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PLAN OR NO PLAN

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by

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CHAPTER I.

THE NATURE OF AN UNPLANNED ECONOMY

I

IT HAS long been a joke against socialists that they would answer every question and dispose of every criticism by a reference to the "abolition of the capitalist system"; but that if pressed they would, as often as not, be quite unable to explain in precise terms what exactly was to be understood by that phrase: what were the features which made the capitalist system capitalist, and the removal of which would constitute the abolition of that system, as distinct from a mere step forward in its evolution. Equally have they been accused of vagueness in their conception of that socialism, the substitution of which for the present order would, in their view, have such happy results. Like the apocalypst who promises that in the hereafter there shall be "no more sea," the socialists are charged with expecting the imagination of their audience, no less vivid than their own, to fill in most of the details of the picture.

This book, which is chiefly concerned with a comparison of actual socialist experiment in the world of to-day with the economic systems under which the English, the Americans or the Germans are living, and with the probable future relations of alternative economic systems to one another, must begin with an attempt, at least in part, to meet these charges. In other words, any contrast of socialism with capitalism, of plan with no-plan, must begin with a clear understanding of just what is meant by each term.

And we must confine ourselves to *essential* differences; not forgetting that what is called capitalism is by no means the same yesterday, to-day and for ever, and that what in Soviet Russia is called socialism or Communism is

characterised above everything by an astonishing readiness to change its mind : to pass one law to-day and an exactly opposite law to-morrow. We are talking about a world that does not stay put : a world moreover, which is nowhere wholly consistent with itself or, as we shall see, with its own principles. At the outset it is the principles about which we must be clear, not the inconsistencies in their application. The latter may provide sufficient entertainment at a later stage. We have, accordingly, to disentangle the relatively permanent and universal from the relatively temporary and particular. Only when that is done can we go on to recognise that the word "relatively" is important ; that there is *nothing* that may not change in the end ; and that the future may blur over those distinctions which we regard as most fundamental—distinctions for which to-day a large number of young Communists are eager, and a perhaps equally large number of their opponents are prepared, quite literally, to shed their blood. Having, in fact, located our rival economic systems at opposite poles, and made perfectly clear what we mean by north and south respectively, we shall later be ready to consider the possibility of all sorts of cosmic changes, violent or gradual, which may eventually distort the maps which we have so carefully drawn. These possibilities are considered in the later chapters of this book ; but the making of the maps remains the first job, and one which is a necessary preliminary to any discussion of the more exciting and more speculative possibilities of the future.

Fortunately this job has been made very much easier in the last few years by the appearance of Soviet Russia on the scene. There is very little excuse now for the socialist who cannot say what he means by the terms socialism and capitalism. Since the Russians have produced something which by unanimous consent is anyhow not capitalism, it is no longer necessary for the socialist to wander about in the clouds describing the shadowy outlines of mythical worlds. It is not, indeed, necessary to identify any particular socialist ideal with the actual state of affairs now existing in Soviet Russia ; far from it. But the whole situation is simplified,

now that every such ideal can be defined by comparison not with one, but with two, opposed concrete realities. "In my world," said the old-time socialist with exasperating complacency, "there would not be poverty or unemployment or wanton destruction of wealth by greedy profiteers. All this would be changed." "Would it indeed?" his realistic opponent would reply, and the argument generally ended in a deadlock about the possibility of changing human nature. To-day that argument can be carried at least one stage further. "Do they still have these troubles in Russia?" both parties can ask together (that is, if they do indeed desire to test the truth of their respective opinions and not merely to vindicate each his own unconquerable certainty). The answer may be yes, or it may be no. If it is *yes*, the socialist must think again, and attempt to discover whether the economic mechanism that the Russians are trying to operate has in very truth failed to produce the effects which he¹ confidently foresaw from its introduction; or whether their machine is not really his at all, but a quite different one, in which case he must try to define its differences from his own blue print; or whether it is just that things which creak in the hands of Russians would run smoothly under the management of Germans or Americans. If the answer is *no*, then the disputants must attempt to discover exactly what differences between the Russian and the Western world are responsible for this happy result; and the lover of capitalism will doubtless go away pondering whether he could not copy just that much of Communism and still keep the cherished features of the world he knows essentially unaltered.

In view of the predisposition of the human mind towards the *post hoc ergo propter hoc* type of fallacy, or, in plain English,

¹Marxian socialists (including, I believe, the pre-revolution Bolshevik wing of the Russian Social Democratic Party) formerly used the terms socialism and Communism indifferently, in reference to the world which their revolution was to introduce. I use the terms with like indifference except where it is necessary to distinguish between their modern political colour, or between the first or socialist, and the second or truly Communist, phase of the post-revolutionary world as differentiated by the Marxians themselves. See below, pp. 226-229.

in view of the skill of all of us in picking illustrations from the world of experience to fit our preconceived notions about the sequence of cause and effect (so that, for example, we cheerfully argue that an improvement in unemployment after, say, a November election is due to the change of government, when in fact it is just the normal seasonal result of our Christmas shopping)—in view of these weaknesses the appeal to fact is, of course, not conclusive and not without its dangers ; but it remains better than the absence of any fact to which appeal can be made. The hopeless bogging of the old socialist-individualist type of argument (even where it was conducted in a reasonably scientific spirit) was inevitable so long as all the evidence on one side was drawn from experience and on the other from imagination.

II

With this much of preamble we may now get down to the task of enquiring what are the essential characteristics of the two opposed types of economic mechanism that we know. In this chapter we shall be concerned only with the non-Communist unplanned type, leaving the Russians and their plans for the next. And it should be added that at this stage we are talking only about *economic mechanism*—the thing that makes the wheels of industry go round, when they do, in fact, go round ; the whatever-it-is that decides for us what the Planning Commission decides for the peoples of the Soviet Union, namely, such questions as how many pairs of boots and tons of coal will be produced this year, and what your wages and mine will be, and where new factories will, or will not, spring up, or new roads be opened. It is a commonplace that in the world of no-plan these decisions are, as a whole, nobody's business ; but they must in fact get decided somehow all the same.

The explanation is, of course, that the regulator of the no-plan world is *price* ; or, more accurately, movements of price. This is a commonplace to any academic economist,

and it is roughly appreciated by anybody who stops to think about the matter at all ; but it is not, I think,¹ very generally realised exactly how the price mechanism operates and how absolutely vital it is to the no-plan world.

The first important function of price movements is that of rationing restricted supplies. Very few of the good things of this world are yet supplied in such abundance that it is possible to allow all and sundry to help themselves without restriction whatever, as did the fortunate folk in William Morris's *News from Nowhere*, where the hero (who came from our world), on going into a shop (as he thought) to buy some tobacco and a pipe, found to his astonishment that there was no such thing as buying : he had only to say what he wanted, and both tobacco and pipe (with a beautifully-worked red morocco pouch thrown in, because his own was shabby) were his for the asking. That world remains where Morris put it—Nowhere. It does not exist in any capitalist country. It does not exist in Russia. And the Russians, when they tried something like it in the period of "moneyless accounting" immediately after the Revolution, found that they got into a dreadful mess.²

The Russians, it is true, have never altogether abandoned the dream of something like some such happy abundance. But they recognise that, so long as there is any kind of shortage, there must be some system of rationing or distributing supplies. They, therefore, like us, confine absolutely unrationed enjoyment to those things of which it is not particularly tempting for anyone to take much more than his share (such as the domestic consumption of water in normal periods), or which cannot be seriously wasted by the excessive consumption of an individual (such as the use

¹ This opinion is based on a considerable amount of discussion of economic questions with non-professional economic students in adult classes and lecture audiences and elsewhere. I get the impression that while everybody can see in a general way that price is to us what plan is to the Russians, not many apply this perception when they come to discuss practical proposals—e.g. for wage regulation—which involve material disturbance of the economist's "normal" price mechanism. See below, pp. 19 ff. ; 146.

² See below, pp. 57 ff.

of the roads or of the street lighting system). For everything else some rationing system is unavoidable. And it is worth reminding ourselves that, in spite of the enormous undeveloped potential productive capacity of modern industry, *shortage, in the sense of lack of supplies sufficient to permit all to help themselves without stint, exists throughout the world.* It is no doubt true that if our economic system functioned to capacity, a vastly greater quantity of goods of all sorts would find their way to consumers than is now the case; but it is doubtful whether, even if every unemployed worker was fully employed and every technical device yet known to science fully exploited, we could, within, say, two or three years do much more than double the world's present output.¹

A mere doubling, however, would be nothing. It falls pitifully short of the quantity of goods that could and would be quickly appropriated by consumers, if things were actually given away. One has only to compare the standard of living of, say, a fairly successful member of the English professional classes (whose standards of personal consumption would be considered impossible poverty by those who are really rich, as industry and finance reckon riches) with the standard of the man by whom his house is built and his garden dug, not to mention the coolies of China, to realise that a mere doubling of the output of consumables would go nowhere, if we all had a chance to help ourselves to

¹ This is not an accurate statistical calculation (the materials for which do not exist), any more than is Mr. Bernard Shaw's quite unsubstantiated estimate (*Intelligent Woman's Guide*, p. 39) that if "we each took our turn and did our bit in peace as we had to do during the war, all the necessary feeding and clothing and housing and lighting could be done handsomely by less than half our present day's work"—which is typical of many others. The most rapid advance in productivity ever yet known in the history of capitalism is that of the United States in the period 1919 to 1929, during which output per worker is estimated by the International Labour Office (*Social Aspects of Rationalisation*, p. 253) to have increased by 51 per cent in ten years. The Russians, starting from a much lower level, claim (speech of Stalin reported in *Moscow Daily News*, weekly edn., January 15, 1933) to have "more than doubled" the scale of industrial output in four and a quarter years. In view of these estimates the guess in the text (even when allowance is made for the fact that from a quarter to one third of the world's workers are unemployed in different countries) seems to allow a fair margin.

everything free gratis and for nothing. In other words, there will be a shortage of supplies in relation to wants for many a long day yet ; and in consequence *some* machinery of rationing or distributing those supplies must be an essential part of any economic system that we can anticipate within a measurable period ahead.

Now the machinery of price rations with extreme simplicity. Raising prices discourages consumption. You cannot afford to pay the price ; you go without ; or you make do with less goods than you would otherwise have bought. Prices are lowered, and new ranges of consumers come into the market, while others already there think : " Now is a chance to buy a little more of this and that." The manipulation of prices in this way up and down, as supplies are smaller or larger, makes it theoretically possible so to arrange things that the public can always rely on finding as much as they wish to buy, and are prepared to pay for, ready for sale in the shops day by day. And it makes it *nearly* possible in practice for this to be achieved. It is, after all, a very rare experience under capitalism to find that something you wish to buy cannot be had at any price ; and, so far as thousands of articles are concerned, you may confidently expect that what you want is ready *now*, to be had without a moment's notice, whether it be a pound of sugar or a pair of skis. But this merely illustrates the efficiency with which the price mechanism keeps demands from outrunning supply. In this direction the mechanism rations nearly as efficiently (on its own principles) in practice as can be shown to be possible in theory.

The success of the system in the opposite direction is not always quite as great. At the moment we are accustomed to see the shops stocked with much larger quantities of goods than people will buy at the prices now charged for them ; so that an enormous amount of time and effort and money is wasted in trying to induce you and me to buy what we simply do not think worth the money asked for it, and what relatively few of us can be persuaded to think worth that money, even by all the coaxings and threats and

promises of the canvassers who are sent to call on us, and the subtle influence of the competitive advertisements that we see. But the only reason for these blandishments is that those who sell are afraid to tempt us with low enough prices, because already their profits are disappearing, and because in many cases they are actually selling at a loss, which they naturally do not wish to increase. The causes of this muddle will be discussed at length in later chapters.¹ At the moment we have just to take it as a situation which exists.

In that situation it remains true that if the people who have goods to sell were prepared to sell them cheaply enough, even, in the last resort, to the point of giving away what would not fetch a penny or a halfpenny, then they would soon clear their stocks of everything that had any use in this world at all ; and perhaps of a great deal else of which this could not truthfully be said. At each successive reduction of price new buyers could be found. It is practically *all* a question of price. Naturally the demand for some articles expands more quickly as prices fall than does that for others ; naturally some people would buy this and others that ; but there are hardly any exceptions to the rule that it is price, and price only, which prevents consumers in the mass from buying what other people are so anxious to sell. And this failure occurs, not because the price-rationing system itself ceases to be effective, but because we find ourselves unable or unwilling to let it have free rein—a distinction which, while it may sound hardly more than a matter of words when applied to the actual practical world of to-day, has, none the less, considerable theoretical importance, which may well prove helpful for guidance in the future. Movements of price upwards will always eke out a shortage among hungry and clamorous consumers. Movements of price downwards will always discover new possibilities of disposal of stocks ; provided always that nothing is done to prevent these movements from going far enough. There is no absolute demand for anything, though many people are to-day in danger of forgetting this. There is one demand

¹ See pp. 115-156.

at this price, another at that, a smaller demand when the price is higher, a larger when it is lower.

Year in, year out, then, the price mechanism can claim to distribute goods efficiently, in the sense that it equates demand and supply. The present choke-up does indeed show that mechanism at its weakest ; and it is fair to add that this weakness, while it is exceptional in its intensity, is not unique in the history of capitalism. But even the present choke-up is only a *relative* failure. A certain percentage of the world's products that are intended for consumers do not get distributed to anybody at all. It is a significant percentage ; but failure is still the exception rather than the rule. If, indeed, that were not so, things would be a great deal worse even than they are for those who live in the capitalist countries.

It is perhaps wise to remark at this stage that the statement that the price mechanism succeeds in distributing goods with relative *efficiency* is quite a different thing from saying that it distributes those goods *justly*. Smooth working is one thing : just working another. Nor does the common tendency to confound the one with the other do anything but hinder attempts to create that happy state of affairs in which both might coexist. If one throws a handful of meal into a hen-run, the distribution will be neither efficient, nor (I should guess) just. The principles will be those of first-come-first-served plus might-is-right, but they will only be carried out at the expense of a great deal of scuffling and pecking and scurrying to and fro in the attempt to catch a grain before somebody else does. An authoritative poultry farmer might segregate the hens before feeding them and give larger portions to those that were stronger and swifter than to the others. This would be efficient distribution, though it would be neither more nor less just than the other. Equally, of course, might the autocrat of the poultry run reverse the procedure, and feed up the weaker, letting the stronger go short. This would also be efficient distribution : I do not say whether it would be more or less just than its opposite. The question of the equity or justice of our method of rationing commodities is not relevant here.

So far we have considered the price mechanism as a means of rationing only supplies of those articles which we commonly think of as sold in shops. But these are, of course, by no means the only things thus rationed. The rents which are paid for land and buildings serve exactly the same purpose in relation to goods of that more durable kind. In developing districts, where the accommodation available is scarce in relation to the demand for it, rents will be raised and the supplies thus spread over those who can and will pay the rents demanded. Those who cannot or do not think it worth while to do so are automatically ruled out of the market. And, similarly, if landlords or estate agents have over-estimated the strength of their position, and find it difficult to get tenants for their property, it is only through an adjustment of rents, that is of prices, that supply and demand can be equated in the end.

Mention of this kind of price rationing, however, quickly shows that price movements have even more important functions than the mere distribution of this and that to various consumers according to their willingness and ability to pay. For, in the case of such things as sites or buildings, different prospective tenants or purchasers may intend to make quite different uses of their opportunities, should they do a deal with the landlord. A site may be used for the erection of a cinema or a block of flats or a church or a school or a factory. If, in actual fact, the cinema proprietor alone is able to pay the rent demanded, the fixing of the rent at that figure will have done more than merely allocate the site to him personally. It will indirectly have promoted an extension of the supply of motion-picture entertainment, as compared with the supply of living accommodation or religious exercises or education or whatever goods might have been made in the factories that might have stood where the new picture palace is now to be built.

In other words, the second function of the price mechanism is to decide *what* shall be produced. Price movements

regulate the distribution of supplies of goods already in existence ; but they also determine whether those supplies shall come into existence at all, and at what point the production of any particular article will come to an end. In Russia the authorities decide that in a particular year there shall be woven so many thousand yards of cotton cloth ; and they publish this decision, or perhaps we should rather say this good resolution, somewhere in the forty thousand pages of their Five Year Plan. No similar decision is made for this country, though in fact, of course, our production of cloth or any other article must reach some figure and then stop. That figure is reached as the result of forces which reveal themselves through movements of price. The only mechanism which we have for expanding the production of, say, boots and diminishing that of, say, coal is a change in the prices at which these commodities can be made and sold. Our theory is that, if there is an expanding demand for some article, the price that consumers are willing to pay for it will be firm, or will show an upward tendency ; and that this price movement will make the production of that article so attractive that new supplies are called into being to satisfy the growing demand. And equally, of course, the production of anything comes to an end when nobody thinks that the price he is likely to get for producing a scrap more of it will be adequate. In 1932 the output of coal in Great Britain amounted to 201,473,299 tons. The only reason why it was not 201,473,300 tons or 201,473,298 tons was that the movement, actual and anticipated, of all those prices which are relevant to the production and sale of coal made the production of the 201,473,299th ton appear profitable and the production of the 201,473,300th ton unprofitable. And it is, of course, exactly the same force which determines the stopping-point of every other industry. Moreover, the principle regulating the output of our various industries is just the same, whether we are all fully occupied, as during the war, when the contraction of one industry is matched by the expansion of another, or whether we are living in a slump like the present, when all industries taken together

stop short of providing full occupation for our workers and plant. And the principle is not affected by the ambiguities which lurk behind the expressions "profitable production" or "attractive price." At the moment we do not need to say more than that prices are attractive when they attract; that is, when they stimulate somebody to do something or to make something, or to permit something to be done or made.

IV

We may pass now to consider some of the consequences of the fact that it is the price mechanism which determines what is to be produced, and in what quantities. Of these the most important is the power of that mechanism to decide what occupations we shall all follow. If certain things are to be made, it is necessary that there should be people willing and able to make them. But in our system the supply of an adequate, and not more than adequate, number of doctors, tailors, miners, nurses, waitresses, is no more a matter of advance collective planning than is the supply of the goods and services which the members of these various professions produce. At any one moment there is a certain number of people following, or seeking to follow, each of these callings and no more. The question is: how does it happen to be just that number and neither more nor less?

The obvious answer, as everybody knows, is that each of us is what he is as the result of a combination of luck (good or bad), opportunity, tradition, ability and a heap of other social forces equally incalculable. If, however, this was the whole story, and there was no force whatever at work to direct our labour upon something that might be called a rational system, the state of capitalist society would long ago have become even more chaotic than it is. There would be no relation whatever between the supply of workers in different occupations and the prospect of their services being used in those occupations. In actual fact, while every industry is liable at any time to show some such disproportion, and while at certain times there may be a considerable

margin of unused labour nearly everywhere, it still remains true that here again success (in the limited sense of an employer being able to find as many workers as he wants and a worker being able to find someone to employ him) is more common than failure. And, what is particularly to be noted, this degree of success is achieved over periods when there are the most far-reaching changes in the occupations of the people, necessitated by similar changes in the consumption of the people, or in the character of the goods which they make for sale to other peoples. Fifty years ago there were no workers engaged in the manufacture of radio sets and parts or of motor-cars, far fewer commercial travellers or industrial chemists, but considerably more workers on the land. Somehow the former groups have turned up from nowhere and the latter have disappeared.

The only recognised mechanism for bringing about these changes in our society is again that of price movements. New workers are induced to enter industries that are on the up-grade by improvements in the remuneration which they can earn there, as compared with that of the other occupations within their reach. They are (eventually) expelled from declining trades by the discovery that they, or more commonly their sons and daughters, can get better money elsewhere. It is in fact only on movements in the relative price paid for different kinds of labour that we rely for the distribution of that labour between the various uses to which it may be put. In this context the term "price of labour" has, of course, to be interpreted broadly, to include more than the actual money wage paid in different occupations; for, as has often been pointed out, such factors as the nature of the work, the hours of labour, the chances of permanent employment and a host of other considerations have all to be weighed up, when one is considering the relative attractiveness of different callings. If, however, these implications are understood, we are justified in saying that in the unplanned price-regulated society the price of labour is the instrument which regulates the distribution of labour.

This statement carries an important corollary. For it compels us to regard every wage or salary (or indeed any income legally acquired by any means whatever) as two things. It is, first, the reward of the recipient for something that he has done (or, in the case of incomes other than earned, for something that he has permitted other people to do). And it is, in the second place, a means of causing that thing to be done or to be permitted. The difference may be only one of emphasis, but it is very important, because, if the second aspect should be ignored altogether, the system under which we live would break down completely.¹ And it is always in some danger of being ignored. For, outside economic treatises, most discussion of wage rates or of the distribution of income throughout the community is concerned only with the first function of incomes : that of acting as rewards. We feel that our wages are inadequate because we cannot live on them as we think it reasonable to live, or because somebody else, whom we have no reason to esteem as superior to ourselves, earns more than we do. We are, in fact, enormously and rightly concerned with the *injustice* of the present state of affairs, contrasting the few rich with the many poor, and denouncing the impropriety of the payment of large incomes to idle persons. When it comes, however, to proposals for mitigating these injustices, we are immediately brought up against the other view of income payments. If, on humanitarian grounds, wages are raised in an industry the demand for whose products is declining, is there not a danger of an influx of fresh workers seeking employment there just at the time when opportunities of employment are diminishing? If a skinflintish employer, opening up a factory to exploit some new process, decides to pay 20 per cent under the current rate of local wages for similar work, will he (except in times of general unemployment) get anybody to

¹ For a fuller discussion of this subject the reader is referred to Miss L. Grier's Presidential Address to Section F of the British Association, published under the title *The Meaning of Wages* in the *Economic Journal* for December 1925.

work for him? By such considerations our dependence on wage rates as a regulative mechanism for the distribution of labour is shown to be always present in the background, however much we may like to forget it or to leave it out of the foreground. And until something else is invented to take the place of this mechanism, that dependence will remain.

This is true, further, in spite of what was hinted just now about the extreme clumsiness with which the mechanism operates in the actual world, where it is obstructed by unequal distribution of opportunities, social prejudices and so forth. It is a commonplace that few of us are in fact free to dash all over the country from Aberdeen to Plymouth, or to abandon fishing in favour of playing the saxophone in a municipal orchestra, merely because it would be to our economic advantage to do so. Still less can we take up law because the Lord Chancellor gets £10,000 a year and successful barristers a great deal more, when at present we are employed as office cleaners. The regulative force of comparative earnings is enormously obstructed by the fact that we are segregated into social and economic classes, and that movements in the price of labour in one class can affect only the members of that class and a fringe of classes immediately adjacent. Yet in spite of these obstructions it is the *only* force that even attempts to guide the distribution of labour on an intelligible system.

In other words, the effect of these obstructions is to prevent the price economy¹ from living up to its principles: from obeying its own rule that rising prices indicate the need for increased supplies and *vice versa*. It is entertaining to reflect what a different world we should have if those principles were in fact logically carried out; if, that is, the price paid for any kind of labour did effectively control the supplies of that labour, so that higher earnings always

¹ Throughout this book I use the term "economy" as synonymous with "economic system." Thus by "planned economy" is meant a society in which economic activities are deliberately planned, by "price economy" one in which movements of price are the controlling force. This is quite distinct, of course, from the use of the term "economy" to mean saving money or avoidance of waste.

promptly attracted new entrants to a profession, while a reduction of earnings frightened away those already there. Obviously, such a condition could not come about unless all occupations were freely and actually (not, as is the case at present, merely legally and theoretically) thrown open to all sorts and conditions of men and women, and unless all the training necessary for specialised and skilled occupations could be acquired without payment or loss of earnings. But if we could imagine that all the present obstacles to the free functioning of the control of price over labour distribution were thus done away, there would, no less obviously, begin an enormous drift of labour from the bottom to the top end of the present economic scale ; with the result that wages at the top would be levelled down and those at the bottom levelled up, until something much nearer equality would result throughout the whole system : those differences that remained being due either to the superior attractions of some kinds of work over others ; or to the impossibility of training some people for certain occupations (the higher mathematics seems a good example) ; or to temporary factors, due to the necessity of making changes in any given distribution of labour in order to provide for the changing tastes and needs of succeeding generations ; or to the absence of any common opinion as to what is, and what is not, a nice job. In other words, it may be plausibly argued that the *logical* consequence of the very principles on which the capitalist society is itself founded is an inherent tendency towards equality of remuneration for all. This somewhat paradoxical conclusion has, however, no immediate relevance to our present argument ; nor, it is to be observed, does it justify proposals to establish equality of remuneration without making any other changes in the organisation of economic life. To begin at that end would be to induce a gigantic muddle, since it would hopelessly upset any balance between the supply of labour and the demand for it in different parts of the economic field. To say that the principles of the price economy, if carried to their logical conclusion, would continually approximate to equality of

earnings is not the same thing as saying that the introduction of equality of payment into a price economy which does *not* live up to its own principles would teach us reason. It would, most evidently, not have that desirable result.

It is, then, price movements which, though imperfectly, govern the distribution of labour between different uses, with all the incalculable human consequences which that formula implies. And it used to be argued that the influence of the price mechanism upon labour went even further than this ; that, so far at any rate as the more humble forms of labour were concerned, the remuneration in prospect regulated the supply, not merely of workers in one occupation as compared with another, but in all occupations taken together. According to this elegant theory, the worker was supposed to beget additional children in proportion to any rise in his wages ; or, at the least, if this ratio were not exactly realised, there would be a balancing increase in the proportion of the children already begotten who would survive to maturity as the wages of their father rose. It was never explained why at least the first of these two propositions should not apply to the more prosperous as well as to the working classes, and why therefore the superior incomes of the well-to-do had not long ago been wiped out by proportionately rapid breeding. But no doubt in this, as in other matters, the simple answer is that those who theorised about the habits of the workers had not realised that the subjects of their theories were in fact ordinary human flesh and blood like themselves. Be that as it may, however, the doctrine that the *general* supply of labour is thus regulated by the price paid for it in wages has recently lost caste. It is evident that people do not thus adjust their breeding to the laws of demand and supply ; and it is no less evident that, even if they did, the attempted adjustment must be foredoomed to hopeless failure. For the new supply of labour could not (with the school-leaving age at its present level) appear on the market until at least fourteen years and nine months after the occurrence of the rise in wages which was supposed to indicate an increased demand for that labour,

by which time there is every chance that the increased demand will have completely vanished. There may perhaps be a little more to be said in support of the view that the survival-rate of working-class infants varies with the rate of wages. But even this part of the theory does not stand scrutiny much better. For it is very young babies that are most quickly killed off by hard conditions of living, and whose chances of survival are correspondingly improved when the incomes of their parents rise ; and the lag, therefore, between an increased demand for labour, and the supposed appearance of a correspondingly greater supply available for employment, is not much less in this case than in the other. Altogether the theory that the supply of labour in general is governed by the price of labour is (one is glad to think) rather nonsensical. For practical purposes the economic system has to take the whole supply of workers as a datum not within its own control.

v

A somewhat similar theory, however, applied to another part of the economic field has considerably more to commend it, and reveals another sphere in which the price mechanism serves to decide important economic questions ; that is, by its influence on the supply and use, not of labour, but of capital. Since modern industry requires not only workers but very considerable outlay on plant and materials before it can function, some proportion has to be maintained between the production of these auxiliaries and the manufacture of articles directly used in the satisfaction of personal and collective wants, or—what comes to the same thing—between the satisfaction of the moment and provision for the needs of the future. The most casual glance at either the Communist or the capitalist system will show that both devote a very substantial part of their energies to what may thus be termed indirectly, as distinct from directly, useful activities : to constructional work, or the creation of new enterprises which are intended, *eventually*

to enlarge the possibilities of production of all manner of good things. In this matter, incidentally, the Communist society has hitherto altogether outdistanced its capitalist neighbours, much to the confusion of all the prophets.

These roundabout methods of production, as they are sometimes called, involve, however, certain conditions. They cannot be conducted unless the double process known to a capitalist society as saving and investment, or some equivalent to this, takes place. They require *saving* because workers who are engaged on the construction of such things as turbines and adding-machines, which are not directly consumable, must be fed and clothed out of the products created by others who are bakers or tailors ; which, if the bakers and tailors ate all the bread they baked and wore all the suits they made, would be impossible. The work of the constructional workers, therefore, necessarily implies that some provision is made whereby the whole product of industry is not in fact consumed by those directly engaged on its production, or by idle persons served by these ; that is to say, part of it must be saved. Hence the need for the favourite capitalist virtue of abstinence (as it used to be called when practised on the grand scale by those who had little cause to miss that which they abstained from consuming) or thrift (as it is called when practised on the small scale, according to which great individual sacrifice produces small results for the community). This is a virtue which may, indeed, both in its individual and in its social effects, be carried to a point at which it becomes a vice ; but no sane person denies that a certain (and, indeed, as the Russians have cause to realise, a very considerable) amount of saving is necessary for the highly complex forms of industry now in use.

The other side of the process, that of *investment*,¹ is equally

¹ It will be apparent that, in the pages that follow, the term investment is used in a stricter sense than that of common usage. Investment, in the text, means the employment of resources in new enterprises of which a common outward and visible sign is subscription to a new capital issue offered to the public. It does *not* include the purchase (e.g. on the Stock Exchange) of some existing security already in the hands of another holder which is what in nine cases out of ten is loosely

necessary. Investment means using saved funds in the employment of constructional, or indirectly useful, workers. There is evidently no purpose in reserving part of the current output of consumables for the needs of workers employed on projects of construction, if in fact no such projects are initiated and the funds saved never find their way to any such workers. In these circumstances saving, since it reduces the income of the saver without increasing that of anybody else, is merely a form of asceticism, practised (like other forms) by the pious largely at the expense of other people.

Now it is evident that this double process of saving-cum-investment has very important human consequences. It reduces the income of some, increases that of others, alters the character and the methods of production, and has been a prime factor in substituting the black country for England's green and pleasant land, while (in its Communist variety) it is rapidly transforming the Russian steppes into a passable imitation of Detroit. Such decisions, therefore, as those which regulate the extent to which it is to be carried, and the machinery for effectively linking up its two parts, are both humanly and economically very important. Looked at from one point of view, they are just one species in the genus of decisions which is concerned with regulating what shall be made. Looked at from another point of view, they are akin, as was hinted above, to the forces which determine the supply of labour and its distribution between different uses; since there must be some correspondence between the distribution of workers and the supply of factories for them to work in and machines for them to work with. The making of these decisions is therefore one of the big problems of any society, whether of the

(and for his purpose quite properly) described as investing money by the person who buys such a security. In that case it is apparent that the transaction merely involves a change of ownership, and that no *new* investment takes place at all, unless the seller of the security himself happens to use the funds received from the buyer to make such an investment. The distinction is elementary, but I have known confusion to arise through its being overlooked.

planned or of the hit-or-miss variety. How under capitalism do they in fact get made?

