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PRINCIPLES
OF
ECONOMIC PLANNING

BY
G. D. H. COLE

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PREFACE

THE writing of this book has given me far more trouble than I bargained for when I began it. I had not got far with it before I began to see clearly enough where the main difficulties would arise. It would not be hard either to expose the shortcomings of a planless economy or to expound the underlying principles of economic planning in a purely theoretical way. But I doubted whether a purely theoretical exposition would afford much practical help to a world in distress; and in fact I ended by discarding altogether from the present volume those chapters in which I had endeavoured to work out some of the more intricate theoretical problems of a planned Socialist economy. I had prepared, for example, chapters dealing in some detail with the theoretical basis of pricing commodities under a planned system of production, with the structure of a Socialist Budget under a complete system of planning, and with the methods of financing intermediate transactions in an economy based on a planned distribution of incomes and a collective method of accumulating capital. But in the end I discarded all these, as matters likely at present to interest only a fraction of the readers to whom a book on economic planning in its broader aspects is likely to appeal. I did not want to be more technical than it was absolutely necessary to be; and I felt more hope of writing usefully about these issues if I could first get

certain of the more elementary principles of a planned economy plainly stated and understood.

I wanted, however, to deal not only with the principles of planning, but also with the methods of applying them and the machinery which a planned economy would have to create for the control of its affairs. Here a further difficulty at once confronted me. The economic machinery of any society is bound to bear a close relation to its political machinery, both national and local; and this applies most of all to a society which sets out to plan its economic life under a system of collective control. The economic structure of such a society must be closely co-ordinated with its political structure; for at a host of points these two are bound to touch and intersect. This being so, it is impossible to define the machinery of economic planning without making assumptions about the political structure to which it is to be related. For example, if the parliamentary system remains in being the economic machine must be so adjusted as to fit in with the conditions of final parliamentary control, and with a Cabinet system of government deriving its authority, at any rate in theory, from a sovereign Parliament. If, on the other hand, this assumption is not made, at once a host of different possibilities, from Sovietism and Syndicalism to Fascism and Syndicalism, is opened up. But to consider all these endless possibilities would involve writing a book, not about economic planning, but about the future of politics as well as industry; and such a book would either have to be several times as long as this one, or necessarily fail to come to grips with the problems of economic planning with which it was originally designed to deal. I cut the knot, and limited the size of my book, by assuming that

planning was to be introduced under a parliamentary system, modified in such a way as to make possible the handling of the greatly increased range of public activities which the institution of a planned economy would be bound to involve. Similarly, I assumed a local government structure of the same order as that which at present exists, though here again I had to admit considerable modifications arising out of the expanded scope of collective organisation and control.

These two assumptions in effect involved a third—the institution of a planned economy by means, not of a violent revolution carrying with it the complete overthrow of the established forms of political organisation, but of constitutional action through the use of these established forms of organisation in a new way, and for an essentially new purpose. This assumption, too, I had to leave undiscussed because I could not have considered its implications without writing yet another book. But I felt that I was justified in making the assumption because there is in fact no possible doubt that the great mass of those who desire to change the basis of the existing economic order in Great Britain hope to achieve this change by constitutional methods and not by revolution. Conceivably at some future time, as a result of events either in Great Britain or in the outside world, this attitude may change. But it undoubtedly exists to-day, and must be taken as a datum by anyone who is writing about economic policy with the existing situation in view. I do not think myself that it is likely to change speedily save as the result of the impact of forces from outside Great Britain. For although British Capitalism is in decay, it remains strong enough to carry on without

positive breakdown for a long time yet, unless there is a decisive worsening of world conditions.

In the past few years the British economic system has shown very clearly its strength in standing up to acute world depression and dislocation of the financial machine. We have been able to lose a substantial part of our foreign trade and of our receipts from overseas investments without any sharp fall in the standard of living, except for the unemployed section of the people; and already there has been at least some small recovery from the conditions of 1931. In these circumstances I see no reason to suppose that the British economic system is of its own momentum approaching a crisis likely to bring about a dramatic collapse. I do see reason to suppose that intensified conditions of international competition will make it progressively harder to raise the standard of living of the British workers, and may cause this standard to be positively depressed. I do see reason to suppose that the problem of unemployment will be found insoluble within the limitations of capitalist industry. But these forces, dangerous and powerful as they are, are not by themselves enough to bring about a positively revolutionary situation. If such a situation does arise, it is far more likely to come either through complete collapse elsewhere, carrying with it the destruction of British export trade on such a scale as to make impossible the purchase of the minimum of imports required for preserving the standard of living at a tolerable level, or, more probably, as a result of renewed world war.

But it is not very profitable to discuss, in the present state of mind of the British public, including the British Socialist public, what would happen if, from

PREFACE

ix

either of these causes, a decisively revolutionary situation did emerge in this country. At any rate I have not regarded the discussion of these possibilities as falling within the scope of the present book, which I accordingly present to my readers, not as an account of how planning would have to be introduced into Great Britain or into any other country in face of a complete collapse of both the economic and the political institutions of Capitalism, but rather as an outline of the problem as it meets us here and now—compelled as we are under the existing conditions to make a choice between working for the revival of private enterprise on the old lines and attempting to substitute a different economic system designed to unloose the chained up forces of production and to give to the entire people a wider and more abundant life.

NOTE

The questions discussed in this book have been further developed in some of their aspects in certain of my other writings—notably (1) *Studies in World Economics* (1934), (2) *Economic Tracts for the Times* (1932), and (3) *The Next Ten Years in British Social and Economic Policy* (1929). Further aspects are dealt with in (4) *British Trade and Industry* (1932), (5) *The Intelligent Man's Guide through World Chaos* (1932), and (6) *What Everybody Wants to Know about Money* (1933). The principal related studies are listed below, the number following the title indicating in which of the above books the further treatment is to be found.

CHAPTERS

I and II

Our Unused Wealth (1), *The World Crisis* (5).

CHAPTERS

- III and IV . . . *Economics in the Modern World* (1),
A Note on Laissez-faire (1), *Towards
a New Economic Theory* (2).
- V and VI . . . *The New Capitalism* (3), *Rationalisa-
tion* (3).
- VII and VIII *Public Opinion and Monetary Policy*
(2), *Why and How We must Socialise
the Banks* (2), *The Socialisation of
Banking* (6), *The Monetary Factor—
and the Other Factors* (6), *Banks and
Credit* (3).
- IX *The World Economic Outlook* (2), *The
Problem of Consumers' Credit* (1),
*Wages, Family Allowances and Popu-
lation* (3).
- X *The Planning of International Trade* (1),
*Free Trade, Tariffs, and the Alterna-
tive* (2). See also *British Trade and
Industry* (4) passim.
- XI *Socialisation* (1), *Socialisation* (3), *The
Essentials of Socialisation* (2), *Public
and Semi-public Concerns* (2).
- XII *Workers' Control* (3). See also my *Self-
Government in Industry* (1917), *Guild
Socialism Re-stated* (1920) and the
pamphlet *Workers' Control and Self-
Government in Industry* (with W.
Mellor, New Fabian Research Bureau,
1933).
- XIII and XIV *British Trade and Industry* (4) passim.

SUMMARY

CHAPTER I

WHY DO WE NEED A PLAN?	PAGE 1
----------------------------------	-----------

The power to produce has outrun the organisation of consuming power—The contrast between leisure and unemployment—The nature of mechanised labour—The fate of the unemployed—New slums for old—Industry and "The City"—The money power—The attitude of the economists—And of the technicians and managers—The "money-man" and the "machine-man"—Profits *versus* plenty—The art of money-spinning—The course of interest-rates—The religion of Capitalism—The "machine-men's" grievance—Planning without Socialism?

