible to Parliament. In this context I cannot deal with this problem.

The present system encourages financial (and architectural) irresponsibility indulged in by a tiny oligarchy and is unable to respond to the need to plan educational facilities so as to fit in with the requirements of economic development. The crassest misdeeds have been committed in the organisation of the half-a-score or so of new universities (cf. my article Universities or Sixth Forms. Times Education Supplement, Nov., 1962). Left-wing enthusiasm for meritocracy threatens to make Sixth Forms even more absurdly specialised, while their predilection for “general” university courses extends the scope for dilettantism and interferes with the supply of well trained technicians.

1 I feel that Mr. Sargent’s recent valuable Fabian Tract (No. 343—Out of Stagnation) neglects this lack of knowledge, of skill. It equally neglects inertia and a positive disinclination against experimentation and change, and thus attributes too great a power to measures acting through the price mechanism to improve Britain’s industrial outlook.
hardship to either employers or workers; joint research should be undertaken or sponsored not merely on the technical plane but also in management. Discrepancies in efficiency will be discovered and means suggested to mitigate them. One important possibility is to explore standardisation, especially of durable goods, so as to be able to fill an important gap in poorer areas by being able to provide simple and cheap, yet pleasing products and ease our export problem.

(iv) The manpower requirements of the industry (especially professional and skilled), must be estimated and measures discussed for meeting it or absorbing redundancy at all levels.

(v) By promoting efficiency and standardisation, the Councils should automatically be able to promote exports; but they could help smaller firms by providing joint services and representation and by helping to obtain specialised services and credit, all of which now seems difficult.

(vi) They should help in executing income policy by keeping track of costs, profit margins and prices, but responsibility for policy should rest with the Government. It is probable that the threat of closer investigation will suffice in cases where profit margins are unduly raised.\(^1\)

In the 1940s industry foolishly, blindly and successfully resisted the formation of Development Councils. Now that the establishment of N.E.D.C. and its informal industrial committees has provided an example of willing collaboration between State and industry, such unreasonable behaviour is perhaps less likely, though it is not impossible that the collaboration of industry is secured because N.E.D.C. as it is organised has no power to give effect to its plans, and the Government has no intention to do it either.

Statutory powers will, therefore, be desirable to avoid misbehaviour by a recalcitrant minority. Compliance with plans and a ready provision of statistical material based on uniform book-keeping conventions should be promoted by tax concessions. In the same manner the preferential provision of capital and other tax concessions should be granted to those firms which collaborate in standardisation and increasing efficiency. Fortunately the resistance of the Inland Revenue which ruled out such constructive essays in persuasive planning under Labour, has been ruthlessly—if not to much effect—broken by the Tories in the last Budget. Thus an effective co-ordination between direct policies to increase efficiency and discriminating financial incentives should be possible.

In cases where these measures are of no avail, the advisability of either taking over firms or starting publicly owned new enterprise to carry out the programme of reconstruction should be urgently considered. Even the prospect of such measures will often suffice to obtain co-operation. But in many cases public ownership might be essential as it would be the only alternative to outright subsidy in cases where social returns are substantially higher than private ones (which might well be negative: losses), or the risk is too high for private firms to commit themselves. This is the most immediate of the important roles which public ownership can and will have to play in carrying out a national plan. Persuasive planning plus direct controls and discriminating fiscal devices represent a substitute to public ownership on the

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\(^1\) President Kennedy’s experiences with the steel barons suggest that at least background powers will be needed.
technical economic plane. It does not provide any, as we shall see, on the plane of a better social balance which looms increasingly urgently as wealth increases.

Fight against speculation

In 1951, 1955 and again in 1960, the traditional pattern of capitalist development, the cumulative speculative increase of investment in stocks of commodities and fixed capital ominously reappeared. In the U.S. similar symptoms could be discerned at about the same time. As in pre-war times, the authorities lacked perception to deal with this development by any other means than general restriction which brought with it a much less than full employment of resources. In 1948, arguing in favour of direct, physical controls I wrote:

"To give a physical illustration: if someone were to desire to dry up part of a lake, he could put up a cofferdam and pump out the water behind it. The water in the lake would rise, but if the sides of the lake were well buttressed, nothing catastrophic would happen and the operation could be accomplished with the least physical disturbance to neighbouring areas. If the same undertaking were to be attempted by lowering of the level of the water in the lake, enough would have to be pumped away to leave the area enclosed by the cofferdam dry. It would be an accident if other land would not lie above the level of the strip to be drained. If so, it would get parched in the operation, whether we want it or not. The lesson is plain.

"If viewed from this angle the reputed lack of subtlety of direct controls does not appear to be so great as compared with general financial controls. In a country such as Britain, in the economic structure of which foreign trade plays a large role, this consideration is of special importance. Controls over production and consumption represent the most effective and flexible means of imposing selective pressure, equivalent to localized deflation, on industry without incurring the need for a general cut in incomes, causing unnecessary hardship and unemployment. It will be possible to isolate internal purchasing power from interfering with the export drive in individual essential export industries. We shall be able to cut the consumption of certain goods which most depend on relatively expensive imports. We could concentrate measures in those lines in which success is most likely, without having to curtail expenditure and employment unnecessarily in others."

These rather obvious and simple truths have yet to be learnt.

The Development Councils through their intelligence work and co-ordinating activity should be able to check cumulative and nonsensical speculative investment in fixed productive capacity. If persuasion is insufficient, sharp negative investment allowances and licensing are there to prevent a recurrence of cyclical fluctuations. I am confident that in the end we shall find that full employment can be obtained only by aiming high, and, if the fixed investment target is over-shot, by controlling cumulative movements directly and by fiscal measures. This was the way the Soviet obtained its results, and I doubt whether we can do better.

The control of the accumulation and running down of stocks of commodities is far more difficult: credit controls seldom suffice or work quickly. Import controls and direct fiscal disincentives will probably have to be applied. They are not difficult to devise.

The balance of payments

The Tories, to their own great discomfiture (but to the profit of the City)

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have practically dismantled exchange control—despite the fact that it is enjoined on countries liable to use the credit facilities of the International Monetary Fund. For a score or so million of extra earnings of the great finance houses, the Government permitted the Bank of England to pursue policies which necessarily would have worsened our trading relations, had not the pressure of deflationary measures bankrupted the primary producers. In this way the whole world underwent a completely needless ordeal: Britain (and the U.S.) suffered billions of losses from under-employment, while the poorer areas lost hundreds of millions through a fall in their export prices. But the practical restoration of convertibility restored the liberty of action of City firms.

There is nothing new in this. Keynes’ writings are at their wit's best and bitterest railing against the banking tycoons who bankrupt themselves, and us with them, in trying to protect their ill-observed interests. They are still with us.

Apart from the need for a general reform of the international monetary system and provision of capital for poorer areas, the present, unreasoning, bankers domination in policy has to be broken at once, if it is not to break the Government. It is not unlikely that the election will coincide with a sharp crisis. Measures can be devised to check the drain and free the Government from the extra-constitutional veto of the financiers.

Effective control over payments and overseas investment must be restored. The latter would have to include investment in the Sterling Area, though it will have to be handled more leniently than investment elsewhere. In order to facilitate this a Sterling Area Economic Consultative Council might be organised. The representatives of the countries making up the Sterling Area could exchange, and suitably modify, investment plans and policy information so as to encourage greater complementarity between the various members of the Sterling Area (and Canada if it wishes to participate). This could assure a greater stability in the combined balance of payments and thus permit larger aid and faster growth. Freedom of payments without co-ordinated planning spells weakness. Government expenditure outside the Sterling Area, especially arms expenditure, must be carefully reconsidered. Aid to the poorer members should be made to help in maintaining full employment until through making effective use of surpluses and idle productive capacity a successful reform of the monetary system removes speculative balance of payments deficits from the way of progressive domestic economic policies.

It is to be hoped that the reorganisation of British industry, the increase and the greater effectiveness of investment, especially in research, design, and innovation, will increase exports. The common planning of expansion in the Sterling Area should help. Nevertheless drastic powers are required to stem any undue speculative increase in imports (the so-called lags and leads) and—if exports do not rise immediately, e.g. because economic conditions abroad worsened—also to control imports generally, especially imports of manufactures. Import substitution should receive as much consideration as export promotion.