The answer is that, at least in part, these matters also fall under the guidance of the price mechanism. Saving and investment have their price, just as much as have goods like boots, or forms of labour like doctoring. That price is, of course, the payment which the saver and investor get for what they do, or permit others to do, with their property; and it is shown, normally, in the rate of profit or interest which they realise on their investments. The first half of the process, that of saving, is, indeed, apt to be unruly from the point of view of the price mechanism. Saving in the capitalist world is, in greater or less degree, performed by all sorts and conditions of individuals, as well as by public bodies who have loans to repay and corporate enterprises who reserve part of their profits instead of feeding them all to open-mouthed shareholders. It is largely a matter of habit, of confidence in the future and of economic status. There are the super-rich who (one hears, though never from the persons directly concerned) save because they are unable to invent ways of spending the whole of their incomes. There are the modest suburban householders buying their houses on mortgage and insuring their lives. There are the business and professional men hoping that their children will inherit capital as well as brains. The motives of all these people, and the bases on which they calculate, are as different as chalk is from cheese. But there seems reason to suppose that the price which they expect to get for their saving is a *factor* which enters into nearly all those calculations. They expect to be rewarded with 5 or 4 or 3 or 2 per cent per annum on all that they manage to put aside; and though some, as has often been pointed out, whose aim is to assure a given income for their old age, will actually save more when the price of saving is low, others will as surely follow the stimulus of higher price as a donkey follows a carrot. They will do for 100 per cent what they would never do for 5. These are the people whose saving is truly strictly controlled by the ordinary functioning of the price mechanism; a

higher price stimulating them to offer a larger supply of saving, just as a rise in the wages of electricians impels parents to apprentice their sons to electrical firms, or an improved profit from wheat brings more land under the plough.

It is, unhappily, impossible to say how much of the total amount of saving actually performed at different times in a capitalist community is amenable to these various influences ; and in particular how much definitely shows the standard responses to the laws of demand and supply. It does, however, seem likely that a rise in the current rate of interest, if sufficiently great, will on balance increase the proportion of saved income. At all events that is what Governments believe when they are anxious to get hold of our savings. During the war of 1914-1918 the Government, in its eagerness to prevent the public from spending all their incomes and to induce them, instead, to surrender as much as possible to itself, raised the rate of interest offered on Government investments higher and higher—obviously believing that the price mechanism would operate according to the standard rules in this sphere and that the more that Government paid for loans, the more money would be lent to it. That belief, to judge from the lessons of experience, appears to have been justified. True, it may be argued that the rise in interest was not so much intended to make people save what they would else have spent in riotous living, as to make them lend to the Government what they would otherwise have invested elsewhere, i.e. that the rise of interest was a means of controlling the distribution of savings between different uses (or users) rather than of increasing their aggregate total. It can only be a matter of guesswork whether or not this is the whole story, and I cannot do more than record my own guess that it was not ; that the prospect of 6 per cent on an investment carrying all the security of the State (reinforced, no doubt, by auxiliary motives of patriotism) did actually induce many of the generation of Galsworthy's Forsytes, brought up on Consols at 2½ per cent, to accumulate more vigorously than

they would have done without the prospect of such a reward.

In other words, it is likely that the choice between saving and spending is at least partly controlled on the same principles as the choice between producing saucepans and producing cheese. And when it comes to the other half of the saving-cum-investment process, the power of the price mechanism is much more absolute. In the complex modern world the two halves of the process are often, though not always, widely separated—sometimes with disastrous results. Thus A (a doctor) saves, and *via* B (a company promoter) gets C (a plantation owner) to invest the results of his saving. The private individual who conducts no business of his own always divides the process somewhat in this way, be he rich or be he poor. On the other hand, the company which finances extensions out of reserves, and the business man who never has any money to spend because he is always "putting back his profits into his business," perform, for the most part, both halves of the process themselves. They themselves pay out in the wages and cost of materials necessary for their new ventures what they themselves have saved. But whether investment is conducted by the actual saver or by someone to whom he entrusts the job, it is clear that it is regulated as closely as anything can be by price movements. Investment, when distinguished from saving in the capitalist society, is simply a matter of using in the development of enterprises, which may turn out well or ill, funds which the investor himself or someone else has refrained from spending on his own or his family's pleasure. The only reason for the process is the investor's hope that these enterprises will turn out well; and the better the results of past investments, the more likely are people to believe that the future is rosy also. That is to say, a rise in the price paid for the service of investment will most readily call forth further supplies of that service. And if all the saved income available for use in the construction of new enterprise is already fully employed, then the agreeable returns offered may, as we have already argued, very well induce

correspondingly more saving. Equally, of course, a decline in the profits of investment will damp the enthusiasm of those who might else have launched out into new undertakings. No doubt mistakes will be made in this, as in all the other operations of the price mechanism, particularly as the period of time which must elapse between the decision to embark upon some new construction and the realisation of its financial results is often necessarily a long one, so that the investor (like the procreating worker of p. 23) may be adjusting himself to an index which is no longer relevant by the time that the adjustment is complete. But there can be no dispute that it is upon price movements that every actual or potential investor has his eye.

And, once again, the influence of the price mechanism dominates both the supply of investment in general and its distribution between various uses. Its power over the latter is indeed so obvious as to require no comment. A large part of our economic apparatus (notably the stock exchanges and the financial press), and a still larger part of the mental energy of all who have the least surplus over what they regard as the bare minimum necessary for life, is devoted to attempts to discover whether investment in, say, oil, commands a better price than investment in, say, soap, and in making the appropriate responses to the conclusion arrived at. To be sure, there is a sprinkling of high-minded persons who are prepared to ignore the readings of the price mechanism when these would suggest investment in breweries or in armament firms; but the number of these idealists is so small, and the scope of their scruples usually so restricted, that they make no noticeable blemish on the obvious generalisation that the distribution of investment is governed entirely by attempted responses to the index of relative profitableness to the investor.

Little more need be said of the influence of the price mechanism on the supply of investment in general. There is no doubt that the supply of this service varies considerably at different times, and that it even varies, though this has only recently been realised, independently of the supply of

saved funds seeking profitable investment. There are times when people fall over one another to embark on the construction of new enterprises even of the most unlikely character. There are other times when it is difficult to get anybody to expand his business, or to open a new one, though you may be ready to lend him the money for the purpose without any charge whatever. The whole explanation of the passage from one such state to the other is obscure. But it is evident to the most casual observer that the primary cause of these moods is belief, even if it be mistaken belief, about the profit to be realised from investment; that is, about the price that will be paid for his services to anyone who takes the risk of casting his bread (or the bread that somebody else has, for a consideration, lent him) upon the waters.

It follows from this that, just as every income paid for work done has two aspects—that of providing a living for the worker and that of acting as a regulative force, controlling the supply and distribution of that particular kind of work—so also every unearned income has the same double character. Humanly or ethically speaking, there may be all the difference in the world between being paid for the sweat of your brow, and being paid for giving permission to someone else to use the plant or materials of which you are the owner, in order that he may sweat in your stead. Economically, however, we have to recognise that the two forms of payment are akin, and that both represent the performance of one of the necessary functions of any complex economic society, which, if it is not performed in this way, must be provided for somehow else. Unearned incomes, whether derived from what economists classify as rent, profits, interest or royalties, are, like earned incomes, first, a way of living for those who enjoy them; and second, a means of distributing the use, and (where this is possible) controlling the supplies, of the properties in respect of which they are paid. Handsome profits, on the one hand, make fat capitalists and good material for socialist cartoons: on the other hand, they act as a magnet, attracting investible savings to

those industries in which it is believed that such profits will be realised, and stimulating the avaricious to accumulate yet more zealously. So also lordly royalties, though they cannot make coal grow where no coal was before, have their part in ensuring that coal shall be dug from the bowels, not vegetables grown on the skin, of land which, technically speaking, is available for either purpose.

VI

We have now reviewed, if somewhat sketchily, at least the more important decisions which, in an unplanned economy, are left to the guidance of price movements. We have seen how price movements ration the distribution of goods when these are already produced ; how, further, they regulate the production of those same goods, determining what shall be made and what shall not ; how (even if clumsily enough in present conditions) to them is left the job of finding workers willing and able to implement these decisions as to what is to be made ; and how it is price movements which decide how far present consumption shall be restricted in the interests of greater abundance for the morrow. We have seen also how the power of that mechanism, and the precision with which it works, is much greater in some parts of the field than in others ; but we have not found that where it works badly anything has been substituted to take its place. It was, for example, clear that the whole business of saving responds imperfectly to the stimulus by which it is supposed to be controlled. Some people continue imperturbably to save all they can, even when the price of saving is running down so low that they would long since have abandoned the habit, had the interest to be derived from their accumulations alone been their guide. In these circumstances, however, nothing is done to induce them to desist, or to see that what they save is in some way or other also invested, except the circulation of letters from the local Mayor urging the public at large to "spend for employment," and even going so far as to suggest desirable

forms of expenditure (such as painting the dining-room or repairing the garden fence or buying new shoes for the children) which that pundit apparently supposes will not already have occurred to his readers. So also, where the price mechanism operates clumsily, not because people will not, but because they cannot, respond to its guidance, the capitalist society ignores the betrayal of its own principles involved. By all the rules, the relatively high earnings of teachers as compared with those of miners should induce a great outflow from the latter into the former occupation. In fact, owing to the obstacles of class and the cost of education, it produces only a trickle in that direction; and there too capitalism has been content to let the matter rest.

Even in this hasty survey of the scope of the price economy however, reference has been made to a large number of major economic questions: I mean those questions which every society has to settle somehow, whether by deliberate planning or by hit-or-miss, and on the settlement of which depend the mode of life and the welfare of millions. These examples will, I hope, serve to give some idea of the potency and universality of the price economy. But it may be useful to add one further illustration, which illuminates the power of that economy yet more clearly by reference, not so much to the sphere in which it is master, as to the limits within which it is at least theoretically confined. Even the Western capitalist world is not without its share of non-capitalist enterprise, represented by those services which are provided by the State and other public bodies. Of these, some, indeed, are conducted on principles which conform so closely to those observed by ordinary capitalist firms that they can hardly be regarded as outside the scope of the price mechanism. To take an obvious illustration, the fact that the Post Office is run by a State Department does not fundamentally differentiate its activities from that of a railway company under capitalist control. Both observe the essential principles of the price economy, regulating the supply of their services by the price which they can get for them, and the

wages which they pay by what they believe to be the current rates for similar labour in other parts of the field, and both seek to make a profit out of their activities. There are, of course, certain differences between the two forms of enterprise, notably the monopolistic position of the Post Office and the consequently improved chances which it enjoys of making a commercial success of its job ; but the two must be regarded rather as different species of the same genus than as distinct genera. For a number of reasons—such as the technical nature of the industry or the desire to collect taxes under the guise of payment for services rendered—all public authorities, national and local, are now responsible for the conduct of a number of industrial undertakings.

Such activities do not, however, exhaust the scope of public enterprise. Other services are undertaken in which the State shows a much more lordly indifference to the dictates of the price mechanism. Such are those concerned with our education or our health or our recreation in public parks, bowling greens and swimming baths. If the supply of these services were regulated by the price which consumers were willing to pay for them, there would be precious little of at least the first-named. Now these services are indeed distinguished only by the *degree* of their independence of the laws of demand and supply from those mentioned above, of which the Post Office is typical. But, so far as that independence is real, they do represent a planned province carved out of the territory of the unplanned system ; and as one school of opinion holds that a public body can do no right, and another that it can do no wrong, there is naturally at all times a great deal of argument as to the proper boundaries of all public services. Since these controversies derive from general principles, they are perennial and for our purpose relatively unimportant. But at times like the present, when the unplanned economy appears quite unable effectively to control the whole of the province normally assigned to it, new and significant issues appear. For at such times all eyes turn towards the public authorities, in the

expectation that they will find some way of so extending their activities as to absorb those workers for whom commercial industry now finds no place.

Now what commonly happens on these occasions is exceedingly instructive. The public authorities feel their responsibility. They are also aware of the truth that employment for employment's sake is a poor affair, and that, therefore, whatever plans they may concoct must be concerned with useful and valuable work, and not merely with setting people to dig holes and fill them up again in one form or another, in order that the diggers and the public may have the satisfaction of believing that the money paid by the latter to the former is wages and not dole. Hence the authorities strive to produce schemes which will both give plenty of employment and provide us with what we were all wanting but were previously unable to enjoy, and they are inundated with suggestions for this purpose from would-be helpful outsiders. Ten years ago it occasionally fell to my lot, as member of the economic research staff of a political organisation, to handle some of these schemes, and I recall that among their contents regularly figured plans for cutting a canal across Scotland, for barraging the Severn so that its tides might be converted into electrical power, for building new roads and bridges and repairing old ones, and for planting hundreds of trees. In consequence of the last item the whole dossier was commonly, and perhaps a little cynically, referred to by my colleagues and myself as "afforestation, etc." Now I have no doubt that these were all, or nearly all, excellent things to be done; and I see with satisfaction that after the lapse of years many of them have found their way into the programmes of other political parties. In 1929 Mr. Lloyd George (on behalf of the Liberal Party) sponsored an admirable project which included plans for rebuilding the (quite remarkably large)¹ number of bridges in the Isle of Ely. But it is difficult to believe that they are exactly the projects, the need of which would have

¹ Six hundred and thirty-eight, in fact. See *We Can Conquer Unemployment*, with introduction by the Right Hon. David Lloyd George.

first struck a visitor from another planet who had been asked to look over our economic system and suggest enterprises which he thought might usefully be set on foot to meet genuine public needs. It is almost impossible not to suppose that such a visitor, after touring the poorer quarters of our cities, would have come forward with plans for so many thousand extra pairs of boots, for increased provision of milk, of underwear, of pots and pans and chairs and tables, as well as with a large housing programme. The absence of these things would surely have impressed him more deeply than would the advantages to be derived from bisecting Scotland or planting trees designed to provide abundant timber two generations later.

The explanation is that in the extension of the planned activities of public authorities there is an implied limitation. These activities must not encroach on the sphere which is still regularly assigned to the price economy. If the price economy fails fully to exploit that sphere, then the public authorities must not step in and finish the job, but must seek some neutral territory to which the price economy has never laid a claim and with which they are not at the moment occupying themselves. They must think of some enterprise the products of which are plainly and definitely needed, yet which would in no case be conducted by a capitalist firm working on ordinary commercial principles, and, further, which they would not, apart from the special crisis of the moment, ordinarily have undertaken themselves. Anybody who has tackled the job will realise that it is not easy to produce projects which fulfil all these conditions, and that the rather curious assortment known as "afforestation, etc." has only been scraped together in the effort to do so. This collection perhaps looks more creditable when the effect of these limitations on those responsible for it is taken into account.

There is, indeed, a certain debatable territory between the two systems, of which housing schemes are a good example. Whereas the provision of working-class dwellings was formerly regulated almost entirely on the ordinary

principles of commercial demand and supply, public authorities have recently made large encroachments on that sphere, and are beginning to think more and more wistfully of the possibilities of combining in one place unemployed builders and ill-housed workers. But, even here, extensions of public planning and enterprise have been achieved only as the breakdown of commercial industry appears to be complete and permanent, and as the responsibility for that breakdown can itself be laid at the door of the public authorities who have deliberately interfered (as by rent restriction) with the free functioning of the price mechanism. Even in this case planned public enterprise can only walk in because the alternative system has definitely put up the shutters and walked out. The absolutism of the price economy is again illustrated by the respect shown by its rival for the boundaries of its domain.

VII

Having thus briefly surveyed the operation of the price mechanism here, there and everywhere, we have now to add some general observations both about the nature of the mechanism itself and about the character of the decisions for which it is responsible ; for it is only if we clearly understand the job that a piece of machinery has to do, as well as the structure of that machine and the power upon which its running depends, that we can judge the efficiency of its working in comparison with possible substitutes.

To take the second matter first, it is worth emphasising that the content of economic decisions is practically always *quantitative*. The answer to an economic problem is hardly ever yes or no. It is more or less ; so much more, so much less. We have to decide : not, shall we spend or shall we save, shall we build houses or shops, shall we train teachers or doctors ; but how much shall we spend and save respectively, shall we have more houses and fewer shops, more doctors in proportion to teachers or *vice versa* ? This, which is indeed obvious, is constantly overlooked by those who are

anxious to show the merits of economic mechanisms other than ours, but whose zealous hurry does not always permit of adequate attention to detail. For instance, I have often heard it said (and plead guilty to having said myself on occasion) that one of the merits of public control of investment would be that it would, or could, distribute the savings of the public on principles more in accordance with public need than can a system run on the present profit-making lines ; that it would, for example, give preference to investment in the building of working-class houses rather than in picture palaces or gramophone companies. Without entering into the general merits of this argument, which raises vast issues (some of which will appear later in this book), we can easily see that, while it may be suitable for emission from public platforms, it is not sufficiently precise for the constructive thinker who has got to get his detail right. For, except in the (after all, not very probable) case in which it is proposed to stop *all* investment in cinemas and gramophones, what is ordinarily meant is that the amount of investment in working-class dwellings would, under such public control, *bear a greater proportion* to the amount devoted to these forms of entertainment than is now the case. (And even if we were to contemplate the extreme step of holding up the production of frivolities altogether, we should have still to consider the rival claims of the housing scheme as against the plans for new factories to produce, say, boots or furniture.) In the picturesque generalised form in which these visions may be presented for public contemplation, attention is concentrated on houses to the exclusion of all else. We just imagine the slums and overcrowding gone and see that a housing programme is good. But the quantitative nature of the question, which has so much less dramatic appeal, is there all the same. If we wish to build more houses we must eventually face the question, how many more ? which means realising that there will come a point when this wish will fade, and we shall be interested rather in the production of other sorts of desirable objects or opportunities for enjoyment. And if we consider that much

of our energy is at present devoted to foolish and unproductive purposes, then, as soon as we are asked to step from the realms of pleasing generalities into those of practical plans, we are bound to decide just how far we are at fault, and at what point we may rest assured that we have eliminated the foolishness, or, perhaps we should say, are guilty only of the kind of folly that is permissible, if not praiseworthy.

Every economist knows where this argument leads : namely, to the conclusion that no kind of work and no kind of product is intrinsically and inherently at all points superior in social value to any other kind. In fact, every university-trained economist always sees red when the phrase "intrinsic value" is mentioned. Yet this conclusion of the relativity of all values is, in my experience, extremely repellent to those who have not undergone this particular form of training ; and many who, on reflection, will accept the argument as an intellectual exercise, revert to their original views as soon as it comes to embodying academic conclusions in practical policies. It is, they find, incredible that (to take the time-honoured examples) bread is not in some absolute sense more valuable than diamonds, or refuse-collectors more estimable persons than pierrots. Nor are they satisfied by the economist's concession of the point that *existing* valuations as reflected in *existing* monetary values may be all out of gear with moral principles or even with social need, understood as the greatest happiness of the greatest number, since these valuations merely reflect aggregated public opinion (and that weighted in favour of the rich), and since people may hold quite mistaken opinions as to what is good either for their souls or for their earthly happiness—that it may, for example, be such mistaken opinions which are responsible for the high monetary value set upon cocaine, the belief entertained by a number of unhappy rich people that this drug will make them happy being in some absolute philosophical sense wrong. For this concession merely leads into the misty spheres of moral philosophy. It does not affect the economist's conclusion that if a thing is desirable at all, it is not

always equally desirable, and is not, therefore, *always* with confidence to be preferred to some other thing which is also (but *at the moment* less) desirable.

Yet this conclusion is surely only common sense, and, what is more, practical sense. It is true that if we could imagine a world in which nobody had anything at all, the inhabitants of that world would certainly call for some of some things before they so much as thought of indulging in the production of any of certain others (see *The Swiss Family Robinson*!); and that, in this restricted sense, the former goods may be said to enjoy an absolute superiority over the latter, and that we may even go so far as to say that the existence of this superiority has in all circumstances a certain potential importance. But these distinctions have no relevance when we are considering the kind of problems with which a complex and developed economic system is concerned. In such a world we have to do, not with beginning at the beginning, but with the provision of an enormous range and variety of products; and, one way or another, the question has to get itself settled how much of each is to be made and who is to have what for making them. In such a world the need for more of this and less of that evidently depends on how far the need for this and for that is satisfied already. It is impossible to deny that the very goods we are instinctively disposed to reverence most may become mouldering encumbrances, if we are provided with these to the exclusion of all else. It is impossible to deny that a very silly mistake would be made if, impressed with the absolute superiority of bread, as the staff of life, over everything else, the whole world devoted itself to the production of bread, and abandoned all other forms of production altogether. It is equally true that, admirable though a certain measure of the services of refuse-collectors may be, these gentlemen would become a public nuisance if we were favoured with such abundance of their attentions that the householder was disturbed every quarter of an hour in order that his dustbin might be emptied.

These last paragraphs may appear to be of the nature of

a digression, serving only to flog a favourite, but not very relevant, theme. But they are, I believe, in fact very closely related to the discussion of fundamental economic mechanisms ; for until the relative nature of all economic values is realised it is impossible to understand what an economic system is *trying* to do, let alone whether it succeeds or fails. Now a system which is governed by the price mechanism adjusts itself, by definition, to movements in relative prices, producing more of this and less of that according as the satiation of one demand is reflected in relatively unattractive prices for further production of that type, and the urgency of another makes prices in other lines correspondingly alluring to the producer. It knows nothing of absolute superiorities and intrinsic values, and finds nothing paradoxical in the fact that in the world of to-day (outside famine areas) people, even working people, will often give more money for a spinning-top for their children than for a loaf of bread ; while, inside the famine areas, the whole scale of such values may be, by comparison, quite topsyturvy. And the price mechanism has the further advantage that it is capable of registering an almost infinite gradation of values, and (where its operation is not obstructed by forces working counter to it) of adjusting its activities to these gradations. In other words, a price is by its very nature an instrument of quantitative comparison, and a finely constructed instrument at that. Where both production and purchase are guided by price movements, both producers' and consumers' problems are immensely simplified, since reference can be made to an index which not merely registers that more of this and less of that is demanded, but which gives also a definite *quantitative measure* of such changes in demand. When prices rise or fall they rise or fall by a certain percentage ; and consumers and producers can therefore deduce both that something is happening and what precisely is the scale of that something ; and they can make, accordingly, what they deem to be appropriate responses both in the nature and in the extent of their actions. We may indeed find that price movements

in the existing world are often false guides, and that the responses which the system makes to them are inappropriate and clumsy ; but at the moment it is worth noting their technical merits as instruments for governing what must in all forms of economic organisation be essentially quantitative decisions. When we come to wrestle with the problems of a planned society, we shall find that it is in this quantitative character of all major economic decisions, in this relativity of values, this complete absence of reliable and universally valid and comforting generalisations, that X is to be preferred to Y—wherein lies the real difficulty of getting those decisions right.

It is almost putting the same thing in other words to remind ourselves also of the importance of the element of balance in all economic decisions. Strictly speaking, that element is present, I suppose, in all decisions. Making up your mind is always making up your mind to follow one course rather than another, and therefore it involves (or rather should involve) weighing the advantages of one course against those of all possible alternatives, in order to strike a correct balance. In economic decisions, which are concerned with making more of this and less of that, spending sixpence here or saving it there, this element of balance should be always in the forefront of the mind. It is foolish to say : "Cigarettes soothe the nerves ; give me sixpenn'orth," unless you have considered whether the benefit to your nervous system, derived from just the quantity of cigarettes that you can get for sixpence, is greater than you can get from spending your sixpence in any other way, or from adding to your savings by putting it in the money-box. It is foolish to say : "I will accept a contract to write six popular articles on economic planning at a guinea each," if you have not satisfied yourself that you could not earn more guineas in the same time by publishing scurrilous sketches of eminent persons ; or if the good things that you can buy with the guineas that you earn do not compensate you for the fact that, when you are writing, you must forego such alternative methods of improving or

indulging yourself as reading the Bible, or making toy aeroplanes for the delectation of your small son, or soaking in a public-house.¹ It is foolish for public opinion to demand, and public authorities to supply, more higher education, if they have not considered what alternative use might have been made of the money spent and the human energy put into this service ; if they are not satisfied that the last ha'porth of education that they supply is worth the effort that somebody made in earning that halfpenny and the vexation of getting it away from him through the collection of rates and taxes ; and that that halfpenny is in fact more urgently needed for education than for anything else in the wide world.² No doubt the impossibility of making decisions which would, in this sense, be perfectly wise, and the fact that if the balances were on every occasion struck with perfect accuracy no decision would ever get made at all, is ample excuse for a very large number of such foolishnesses. But it is not any excuse at all for pretending that such weighing of alternatives does not enter into economic decisions at all, or for not making such attempt as is humanly possible to weigh them, or for commending a course to the public or to oneself without any reference to

¹ The choice of these examples will, I hope, make clear that the term economic is used, not as synonymous with "material," but in the much more useful and precise sense given to it by Professor Lionel Robbins in his *Nature and Significance of Economic Science*, where economic activities are defined as those concerned with the application of scarce means to alternative ends. It will be seen that according to this definition there are no purely economic activities ; but since time and energy at least are always limited, practically everything we do has its economic aspect ; and it follows that to adopt a course which is in the highest degree moral and altruistic may be a better decision from a strictly economic point of view than to follow a road which offers far more selfish attractions. If (*for whatever reasons, noble or base*) a man considers that to read the Bible or to entertain his family is a better use of an hour than to spend that time in earning a couple of guineas, with all the possibilities (again good and evil) which the possession of a couple of guineas brings, then, *even in his capacity of economic man*, he does right to surrender the chance of the guineas.

² Economists will perceive that by stating the matter in this way I have deliberately tried to evade the controversy as to whether there is, or is not, any such thing as "real cost" ; and in this context they will, I hope, regard the evasion as forgivable.

its cost, or to the alternatives which its adoption necessarily rules out. And of these forms of foolishness all economic practice has a rich and varied collection of examples to offer : indeed one of the major tasks in the regulation of any economic society is to avoid making additions to this collection.

VIII

We may now return to the actual mechanism which controls our economic processes. And here the reader may have observed that I have described those processes throughout as governed by movements of *price*, not, as do many critics of the present order, of *profit*. This is deliberate. It is true that profit (itself the margin between certain types of price) plays a special part in our system ; notably because movements of profit take precedence of all other price changes, since the prospect of profit is ordinarily the *first* indispensable stimulus to production. It is only after someone has smelled a profit in the air, that the workers, whose job it is to make the goods that meet the demand that offers the profit, have a chance to get to work. In other words, the satisfaction of consumers' needs is achieved, so far as it is achieved, first through the stimulus of profit, and only secondarily and indirectly because a hungry and eager consumer is a magnet for workers equally eager to make him what he wants. So also the consumer goes without, when the utmost price that he can and will pay is insufficient, not just to provide a living for those who would work for his satisfaction, but, rather to yield a profit that will induce someone to employ those would-be workers. Only in the exceptional cases of a few highly specialised forms of labour, in which consumers and workers are brought directly into contact without the medium of any profit-making employer, can it be said that consumers' demand is thus related directly and immediately to the price of labour rather than to the profit of the capitalist.

Nevertheless, despite this peculiar and prior importance of profit, which becomes of great importance at a later stage

in the argument,¹ at the moment it is the likeness between profit, and price other than profit, that is far more significant than their differences. For the forces which keep an unplanned economy going are fundamentally the same, whether they are reflected in the price paid to employers for employing, or in the price paid to workers for working. Naturally the socialist directs his fire first against profit because, as we have seen, making, or expecting to make, a profit is ordinarily a prior condition of all production ; and since the service of an employer or capitalist who enjoys this profit is, to say the least, not so conspicuously and invariably necessary in the production and delivery of goods as is that of the worker who actually makes and delivers them, profit is in itself an easy and popular target. But the economist has little difficulty in showing that the capitalist who is after maximum profit is the servant of the same law as the worker who is after maximum wages ; and that the rule that production is not carried on unless it is profitable (if you are careful about the definition of profit, as the economist naturally takes care to be) is not essentially different from the rule that in no well-ordered economic system² should we toil at making things that are not worth the trouble of making. Worker, employer, *rentier*, speculator, all of us get our incomes as the price of something that we do or permit others to do, and the doing, or permitting of which to be done, is an integral part of the business of production ; and the attitude of each of us to our own particular price is much of a muchness. A more justly proportioned (as well as a more damning) view of the mechanism of capitalist society is obtained if we admit the essential similarity of that mechanism in whatever part of the picture it appears.

Finally, before we contrast the planned with the unplanned economy sketched in this chapter, it will be useful to determine in what sense the common application of the term " automatic " to the former is justified. Is the capitalist system automatic in the sense that it goes by clockwork,

¹ See pp. 216 ff. ; 319 ff.

² See below, pp. 108 ff.

while under Communism somebody has to pull the levers? In the strict sense this is impossible. For we can only accept the view that anything which is man-made and man-worked, as are all forms of economic organisation, is automatic, if we admit the fullest implications of a rigid behaviourist psychology, and suppose that all our actions are mechanistic responses to particular stimuli. But if that theory is true of one form of social organisation, it must be true of all, and it then becomes nonsense to suggest that one type of economic structure is automatic, while an alternative serving the same purpose does not deserve to be described by that adjective. If the laws of the universe decree that mankind is but a penny-in-the-slot machine, then it is clearly misleading to say that in a capitalist society only the insertion of a penny will deliver the sweetmeats or set the horses racing or tell your fortune, and leave the matter there; because in that case a Communist penny will equally be required in a Communist slot to achieve the same result.

It is, however, not in any such extreme sense that the price economy is sometimes described as automatic. What is implied is a contrast between that economy and what I have called a planned society: the existence of a *peculiar* power in the capitalist régime of running itself, as contrasted with alternatives in which deliberate and voluntary effort is required at every stage. In this sense the use of the term automatic is at once useful and potentially misleading. It is useful because it directs attention to a real difference of principle which does differentiate a planned from an unplanned economy. But it is potentially misleading because it conveys at least a suggestion that the unplanned economy enjoys relative immunity from the dangers of bungled decision, and the prospect of smoother running than its rival. If two machines are advertised, of which one is described as automatic while the other requires attention and control, the effect is immediately to bias the prospective purchaser in favour of the former. And the use of the same terms as applied to the economic system has the same result.

The true difference between the price economy and its alternatives must not, therefore, be sought in any suggestion that in the unplanned system economic decisions are not the result of deliberate human will. That they most manifestly are. The common statement that prices rise or prices fall is, after all, only a way of saying that somebody has decided that it would be wise to raise or lower the price of this and that which is within his personal control, or the control of himself in conjunction with others whom he can persuade to act with him. Prices do not fall in the way that an avalanche does, although the avalanche has provided many a useful metaphor subtly inducing the literal-minded to believe that they do. Supplies do not fall off as the flow of water falls off when the cistern is empty. They are stopped by somebody who decides to close the tap, or by thousands of somebodies who simultaneously decide to close thousands of taps. I should perhaps apologise for labouring facts which are so obvious; were it not that the common use of mechanistic terms to describe the processes of the price economy is liable to create an unjustified optimism or pessimism (according to your point of view) as to the efficacy of those processes—optimism in those who believe that the wise man keeps his finger off a machine that is running of itself, and pessimism in those who feel themselves powerless to interfere with an engine that is driven by forces stronger than the will of man. Largely, I believe, these moods are the result of insidious verbal influences which have been immensely important in determining the attitude of thoughtful people on economic issues.