CHAPTER II

THE RESOURCES OF PRODUCTION	17
---------------------------------------	----

What are the resources of production?—Human resources—Natural resources—Capital resources—"Men using things"—Specialised and unspecialised resources—The effects of mechanisation—The resources of production do not constitute an arithmetical sum—The adaptability of resources—The durability of capital goods—Varying adaptability of different parts of the economic structure—The case of agriculture—Productive resources must be related to wants—Obsolete productive resources—The economics of obsolescence—Obsolescence of labour—How hard are we prepared to work?—The claims made on behalf of the price system.

CHAPTER III

PRODUCTION AND DISTRIBUTION IN A "FREE MARKET"	33
--	----

A Plan is a way of distributing productive resources—What is a "right" distribution?—The test of "effective demand"—

Limits to its application—Individual wants and social needs—How State action affects demand—By making things cheap or dear—By altering the distribution of incomes—Incomes as prices of the factors of production—The alleged relation of all prices to consumers' demand—How far does money become an end in itself?—Total price limited by consumers' preparedness to pay—The balance between costs and expenditure—The effects of borrowing and of bank-made money—Dis-equilibrium due to monetary causes—The inconvenience of price-changes—How the infusion of additional money alters the structure of demand—And leads to disproportionate production—How saving and investment can stultify themselves—Investment displacing labour—The development of crises—Is "over-saving" impossible?—The need for increased consumption as productive power expands—Should the supply of money be stabilised?—At what level?—The problem of indebtedness—Prices limited by purchasing power—How buyers apportion their incomes—Substitution and the "point of indifference"—What fixes commodity prices?—And incomes?—How the *entrepreneur* behaves—"Marginal productivity"—The complication arising from unemployed factors of production—What is "productivity"?—Productivity of goods and productivity of money—The dictatorship of the buyers limited by the scarcity of the factors of production—The undemocratic character of demand in the "free market"—Prices reflect the current distribution of incomes—To alter the distribution of incomes is to alter demand and prices—Any system of distribution tends to perpetuate itself—The "economic pulls" of the various factors of production—The power to restrict supply of the various factors—Loan capital and investment—Shareholders and creditors in modern business—Do we need a Plan?

CHAPTER IV

CRITIQUE OF A PLANLESS ECONOMY 69

The "free market" of the economists compared with actual business conditions—The freedom of consumers' choice—The prediction of demand—How *entrepreneurs* can influence demand—Advertisement—The trader as intermediary—Woolworth's—The economics of advertisement—Other influences on demand—Compulsory consumption—Public opinion—Fashion—The influence of popular education—Americanisation—Russia—The effective widening of consumers' choice—An *entrepreneur*-controlled market—The influence of prices—The effects of capitalist combination—In an elastic market and in an inelastic market—Price differentiation—The importance of marginal costing—The

SUMMARY

xiii
PAGE

fixing of prices in relation to the fixing of output—The conception of potential demand—How price-policy affects potential demand—The impossibility of a really "free market."

Pure competition—Absence of unemployed resources assumed—The idea of an economic *optimum*—The relation of price-offers to expected satisfactions—Price-offers are weighted by the inequality of incomes—The notion of productivity reconsidered in relation to the distribution of incomes—The nature of ownership in the case of labour and of other productive resources—Rewards accrue, not to the "factors of production", but to their owners—The ethical implications of orthodox Economics—Does "free competition" conduce to maximum output?—Would a more equal distribution lead to a greater production of wealth?—The question of incentives to effort under a planned economy.

CHAPTER V

PLANNED CAPITALISM 95

The effects of planning some parts of the economic system, but not others—Planning in a single industry—Prices and output—The possibilities of mass-production and specialisation—Standardisation of products—Buying and selling arrangements—The varying elasticity of demand—The effect of changing output upon costs—Capitalist planning will be likely to decrease the output of necessaries and increase that of cheap luxuries—How it will affect the distribution of incomes—Inherently restrictive tendencies of capitalist combination—Especially under conditions of Protection—Capitalist planning will increase potential, but restrict actual production—"Redundant" factories will be scrapped, and employment decreased.

The effects of a planned monetary system—How far is money planned already?—The Bank of England and the Joint Stock Banks—Bank profits—The Banks in relation to industry—Bankers and interest-rates—Planned Banking under Capitalism—The plain man's case against money-spinning—Social control of money—The true function of Banking—Should the supply of money be automatic?—Can it be so?—Currency and credit—The idea of "neutral" money—Concealed monetary management—The case for a fixed monetary supply—The objections to it—Should the supply be fixed per head of population?—Yes, on certain conditions—(a) that productive resources are fully employed—(b) that credit as well as currency is regulated—(c) that seasonal demands are covered—(d) that money-using habits remain unchanged—How this policy could be applied to-day

—The limitations of *any* banking policy—How far could planned Banking remove capitalist restriction?—The danger of “idle money”—The effects of Government borrowing—The case for State creation of money.

The case against Capitalist Planning summed up—State competition with private industry—The dilemma of public works.

CHAPTER VI

THE PLANNING OF CAPITALIST INDUSTRY AND AGRICULTURE 118

Types of capitalist reorganisation in recent years—Capitalist reorganisation with and without State intervention—The Central Electricity Board and the London Passenger Transport Board—Coal and steel—The cotton industry—Agriculture—The Agricultural Marketing Acts—Quota systems—Possible extensions of public concerns under Capitalism—Further development of electrical reorganisation—A gas “grid”—Water supply—Main line railways—Railway electrification and public control—Socialist and anti-Socialist attitudes towards socialisation in the utility services—Agreement on the need for *ad hoc* controlling authorities—The question of political interference—Socialist and anti-Socialist attitudes to industrial planning—Proposals for an autonomous organisation of industry—Fascism and the Corporative State—Corporatism and Guild Socialism contrasted—The impossibility of “joint control”—Proposals for reorganisation in the coal industry—And in iron and steel—The case of agriculture further considered—Land ownership and the organisation of marketing—The provision of capital for agriculture—Wartime experience recalled—Procedure under the Marketing Acts—Certain Marketing Schemes considered—Hops and potatoes—Pigs and bacon—Effects of the bacon quota—Milk and milk products—The Marketing Acts as a whole—The need for Import Boards—Agricultural and industrial conditions compared.

CHAPTER VII

PRINCIPLES OF PLANNING—HOME PRODUCTION AND FOREIGN TRADE 162

The object of Planning is to unloose productive energy, not to restrict it—Rationalisation and unemployment—The choice between more goods and more leisure—How this choice is made to-day—The unequal weighting of the demand

SUMMARY

for leisure—Unusable leisure—The worthwhileness of production depends on the distribution of the product—The wrongness of restrictive planning—The effect of subsidies to producers in causing restriction elsewhere—The effects of restrictions on imports (a) on employment (b) on the standard of living (c) on exports (d) on the human costs of production—International differences in standards of living—The limited elasticity of wages—The international mobility of money—The uncertainties of agricultural output—Present agricultural policies considered—Stabilisation of agricultural prices—Reactions of subsidising home production of wheat on overseas producers—And on manufactured exports—The limits of appropriate help to agriculture.