Devaluation or a (downward) floating exchange do not provide a

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1 Especially Essays in Persuasion.
2 Cf. Mr. Harold Wilson’s speech to the Foreign Press Association, May, 1963, in which he put “Ten points” forward.
panacea. It is not a gimmick to end all our troubles even if it might represent one piece of a coherent policy complex, especially if hopes for an international monetary reform are frustrated by Continental bankers. If nothing else, the ineffectualness of previous devaluations—apart from short spurts—should have demonstrated this. The lesson of 1939 and of 1949 is plain. Unless the policies which lead to devaluation: liberalisation, reliance on the “free” market mechanism are reversed and supplanted by a coherent plan for economic development including a balanced social incomes policy. Devaluation will be forced upon us but will not solve our problem, but will lead to renewed unbalance due to the same causes. Each devaluation or decline in exchange rates is likely to accelerate its own undoing. In the end a general flight from sterling will be unavoidable. Such economic cohesion in the Commonwealth as exists would be ruined even if we were willing to pay compensation for losses suffered by those who trusted us. “Freer trade” as we have seen, cannot contribute much to the increase in the productivity and the standard of life of the country. We are not a small African or central American state.

Our problems are complex and in the main caused by what theoretical economists affect to call the “imperfections” (in plain English the social realities) of our economic system. Without structural changes we shall not get anywhere. From our selfish point of view—and at the present moment when our fortunes are relatively in a decline, the selfish viewpoint seems not entirely unjustified—at least for a transitional period—so-called “liberal” policies are tolerable only if they do not interfere with measures needed to accomplish these structural changes, and above all with full employment and a high rate of accumulation and innovation. Thus we must exact, if we are to accept further liberalisation, such as the “Kennedy round”:

(a) a pledge of full employment policies among all countries between which trade is liberalised;

(b) a reform of the rules of the game and/or a reform of international monetary institutions so that readjustment is not thrust on debtors alone;

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1 Prof. Meade (op. cit.) seems to wish to combine devaluation with the stabilisation of wages. This would necessarily depress real wages, because devaluation to be effective must worsen our terms of trade—not an auspicious beginning for an income policy.

2 To advocate such policies in the name of liberalism, of free interchange and help to underdeveloped areas is, I must say, to strain one’s sense of humour.

3 Prof. Meade (op. cit.) thinks that gains from freer trade would be “gigantic”. This view, I think, is based on emotion rather than reason. When discussing the possibility of Britain’s entry into the Common Market, Professor Meade himself heavily discounted such gains. He argues that devaluation would impart dynamism into the British economy, much as it has done in Germany, France and Japan. There is no reason why devaluation in our particular sociological framework should have anything but a transitory effect, while its long influence is bound to be unfavourable because of the new uncertainty created and Trade Union suspicions confirmed. The German, French and Italian “miracles” were conjured up on the basis of the weakness of Trade Unions.

A “floating” rate, far from being more advantageous than devaluation would be certain to result in a catastrophe. There is nothing in the British situation which would point to an upward surge in sterling. Repetitive devaluation or a downward drift would accelerate corresponding wage claims, reducing the breathing space.
(c) indeed, when there is unemployment in the world economy, the readjustment should be effected mainly through expansion in creditor countries.

It is astonishing how little attention is paid to these essential conditions of the prosperity and progress of the fully industrial countries of the non-Soviet orbit.

**Aid and the balance of payments**

Liberalisation, however, has also been advocated, rather grandiloquently, as a means for helping underdeveloped areas. In this connexion it should be remembered that high prices for primary products do not often reach the broad peasant masses but are snapped up by landlords, moneylenders and merchants. Trade is therefore no substitute for intelligently administered aid coupled with (and fostering) domestic, social and economic reform. It should not be forgotten that such aid is no costlier (and might be far cheaper if unemployed services are available) than the deliberate worsening of the terms of trade. No doubt some unilateral concessions, e.g. the reduction of taxes on coffee and cocoa would help; so would a liberalisation of imports of simple manufactures. But it would be unreasonable to expect toleration of severe unemployment by “rich” countries as a result of such liberalisation.

After 1952 liberalisation coincided with deflationist policies in the most important importing countries among the rich areas. The net total result of aid and liberalisation seems to have been negative;¹ the poor countries lost more in the 1950s by the fall in their export prices than they gained by aid.² The conclusion is irresistible that liberalisation without international monetary reform might worsen the situation in both the less dynamic, relatively egotarian “rich” and in the poor countries.

This is not a static position: the “aid,” now increasingly in the form of loans, is beginning to leave behind it a growing indebtedness in poorer countries, especially in Latin America, but also in India, and a growing burden of service which in some cases has risen above 15 per cent of the total exports. Should the present trend continue, serious trouble might be expected within four or five years, unless the terms of trade should unexpectedly improve. The possibility of a break—similar to what happened in 1931—must not be excluded. Here again President Kennedy has been much hampered in his efforts to achieve a sensible solution by the relentless commercial drive of the continental countries, reminiscent of the bankers’ orgy of 1924-29. The Tory Government led by the Bank of England steadfastly supported the bankers—to its own discomfort.

All signs point to the need of a fundamental international monetary reform if the non-Soviet orbit is to avoid growing inferiority in face of the Soviet challenge.

**International Monetary Reform**

(i) The background

Much ink has been spilt in trying to prove that the world does not suffer

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² The precise amount of the loss depends on the base point. The important fact is the fall from a level which itself was unable to provide decent standards.
from a shortage of international liquidity. The answer, surely, is simple. A shortage of international liquidity can be said to exist if circumstances in which countries suffering from unemployment do not feel free to pursue policies which they would pursue if their international reserves were higher than they are now. The frequent recourse of key Central Banks to repayable short-term credit experienced in the last few years is another incontrovertible sign. Thus, it is obvious (and obviously true) that the concept of shortage of international liquidity is intimately bound up with international monetary and economic policy and especially with the policy of creditor (gold gaining) countries.

The more shortsightedly conservative are the creditors the greater the need for liquidity. In this sense we are much worse off than we were when the U.S. was the main creditor country; they initiated the Marshall Plan, while the Germans and the French can barely be persuaded to give tied commercial credit. On the other hand there can be little doubt about the vital domestic political importance for countries such as France and Germany of the export surpluses which they achieved at the expense of Great Britain and the U.S. and some of the underdeveloped countries. These export-surpluses enabled French and German entrepreneurs to plan irrespective of the limitations of their home markets on the basis of export surpluses. This means that they could shape their plans for their factories at optimal size by relying on a world market for sales, while at the same time they could pay relatively low wages without fear of losing their outlets for their products. Thus, they reaped very high profits without incurring high risks—an ideal position for conservative entrepreneurs. Any attempt by America or Great Britain to cut out import-surpluses—e.g. by devaluation—would imply a change in this favourable relationship between profit and risk in the countries which now have export surpluses and would risk destroying the base of the existing mechanism of growth of the countries on the Continent of Europe. We have had an experience of this in 1930-1 when the French had the strongest balance of payments and refused collaboration. They were reduced to penury by the competitive devaluations. Only Hitler benefited. The possibility of a deadly struggle for markets (again not unlike 1930/36) must not be ruled out.

Moreover, the more open the system, the less the scope for direct measures (e.g. quota restrictions), the greater must be the amount of liquidity. Thus G.A.T.T. has made the I.M.F. relatively even less sufficient and the “Kennedy Round,” so called, if successful, would make it still more insufficient. It is extraordinary that even sensible and progressive people in the U.S. do not realise this inter-relationship, and propagate further cuts in tariffs without demanding a far greater co-ordination in monetary policy, or its equivalent, machinery capable of increasing international liquid reserves as required. They seem completely unaware of the fact that in the immediate future U.S. (alongside Britain) will suffer, because a socially advanced country always tends to be at a disadvantage to socially backward ones. It is

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1 One of the most ill-considered of these efforts is represented by the Report of the Staff of the International Monetary Fund on “International Reserves and Liquidity,” Washington, 1958. I tried to develop a coherent theory of international reserve holding to be able to discuss its thesis that no shortage existed, in an essay published in the Economic Journal, June, 1960, and republished in Unequal Partners, Vol. II, sec. 7, No. 23. I must refer to that volume for a detailed discussion of the various views and proposals.
absolutely essential to have a system in which sufficient liquidity is made available to (socially backward) creditor countries, to maintain their expansion through export surpluses, without denuding debtor countries of their reserves, for creditors can indefinitely go on gaining gold, while losing countries cannot (without a suitable international liquidity creating organisation) go on losing indefinitely. Thus without such an organisation a fixed parity standard has an inherently deflationary bias. Nor does the problem brook delay.