For the basic difference between the planned and unplanned economy is not that human volition is absent from the latter, but that *the scope of particular decisions is there more narrowly limited*. In every economic system deliberate decisions are made by individuals and groups, and the big picture revealed by the statistician and the economist is the aggregated result of these decisions. But clearly it makes an enormous difference to the final result, whether that picture as a whole was conceived according to definite plan

or not. The economic system is a kind of mosaic (since it is in continuous movement, a kaleidoscope would be a more accurate comparison, but this makes my metaphor altogether too complicated to manage), made of millions of pieces. Little bits are put together by artists, who choose this colour or design instead of that, of deliberate intent ; guessing, as they do so, but only guessing, at what may be in their neighbours' heads. The combined work of all these artists forms the final whole. Now the difference in such a picture, according as each group of artists has control over a larger or a smaller area, may appear to be one only of degree ; but there comes a point at which this difference of degree does indeed become a difference of kind. For it is evident that even if the work is completely planned within three or four separate sections, but *there is no co-ordination of these plans*, then the final result is no more likely to be coherent, and can no more be said to be the result of deliberate will, than if every single worker had done his own little bit according to his fancy, taking the work of his fellow artists, near and far, as a datum over which he has no control.

The distinguishing feature of the price economy is, then, that it knows no such *general* economic plan ; that while the area over which particular wills have control varies enormously, yet it always stops short of the point at which the whole may be said to be willed ; with the result that we easily fall into the habit of describing that whole as the result of mechanistic, rather than human, forces. At one end of the scale the widow of an engine-driver, finding herself left with inadequate means, decides to invest her modest capital in opening a sweet shop. Her area of control is about as small as it can be ; the price of sugar, the wholesale price of sweets, the rent which she pays for her premises and the wages which she pays her assistant, even the retail price which she herself charges for much of what she sells—all these she must take almost entirely for granted, as determined by powers outside her own control. Her particular influence on the market supply and the production of sweetmeats is infinitesimal, although that supply may in the end

be regulated by the aggregated small decisions of people like herself. At the other end of the scale the directorate of a vast combine engaged in the manufacture and sale of matches or of soap may have the entire domestic, or even world, production and pricing of those articles within their own control. Yet the programmes even of the masters of such a giant concern are restricted to those industries of which they are, or of which they represent, the owners. They have no power (unless the irregular and, even to those who exercise it, unreliable, power of personal influence and corruption) over the programmes correspondingly planned for other industries ; nor over the currency policy which can line or empty the pockets of those very consumers on whom they rely to purchase their products ; nor over the general rates of wages which they must take as the starting-point of their own decisions as to the scales that they will adopt. These factors are themselves determined by the decisions of a greater or smaller number of wills operating freely in their own restricted area. Hence the aggregate is, if not strictly automatic, at least unwilling. The output of coal is not considered in relation to the output of silk or of runner beans. And it needs no argument to show that, so long as the area of deliberate control stops short of this aggregate, the most rigorous planning within particular sections of the field, even sections of vast extent, may easily fail of its result.

In one other respect, also, does the term " automatic " suggest a feature of our economic system which it is important not to overlook. While the price economy is, as a whole, innocent of any deliberate plan, yet its behaviour is not entirely unpredictable. Those all-important price movements which, as we have seen, are the result, not of blind force, but of man-made decisions of greater or less extent, are made on certain assumptions and in response to certain inducements. The price economy implies, in fact, definite assumptions about human behaviour within a particular field ; and our ability to forecast its operations depends on the correctness of those assumptions. I have argued that in

the capitalist society it is movements of price which regulate all the major economic decisions, causing this and that to be produced or not to be produced, and so on and so forth. But these movements can only have such effects because people respond to them in a certain way. A rise in price automatically rations out the reduced supply of any article because it is assumed, *and correctly assumed*, that the rise will cause some people to restrict the scale of their purchases of that article below the level previously reached. Fat profits only induce expansion of industry because it is assumed, *and correctly assumed*, that people will, so far as they are able, endeavour to realise those profits on the largest possible scale.

Economists have had many hard knocks because these implicit psychological assumptions, which underlie their interpretation of the working of the price mechanism, are often said to be unflattering to the human species and to be incorrect (two distinct charges which, by the way, must not be treated as though they were identical). The charge that, within the limits within which alone they are presumed to hold, the assumptions are not correct, has not been very successfully substantiated. For a very superficial examination of the working of the price economy shows that in a society where people are expected to behave in the way that that economy postulates, a sufficient number of them do, in fact, so behave as to justify the inference that a given stimulus will produce some result of the kind predicted; even though the scale of that result may not be predictable with equal accuracy. If there is a rise in the earnings of chimney-sweepers as compared with the earnings of all other manual occupations, and that rise is great enough, it appears that some people, at least, do try to take up chimney-sweeping who would not otherwise have done so. This is a generalisation from experience about behaviour in a particular environment, and I do not think that it can be disputed that, *as applied to that particular environment*, it stands on as good ground as any hypothesis can occupy; that is to say, nobody has yet produced an alternative hypothesis

which will more consistently explain a larger number of facts of the type to which it is applied. The attempt to justify any economic reasoning by appeal to experience is indeed dangerous, since in the absence of any possibility of experiment there is always a large element of *post hoc ergo propter hoc* type of inference in the argument. But even while we are alive to this danger, and even while we admit that there can be no formal proof of any economic proposition by induction from experience, it is difficult to deny that there is a certain horse-sense and common sense about the economist's reading of events in this particular field. To take an extreme example, it is an observed fact that a fall in the current rate of interest for the loan of money is habitually followed by a rise in the price of fixed-interest-bearing securities. It is not easy to see a more convincing explanation of this apparent coincidence than the hypothesis that the chance of getting, say, 4 per cent over a period, is more eagerly sought when borrowers generally are offering 3 per cent, than it is when 5 per cent is to be had for the asking. In other words, there is always a sufficient number of persons ready to respond to the stimulus of a change in interest rates in just the way in which the economist predicates that they will respond, to justify his generalisation that a rise or fall in the rate of interest will induce a fall or rise in the value of gilt-edged securities.

It is perhaps worth emphasis that this generalisation, as stated, applies only to behaviour in a particular environment. How far the influence of that environment reaches is not a matter on which the economist has any authority to pronounce. We know that we are all profoundly affected by that environment in innumerable ways ; that, for instance, the very fact that we live in a world where we are expected to take an interest in price movements, and should be considered oddities if we did not do so, is itself a most powerful inducement to us both to feel and to show this interest. Every society has, no doubt, a proportion of natural non-conformists ; but these must, by definition, be a minority. Most of us find conformity natural and easy, and react,

therefore, as we are expected to react, to an environment which is none the less itself modified in the course of generations according to the notions and passions of that very nonconforming minority. In an unplanned society widespread appreciation of the economic aspect of all activity is essential, if people are to be fed and clothed and housed at all ; for, as we have seen, such a society knows no way of providing food and clothing and houses other than appeal to this appreciation. If the conversation in a suburban train did not consist, in something like the measure that it does in fact consist, of lamentations as to the smallness of the passengers' incomes and the weight of the charges which those incomes have to bear, of mutual congratulations on bargain purchases and of the exchange of news about the price of this and that, it is quite literally true that in the end the wheels of that train would cease to go round. For that conversation merely reflects the development of certain mental attitudes, with their corresponding patterns of behaviour, from which is derived the motive power that built and staffs and runs the railway. The superior philosopher may regard this universal preoccupation with the economic as a little peculiar. When he is invited to admire some new and useful object acquired by one of his companions, it may strike him as odd that the first comment expected of him is not something that relates to the object itself, but : "What could you have had instead of this article with which you are so pleased ?"—since that, and nothing but that, is the literal meaning of the usual enquiry : "What did you give for it ?" But this superior attitude is a private luxury of his own, the general diffusion of which would very quickly bring the world of conveniences and comforts, which our philosopher takes for granted, to a standstill.

It is here that some parts of the Russian experiment are, as we shall see in more detail in the chapters that follow, of exceptional interest ; for the Russians, for reasons of their own, are anxious to establish quite new attitudes towards these matters ; and their experience, if they keep on trying

to do so, may enable us to make some guess as to how far the type of behaviour, which human beings who live under one form of economic organisation exhibit, may be modified under another form, and what are the effects of such modification ; and so to define more accurately than has yet been possible the precise limits of the economic generalisations and the psychological assumptions whose applicability to our world I have ventured to defend.

The second charge—that the psychological assumptions of current economics give a regrettably sordid picture of human behaviour—is not (perhaps fortunately) strictly relevant to an argument which is concerned at the moment simply with an analysis of how people may in fact be expected to react to certain stimuli. It has, however, caused so much distress (as well as intellectual confusion) among kind-hearted people who hold fast to the view that any proposition which is beyond a certain measure disagreeable cannot also be true, that I may perhaps be allowed a few words in which to hint that even economic man is not as black as he is painted. For such exhibitions of what is called “acquisitiveness” as we have been examining—which are supposed to be the essential characteristics of “economic man,” and which I have myself indicated as the chief force that makes the wheels go round in every industrial system other than the Russian¹—are after all merely manifestations in one sphere of what is surely a highly commendable principle of rational action ; namely, that of getting the best result you can out of whatever activities you undertake. When obedience to this principle takes the form of giving the fullest possible service that any one life can yield to its fellows, its morality is universally applauded. When it takes the form of overworking and underpaying defenceless youngsters, it is the subject of well-merited abuse. Yet any careful student of economic theory will see that that theory is capable of much wider application than the economist has generally allowed it to enjoy. The economist has

¹ And to a considerable extent in that system also. See below, pp. 75 ff. ; 337.

been chiefly occupied with a sphere in which the uglier manifestations of a certain rule of conduct are unhappily conspicuous. All the same, the rule itself is good : in a world where life is short and opportunity limited, to compare alternative courses, and to seek always to choose that which for least cost will put you furthest on the road you wish to travel—which is to act economically—is also to act wisely. The reformer who fixes his eyes upon the unattractive purposes which men seek to promote by conduct of this type is in danger of throwing away the baby with the bath-water. But he will find that, once out of the dirty water, it is really quite a pleasing baby.¹

¹ It will again be apparent how much the foregoing passage owes to Professor Robbins's *Nature and Significance of Economic Science*.

CHAPTER II

THE NATURE OF THE RUSSIAN PLANNED ECONOMY

I

HAVING sketched a rough picture of the working of an economic system which relies almost entirely on the price mechanism, we have now to turn to alternative ways of managing economic affairs with which experiments have been made.

Here it may be said right away that no society which has attempted to dispense altogether with all use of the price mechanism has had any success sufficient to commend it to detailed study. Primitive forms of communism, innocent of any but the simplest monetary system and using this only sparingly, have indeed a most venerable history. If success were synonymous with power to survive, they would demand our closest attention. But these societies have shown themselves indifferent to what is called economic progress, and the lessons to be learnt from them are of little interest for peoples who do not propose to live as they do.

In recent history we may recall two groups of attempts to organise a society which hoped to avail itself, at least eventually, of the conveniences and comforts of industrial civilisation without recourse to the price mechanism. Such are, first, the various experiments of small idealistic communities, of which the Owenite societies of the nineteenth century are among the best known, and, second, the early days of Bolshevik rule in Russia known as the "period of moneyless accounting." Both are among the curiosities of economic history. The Owenite communities, which attempted to form model societies within a capitalist world (though preferably, and for obvious reasons, not too closely in contact with it), all came to grief. The famous community at New Harmony, which in 1826 had decided

to provide food, clothing, education and housing for all its members without charge, relying on each to "render his or her best service for the good of the whole," less than two years later sold its communal property (at enormous loss to the original founders) into the private ownership of such members as cared to avail themselves of the opportunity of reverting to a mode of living to express their disapproval of which many of them had so shortly before given up their homes and travelled thousands of miles. The history of Orbiston, Queenwood, or indeed any of the other similar experiments in this country and on the American continent was not essentially different. These societies came to an end because their members, taking without stint from the common store which their united efforts produced, habitually consumed more than they produced; or because, when the hoped-for progress towards greater and greater plenty did not materialise, each was prone to suspect that, while he himself put in more than he took out, his neighbour's balance must be on the other side; with the result that unhappy and mistrustful personal relations between the members of the community made it impossible for them to continue their project of setting an example to the world, or indeed to live together on any terms; though it should be added that some of them tried pretty hard before they gave up, even allowing themselves to be reduced to a scale of living which did not include tea, coffee, meat or milk. These societies, however, cannot have included more than a few thousand persons altogether (we hear of eight or nine hundred adults at New Harmony), and, since they were not recruited on any principle except that of admitting those who wished to be admitted, they cannot have represented a fair sample of the vast mediocrities of personnel on which any large-scale economic system must expect to draw. No doubt they were mostly composed of extreme idealists and enterprising scroungers generally classed together as cranks.¹

¹ The reader is referred to Podmore, *Life of Robert Owen* (especially pp. 291, 301, 326 and 352), for a full account of the chief Owenite communities.

The period of moneyless accounting in Soviet Russia, though itself also a curiosity, tells a story of much greater human and economic interest, if only for the colossal scale of its audacity ; and it is worth bearing in mind that, while the Russians were, and are, more than ready to admit its total failure, they still undoubtedly hanker after an eventual return to something not so very different from this system. They still hope that it may be possible one day to dispense with money altogether,¹ and they are predisposed to any measures (like the payment of wages by book entry in a bank, the worker's account being debited for his purchases at shops having accounts at the same bank) which reduce the *visible* part played by money in daily economic life. But they are, as we shall see, a long way from the whole-hearted emancipation from all use of price reckoning which was acclaimed with so much enthusiasm immediately after the Revolution.

The full tale of that emancipation has never been, and never will be, told, for those who were intimately concerned in it were far too much excited by the events of the day to trouble themselves with the discipline necessary for accurate recording. An idea of this amazing attempt completely to abolish all the known and tried means of regulating the economic life of millions of people may, however, be gathered from the pages of Mr. Yurovsky's *Currency Problems and Policy of the Soviet Union*.² We learn that "the method of distribution according to a general plan, the satisfaction of consumers' requirements by a system of rationing and those of the producers by deliveries against special warrant, were gradually to supplant the free market and eventually to lead to its complete abolition." Accordingly the Commissariat of Finance was instructed in 1920 to "take the requisite steps for the abolition of payment for the use of the postal and telegraphic services by all State undertakings and

¹ As recently as February 1932 we find the Union Commissar of Finance explaining that the present policies of his department are intended as a preparation for the day when money will "be handed over to the museums." See Dobbert, *Soviet Economics*, p. 144.

² pp. 21 ff.

Public bodies, as well as for the use of telephones, water supply, drainage, gas and electricity, for the abolition of payment for fuel supplied by the Central Fuel Board, and goods supplied by the People's Commissariat of Supplies, and also for housing accommodation by State workers and officials in nationalised and municipalised dwellings. The abolition of payment signified not merely the discontinuance of payments in cash, but precluded also any form of settlement by means of book entries." A later decree, extending this list, added also the right of free travel on the railways and waterways, while wages were paid at least partly in kind.¹ In 1921 a decree of the All-Russian Central Executive Committee abolished also the collection of taxes.

Under this system nationalised factories were expected to furnish to the Supreme Economic Council particulars of the stocks which they had on hand and of their needs for materials, while they were obliged similarly to dispose of their products to Boards responsible for the conduct of the industries of which they formed a part. Purchase of supplies and sale of products in the open market were expressly forbidden to enterprises which had been nationalised. The authorities apparently attempted to cope with the appalling confusion which not unnaturally resulted from this gigantic experiment by introducing a rough system of priorities.² Whereas, under the price mechanism, the rising price of products which were urgently demanded, and of which there was a great shortage, would have provided an immediate index of the need for those products, and an inducement to producers to expand and hurry on their production programmes, the Supreme Economic Council had to make guesses in the dark as to the relative urgency of different needs, and to carry those guesses into practical effect through the machinery of committee minute and administrative decree. They had to give preference to one industry or factory, and to decide the point at which each preference should cease, on principles of their own and

¹ Farbman, *After Lenin*, p. 111.

² Dobb, *Russian Economic Development since the Revolution*, p. 136.

without any accurate quantitative index to guide them. Indeed, it is reported that so completely ignorant were the authorities of the most elementary economic facts of the situation with which they had to deal, that those responsible for supplies in one district differed by as much as 20 per cent in their estimate of the numbers of the population under their care.¹ The results were sometimes startling ; as, for example, when the production of pencils for Government offices was scheduled as a shock industry of special importance² ; though, perhaps, the step was not wholly unreasonable, since, in circumstances in which the whole feeding of a people depends on Government decree, the provision of pencils with which Government officials can record their observations and decisions may fairly claim to be a prior condition of any economic activity whatever.

To solve the problem of setting workers to perform the tasks necessitated by their production programmes, the Bolsheviks at this stage certainly relied to some extent on industrial conscription. At first this appears to have been applied only to the dispossessed classes (who cannot have provided a very large or efficient labour force), but afterwards the liability of every citizen to perform whatever work might be required of him was expressly reaffirmed ; and in 1920 committees were charged with the heroic task of organising compulsory labour in different localities.³

Moneyless accounting did not, however, have a very long life, though it must have provided plenty of fun while it lasted. It is an open question whether the fact that its introduction coincided with Civil War on such a scale that there were at one time at least twenty Governments and pseudo-Governments claiming authority between the Urals and Vladivostok alone,⁴ was to its advantage or disadvantage. Keen admirers of Bolshevik policy generally assume the latter ; but it may equally well be argued that

¹ Dobb, *Russian Economic Development since the Revolution*, p. 134.

² *Ibid.*, p. 137.

³ Lawton, *Economic History of Soviet Russia*, Vol. I, pp. 115, 128 and 162.

⁴ De Monzie, *New Russia*, p. 152.

war (civil or foreign) is a great simplifier, enormously reducing the range and delicacy of the economic balances that have to be struck ; and that, further, the existence of a state of war enables the authorities to get away with a degree of muddle and confusion which would never be tolerated in time of peace, when a higher degree of performance is generally expected. Whatever the cause, however, the Russian people were presently reduced to a state of which it is recorded that the output of industry fell to between 10 and 15 per cent of its pre-war level, that railway traffic reached only 12 per cent of pre-war figures, that the consumption of bread per head in the towns was nearly halved and that 5½ million people fell sick of typhus.¹ Statistics compiled in these circumstances are not likely to be particularly accurate, but, even if those just quoted are merely guesswork, the fact that such guesses could be made is some indication of the completeness of the collapse. Such was the unhappy ending of the first large-scale experiment in moneyless accounting. Its result was the fairly general restoration in 1921, by Lenin's famous New Economic Policy, of the familiar mechanism of price, purchase and sale. Payment for such public amenities as railway transport and postal services (not to mention food rations) was reintroduced by express decree, while nationalised enterprises were given permission, first, to buy their materials, and then also to sell their produce in the open market.²

II

Twelve years have now elapsed since this astonishing chapter was written on the pages of history ; and, as is well known, those years have been devoted by the Bolsheviki to experiment in the organisation of what has come to be known as a planned economy. I use the term "experiment" advisedly, for during the whole period the Soviet régime has shown, and still shows, a power of trying out new

¹ De Monzie, *New Russia*, p. 171.

² Farbman, *After Lenin*, pp. 108, 109.

and bold ventures, and of discarding lines of policy that prove unsuccessful, which is one of its most conspicuous points of contrast with the Western world, suffering as the latter does from widespread and disabling paralysis of all collective will. It is therefore most unlikely that the details of the economic organisation which obtains in the Soviet Union at the moment have any permanency ; and it must not be forgotten that the comparison drawn in this and the preceding chapter between the planned economy of the Soviet Union as it is at the time of writing, and the price economies of Western industrialism, has only a passing *historical* interest. Nevertheless, the Russians have proceeded far enough, and consistently enough, along lines which are clearly other than ours, to suggest that it might be profitable at least to take stock of what they have achieved, and to begin to look for conclusions of some enduring relevance which may be drawn from a comparison of their experience with our own.

Following in the main the order adopted in Chapter I, we may conveniently begin by examining the mechanism employed in Soviet Russia for rationing supplies to consumers. Since goods are offered for sale in Soviet shops, and can be bought there by those who have money to buy them, the price mechanism has evidently not been *completely* abandoned in this department of economic organisation. But it is our price mechanism with a difference.

For the orthodox mechanism is supplemented by a system of rationing by cards which permits definite quantities of certain articles, and no more, to be bought at the prices charged for them in municipal, co-operative or other public shops by the persons entitled to hold these cards. Like all Bolshevik arrangements, the method of issue of these ration cards or books, as well as the scope of their use, has been frequently changed ; they have been issued by the co-operatives, by the Government or by the plants in which workers are employed.¹ But some form of rationing applied

¹ Hoover, *Economic Life of Soviet Russia*, p. 134 ; *Moscow Daily News* (weekly edn.), December 10, 1932.

at least to important foodstuffs has been a constant feature of the Soviet régime ; and the ration scale is an important instrument for giving special privileges to sections of the people whom the authorities regard as particularly honourable, or whose work is particularly important to the execution of their plans, and for penalising those who are despised or feared. Thus, as is well known, the disfranchised classes, including ex-Tsarist officials, priests and persons found guilty of certain offences against the Soviet régime, are deprived of their ration books altogether, whilst workers in heavy industry, or shock workers, may be rewarded with specially handsome supplies.

The existence of any such system of rationing shows that the price mechanism does not completely fulfil what we regard as its normal function of distributing goods to consumers. Indeed, its power in this sphere is quite narrowly restricted. For the level of prices charged for rationed articles must be much below that which would normally be attained in similar circumstances in other countries ; otherwise no card would be necessary, since the prices charged would be high enough to make supplies go round, by the simple process of choking off the poorer consumers. The Russians *could* achieve nearly the same result as that produced by their rationing system by the alternative process of allowing prices to reach the level at which consumption and supplies would match, and then adjusting the money wages paid to different classes so as to carry out the system of preferences referred to above. I say nearly, but not quite, the same result, for it is evident that if they had adopted this latter method, the privilege which the favoured classes would enjoy would be general, whereas under the rationing system it is specific. If I have more money than my neighbour under a price economy I can buy more than he of anything I happen to choose. If, on the other hand, I have only a larger meat ration, my superior economic status is reflected in more abundant eating of meat and in that alone.

This distinction between the specific and the general form

of economic advantage is one which has probably little practical importance in Russia at the moment, but might easily come to be very significant. It has little practical importance because, where the standard of living is as low as it is in that country, people are in general agreement about what they want next. If it is food that a man wants, it does not make much difference whether you give him a card entitling him to larger rations, or money that enables him to buy more to eat. But these two methods only achieve the same result because it happens that the views of the man who holds the ration card, and those of the authority that gives it him, about the relative importance of various lines of consumption happen to coincide. They both agree that he wants food before anything. But this agreement does not alter the fact that, wherever distribution is managed by rationing of definite articles, it is the rationing authority and not the consumer himself who decides what particular goods the consumer is to choose within the limits of available supplies. Rationing implies that for one reason or another it is better to let the authorities settle for us whether we should have more slices of bread thinly spread with butter, or fewer slices with a better covering on each, than to grapple with these questions for ourselves. Clearly this implication might become very important indeed when we have reached a standard of living at which matters of bread and butter require little attention, and our minds are exercised rather with the choice between such alternatives as taking a holiday at a health resort or buying a first-class radio-gramophone. The higher the standard of living, the greater the probability that the choices of different individuals as to the most desirable lines of consumption will not coincide, and the greater, therefore, the chance that a decision which is authoritatively made will in any particular instance be other than that which the individual concerned would have made for himself.

The ration card, however, is not used in the Soviet Union as a complete alternative to rationing by price movements. Many articles are not rationed, and rations may be fixed at

a somewhat optimistic level. Consequently a good deal of the distribution of supplies is left to sheer chance. If the price charged for an article is sufficiently low to induce more purchases than can be satisfied from the stocks available, the distribution between the various purchasers *must*, in the absence of any system of organised priorities, be a matter of chance. And with rationed articles the situation is the same, if there is any doubt whether the official rations can in fact be met in full. In the circumstances, as economists have long realised, either a queue or a scuffle results.

There is, I think, little doubt that both these factors contribute to explain the long queues which form outside Russian shops, as well as the scuffles which one hears take place from time to time (I have not seen them myself) in the ragged edges of these queues. Rumour goes that a supply of this or that unrationed article, which is not always to be had, is available at such and such a store, and people hurry off to get some before it is all snapped up by others. Similarly, the fact that Russians queue up also for their rationed supplies is itself at least a hint that they have not complete confidence that the ration will be safely there to be claimed at any convenient time. Rightly or wrongly, they believe that it is wiser to secure an early place.¹

It is perhaps worth emphasising the point that a queue (or a scuffle) is merely the symptom of a particular method, or lack of method, of distribution of commodities, and not in itself any indication of greater shortage than may exist

¹ An additional and important factor in the formation of these queues may be the inadequate number of shops, or centres of distribution of goods. Even if there are sufficient supplies in the shops to satisfy all purchasers who can afford the prices charged for them, or, where ration books are used, to meet the permitted ration in full, there will still be a string of waiting customers if the number of shops is too small to provide accommodation for all who come to be served at one time. The difference between the queue thus formed, and one formed because prices are lower or rations larger than supplies justify, is that in the former a better place in the queue simply means a prospect of getting your shopping finished in less time and has no effect on the scale of that shopping; while in the latter it means a chance of being able to go home with an actually larger proportion of the goods you want than the customer behind you will enjoy.

where anxious customers are never seen lining up outside a shop. For the public of countries which do not employ these methods jumps very readily to the conclusion that the longer the queue the more terrible the scarcity. Yet the error of this inference may be seen at once, if we look at the exceptional occasions on which similar methods are employed in countries that ordinarily regulate the distribution of goods entirely by the price mechanism. Such occasions are, for example, the sales arranged periodically by firms dealing in women's clothing or household goods, when prices are lowered on a particular date for a short period only. On these occasions it is no uncommon experience to see a queue forming outside the shops before the time of opening in the morning, while scuffle plays a material part in the allocation of goods between eager customers throughout the day. It would, however, be a complete mistake to suppose that the appearance of this queue is any indication of exceptional shortage. On the contrary, the very presence in the queue of many of these customers indicates that their chance of getting the goods to be sold is not *less* but *greater* than usual. When no sale is being held, these people stay away from the shop altogether, knowing that the goods are priced beyond their means. It is only the lowering of prices to a point at which the supplies available are not sufficient to meet all the purchases that the public is prepared to make at these prices, that gives people who are ordinarily out of the running altogether, because they are too poor, a chance of competing as buyers on even terms with their richer neighbours. And if we apply the same reasoning to commodities of more universal demand, for the purchase of which queues are practically never formed in normal circumstances in the Western world (such as butter or meat), it will again be apparent that the presence or absence of a queue has nothing whatever to do with the degree of shortage, or the extent of unsatisfied desires. In this country there are people who would like to buy meat and there are people who would like to buy butter, but cannot do so.¹

¹ See, for example, Fenner Brockway's *Hungry England*.

These people do not line up outside butchers' and grocers' shops because they know quite well that this would do them no good at all. They could not afford the prices which they would be asked to pay. Consequently the rest of us do not see these people, and are apt therefore readily to assume that they do not exist, and that everybody around us is getting all that he wants of primary foodstuffs. In Soviet Russia, people in a similar position know that if they are lucky enough and early enough they will have a chance of getting meat or butter, and that the price will not be an insuperable obstacle. Consequently these people hurry to the shops to get there before all the stuff has gone; and foreigners see them and are shocked.

All that has been said above applies only to the publicly controlled system of distributing commodities through co-operative and State shops and similar institutions in the Soviet Union, in which prices are fixed as part of the general plan, or which are at least expected to conform to the general principles of the plan, even when these necessitate their charges being fixed below the level that would exactly ration out supplies to consumers, according to the normal functioning of the price mechanism. In order not to give a distorted picture of actual conditions it should be added that there is a fringe of trade conducted in the Union outside that system altogether, in which movements of price are controlled just as they are in unplanned societies, though with less nicety than is usual in the Western world. This open-market trade deals partly in the supply of goods which are too frivolous to be included in the system of planned production (I have seen flowers and children's coloured paper toys, such as are sold at fairs in this country, offered on these Russian markets), partly in goods of which a limited, but not an adequate, supply is provided by the publicly owned shops (as, for example, articles of clothing), and partly in foodstuffs which peasant producers are allowed to sell in this way in order to give them a sufficient incentive to production.¹ These markets follow the pattern

¹ Of which more later. See pp. 86-88.

of Eastern bazaars, and the fixing of prices on them is, I understand, mainly a matter of bargaining, conducted on immemorial, and, from the point of view of the functions of the price mechanism, entirely orthodox, principles.

III

We may now pass from the rationing of consumption to the control of production, and see what scope the Russians think proper for the price mechanism in this sphere. Here it will be useful to deal separately with agricultural and industrial production, since the methods employed differ considerably in the two cases. The following paragraphs relate primarily to industrial production alone, though some part of what is said may apply equally to agriculture, the special conditions of which are dealt with later.¹

The big decisions that must be made in the sphere of production—notably, what shall we make, and in what quantities?—are incorporated in the general economic plan of the Soviet Union. To visualise the process it is necessary only to realise that Russian industry is conducted by factories which are owned or controlled by, or incorporated in, some public body. The actual forms of organisation are very various, but the main lines will be seen clearly enough from one or two typical examples.² Thus a chemical factory may be a constituent unit in the All-Union Chemical Combination, a textile mill the property of a local textile trust (publicly owned, of course) and a bakery run by a local authority like the Moscow Soviet, much as municipalities own and manage their own trams in this country. But, whatever the particular form of organisation, the combination or trust or local authority responsible for an industrial undertaking is an independent body having a definite legal status and powers of making contracts and holding property,

¹ See pp. 83 ff.

² For detailed study of the forms of Russian industrial organisation see Hoover, *op. cit.*, ch. i, and Burns's *Russia's Production System*, *passim*.

somewhat similar to those of a joint stock company or public utility corporation in this country.

When plans are to be made, the main outlines of what is to be achieved are laid down in Resolutions of the Congress of the Communist Party, e.g. these resolutions call for a threefold increase in the rate of output of consumers' goods in the second Five Year Plan, to be completed in 1937.¹ Every factory or industrial unit is then instructed to prepare its draft programme in fulfilment of these aims, while the Planning Commission (Gosplan), with the aid of its local units, also prepares plans. The factory plans are submitted to the trusts or other bodies responsible for these factories, and forwarded by them to any higher authorities, e.g. by a local trust to the All-Union Board to which it is subject, until the drafts reach the Central Planning Commission in Moscow. This Commission then revises and criticises all these tentative programmes, makes sure that they are consonant with the guiding instructions laid down in the Party Resolutions, and so constructs the final Plan, the relevant sections of which are now sent back along the same channels as instructions to which the various units are to work.

The content of these plans includes both programmes of production expressed as physical quantities (there are to be so many tractors made, or so many tons of coal mined, during a given period, and such and such an output rate maintained) and regulations as to the prices to be charged at all stages. It does not fundamentally alter the principle of planning, though it may complicate its administration, that the control of prices and the supervision of production programmes may (to an extent about which I should not like to be too precise) fall within the purview of independent authorities. The prices of producers' goods, for example—plant, buildings and so forth—appear to come under the control of the Supreme Economic Council, which has also main responsibility for production plans, while a separate department, the Commissariat of Trade, is primarily

¹ See Dr. Dalton's essay in *Twelve Studies in Soviet Russia*, edited by Margaret I. Cole, pp. 21 ff.

responsible for fixing the prices of at least a large number of the things that finally consumers buy. Whatever the exact machinery by which the plans are finally "mounted," it is clear that every unit has to work to a programme which includes both physical quantities of work to be got through and financial limits to be observed. Great stress, indeed, is everywhere laid on the financial side of the programme, and the visitor to any Russian institution—school, factory or recreational club—who enquires how this is managed, will almost certainly be told at an early stage about the budget of the institution. There is so much money to be spent by this particular unit, and it is understood that the money will in the main be spent on such and such objects, the degree of financial autonomy, and the extent to which the money is actually handled by the managers of the institution concerned, depending of course on whether or no this is itself a subordinate part of a larger unit, as a single factory is subordinate to the trust in which it is incorporated.