The possibility of monetary manipulation—The effects of currency depreciation on trade—The economies of large-scale production—"Export-dumping"—The ostensible aims of Protection—The effects of Protection on economic structure—Under what conditions can Protection cause increased use of productive resources?—(a) in face of "abnormal" imports—(b) where home production is improved in efficiency by securing the home market—(c) where Protection forms part of a wider policy for ensuring the full use of resources—The foreign trade policy of a planned economy first considered.

The planning of production and imports together—What will be imported under the Plan?—Ability to pay for imports—Arrangements for reciprocal trade—The planning of exports—The abandonment of tariffs—Will quotas be retained?—Bulk sale and purchase—The Trading Board—The restrictive character of foreign trade regulation at present—The way of escape from Economic Nationalism—A planned system of international exchange.

The planning of home production—A survey of productive resources—Transferable and non-transferable resources—A survey of plant capacity in relation to production costs—Plant capacity in relation to the size of the home market—The first decisions under the Plan—Doubtful factors of production—What factories will it pay to use?—The estimation of demand—The effect of higher purchasing power on the demand for different goods and services—The effect on the demand for imports—The payment for imports further considered—New capital construction—Marginal decisions about imports and home production—The question of relative costs as affected by currency values—Subsidies to exports—Exchange depreciation rejected—The use of "surplus" resources—A higher standard of consumption now or a greater rate of capital accumulation?—The changing structure of demand—Sub-marginal factories—The power of the planning authority to affect demand—Selling prices under a planned economy—The planned use of land as a factor of production—The planned use of labour—The transferability

of land and labour considered—The combined allocation of productive resources—The general outline of planning principles summed up. PAGE

CHAPTER VIII

CAPITALIST RESTRICTION AND STATE CONTROL—

PLANNED MONEY UNDER CAPITALISM . 196

The anticipation of demand under Capitalism—Obstacles in the way of this under competition—The incentives underlying capitalist combination—Capitalist regulation of prices and output—Quotas—The restrictive effects of capitalist regulation—Possible economies in production—Mechanisation and its effects on the market under Capitalism—Its effects on costs in relation to output—The concentration of production—Maximum profit *versus* maximum output—How far can State control compel capitalist combines to follow a policy of plenty?—The control of prices—The taxation of excess profits—The compulsory raising of wages—Effects of higher wages on mechanisation.

Can capitalist restriction be removed by monetary manipulation?—Bank credit and its limits—Public control of banking—The amount and the direction of credit—Limitations of State credits to producers—The question of credits to consumers considered—How would consumers' credits influence the structure of production?—The demand for additional imports—The effect on capital accumulation—The new consumers' money must be a present and not a loan—How and when new money should be issued—The financing of public expenditure—Public Works further considered—Is the policy here outlined inflationary?—Effects on prices and costs—The distortion of the structure of production—And of incomes—Emergency measures in time of depression—The case for and against "gift-money".

CHAPTER IX

PLANNED DISTRIBUTION OF INCOMES AND

PRODUCTION 220

Planning involves a standard of utility—A planned economy cannot leave the distribution of incomes unplanned—Unless it is to take the existing distribution for granted—This is impossible in a democratic State—Why planning is suspect among capitalists—Planning unlikely under capitalist democracy—The possibilities of planning under Fascism—The

SUMMARY

xvii
PAGE

criterion of expediency and justice appropriate to a planned economy considered—Need replaces demand as the first criterion—Provision for a minimum standard of needs comes first—But the classification of goods into necessities and luxuries is far from simple—The provision of a wide range of choice for all consumers constitutes the second claim—The field of “substitutable necessities”—The character of the required production will depend on the distribution of incomes—The pricing of primary necessities and of other goods—Primary and secondary necessities are largely the same things in different amounts—The encouragement and discouragement of particular kinds of consumption—The range and operation of consumers' choice—Production as a response to consumers' demand, as it exists to-day—The need for an elastic organisation of the productive system—Planning and the influencing of consumers' demand—A planned structure of incomes as a basis for planned production—The planning authority needs to know both the total purchasing power and its distribution.

The dual function of incomes to-day—Incomes finance both consumers' spending and investment—This duality of incomes causes disequilibrium—A planned economy will make collective provision for the accumulation of capital—Will individual savings persist?—Only enough income will be distributed to provide for consumers' spending—On what basis will the distribution of this income be made?—Enough will be distributed to buy all the consumers' goods that are to be made available under the plan—The system of distribution will be a combination of “social dividends” and payments for work—After a period of transition, payment of interest will cease—“Social dividends” described—They will be on a basis of need, for all citizens—On what scale will they be paid?—The rate of dividend and the rate of earning—Smaller monetary incentives will suffice in a community of more equal incomes—Earnings as “pocket-money”—This system will make easier the anticipation of demand—Errors are most likely to occur in the finishing trades—The planning authority will have to safeguard the adaptability of production—The prediction of demand in relation to imports—A plan of national consumption—An estimate of minimum consumption—The prospects for exports—The pricing of exports—At average, or at marginal, cost?—These two costs distinguished—At what prices will it pay a planned economy to sell its exports?—The adjustment of imports and exports—International trade agreements as incentives to planning in other countries.

APPENDIX TO CHAPTER IX. 246

Analysis of the existing forms of distribution—Payments for work—Payments for loans—Rent—Profits—Public

"doles"—Defects of quantitative classification—The national income and its distribution—Present aims of public policy in distribution—Their consequences—The difference between incomes from work and all other forms of income—Social character of productive power—Inappropriateness of the existing system of distribution—An alternative method of distribution considered—The balance between incomes and consumption—A rough estimate of average incomes—Social dividends—What social dividends would cost—A scheme of social dividends outlined—The effect of social dividends on costs of production—The relation between costs and prices under the new system—Economic consequences of social dividends—The machinery of income distribution—Capital accumulation under the new system—The costs of government under the new system—The disappearance of taxation—Advantages of the social dividend system—The problem of monetary incentives—The social dividend could be introduced by stages.

CHAPTER X

THE MACHINERY OF INTERNATIONAL TRADE . 266

How Governments at present regulate imports—The effect of tariffs—Their uncertainty—Their tendency to lose their effect—Other methods of restricting imports—Restriction by means of currency depreciation—This is liable to cause depreciation elsewhere, which may destroy its effect—In any case, its effect tends to wear off unless the depreciation is continued—Restriction of imports by means of the control of foreign exchange—This may be accompanied by rationing of particular imports, and always involves it to some extent—Licensing systems for imports—Dye-stuffs in Great Britain—Quota systems—Their objects—Quotas as an element in trade bargaining—Advantages of quotas—But dangers of combining them with guaranteed prices—Effect of quotas on prices—Diminishing quotas—Possible policies for the authority regulating the system—Quota systems designed to prevent increased imports—Systems designed to reduce or displace imports—Effect of the latter on trade bargaining.