Potentially the menace of the Soviet opening large scale trade with the primary producing countries is immense. They could achieve a devastating break-through. Their cost of production of industrial products in terms of man-hours is falling by six to seven-and-a-half per cent. every year. Their agricultural costs are stationary. Consequently as each year goes by they would gain more and more if they exported industrial products to buy agricultural ones. Where they did as in the case of sugar, the result has been explosive. The price of sugar has more than doubled in the last year. The price of wheat has been stabilised by Chinese purchases. Thus it is essential for the ‘Free World’ to organise a system of aid which would make the neutralist countries, now under severe balance of payments pressure, and prone to clutch at every straw, less potentially eager to throw themselves at the mercy of Soviet aid offers: a system of aid is needed, the discontinuation of which would far more than offset any advantage that Soviet aid gives. It is essential that such a system of aid should be organised in such a way as not to burden (as it does now) those who are most generous, i.e. the U.S.

The Outline of a Solution

A proposal to be really satisfactory must, as Mr. Harold Wilson said, fulfil a treble condition, it must:

(i) offer a possibility of creating a sufficient volume of international liquidity to—

(a) stifle any possible attacks on an important currency;
(b) maintain expansion at a steady pace all round despite the sociological inhibitions in the main creditor countries to maintain sufficient expansion to aid in restoring the balance.

(ii) use idle productive capacity in fully industrialised countries to increase aid to underdeveloped areas to the utmost; and yet

(iii) contribute through this process to the balancing of accounts between the fully industrialised countries without an internecine struggle for markets which might lead to cumulative deflation, devaluations and default.

The fulfilment of these requirements would, incidentally, satisfy the need of the socially backward creditor countries to maintain export surpluses without denuding the others of all their liquid reserves.

A discussion of past proposals is not possible in this context. I still feel that the wartime proposals elaborated at the Oxford University Institute of Statistics by Professor Kalecki, Mr. Schumacher and myself are the most

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1 Speech to the Anglo-American Chamber of Commerce. Unpublished M.S.
2 I have undertaken this in Vol. II of Unequal Partners op. cit.
logical and satisfactory. Most others are either insufficient (like e.g. the 'Paris Club') or too rigid to cope with sudden crises (e.g. the 'Triffin Scheme' or the 'Stamp Plan'). They do not provide a flexible institutional arrangement to solve the problem of the shortage of international liquidity and the distinct problem of assuring internationally the maintenance of employment and the achievement of a better income distribution. An optimal solution would seem to depend on giving full Central Banking powers to a reformed I.M.F. Only if an international organ has the capacity to create additional liquid reserves can the performance of the twofold task be assured.

(i) the defeat of sudden confidence crises, and
(ii) the relief of the slowly working strangulation of growth through a long run deficiency of liquid reserves which forces Central Banks to take deflationary measures prematurely, i.e. when there is still unemployment. The latter can only be achieved if the newly created international reserves, e.g. à la Maudling are not subject to repayment but are left to accumulate.

It is clear that not merely the bye-laws but also the personnel of I.M.F. would have to be changed. The basic condition of success is that some discretion must be given to the management of the I.M.F. for otherwise a supple adaptation to the violently changing demand for international liquidity cannot be achieved. But discretion cannot be given to the present management which has caused havoc all over the world. Such a change could only be effected if the U.K. and the U.S. collaborate intimately. Close Anglo-American co-operation could, with the help of the poor areas and the more progressive richer ones, force through such a reform.

Ultimately what we need is a reform which enables the I.M.F. to create credit certificates in terms of gold, and equivalent to gold, which would become part of the reserves of the member countries. They must not be convertible into gold for otherwise they could not be freely created, but must be usable for transfers, in payment of balance of payments deficits, i.e. there should be a generalisation and assimilation into the constitution of the I.M.F. of the ideas of Central Banking.

In addition we want an International Investment Council which can borrow such certificates from the reformed I.M.F. and use them for the development of poor countries. It would direct such development orders towards the unemployed productive capacities in industrial countries whose balance of payments is not strong. Thus the newly created international liquidity would percolate to those countries, and enable them to expand without fatally weakening their reserves.

It must be understood that these deficit countries would have to restrain

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1 New Plans for International Trade. 1943. Never was a good idea as premature.
2 The last attempt to reform the I.M.F., the Maudling Plan, is a rather ingenious extension of the mutual support operations by Central Banks. Instead of (as it is done today) each Central Bank being willing to buy and hold the others' currencies, there would be a Central Pool which would do the same. However, each operation would have to have separate consent by the creditor. Thus the scheme does not go far enough, it does not imply automatic support. In this respect it needs sharp reinforcement if it is at all to be helpful, for it is only too likely that countries under attack, who need help most, might be forced into extremely distasteful policies as a price of that help.
the increase in their domestic demand (relative to the increase in their productivity) if this mechanism is to yield a balance at full employment and not a cumulative inflation. This is one more reason for holding that the management of I.M.F. must be reliably progressive, as they would have very extensive, and potentially damaging powers. Yet without them there is no possibility, in my opinion, of achieving full employment and full growth in the non-Soviet world with some hope of decreasing inequality. Without that, however, our eclipse is difficult to avert. The proposals now being actively pushed to cut tariffs are likely to increase rather than decrease the potential degree of international instability because trade, and therefore trade balances, will increase without a parallel increase in reserves. In any case it is not conceivable that in a situation of unemployment and threatening deficits much will come of it. The successive GATT rounds have been increasingly ineffectual.

If attainable, such a reform will end once for all the possibility of countries being forced to endure unnecessary unemployment and slowing down of economic progress as a result of ‘confidence crises’, or because some countries are unwilling or unable to achieve expansion without export surpluses. These countries will be helped to maintain such surpluses through help to underdeveloped areas; beggar-my-neighbour policies, one of the gravest curses on the non-Soviet orbit, will be used to buttress its cohesion against the inevitable stresses originating in the development of Communist countries.

It is obvious that such an attempt would commend itself, and not merely to the Kennedy Administration. Should it nevertheless be defeated, a Labour Government must reserve its freedom of action. It might in the first instance press for an implementation of the scarce currency, clauses of the I.M.F. Charter against France and Germany. If that move failed it would have won a moral right to unilateral measures, to introduce direct controls over visible and invisible transactions as well as to change the exchange value of the pound. These are formidable weapons, as the history of 1931-36 shows when France from being the most dynamic was reduced to the most depressed country in Europe. No weapons must be foregone that can safeguard Britain and might help a reform of the international economy of the non-Soviet world towards greater efficiency and equity.

V. Planning the Planners

Unfit for the Job

THE post-war record of British economic policy inevitably leads to the conclusion that a Civil Service reform as fundamental as that undertaken by Northcote and Trevelyan is long overdue, even if Britain did not adopt a basically new policy. A Labour break-through would be impossible without

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1 I have dealt with this problem at greater length in an essay “The apotheosis of the dilettante”, in The Establishment ed. H. Thomas. Only the main conclusions can be reproduced here. The complete insufficiency of the present organisation was demonstrated in the Profumo case when the Prime Minister was left in complete ignorance of a vital issue. Without a reform this could easily happen in other fields too.
it. Though the British Civil Service structure was evolved very late and received its final codification only after the first World War, it had been designed in 1854 for a negative, law-and-order state. For that purpose it was admirably conceived. The honesty and assiduity of the Civil Service is really beyond reproach, and constitutes the basis of its reputation. In this it contrasts very favourably indeed with conditions abroad.

But all reforms or changes undertaken since the turn of the century made it less rather than more responsive to the demands of the new positive Welfare State. Almost all regular Civil Servants are recruited by competitive examination laying stress on intelligence. Expert knowledge, on the contrary, is not the basis of recruitment and is not encouraged by the system of training and promotion even as much as it was before 1914. Economists, for instance, are recruited into the Civil Service, as such, as either specialists or technicians only. Consequently they are under contract, not established and cannot in practice rise beyond a very limited rank (in theory they could rise to be Chief Advisers to the Government, which is a high rank, but these advisers have up till now been appointed from outside). People who have a degree in economics can, of course, enter the general service through the competitive examination, but they are not necessarily assigned to departments dealing with economics, and even if they are, their having studied economics will only be coincidental.

When the N.E.D.C. was established and a search was made for men in the Civil Service trained in economics, they were found generally in non-economic jobs and the respective departments refused to release them on the plea that this would interfere with their career. Immediately after the war, economists entering as economic advisers could get established. This practice, however, has been discontinued. The movement of administrators not merely from one part of the department to another, but between departments, has encouraged an approach to problems incompatible with the requirements of positive policy-making. The expert is subordinated to the non-expert whose attitude necessarily is coloured by his lack of real understanding.¹ The consequence is muddle.²

Safeguarding Existing Virtues: A Compromise Plan

It would be a pity if the constructive aspects of the present Civil Service organisation were to be destroyed. It should remain an independent corporate entity whose members enjoy security to safeguard independence of judgement. Its members should have a prospect of an honourable career. At the same time its present tight exclusiveness should be loosened (a one-sided loosening has already taken place inasmuch as a great number of high Civil Servants drift into directorships of important private companies). Expert knowledge

¹ When I say expert I mean expert. Nothing would be more futile than the substitution of "Snowesque" scientific dilettantes for "Bridgeian" humanistic amateurs. Dr. Beeching's example shows what happens when a distinguished metallurgist begins to dabble in welfare economics without prior training.