How far, then, we may now ask, do these plans and budgets imply that the production programmes of the Soviet Union are controlled by a price mechanism comparable to ours? Superficially there is indeed a resemblance, since, from the time when moneyless accounting was abandoned, it has been a principle of Soviet planning that every independent unit should, in a sense, cover its cost and show a profit. So strongly, indeed, do the Soviets insist on this principle that a decree has been passed requiring the names of those State enterprises which have become bankrupt to be published.¹ It might, therefore, at a first glance well be argued that the Soviet economic system is a profit-making system just as much as ours, the difference between the two lying in the use made of the profits realised, which in this country normally go into private hands, while in the U.S.S.R. they are paid to some public body; and that the decision how much of each type of commodity shall be produced is made, as much under the Russian system as under ours, in obedience to the rule that each line of production

¹ See Dobbert, *Soviet Economics*, p. 75.

is carried to the point, and not beyond the point, at which a profit can be made from its sale.

The likeness is, however, only superficial. For, quite apart from the possibly fundamental distinction between a price mechanism the movements of which are the result of many unco-ordinated wills and one in which decisions as to currency, production of all types, payments to workers and pricing, are all related under one scheme,¹ there are two immediate differences, lying nearer the surface, between the Russian method of regulating the quantity and direction of production and ours. In the first place, though the various industrial combinations are expected to show a profit, in the sense that their income from all sources must cover their outgoings of all kinds, that income may include substantial grants from public funds. These enterprises are, therefore, not necessarily profitable in the sense that the sums received for the sale of their product in each case more than cover the costs incurred in making that product. In our world many of them could never be conducted on the scale on which they are conducted in Russia, since a system rigidly operated by the price mechanism would eventually drive them into liquidation. Instead, under the price economy there would, probably, be a greater development of those forms of production which under the Russian system yield abnormally high returns, and which are, in fact, the source from which are found the subsidies paid to the unprofitable industries.

In the second place (this is nearly restating the same point from a slightly different angle) the Russians do not regard the realisation of large profits as a reason for expanding an industry in the future, or the absence of profits as a reason for contracting it. Under the price economy such movements of price margins are, as we have seen, the sole recognised method of restricting the output of, say, coal, and extending the manufacture of cinema films or the building of swimming-pools. The Russians, prepared to subsidise one industry out of the proceeds of others on

¹ See below, pp. 88 ff.

purely authoritarian principles, shape their future plans without being bound by these indicators of past experience ; though they still claim that each corporate unit, taking into account in its income any such subsidies received, realises a profit on its operations.

It follows, from what has been said, that just as the Soviet planned economy settles what is to be made with relative indifference to the index of price movements, so also decisions as to the allocation of capital and natural resources between alternative uses are made with like indifference under that system. As we have seen, the price economy determines whether land will be used for building and, if so, whether houses, churches, flats or cinemas will be erected upon it, or whether it is to remain under agricultural cultivation, mainly by comparison of the financial results to be obtained (including, of course, long term as well as immediate results) from these alternative uses. The Soviet economy, which recognises no private ownership of land, and refers in most uncomplimentary terms to the payment of rent, has no similar scale by which to reckon. So far as I can learn, rent has no part, even as a purely accounting item, in the budget of Soviet institutions. And even if there are exceptions to this rule (it is generally safer to suppose that there are exceptions to all Soviet rules), it seems clear that no preference would be given to one tenant of a site over another on the ground that the former would be able to make a more substantial payment for its use. Land is allocated under the plans for this purpose or that as the powers that be see fit, and I have never been able to find any evidence that a quantitative monetary comparison of the utility to be derived from its various possible uses influences these allocations.

The mental processes by which the allocations are made by the responsible authorities are no doubt akin to those which operate in the mind of the profit-seeking landlord. Both consider alternative uses for their property and decide on that which they think will enable them to get the best out of that property. But whereas the one interprets the term

“satisfactory” in the light of a definite monetary scale of values, the other acts upon *a priori* principles not subject to any precise quantitative measurement that can be objectively recorded. The Soviet authorities say: We have decided to use this site for a furniture factory and not for a cinema because we think the former a better use for it. They do not add: And we have arrived at this conclusion in view of the fact that a 20 per cent greater rent can be realised for its use for the one purpose as compared with the other.

So also with the distribution of saved resources between alternative uses which we have described in the preceding chapter by the term investment. The choice between one investment and another, by which we mean simply the choice between expanding and developing one industry in preference to another, is necessarily governed by prior decisions as to what is to be made, and must follow the lines which these lay down. If the production of coal is to be increased by 30 per cent in a given period, then an appropriate proportion of the workers and materials that are concerned with the manufacture of capital equipment must be set to make the particular kind of equipment used in mining.

The control of the *volume* of saving is a little more complicated than the method of distributing resources already saved between various uses. Saving, in the Soviet economy, appears to be achieved in two different ways, namely, by individual abstinence on the one hand, and by the process generally described by English-speaking Russians as “socialist accumulation” on the other. Individual savings are made in response to the same general type of inducement as is used in other countries. Public loans are issued, to which the people are urged to subscribe from their wages, and the reward offered is a rate of interest (generally at a level such as exceeds the wildest dreams of fancy of the investor in the public loans of capitalist countries), plus, as a rule, the chance of winning a lottery in which the prize is either a sum of money, or a privilege such as that of a free holiday in the Caucasus. Similarly, money may be

deposited at interest in savings banks. It is perfectly clear that in offering these attractions the Soviet authorities are relying on the strictly normal working of the laws of supply and demand. They believe that bigger prizes and higher interest will stimulate the offer of larger supplies of saved resources ; although at the same time they endeavour to keep the price which they have to pay for these resources as low as they can by supplementing the financial inducements with appeals to the enthusiasm and patriotism of the people and with various forms of moral, and perhaps more than moral, suasion.¹

Saving by socialist accumulation, on the other hand, is comparable with the savings made in capitalist countries by the reserve allocations of joint-stock companies and similar bodies. The various Russian industrial corporations are expected to deposit a certain proportion of their profits with the Bank for long term investment (Prombank), from which advances are made for new construction, at a relatively low rate of interest or, according to some authorities, at no rate of interest at all.² The necessity of thus contributing to socialist accumulation is taken into account in the determination of the price policy of these corporations, and they are accordingly required by the plans to charge prices which include something for this purpose, over and above the strict costs of production incurred in the manufacture of the goods which they sell.

This second type of saving clearly cannot be governed by reference to the price mechanism in our sense ; because there are no prices to refer to. Consumable goods are indeed eventually sold to the public, and the authorities can, if they wish, take note of the interactions of demand, supply and prices. But the Soviet régime permits no market for savings and investment, and the savings policy of nationalised

¹ See Hoover, *op cit.*, p. 251, for an account of the system of making deductions from wages for the purchase of Government bonds.

² Hoover, *op. cit.*, quotes rates varying from 2 per cent to 6 per cent, but, according to Mr. F. W. Pethick-Lawrence's essay in *Twelve Studies in Soviet Russia* (p. 39), Prombank " does not charge interest on the main funds it provides to industry."

enterprises must therefore be guided entirely by inner light, and not by movements in the market for capital, in the way that their production policy may be guided by events in the market for goods. I have not been able to trace any reliable figures showing the extent to which capital construction in the U.S.S.R. is financed from each of the two sources named.¹ In view, however, on the one hand, of the great importance attached everywhere to socialist accumulation, and to the high proportion of profits which the industrial corporations are expected² to deposit for this purpose, and, on the other hand, of the great poverty of the people, as well as the probability that after the events of the last sixteen years they have little faith in the security of investment (or in the political wisdom of accumulating too much), I do not think that there can be any doubt that the overwhelmingly greater part is provided from collective, and not from individual, abstinence, i.e. that the sphere controlled by the price mechanism in this matter is extremely restricted. And it is a possible corollary from this conclusion that, if the provision of new savings in the Soviet Union were left simply to the forces which control accumulation in other countries, the total volume of resources saved in that country to-day would not exceed the relatively modest amount subscribed by the people to the public loans, or deposited by them in savings banks.

IV

We may now pass to consider how the planned economy carries into effect the last of the groups of major economic decisions described in the previous chapter, namely those concerned with the distribution of workers to the various places and callings where they are wanted. And here we

¹ As Professor Hoover points out (*op. cit.*, p. 59), the figures available which attempt to total the two main forms of saving overlap so much that they are of no use for our purpose.

² Professor Hoover (*op. cit.*, p. 25) gives 25 per cent as the proportion of the profits of trusts (after payment of income tax) allocated to capital expansion.

come to one of the most critical points in any planned economy. For those economic decisions which are concerned with the actions of people fall necessarily into a different category from those which are concerned only with the use of things. It is possible authoritatively to decide that a certain piece of land shall become the site of a theatre. All that is required in order that this decision may be carried into effect is that the person who makes it should be the owner of, or exercise a control equivalent to ownership over, the land in question. But outside a slave economy, where the rights of ownership extend to people as well as things, it is not possible to decide in the same way that a certain person shall become an actor in that theatre. This decision can only become effective if the co-operation of the person concerned is somehow obtained. In other words, so far as everything to do with the control and distribution of labour supply is concerned, no economic system can function which cannot depend on certain patterns of human behaviour ; and a planned system is brought sharply up against the fact that its smooth working depends as much upon getting people to carry the plan into effect, as upon the wise and consistent construction of the plan itself.

Now in this matter the present position of the Russian economy presents a most interesting dilemma. At the moment the Bolsheviks rely very largely upon the price mechanism in this sphere. But because their social philosophy involves certain principles not to be very happily reconciled with this reliance, there are at the moment some awkward inconsistencies and clumsy compromises in their management of this part of their system ; and though they have not yet found a complete substitute for the price mechanism in the control of labour supply, they are eager to avail themselves wherever possible of machinery more consistent with the Communist philosophy.

Of the general predominance of the old-fashioned price mechanism in regulating the distribution of labour in the Soviet Union there can, I think, be no doubt ; at least in the sense that there is no other instrument which plays

anything like so large a part in the business. That this machinery operates in exceedingly clumsy fashion, and that much of the distribution of workers between different localities and occupations is a matter rather of chance, habit or prejudice, than of reasoned economic calculation, is, of course, at least as true of the Soviet Union as of other societies which rely, not, as the Russians do, mainly, but entirely, on this mechanism. People drift and blunder all the world over. But it seems clear that in the Soviet economy, as elsewhere, a worker finds his way into his particular job as the result of personal choice operating within certain limits, and that economic calculation of the ordinary type plays, and is expected to play, its part in this choice. The element of personal choice appears in the conversation of individual Russians who will mention incidentally, just as do parents elsewhere, that their sons and daughters hope to become engine-drivers or teachers, or whatever it is, and are taking steps to get the training necessary for these occupations.

The presence of this element is implied, also, in the almost universal lament of the authorities responsible for the management of Russian factories over the high rate of labour turnover and the constant struggle against absenteeism.¹ Workers come for jobs to-day and leave to-morrow, presumably because they think that they can get something else more to their liking. One is told that they drift particularly to the places where they hear that better rations are to be had, and the coining of a special name—aviator—to describe one who flits from factory to factory in search of better wages is significant.² There are recurrent outcries against the ineradicable tendency of the peasant to drift back to the country after a spell of factory labour. This mobility of labour, in the most literal sense, is indeed to the outward eye a most conspicuous feature of the life of present-day Russia. Any casual visitor who observes the waiting hordes in railway stations and in the road outside will look

¹ See, for example, *Moscow Daily News* (weekly edn.), December 15, 1932.

² See Körber, *Life in a Soviet Factory*, p. 172.

in vain for any evidence of authoritative direction ; and indeed he will be at pains to convince himself that these people can be in process of carrying out any plan at all.

The fact that economic calculation of the ordinary kind is *expected* to play its part in guiding the movements of workers, and in getting them to work in accordance with the requirements of the plan, is illustrated by features in the Russian system of remuneration which are strictly parallel to those of other countries. Thus, it is a common practice to pay persons higher rates of wages according as they hold positions involving greater responsibility. I have notes of the rates of salary paid in a number of Russian educational institutions supplied to me by the responsible officers of these institutes. In all there is a hierarchy of junior teachers, senior and head teachers, assistant lecturers, lecturers, professors and directors, in which the rates increase as one proceeds (in our sense) upwards ; although the difference between the top and the bottom is generally less than would be found in similar academies in this country. Other observers record that, in factories, persons holding executive positions commonly get more money than those doing unskilled work. And it is common knowledge that specialists who have technical knowledge or skill of special importance for the success of any part of the plan are rewarded by higher rates of pay, or improved rations or both. I was even informed in one instance that certain engineering specialists were not required, even when members of the Communist Party, to observe the maximum limit of income then imposed on Party members generally.

There can be no doubt that these economic advantages are intended to increase the supply of persons having such special qualifications, or willing and able to fill positions of responsibility. (And in this context it should not be overlooked that in Russia, where incompetent management may be a criminal offence, punishable with a severe term of imprisonment or even loss of life, there may be factors greatly strengthening that disinclination to take up work of responsibility under which a considerable part of human-kind

apparently labours.) These inducements are a typical example of the operation of the price mechanism, under which a higher price is the recognised stimulus to the production of a larger supply. Similarly, the widespread use of piece-work methods of payment by results, and the award of special rations to shock workers¹ in Russian factories, is another example of the same thing. The authorities believe that a man will do more and better work if he is paid more money, or gets more food, as a reward for it. And it is upon these inducements that they rely in the first instance to secure that plans for so many engineers and so many doctors and so many blacksmiths, and for such and such a result from the labours of these workers, are in fact realised.

But here comes the dilemma. It is a first principle of Bolshevik philosophy that certain kinds of labour are inherently honourable, and ought to be favoured by every possible mark of public esteem. The usual social pyramid of the Western world is to be inverted, and manual workers, particularly those whose work is dirty or disagreeable or dangerous, who rank elsewhere among the lower social classes, are to take their place at the top of the Russian class structure, while those who seek to grow rich by employing the labour of their fellows are the pariahs of Russian society. Yet the payment of higher rates of wages to people doing specially skilled or responsible work is not exactly consistent with the maintenance of this absolute supremacy of the formerly oppressed classes ; and, moreover, the use of economic inducements to regulate the supply and distribution of various forms of labour does not square up with the passionate Russian hatred of any interest in personal gain. According to Bolshevik canons of behaviour, the acquisitive motives are in bad taste. Many readers of Mr. Hindus's books will remember the story that he tells in *Red Bread*² of the small boy who solemnly observed that the word riches had been "relegated to the archives" ; and yet the

¹ See, for example, *Moscow Daily News* (weekly edn.), December 10, 1932.

² p. 135.

Bolsheviks are in the awkward position that the very execution of their plan depends on the public understanding that word and responding to it in the orthodox way.¹

Hence the attempt to modify the more objectionable features of the price mechanism in this sphere, or to replace it with machinery more consonant with principle. Thus, the Bolsheviks have always been partial to collective rather than individual methods of payment by results, preferring to pay a bonus on the output of a group rather than of an individual, on the ground that to seek a gain, in which others will share the results of your efforts, is not quite so nasty as to exert yourself only for your own personal profit.

And in the background there are methods of controlling the supply of labour which are quite independent of the price mechanism. Russian law, for example, provides a reserve power of complete industrial conscription, which requires that in case of public crises everyone between the ages of eighteen and forty-five in the case of men (or forty in the case of women) must take part in work required by the Government, except only women more than seven months advanced in pregnancy, nursing mothers and women with young children who have no one else to look after them.² According to the *Manchester Guardian's* correspondent,³ something like this power was exercised in northern Russia in the spring of 1933, when a "militant mobilisation" of collective farm workers and individual peasants of the whole region was organised, every single worker, whether from collective farm or individual peasant, being required to "come to the forest provided with his own transport, with the object of securing in the whole region no less than double (and in particularly backward districts, treble) the number of cutters, and treble the

¹ Hence a certain laxity in maintaining the standards of Mr. Hindus's young friend. See below, p. 337.

² Field, *Protection of Women and Children in Soviet Russia*, p. 225, and Labour Code of the Russian Federal Republic, Articles 11 to 13, quoted in *Select Documents Relative to Labour Legislation in the U.S.S.R.* (Cmd. 3775).

³ See article in the issue of March 29, 1933, and letter in issue of May 20, 1933.

number of horses for transport." Dr. H. Saller refers to a somewhat similar decree under which all workers who had been employed in the transport services within the preceding five years were required under penalty to return to the industry.¹

Moreover, both the Red Army and the membership of the Communist Party provide at least a skeleton labour supply amenable to direct order. The Red Army, which is a conscript force composed mainly of short-service recruits, together with a smaller proportion who serve for two years, fulfils, first, the military purpose common to all citizen armies; second, an educational purpose; and third, at least incidentally, an industrial purpose; for units of the Red Army can be used to help with urgent industrial work in a way which would not be well received by labour organisations in a capitalist country. I have no evidence of military units being employed on regular production, such as daily factory work; but one hears constantly of their being available to help in anything that can be called an emergency, such as clearing congestion on the railways or repairing burst mains in the streets.

The membership of the Communist Party, though numerically small, must also be a factor of by no means negligible importance in regulating the supply of labour. The Party, as is generally known, is a select order (including at its most only 3 million members)² to which admission can only be gained after a period of probation has been served (six months for workers and peasants and longer for those of bourgeois origin), and which is subject to periodical purges³ intended to weed out all whose allegiance to Communist principle is lukewarm, or who are suspected of having wormed their way in for motives of personal advantage. Unquestionably the members enjoy certain privileges. I have been told, for example, that in the lists of

¹ In Dobbert's *Soviet Economics*, p. 201.

² *Moscow Daily News* (weekly edn.), December 20, 1932.

³ A good account of such a purge is to be found in Gladkov's novel, *Cement*.

applicants for flats in the new workers' dwellings being erected under the plan, names marked in red are those of Party members, to whom preference will be given over others who have been waiting longer; but, equally without question, Party members are subject to a strict rule of life. At least until recently they were expected to show their indifference to the appeal of acquisition by keeping their incomes within a certain maximum limit¹; they are required always to lead sober and temperate lives (members of the Communist Party of the Soviet Union can be expelled for drunkenness, and sexual promiscuity is also not well looked upon among these *élite*); and, further, they must do what they are told by the Party authorities, to the length of giving up their jobs and travelling at the shortest notice hundreds of miles to undertake fresh work in distant parts of the country. This last obligation must be of considerable importance, if not as an integral part of the machinery regulating the distribution of labour in accordance with plan, at least as a means of rectifying flaws that appear as the plan is put into execution. Moreover, in addition to the Communist Party proper, members of the Young Communist League (Komsomols) numbering about 6 million² are subject to practically the same obligations. At least, one can hardly imagine that a Komsomol would be likely to decline, if instructed by an organ of the Party or of the League to go here or there and to do this or that, or that

¹ A reference to the recent abandonment of the maximum income limit for Party members is contained in Hecker's *Moscow Dialogues*, p. 222. When I was in Russia in 1932 I was told that the rule had been waived in the case of certain highly valued specialists, as already mentioned; but not generally. It is only fair to add that at no time can the obligation have put a very severe strain on the rank and file members of the Party. The permitted limit of income was fixed at 300 roubles per month (that is, according to most authorities, though I have heard 250 quoted); but according to the figures given to me early in 1932 the wage of a worker in the big cities not doing work of special skill or responsibility ranged from about 80 to 150 roubles monthly; while the official figures (quoted by Signor Pietro Sessa in Dobbert's *Soviet Economics*, p. 275) show that the rates paid at earlier dates were materially lower.

² Mehnert, *Youth in Soviet Russia*, p. 48.

these authorities would hesitate to issue such instructions. It is true, of course, that mere membership of the Party, or of one of its auxiliary bodies, does not make a man or woman *able* to perform any particular kind of work, and, therefore, that the existence of these institutions contributes nothing towards securing that workers are trained for different callings in the proportions in which they are required ; but it does ensure that, given their aptitudes, any desired use can be made of the members of the Party and of the League.

Finally, though it is difficult to get direct evidence of this, it seems reasonable, in view of the general temper of Russian society, to suppose that while the price mechanism may be the staple method of regulating the distribution of labour, the operation of that mechanism is nowhere as free as it is in this country. When I made enquiries in Moscow, Leningrad or in the Ukraine in 1932 as to how labour was recruited for the many new enterprises that were afoot, I was generally told that the trusts owning these factories were given the right to recruit labour in particular areas ; that their agents went into the country to engage workers from among the peasants ; and that the schools and technical institutes were also asked to supply the requisite numbers of workers with appropriate special qualifications. Dr. Hugh Dalton tells me that at Magnitogorsk he was informed that the works "contracted with local collective farms to find a certain number of workers." How exactly is this recruiting done, and how are these contracts fulfilled ? No doubt the first supply comes from volunteers, and the motives of the volunteers are in the first instance economic (and patriotic). But if the supply of volunteers does not match up with requirements, what happens next ? I am far from suggesting that there is in the Soviet Union anything that could be called industrial conscription generally and normally applied ; but I am sure that the ordinary economic motives must be reinforced by a good deal of pressure of one sort or another.

Of some forms of negative pressure we have indeed direct

evidence. A worker may take up a particular job because he thinks that it offers the chance of better food or living conditions or pay ; but his freedom to renounce it in favour of something still better is certainly limited by measures aimed at reducing the extravagant labour turnover referred to above. Thus we hear of newly engaged workers receiving no pay till the end of their fourth week's work, in order to ensure that they hold a job at least for this length of time.¹ Again, the system of issuing ration cards through the plants where workers are employed, so that a worker cannot leave his job without surrendering his card, must give the plant directives a very considerable power over the movement of labour.² It does not, indeed, enable the authorities to *make* people go where they are wanted ; but it must greatly assist in keeping them in the right place once they have turned up there.

v

So much for industry. What of agriculture, which, after all, occupies the time and energy of the overwhelmingly greater part of the people of the Union ? Soviet agriculture is organised in three main forms. First, there are the non-collectivised peasants, who are independent producers like any other peasants. They do not own their land, since the private ownership of land is forbidden throughout the Union. But they keep themselves and their families by working the land which they occupy, and they look to sell their surplus, if any, on some market or other. Second, there are the collective farms (*kolkhosi*), the number of which has increased enormously under the drive for collectivisation in the past few years. Of the various degrees and types of collectivisation, the most typical appears to be some variant of the following pattern. The peasants pool their stock and tools (though a certain maximum may be kept in individual possession : on a farm which I visited near Kiev each member of the collective, I was told, had

¹ Kärber, *Life in a Soviet Factory*, p. 68.

² See *Moscow Daily News* (weekly edn.), December 10, 1932.

the right to retain one cow for the use of himself and his family, the others being collectively housed in a communal cowshed). They work the land in common, in the sense that their tasks are assigned by a management committee of the farm, and performed in groups working under a leader, who is himself a member of the collective and, in theory at least, elected. Each worker receives a daily wage in money or kind, or partly in each, which is not necessarily the same for all workers, rates being graded according to the amount of work performed, or the skill required for it. This wage is really an advance on the yield of the harvest, for, after the crops are gathered and sold, there is a further distribution of the proceeds of the sale to all members. Under this system it is evident that the results of the members' work are, in the first instance, common property, of which the bulk is subsequently divided amongst the several members; though some part may, of course, be permanently retained in collective ownership to provide such communal facilities as a club or dining-room or kindergarten. The extent of these latter amenities evidently varies greatly from one collective to another.

The third system is that of State farms (*sovkhosi*), which are the property of an agricultural trust and are operated on the same principles as industrial units. All that has been said above about the conduct of industrial enterprises doubtless applies, with little modification, to the State farms, and need not, therefore, be repeated here. These farms, moreover, occupy a relatively small place in the picture: it is the collective farm which the authorities are attempting to make the typical unit. Indeed, it is claimed that in 1932 there were already 230,400 collective as against 5,000 State farms; while 78 per cent of the total cultivated area was said to be collectivised.¹

If we look first at the independent farms, it is clear that production from these is still governed by the established motives of individualist societies, though the rule of these

¹ Bulletin No. 21 of the Anglo-Russian Parliamentary Committee, and *Twelve Studies in Soviet Russia*, p. 110.

motives is severely hampered by the unsympathetic medium in which it operates. The peasant produces first for himself directly, and without the intervention of any process of purchase and sale, eating what he grows, like his Roumanian or French counterpart, and not unlike many Canadian farmers. But it is not enough (and it certainly would not meet the requirements of the plan) that he should stop at that point. His work must also feed the towns-folk, and for this purpose he must produce and sell a surplus ; and he is induced to do this in the first instance by the hope that the sale will give him a chance to buy the few products of the city available to meet his (happily still limited) needs. He works for pecuniary reward, and the better the real price (expressed not merely in money, but in the things that money will actually buy at his local shop) that he expects to get for that work, the greater will his output be. He is a true creature of the price economy. Consequently, while the Bolsheviks may estimate for a certain agricultural production to be realised district by district, they cannot see this plan through as they do their industrial programmes, because their control over the units from which the produce has to come is incomplete. It is the peasants who are masters of these. Factories are nationalised : farms, apart from the sovkhosi, are not. The execution of the agricultural programme becomes, therefore, a matter of inducing people who are not part of the State machine to do what is required of them.

Twelve years' bitter experience has indeed taught the Bolsheviks how uncompromisingly dependent on the orthodox stimuli of demand and supply is peasant production. They have fought a hard battle to avoid official recognition of this fact and long refused to let it shape their plans. While permitting, and indeed expecting, the peasant to produce a surplus over his own needs for sale, they have at the same time compelled him to sell the bulk of that surplus to public authorities, at prices determined without his co-operation and, in his view, inadequate. The peasant has responded by restricting his area of sowing to the minimum,

by killing his livestock, by attempting to conceal any saleable grain that he has, and by murdering the agents who are sent to collect his produce. The authorities have responded in their turn by using armed men to collect the quotas and imposing the severest penalties on hoarding of food supplies.

In this battle the peasant might well have argued that the odds were weighted against him. The authorities urgently needed his production. Very well, if assured a sufficiently good price, he was prepared to contribute that production ; if not, he would go as canny as he could, in accordance with the recognised principles of any price economy. But he had this further factor to reckon with, namely, that to be known as a well-to-do peasant is the sin of sins in the Communist world. If by hook or by crook he managed to make a good thing out of his farm, he would as likely as not be deported to Siberia, lest his ideology should corrupt his poorer and more public-spirited neighbours. Deadlock. It is impossible to run a system which relies on appeal to the acquisitive motive and at the same time punishes those whose acquisition turns out successfully.

The Bolshevik escape from this deadlock was, in the first instance, to substitute collective for individual farms. In spite, however, of the intense enthusiasm of the Communists for this policy, it is difficult to see that it really does away with the dependence of agricultural production on the orthodox stimuli employed by price economies. The collectives are groups whose personal livelihood depends on the profitable sale of their product. In this they closely resemble the associations of agricultural producers of the capitalist world, termed "co-operative" by courtesy only, if that word implies the organisation of economic life on principles which run counter to those of capitalist enterprise. For Danish farmers who have a common agency for marketing their bacon, and Californian fruit-growers who dispose of their apples to a selling agency and divide the proceeds among themselves, are simply attempting to use the price mechanism to their own greater advantage. The

Russian farm collectives, within the limits permitted to them by the anti-capitalist temper of the society in which they operate, are doing just the same. Their members are in an altogether different position from that of the wage workers in Russian factories. The wage worker has no interest—certainly no direct interest—in the commercial fortunes of his plant. This may be heavily subsidised, and, in effect, selling its product at totally unremunerative prices as part, for example, of a general policy of cheap exports. But the worker's wage is unaffected; whereas the member of a collective has an immediate interest in the terms of sale of the produce raised by himself and his fellow members, because it is on the proceeds of that sale that he and they must live. The better the price that they can get, the more there will be to divide on every bushel sold. The moral is obvious (especially when it is realised that the collectives are, after all, composed of men who have worked as independent peasants and the children of such men). Expanding production from collectives will be realised only as the stimulus of more attractive prices is applied.

Indeed, certain agricultural decrees of 1932 and 1933¹ clearly indicate that, however valuable the collectives may be as centres of propaganda, in which a new ideology may be implanted in the minds of country folk, the Soviet authorities are recognising the extent to which they are governed by the orthodox price mechanism. Under these decrees it is recorded that the old quotas, which had to be delivered to the authorities at fixed prices, have been abolished in the case of meat, milk, and, later, grain; and a tax, fixed in advance, substituted. After paying the tax in full, both the individual peasant and the collective are to sell their produce on the best terms that they can in the open market; but, in accordance with the policy of encouraging the collectives, the tax falls more lightly on them than on the individual farmers. Clearly the intention is to give greatly increased scope to the ordinary market

¹ See *Moscow Daily News* (weekly edn.), December 30, 1932; *Manchester Guardian*, January 12, 1933.

influences on agriculture, and indeed to hand over the greater part of agricultural production to the undisputed control of the price mechanism.¹

VI

It remains to raise a more fundamental issue. For we have hitherto assumed that in those spheres in which the price mechanism does operate in the Russian economy, its working is strictly analogous to that of our world. But is this assumption justified? Can it be said that in a society whose economic life is planned *as a whole* in the way that this is done in the Soviet Union, where currency control, price and wage fixing and production programmes are regulated by authorities acting under the same ultimate central direction—where, in fact, what in the last chapter was described as the area of decision is so wide as to embrace the entire economic activity of the country—can it be said that the whole business of measuring prices and costs in monetary terms has the same meaning in such a world as it has in the unplanned economies?

I doubt very much if it has. The point will perhaps best be illustrated if we take a simple example of the meaning of the mechanism of demand and supply, and apply this

¹ It is unfortunate that every account of these decrees which I have been able to trace omits to explain the precise nature of the difference between the quota and the tax. It is always emphasised that the tax is fixed in advance; but so also must the quotas have been, since they are constantly referred to in Russian estimates of the extent to which the plans have been fulfilled. And the term quota can have had no meaning unless the peasant was free to sell anything left after the quota had been met, as it is said that he may now do with the produce remaining after he has paid his tax. One is left to suppose either that the difference between the two systems is one of degree, the quotas having been fixed at a far higher level than the tax, or that under the old system, while the quota for a whole district was fixed in advance, the individual peasants or collectives did not know what their particular liability would be until after they had sown their crops, and were, therefore, inclined to sow as little as possible lest all should be taken from them; whereas under the present system everybody knows where he stands from the beginning, and can rely on keeping for himself the proceeds of any crops he can produce over and above the amount necessary to meet the tax.

to the three cases of the self-sufficing individual, an unplanned economy like ours, and a planned economy like the Russian.

Suppose, first, that I live by growing and eating potatoes, and have no truck with anybody else. In this case the production of potatoes is regulated in accordance with my decision as to the point at which I shall cease from my labours ; and I opine, of course, that that point has been reached when the production of an additional potato is not worth the bother that it entails. Further, the element of balance, the importance of which in all economic decisions was emphasised in the preceding chapter, appears in this case in the simple form of one mind weighing certain exertions against the satisfactions to be derived from their results.