State monopoly of importation—Experience of war-time control—Import Boards—Should they control domestic as well as imported supplies?—Yes, in a planned economy—The buying and selling policy of Import Boards—Bulk contracts for purchase—The fixing of selling prices—The cost of imports—The case against existing quota systems—All foreign trade controls except by Import Boards necessarily restrictive—Import Boards can be used to increase foreign trade—A planned economy will have no desire to exclude

SUMMARY

xix
PAGE

imports in order to increase employment—Its sole concern will be to discover the most advantageous level for balancing imports and exports, so as to secure the highest standard of life—The amount of foreign trade will depend on the real advantages of international specialisation under modern conditions—The international division of labour in a planned world will realise the ideals of the *laissez-faire* economists—Foreign trade under these conditions will not reproduce the features of the past century—British trade in the nineteenth century—The changed situation of to-day—There will be less exchange of industrial products between the leading industrial countries—But a great deal between industrial and agricultural countries—And between large and small countries—The case against forced industrialisation in the agricultural countries—The fall in the proportion of income spent on foodstuffs—Population trends in Western Europe—The movement of agricultural prices—The plight of the agricultural countries—The prospects of agriculture in the industrial countries—Reasons for the restricted demand for foodstuffs—For what foodstuffs is the demand likely to be elastic?—The case against rapid expansion of most forms of agriculture in the industrial countries.

CHAPTER XI

THE MACHINERY OF NATIONAL PLANNING . 293

Planning will not be introduced suddenly over the whole field—What the completed structure of a planned economy would need to provide—The control of each separate industry—Functions of the controlling body—Possible alternatives—Power to regulate output—And to supervise efficiency—Preparation of a draft plan for each industry—In the light of the current conditions of demand and the available resources of production—Effects on costs of increasing or reducing output—Capital requirements.

The co-ordination of separate industries—The machinery of planning as a whole—National and regional planning—The experience of the U.S.S.R.—Need for a national authority with wide powers in Great Britain—Varying conditions for different industries—Regional planning of house-building—The co-ordination of regional and national industrial plans—The form of planning affected by the structure of local government—Outline of a National Planning Authority—Three functions to be provided for—(1) The drafting of the National Plan—An expert National Planning Commission with advisory functions—(2) The adoption and subsequent amendment of the plan—The Government's final responsibility—The position of Parliament—A minister of National

Planning—A National Planning Authority with executive powers—Its composition—(3) Inspection and supervision—Need for a separate agency—A Department of Economic Inspection—Its powers and duties—Relations between the Planning Authorities responsible for production and those concerned with Finance and with the distribution of incomes—Relations with the Banking authorities—The Planning Authority to be responsible for the allocation of capital resources—Subject to decisions by the Government about the appropriations required for such services as Health and Education—A Board of National Investment—Its functions will vary according to the method of raising capital that the community employs—It will become relatively unimportant if investment becomes a purely collective matter—Importance of the decision how much accumulation of capital there is to be—This will be a matter for the National Planning Authority, subject to final control by the Government—The allocation of incomes should be a matter for a separate authority—The magnitude of the social dividend a matter for parliamentary decision—The allocation of the rewards for work—A Pay and Conditions Tribunal—On what basis would such a Tribunal proceed?—The equalisation of eligibility in different occupations by variations in pay and conditions of work—Each industry to submit draft schemes of pay and conditions to the Tribunal—Constitution of the Tribunal—The parliamentary system of a planned economy—The need for regional decentralisation—Decentralisation as a safeguard of democracy.

CHAPTER XII

PLANNED ECONOMY AND WORKERS' CONTROL . 325

Dangers of bureaucracy inherent in all large-scale organisation—Bureaucracy not confined to State services—Risks of top-heaviness and over-centralisation in a planned economy—Need for widespread devolution of responsibility and power—Devolution essential to the successful working of non-monetary incentives—How far can democratic control be a reality in modern industry?—Inadequacy of the attempt to secure democracy by purely political means—A society of industrial robots bound to break down—Industrial democracy means workshop democracy—Centralised planning compatible with decentralised initiative—Mechanisation and workers' control—The choice of foremen and managers—Workshop and Works Committees—Regional and national machinery in relation to workers' control—Guild Socialist objectives under a planned economy—The inevitability of large units of production and organisation—Limits within which Guild control can operate—Workers' control and human nature.

CHAPTER XIII

GREAT BRITAIN'S INTERNATIONAL POSITION PAGE 341

The British balance of payments before and after the war—Overseas investment—The future level of British imports considered—The effect of protection on imports of manufactures—An estimate of the potential productivity of British industry—The future balance of payments—Post-war foreign investment—The prospects for the exporting industries—Cotton—Coal—Iron and Steel—Need for developing alternative forms of export trade in the expanding branches of industry—Advantages which Great Britain possesses for doing this—Reactions of this policy on the staple industries.

CHAPTER XIV

A FORECAST OF PLANNED INDUSTRY 360

Planning based on full use of the available resources—Impossibility of drawing up a plan in advance—Effects on demand of (a) bringing the unemployed back into work—(b) a rise in the standard of living—(c) a further rise in working-class standards, accompanied by a drastic redistribution of incomes—In what directions would demand chiefly expand?—Consequences of an expansion in the lower incomes—And of a diminution in the larger incomes—The actual course of economic changes in recent years—A survey of expansion and contraction in the leading industries—The building and allied trades—Public works contracting—Furnishing—Public Utilities—Expansion of the electrical trades—The food, drink and tobacco trades—Other consumers' industries—The clothing trades—The textile trades—Printing and paper—The growth of newspapers—Distribution—Reasons for increased employment in the distributive trades—The waste involved in the present system of distribution—Transport—The railways—Road transport—Docks and shipping—Shipbuilding and Marine Engineering—General Engineering—The metal manufacturing trades—The coal industry—Chemicals—The growth of services—Local government services—Uninsured occupations—Employment in agriculture—The evidence furnished by the Census of Production—Gross and net output of industry—Output per worker in different industries—The degree of mechanisation in different industries and its advance—Imports and consumption of principal food products—Pre-war and recent consumption compared—Home production and imports of food.

CHAPTER XV

CONCLUSION	PAGE 398
----------------------	-------------

The assumptions on which this book has been written—Comparison between Russian conditions and those of Great Britain and other Western countries—Outlook for British Capitalism—A constitutional transition to a planned economy has been assumed throughout this study—Implied adaptation of the parliamentary machine—Unlikelihood of a planned economy being instituted constitutionally save under Socialist auspices—Possibilities of partial capitalist planning—Probable planning policy of a Labour Government—Differences from capitalist planning—Limits to the possible re-distribution of incomes under Capitalism—How these may drive a Labour Government more rapidly than it at first intends towards a planned economy—The case for a planned economy re-stated—The chief difficulties in the way of planning in advanced countries are not economic but political—Further comparison between Russia and the West—Can the political obstacles be overcome?

STATISTICAL APPENDIX TO CHAPTERS
XIII AND XIV

LIST OF TABLES

TABLE	
I. BRITISH FOREIGN TRADE, 1929 (OR 1930), 1933 AND JANUARY-JUNE, 1934	409
II. A COMPARISON BETWEEN CERTAIN BRITISH EXPORTS IN 1930, 1933, AND JANUARY- JUNE, 1934	410
III. A COMPARISON BETWEEN RETAINED IM- PORTS OF MANUFACTURED GOODS IN 1930, 1933, AND JANUARY-JUNE, 1934	411
IV. PROPORTION OF PRODUCT EXPORTED BY CERTAIN INDUSTRIES	412