² There did not seem to be a non-service Ministry primarily concerned with the war which was not headed by an outsider by the end of the war. This surely is a terrible measure of failure of the 'regulars'. In the recent negotiations with the French technocrats, the sole British representative to stand up to the challenge was a war-time recruit from a university.
too, must be secured which is highly needed for the management of a modern Welfare State, in bitter competition with other countries.

The American system which replaces the Heads of Divisions with politically trusted experts whenever the Party in power changes, has worked much better than the British. Yet it has severe drawbacks.

A compromise between the American spoils system and the British organisation which puts the Minister unaided into the hands of officials who do not share his political views must be evolved:

**Short-term Measures**

It is no use to imagine that, in the short run, much more can be done than to bring in a number of experts and undertake certain reorganisation in the higher Civil Service structure. Only this could assure adequate consideration and positive elaboration of policies from the point of view of the government of the day:

Ministers in charge of large Departments must at least be armed with private offices and experts recruited from outside and dependent on the Minister.

**Advice to the Prime Minister and to the Cabinet on higher appointments in the service should be tendered by a Committee of Senior Civil Servants and not by a sole person.** In the main, shifts between Departments should be exceptional, and subject to detailed explanation to the Cabinet.

A similar reform might be rather useful in all major Departments: instead of single Permanent Secretaries the Minister might be advised by a Committee of equal permanent officials. Each of these Civil Servants, as in America, should be in charge of a part of the office (or certain functions if they can be separated).

In this way there is hope that the advice tendered will be informed and not merely inspired. The power-position between Ministers and Civil Servants will begin to approach the picture painted in constitutional fiction.

In addition, economists, who have had some academic training and research, should be recruited from outside into economic departments, and should be able to make their way into the highest reaches of the Civil Service at least as easily as anyone else. The present system by which highly trained men are put to deal with routine administrative matters is a waste of scarce resources which the country cannot afford.

Each Ministry should have a planning staff whose qualifications would have to include economic, statistical and historical and sociological knowledge. These people should only exceptionally be employed on non-planning jobs, though for a short period they obviously ought to be given practical experience in administration.

The policy that posts in nationalised or nationally owned industries are increasingly used to compensate retiring or displaced Civil Servants must also be ended. The American system, which demands Senate approval of important posts, has led to—though it has also prevented—much mischief. While its slavish imitation would be uncalled for, there is (also for other reasons) a good case for strengthening the House of Commons Committee established to supervise these industries and firms. They could be informed of appointments and given opportunities to ask questions. Much abuse
would automatically cease if appointments would have to be publicly justified.

The Long-Run Reform

The long-run requirements might be sifted by a well chosen Royal Commission, avoiding the dominance of the conventional wisdom which sees no need for any reform whatever.

(i) The qualifying competitive entrance examination might be left unchanged. Those who pass should enter a Staff College for a further two-year course. The teaching staff of this college should be part-time and consist of Civil Servants, of university people and possibly of industrialists. The syllabus of the Staff College should be different for different branches of the administration to be served. For the economic departments it must include public administration, economics, economic planning, problems of underdeveloped areas, history, especially constitutional and economic-social history and sociology. I do not think we could do better than to study the French reforms under Mendès France.

(ii) Final admission to the Civil Service would only be after a second competitive examination. This examination should include all relevant topics, e.g. economics, public administration, etc. There should be no objection if industry takes a portion of the young men who are successful.

(iii) Promotion should, as a rule, be within each of the large Departments of State or related Departments. The influence of the Treasury in promotions should be reduced because it has permeated the Civil Service in an undesirable manner.

(iv) A specific commission ought to be appointed to look into the problem of permitting people to move in or out of the Civil Service, either permanently or on the basis of secondment.

These measures might give a determined government the means of establishing control over the development of the country. As at present organised, the planning effort can hardly be successful.

Who Should Plan?

There is, finally, the problem of where to locate the planning unit. This question is difficult if not impossible to answer in the abstract. The personality, and relations, of Ministers, the situation existing at the time of the election, all this will go to influence the solution. The establishment of N.E.D.C., and the deep impact on attitudes it has been able to make despite its lack of powers, illustrates how foolish it is in these matters to anticipate solutions. Nevertheless some basic considerations can and must be undertaken.

As a result of a committee appointed under Lord Plowden at the end of an acute propaganda campaign for the more effective control of public expenditure, a complete reorganisation of the Treasury has taken place. Surprisingly, the main result was that the Treasury has, to a very large extent, lost its old-fashioned function of the watch-dog of expenditure, without acquiring, except in form, the essential new role of a planner of
resources. The old Supply Department, intent on the niggledy-nagglidy cheeseparing of the economy has disappeared completely. It has not been replaced by a Bureau of the Budget or a Treasury Ministry, i.e. by a long-term scientific control of the expenditure. A violent ultra-decentralisation has taken place which is almost as damaging and inappropriate as the centralisation was before. The financial directorates of individual departments are supposed now to be responsible for efficiency and economy. It is claimed that this new system is more scientific and appropriate than the American central control (also operated in Italy). That is, unfortunately, inaccurate. Within a department a critic can be made to conform on pain of unpopularity. Nor are financial directorates able to consult outside experts. Thus the first essential step towards the institutional implementation of a long-term plan is the re-creation of a central office of control—though not necessarily within the Treasury.

Assuring Harmonious Balance in Planning

The institutional arrangements of economic planning must assure a harmonious balance between expansionism and caution on the one hand, and, on the other, between physical programming and the supporting financial arrangements which mobilise the profit motive to help in its implementation.

For this purpose the present organisation of the Civil Service is inherently unfit. The last reorganisation of the Treasury attempted to solve this question by basing its structure on the principle of planning simultaneously for supply and demand, for income and expenditure. A complete, balanced, answer was to be found within the Treasury. This expedient is likely to fail, if it has not already done so, and this for two reasons. One is that a sufficiently drastic infusion of new blood and expert knowledge has not taken place. This could be remedied, however, without any structural change.

What makes such a structural change indispensable is the monolithic organisation of Government Departments which is forced upon the Civil Service structure by Cabinet responsibility. The Minister responsible for a Department is advised by the Permanent Secretary who ultimately concentrates in his hand the sum total of the official views which are rising up from below. It is he, an administrator, who sums up the argument, even if at some stage an expert is spatchcocked into the process. The fact that the Permanent Secretary himself often is no longer an expert and flits from one department to another has made it difficult for the Minister to be advised with professional knowledge. The monolithicism of the command structure of British Government means that the Minister will get an administrator’s advice. The Treasury’s main administrative task is to safeguard the balance of payments and monetary stability. In a conflict between expansion and reticence, reticence will always win within that Department.

Unless the expansionist, physical planning point of view, and the view of the economic expert can be matched against the Treasury at the highest level, planning will remain a limp affair, biased towards contraction rather

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1 That it permitted the publication of the Beeching Report shows the completeness of this failure.
2 However nominal that may have now become as a result of the factors so ably analysed by Mr. Richard Crossman in his foreword to the new edition of Bagehot’s *British Constitution*. 
than expansion. Yet to get balance it is equally necessary that there should be a powerful Department, paying primary attention to the requirements, especially of the balance of payments. The lesson of these considerations is quite clear. The Treasury should not be able to be the ultimate arbiter as between physical planning and expansion, and caution and financial considerations.

The Conservative Government, in extremis, supplied its own answer to this problem by creating N.E.D.C. outside the Treasury. This solution can hardly commend itself to a Socialist Government, however useful it might have been under the Tories, wedded to lassar-faire and financial 'soundness', dominated by the false belief that restrictive policies would both guarantee stability, and secure the balance of payments. N.E.D.C. has at last given body to the idea of expansion; it has been able to demonstrate the immense gains both in income and social benefits of an acceleration of the growth of the national income. Having performed this historic task its present function of devising detailed plans will have to be taken over and vastly expanded within the Governmental machine, by a Ministry of Expansion or Planning and Production. The N.E.D.C. itself, however, could continue to fulfil an important and useful function in scrutinising and advising (on the basis of the reports of its own independent expert advisers) on the adequacy and feasibility of these Government plans, before they are finalised and published. There is an immense psychological gain in the present eagerness of all concerned to participate in the work of N.E.D.C.—however futile it looks to the outside observer—and this eagerness should be preserved and harnessed to aid the real work of planning.