Suppose, second, that I live in an unplanned price economy like ours by growing potatoes and taking them to market. In this case, the production of potatoes comes to an end when nobody can be found willing to pay a price for an additional pound of potatoes which either I or any of my fellow growers (if there are any) considers sufficient compensation for the trouble and expense of producing that pound. This is simply translating into the terms of a monetary exchange between two parties the same principle as was illustrated by the actions of a single party in the first case ; and this, as we have seen, is the normal regulative machinery of the price economy. The production of potatoes, up to this point, is held to be profitable, or to be economically justified, in a price economy,¹ because the fact that enough people can be found willing to pay the price demanded shows that, to them anyhow, the potatoes are worth their cost ; while, on the other side of the balance, the fact that the receipt of a certain price is a sufficient inducement to make me and my fellows deliver all the potatoes that can be sold at that price shows that we think the game is, up to that point, worth the candle. We are not prepared to grow still more potatoes because we are aware

¹ Not necessarily correctly so. See below, pp. 110 ff.

that, if we did, their price would fall on a glutted market ; and we should not consider anything less than what we are getting adequate compensation for our work and enterprise.

In this second example there are certain complications due to the fact that, so far as the actual physical potatoes are concerned, one set of people is involved in the labour of their production and another set has the pleasure of eating them ; and that, therefore, the labours of one human organism have to be weighed against the pleasures of another by the method of converting them both into terms of money values. These complications are glossed over at the moment, but the reader who detects this may like to be assured that they are dealt with in the next chapter.¹

Now let us consider the third case, in which potato-production is conducted as part of the planned programme of the U.S.S.R. In this case I (whether I am an individual peasant or a collective farm) sell my potatoes to a food trust or to a publicly owned co-operative wholesale agency. These organisations again pay me a price, and the same balance is apparently achieved as in the preceding case. I find the price a sufficient inducement to grow the potatoes (otherwise I should not have done so, or shall not do so again), and the trust or agency thinks them worth this price or it would not have paid so much.

In this case, however, there is an important concealed distinction. The food trust does not itself eat these potatoes. Eventually it sells them, probably *via* a plant or local co-operative, to the Russian proletariat, which eats them very readily. Now, since the food trust is a publicly owned institution, the price which it offers need not in any way reflect what the proletariat, in whose eventual interest the potatoes are brought to market, considers those potatoes worth. The trust may be heavily subsidised, in which case it is offering me a price for potatoes greater than those who consume them personally consider justified ; or it may itself be subsidising some other entirely different branch of

¹ See pp. 110 ff.

production—tea plantations, for example—in which case the proletariat are getting more tea and less potatoes than would be the case if the market were not thus authoritatively controlled ; or, more important perhaps than all, the price which the hungry proletarians can be induced to pay for these potatoes may, by methods which are described below, be prevented from expressing what in their hearts they think those potatoes worth.

It is true, of course, that in the price economy also it is unusual for a grower to sell direct to the person who proposes to eat what he buys. But since in that system the intermediaries between producer and final consumer all operate on the principle of the price mechanism—since, that is, they must all in the long run get a good enough price for what they do to justify them (in their own estimation, of course) for doing it—it follows that the price that the final consumer can be made to pay is the determining factor along the whole chain. If there is not a good enough margin in this to cover all the costs incurred from beginning to end of the production of what the consumer buys, sooner or later output will be curtailed. Hence, intermediaries or no intermediaries, we are justified in saying that production is only carried up to the point at which some consumer is willing to pay as much for the product as will cover the trouble involved in its production and distribution, measured by the money that will induce people to take that trouble.

The position of a planned economy in this respect will perhaps best be appreciated if we now drop the example of the potatoes and look at a concrete instance drawn from actual happenings in the U.S.S.R. When I was in that country I visited one day a large home for rescued street children situated a few miles outside Kharkov. This was a new and (apart from the lavatories, of course) well-designed and reasonably well-furnished building in which were housed some 300 or more children. In addition to the living accommodation there were extensive workshops—in which the children were employed in making some

form of electrical gear—and also a number of classrooms. The authorities of this home told me with pride that, though the actual building had been given them by the State Political Police—the notorious G.P.U., or OGPU of the English press—the institution was otherwise “entirely self-supporting,” the proceeds of sale of the goods made by the inmates covering all the running costs, including the salaries of the superintending officers and the teachers employed. As I was also told that the children worked four hours in school and four hours in the workshops daily, and as they were obviously unskilled when they came (the ages ranged from eight or nine to eighteen or nineteen), it certainly seemed remarkable that a four hours’ working day, on the part of what was practically apprentice labour, would suffice to maintain such a large and relatively comfortable institution.

Further enquiry elicited (1) that the gear made by the children was not produced anywhere else in the Union (before the home was opened, supplies had been imported from abroad, but this import had now ceased : the authorities were very proud of the fact that their home had thus helped to make the Union independent of foreign supplies at least in one detail) ; (2) that the products were sold exclusively to certain State trusts engaged in electrical engineering.

These facts put the statement that the home was self-supporting in a new light. Obviously this term had no real meaning, since the planning authorities could both give the home a monopoly of production in its own particular line, and at the same time see that the industrial enterprises which required this product were supplied with funds to buy as much as they wanted, notwithstanding the high price. Conceivably, in a capitalist economy, a powerful group of producers might have succeeded in doing the first of these things. They might have established a monopoly in their own hands and persuaded the Government to impose a prohibitive tariff on competing imports, but they would still have been in the hands of their customers. They could

not control simultaneously *both* sides of the exchange and make those customers buy more than they could afford at the monopoly price. The Russians could ; and the result was that while the home could be shown as self-supporting as a matter of book-keeping, and a balance of selling price and cost maintained on paper, these figures had no real meaning.

Second, even when sales are made not to nationalised enterprises, but to final consumers, the planned economy, as hinted above, can manipulate the readings of the price mechanism. Reverting for a moment to our potatoes, we may suppose that these are finally offered for sale in shops at a figure which does cover all the costs incurred in their production at all stages. No subsidies, concealed or open, have been slipped in anywhere. Can we, in this case, say that the production of potatoes is regulated by the price mechanism, and the balance of price and cost maintained? Strictly, I think we cannot do so, as long as the freedom of the consumer's choice is in part controlled by a system of rationing. For, even if the potatoes are not themselves rationed, the fact that other things are has an important influence on the amount of money that the final consumer is willing to spend on potatoes. He gets certain sums as wages—let us say 100 roubles a month. Owing to the rationing system, he cannot spend more than perhaps 30 of these on bread and meat and margarine and kasha. So he blues a lot of the rest on potatoes, of which, we are supposing, he can have as many as he can afford to pay for. In this case his distribution of his resources between different types of consumption does not represent the relative value that he would set on those different lines if his choice were left entirely to himself. He would very likely rather have more bread or a little butter and fewer potatoes ; but he cannot ; and in consequence his demand for potatoes is artificially inflated.

This example is not, I think, altogether fanciful. For one constantly hears it said by those who have lived in the Soviet Union that any Russian who has more than the lowest pay may be quite at a loss to know on what to spend his money.

Thanks to the rationing system and the practice of fixing prices at lower levels than serve exactly to match demand to supplies, the goods run out before the money to buy them is exhausted. Consequently demand may be oddly distorted into certain channels which represent, not the true preference of consumers over the whole field of possible consumption, but their reaction to a situation in which a large part of their consumption is decided for them by authority, and in which, for the rest, they have to buy, not what they want, but what there is.

VII

Nor do the examples already given exhaust the power of a planning authority to manipulate the readings of the price index. For where the State is virtually the only buyer of labour, and particularly where it has any power over its employees beside that of direct economic inducement, money costs can be raised or lowered by decisions as to the remuneration payable to workers which may run right off the lines of those which would be reached in a free market. In the case of the children's home mentioned above, the cost of electrical gear was magnified by the inclusion in it of the salaries of teachers giving general and technical education to the children making that gear. In other instances, money costs might be reckoned at a lower figure than a free price economy would permit. Thus, if an article is being produced by a State trust and selling at unremunerative prices, and the authorities wish to show that its production is, in fact, justified in the sense that it covers costs, there are plenty of ways of doing this. They can, for example, simply lower the wages of all engaged in making this article, and leave it at that. At the lower wages, costs are covered without any change in selling price. Recourse to this method implies, of course, that the distribution of labour supply is not left so completely to the free functioning of the price mechanism that the workers can all respond by throwing up their jobs, and finding employment in other

industries where rates have not been similarly reduced. As we have seen, the managers of Russian industrial enterprises have sufficient control over the movement of labour to make it *possible* that this retort can be prevented, although, in the absence of a complete system of industrial conscription, they cannot do *exactly* what they like about relative wage rates and hang the consequences, any more than can a capitalist employer.

Or, again, if the authorities have some reason for not wishing to annoy their workers by this method of squaring their books, then in a completely planned society they can follow other roads to the same end. A reduction in money wages sufficient to balance the profit and loss account of the enterprise in question can be arranged, and at the same time a general reduction made in the prices charged at the local co-operatives, so that the real wages of the workers concerned, measured in terms of what those wages will buy, remain unchanged; though they are excluded from participation in a general fall in the cost of living in which their comrades share. Thus, again, the mere balance of selling price and cost in a particular enterprise, or even of a whole industry, in a fully planned economy is found to mean nothing at all.

Finally, we have to remember that labour charges are not the only costs to be met. It may indeed be argued that so long as the Soviets rely, to the extent to which they do, on the price mechanism to regulate the supply and distribution of labour, there is a limit beyond which labour costs, at least, cannot be cooked. For if, after the fashion suggested above, wages are lowered in a particular industry in order that its cost figures may appear in a favourable light, and if any counterbalancing reduction of food prices is shared by others whose wages remain untouched, then sooner or later the workers whose wages have been reduced will wake up to the fact that their *relative* position has been worsened. So long as anything that can be called a labour market exists, these workers will try to get a better bargain somewhere else, and the authorities will come to realise that

if they want work of a certain degree of arduousness and skill performed, they will not get people to do it unless they are prepared to pay a certain minimum rate for the job : that there is a point beyond which, in fact, they cannot pretend that the cost of doing that work is less than it is.

But it is quite otherwise with those costs which are represented in a capitalist society by the payment of interest. In the U.S.S.R. there is a labour market of a sort, and there are, therefore, approximations to market rates for wages. But there is no capital market and no market rate of interest. Yet interest is, I think we have to admit, payment for a real cost : namely, that of waiting for a deferred result or making the (in all probability, normally painful) effort of saving. Many socialist economists, indeed, deny this. Karl Marx, for example, argues, in effect, that capital instruments are the creation of past, and consumables the product of present, labour, and that that is all there is to it ; and nearly all Communists accept his view.¹ On this theory, if a machine can be made by the labour of forty men, all working together for one year, and if in every year for twenty years thereafter this machine will produce the least fraction more than could two men working without the aid of such a machine, then it follows that it will pay a capitalist to have such a machine built, because in the course of its life it will have saved more labour than its manufacture requires. At the end of twenty years the capitalist will be a fraction in on the whole affair.

But the capitalist who did this would surely be a fool ; or, at least, a very abnormal person. To get this machine made he has to take forty men off producing for his

¹ Thus, in Marx' opinion, the limit to the use of machinery is " that its own production shall cost less than the labour which is replaced by its employment " (*Capital*, trans. Eden and Cedar Paul, p. 416). Cf. also footnote to p. 413 : " The reader who is accustomed to the capitalist's way of looking at things will naturally be surprised, here, that there is no mention of the ' interest ' which the machine transfers to the product, to an amount proportional to its own capitalised value. Yet it is easy to see that the machine . . . cannot create any value under the name of ' interest. ' " The whole argument is developed at length on pp. 409 to 418 of the same volume.

immediate needs and pleasures. True, over the whole period of twenty years the total output of consumables coming to him from the combined labour of his workers and the machine will be a fraction greater than it would be if he went on as he is doing now with no machine. But some of these desired commodities are twenty years distant in time ; and if he is a normally constituted person he will surely find it difficult not to visualise the pleasures of twenty years on somewhat in miniature, as though at the wrong end of a telescope. Yet to get these pleasures he has got to make an immediate sacrifice of present consumption only the least fraction less than these deferred delights will amount to when they come. No allowance is made for the years that he must wait for his reward.

The capitalist will therefore not be satisfied with knowing that his machine will, in the course of its lifetime, contribute just *any* fraction more product than that which he must forgo in the present by taking workers off current production to make this machine. He will pay great attention to the *size* of that fraction, and he will only think the machine, with its prospect of adding to future supplies of consumables, worth making, if that fraction is big enough to compensate him for the fact that the supplies *are* future. In other words, he will need to be satisfied that the machine will, in the course of its life, not merely cover the labour costs involved in its manufacture, but pay adequate interest on those costs as well. And I suggest that, in reckoning in this way, the capitalist acts, not just as one who has been corrupted by living in a world which approves the payment of interest (though, incidentally, it has relegated the term usury to the archives), but as a human being who believes that a bird in the hand is worth anyhow more than one bird in the bush ; even if (discounting any inevitable element of risk in calculations concerning the future) he has every confidence that the bird in the bush will wait patiently till he gets there to put salt on its tail.

Now what has all this got to do with the measurement of costs in a planned economy ? More, I think, than at first

appears. For the planners have, like our capitalist, to decide how far workers shall be employed in production for current needs, and how far in preparing cheer and comfort which will only materialise at some future date. On the principle of balancing costs against satisfaction, they are only justified in building for the future if the eventual product of that building compensates for the abstinence involved in taking workers who might be serving the needs of the day off that job, and setting them, instead, to provide for a distant morrow ; that is, if the indirect results in consumables of the work of their builders will be large enough to pay their wages *plus* interest into the bargain.

No planned enterprise can, therefore, I think, be said to cover its costs unless its proceeds provide in full for interest as well as for wages and materials. But here we come up against the unanswerable question : What is " full interest " in a socialised economy ? Full labour cost is the price (measured in money) that you have to pay to get somebody to do the job you want done. Full interest is the price you have to pay to get somebody to agree to restrict his present consumption in anticipation of a future reward. Such interest depends on many factors, such as the saver's confidence that he will, in fact, get that future reward, the extent of his wealth or poverty at the moment, compared with his future expectations and so forth. If, however, there is a market for capital, the current rate of interest can be tested out in that market just as can the price of labour in the labour market. The prospect of getting their money back plus 10 per cent per annum will induce so many people to abstain from spending it, while 15 per cent will similarly influence such and such other number ; just as for thirty bob a week so many people will want to work for you, and so many more if you put the rate up to five pounds.

In the absence of any capital market in the Soviet Union, however, the true cost of abstinence cannot be tested out. The situation may be that if the Russians tighten their belts one hole they can look forward to being, say, 20 per cent

better off at the end of five years. If they will go to a second hole, the 20 per cent might become 30 per cent. But the decision whether this justifies the second hole, and indeed whether it might not be worth while to go even further, is not referred, through the machinery of any market, to the persons whose belts are affected. The Planning Commission stint the present for the sake of the future up to the point at which *they* presumably think that the increased future return justifies the present sacrifice ; that is to say, they reckon (whether or no this goes into their accounts) that the interest that such investment will realise is adequate to compensate for the cost of making that investment. In a society whose savings were regulated by the price mechanism the correctness of this judgment would soon be checked by the response of the savers to varying stimuli. If a man did not think it worth saving £100 in the expectation of receiving £120 at the end of five years, he would not do so, and that much less saving would be made. The Russians cannot make this response, because the volume of saving is not in the main determined by the individual reactions of those whose abstinence pays for it, in the way that the volume and character of *work* done is still at least partially controlled by individual response to the prices offered for such work. The volume of saving is collectively determined on behalf of the abstainers by other people.

While, therefore, it is true that some cost comparable to our interest exists in the planned economy, it is quite hopeless to expect this to be shown in measuring the balance of outgoings and incomings of any particular enterprise. For there is no means of arriving at an estimate of the true amount of this cost ; and any figure which may be entered is therefore quite arbitrary.¹ It can only represent what the

¹ In a most interesting article in the *Economic Journal* for June 1933 on *Price Formation in a Socialist Community*, Mr. H. D. Dickinson argues that a definite rate of interest could be calculated even in a community where, as in Russia, capital instruments are socially owned ; provided, that is, that there is still a free consumers' market for finished goods. In the sense that, in these conditions, there would be one rate of interest, and one only, which would equate a *given* supply of capital with the demand for it, this is true. But that is only half the story. For

authorities *think* ought to be a sufficient reward to the people for their abstinence. The place of interest in a socialist State has long been a subject of discussion ; but the conclusion to which we are led must, I think, be, that where capital goods are collectively owned and their creation made a matter of collective determination, interest remains a real economic cost indeed ; but that its measurement in quantitative terms becomes so difficult that current rates of interest cease to be any use as guides to practical policy. Again it may be helpful to visualise the three types of economy by which my production of potatoes was illustrated on p. 89. In the first, or self-sufficient economy, the same person bears the cost and reaps the fruits of abstinence, after the manner of Crusoe when he goes short of fish one day because he is making a boat which will greatly increase his future catches. In the second, or price economy, one person probably displays the abstinence (the saver) and a second (the investor)

it will still be impossible to determine whether the rate thus arrived at is, or is not, adequate to compensate those whose abstinence makes that given supply available.

A simplified example may make this clearer. Suppose that a planning commission, appointed by a community of 100 persons, decides that 80 of those persons shall be engaged on provision for current needs (typified by baking) and 20 on provision for the future (typified by the manufacture of electric ovens of superior productivity). If bread is sold to the public for money in the ordinary way, it will then be possible to arrive at a rate of interest by calculating on what terms it will just pay the bakers to install all the ovens that the 20 constructional workers make. But that throws no light on the question whether these terms justify the original decision that neither more nor less than 20 workers should be thus withdrawn from production for current needs in order to improve the equipment of the future. The cost of that withdrawal is felt, of course, in the fact that, while the construction of the ovens is in progress, the whole 100 members of the community have to live on the bread baked by 80 of their number. Since this matter is settled by authoritative decree, without reference to any market, there is no way of saying whether the public consider the superior future productivity of the new ovens as justification for this sacrifice or not.

In an unplanned economy, on the other hand, the 20 workers would be set free for building ovens by a corresponding reduction in their own (or, if there are employers, in their employers') consumption of bread. If, then, the rate of interest realised by the superior ovens is not sufficient to justify this sacrifice in the eyes of those who make it, they will simply stop making it ; and the number of constructional workers will accordingly be reduced.

enjoys its direct physical result ; but the latter rewards the former for the loan of his saved resources with a money payment (the interest), and, since the two parties are content to do business, it is presumed that the game is worth the candle. In the third, or planned economy, the same group of people make the saving and reap the future reward, but there is no knowing whether or no they think the game worth the candle, because they must play it up to a point determined, not by themselves, but by the instructions of a third party acting on their behalf.

The final conclusion of this chapter is, then, that on the one hand the Soviet planned economy has rendered the price mechanism entirely useless in certain spheres, and has partially dispensed with it in others. On the other hand, it has apparently retained that mechanism as the means of giving effect to a certain proportion of the decisions that all economic systems have to make : particularly as an instrument for regulating the actions of people, as distinct from the disposal of things (which can be nationalised, and thus be disposed of by direct authoritative decree)—as in its relations with workers and with the still unnationalised industry of agriculture. But this mechanism is always employed with a difference, so that even where the plan apparently follows its readings the results obtained may be quite different from those which would be realised under an unplanned economy. The mechanism may indeed be compared to a pair of scales, in the manipulation of which the Soviet authorities are in the unique position that they are able to reach both of the pans. If two independent groups of people drop weights into the scales, one from one side and one from the other, a balance will be reached at a certain point, and that balance will reflect the result of the purposes of those people as revealed by the manipulation of the weights by each on their own side. If, however, those people hand the scales to a third party, and say, " You do this for us," again a balance will be reached at some point. But there is no certainty whatever that the contents of the two pans will be found to be identical in the two cases.

CHAPTER III

THE ACHIEVEMENTS AND POSSIBILITIES OF AN UNPLANNED ECONOMY

I

THE AIM of the two preceding chapters was to describe. That of this and the two which immediately follow is, in the main, to assess.

We begin with the capitalist price economy. But before we make any criticism of this form of economic organisation we must give due weight to the commonplace that in the last century and a half this system has provided the mass of the people with an abundance and a variety of forms of consumption never before equalled in the history of mankind. And it has done this while populations have grown faster than they have ever before been known to grow over large areas. Judged by sheer volume of output, by its record of actual physical achievement, the price economy, as operated in Great Britain, Germany and the United States in the later nineteenth and early twentieth century, stands unchallenged. The like has not been done before or since. It is the price economy which has put not only bread and butter, but jam, bananas, oranges, tea and coffee, into the mouths, leather boots on to the feet, carpets on to the floors, glass into the windows, electric light and radio sets into the homes, not of the select few, but of millions; which has mashed up forests in order to provide these millions with newspapers and underwear, and which keeps fleets of fast vehicles in perpetual motion in case they should wish to go from here to there. And it has accomplished all this while on the whole gradually reducing the hours of duty which it exacts from its servants, so that in these latter days the worker's daily life is for the first time divided not into two parts, but into three: work, physical recuperation and

playtime. Indeed, so great have been the achievements of this system that it is almost as fashionable to criticise it to-day for its success as for its failure ; to argue that it has lifted us out of a state of poverty and unremitting toil seen (in retrospect) to have been profoundly blessed, only to corrupt our souls with its lavish abundance of meretricious lumber.¹

However, these (like successes generally) may be taken for granted. If our concern is rather with the weaknesses of the system than with its achievements, this is due to no desire to minimise the latter. It is simply because success cannot be improved upon : failure possibly can. And the failures of the capitalist price economy are the subject of an enormous literature. Roughly it may be said that the charges which this literature brings fall into two groups. Some are concerned with ethical questions : others rather with matters of economic efficiency. The line between the two is indeed not a hard and fast one. For it is impossible to judge the efficiency of an economic system unless you know what job that system is supposed to be doing, and that job cannot be defined without introducing ethical considerations. To take an obvious example, the fact that nobody in the Soviet Union is as rich as Mr. Henry Ford may be taken as a mark of the inferior efficiency of the Russian as compared with the American economic system. But this criticism is not justified unless it has already been decided that a world in which some people are very poor, most people moderately poor, and a few people very, very rich, is preferable to one in which everyone is very poor or rather poor, but no one has his poverty rubbed into him by the sight of contrasting riches. And this is largely an ethical decision. However, there is an intelligible distinction between ethical and economic criticism of the price economy, good enough for our purposes. It is one thing to say that a system produces the wrong results. It is another thing to say that it fails to produce the results that it is trying to produce ; and it is along these lines that the

¹ For a typical example of such criticism see *Culture and Environment*, by Leavis and Thompson, especially from p. 57 to the end.

distinction between the two types of criticism must be made.

The weight given to each line of attack has varied greatly from time to time during the years in which the literature of capitalist condemnation has been in the making. Perhaps I may illustrate this with a personal anecdote. A good many years ago I made an application for a post under a labour organisation. When I was interviewed by representatives of the employing body I was asked, among other things, at what date I had become a member of the Labour Party, and why I had done so. To the latter question I replied, with the *naïveté* of the youthful intellectual, that my decision to join the Labour Party was the result of "a multitude of converging considerations." A friendly member of the committee denounced me afterwards for the folly of this excessively truthful reply. The right answer, she said, would have been: "Because of the unbearable injustices of our social system." Her advice to-day, I think, would have been a little different. Though a reference to injustice would never be out of place in such circumstances, an expression of disgust at the hopeless failure of the capitalist system would be more topical.¹

Reluctantly I have come to the conclusion that in a book of this scale I must march with this movement of opinion, and deal only summarily with those criticisms of the price economy which are mainly ethical in character. The reasons for this course are three. First, the main concern of this book is with economic *mechanisms*, and a study of the efficiency of alternative economic systems is therefore more relevant to its purpose than would be any attempt to assay the moral quality of the results delivered by those mechanisms. Second, the very shift of contemporary interest from the wickedness to the stupidity of our economic

¹ Very significant also is the enormous popularity to-day of such books as Mr. Cole's *Intelligent Man's Guide through World Chaos*. Mr. Cole made his reputation as a socialist fifteen years ago by his exposure of the inequities of our social system and the permeation of class bias throughout all our institutions. See, for example, his *Labour in the Commonwealth* (1919). To-day he writes (and for a wider public) not so much of wrongs as of muddles: of the inability of our masters to make a workmanlike job even of their own system.

organisation is itself not without importance. It is due, of course, to the fact that certain stupidities have been shown up in a particularly glaring light by recent history. For practical reasons these lapses urgently demand investigation. Third, ethical judgments are, for most of us, ultimates, in the sense that their validity rests more on faith than on reason. It is therefore generally unprofitable to argue about them. If other people do not agree with your notions of right and wrong, there is no way of demonstrating the error of their views. Nevertheless, this decision is only reached with reluctance. For, notwithstanding the incident quoted above, I myself believe that the ethical objections to the capitalist system, as realised in practice, are more powerful than any others, and that the system is guilty of grave and widespread and continuous injustice, such as is degrading to those who suffer, and tormenting to any decent-minded person who prospers, under it.

Speaking, then, of that injustice only in summary fashion, we have simply to record that its evident cause is the inequality of distribution of wealth, power and opportunity which is characteristic of the capitalist system in its modern shape. If it is true that that system has done the marvels that we have described for millions, it has always done incomparably greater marvels for select thousands ; and even for the millions that have been admitted to its lesser blessings there has always been a great army of others almost completely shut out. Indeed, one way or another, practically all ethical criticisms of that system come back to its inequality. It is therefore worth mention that these criticisms would not apply to a society, could such be devised, in which economic questions were settled by reference to the price mechanism, but in which there were no marked inequalities in the conditions of living. They are criticisms, strictly, not of the price mechanism, as this has been described in the preceding chapter, but of the distribution of wealth which is found in fact to obtain in such industrial societies as regulate their economic affairs by that mechanism. This raises the interesting question whether these

inequalities are accidental or inherent in the essential nature of the price economy : whether the regulation of economic affairs by the price mechanism is compatible with social and economic equality.

To that question we cannot, I think, give a certain answer. It may be said that there is nothing in the nature of the price mechanism which would prevent it from functioning in an equalitarian society. Indeed, it was argued in Chapter I that that mechanism itself actually induces certain equalitarian tendencies,¹ and that if its operation were not obstructed by barriers of class and prejudice, some, at least, of the existing inequality of incomes would disappear. Further, inequalities are enormously aggravated by our system of inheritance, and there is nothing in the practice of regulating output and distributing labour by individual response to price movements which presupposes that we shall be permitted (as in England) or required (as in France) to hand down the bulk of our riches to our descendants. It is quite possible mentally to construct a society in which every generation started from scratch, and nobody was able to establish any enduring advantage, even for his own lifetime, since the sight of his success would attract others to follow in his footsteps and share his gains ; and it is even possible to argue that this would be, in a sense, the apotheosis of the price economy : the very Platonic idea of a society of which existing capitalism is but a paltry counterfeit.

But it is not so easy to see how such a society could exist and progress in the concrete world. For, in the first place, it is obvious that, people being what they are, and differing in character and ability as they do, there must be an inherent tendency towards inequality in every human institution. It is no use saying that if we were all interchangeable units we could live in a blissful state of equality within the existing rules of the game. Interchangeable we are not, and it is useful to remember that *every* type of economic organisation will turn top-heavy unless it is quite definitely and

¹ See p. 21.

deliberately weighted in favour of the weak, the unfortunate and the incompetent. Second, while a static community of equals might conceivably be possible under an individualist economy, it is not easy to see how such an economy can progress in the absence of considerable and enduring inequalities. The prospect of bettering yourself is the whole dynamic force of the price economy ; and this is not the same thing, and never will be the same thing, as the prospect of bettering other people equally and simultaneously with yourself.

Certainly, experience confirms the view that the higher developments of a society which depends upon the price mechanism will only be achieved at the expense of marked inequalities of distribution. Without going so far as to accept the view that the distribution of wealth in a capitalist community must conform¹ to a single definite pattern (the so-called Pareto line), we may note that industrialisation and inequality have in fact always gone hand in hand under the rule of the price mechanism. Those communities which, like Switzerland or the Scandinavian countries, combine an individualist economy with a distribution of wealth not glaringly unequal, are all small and mainly occupied with agricultural pursuits.

Tentatively, then, we may conclude that inequality is likely in fact to accompany the more complex developments of the price economy, although there is nothing in the nature of the price economy itself which postulates such inequality. To be sure, the world has never yet seen a society which passionately abhorred inequality and yet desired to retain the elasticity (and the collective irresponsibility) which the automatic type of economic organisation confers. The left-wing liberal school of thought, whose dreams are

¹ There have been few more deplorable lapses on the part of responsible economists than the elevation of Professor Pareto's valuable observations to the dignity of a law. Since there are not more than eight or nine highly industrialised communities in the world, those who accept this law as of general validity are necessarily guilty of formulating a universal generalisation on less than a dozen examples—surely a precarious exercise in induction !

pervaded with images of such a society, does not count very numerous or very influential adherents, and it is therefore unlikely that any experiment in materialising these dreams will be made. In view of the theoretical possibility of such a society, however, it would be imprudent to say that nothing of the kind could ever happen. And it is only fair to add that, in consequence, all those criticisms of the capitalist economy which are directed against inequalities (whether they convict that system of moral wrong or of incompetence, since inequality may be adduced as the cause of either) should be listed as applicable not, strictly, to the price mechanism itself, but rather to certain features which in practice normally accompany the working of that mechanism, at least where special pains are not taken to obliterate them. Those of us who loathe what we regard as the hateful injustice of the world in which we live have, therefore, to retain a certain intellectual doubt as to the objects against which our hatred is directed. Fortunately this does not take the edge off the passion itself.

II

Turning now to consider the price economy from the standpoint of efficiency, we have first to equip ourselves with some sort of definition of what constitutes efficient performance on the part of an economic machine. Essentially, economic efficiency consists in creating the maximum surplus of satisfaction over effort, using both nouns in the widest possible sense. In the more concrete terms appropriate to an industrial mechanism, this means carrying every line of production up to, but not beyond, the point when an additional unit of product would not give enough satisfaction to justify the absolutely necessary minimum effort required to make it; that is to say, limiting every type of output only when the need for it is so well satisfied that it may fairly be said that more good would be done either by making something else instead or by longer hours of leisure. This is the true economic balance referred to in the

parable of the potatoes employed in the preceding chapter.¹

In that chapter it was pointed out that in any but the simplest case, where everybody consumes the actual physical commodities that he produces, it is no easy matter to strike this balance correctly. Since the consumers of any article and the producers of it are not identical, who is to say at what point the satisfaction of the one ceases to justify the labours of the other party? Thus, I am at the moment writing a book. How do I know whether that book will justify the trouble it gives me and the publisher and the bookseller and all those who work for them? And within a mile of where I am writing a girl is straining her eyes in the effort to make an invisible repair in somebody's trousers. Who is to say that the pleasure which the wearer will derive from the unbroken surface of his trouser-leg justifies the effort of that worker and the damage to her physique? Nor are these merely silly questions; for even if the examples I have chosen are silly ones, it is evident that similar questions must be asked of every single job that everybody does, and that wherever an affirmative answer cannot be given to them, our economic organisation is convicted of misjudgment.