SUMMARY		xxiii
TABLE		PAGE
V.	BRITISH IMPORTS AND EXPORTS OF IRON AND STEEL, 1913, 1929 AND 1933 . . .	412
VI.	CHANGES IN OCCUPATIONS AND EMPLOYMENT, 1923-1934. INSURED TRADES, WITH SUPPLEMENTARY INFORMATION FOR CERTAIN NON-INSURED OCCUPATIONS. . .	413
VII.	OCCUPATIONAL DISTRIBUTION OF THE POPULATION OF ENGLAND AND WALES AT THE CENSUSES OF 1921 AND 1931 . . .	419
VIII.	INDUSTRIAL OUTPUT AS RECORDED IN THE CENSUS OF PRODUCTION . . .	421
IX.	INDICES OF INDUSTRIAL DEVELOPMENT BETWEEN 1924 AND 1930 . . .	424
X.	OUTPUT AND POWER IN USE PER WORKER, 1930. A. ACTUAL FIGURES . . .	425
XI.	OUTPUT AND POWER IN USE PER WORKER, 1930. B. INDEX NUMBERS . . .	426
XII.	CHANGES IN IMPORTS AND CONSUMPTION OF CERTAIN FOODSTUFFS, 1913-1932 . . .	427
XIII.	APPROXIMATE PROPORTION OF CERTAIN FOODS PRODUCED AT HOME, 1932-3 . . .	428
XIV.	FOOD IMPORTS IN THE FIRST SIX MONTHS OF 1932, 1933 AND 1934.	428
	INDEX	429

INDEX

- ADDISON, Christopher**, 147, 150, 161
Advertisement, 70, 71 ff
Agricultural Adjustment Act (U.S.A.), 165
 — **Committees, County**, 149
 — **countries, economic position of**, 287 ff
 — **employment**, 387 f, 418 f
 — **Marketing Acts**, 125 ff, 147 ff
 — **prices**, 169 ff
 — **production**, 25, 169, 239, 428
Agriculture in a planned economy, 387, 396 f
 —, **limits to desirable expansion**, 170 ff
 —, **reorganisation of**, 147 ff, 160 ff, 191, 301
 —, **socialisation of**, 147
 —, **unadaptability of**, 25 f
Amalgamations, business, 119
Americanisation, 77

BACON Marketing Scheme, 127, 152 ff, 271 ff
Balances of trade and payments, 183 f, 341 ff
Bank of England, 100 ff, 119 (*see also* Central Banks)
Bankers' Industrial Development Co., 119
Banks and investment, 102
 — **as creators of money**, 41 ff, 64, 206, 250 (*see also* Credit, and Money)
 — **as holders of securities**, 113
 —, **behaviour in crises**, 12 f

Banks, Central, 106 ff, 206, 269 (*see also* Bank of England)
 — **in a planned economy**, 260
 — **in relation to industry**, 102 ff, 206 ff
 —, **Joint Stock**, 100 ff
 —, **socialisation of**, 105, 206 f
Barter, international, 178, 240, 243 f, 277 (*see also* International Trade)
Bills of exchange, 101
Branded goods, 74
British Broadcasting Corporation, 121
Building industry in a planned economy, 300, 301, 322, 365
 —, **position of**, 370, 390, 413, 419, 422, 424 ff
Bureaucracy, dangers of, 325, 336, 337
Butter, imports of, 157, 427

CABINET, Economic Committee, proposed, 307
Canada, economic position of, 291
Capital, supply of, 64, 168, 407 (*see also* Saving and Investment)
 — **in a planned economy**, 252 ff, 260, 311, 312 ff, 314 f, 367
Capitalism, planning under, 95 ff, 118 ff, 196 ff, 222 ff, 401
Cartels, compulsory, 122
Chemical industry, organisation of, 119, 166

- Chemical industry, position of, 385, 391, 392, 417 ff
 "City," the, 101 ff (*see also* London Money Market)
 Civil Service in a planned economy, 307
 Clothing trades, position of, 374, 415 ff
 Coal exports, 355
 Coal industry, position of, 383 ff, 391, 392, 393, 417 ff
 —, reorganisation of, 121 f, 144 f, 301, 322
 Collective provision of services, 34 (*see also* Services, social)
 Combination, capitalist, 83, 95 ff, 196 ff, 201 ff, 216, 297
 Comparative advantages, theory of, 283
 Consumers' trades, position of, 373, 391 (*see also* Demand)
 Consumption, plan of national, 238 ff
 Co-operative movement, 308
 Corporative State, 139 f (*see also* Fascism)
 Costs, average and marginal, 83, 240 ff
 — in a planned economy, 257 ff, 297 ff
 Cotton trades, position of, 181, 284, 352 ff, 358, 375 f, 415 ff
 —, reorganisation of, 119, 124 f, 166
 Craftsmanship, supersession of, 22 ff, 193, 328
 Credit, 109 ff, 206 ff (*see also* Banks, and Money)
 —, consumers', 208 ff
 Currency (*see* Money)
 — depreciation, 173, 174, 185, 210, 215, 268 f, 344
- DEBENTURES, 67
 Decentralisation, need for, 323, 325 ff (*see also* Regional Planning)
 Deflation, effects of, 45, 63, 108
 Demand, effective, 33 ff, 52 ff, 69 ff, 85 ff, 220 ff
 Demand, estimation of, in a planned economy, 182 ff, 189 f, 227 ff, 236 ff, 360 ff
 Denmark, trade with Great Britain, 154, 272
 Depreciation, 24 (*see also* Currency Depreciation)
 Distribution (*see* Incomes)
 Distributive trades, growth of, 376 ff, 415, 419
 — in a planned economy, 260, 386
 Dividends, social, 234 ff, 252 ff, 264 ff, 315
 "Doles," 234, 246 ff, 261
 Dumping, 82, 173, 174, 176, 242
- ECONOMIC change in recent years, *Frontispiece*, 368 ff, 413 ff
 — Inspection, Department of, proposed, 309
 — Nationalism, 179 ff, 238
 — Parliament, suggested, 139 f
 — "rightness," 91
 Economists, doctrines of, 6 f, 8 f, 32, 33 ff, 53 ff, 86 ff
 Education in a planned economy, 311
 Electrical industries, position of, 371 f, 390, 414 ff
 Electricity supply, organisation of, 120, 127 ff, 372
 Elliot, Walter, 126, 151, 239, 271
 Engineering trades, position of, 381, 390, 392, 393, 416 ff
 Entertainment, demand for, 364
 — trades, position of, 385, 417, 420
Entrepreneurs, 55 ff, 60, 65 ff, 69 ff, 104, 196 ff, 207, 229, 337, 404
 Equality, case for, 92, 236 ff (*see also* Inequality)
 Export dumping, 82, 173, 174, 242
 Exports (*see* International Trade, and Foreign Trade)
 —, British, prospects of, 349 ff