VI. The Wider Horizons

Social Unbalance

Up to this point our analysis, our diagnosis and even our policy recommendations go no further than those which any sensible Tory, like Sir Edward Boyle, could (and if left to himself would) accept. I do not think they would much boggle at the strictly functional extension of national ownership, though it would have to extend quite far in certain fields, e.g. urban land. This is quite natural. The immediate problem before the next Labour Government is to restore the efficiency and dynamism of the British economy. The measures needed for that particular purpose are, in many ways, similar to those policies which have been pursued during the war by the Coalition.

It is when it comes to ultimate human values, the final ends of economic activity, that the fissure is complete. The Tory ideal seems to reproduce as much as possible the present-day U.S. way of life as the result of 25 years of intense endeavour. Sir Edward, no doubt, would prefer Kennedy's America while Mr. Heath would incline more to the Humphrey-Eisenhower model. But essentially they would agree on the ultimate materialistic and

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1 Though this programme differs essentially from the 'Radical' pseudo-Keynesian approach. The latter regards taxation and monetary manipulation sufficient. The former insists on the need to modify the working of the price system by long-range planning, including an intelligent income policy and direct controls.
selfish nature of the only possible ends of human endeavour. It is here that the real divide arises between Tories and the Labour Party. For the Labour Party and, I am sure, the majority of the British people, the notion that the next 25 years should be spent at hard work in order to make Britain to approximate America of the present-day as closely as possible, with its spiritual insecurity, its lack of fulfilment, its neuroses and fears, its increasingly strident mass-conditioning, while social endeavour remains relatively backward, is surely a very unattractive prospect. The increase in potential productive power could be applied to far better purpose. We can and should learn much from the U.S., but not their way of life.

Now I do not believe that there can be much dispute about the first priority of a quickening of innovation and productivity in Britain. Without it, immense dangers threaten our social fabric. People will not for ever remain unmoved by the steady loss of power and international influence externally, or by the increase in social tension caused by the frustration of hopes for steadily improving standards. Social health requires far faster increase in productive power than of late.

But an acceleration of our expansion will not bring with it unquestioned satisfaction if it is stimulated mainly by the artificial creation of new needs rather than a balanced advance on a broad front. 'Psychological obsolescence' creates a sense of increasing frustration when the satisfaction of social needs is neglected. A tendency towards greater inequality, towards a relative reduction in collective consumption and an increase in conspicuous waste creates its own undoing. The increase in productive power, instead of being allocated to increased leisure, increased education and increased general amenity, without which leisure cannot be enjoyed, is concentrated on creating new individual material needs, creating discontent in order that the supply of these needs should provide outlets for new enterprises. Collective needs, because they demand collective resources, are discouraged, and intense propaganda is waged against 'molly-coddling' through better schools, hospitals, libraries, whose support demands high tax-revenue.

Domestic social tensions must inevitably be generated by the process of affluent growth and at once in two directions. On the one hand, the requirements of stability without controls imply a threat to, if not actual loss of, the livelihood of an increasing number. On the other hand collective wants are disregarded, while at the same time conspicuous consumption has to be artificially stimulated. A feeling of growing spiritual poverty and dissatisfaction as well as guilt, impatience and aggression is inevitable in the longer run.

A system which must rely for balance on consciously causing unemployment, hardship and insecurity to a large minority of the population, and which thrives on change, obsolescence and threat to economic survival, must also engender feelings of aggression, fear and envy respectively. If one fears and envies one's neighbour, how can one help feeling that envy and aggression are in the breast of those people less successful or less privileged than ourselves?

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1 Radical rethinkers were forced to extol the performance of the present economic system because they had to show that the Socialist criticism of capitalism had become invalid.

2 Professor Galbraith has analysed this trend with unsurpassed wit.
The richer and more successful the system, the greater the psychological malaise. In contrast to underdeveloped countries, where the consumption pattern of the rich expresses itself in maintaining vast hordes of retainers in domestic service and in the artisan class, the well-to-do in the 20th century surroundings cannot exhaust their income in this manner. Even the sort of extravagant expenditure which has been encouraged by the competitive spirit of a primary capitalist society in Victorian times is no longer available, because it is considered vulgar. Consequently a policy of retrenchment and reduction of taxes (falling mainly on the rich) must necessarily increase savings and reduce aggregate demand unless a mechanism is created to titillate consumption.

The problem of armaments must be considered in this context. Even Conservatives find it difficult to oppose large-scale government expenditure on defence. In the U.S., where Eisenhower attempted to cut defence expenditure to help to balance the budget, the defence bill was left at almost 10 per cent. of the gross national product, or more than two-thirds of total fixed investment. Since Mr. Kennedy’s ascension to power it has steadily risen, though unemployment could not be reduced below 5 per cent. Any serious cut would increase the difficulties of maintaining employment. This explains why the Democrats in America, who realise this implication of defence expenditure, are rather more prone to press for its increase. Without drastic changes in the economic system, disarmament will not be easy to manage—with the best of wills.

Thus the arguments for planning based on the need for faster expansion are compelling, but they need not lead to Socialist planning. Faster expansion could be accommodated without Socialism, without public enterprise or public ownership. It is—as it always was—on the moral and spiritual (or psychological) plane that the realisation of the insufficiency, and growingemptiness of a mere continuance of the present trends in the West leads one ever more insistently to Socialism.

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1 The extent of the psychological malaise is well attested by the fanciful attempts of conservative Americans to brand Communism as materialistic because they feel the abyss between their spiritual claims and basically materialistic aims. Professor Schlesinger, in his famous election broadside ‘The Big Decision,’ quotes Mr. Allen W. Dulles (head of the Central Intelligence Agency) testifying before the Joint Economic Committee: ‘Their is a materialistic society. They assign a low priority to those endeavours which would lead to a fuller life for their people. The attitude they take toward automobiles is a good illustration of this policy.’ As Professor Schlessinger says: ‘Under the consumer spending infatuation we have almost worked ourselves into the state of mind that what cannot pay for itself in the market is hardly worth doing at all ... The ultimate point of American life is not the choking of people with material luxury.’

2 If the socio-economic dogma of uncontrolled markets has imposed a growing unbalance and spiritual dissatisfaction even within rich and highly developed countries, its impact on the poorer areas has been disastrous. In the first place, the dismantling of direct controls has had more debilitating effects in the poorer than in the rich areas. I cannot discuss the problem of development in this context. The solution of the problem of international liquidity will help but far more is needed in domestic reform, planning and technical aid.

3 “Radical Rethinkers” have been driven by the logic of their argument to deny not only the importance of the social unbalance and of the drive to conspicuous waste (e.g. Mr. Crosland’s ambivalence to Professor Galbraith’s analysis is most amusing. (The Conservative Enemy, pp. 97 and 133) but also the influence of

footnote continued on following page
Taxation as the Panacea

Planning in this sense of liberating the energies of the people towards leisure and its more enjoyable utilisation, the provision of a pleasant atmosphere and environment, a deliberate reduction of competitive tensions, all these are difficult to conceive without a very important extension of some type of social ownership in the highly industrialised, rich areas.

It has been suggested with increasing insistence, and, one may say, with impatience,¹ that the basic malaise could be cured by a comprehensive system of redistributive taxation both in rich and poor countries. I have not in this paper discussed tax reform at length and this for two reasons. In the first place taxation has received full attention in two recent Fabian pamphlets,² and I could add little to that discussion. I share the view that some redistributive taxation leading to a large increase in the share of the budget surplus in new savings seems indispensable for a balanced policy for stability. Tightening of our tax laws, elimination of a number of loopholes especially in surtax and death duties, is called for. A wealth tax and a capital gains and a gift tax based on the wealth of the recipient, if their introduction is well timed so as not to interfere with the paramount aim of expansion, would represent valuable additions to our fiscal armoury.

But I do not believe that, in the words of Tawney, the tiger of private property has turned into an onion recently, which can conveniently be skinned leaf by leaf. The claws remain. And they will resist skinning!