The great claim that is made for the price economy is that it provides a means of measuring these apparently incommensurable pleasures and pains, and acts upon the result in accordance with the strict principle of economic efficiency as defined above. The measurement is made in terms of money, the pains being converted into costs and the pleasures into prices, which can then be matched against each other. If a thousand people think it worth paying 5s. for this book, and the publisher, bookseller and I can get enough out of those five shillings to compensate us for all that we have gone through, then the job is held to have been economically justified. And if that thousand exhausts the number of purchasers who think the book worth the price, and if we producers do not think that, as the saying is, it will pay us to sell it for less than 5s., then the

¹ See p. 89.

price economy counts us right not to print a second thousand; not because we should lose money, but because the fact that we should lose money is held to indicate that our particular line of production has passed its economically proper limit. And, similarly, if a man thinks it worth paying 5s. to have his trousers invisibly mended, and if somebody is willing to provide premises and materials for mending them in exchange for, let us say, four out of those five, and if a girl can be found willing to do the job for the remaining shilling; then, according to the reading of the price mechanism, we are all the better for the job being done.

This is indeed the crux of the whole matter. Hence springs the claim that the individualist price economy gives us what we want whenever and wherever we want it badly enough to compensate for the trouble of satisfying those wants: that its ultimate guide is the need of the Unknown Consumer, to whose whims it refuses obedience only where their satisfaction would be definitely uneconomic. Hence, too, the claim that even its apparent paradoxes are fundamentally right and reasonable; that, for example, there is even justification for the stock scandal quoted by the enemies of the price economy—the fisherman who throws back fish into the sea when his catch is larger than he deems appropriate. On the face of it this does indeed look like a scandal; but wait a moment! The fisherman throws his catch back into the sea because he is afraid that if it is put on the market it will cause a big drop in prices, and that these lower prices will not yield him a fair day's wage for his trouble. But if nobody can be found who is prepared to pay the fisherman a price for his fish that recompenses him for the labour of catching them, that, according to the readings of the price mechanism, is equivalent to saying that nobody wants those fish sufficiently to justify the bother of catching them. So they ought never to have been caught. So, as they have been caught by mistake, the best thing to do is to put them back into the sea where they belong.

I have given some little space to this, for on the accuracy of this method of measuring the costs incurred in production,

and the pleasures afforded by the resultant product, rests the whole contention that the decisions reached under the price economy as to the quantity and character of production have an economic rightness, which we cannot predicate of decisions reached in any other way. The presumed accuracy of this balance has, however, often been criticised, while answers have in turn been made to those criticisms. It has been criticised chiefly on two grounds. First, it is pointed out that the price paid for any article need only cover those costs which the immediate recipient of that price believes to be actually incurred in the making of that article. But there may be other costs of which he is not aware, or which he has been able to wriggle out of at somebody else's expense. In the case of the example quoted above, the damage to a girl's eyesight which results from excessively close work may not be included in the price paid for her services, if her employer does not himself have to compensate her for this. If he can dismiss any worker whose sight fails and take on another instead, then part of the cost of the work done is borne by the relatives of the incapacitated workers, or by the public funds from which the latter are thereafter supported, and escapes inclusion in the balance of price and costs which determines the limits to which this kind of work is carried. If the consumer had to pay enough to keep the workers whose eyesight is ruined by his demands, there might soon be an end of those demands.

To this criticism there is, so far as I know, no answer except the admission that the true cost of production of any article is very difficult to determine, and perhaps in the end largely a matter of convention. In the last chapter we noticed, in reference to the products of the Russian children's home, how in a planned economy the authorities can, if they wish, deliberately include in costs items which we should normally debit to the general educational system of the country. Now we have a converse case in which the price economy excludes from costs items which, it might be argued, ought to be taken into account in striking the

balance which controls production. A little reflection, and still more a study of the great variety of such doubtful or forgotten items revealed by the work of some economists,¹ begin to make the confident certainty of the price economy's calculations look rather shaky.

The second line of criticism declares that when the costs and satisfactions of two distinct persons are measured in terms of money, and one of those persons is rich and the other poor, the measurement has not the same meaning in terms of personal effort or pleasure for both parties. I may be willing to pay a worker half a crown to do a job, and he may be willing to do it for the money, but that may be only because an odd half-crown means nothing very much to me, whereas to him it is the difference between hunger and food. Consequently, the passage of the half-crown between us, which in the price economy registers the decision that the job is worth doing and shall be done, may not, in any real sense, imply that his efforts are balanced by my satisfaction. The fact that we agree on a price does not preclude the possibility that he may have to work prodigiously long and hard for a result which is only of trifling importance to me.

The orthodox answer to this criticism² is that since it is impossible for one man to get inside another man's skin, the facile generalisation that half a crown means less to a rich man than to a poor one is incapable of proof. A man who has himself been both rich and poor will tell you that he thought more highly of a half-crown in the latter than in the former state. He can make the comparison because he has been inside the same skin all the time ; but he cannot tell you whether, when he is poor, the pleasure he gets from the possession of an additional half-crown is greater or less than the pain it causes a richer neighbour to part with that sum. There are apparently many who believe that it is not ; for the well-to-do, we are told, with their higher standards of living, have necessary expenses as well as costly interests

¹ See, for example, Professor Pigou's *Economics of Welfare*.

² See Robbins, *Nature and Significance of Economic Science*, p. 123.

that the other half of the world never even realise ; and we all know people who have two or three times our own income, but yet allege that trifling expenses, of which we should think nothing, are out of the question for folk who have to count the pennies as carefully as they do.

This answer, however, while it certainly shows the impossibility of proving that what the economists call the marginal utility of money is lower for the rich than for the poor, has much more radical implications.¹ For the very reasons which make it impossible to tell that a given sum has the same significance in human experience of pleasure or pain to a rich man and a poor one also make it impossible to say that it has the same significance for *any* two people. In the end we come back to the ultimate incommensurability of the sensations of two organisms that have no common consciousness.

The position, then, is this. The fact that under the price economy production is controlled by a balance of money prices and costs does guarantee that in the long run it is only carried on where consumers and producers come to terms which make the job worth while in the eyes of both. That, however, is not to say that, if the same party could *directly* balance the efforts involved in a job against the satisfaction resulting from its performance, the decision as to its worth-whileness would be the same as it is where one party does the work and the other pays for the product. For although the parties do, in fact, come to terms, the objective expression of those terms in a statement of price may fail to give any accurate measurement of the subjective states which they are supposed to reflect. If two people set out to plough an acre field, and agree to do half an acre each, it appears that the work has been evenly divided. But if one is crippled and the other active, such a statement is true only in the most superficial sense. Yet economic decisions, under the price economy, are necessarily governed by equally superficial data.

We must, therefore, be careful not to claim any essential

¹ As Professor Robbins's own analysis shows.

rightness for the decisions of the price economy. Those decisions do not necessarily record a perfect balance of cost and product measured in terms of human effort and satisfaction, for the measurement of these things can only be a matter of guesswork. The price mechanism records, rather, the concrete expression of the views of the persons concerned on the subject of where that balance lies, *expressed in a particular language*; which language may, for all we know, have quite different meanings for the different people who use it. The only arguments for allowing those views, as thus expressed, to determine the course of production and consumption are, first, that though this language may have shifty meanings, no other is conceivable; and, second, that the fact that people do concur in these expressions of their views means that they are likely to act upon them—indeed, that they are in fact so acting. We only know that a consumer thinks an article worth five bob, and that people can be found to make it for that sum, when it is actually being made and sold for five bob. The buyer and the maker may perhaps each completely misunderstand what their bargain means to the other; but they do actually decide to make that bargain. The fact that they both think it worth making may be *some* reason for agreeing that it ought to be made, if only because it is always a bother to prevent people from doing what they are determined to do, and because where authority does try to make them alter their ways, it is apt to get the worst of it in the end. The difficulty, for example, of enforcing laws such as those which fix legal minimum wages in cases where, on the one hand, employers know that they can get workers for less than the statutory rate, and, on the other hand, workers believe that it will increase their chances of getting jobs if they accept less, well illustrates this. But the fact that under the price economy people believe it worth their while to make certain contracts in no way justifies us in saying that those contracts express a true balance of the factors involved on both sides. *Nothing* can get us past the difficulty that where one man works, and another uses the product of his

work, it is absolutely impossible to say with certainty whether or not the product was really worth the making.

III

The foregoing criticisms on the accuracy of the price mechanism as an instrument for balancing the efforts and satisfactions of industrial activity are applicable at all times. We may pass next to consider a second line of attack upon the price economy which has a more limited, but highly topical, interest. In the last few years the inefficiency of that economy has taken the form of inability to make any use at all of a large proportion of its existing resources, human and material. And this gives rise to a situation which is at once tragic and ridiculous. It is always tragic to starve, and (only in less degree) to be desperately poor, or to have nothing to do. But to starve in the midst of plenty is ridiculous as well as tragic, and to starve *because* of plenty more ridiculous still. Equally is it ridiculous to have nothing to do when there are things which evidently require to be done, and when the plant and materials necessary for doing them are waiting to be used. But there is no need to labour this aspect of the matter for a public which, unhappily, is only too familiar with it.

It is, however, worth pausing to reflect what a variety of astonishing opinions have won widespread acceptance as the result of the present paradoxical state of affairs. These cannot be better summed up than in Mr. Bertrand Russell's dictum that practical men are now agreed that "everybody's work makes everybody else poorer."¹ From which it follows that the more people we can prevent from contributing to the common store, the more there will be to go round. Hence the popularity of such opinions as that married women ought to be supported by their husbands in preference to earning their own livelihood, where they are anxious and able to do so ; that an extension of the compulsory school period will not merely be beneficial to the

¹ *Education and the New Social Order*, p. 200.

youngsters themselves, but will also enrich the public by depriving them of the product of these youngsters' labour ; that the fewer the hours we work the richer we shall be ; and that the supreme remedy for all poverty and economic dislocation is wholesale destruction of wealth, which can be most certainly and effectively accomplished by a large-scale war, but, failing this, may be passably well achieved by burning or drowning the products of our misguided labour and making good resolutions never to produce so much again. Do not let us forget that every time we enunciate any of these doctrines, or endorse any of the policies¹ to which they lead, we are also implicitly accepting the (surely very odd) belief that the less that is laid upon the common table, the better the prospects of each individual who sits down to the feast ; and that the way to enrich your fellow citizens is not to win a livelihood by your own efforts, but to get yourself kept by somebody else.

The explanations offered of this tragi-ridiculous breakdown of societies governed by the price mechanism are legion. It is impossible to deal more than summarily with any of them, and a large number must escape notice altogether. Anybody, however, who wishes to weigh the rival merits of a planned and an unplanned economy must look at least at the more credible, or at the more widely accepted, theories that profess to account for this state of affairs, with a view to answering the question : Is this disease inherent in the nature of the price economy or is it due to some less radical defect which may presently be put right ? Are those who live in the unplanned society doomed in perpetuity to these exhibitions of combined tragedy and ridiculousness ? And will the planners escape them ?

We may consider, first, the view expressed by many

¹ There is, of course, no more fruitful source of examples of these policies than the United States, where a special authority has been set up which pays farmers to refrain from cultivating certain tracts of land ; where a bill to prevent anybody from committing the social offence of working more than thirty hours a week actually passed the Senate ; and where the royal recipe for the recovery of prosperity is the adoption of codes, the salient feature of which is that they require more money to be paid for less work.

socialists that the disease is inherent, and that it originates in the fact that production is not carried on under the price economy unless it yields a profit. This, I myself believe to be a half-truth, leading to false conclusions unless complemented by the missing half. It leads, I think, to those conclusions by way of one or other of three possible errors ; and since it is unfortunate that a good cause should be supported by bad argument, it may be well to examine these errors in turn.

The first relates to the nature of what is called profit. I have argued that it is not economic to carry the production of anything beyond a certain limit ; and that that limit is set at the point at which the value of additional product to the consumer does not outweigh the cost of making such product. I have also argued that it is not easy to define with precision the elements that should enter into the calculation of this cost, or to locate and assess them accurately in practice. Now the theory that it is the necessity of including something for profit in the price paid for every article which prevents available resources from being fully utilised implies that what is called profit is different in nature from the remaining elements of cost.

Such a distinction, however, becomes somewhat muzzy on closer inspection ; although, of course, this is not to say that profits may not have other peculiarities which are important in other connections but not relevant here. What the socialist describes as profit for this purpose covers the whole payment to the capitalist. But this payment includes a rate of interest which, it was argued in Chapter II,¹ is just as much part of the true cost of production as is payment for personal effort in the form of labour. Economists have carried this argument a stage further, and suggested that in reckoning the bare cost of production of any article we ought indeed to include a minimum of profit which would cover both interest on capital, and, in addition, something that can best be described as an insurance payment lest the enterprise turn out (as any enterprise

¹ See pp. 95 ff.

conducted in anticipation of demand may turn out) to be a failure. Putting the same thing in another way, we may say that investment for the future necessarily involves the sacrifice of restricting present consumption (so well realised in Russia), that this cost must not be disregarded, and that it must be reckoned greater, the greater is the risk that the future investment may not turn out all that was hoped.

But if this much profit should be more accurately described as cost, then no economic system which disregards it is in our sense efficient. If the production of any article is carried to lengths at which consumers are so well supplied that they do not think it worth paying a price for additional output sufficient to compensate the workers for the trouble involved in making that output, then everybody agrees that¹ its further production is a waste of energy. It would be better for those workers to make something else more urgently needed instead, or if nothing else is more urgently needed, then it would be better that they should have greater leisure. If, however, it is true that a minimum payment for interest and for risk is a necessary element in the cost of production just as much as is human labour, then exactly the same objection applies to the production of articles which cannot be sold at a price adequate to cover this minimum.² Such articles are being sold for less than their cost, which is equivalent to saying that the making of them is a misdirection of productive effort. It is inefficient to make things which are not found, by the people who use them, to be worth the trouble and expense of making. It is true, of course, that *if* these minimum elements in profit (what the economist calls normal competitive

¹ Subject always, of course, to the accuracy of the measurement of cost and satisfaction in terms of price. This qualification must be understood throughout.

² As this statement easily lends itself to misunderstanding a word may be added as to what it does not mean. It does *not* mean that to leave the control of saving and investment in private hands is an economical or a wise arrangement; or that there is any ethical justification for a system which permits people to live comfortably without working.

profit) were not admitted as part of cost, production could economically be carried further than it is. If any elements are omitted from the costing of an article, then the price of that article can be reduced, and its output increased by sales to consumers who were ruled out by the former prices. But it is not likely that the omission from selling prices of the amount necessary to cover the current rate of interest, plus something extra to compensate for the possibility of unforeseen losses, would make possible any *dramatic* price reduction. If the choice is between production carried on for this much profit or for no profit at all, the latter might give us a *little* more of everything ; but not, I think, very much. And if the argument of the preceding paragraphs is sound, and if we are to adhere to the principle that things are not worth having unless we are prepared to pay their full cost, the production of this additional output would be a mistake.

By this time, however, the critical reader will have lost patience with the complacent assumption that profits, commonly so-called, include only these theoretical minimum necessary payments for the cost of saving and the risk of investment. If perfectly free and prompt competition prevailed everywhere, it might indeed be argued that profits would come down to this minimum, and it might then be unnecessary for socialists to get heated about them ; but everybody knows that capitalists (when they refrain from cutting one another's throats) can get much better terms than this. It may be true that left to himself, and with no more promising alternative over the horizon, a man would find the prospect of a 2 per cent return quite sufficient to induce him to embark his capital on some new enterprise. But if by joint action with possible competitors he sees a chance of getting 10 per cent, he will certainly turn up his nose at anything less ; in which case the only goods that he will consent to produce will be those which can be sold to people who will pay a price for them high enough to yield a 10 per cent return. And this is what, in fact, happens. A mere glance at the varying levels of profit realised by

different industries and firms is enough to show that the normal competitive profits of the economist are—well, anyhow, not normal.

This is the other half of what was described above as the half-truth in the attack on production for profit. But although this other half is enormously important in another context¹ (especially if it in turn is admitted to be but a quarter of a still larger whole), it is not, I think, relevant to the present issue. The fact that capitalists want and expect fat profits certainly explains why they do not put up factories to produce all sorts of things which many of us would be only too glad to buy at prices sufficient to cover the mere cost of these in labour, materials, interest and insurance against loss. But it does *not* explain why they put up factories, apparently with every intention of engaging in production, and then close those factories down: why they produce goods and then destroy them. It would explain the fact that the capitalist system never grew at all; but it will not explain the fact that it does grow but only by fits and starts, and to the accompaniment of prolonged attacks of acute indigestion. In a world in which production was inhibited by the exaction of excessively high profits, people would be poor and not able to buy much; but one would certainly also expect the capitalists of such a world to see to it (in the interest of those same profits) that no more was produced than could be sold at prices yielding such profits. Yet this is just what they fail to do.

This brings us to the second of the three misconceptions which, it was suggested on p. 116, have led people to believe that the explanation of the tragi-ridiculous disease of capitalism lies in the fact of production for profit. This, which arises from failure to realise the fact that this particular disease is most evidently unprofitable to the capitalist, need not detain us long. One of the most conspicuous symptoms of that disease is that the capitalist puts his money into all sorts of enterprises, evidently in the expectation that they will be profitable, and then is disappointed.

¹ See p. 156.

It is only after the disappointment that he shuts up in disgust, and that we have the spectacle of unused resources side by side with workless and impoverished people. This surely points to the fact that the particular flaw in the price economy with which we are concerned at the moment arises, not so much from the fact that the system runs for profit, as that it is designed to run in this way and then fails to do so ; which is not quite the same thing. It is not so much the capitalist's game that brings us to our present plight, as the fact that he is not clever enough to play that game successfully. And his failure to do so, it should be remembered, causes him loss as well as the rest of us. It requires a very superficial glance at the facts to see that the capitalist's profits are diminished, and at times turned into losses, during a depression such as the present. The mention of this fact does not of course imply that the capitalist has any claim to sympathy comparable with that of the millions of wage workers upon whom the real brunt of hard times falls. But it is useful to bear these facts in mind, since they may help to set us on the right road, if we are looking for an explanation of current events, or considering what is likely to happen next and what ought to be done about it. One obvious inference is that if the collapse of the present economic order is due to the faulty shots of the capitalists, not to the success of their hits, then there is a very real possibility that these capitalists will themselves study to improve their aim and will light upon devices which will eradicate the present defects ; in which case those who frame policies on the confident assumption that the capitalist system is to all intents and purposes over and done with may be caught napping. But of this, more later.

Finally we have to consider a third possible cause of the popular diagnosis of profit-making as the poison which debilitates the price economy. That is the view that there is something in the nature of the payment of profits which makes it impossible for that payment to enter into effective demand ; that is to say, that, whereas a workman who gets his wages spends them, and so helps to employ his fellow

workers, a capitalist who receives dividends or indeed any kind of profit does nothing of the kind ; with the result that a part of the price paid for any article is, so to speak, withdrawn from circulation and rendered sterile ; with the further result that the purchasing power in the hands of consumers is necessarily inadequate to buy the goods that are available for sale at prices which cover their cost and include a profit to the investor. Judging from the number of times that this doctrine has been put to me in one form or other of public discussion, it seems to have an extraordinarily wide acceptance. And yet, outside certain quite exceptional circumstances, it is surely nonsense. It is obvious that a capitalist does not (at least if he is well-to-do) buy the same things as a wage-worker. For his personal use he buys more varied and luxurious articles ; and in addition he spends a large part of his income, not on articles for his direct use at all, but on materials and plant required for his business ; or, if he is the passive investor and not himself personally engaged in business, he transfers his income to somebody else who spends it in these ways on his account, and lets him have part of the proceeds. It may indeed be that he hoards a small fraction of his income, neither spending nor investing it ; and there is reason to suppose that, once a depression is upon us, this hoarded fraction becomes considerably larger than it is when everybody thinks that all (and especially all his own) investments are for the best in the best of all possible worlds. We have already referred to the prospect of such an increase in Chapter I,¹ where it was pointed out that at times the amount of money saved may exceed that which anybody is willing to invest.

But this tendency to a temporary increase of hoarding represents the sole drop of truth in an otherwise untenable opinion : untenable, because it is altogether incredible that any large block of income should for long be actually hoarded and not used to buy anything at all ; or that this should be true of a particular type of income such as profits,

¹ See p. 32.

and not true of incomes in general. And the fact that an income is used to buy things like plant and materials instead of sausages and mashed, does not, of course, in any way invalidate its power to purchase the products that industry is making and to give employment. It means simply that there are more opportunities of employment for cotton pickers and textile engineers, and fewer for sausage makers and persons who mash potatoes than would otherwise be the case.¹

IV

Rejecting, then, the view that it is the fact of production for profit which explains the inability of the price economy to consume its own products and utilise its own resources, we may next consider a second and hardly less popular interpretation of that state of affairs ; that is the doctrine, most persuasively and persistently argued by Mr. J. A. Hobson,² which holds that owing to a tendency on the part of the rich automatically to save and invest a substantial part of their incomes, the capitalist system is bound perpetually to embark upon investment on a scale larger than it can successfully operate. Reduced to essentials the steps in the argument are these : A class of persons, whose aggregate income is considerable, find themselves with so much money that they literally cannot spend the whole of this income, however luxurious their tastes may be. What these people cannot spend they save and invest, and, as a result of these investments, new capital goods are created, factories erected, ships built, mines opened. These capital instruments, however, are obviously no good at all, unless there are customers willing and able to buy the goods which the new factories and mines and ships are intended to deliver. But in the present world the poverty of the working class puts an early limit to the buying

¹ For an admirably lucid, and much more adequate, refutation of a whole bunch of theories of the type of that discussed in this and the following sections of the text, see *Purchasing Power and Trade Depression*, by E. F. M. Durbin.

² See especially his *Economics of Unemployment*.

power of consumers, and in consequence the unconsumed income of the well-to-do is simply invested in building factories which, as it turns out afterwards, cannot be profitably operated. The remedy is to increase the incomes of those who are relatively poor, and who spend their money on boots and cheese and soap, and to diminish the incomes of those who are rich, so that the latter may be restrained from the folly of perpetually erecting new factories for the manufacture of such boots and cheese and soap when all the existing factories are working short-time.

It is, I think, no exaggeration to say that Mr. Hobson has converted to his views practically the whole body of such left-wing liberal and right-wing socialist opinion as dabbles in economic theories at all. Recently also, Mr. G. D. H. Cole¹ has led nearly fifty thousand intelligent men through world chaos along a trail differing only in detail from that blazed by Mr. Hobson. The orthodox economists on the other hand, were for many years content entirely to ignore the Hobson doctrine as too obviously silly to deserve the compliment of refutation—an attitude which is greatly to be deplored unless we are to take the view that economics is an entirely esoteric study; and that it is not the business of any professional economist (nobody I suppose would argue that it is the job of all, since the qualities required for disseminating the known, and for exploring the unknown, are by no means identical) to concern himself with what the public at large believes. Happily, however, the economists have now been shaken out of this lordly indifference by the fact that Mr. Hobson's name has been mentioned by no less an authority than Mr. Keynes.²

Certainly it is most desirable to get the matter settled. The spectacle of the mass of labour opinion declaring that the capitalist system collapses because it attempts to invest too much, and influential economists proclaiming that it

¹ See *The Intelligent Man's Guide through World Chaos* (approaching its fiftieth thousand), especially pp. 337, 338.

² *A Treatise on Money*, Vol. I, p. 179.

collapses because it does not invest enough, is not edifying ; especially when neither party seems appreciably disconcerted by the fact (and it is a fact !) that they cannot both be right. Yet unless we know on which side the truth lies it is impossible to form any useful estimate as to the prospects and potential achievements of our particular form of economic system, as compared with possible alternatives.

I myself believe that in grafting the Hobson theory into their orthodoxy, socialist critics of the present system have made an unfortunate mistake ; and that in consequence a lot of good thinking has gone up a blind alley, from which it is essential to turn back if we are to make progress with interpreting the system under which we live and constructing something more satisfactory. The fundamental flaw in the Hobson analysis may be stated in a number of ways, and its complete logical refutation would occupy a considerable number of pages.¹ But the root of the matter can, I think, be shortly summarised. According to this theory the *essential* cause of the alleged over-investment is the fact that the very rich go on saving because they cannot help it, and not because they have their eyes on any profit that they anticipate from their investments. They fail, in fact, to respond to the ordinary stimulus of profit, and their actions are in this sense blind. But if it is true that the rich investor is in fact investing blindly, indifferent to the resulting profit, we need some reason why he unaccountably packs up in disgust when no profit is in fact forthcoming. The dilemma is this : Either the investor is indifferent to profit, in which case he will carry his investments beyond the point at which they can be profitably operated, but will not be deterred from operating them by the absence of profit ; or he is not thus indifferent, in which case his investments will be confined within the limits which he expects to give him a profit sufficient (in his opinion) to justify making those investments ; whereupon any permanent

¹ The reader who is prepared to go further into the matter will be well repaid if he again refers to Mr. Durbin's book mentioned on p. 123.

tendency to over-investment, due to the blind accumulation of those whose incomes are greater than the recipients can cope with, obviously disappears.

Further, nobody supposes that the alleged blind accumulator produces more than a part of the total resources which the capitalist system devotes to the creation of new capital instruments.¹ To that total there contribute also all sorts of lesser folk, who respond in orthodox fashion to the stimuli of the price economy. As long as these others play a considerable part in determining the total volume of new investment, the fact that the remainder may be supplied by investors whose saving is governed by no motive of profit will not prevent the total being kept (apart from mistaken forecasts, of which more later) within the limits of the profitable; for the responses to movements of profit of those who *are* influenced by these movements will be sufficient to make the necessary adjustments in the total. The point may be made clear by the use of a simple analogy. If a number of people sit down to a meal, and if it is known that one of them always eats exactly the same quantity regardless of how much happens to be on the table, but that the others are prepared to adjust their appetites to the means of satisfying them, then there will be no fear of the company as a whole outrunning the fare supplied, unless the ration of the gentleman with the constant appetite is so large as by itself to threaten to leave nothing for the others. Similarly, the existence of blind savers, whose saving is unaffected by the state of the market

¹ And that part may be much smaller than is commonly thought. According to figures which the New Fabian Research Bureau have kindly allowed me to quote from their forthcoming pamphlet on *Taxation*, the surtax paying class (that is, those with incomes of over two thousand a year), after they have paid their rates and taxes and got themselves a living after the fashion in which they think it reasonable (not to say economical) to live, probably did not, personally and directly, save more than £50 millions out of an annual total of new savings amounting, in the years immediately before the world slump, to anything from £375 to £432 millions; and in the past year or two, when the total has been much smaller than this, there is considerable doubt whether the net personal savings of the surtax class have amounted to anything at all.

for saving, will only swamp that market if this class occupies practically the whole field, and does not, rather, form a centre to which is added a wide margin of savers whose contributions fluctuate according to the demand for them.

The truth is, I think, that in the price economy the forms which our production take are determined rather by attempts on the part of producers to follow the magnet of effective demand. And this is always true, just as much when the question is: Shall we have more capital goods rather than more consumables? as when the question is: Shall we have more of this kind of consumables than of that? People who save and invest are adding to the production of capital goods. The limit to which that production will be carried—for most of them, or at least for a determining margin—is the expectation that it will be profitable, which, in turn, depends on the chances that there will be an effective demand for the consumables to be made by those capital instruments. Investors weigh these chances and act upon their reading of them, and their action in so doing is exactly similar to that of the makers of boots or cheese, who also control their output on exactly the same principle. If we group the whole of our production into the three classes of current necessities, current luxuries and new plant or instruments of indirect future utility, the proportions in which each class of commodities is produced in the price economy will depend upon exactly the same kind of circumstance. In a community where there are many rich persons the output of luxuries will naturally be larger than in one where all are poor; and, in the same way, where there are abundant funds offered for investment, the output of capital goods will be larger than in a community all of whose members believe that the right way of life is to eat drink and be merry for to-morrow they die. But in neither case does the existence of rich persons, or of a few automatically accumulating persons, imply that the goods for which these persons constitute a demand will be persistently produced *beyond the limits set by the prospects of profitable sale.*

There are also other difficulties in the attempt to explain the over-production of capital instruments by the automatic savings of the well-to-do. In particular, those who do so are in danger of proving too much. Mr. Hobson himself admits that *some* saving and investment is necessary, and that there would be undersaving, should a society refuse "to save enough to realise the enlargements and improvements of the machinery of production that are required to furnish a larger output of commodities for a higher standard or a growing population."¹ This statement, however, implies what is, after all, the common sense of the matter, as well as the historical experience of the Victorian age, namely that the creation of new capital instruments is itself the road to a higher standard of living in the future. Quite obviously it is the fact that our grandfathers invested their resources in building up the elaborate industrial equipment which we have inherited which has made possible the cheap mass production of hundreds of commodities, and enabled us to live, on the average, a great deal more extravagantly than they did. But it is not at all clear how investment in capital goods can thus be beneficial up to a point not more precisely defined than in the formula quoted above, and no further: how the creation of new capital can first *itself create* a higher standard of living, and then be termed excessive on the ground that the products which it makes available cannot be marketed unless a rise in the standard of living is created: which rise, we are now given to understand, will not occur within the four corners of the capitalist society. Indeed, the reader who follows Mr. Hobson's argument carefully will find that the consequences which he predicates of over-investment may, by exactly similar reasoning, be shown to be the inevitable consequence of *any* increase of capital instruments in a capitalist society, which is contrary both to common sense and to the lessons of experience.

Here again, at the risk of anticipating what properly belongs to the next chapter, we may express the hope that the

¹ *Economics of Unemployment*, p. 39.

experience of the Russian system will be instructive. According to the Hobson theory, a society in which the mass of consumers are poor must not put up more than a strictly limited quantity of new plant and buildings, lest productive capacity outrun the power of consumers to purchase. In the Soviet Union there is, of course, no question of the creation of new capital being inflated by the automatic savings of very rich persons ; but it is clear that the proportion of the country's resources devoted to this kind of production during the first Five Year Plan is staggeringly large as compared with the standards of capitalist countries. The Russian consumers, on the other hand, are exceedingly poor. Yet there has been no suggestion that the enormously high rate of new investment in the U.S.S.R. has any result other than the commonsense one of promising a higher standard of living in the future, in return for the lean days of to-day, even though all the conditions of over-investment, in the sense in which that term is used in the theory we have been discussing, are present in contemporary Russia. It will be interesting to see whether Russian experience confirms the view that the poverty of the people sets the limit to the scale of investment for the future which is possible without a breakdown of the system.

It should be added that, since the over-investment theory ascribes the paradox of capitalism to factors resulting from the unequal distribution of wealth, it should not strictly be classified, as I have classified it, as an attack upon the price economy as such. It is an essential part of the theory that none of the unpleasant consequences which it seeks to explain would occur if some people were not so fantastically rich as to be incapable of spending their incomes, or if other people had more to spend on their day-to-day needs. An economic system based, like ours, on individual initiative and response to price movements, but which enjoyed approximate equality of income, would not, on this view, find itself in our present plight. Nevertheless it is, I think, pardonable to treat over-investment theories as criticisms of the fundamentals of the price economy ;

for those who hold these theories would almost certainly subscribe to the view, some of the grounds for which were set out on pp. 106-107, that, though an economic system which is neither planned nor unequal is theoretically conceivable, it is in practice unlikely to be realised.