- FASCISM**, economic organisation under, 139 ff, 146, 398
 —, economic policy of, 223 ff, 402
- Fashion**, changes in, 230
- Financiers**, 5 f, 9 ff (*see also* Banks)
- Food trades**, position of, 372 f, 390, 414 ff
- Foodstuffs**, demand for, 287 ff, 362 ff, 393 ff, 427 f
 —, imports of, 343 ff, 409, 427 f
- Foreign exchange**, control of, 269
 — investment, 101, 178, 341 ff, 349 ff
 — trade, British: in nineteenth century, 283 f; pre- and post-war, 284, 341 ff, 390, 409 ff
 — —, planning of, 177 ff, 240 ff, 266 ff, 359 (*see also* International Trade)
- Foreign Trade**, State monopoly of, 275 f
- Foremen**, choice of, 334
- Freedom**, 330 ff
- Furniture trades**, growth of, 371, 413
- Gas industry**, growth of, 390
 —, reorganisation of, 130 ff
- Gold standard**, 101 (*see also* Currency, and Money)
- Government**, costs of, in a planned economy, 252, 261
 — employees, 385, 417
- Guild Socialism**, 140 ff, 329 ff, 336, 338 ff
- HEALTH services**, in a planned economy, 312
- Hoarding**, 60, 65
- Hops Marketing Scheme**, 151
- Hotel and restaurant trades**, growth of, 385, 417
- Hours of labour** in a planned economy, 316, 318 (*see also* Leisure)
- Housing policy**, 214, 365 (*see also* Building, and Public Works)
- Import Boards**, proposed, 159 f, 275 ff
- Imports** (*see* Foreign Trade, and International Trade)
 —, demand for, with rising incomes, 210 ff, 344 ff, 393 ff
 — in a planned economy, 237
- Imports of manufactures**, 344 ff, 411
- Incentives** in a planned economy, 262 ff, 326 ff
- Income**, National, of Great Britain, 253 ff
- Incomes as prices**, 38, 89 f
 —, distribution of, as affecting prices, 60 ff, 69
 —, —, in a planned economy, 164 f, 189 f, 220 ff, 246 ff, 315 ff, 402 ff
 —, dual function of, 232
 —, effect of higher, on demand, 361 ff
 —, types of, 246 ff
- Indifference**, point of, 54
- Industries**, management of, in a planned economy, 294 ff, 325 ff
 —, relative growth of, 368 ff, 388 ff, 413 ff
- Inequality**, economic effects of, 62, 69, 221
- Inflation**, and credit creation, 214, 217 f
 — defined, 218
 —, effects of, 43 ff, 51, 63, 108
- Interest rates**, 11, 49, 67 f, 103 ff, 209, 233
 — in a planned economy, 235, 252
- International trade**, economics of, 167 ff, 172 ff, 183, 266 ff, 282 ff (*see also* Foreign Trade)
- Investment**, 202 (*see also* Saving, and Foreign Investment)
 —, Board of National, 313 f

- JAPAN**, as exporter, 353, 358
 "Joint Control," 146
 Joint Stock Companies, 67
 "Just Price," 204
- LABOUR** as productive resource, 21 ff
 —, forced, 35
 —, Party and Planning, 402 ff
 —, supply of, 64 f, 182
 —, transferability of, 31 f, 168, 192 f
- Land** as productive resource, 19
 —, monopoly in, 64
 — nationalisation, 147
 — system, 147 ff
- Leisure**, 1 ff, 30 f, 162 ff
 — class, 163
- Licensing** of imports, 270
- Local Government**, in a planned economy, 302, 386 (*see also* Regional Planning)
 — services, growth of, 386, 417
- London money market**, 101 f, 350
- **Passenger Transport Board**, 119 f, 127
- Luxury goods**, demand for, 69 f, 97, 224 ff, 364 ff, 367
- MANAGERS**, choice of, 334
- Marginal cost**, 83, 242 f
 — labour, 56
 — prices, 54
 — productivity, 56 (*see also* Productivity)
- Marketing** (*see* Agricultural Marketing)
- Marks and Spencer**, 73
- Marx, Karl**, 9
- Mass-production**, 22, 72 f, 96, 174, 193, 209, 328, 333
- Mechanisation**, 2, 48, 200, 205, 329, 348, 371, 374, 380, 385, 391 ff
- Metal trades**, position of, 373, 381 ff, 392, 416 ff
- Milk Marketing Schemes**, 155 ff
- Money** as end of economic activity, 39
- Money** as capital, 65 ff
 —, criteria for fixing the supply of, 51 f, 106 ff, 212
 —, Government creation of, 113 f, 250
 —, management and planning of, 7 f, 16, 100 ff, 105 ff, 173, 206 ff, 220, 311
 —, not a real thing, 104
- Motor trades**, position of, 379, 393, 416 ff
- NAZI economic policy**, 202
- Necessaries**, primary and secondary, 225 ff
 —, substitutable, 225
- Needs** as standard in place of demand, 220 ff
- Nuisances**, public, 75
- OBSCOLESCENCE**, 24, 28, 194
- Optimum**, economic, 88
- Output**, changes in industrial, 389 ff, 421 ff
 —, per worker, changes in, 390 ff, 425 ff
 —, restriction of, under Capitalism, 83 f, 95 ff, 112, 114 ff, 166, 196 ff, 215, 401, 406
- Over-capitalisation**, 81
 "Over-saving," 50, 233 (*see also* Saving)
- PARLIAMENT** in a planned economy, 308, 311, 320 ff, 398 ff
- Pay and Conditions Tribunal**, proposed, 316 ff
- Pig Marketing Scheme**, 152 ff
- Plan**, National, drafting of, 177 ff, 296 ff
 —, —, forecast of, 360 ff
- Planning Authority**, National, proposed, 305 ff, 314 ff
 — Commission, National, proposed, 304 ff
 — defined, 33
 —, functions of authorities required, 303 f
 —, Income Authority, proposed, 316 ff

- Planning, machinery of, 293 ff, 325 ff
 —, Ministry of, proposed, 305 ff
 — of incomes (*see* Incomes)
 —, Parliamentary Committee, proposed, 308
 —, regional and national, 298 ff (*see also* Regional Planning)
 — under Capitalism (*see* Capitalism)
 Poor Laws, 37
 Population trends in industrial countries, 288 f
 Post Office, 301
 Potatoes Marketing Scheme, 152
 Prices, agricultural, 169 ff
 — as affected by distribution of incomes, 60 f, 88, 164, 227 ff
 — as affected by monetary supply, 43 f, 215
 — as means of limiting demand, 60 f, 79
 — as means of measuring values, 32, 33 ff, 88 f, 164
 — "cut," 73, 78 f, 378
 —, fixing of, in planned economy, 188 f, 227 ff, 257 ff, 279 ff
 —, —, under Capitalism, 83 ff, 197 ff, 209, 216
 —, guaranteed, 271 ff
 —, recent changes in, 389 f
 —, stabilisation of, 172
 —, State regulation of, 202, 203 f
 Printers' chapels, 143
 Printing and paper trades, position of, 376, 390, 392, 415 ff
 Production, adaptability of, 23 f, 192 ff
 —, Census of, 388 ff, 421 ff
 —, factors of, 55 ff, 89 f
 —, index of, 347 f
 —, resources of, 17 ff, 106 ff, 165 ff, 174 ff, 180 ff, 207, 217, 220, 249, 253, 265, 281, 348, 406 ff
 Productive power as a social asset, 251
 Productivity, 56, 58 ff, 89, 93, 168, 251
 Professional services, growth of, 386, 417, 418
 Profit motive, control of, 120
 —, working of, 201 ff, 249 f
 Profits, taxation of, 202 f
 Protection, economic effects of, 99, 167, 175 ff, 266 ff (*see also* Tariffs, and Quota Schemes)
 Public Corporations, 137 f
 — ownership, administration under, 136 ff, 293 ff, 325 ff
 — utility services, position of, 371 f, 390, 414, 423 ff
 —, —, supply of, 115
 — works, policy of, 113 ff, 213 ff 219

 QUOTA schemes, 158 ff, 173, 179, 270, 271 ff, 394, 397
 —, bacon, 127, 152 ff, 271
 —, coal, 271
 —, wheat, 127
 Quotas in capitalist combines, 198