It is not just by mistake that tax-reforms in underdeveloped areas have resulted in riots instigated by those affected and participated in by those who would have benefited. A revolution by taxation is not an experience which has as yet been witnessed. Incentive cannot be diminished beyond a certain limit without diminishing drive, and it is foolish to expect that private enterprise would or even could remain as enterprising after, as it was before, redistributive taxation was introduced.³

An elite left in command of the decisive part of the economic system can bend the system in such a way as to escape taxation and, if it comes to the worst, defeat a democratically elected government subject to re-election. In as much as in opulent communities people in acute material poverty and distress represent a shrinking proportion, these campaigns may well be increasingly successful politically. The number of materially satisfied people who have compassion or guilt-feelings about the fate of their less privileged fellows is, psychologically speaking not overly important. Thus general pro-

¹ e.g. N. Kaldor in the "Foreign Affairs" and "African Review".
² J. R. Sargent, op. cit. and Bruce Millan "Taxes for a Prosperous Society".
³ It is characteristic that the majority of the "tax-radicals" were also in favour of Britain's entry into the Common Market which would have made their tax proposals impossible so long as Germany, France and Italy did not follow suit as otherwise an immediate mass export of capital from Britain to the continent would have ensued and its control would have been prohibited by the Rome Treaties.
gress might easily undermine the drive towards equality and the recognition of material duties to other human beings which was the characteristic of Western ethics at the very moment when its fulfilment is within practical possibility.

Professor Galbraith has with acute perception seen this menace of growing callousness. He hoped to escape from it by shifting from taxing income—which is personal and arouses feelings of being hemmed in and curtailed in security, enjoyment and power by an overarching State—to the more painless, because more surreptitious, extraction of the necessary resources by taxing expenditure, by taxing purchases. It is unlikely that such general sales taxes will be resented less than direct taxes, in democratic countries if they are sufficiently heavy to contribute materially to the solution of the problem of safeguarding social balance.

The persistent and successful agitation in Britain against certain specific taxes, e.g. on beer or petrol shows that vested interests would turn their hostility to such taxes, which, they might claim, to be the source of any ill-success in selling their products. General and uniform sales taxes will be especially resented by declining industries. Their uniformity would soon be breached, especially in periods of declining activity, in favour of one or another especially hard hit, branch. The fact that the relatively negligible amounts which have been extracted in this way by U.S. territorial units, states and cities have not aroused resentment and opposition, is no guide to what would happen if people's personal consumption were appreciably curtailed in this way. They would soon be persuaded to protest.

I do not believe that there exists a short cut in the field of taxation to reconcile the basic schizophrenia of the individual taxpayer against taxes which he knows in his better mind must be exacted and paid. Thus there is amidst growing opulence, and increasing capacity to bear the "burden" of taxes, an increasingly vehement agitation against taxes. Yet their burden over bad years and good is objectively far less now than it was when the momentum of State finance did not stabilise national and personal incomes in case of setbacks and impart to them buoyancy which has been able to overcome such setbacks quickly. The relative steadiness of the growth of income ought to, but does not, contribute to the willingness to bear taxation.

In an economy with decentralised decision making and atomistically fragmented risk bearing, the effective taxation falling on profits must be kept in due relation to risk, and can only be increased as risk is diminished.

In both the U.S. and Britain this agitation has made progress and might impart to the political machines a sharpened bias against collective spending at the precise moment when internal and international requirements urgently counsel a marked increase, in order to meet the material and psychological challenge of the totally-planned system.

In particular, hopes that an American type of high-pressure salesmanship consumption democracy managed by a minority is compatible with a ruth-

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1 A general sales tax is in fact the way in which the Soviet secures a large part of the vast resources it retains for investment. In this the Soviet acts quite consistently with their principles as they determine the income of individuals deliberately and could change its distribution without recourse to taxation by simple fiat. Under those conditions progressive income taxes would merely attest a failure in planning.

2 Cf. the brilliant analysis of these difficulties by Mr. A. Bevan, Fabian Tract
less combination of taxes on income, expenditure, and especially on wealth, represent a dangerous illusion. If these taxes are not avoided and if capital is not exported to a degree that will irretrievably weaken the economy, the inertia which is in any case a severe handicap to the British industrial future will be further solidified. High taxation without ultimate control promises either a spiv economy based on evasion, or relative decline.

Nor has it been explained how this combination of equality enforced by taxation on an elite retaining its ultimate control on management is compatible with the sharp decline of private ownership which is necessary to diminish the share of unearned income and incremental wealth. For a time the negative private savings, i.e. large budget surpluses out of tax payments more than offsetting net savings, can be “absorbed” by the repayment of the national debt. But how is risk-bearing capital to be reconstituted?

The “revisionist” case for a tax-dominated mixed economy thus seems ill-thought out: it appears, of course, very desirable at the moment when continued inflation and large tax concessions have encouraged a growing circle of investors to fly into equities and rendered gilt-edged financing increasingly difficult and expensive. But its protagonists show their lack of imagination if they project the current discontents in the U.S. and Britain into a situation in which a remorseless liquidation of equity holdings due to tax payments is combined with a growing demand for new venture-capital. The vast accumulation of the first Rooseveltian social insurance scheme, which would have resulted in the fund formed holding within 20 years some 70 or 80 per cent of the National Debt, gives some indication of the implication of such proposals. Who except the State would be able to take up new equity capital and ensure risk-bearing? If this is so, would it not harm confidence less if public enterprise were limited to certain specific fields rather than be diffused in an unplanned way.

In less developed areas this problem of the social balance could be handled by direct controls rather than social ownership. There the prohibition of imports of conspicuously wasteful durables, and the strict use of licensing laws to prevent the premature production in small quantities of such goods for the delectation of the few, could in fact assure a consumption pattern more in line with the requirements of an accelerated growth of the investment capacity and thus the capacity to provide employment at tolerable income levels for a growing population. Without any doubt, one of the most disheartening developments of the post-war period in Latin America has been the premature establishment of rather inefficient luxury industries whose very being saps investment capacity and this perpetuates the present dreadful discrepancies in the standard of life of the different classes. The process is about to be repeated in Africa and in Asia. It has as yet only been checked in India. Even there the so-called “popular car” project shows that people are completely unaware of the task and purpose of public ownership in accelerating and concentrating the nation’s economic effort.

In highly developed areas this indirect solution seems impossible. Here we already have a great array of industries whose products serve to impress one’s fellow beings. Direct controls could not attain the end of providing a greater social balance. Both equality of income distribution and the lessening of the undesirable aspects of product differentiation could not be attained without social ownership.
VII. Expansion, Social Balance and Public Ownership

An alternative method to taxation of sustaining socially essential or desirable expenditure, which would not consciously impinge on the individual and maintain a desirable income structure, would be to use the profits of publicly-owned industries to finance it. Railways were so used in a number of Continental countries in the period of their prosperity before 1914. State mines, forests and farms, and certain monopolies such as salt or tobacco, served the same purpose from medieval times onwards.

Expansion and Stability

The immense advantage on the productive front of a massive publicly-owned sector in being able to stabilise economic expansion and provide for reserves, as well as for sufficient research and the quick diffusion of results, has been discussed. In addition there are a number of further and increasingly weighty arguments resting on its active role in support of the maintenance of social balance. A fully employed prosperous economy obviouslylavishly pours forth profits. Their utilisation for communal purposes would immensely facilitate the maintenance of social balance, without having to encroach on the incomes of the voters.

There is an obverse and equally important aspect. In the increase in profits itself there is a rising portion which objectively no longer has economic justification. We have seen that State planning, or at least the co-ordination, of investment plans on a national scale are needed because the decisions of single entrepreneurs are necessarily depressed below the socially desirable level by the fear that he might not obtain the full benefit from the addition of investment. Nor are voluntary savings encouraged commensurably to the actual total increase of social income resulting from the investment they would facilitate. The entrepreneur reacts by undertaking only relatively high-yielding projects. In this hesitancy, which represents a legitimate private assurance against a surfeit of markets, there is a source of excess profits under conditions in which the State initiates measures to limit losses due to slumps, but the risk of which all wise single entrepreneurs have to take into account. Thus objectively the community has to pay for the reinsurance of risks which no longer exist, or are considerably reduced. Thus a portion of profits earned are no longer objectively justified. They are, so to speak, quasi-rents due to Government stabilisation of activity.

Nor is this all. The rise in profits precipitates and multiplies itself in capital gains which can be mobilised for consumption or further speculative ventures. Capital gains also contribute to the spirit of free-for-all which is incompatible with steadiness of progress. Such a scramble at high employment

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1 The case of the electricity industry is striking. The fact that in Britain most “nationalised” industries were run at no profit or at heavy deficit has clouded this aspect of the problem. Assiduous hostile propaganda did the rest. The number of highly profitable State operated industrial units in the Continent is remarkable.