V

If, then, it is neither the fact that production is conducted only for profit nor excessive investment which is responsible for the present breakdown, where are we to look for the cause of the trouble? The answer is, I think, twofold. First, there are certain flaws in the mechanics of the price economy, which, though damaging to its present operation, are nevertheless accidental rather than fundamental, in the sense that an economic system is conceivable, and may one day be realised, which is based on individual responses to price movements and yet free from these particular defects. And, second, in every price economy, there is at least one inevitable contradiction which makes its maximum efficiency at all times very low, and which, possibly, in part accounts for the special type of inefficiency which we are now considering.

Beginning with the non-essential defects, we have to remember that to some extent all economic systems, and to an exceptionally large extent those which depend on the price mechanism, rely upon attempts to forecast future situations. And these forecasts are frequently mistaken. Indeed it is almost incredible how wrong the anticipation of people in responsible positions can be. One has only, for example, to read the pronouncements of the American business and banking world in the early part of 1929 to see that we have not even learnt to distinguish the shadow cast by coming events from the brilliant sunshine of perpetual prosperity.¹ In the aggregate there is probably no single factor which has thrown more grit into the wheels of the capitalist machine than the mistakes of the capitalist.

¹ Most effectively described by Dr. Robert Eisler in his *Stable Money*.

Or, to change the metaphor, it is less the rules of the game that bring us to stagnation than the fact, already pointed out,¹ that we have not learnt to follow the rules accurately. Articles are produced in the expectation that people will be willing to pay a price for them which covers their cost of production, plus profit, and then it turns out that there are no such people. Oil wells are sunk, where there is no oil. Investors listen only to the prophets who prophesy smooth things ; and, afterwards, pay the price. Every one of these mistakes takes time to clear up and involves definite loss in the process. In some cases the time and the loss may be very considerable. The grain of truth, for example, in the over-investment theories may well be, not that our economic system has a permanent tendency to produce more capital instruments than can be profitably used, but that mistakes are bound to be made in calculating how great the profitable output of anything will be, and that, when the particular mistake of producing capital goods beyond this limit has been made, this takes an inordinately long time to put right. It has often been pointed out by economists that the durability of capital goods is a disadvantage in this respect. If there is a glut of strawberries one week-end, prices may fall to unremunerative levels, but as a rule the trouble is all over and done with in a few days or at worst in a single season. But if factories or ships are built in the mistaken expectation that they will be profitable, it may be years before demand overtakes the new supply. Similarly, mistakes in agriculture are often found to be more obdurate than comparable mistakes in many forms of industry. The farmer who grows wheat on land which would be more profitably used as pasture cannot in the nature of things readjust his production for at least a year ; and when the two facts are added, first, that the farmer has the reputation of being slow to realise and act upon the lessons of his mistakes, and, second, that he may be tied up with a rotation of crops extending over a number of years, it takes little imagination

¹ See p. 121.

to see that he is hardly likely to rush about with the speed of quicksilver in response to the movements of demand.

The fact that every mistaken forecast reduces somebody's income, and inoculates him with the principle once bitten, twice shy, must in the aggregate represent a very heavy drag, both psychological and economic, on the mechanism of the price economy. It accounts, I think, in no small degree for the inability of a society governed by that mechanism to make a continuously full use of its resources. Quite apart from recurring violent crises and depressions, there must always be a considerable margin of wasted resources in the price economy which represent simply the bad guesses of innumerable individuals. And it is evident that if for any reason there is an exceptional coincidence of mistakes, the situation may look very black. The outward and visible sign of these bad guesses may take any form from that of the echoing desolation of the Crystal Palace to the unemployment of piano-makers in an age of radio. In every such case the essentials of the capitalist paradox are there, namely, unused resources of labour and capital coexisting with unsatisfied wants ; but we have to recognise that it is a *paradox also from the capitalist's point of view*, and not a feature of the correct functioning of the system which he operates.

It is evident that these mistakes could never be eliminated altogether. Further, the more complex a system, the more subdivided and specialised its industrial structure, and the greater the variety of goods which consumers are accustomed to possess, the more numerous and varied are the possibilities of error. These factors are probably not without influence on the present situation. The most extensive breakdown of the price economy ever known has followed a remarkable advance in the standard of living, and a notable relative growth in those industries which attempt to cater for the changing fads and fancies of the public rather than for their more elementary, more stable or grosser needs ; and this breakdown is at least no less severe, and in some respects perhaps more severe, in countries

whose industrial structure shows all the latest modern improvements. Certainly it is worse in the United States than in Britain. On the other hand, even if some mistakes are inevitable, it is not wholly beyond the bounds of possibility, first that careful study of the history of the past failures of the price economy will eventually yield some generalisations that will diminish the necessary percentage of error in future forecasts, and, second, that the practitioners of the economic world will some day consent to act upon the lessons of experience as these become available. It is indeed easy to be wise after the event ; but already it does seem difficult to believe that *none* of the mistaken forecasts which preceded the present depression could have been avoided by closer attention to the record of the past. Certainly it is dismissing the price economy too easily to suppose that those who live under that system will always behave as foolishly in the future as they have done in the past—most of all when it is realised that the price of that folly is, in greater or less degree, paid by every section of the community.

The accumulation of individual mistakes which are independent of one another, except so far as those who make them may be subject to the influence of waves of crowd feeling, does not, however, exhaust the possible causes of the present unsatisfactory operation of the price economy. It is, I think, likely that much also is to be laid to the account of one part of the machine which is defective (but not necessarily beyond the possibility of repair) : namely, its money. The very nature of the present breakdown certainly gives ground for strong suspicion that the monetary system is not wholly innocent. For it is evident that the primary purpose of money is to facilitate the exchange of different products and services, without the inconveniences attendant on a system of barter. It is equally evident that in a world where people are busily destroying what they have produced because they cannot sell it on satisfactory terms, it is the system of exchange, not that of production, which has gone wrong. Hence,

in trying to locate the fault, the part of the machine which we should examine first would naturally be that which controls this business of exchange: that is, its money. Accordingly, many economists, perhaps English and American economists even more than those of other countries, believe that faulty monetary systems are the clue to the whole puzzle, and that a price economy which learnt how to manage its money might live happily, or at least prosperously, ever after; while even more believe that, whatever it was that got us into the mess, judicious manipulation of the monetary system would get us out again. And it is well to remember that if this view is correct, with a fair proportion of the brains of two continents worrying over the problem, there is a good chance that the answer will be found. If it is true that the price economy requires only a reliable monetary system to keep it going, it is hardly over-optimistic to expect that at least the younger men and women of to-day may expect to hear the machine ticking regularly again; and that there is a rude awakening in store for those socialists who have gaily written it off as finished.

Without plunging deeply into the vast mass of monetary explanations of capitalist crises, we can, I think, see good reasons for going a long way with those who are called (by such as accompany them less far) the monetary maniacs. A short survey of current monetary doctrine will make this plain.

The first relevant point in that doctrine is the old-fashioned, but commonsensical, explanation of depressions of trade in terms of the truism known as the quantity theory of money. According to this theory, as increasing supplies of goods of any or all kinds are produced for sale, either the potential consumers of those goods must be simultaneously provided with money wherewith to buy them, or the prices of those goods must be reduced. This is a simple sum in arithmetic. Now, since we are all supposed to know that money is valued only for what it will buy, there need not in certain circumstances be any objection to the second alternative at all. If there is a 20 per cent increase in the

production of goods of every kind as compared with some previous period, and if nobody has any more money, but simultaneously there is a 20 per cent cut in the price of everything, then nothing has happened except that we all have at least the opportunity of making ourselves 20 per cent better off. In fact, however, everybody knows that, when additional goods are offered to consumers whose money incomes have not been increased, nothing so elegantly simple as this actually occurs. There is never a simultaneous 20 per cent (or any other per cent) fall in the price of *everything*. Instead, the efforts of competing salesmen to draw customers away from one another lead to the prices of many articles falling much further than is necessary to compensate for any addition to supplies; while other prices stick fast where they are. And this tendency of some kinds of prices to fall more quickly and easily than others means that those whose outgoings are of the latter and incomings of the former type find themselves ruined. Hence every seller's fear and hatred of any general fall in the prices of commodities such as that of the past few years, and hence the strength of the plea that a stable relation should be maintained between the quantity of goods offered for sale and the money in the hands of the consumers who are to buy those goods. Could that be achieved, while the price of one article might go up and that of another go down, we should not have to fear a simultaneous fall in prices generally. And this plea is particularly strong at a time when every seller's warehouse is bulging with goods for which he cannot get the price that he thinks he ought to have, and when every manufacturer and farmer is cutting down his output in terror at the sight of a continually falling market. In these circumstances it is asking too much to expect us not to believe that, if every Government in the world made every one of its citizens a present of a nice new paper note on the same day, with instructions that this would be cancelled unless spent or invested within a given period, then, immediately, thousands of wheels now stationary would begin to go round again.

In spite of certain criticisms implicit in what I have called the more modern type of monetary explanation of the crises of the price economy, which are dealt with below, it is, I think very difficult to shake the logic of the foregoing simple argument. Strictly, perhaps, we ought to discriminate between an increase in the output of goods which makes a given quantity of existing resources more productive, and an increase which is due merely to fresh resources coming into play. If, for example, as the result of some scientific invention, the productivity of everybody's labour is increased by an average of 20 per cent there is no great reason why everybody should not continue to have the same money wages as before, and merely enjoy the pleasurable experience of finding that his money goes further than it used to do. The profits of industry are not thereby destroyed, although no increase in monetary circulation has accompanied the increased output of goods. But if the output of commodities is increased by 20 per cent merely because more factories are working and more people working in them, then we are heading straight for disaster unless either fresh money is put into circulation to supply these new workers with incomes and through them the community at large with the means of purchasing its additional product, or a fall in everybody's money income occurs simultaneously with a fall in all prices on a scale sufficient to enable the extra goods to be sold. Such a simultaneous fall in prices and incomes, however, involving as it does the revision of millions of contracts in order to produce a result which, when accomplished, leaves everybody in effect exactly as he was, is wholly impracticable.

In such a case the arguments for expanding the currency as population and output expand look particularly strong. Nor is their force destroyed by such statements as that it is very difficult accurately to measure in practice the rate of increase of goods available for purchase, or the movements of prices in general; or that the most perfect balance between the money in the hands of consumers and the price of goods awaiting purchase can be upset if consumers

turn sulky and insist on hoarding their incomes ; or that any attempt to expand the circulation of currency as the output of goods increases is wrong, because indefinite and uncontrolled expansion of the currency would be disastrous. Such statements imply what is indeed the case, that it is no simple matter to construct a practical policy for matching the circulation of money and the production of commodities without stumbling into all sorts of other difficulties. But this has nothing to do with the rightness of that policy, or the need for discovering ways of circumventing these difficulties. And it is quite certain that the monetary arrangements which were characteristic of capitalist societies in the period immediately before the present crisis, and which have enjoyed the veneration of more than a century, have made singularly little provision for any attempt to expand and contract the monetary circulation in step with the output of commodities for sale. Our orthodox method of currency regulation requires the maintenance of a relatively stable relation between the quantity of money in circulation and the quantity of one or other of the precious metals (in post-war days, usually gold) in the possession of the monetary authorities. It may be a merit of this system that to follow the rules by which it was operated put a relatively moderate strain on the intelligence, or the probity, of those responsible for it ; a fact of whose importance we have had some evidence in these latter days, when some of the authorities concerned have begun to exercise their intelligence in substituting new rules of their own. But it is impossible to claim that the system bothered itself about harmonising changes in monetary circulation with changes in the output of commodities.

The views, therefore, of those who believe that a primary cause of the present breakdown lies in the fact that the issue of new money has been restricted in a period when there was a large, if uneven, expansion in the actual, and an even larger increase in the potential, output of commodities, cannot be dismissed as entirely fantastic. Everybody knows

that there has been a wide and general fall in the prices of numbers of articles which bulk large in the total of the world's output, and a correspondingly loud and general outcry from producers and sellers that their position is desperate. If there is any truth in the arithmetical equation of the quantity theory of money, this fall is only explicable on the assumption that consumers' spending has not kept pace with producers' attempted selling. And there is no explanation of the fact that people do not spend money so credible as the presumption that they have not got it to spend.¹

A more recent explanation of the typical choke-up of the unplanned economy in monetary terms is to some extent critical of the foregoing. This criticism fastens on the deceptive simplicity of the quantity theory of money. This, it is contended, glosses over complexities which, once revealed, will soon disturb its easy march from premise to conclusion. In particular we are reminded that arguments about equating the prices of goods *in general* to the total of consumers' incomes *in general* are, after all, dealing with abstractions which have very little meaning; and which have little influence on industrial affairs for the excellent reason that no industrialist takes the slightest interest in them. Everybody is concerned with the prices of the *particular* things that he or she buys or sells, but indifferent to the fate of some hypothetical average of the prices of things in general. Hence, if defects in the monetary system are responsible for gluts of unsaleable goods it is not just because the aggregate quantity of money fails to keep pace with the aggregate quantity of goods, but because the monetary system puts money into circulation in the wrong places. In other words, when we speak of expanding the circulation of money we must remember that new money is not evenly spread over the whole community. Somebody

¹ The reader who is interested to pursue the matter further, and especially to see the evidence for the view that local shortage of gold supplies on which to base additional issues of purchasing power is the root cause of present troubles will find the case most clearly and convincingly argued in Professor Cassel's *The Crisis in the World's Monetary System*.

gets it first, and as it passes from his hands to those of others it leaves a sort of trail behind, dragging the productive resources of the community this way and that in an attempt to satisfy the demands of the particular people who get this money.

Dr. Hayek,¹ who has done most to make these doctrines known in England, argues that in our monetary system purchasing power appears first in the hands of some producer or business man, who borrows from a bank in order to increase the capital equipment of the community—who, that is to say, is making an investment. Hence, in its first use, this money acts as a magnet attracting production into the creation of capital goods; but, as the business man presently pays this money out to his employees, it passes to people who want to spend it, not on capital goods, but on consumables. Consequently the capital goods are wasted. There never was any real demand for them: only a fictitious demand due to the fact that if new money is put into circulation somebody has to have it first, and until, but only until, it has spread itself smoothly over the whole community that somebody gets a temporary pull on production not justified by the realities of the economic situation. Putting it in concrete terms, if there is an increased output of motor-cars, beer and houses, then, according to the quantity theory of money, new purchasing power should be put into circulation in order to provide a market for these goods. But in practice the chances are that this money will go anywhere except to the people who want to buy motor-cars or beer or houses. If, after studying some general index of production into which these commodities enter with others, the monetary authorities decide to expand the currency, it is as likely as not to go, not to the purchasers of houses or motor-cars or beer, but to the proprietor of a cotton mill for the expansion of his business.²

¹ In his *Prices and Production*.

² It should be added that if Dr. Hayek's analysis of the cause of depressions is correct, then, as he points out (*op. cit.*, p. 85), to extend

Mr. Keynes¹ also, when he builds a complete theory of booms and depressions out of the failure of our system at any time accurately to match what it saves with what it invests in new plant and buildings, argues along lines which at this point run closely parallel to those of Dr. Hayek. (Both indeed owe much to their Austrian predecessor, Dr. Ludwig Mises.) According to the Keynes theory also, our monetary system gives the producer of capital goods a sort of unjustified advantage in that it is he who gets the first use of new purchasing power, thanks to the advances which banks make to him during a period when credit is expanding. This producer, not realising that these advances are only paper and not somebody's savings (which would constitute a real demand for new capital goods), presently finds that his investment is unprofitable and should never have been made. Investments, in fact, have outrun the savings which alone make them economically justifiable, and the blame for this lies at the door of a monetary system which takes no heed of this possibility. And the next thing that happens is a swing of the pendulum in the opposite direction. Investment being unprofitable, nobody wishes to invest any more, but saving goes on as before, with the result that part of the purchasing power which might constitute a demand for goods is simply laid aside and not used at all.

We cannot, I think, deny that this method of approach

credits to consumers after the depression has begun will merely make matters worse. If the cause of the trouble is that capital goods have been created for which there is no effective demand, then it will only aggravate that trouble to put new purchasing power into the hands of people who, by definition, have no interest in these capital goods. Nor, in his view, would it be satisfactory to issue new purchasing power to consumers in the first instance; because in this case there would be a temporary pull of production in the opposite direction to that which results when producers get the new money first, i.e. away from capital and towards consumable goods; and this, again, would lead to the structure of production being modified to suit what is only a passing, accidental, demand. Hence his conclusion, noted in the text, that the only way out is never to let anybody have any new money at all.

¹ See *A Treatise on Money*, especially Vol. I, ch. xii.

does reveal a second way in which the monetary system may throw our type of economic mechanism out of gear. At least, it is evident that the business of matching up the goods offered for sale with the income available to buy them is more complicated than the simple statement of the quantity theory suggests. It is not merely a case of equating gigantic, but homogeneous totals: it is necessary also to balance the separate items on every page. But it is certainly true that hitherto the monetary systems employed by the unplanned economies of the world have taken as little account of the possibilities suggested by Dr. Hayek as of those that disturb the older school of monetary theorists. Dr. Hayek hints¹ that perhaps the only way of avoiding the drag of production into uneconomic channels, which every expansion or contraction of the currency leaves behind it, may be to keep the total volume of money purchasing power at an absolutely unchanging figure, and to let the price of each article adjust itself, not to some theoretically desirable average level of prices, but simply to the conditions of its own demand and supply. Whether or no this policy would solve the problem of matching consumption and production (I do not myself see that it would²) it has certainly little chance of a trial in a world which still clings to the obsession of gold.

Summing up, then, we may say that a reliable monetary system is an obvious essential of the smooth working of any economic organisation that depends on individual initiative and enterprise. All the factors which influence the decisions reached under such a system are measured in terms of money, as are the contracts in which those decisions are recorded and in the execution of which they are fulfilled. If those who make and carry out these decisions are using a unit of measurement which is not precise, and which actually varies from day to day, the greatest confusion, misunderstanding and misdirection of productive effort must result. Recently it has become quite common

¹ *Op. cit.*, ch. iv.

² Largely because it does not meet the case described on p. 136.

to use such expressions as that the sovereign in such and such a place or, at such and such a time, was worth twenty-two or fifteen or some other number of shillings ; which illustrates the extraordinary muddle into which our present monetary systems land those who have to work to them. One has only to imagine what would happen to business calculations and plans if the number of ounces in a pound, or of inches in a foot, were thus variable, and then to remember that, whereas these measures enter only into contracts concerning goods sold by weight or length, the monetary unit enters into every single economic contract of any kind whatever, to get an idea of the extent of the damage to economic efficiency for which a monetary system that is unreliable, or imperfectly understood, may be responsible.

In these circumstances it is perhaps hardly surprising to find that on occasion even those countries whose economic organisation is of the most advanced individualist type revert in despair to direct barter, and that American rubber manufacturers swap their surplus tyres for printing or foundry work, while dentists mend teeth in exchange for payments of fish, meat or celery.¹ A monetary system only works properly when it obviates the inconveniences which would arise in a world of barter, but at the same time does not delude us into making things which we should never have made, and doing things that we should never have done, if the products of our various activities were exchanged directly, and not through the intermediary of bits of metal or paper. When a monetary system usurps more than this function, barter may well be preferred. Under a perfect monetary system, in an unplanned economy, the major economic decisions *ought to read exactly as they would if we could imagine the same society employing a system of barter*, without being daunted by the trouble which this practice entails. Money should be merely a technical device for recording simply and quickly decisions which it would be equally to the interest of the

¹ See the *New York Nation*, March 1, 1933.

parties concerned to make, even if there were no such thing as money. When it influences the content of those decisions, it is diminishing, not promoting, economic efficiency.

Enough has, however, been said in this short survey of current monetary theories to suggest that existing monetary systems do their job anything but perfectly, and that a study of their defects goes a long way to explain the paralysis which has overtaken the capitalist world. Enough has also been said to show that the problem of inventing a monetary system which is both theoretically perfect and workable in practice has not been solved. But a good many people are trying to solve it, and there is no reason to suppose that it is insoluble, or that there is no solution which is compatible with the fundamental principles of the unplanned economy. Money is the lubricant of that economy. A dirty lubricant will stop the wheels from going round. Change the oil, and that may be the end of talk about redesigning the whole engine.

VI

Nor is a dependable and intelligible monetary system the only condition of the smooth working of a price economy. There are rules also for other parts of the game, and these can no more be disregarded with impunity than can the rules to be observed in working the gold standard or any other kind of monetary system. In particular, a form of economic organisation, of which the most fundamental principle is that decisions should result from the responses of individuals to certain stimuli, naturally requires that the individuals concerned should be free to make those responses. Which brings us to what are called (chiefly by those who dislike them) the whole mass of "interferences" to which the modern price economy is subject. In the first chapter it was argued that the demand for and supply of any kind of goods can always be matched at *some* price. They fail to equate only when the seller despises the price that the buyer is prepared to pay; and when the buyer

for his part cannot or will not offer what the seller regards as his minimum. If these deadlocks are due to such miscalculations on the seller's part as have been discussed earlier in this chapter, they will ordinarily clear themselves up in time ; although, as we have seen, at any one moment there may be a goodly collection of mistakes not yet cleared up, which are embodied in idle plant and unemployed workers. The seller who, in false hopes, has allowed himself to be stocked with more of some article than he can sell at a remunerative price will either throw the stuff away, or cut his losses and take what he can get for it ; but he will try not to be caught again. The worker in a declining industry who formerly earned five pounds a week, and now finds it difficult to make two pounds ten, even if he accepts this for himself, will do his best to see that his children do not follow in his footsteps.

But it is otherwise if the fierce pressure of the laws of demand and supply in a particular bargain is moderated by the intervention of some outside agency. And it is a commonplace that the occasions and the reach of such intervention have enormously increased of recent years, particularly in this country and in Germany. Such intervention may take the form of combined action among sellers, in which case a particular manufacturer agrees to refrain from concluding a contract which he certainly would have made, had he neither been considered by, nor himself been required to consider, any of his colleagues in the same business or industry ; or there may be intervention by the public authorities in what they conceive to be the public good or the public safety. The distinction between these two types of intervention will become important at a later stage. Here we are concerned rather with the tendency, which is common to them both, to create a situation typical of the capitalist crisis : namely, one in which unsaleable goods co-exist with unemployed labour. Thus a banana merchant who has agreed not to sell his bananas for less than twopence apiece may have unsold fruit on his hands, which, in the absence of such

an agreement, would have gone to hungry customers who cannot pay more than a penny. Similarly, while a worker who is faced with the alternatives of no income at all, or work at a very low wage, will accept the latter, a man who could rely either on his union or on public insurance or relief payments to support him, while he stood out for a better rate, would refuse it. And there are doubtless *some* workers now unemployed who would get jobs, if the law in their trades did not set a bottom limit to the wages which, in their own interest, they are permitted to accept.

When we take into account the fact that of the 16½ million workers insured under the National Health Insurance Acts in this country some 3½ millions are members of registered trade unions ; that statutory minimum wages are prescribed for about 1½ million workers under the Trade Board Acts and for nearly 700,000 agricultural workers under the Agricultural Wages Act, not to mention all the incalculable varieties of voluntary agreements concluded by sellers for the control of prices, it becomes evident that the modern British version of the price economy is not quite the theoretically open market of the economists ; and since the bulk of such legislation and agreements dates only from the present century, neither is that economy identical with the British economic system of two generations ago.

Laws regulating wages and so forth represent a kind of deposit superimposed upon the price economy by the combined influences of an awakening public conscience and (in these latter days particularly) a desire to insure against possible revolution. For the most part they have been first proposed by radicals or socialists, then declared extravagant and impracticable by the opponents of these parties, and, as often as not, eventually passed into law (usually, it is true, after a good deal of dilution) by these same opponents. Once on the statute-book, measures of this kind are seldom repealed, for the reason that those who believe them to be prejudicial to the public welfare

are without hope that they can persuade the electorate of the correctness of this opinion.

But it does not follow that what is called social legislation, though conceived in the finest humanitarian spirit, may not be incompatible with the smooth working and easy expansion of the unplanned type of economic system. As was pointed out in the first chapter, every payment in that type of system has two functions : that of providing a means of living for the recipient and that of causing the thing paid for to be done by his action or permission. If these payments are regulated by some outside authority, it is likely that the things which in consequence get done or left undone will be different (whether for better or for worse) from what they would have been had the matter been left to the sole determination of the party who pays and the party who receives the payment. Some things which would have been done in the absence of such intervention will now not get done at all. Thus, if it is illegal to employ a man for less than two pounds a week in a certain industry, people who would have been employed there at a lower figure, but cannot find any employer who thinks them worth so much as two pounds, will go without work. If, further, these workers are entitled to adequate maintenance by a public system of insurance or relief until they can find employment at their own job, then, unquestionably, the effective, if unpleasant, machinery by which labour is directed away from a declining industry under the price economy is put out of action. Or if a group of manufacturers, pleased with the substantial profits of the past, decide that the best way of securing equally happy results in the future is to limit their output to a level which renders several existing works superfluous, and agree, accordingly, to compensate the proprietors of those works, then the normal effect of falling profits, in hinting to these proprietors that they had better move off and try their hand at something else, is obliterated. So also with industries in which an upward movement of prices and profits suggests that there is room for expansion. If those already engaged in

such industries, whether as workers or employers, contrive—as, for example, by securing patents with restrictive conditions attached, or by enforcing union limitation on the number of apprentices—to prevent expansion, then the sole force which is capable of inducing growth in any part of our economic system is inhibited.

These are the famous “rigidities” of the modern capitalist system, of which so much is heard to-day. They may be created by anything from Acts of Parliament to what (presumably because they are generally regarded as ungentlemanly by those who are not parties to them) are known as gentlemen’s agreements; or they may be merely the result of a steady crystallisation of public opinion into the doctrine that nobody ought ever to be any worse off than he happens to be at the moment. They do without doubt reveal a certain hardening of the arteries, and with a diminished power of rapid adjustment to new situations, in the older economic systems of our type; though it should not be forgotten that they have come into being largely because the human cost of such adjustments in the past was too often felt to be intolerably great. And their influence is not confined to those occasions on which direct interference with individual contracts takes place. For it has to be remembered that modern social legislation costs, one way and another, a good deal of money, and that the taxation necessary to raise this money may act as a discouragement to investment at least in the more hazardous enterprises, or in those the profits of which are not likely to be realised until after a considerable period of time has elapsed. It has been plausibly suggested, for example, that the creation of a nation-wide system of electrical power corresponds in our time to the railway building of our great-grandfathers’ days. But whereas the railways were readily, not to say extravagantly, financed from the pocket of the private investor, the modern capitalist whose profits are mulcted of income tax at 5s. in the £ has to be bribed and coaxed into putting up the money for national electricity schemes by Government guarantees of a

comfortable minimum rate of interest upon his investment.

It is, therefore, not altogether surprising that it should have recently been argued in influential quarters that a very great part, if not all, of our efforts to inhibit by public regulation those movements of prices (particularly the price of labour) which, under a price economy, are the recognised signals that a new orientation of production is due, or to put obstacles in the way of that orientation, are injurious even to those whose interest they are intended to serve. Mr. J. R. Hicks, for example,¹ has lately contended that in quite nine cases out of ten the efforts of trade unions to raise wages only result in throwing people out of employment, and that in consequence the scope of trade union action along these lines which can really be called successful, in the sense that it effects any net and enduring improvement in the standard of living of the whole body of workers, is extraordinarily limited. And such opinions are widely held.

Nevertheless, in view of the severity of the present depression in the United States, where these rigidities are far less pronounced than they are in this country or in Germany; in view of the fact that experience has repeatedly shown that the solidarity of even the strongest trade union will give way under the pressure of adversity sufficiently severe and prolonged; in view of the low levels of unemployment insurance benefits and the small inducement which at the best these offer, even to the few workers who are entitled to do so, to hold out for employment at their customary jobs; and in view of the fact that over and over again gentlemen's agreements have collapsed because some of

¹ Throughout his *Payment of Wages*. Mr. Hicks's conclusion is that "he [the wage-earner] endeavours to protect himself, through Trade Unionism and the democratic State. But our examination of the effects of regulation has shown that this protection can rarely be adequate. Carried through to the end, it can only result in a great destruction of economic wealth. But, of course, in fact it is not carried through to the end. Sooner or later, in one form or another, a crack comes; if it comes soon, there is not much damage done; but if it comes late, the illusion [of security] is shattered most disastrously." *Op. cit.*, p. 232.

those who signed them were found to be fair-weather gentlemen only—in view of all this we should be careful not to exaggerate the strength of these rigidities. There are still considerable powers of adjustment even in the old-established economies of the unplanned variety, and the hints which price movements drop as to the course into which, or away from which, we should direct our activities are still delivered to most of us with an insistence which is not to be lightly disregarded.

But it is obvious that there must come a point at which it becomes impossible to combine a system, the motive power of which is personal enterprise seeking and enjoying its own reward, with increasing control of incomes either by public authorities in what they believe to be the general, or by organised groups in what they are sure is their own, interest. Thus the dire consequences of an income tax at 5s. or 6s. in the pound may be exaggerated by those who prophesy ruin (unaware that the force of their arguments is somewhat diminished by the fact that similar predictions have always been made, whatever the level of the tax)¹; but nobody can dispute that business would be brought to a standstill should the State demand the whole twenty shillings. Or, again, if the law or my colleagues or public opinion say that I am not to be employed for less than £2 a week, the only effect may be that my employer is compelled to disgorge some ill-gotten gains; but if the figure is put at £20 or £50, I know very well that neither I, nor many of these same colleagues, will get any jobs at all. Somewhere between these extreme examples and the untrammelled freedom of the completely individualist economy lies the point at which the working of the price mechanism begins to appear as definitely defective, and the charge that we are getting the worst of both worlds—neither the crude, vigorous growth of Victorian capitalism nor the ordered progress of a planned economy—can no longer be ignored.

¹ See, for example, the statement of the late Lord Brentford (then Mr. Joynson-Hicks) that an income tax of 1s. in the £ would "abolish the

VII

Here, then, are three potent secondary causes, each liable to induce in a society dependent on individual response to the price mechanism just that type of inefficiency which makes the present world look so foolish. The first is the margin of error inevitable in the making of literally millions of decisions, all dependent on unknown future forces. Even though the mistakes may be but a small proportion of the total number of forecasts, they necessarily represent in the aggregate a formidable tale of loss and waste. The second is the lack of a monetary system which can be trusted not to take the bit between its teeth ; and the third is the attempt to superimpose a mass of restrictions on a system of which self-regulation is a cardinal principle.

There remains, however, one factor more deeply rooted in the very structure of an unplanned individualistic economy, which is, I believe, inevitably fatal to its efficiency. To appreciate this it is necessary to recall for a moment the argument of pp. 108-119, which was designed to prove that there is a proper limit to the production of every single article or service : proper in the sense that production of that article or service in excess of this limit would not be worth the trouble that it would necessarily involve. An economic system which produced everything up to, and nothing beyond, this point, would have achieved 100 per cent efficiency. Now we have seen that an individualist society, in which production is regulated by the unco-ordinated response of thousands of persons to price movements, which in turn are themselves the result of similar decisions on the part of other persons, aims to find this point by adherence to the principle that nothing will be continuously produced, unless it can be sold at a price that

reserve fund of the country" and "affect both profits and wages," and similar statements by Mr. (now Sir Austen) Chamberlain quoted in the *Minority Report of the (Coburn) Committee on National Debt and Taxation*, p. 375.

rewards all those interested in its production at least sufficiently to prevent them throwing their hands in, or turning their attention elsewhere. But even if we ignore the various doubts raised earlier in this chapter as to the accuracy of our method of measuring this true economic balance of cost and product, we have still to recognise that in any industry in which production is both unplanned and competitive there is an inherent tendency to go beyond this point at which, by strict economic principles, the production of any article ought to cease. This tendency arises from the fact that no producer, planning his own production programme, knows what his colleagues are doing. He knows only that it is to his interest, first, that the total production of the kind of goods in which he deals should not pass the point at which these can be profitably sold ; and, second, that as large a part of that total as possible should be produced by himself, and not by any of his fellows, so that he may reap the profit and not they. The obvious consequence is that all the producers between them, in their anxiety to look after this second interest, neglect the inevitably damaging consequences of their action upon the first.