 RAILWAYS Act, 134
 —, electrification and public ownership of, 133 ff
 — in a planned economy, 301
 —, position of, 378 f, 387, 416, 418
 —, proposals for workers' control on, 144
 Rationalisation, 95 ff, 118 ff, 162 (*see also* Combination, capitalist, Capitalism, Mechanisation)
 Regional Planning, 298 ff, 321 ff, 325 ff, 335
 Resources of production (*see* Production)
 Ricardo, David, 56, 58
 Roosevelt, Franklin D., 165
 Runciman, Walter, 244
 Russia, planning in, 298 f, 398, 399, 407 f
 —, social aims in, 77

- SAVING** and investment, 7, 46 ff,
 98, 209, 211 f, 232 f, 313 f
 (see also Foreign Invest-
 ment, and Capital, Supply
 of)
 — in a planned economy,
 187 ff (see also Capital,
 Supply of)
 —, corporate, 232
Scarcity as capitalist aim, 10 ff
 (see also Output, restriction of)
Scotland, 321
Securities Management Trust,
 119
Services, social, 34, 75
 —, —, in a planned economy,
 311 f
Shipbuilding industry, position
 of, 380, 416
 —, reorganisation of, 119, 166
Shipping, position of, 380, 416
 —, subsidies, 166 f
Silk and Art Silk trades, growth
 of, 374, 415
Slums, 5
**Socialist and non-Socialist atti-
 tudes** to public ownership,
 136 ff, 143 ff
Specialisation of factories, 96
 — of productive resources, 20
Standardisation, 96
**State control of capitalist in-
 dustry**, 201 ff (see also Capit-
 alism, planning under)
 — monopoly of foreign trade,
 275 ff
Steel exports, 356, 412
 — industry, position of, 381 f,
 390, 391, 392, 393, 412,
 416 ff
 —, reorganisation of, 122 ff,
 145 f, 301, 329
Stock market speculation, 12,
 49, 219
Subsidies, 36, 166 f, 261 f
Sugar Commission, 275
Suggestibility, 77
TARIFF, British, 123 f, 344, 382,
 397
Tariffs (see also under Protection)
- Tariffs and economic planning**,
 179
 — and employment, 167
 —, effects of, 266 ff
**Taxation as means of raising
 capital**, 252
 — as means of re-distributing
 incomes, 36 f
 —, effects of remitting, 213 f
 — in a planned economy, 262
 — in relation to the distribution
 of incomes, 248
 —, limits of, under Capitalism,
 403 f
Technicians, position of, 2 ff,
 9 ff, 13 ff, 331
Technocracy, 16
Textile trades, position of, 374 f,
 390, 391, 415, 421 ff (see
 also Cotton, Silk, Woollen
 trades)
Tobacco trade, growth of, 390,
 414, 421
Trade agreements, 244
 — cycle, 7
 — Unionism, in a planned econ-
 omy, 308, 319, 334 ff
 —, influence of, 217
Traders' influence on demand,
 70 f
Trades Union Congress, econ-
 omic policy of, 142
Trading Boards, 179 (see also
 Import Boards)
Transport, organisation of, in a
 planned economy, 322 (see also
 Railways)
 —, Road, position of, 379, 416
UNEMPLOYED, effect of re-em-
 ployment on demand, 362 ff
Unemployment, 29 f, 100, 348,
 363, 369 ff, 406 f, 413 ff
 — in agriculture, 387, 418
 — in the professions, 387, 418
 —, relation to leisure, 1 ff, 30
 (see also Leisure)
United States, export trade of,
 357
VEBLÉN, Thorstein, 163

- WAGE agreements, enforcement of, 125
 —levels, international, 168, 353
 Wages in a planned economy, 236 f, 252 ff, 256 ff, 264, 315 ff
 —, State regulation of, 204 f
 — under Capitalism, 56 ff, 173, 205, 217
 Wales, 321
 War Office Contracts Department, 275
 Water supply, reorganisation of, 133 f
- “Weak selling,” 80
 Wheat Act, 127, 171
 — Commission, 275
 —, demand for, 290 f, 427
 Whitley Reports, 146
 Woollen and worsted trades, position of, 376, 415, 421
 Woolworth's, 71, 79, 378
 Workers' control (*see also* Guild Socialism and Workshop Control)
 — in a planned economy, 325
 Workshop control, 143, 331 ff

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him, and then fixes his maximum payment. But whether the whole of this payment goes to the legal owner of the land, or whether part is taken by a local authority, clearly does not affect the tenant as tenant. Consequently, if the applicant in the course of his bargaining finds that the farm or villa he wants is burdened with a local charge, he will deduct that charge from his estimate of what he can afford to pay the owner.

Arthur Young's rule for ascertaining rent.—Here, for example, is the advice given to applicants for farms by Arthur Young in his *Farmer's Calendar* published at the beginning of the nineteenth century.

“Ascertainment of Rent.—This is a very important part of the business in hiring a farm. . . . The principal point here necessary to touch on, is the combination of rent, rates, and tithes in one sum. Knowing the capital intended to be invested, estimate the interest of it at not less than 10 per cent., and then calculate the expenses and the produce: the former deducted from the latter, leaves that sum which the farmer can afford to pay in these three species of rent. *Deduct further the tithes and rates, and the remainder is what he can afford to pay the landlord.* If rent be valued in any other way, it must be erroneously and deceitfully done, and no dependence can be placed upon it.”¹

In practice there is little doubt that the majority of intending tenants, both in town and country, do take the precaution of inquiring what rates or taxes they will have to pay, and vary accordingly their estimate of the maximum rent which they can afford to pay. If, then, they always paid this maximum we should be entitled to say that the whole burden of the rates fell upon the landlord; for

¹ Young's *Farmer's Calendar*, p. 485.

clearly he would have obtained still more rent if there had been no rates. In practice, however, most tenants, whether of house or farm or factory, obtain their tenancies for considerably less than the maximum they would have been willing to pay, and this fact greatly alters the whole aspect of the problem. The effect produced can best be seen in those tenancies where the landlord contracts to pay the rates. In such tenancies, which are especially common in the case of workmen's houses, it is usually argued that the landlord recoups himself for the rates by exacting a higher rent, and by way of proof people point to the fact that an increase in the rates is often followed by an increase in rents. But this can only occur when rents are tending upwards in consequence of a growing demand for houses. If there were a decline in the demand for houses there could be no increase in rents, whatever burdens might be imposed on the landlord. What really happens is that an increase in local rates furnishes an excellent excuse for raising rents that have been allowed to remain lower than the market value. A general upward tendency of rents in a district will not, of its own accord, produce an increase in the rent of a particular house. The actual moment must come when the landlord goes to his tenant and tells him that, for the future, his rent will be raised from 6s. a week to 6s. 6d.; and any landlord, however crudely commercial he may be, will prefer that this moment should be preceded by some event which will give a plausible excuse for the unpleasant message.

Free Education and increased rents.—It must be admitted that some landlords are easily satisfied in the matter of plausibility. If the accounts that appeared in provincial papers were correct, many owners of working-

capital, in addition to the tax on incomes. Both taxes are payable quarterly. The income-tax starts with incomes of £45 a year, and rises with rapid gradations. For example, a man with £50 a year pays 6s. by way of income-tax; a man with £100 pays 31s. An abatement is made for every child under fourteen resident with its parents.

In Saxony the income-tax starts with incomes of £20 a year, and is graduated. There is an additional tax on property, as in Prussia, and the same arrangement with regard to children.