2 As we have argued this enables the imposition of higher taxation without deleterious effects on entrepreneurs. It is unlikely, however, that the whole of this additional profit can in fact be taxed away.
levels means price instability. Price stability could only be attained if unemployment were to be crushing or if confidence could be established in a purposively just distribution of income. Thus public ownership might effectively contribute to limiting the extent of speculative fluctuations which have returned to plague economic policy which tries to promote stable expansion. Public ownership by preventing a cumulative increase of unearned income and thus of inequality reduces the need for punitive taxation which is liable to distort and reduce the effectiveness of the economy. It is a moot point which is potentially more liable to be made unpopular by skilled salesman of political slogans; but taxation could not possibly serve as a full substitute for public ownership in a programme of stabilising a purposely willed rate of growth.

Public Ownership and Distribution

There is a further point still on the same plans of argument. So long as public ownership is a small minority sector of industry, it either accepts the tone of the private sector or loses its capacity to attract people without a particular sense of dedication. It would be foolish, however, to expect that a sense of dedication to serve the community could possibly be the basis for all the numbers of people needed. Publicly-owned industry, conducted on much the same principles as any other, existing within a vastly larger private sector (which enjoys lavishly opulent remunerations), does not offer much spiritual satisfaction—even if the recruitment at the top were completely altered. It had been badly mismanaged by promoting, retiring or failed Civil Servants and generals at the inception and has not much improved since. In the longer run publicly-owned industry must provide the sort of remuneration which is offered generally or take the consequences in terms of declining managerial ability. Thus the important social function of public enterprise would be lost, helping to modify the income pattern of the community in the sense of greater equality.

The argument that managerial salaries must be absolutely high to obtain efficient management can not be fully substantiated from the British experience though material incentives in terms of bonuses certainly play an important role in harmonising managerial and ownership interests—if they ever diverged as much as is sometimes suggested. In this context it suffices to emphasise that it is the relativity of incomes that matters. So long as the publicly-owned sector remains limited and specialised it is more than unlikely that it can influence the pattern of income distribution and thus lessen the demands for a distorting and punitive kind of direct taxation.

Public Ownership and Accountability

This absence of a sense of change, the continuation of a largely privately controlled economy, moreover, is to some extent responsible for the admitted failure of public ownership in Britain to change industrial relations in the industries taken over—except perhaps coal, where despite the prevalence of unofficial strikes, the miners during the acute shortage of labour until 1956 have behaved with an admirable sense of responsibility which would not have been possible if coal prices had shot up and vast profits had been made by private industry. This aspect of nationalisation has consistently been distorted by self-interested critics, who at one and the same time tried to indict
the nationalised coal industry for charging too little to its customers and being too ‘soft’ in granting wage increases and being forced to increase prices.

No doubt the general tone of management, the continuity of personnel, the failure to achieve visible changes in approach, were more important reasons for the disappointing performance in publicly-owned industry. No doubt also these industries were (except perhaps electricity, owing to the personality of its head) the recurrent victims of economic policy and of the failure of planning, which expressed itself in more than proportionate cuts in the public sector which was more easily controlled. A new departure in the sense of a better selection of managerial personnel, greater degree of accountability is needed—and easily possible.

A Change in the Profit Motive?

The suggestion that the ruthlessness of the profit motive has ceased to govern capitalism seems a misleading way of stating an important development. We have seen that with increasing size of firms—and a very greatly increased financial concentration through the rise of industrial groups—and increasing demand manipulation and consequentially necessary product differentiation, the technique of reaping the greatest profit alters. Small isolated factories no longer work for anonymous markets dominated by export wholesalers out to squeeze the last penny of profit, as in the 19th century. Manufacturers are identifiable and can be made responsible. They must safeguard their goodwill, built up by careful advertising. Snatching of short-run profits would defeat itself. This can be described as a more social attitude. What it really amounts to is an adaptation of large scale organisations to the political exigences of the moment.

But the same development enables them to control their markets. It is not the rise of the great corporations as the result of technical change as such which has accomplished this, but the reduction of the numbers of competing firms, the preponderance of the few big ones. The great German family firms more than ever dominating the heaviest industry, the Krupp, the Thyssens and Klockners, or even the Japanese family combines, do not in this respect (they differ in efficiency) behave differently from the British combines manned by a mixture of nice peers, ex-civil servants and ex-public school boys with good connections. This sharply reduces the capacity of the price-mechanism to co-ordinate decentralised investment plans in the most efficient way.

On the other hand the change in the market economy must not be overstated. Speculative hoarding of commodities for private gain, without much regard to its social consequences continues. The seasonal (as against the year-to-year or longer-term) instability of primary product prices which has no conceivable function of guiding producers to optimum production, has actually increased since before the war. Nor is it true that ownership does not give unearned increments of wealth or that profits are not snatched whenever there is anything to snatch. The real-estate speculation in all great cities of the non-Soviet orbit shows how wrong it is to think of a basic change in the character of ownership as against the change in the technical character of production and selling, which forces adaptation in the manufacturing, and even distributive, sectors of the economy. Where
there is no such change, the character of the system remains much as it was in the last century.

The relevance of these observations has been attested by the developments in American television. Instead of selling chalk for flour, or cheating on the issue of shares, as some of the 19th century tycoons have been known to do, or demanding, like the elder Rockefeller, rebates on the turnover of his competitors from the railways, and thus ruining them, or forming huge holding companies whose shares represented little if any real worth; instead of these manifestations of the competitive urge à l'outrance we now find cheating on that point which is now the most vitally important, i.e. advertising, and at the point in which advertising is most potent, i.e. television. The pious resolutions of reform are of little avail. The pressure in an economy based on individual risk-bearing to shift the risk by successful selling is so vast that self-restraint must break down. It becomes a question of not being found out. It is not that the profit motive has become tamed. The structure of industry has changed.

**Profits or Preoccupation With Production?**

In his brilliant analysis of the problem of the ‘affluent society,’ Professor Galbraith lays much emphasis not merely on the inherent tendency towards a basic misuse of resources, the neglect of urgent collective wants, but also on the paramount position of production, which, in his view, is due to irrational adherence to ‘conventional wisdom’. The ever insistent ‘concern for production’ is a result of the economics of scarcity; ‘The ancient preoccupations of economic life—with equality, security and productivity—have now narrowed down to a preoccupation with productivity and production. Production has become the solvent of tensions. . . .’ He goes on to the proposal, already discussed, to deal with social unbalance through indirect taxation, suggests that this preoccupation with production could be eliminated—through largely increased unemployment benefits. Once leisure and good income can be vouchsafed, more need to press for higher production. Here is a brilliantly simple suggestion for solution of contemporary problems.

In fact it is perhaps too simple a solution. It might be superficially correct to say that everybody seems concerned with higher production when, in fact, we do not need it. But this concern is neither universal nor does it on close inspection go very deeply. It is not merely the employment and income of the many which is at stake. The creation of wants or dissatisfaction is not merely an indirect Calvinist way of providing works programmes to minimise unemployment. It is an inevitable consequence of the paramountcy of profits which is at the centre of the system. Inasmuch as Professor Galbraith’s proposals would leave profits severely menaced, they are doomed to failure in our society, just as Keynes was doomed to failure when he exhorted the bankers of the world to ‘save themselves’—when they, in fact, were making sure that their dominance would continue—at the cost of harsh but inevitable losses. In fact the ‘preoccupation’ with ‘increasing production’ is not very

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3 Essays in persuasion exp. p.178. Keynes never understood the sociological justification of monetary inanity. The efforts of the I.M.F., especially in South America, can be similarly explained.
obtrusive in the oral tribal magic and mystic ritual of the monetary counter-reformers, the worshippers of dear money and balanced budgets whose voice has become so shrilly importunate—and disastrously successful. They prefer losses and unemployment to the waning of the power of the financial veto over economic policy. They hope, incidentally, that in this way the threat to the share of profits in the national income, the threat of unearned wages, will be eliminated.

Each individual firm, moreover, however large, still has its own problems and risks to face. These risks, no doubt, are far less than was the case when all or at least most firms were small and faced with an overwhelming and unmanageable impersonal market. The immense casualty rate of small business in America and Britain gives at any rate an impression of the sort of risks that were faced—though, of course, they are influenced by the fact that most small business is now in the retail trade or building, which have peculiar problems. But the risk is there and it is only diminished by purposive action which weakens the only feature of an individualist economy which is claimed to establish the superiority of the system over central planning. There is no longer an impersonal market giving unmistakable and absolute directions to entrepreneurs who have no choice.

In industries which are inconspicuous, or where public opinion seems to have been persuaded by sufficiently expensive campaigns, such as petroleum in Texas and coal in Illinois, or textiles in New England and Lancashire, or steel or machine tools in Britain, an active restriction of output or a continuous failure of expansion is in order, despite the immense dangers which shortages mean for the community (and, to some extent, even for the individual firm). We have already pointed to the relative inferiority of countries whose economy is based on decentralised decision-making because their units cannot at all, or only to a limited degree, make use of the objectively available technical possibilities for expanding production—even though these technical possibilities would, in retrospect, turn out to be economically sound.