In Bavaria a definite distinction is drawn between earned and unearned incomes. The rates on the latter are very much higher than on the former, the difference being specially marked on the smaller incomes. In both cases the tax is graduated, and every person, however small his income, has to pay something. For example, a person in Bavaria earning an income of £25 a year pays 6*d.* by way of income-tax; a person enjoying an unearned income of the same amount pays 12s. Again, on an earned income of £100 the tax is 12s., on an unearned income of the same amount it is 70s.

In Austria there is a graduated income-tax, starting with incomes of £50 a year. A rebate of £21 is made from every income derived from labour, physical or mental. A further rebate is made for children incapable of earning their living.

In Switzerland various forms of graduated income-tax are in force in different cantons, and various devices are employed to place a heavier burden on incomes derived from property than on those derived from personal exertion.

In Holland there is a graduated income-tax, combined with a graduated property-tax. Incomes derived from

industry are taxed at about three-fifths of the rate of incomes derived from property.

The above illustrations of what is already done in other countries sufficiently demonstrate that it is practically possible to secure both the graduation and the differentiation of the income-tax.

An equitable substitute.—The accomplishment of this reform would secure all that is valuable in the programme of the land-taxers, but would secure it by equitable means. The land-taxer points, with just indignation, to the spectacle of the wealthy landowner drawing an income, for which he does not work, out of the labour of others who toil incessantly; and he rightly demands that such a man should be taxed at a higher rate than a man who works for every penny he receives. To that proposition no exception can be taken, but it applies to the stockowner equally with the landowner. There is no reason whatever why a man whose income is derived from Consols or railway stock or gas shares should be taxed at a lower rate than a man whose income is derived from land. Both incomes are drawn from the wealth that the workers of the country—manual and mental—daily create; or, if the phrase be preferred, both incomes represent a toll levied by private persons upon the industry of the nation. The workers would undeniably be better off if this toll to the drones ceased to exist, but surely in aiming at its reduction we are morally bound to try and secure fairness as between one drone and another. Even drones have a claim to justice, and it would be monstrously unjust to ruin a minority of them completely, while allowing the majority to go scot-free. Not only would this be unjust, but it would be financially foolish. It was shown in a previous

- LABOURER, agricultural, condition**
 of, in fifteenth century, 23
 — wages in fifteenth century, 24
 — right of common of, 30
 — unearned increment of, 139
 — recent improvements in his condition, 206
 — a skilled man, 210
 — relatively underpaid, 212
Labourers, Statute of, 21
Land, access to, 125
 — capital embedded in, 74
 — cost of production of, 71
 — Crown, 218
 — and capital interchangeable, 130
 — definition of, 4, 10
 — demand for, 77
 — distribution of, 36
 — for recreation, 217
 — "free trade in," 123
 — fundamental attribute of, 69
 — held up by London County Council, 185
 — man's work upon, 72
 — misuse of, 220
 — municipalization of, 2
 — ownership of, 3, 36
 — private property in, 2, 8
 — registration of title, 225
 — supply of, 71
 — systems of tenure, 6, 23, 38, 40, 200
 — transfer of, 226
 — trespass on, 218
 — uncultivated, free access to, 218-225, 229
 — uses of, 78
 — value of, 74, 132
 — versus Consols, 159
Land Acts, Ireland, 201, 202
Land Nationalization Society, 165
Land Restoration League, 58
Land Tax, commutation of, 56
 — Adam Smith on, 56
 — Lord Loughborough's judgment on, 56
 — amount redeemed, 60
 — incidence of, 59, 60
 Land Tax never uniform, 60
 — not a charge on land, 56
 — suggested reform of, 61
 — William III.'s, 53
Land Transfer Act, 1897, 226
Land Values, taxation of, 95
et seq.
 — and access to land, 125
 — amount of tax, 100
 — burden on present ratepayers, 99
 — confiscation of property, 117
 — housing, effect on, 103, 111
 — existing contracts, 98
 — George, Henry, on, 128
 — Glasgow Corporation Bill, 97
 — Mr Harper's scheme, 101
 — Dr Macnamara's Bill, 120
 — Lord J. Moulton's scheme, 101
 — New Zealand's experience, 113
 — Mr O'Connor's report on, 98
 — open spaces, effect on, 115
 — payment of tax, 108
 — Royal Commission on, 95
 — unearned increment of, 135
Landowners, control over, 216
 — dishonest, 222
 — and labourers' wages, 211
 — number of, 36
 — rights excessive, 215, 218, 219, 225
Launceston Court Rolls, 18
Law Courts, 179
Law of Diminishing Return, 67
Law of Supply and Demand, 70
League, English, for taxation of land values, 164
Leaseholders and rates, 90
Legacy duty, 62
Lepers, food of, in fifteenth century, 25
Lincoln's Inn, 217
Local taxation, 153, 161
London and Athens compared, 172
London County Council and charity rents, 182 et seq.
 — land held up by, 119, 185
 — schemes for taxing land values, 100

- Loughborough, Lord, judgment on land tax, 56
- MACNAMARA, DR, Bill for taxing land values, 120
- Maine, Sir Henry, on village communities, 6
- Maitland, Professor, on co-operative ploughing, 17
— on the manor, 7, 11
- Manor, 7, 11
— thirteenth-century, 14
— waste of, 15
— court, 18
- Manors, Domesday record of, 11
- Margin of cultivation, 82
- Margins, wasted, 217
- Mark, German, 7
- Market gardens, 119
- Marriage, feudal dues on, 42
- Marshall, Professor, on rent, 67
— on fundamental attribute of land; 69
- Mercenaries, foreign, employed to oppress peasants, 28
- Merton, Statute of, 19
- Mill, John Stuart, on rent, 64
— on unearned increment, 135
- Millennium, price of, 135
- Mines, cost of production, 76
— output of, 190
- Mining Royalties, importance of exaggerated, 188
— particulars of, 189, 191
— minimum royalty, cannot be abolished, 192, 193
— foreign, 193
— a matter of bargain, 196, 198
— abolition unjust to poorer mines, 197
— Report of Royal Commission on, 198
- Monasteries, dissolution of, 27
- Monopoly in land, alleged, 37
- Mortality, urban and rural compared, 166-169
- Moulton, Lord Justice, scheme for taxing land values, 101
- Mountains, access to, 217
- Municipal Housing. See Housing.
- Municipalization, 2
- Munro, Professor J. E. C., on mining royalties, 199
- Murray, Sir George, 96
- NASSE, PROFESSOR, 6
- Nineteenth-century enclosures, 33
- Northbrook, Lord, on mining royalties, 199
- New York, overcrowding, 178
- New Zealand, land taxation, 113
— housing problem, 114
- OWNERSHIP, rights of, 3
- Overcrowding of towns, 164 *et seq.*
- Open field, 15, 17, 33
- Open spaces, 115
— at the builder's mercy, 216
- PRASANT Proprietors in Denmark, 207
- Peasantry, risings of, 22, 23, 26
- Personalty escapes assessment, 55
— land tax on, dropped, 57
- Philanthropy, mischievous, 149
- Pitt's income tax, 57
— probate duty, 62
- Poll tax, 49
- Post office, 180
- Poverty in relation to rent, 79
- Primer seisin, 42
- Probate duty, 62
- Property and sovereignty, 8, 9
- Property tax, 46, 57
- Protection, inverted, 123
- Public rights over land, 217
- QUEEN ANNE'S Mansions, 215
- RACK rents and Rates, 93
- Railway rates, 181
- Railways neglect the villages, 181
- Rates, by whom paid, 84, 89, 107
— and indulgent rents, 94
— and rack rents, 93
— borne by leaseholders, 90

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