The feverish drive to manipulate consumers’ demand, the product differentiation and fragmentation of production into different types, the reluctance to embark on too rapid an expansion, especially in the basic industries in which demand is more unstable—all these characteristics of a mature economy based on mass-consumption render that economy less capable of matching the performance of a centrally planned economy. Conversely, they represent the new guise of the age-old problem of an economy based on private ownership and production for profit in contrast to need. So long as there is no means by which losses can be equalised, or rather borne by the community, it is difficult, if not impossible, to prohibit measures which reduce risks and increase profit, unless they are socially directly noxious, as, e.g. the sale of dangerous drugs. But as we have shown, there are a host of other practices which are perhaps more damaging to social integration and harmony or to individual satisfaction and human progress than medically dangerous drugs. The purposive creation of dissatisfaction; the stimulus to status-seeking through conspicuous consumption; the incitement to create social differences working on the knowledge which modern psychology has unearthed; the playing on the sense of insecurity to encourage the desire of people to identify themselves
with groups which are outwardly full of goodwill but fiercely competitive in reality; the use of human frailty for profit-making purposes when concentrated educational and psycho-therapeutical drives would be needed to mitigate them; all this seems inevitable in a system of fragmented risk-bearing.

It would not be impossible to reduce the need for these defensive actions by State guarantees of profit. Indeed, certain types of risk-bearing, including, e.g. the choice of geographic location for social reasons (as in the British motor industry) or the provision of reserve productive capacity thought to be too risky (as in the British steel industry) or agricultural production (in both the U.S. and U.K.) have been encouraged by the State providing finance or guarantees. Once such guarantees are given how can profits be justified by ‘progressive’ writers?

These three aspects—the feverish creation of want, the attempt to avoid collective control and the incapacity of the individualist economy with atomistic risk-bearing—to make use of technical possibilities—point to the basically unchanged character of the capitalist system. It remains as it was: production is not for use, not for increasing the potentialities of man, but to increase long-run individual profits relative to the risk undertaken.

Once this is realised, most of what appears to Professor Galbraith irrational, becomes comprehensible in the terms of the elite itself, if not the mass of the people. For, let there be no doubt about this, in the short-run (and if we disregard the effects of the Soviet challenge on our economy, this short-run is not so very short) there is no harmony of interest in all this. The interests of the workers who do not enjoy economic freedom, except in an indirect sense through full-employment-bargaining-power and the political influence of their votes on government policy, and the owners and managers who do, are in fundamental conflict. Unless, moreover, we assume, and it is customary, though illegitimate, to do so, that public ownership would necessarily result in a greater degree of limitation over Trade Unions than would be needed in a free market economy to ensure the identical degree of stability, this conflict will persist: for the material advantages to Labour of a publicly-owned industry which is not beset by these handicaps is manifest.

Moreover the present system, in its choice of its elite, its encouragement of certain types and of certain behaviour, seems increasingly to combine the bureaucratic “organisation man” of the fully planned economy with the unattractive features of the acquisitive society intent on making profits (and increasingly also to reduce the incidence of taxation). Within the great corporations the recruitment favours the good family buttressed by the right school, the select university (and, in the U.S., the fraternity) and last, but not least, the right views. The promotion follows a pattern which seems to favour technical competence, conformity and amenability; to be easy-to-get-on-with seems far more important than inventiveness or, horrible dictu, originality. In this the private enterprise system has lurched nearer to the State bureaucracy of its totally planned competitor without acquiring their great virtues, the limitation of material incentives, or its greater economic cohesion.

In the half-shade of the giants, on the other hand, there is now—as there was even under the disapproving eye of the late medieval Church—ample
field for the speculators and buccaneers. To some extent they are necessary even for the functioning of the system. They provide finance for ventures which are overlooked by the respectable organisations. They mobilise and utilise money which for one reason or another the large trade organisation failed to exploit. At the same time their success will be due to making scarcity tighter, and magnifying by their speculative activity the destructive effects of over-abundance. Their profit-seeking is partly inimical to stability and contrary to the social priorities of using natural resources, especially urban land. Thus the mixture between the stereotyped respectable mediocrity and the squalid vulgarity of the speculator will hardly commend itself to either the aesthetics or the ethics of Western tradition.

VIII. Some Conclusions

The conclusion is irresistible that the present trends in the opulent part of the non-Communist world lead towards technical inferiority and spiritual weakness in the face of the Soviet challenge. It may well be that a relapse to barbarous repression or ruthless duplicity, of which the Communists have so often given proof, will restore our morale by sheer negative revulsion. It would not be advisable to rely on the errors or vices of the opponents to sustain one's own cause, especially in the non-committed areas where our own contradiction between ideals and reality is exposed to counterattack, and where the complete lack of economic freedom has in practice undermined or nullified personal, fundamental political liberty, even in areas where liberty is, in principle at least, accepted.

A certain freedom of choice exists even within the rather narrow constraint of having to meet a challenge about the formidable nature of which there must no longer be any doubt or equivocation. Some of the important causes of the technical inferiority, which must be eliminated if the centrally-planned systems are to be matched, are not in principle inherent in the private enterprise system as such. They could be solved without doing violence to basic human rights or changing the character of the system. An increase in the rate of investment and economic growth in most parts of the non-Soviet orbit would seem one of these preconditions. A closer supervision, indeed regulation, of the ways in which demand is influenced is another. Stability and progress could be reconciled if a more conscious, more deliberate and more rational way could be found of distributing national income and of financing the satisfaction of needs which can only be satisfied collectively.

Beyond this technical minimum programme there remains a further basic moral issue. Even a more conscious control of the economy, a considerable extension of public ownership, will still leave us appreciable, indeed a major part of the economy in private hands actuated by the profit motive. While a well-managed, responsible public sector, would undoubtedly act as an important restraint on its present abusive forms, there can be no doubt that a number of people—not perhaps too large nor, at first, influential—will feel dissatisfied with the growing spiritual emptiness which this type of economy must generate with increasing wealth. For these people only the achievement of full Socialism, the purposive education
towards a less competitive, less materialistically conditioned state of existence can bring fulfilment. Equality of opportunity implies a more equal distribution of the command over resources. This cannot be fully achieved so long as a considerable part of the national income accrues to property and is subject to inheritance.

Nor is a socially integrated society conceivable without a decisive change in this direction. The supremacy of social over private interest cannot be safeguarded so long as the latter are entrenched in property rights over resources which would be needed to make social interests effective. In particular it is not possible to exact by taxation a sufficiently large portion of national output to secure that the pattern of investment (and the conservation of resources, including amenities in the country and in towns) should be determined by public interest, thoroughly discussed and investigated, with due safeguards to individual rights. The main stream of public opinion in the West, far from promoting the creation of the preconditions needed for an outcome favourable to democracy, is marshalled in a diametrically opposite direction by advertising campaigns. There has been insistent propaganda in favour of restoring the sway of the uncontrolled working of the price mechanism in ‘free’ markets acting through the profit motive and of foreshewing even Keynesian methods of stabilisation.

We have thus come to a picture of a partially planned economy in which social balance and a more equal distribution of income is sustained by a considerable public sector. In this sector, managerial remuneration can be kept at a desirably lower level relative to wages. Better conditions of work, the provision of leisure and its full enjoyment could be far more quickly promoted by resources freed by the avoidance of continuous stimulation of new wants, now needed to keep the economy moving. For the remaining private sector some direct controls over the location of industry and over profit margins will have to be combined with redistributive taxation which will have to be kept, and can be kept, at a level somewhat higher than at present because under conditions of steady full employment and growth. When risks are substantially reduced such taxation will not affect the mainspring of investment decisions. A better social balance, more satisfaction could be obtained from a steadily growing capacity to produce. Overall foreign exchange controls, or, alternatively and preferably, international monetary reform and intensive international co-operation would keep external payments of the non-Soviet world in balance without periodically having to depress investment and demand, and to create unemployment. A growing portion of the national income of the ever more opulent countries could be devoted to support the well planned development of the poor areas. Britain, in particular, will have to devote far more to sustain the growth of these Commonwealth countries to which it owes moral obligations and will have to end her opposition to the stabilisation of the price of primary produce, food and raw materials, at reasonable levels.

I have no doubt that such a system could attain both moral and material superiority over the totally planned economics vigorously impelled forward by State fiat. Nothing less will do.

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1 The burden of this help could be decreased by the common acceptance of the need of a coherent planning of trade—unless international monetary reform renders this unnecessary.
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