An example will perhaps make this clear. If, during a certain period, there are consumers willing to buy two million pounds of potatoes at twopence a pound, and if twopence a pound is the minimum price that will induce potato growers to grow two million pounds of potatoes, then according to the readings of the price mechanism the production of that quantity and no more is justified. If, however, pleased with the results of growing potatoes for twopence a pound, I think of increasing my output by ten thousand pounds, I am apt to forget that I can only still rely on getting twopence so long as some of my competitors make a corresponding reduction in their programmes ; which, in an unplanned and unorganised industry, it is most unlikely that they will, for they will be as eager as I am to develop a profitable crop, and they will be trying to get my customers away from me just as I try to get theirs from them. The effect will be that between us we shall

produce far more than two million pounds, that, in consequence, we shall exhaust the consumers who are prepared to pay twopence a pound, that the price for our product, the expectation of which was the basis of all our calculations, will not be realised, and that our profits will be turned into losses and our joy into wormwood and gall. And yet, presently, when the glut has cleared, we shall be liable to make the same mistake again, because again each of us will forget that his production is, however trifling, a fraction of that total, the size of which, in relation to the demands of consumers, determines the price that all of us get. Each of us will take this price as a datum because nobody is in a position by himself to make any important impression upon it. Each of us, apprehending only what lies under his nose, will calculate that if twopence is a good price, and if twopence is the price we can get, then twenty thousand twopences are better than ten ; and each will presently forget the second " if."

This tendency of any competitive industry to outrun the point at which its production ceases to be profitable would not matter so much, if it were not for the fact that the penalty that has to be paid for surplus production is never borne by the surplus alone. If the output of an industry exceeds by 10 per cent the quantity which can be profitably sold, then it is not 10 per cent of the total on the market, but the whole 100 per cent, that suffers from the consequent fall in selling prices. For example, if we suppose that at a moment when the world's wheat production is matching up quite happily with consumers' demands, farmers who had not previously given any attention to wheat are attracted by the sight of the prosperity of their wheat-growing neighbours, or by the promise of a protective tariff or subsidy, to go into the business themselves—and if, in consequence, there is a large increase in the output and a heavy fall in the price of wheat—then it is by no means only the newcomers to the business who feel the draught. The additional product lowers the price that can be got, not for the newcomers' sales alone, but for everybody's.

Worthy farmers whose product was duly called for by the readings of the price mechanism itself, and was previously saleable at a comfortable profit, are as much ruined as are those whose actions are responsible for turning production into over-production. And it has to be remembered that every time anybody who formerly made a living loses it, a whole series of forces prejudicial to the livings of other people is set in motion, and that these may be cumulative over a long period. The ruined farmer has to give up his project of sending his daughter to a boarding-school, cut down his outlay on house decoration and refrain from installing a new radio set, and so nibbles away the living of the school proprietors, the house painters and the radio people. He dismisses his hired men, and there is an immediate end of their spending also at the village store. The storekeeper feels the pinch, and, after him, the firms who supply him, and so the melancholy circles widen.

Liability to this type of competitive over-production is no new explanation of the instability of an unplanned economy. It was put forward many years ago by Mr. (now Sir William) Beveridge in the first edition of his classic study of unemployment.¹ But although it may have fallen somewhat into the background before the advance of new and more specialised interpretations of contemporary troubles, it remains, I think, as an unanswerable criticism of every unplanned economy which is also competitive. Such an economic system has an inherent tendency, as it were, to overshoot every mark. The result of the overshooting is that existing investments become unprofitable and so cease to be operated, while those who might have been employed in their operation get no work. Here, then, we have the exact features of the typical capitalist paradox of to-day.

Of course, there is a remedy, even within the framework of a society which, as a whole, is still unplanned. When the sequence of events just described has been often enough

¹ Reprinted in his *Unemployment*, 1930 edition. See p. 59.

repeated, those who suffer from its consequences begin to realise what is happening, and consider how it may be prevented from happening again. They perceive that what is essentially wrong is that the attempt to ruin your neighbour by increasing your output at his expense (which is quite proper and correct within the rules of the price economy) unfortunately results, when your neighbour is engaged on a corresponding attempt at your expense, in the ruination of you both, because there is a common factor in both your actions which you had overlooked. The plain way out is to renounce your mutual warfare in order that this common factor may be jointly controlled by you both. So we step out of a competitive industry into one in which the level of output is regulated by joint agreement amongst those who are interested in its sale. Such combination, as is well known, may take an endless variety of forms. But whether it appears in the guise of an amalgamation of all the firms concerned into a single giant corporation, or of the establishment of a common selling agency which assigns a certain quota of the total production to each producer and markets the output of them all, or whether it is simply embodied in an agreement about output and prices between producers who otherwise maintain their independence—the effect, in all cases, is, from our immediate point of view, always the same. Output is reduced, and the object of the reduction is to bring it within the limit at which it passes from profitable to unprofitable.

If such combinations of producers, industry by industry, were universal ; if they could rely on the loyalty of their members ; and if their reading of the future movements of consumers' willingness to buy were approximately correct, they would, I think, go a long way to obviate the *particular kind of paradox* which is characteristic of the present depression. In a competitive industry there are two unknown factors with which every seller has to reckon, and which are ordinarily beyond his control. One is the mind of his customers : the other is the mind of his competitors. So

far as concerns the first, producers' combination offers no help; and it would not, therefore, obviate what I have called those wastes of an unplanned economy, which are due simply to mistaken forecasts of demand. It cannot solve such riddles as: How many more householders would use electricity for cooking if the price were reduced by 2*d.* a unit? Even the monopolist company or municipal electricity department has to fumble for the answer to these by trial and error and sheer guesswork. But to the second riddle—that of the mind of potential competitors—combination among sellers offers a complete answer. For it permits none to have a mind of his own. Hence the result of 100 per cent effective combination among sellers would certainly be that each industry would achieve a measure of stability at a certain level. I do not say that the problem of unemployment would be solved, so that every pair of hands born into the world would find a job to do. Since, as we have seen,¹ the supply of all kinds of labour is not in any effective way adjusted to the demand for it, the formulation of production programmes by the capitalists of every industry would not necessarily find full employment for the whole population that the parents of an earlier generation might have seen fit to beget. The question whether, in such a society, there would or would not be unemployment in our sense would depend chiefly on the particular agreements that the capitalists and the workers of such a society chose to adopt. If the workers agreed to work in shifts, with short hours of employment and for low wages, then there would not be such unemployment. If they stuck out for higher pay, then some of them (as to-day) would get no work at all. But such capitalist combination (except where it miscalculates) could do away with the spectacle of unused plant and unsaleable commodities coexisting with unemployed labour. It should relieve the capitalists of what, one supposes, must be the disagreeable task of having to destroy those things the production of which they have themselves ordered.

¹ See p. 23.

It is hardly necessary to say more to show that this, the obvious immediate remedy for competitive over-production, bids fair to become worse than the disease. If we could be sure that the combined producers in each industry would limit output only to the point at which they could get a price covering absolutely necessary costs of production and a bare minimum profit for themselves, there would indeed be nothing to worry about. But of this there is not the faintest chance. Once a group of sellers have got their total output under their collective control, they are bound to see that that which turns loss into profit will equally turn a little profit into a big one. Of course, they will now keep their output down to a point at which they can extract high prices from those able to pay them, leaving everybody else to go without, and pocketing for themselves a great deal more than can by any stretch of imagination be called a necessary reward for their services. And so from a system in which production in each industry tends to outrun the point at which considerations of economic efficiency, as we have defined them, would require that it should stop, we pass to one in which it never gets anywhere near that point. And here we may link up with the hint dropped on p. 120, where it was suggested that the real importance of production for profit would emerge at a later stage in the argument. That stage has now been reached. The fact of production for profit appears now as responsible, not for the peculiar paradoxical situation of the moment, which would indeed largely disappear if our profit-seekers were more successful at their own game, but as the cause of something more insidious and more permanently damaging to the efficiency of our system.

VIII

To get this clear we have to realise that the present troubles reveal only one of the things which are at fault in our economic system ; and that one, as a large part of this chapter is intended to prove, probably by no means to be ranked as incurable. They attract an enormous amount of

attention just because of that peculiar combination of the tragic and the ridiculous of which mention has already been made. If the tragedy alone were present, it is likely that we should hear much less of these troubles. The universe is arranged on a plan which makes it inevitable that we should all endure considerable suffering of one sort or another ; and, adapting ourselves to this, we have, perhaps wisely, built up such conventions as that there is dignity in tragedy and that the stoic virtues are not vices. But there is no dignity in a tragedy which makes its victim a laughing-stock, and nothing admirable in the stoic endurance of what is palpably the result of gratuitous folly. Hence when unemployed miners contemplate silent pits, and underfed workers are set to destroy good food, even the most sluggish of us is roused to expressions of dismay.

Yet the real disruptive force of the unplanned economy is at work when none of these paradoxes strikes the eye. Indeed, the very appearance of these things is more a sign of the temporary failure of that force than of its corrupting power. The destruction of commodities already existing, or the refusal to sell them at the only prices that consumers will pay, is merely an emergency measure which the capitalist takes to deal with a situation which he never intended should arise. His real interest would have been better served had he never permitted those things to come into existence at all. But between preventing things from being made and destroying them when they have been made there is evidently no difference of principle at all. There is a significant practical difference in that, in the first case, you can say that you are doing your best with the resources at your disposal and hope to get away with it, whereas in the second you most evidently cannot. Yet both actions alike reveal the absolutely ineradicable source of the inefficiency of any unplanned economy. It is to the interest of the community at large that the production of every article should be carried to the point at which further supplies would be judged, by those who are to have them, as definitely not worth the cost of making ; it is to the interest of all who are

concerned with the manufacture or sale of any article that that article should be scarce and dear—the scarcer and dearer the better. Those who make their living from any industry have no interest whatever in achieving that balance of cost and satisfaction which, if correctly measured, we have defined as the true test of economic production. Their sole concern is, not that cost and price should balance, but that the latter should outweigh the former by as much as they can make it.

This potential conflict of the one against the many, the section against the whole, is one of the most difficult obstacles in the way of economic efficiency with which any specialised system has to contend. As we shall see, it will exercise the ingenuity of a planned economy to find a way of entirely eliminating its disintegrating influence. But in the unplanned type of system this influence has complete and universal sway. Workers, capitalists, landlords, all alike are tarred with the same brush. The centrifugal force is at work not merely in those whose job it is, as workers, to execute the decisions taken by others, but, what is far more serious, in the framing of those decisions themselves. Indeed, the child of the professor, who, on hearing that his father lectured on economic history, is alleged to have asked: “Does that mean that you teach as little history as possible for as much money as possible?” epitomised with perfect accuracy and justice the fundamental principle of the *whole* individualist economy.

This conflict of interest is, of course, also the clue to the origin and to the ready acceptance of the paradoxical beliefs described on pp. 115, 116, which are so remarkably much in evidence at the moment. There is a sense in which these beliefs are just as much truths as falsehoods. They are all simple cases of the logician’s “fallacy of composition.” If it is not true that everybody’s work makes everybody else poorer, it may very well be true that the labour of somebody else, who works alongside me at the same job as mine, makes *me* poorer. And if this is true for me, it is no less true for everybody else who works or sells for a living. Wherefore

we naturally conclude that it is a general truth, and so set about discouraging everybody we can from working, on the ground that if he works he will impoverish his neighbour: whence all the rest of the absurdities follow inevitably, and the energies of the politicians and the economists are all enlisted in the job of limiting the output of wealth which they believe threatens us with starvation.

Nor is it any use trying to console ourselves by emphasising the fact (and it is a fact) that if we all try to contribute as little as possible to the common store, we shall all be ruined. For if the one economic commandment, as I once heard a lecturer declare, reads: "Thou shalt do what it would be a good thing for everybody else to do," it still remains true that it pays you to do just what everybody else is *not* doing. In the days of the great drive for increased production immediately after the war, a popular scapegoat was made of the bricklayer who was alleged to limit himself to a daily maximum quota of bricks in order to spin out his job for as long a period as possible. With admirable logic the economists pointed out that if everybody followed his example, there would be a general hold-up of the output of everything, and impoverishment all round; but the word fell on stony ground, because the economists could give no assurance that if the bricklayer gave up his restriction everybody else would simultaneously do the same. They could not get past the fact (and this is also a fact) that the ideal situation for any producer or seller is that everybody else should do as much work or sell as much stuff as possible for as little money as possible, while he alone does as little work or sells as little stuff as possible for as much money as possible. Which means that if the bricklayer followed the instructions of the economists, he might indeed be a better member of the great society, but he would probably be a worse husband and father.

Moreover, it is even ironically true that this conflict of the one and the many, this perpetual tendency of the whole to fly apart into little bits, is liable to wreck the attempts of individuals and groups to exploit their interest at the

expense of the whole society, just as much as it incites them to set about making those attempts. Thus, it is to the interest of any group of sellers of the same article to restrict competition, wherever they can, by agreeing amongst themselves that they, at least, will give as little value as possible for as much money as possible. But as soon as that agreement is made, it is to the interest of every one of the signatories to break it, provided, of course, that he can rely on its being faithfully kept by all the others. This is the reason why all restrictive agreements are apt to get shaky, and many of them break down altogether, in hard times. The one seller who offers a little better value for money to the public has a chance of stealing all the customers from the others. And everybody hopes himself to be that one. Equilibrium is, therefore, *perpetually* unstable. First every man's hand is against his neighbour or competitor. Then a group is drawn together by the prospects of more effective exploitation of those outside ; and then once more the disintegrating process is renewed from within.

For the fact is that in this whole matter we are up against one of those problems which arise whenever it is to everybody's advantage to be the one exception to a rule that everybody else observes. The inevitable result of such a situation is, of course, that if no attempt is made to control it, the exception becomes the rule and the game defeats itself. It is the same in other spheres, as, for example, in the matter of disarmament or of tariff reduction. Doubtless we should all be happier and safer if we all had smaller armaments : doubtless we should be more prosperous if everybody would agree at least to stop any further rise, if not to initiate a reduction, in tariffs. But no one will make a beginning in these desirable movements because whoever begins at the least runs a big risk, and in some cases is quite certain to lose heavily. Hence it is almost impossible to make any progress with any of these problems unless they are tackled by direct intervention from outside ; unless, that is, some authority has power to compel us to set about doing the things that it would be a good thing for everybody else to

do. An unplanned system cannot, however, permit such intervention, not even in respect of those issues of major importance where this disintegrating influence in our economic structure is most dangerous. If it did, it would cease to be unplanned. It is bound by its very nature to leave both the making and the execution of decisions as to what is to be produced, and in what quantities, to the uncoordinated wills of individuals, whose behaviour is largely dictated by this very centrifugal force ; and its efficiency is correspondingly damaged.

IX

Looking back, then, over the achievements of capitalism, we find a record of spectacular but irregular progress. The spectacular qualities need no reiteration. The most superficial acquaintance with the history of the last two centuries brings them home with sufficient vividness to any inhabitant of the twentieth-century industrial world. The irregularity has been an irregularity both of place and time. In some countries the capitalist system has progressed much further than in others ; but, always, it has dragged along in the wake of its progress a great army who have never entered into any but the meanest fragments of its heritage : always it has dangled before these alike the dazzling extravagances of the rich and the solid complacencies of the upper working and lower middle classes. Always, too, has the progress of capitalism been liable to interruptions from the tendency of the system from time to time, so to speak, to fall over its own toes, from a certain continued instability in its gait. So there have been periods of comparatively smooth and rapid development of the capacities of the planet on which we live to endow its inhabitants with a secure and comfortable existence ; followed by periods in which there is an almost complete hold-up of these developments, in which the simplest lessons of common sense appear to be forgotten, and in which our one unanimous conviction seems to be that the way to make ourselves rich is to consume as much, and to produce as little, as possible. In this

chapter we have been particularly concerned with the search for an explanation of these periodical hold-ups ; for most evidently upon their nature the whole future possibilities of this particular type of economic system depend. We have, I think, to conclude with judgment at some points still suspended. Nobody has yet given a full and completely convincing explanation of the typical capitalist crisis. I have given reasons for discarding some of the most popular current explanations as definitely false, and have suggested that it is to the mistaken forecasts of producers, to the defective operation of our monetary systems, and possibly, though in a less degree, to the growing rigidity of at least the older capitalist societies, that we probably have to look for the major causes of contemporary difficulties¹ ; but that more important, if temporarily less conspicuous, even than these difficulties, there lurks in the background an unescapable conflict between the individual and the whole society which must always condemn the purely individualistic type of economy to a pathetically low level of achievement.

¹ The reader who is surprised that nothing is said here about the important influence of such contemporary political policies as those associated with war debts and reparations on the present depression is referred to pp. 248 ff. In this chapter I have tried to confine the discussion to those factors that are liable to make rifts in our economic structure *at any time*.

CHAPTER IV

THE ACHIEVEMENTS AND POSSIBILITIES OF A PLANNED ECONOMY

I

TO ESTIMATE the achievements and possibilities of a planned economy is naturally a very different matter from assessing the record of what capitalist societies have done and left undone. Industrial capitalism in something like its present form has already a history of nearly two centuries' life and growth, whilst earlier forms of unplanned economies, not essentially different in principle, are far more venerable. The Russians, on the other hand, have lived only sixteen years under anything like their present régime, have been trying to make some sort of year-to-year economic plan for twelve years, and have just completed their first really systematic venture extending over little more than four years. On the basis of so short an experience it would, in any case, be necessary to suspend very definite judgments, and to fall back to a large extent on general reasoning as to the nature and possibilities of economic planning. But the investigator who wishes to keep as close as possible to concrete facts is hampered, not only by the comparative newness of the world's only attempt at large-scale economic planning, but, no less, by the scrappy sources of information accessible to him, and by the fact that observers, who are prepared to exercise upon Russian news such discriminating judgment as they would automatically apply to statements about their own country, are still distressingly few. When we have discounted the enormous amount of distortion which is due to sheer prejudice one way or the other, and, second only to this, the almost magical effect which merely setting foot in a foreign country

often seems to have in destroying the power of critical appraisal of evidence, so that, for example, a casual acquaintance in a train is immediately elevated to a first-class authority on economic conditions, when his counterpart at home would be dismissed as a pretentious and ignorant bore—when we have made all these allowances, not much is left which can be said with confidence on the subject of what the Russians have, or have not, achieved from their plans.

And when it comes to attempts to argue from the Russian experience to the probable results of planning in other parts of the world, the pitfalls are still deeper and more numerous. We have to remember that the Russians initiated their experiment in the face of armed opposition, and that they have had continually to modify it on account of the extreme instability of their economic relations with the rest of the world. And last, but not least, we have to remember that this experiment is being conducted not by Englishmen, Americans or Germans, but by Russians, Georgians, Tadzhiks and Uzbeks—by the people who have provided Dostoievsky and Chekov with their characters; that the plans are made, and the necessary statistics compiled, by men and women who cannot count without the aid of an abacus, and whose appreciation of the value of time is such that they seldom discriminate between an hour and five minutes; and that the actual execution of what is planned has to be performed by workers of whom the vast majority are without adequate technical knowledge or experience, and of whom, at least until recently, a goodly proportion can neither read nor write. How different might the result not have been had the job been undertaken, not by Russians, but by orderly, accurate Germans!

Within these limitations, then, we can set down very briefly what is known of the achievements of the Russian experiment in planning. We know that this experiment has not yet produced a people who are rich, as capitalism counts riches. We know that the general standard of living is such that there are not many English workers in regular work

whose conditions would be improved if they were to change places with their Russian colleagues. It is a matter of heated dispute how far there was, last spring and summer, actual famine within the Soviet Union ; but we know that the Russian workers, if they have the necessities of living, have little beyond this. If they have enough bread, it is generally admitted that they are short of butter. We know that they are still innocent of our vast variety of oddments and extras, of all those trimmings of working class life that are typified by the counters of a Woolworth store. We know that a minority of the people live in workers' dwellings which, in design and commodiousness, but not as a rule in workmanship, can face comparison with similar buildings in England or Germany, while the remaining town dwellers are desperately overcrowded, and the great majority of peasants live in what we should call hovels. We know, in fact, that the Russians are extremely poor.

We know also that in contrast with these hard conditions a proportion of the Russian workers enjoy collective amenities which surpass the wildest dreams of the working class of bourgeois countries ; that their trade union meetings are held, not only, like ours, in beershops, or in the small stuffy rooms of houses for which the bourgeoisie can no longer find a tenant, but in the palaces of princes and merchants of fabulous wealth in which the splendours of the past are carefully preserved ; that the worker whose day's task is done may sit on a gilt chair watching a performance in the private theatre of his club ; or, with a free or reduced-price ticket supplied by his union, may jostle against his proletarian neighbours in what was once the royal box of the Moscow State Opera ; and that if he is lucky enough to be able to afford a holiday he spends it, not under the discipline of a Blackpool landlady, but in the country mansion of an expropriated noble.

We know, also, that, while there is not complete economic and social equality within the Soviet Union, yet the poverty of the people is not aggravated by the sight of extremes of luxury and ostentation. The highest salary paid to a Russian

worker of which I have any personal record amounts to 1,000 roubles a month, earned by highly qualified engineers on the instructional staff of a training institute. The lowest of which I have personal note of the same date (April 1932) is 80 roubles a month, for an unskilled factory worker. Doubtless there are people who earn more and people who earn less than these sums. Doubtless also the effective differences between money incomes are sometimes increased, sometimes diminished, by the fact that some workers are favoured with greater rations than others, or have opportunities of buying cheap meals in their factory restaurants which are not available for all. And doubtless there are occasions when privileged persons enjoy lavish entertainments, or ride about in motor-cars, while other people are hungry and fighting for their places in the unbelievable congestion of a Russian tram. But, when all allowances have been made, there is no question whatever that the Russians are enormously much nearer to economic equality than is any industrial capitalist country. Since riches are the one thing in the world that cannot be hid (for they lose four-fifths of their virtue if they are), on this point the most casual observer is entitled to speak. And no one can take a single walk through the streets, or enter a place of public entertainment in Moscow or Leningrad without missing the familiar division into East End and West End, the careful seating of the audience according to their means, and the trail of servility in all who minister personally to the convenience of the public, which stamps the hallmark of capitalism on London, Berlin, Paris and New York. In my experience, it is this more than anything else which makes one feel happy in the Soviet Union.

Even apart from the social philosophies of the Communists, this absence of the more dramatic inequalities of income is, of course, a natural consequence of any socialised economy such as that of the U.S.S.R., where the private ownership of capital on any serious scale is forbidden. For it is very difficult to make and maintain a spectacularly large income in any country entirely out of your personal

earnings. A few popular heroes of the screen or stage achieve this in the earlier, a few salaried heads of great enterprises in the later, years of their working lives : an occasional barrister pockets a steady flow of thousands. But it is only the possession of capital, inherited, or diligently saved where there is room for saving, that gives any reliable prospect of substantial *and enduring* opulence. And undoubtedly it is only the standard set by those who are rich by owning which keeps the few really handsome earned incomes at their present level. It is at least questionable whether, for example, Lord Ashfield would command a salary of £12,500 a year, as head of the London Passenger Transport Board, if the same business under capitalist management had not previously yielded him £30,000.¹ If we could imagine that in our world differences of economic position were confined to differences in what people can earn by their personal services, things would wear a very different aspect. There might be nothing unusual in one man receiving an income ten times, perhaps even fifteen or twenty times, as great as that of another. But differences of the order of a hundredfold would be so rare as to rank as freaks. Certainly they would not be common enough to support the whole apparatus of inequality, and what Dr. Veblen has aptly termed "conspicuous consumption,"² which is built into the very structure of capitalist society. Hence the fact that in the Soviet Union it is (with insignificant exceptions) impossible to make an income except by earning itself partly accounts for the absence of this apparatus from that country.

II

If, then, this is a bald outline of the outward and visible achievements of the Soviet planned economy in its brief and chequered history, how far can it be said that this system

¹ See *Evening Standard*, May 19, 1933. It should be added that the £12,500 is subject to a "temporary voluntary" reduction of 7½ per cent.

² See his *Theory of the Leisure Class*.

itself fulfils, or gives ground for hope that some other planned economy might fulfil, the demands of economic efficiency? In the previous chapter an efficient economic system was defined as one which gave the maximum surplus of satisfaction over effort ; that is to say, one in which the time and resources of the people are employed in such a way as to give the result most satisfying to them ; in which every product is supplied just up to the point at which additional supplies would not be worth the trouble involved in their making ; in which people work just so long as the results of their work justify their labours, and not a minute longer ; in which provision for the wants of the future is carried just to the point at which the greater plenty of to-morrow balances the privations of to-day.

The argument of that chapter revealed also that as soon as any division of labour or division of function is introduced into an economic society, the correct striking of these balances becomes a very difficult matter ; one, indeed, which recedes from the plane of concrete practical experience on to that of hypothetical philosophic concepts ; for the simple reason that it involves the comparison of incommensurable quantities. For if I set about making something which I am myself going to use, I am a competent judge (anyhow, after the making is done and the using begun, if not before) whether the article in question was worth the trouble of making. But if I do the making and somebody else does the using, the calculation is upset by the necessity of comparing one person's trouble with another person's satisfaction. On this problem the philosophers may properly worry their heads ; but, whatever the outcome of their disputations, nobody, philosopher or no philosopher, can guarantee that the calculation is correctly made.

Now we have seen that the price economy attempts to strike this balance between A's trouble and B's satisfaction by providing them both with an instrument—namely money—which is supposed to measure the quantities concerned on both sides of the equation, and leaving the parties concerned to fight the matter out. We have also seen that *if*

we could be certain that this measure had the same meaning for both parties, and that all items relevant, and none that were irrelevant, to the issue were brought into the account, then this method would be an admirable way of solving the problem ; but that in practice there is no certainty whatever on these points, so that the upshot of it all is that under the price economy there is really no guarantee at all that the decisions arrived at are the right ones, in the sense that they give in the aggregate a larger total of satisfaction than any other decisions would have done. Indeed, the very precision of our method of balancing prices and costs is itself a danger, because its spurious appearance of accuracy wins for the decisions which it records a degree of respect to which they are hardly entitled.

The planned economy, on the other hand, goes about the business in a different way. It is true that this type of system also employs (at least at present) what is apparently the same ready reckoner as that used by the price economy. It makes calculations about costs of production measured in roubles and selling prices measured in roubles, and weighs the one against the other. But we have also seen that its choice of the items included in these calculations is so arbitrary that few of the decisions of the Russian planned economy can be regarded as the output of any attempt to balance the *recorded* preferences of consumers against the sacrifices of producers as *recorded by the same mechanism*. In effect, the decisions of the planned economy are the authoritative decisions of third parties. That is to say, the planning authorities decide that the output of coal shall be such and such, and the output of lipstick such and such, in a given period, because they themselves think that the production of these quantities are more satisfying than the production of more or less of the articles in question. So also it is the planning authorities who decide, first, that the normal week is to consist of six working days and one rest day, then that it is to be five working days and one day off, and then that it is to be six days' work and one day's play once more : all because, in their judgment, these

figures are the best guesses that can be made from time to time as to the point at which the public's need for leisure balances the need for goods.

✓To the question whether a planned economy, in which decisions as to the amount and character of production, the balance of work and leisure, and so forth, are thus made by public authoritative decision is more economically efficient than one in which these matters are settled by private contract between the parties concerned, there is no logically decisive answer. ✓It is simply a question of the circumstances in which the decisions are made; of the constitution and objects of the planning authorities in the one case, and the relative strength and mutual relations of the parties in the other. In the Soviet Union the planning authorities have, theoretically and indirectly, a democratic foundation. The State Planning Commission is subordinate to the Council of People's Commissars, which, in turn, is composed of the heads of the chief departments of State and is the nearest parallel to the Cabinet of our type of parliamentary government. Unlike our Cabinet, however, the Council of People's Commissars is itself elected by a kind of Parliament of the whole Union (the Central Executive Committee of the All-Union Congress of Soviets), which differs, on paper, from our Parliament chiefly in the two following points: first, it is chosen by indirect election, members of local soviets being appointed by their colleagues to serve on regional bodies with authority over larger areas, while these, again, send forward some of their members to sit in the All-Union Congress of Soviets; and, second, the electors who vote for the primary local soviets, upon which the whole pyramid is built up, are so far as possible arranged in occupational, not geographical, constituencies, the unit which a member represents being the factory where his constituents are employed, not the neighbourhood in which they live. It is hardly necessary, however, to go further into these constitutional details, since it is common knowledge that, as things are at present, elections, at least to all the higher bodies, are arranged among themselves by the

leaders of the Communist Party ; so that, whatever the paper constitution, the economic life of the Union is planned and controlled by representatives of the select order of Communists in accordance with the principles of their Party.

It should, however, be added that at the present juncture these principles considerably simplify some of the problems which must face any planning authority. Not the least of those is the necessity of weighing the claims of every category of consumers against every other. Thus if, for example, a dictator were appointed in this country, with instructions to arrange production and import programmes to satisfy the entire needs of the country, and with no further guidance whatever, we can easily see what nightmares he would suffer in the attempt to decide such questions as whether it is legitimate that people and plant should be employed in making permanent waving machines to satisfy consumers who want to have their hair waved, when other would-be consumers are still without footwear adequate to keep the wet out. Such a dictator would make no progress whatever until he had settled whether it was his duty to pay any attention at all to the maintenance of existing differences in the standards of living of different classes, and, if so, how far that respect should go. Of these problems much more will be heard at a later stage.¹ Here we have only to notice that the Russians are guided in making these decisions by the principle that for everybody who comes within the category of worker or poor peasant equality is the ideal, and that only the exigencies of economic necessity justify regard for different standards of living, and that, therefore, the supply of necessaries for (nearly) everybody must take precedence of the supply of luxuries for (almost) anybody. Of course, this is not a precise quantitative rule ; but it is a great deal better, for practical purposes, than no rule at all.

We can, moreover, perhaps go a little further towards answering the general question whether the decisions of a

¹ See pp. 281 ff.

planning authority are likely to give greater economic efficiency than those of a price economy operated by private contract. We can at least lay it down that the crucial factors that decide the answer to that question are, on the one hand, the degree to which the planning authority really *wishes* to achieve such efficiency, and, on the other hand, the extent to which, under the price economy, contracts are made by parties whose general bargaining position is approximately equal. I do not think that it can be denied that if the planners honestly desire to act in the interests of the people at large, and so to order economic production and distribution that the available resources of the country may give the maximum satisfaction to the people who have to work them, and who in turn consume their products—if the planners wish and try their hardest to achieve this result, then they are likely, humanly speaking, to get nearer to it than is a society in which decisions are made by contracts between parties of whom one is often under much greater necessity of coming to immediate terms than is the other. That is to say, although, as already pointed out,¹ when a poor man consents to do a job for sixpence at the behest of a richer man, we cannot *prove* that he would have been unwilling to do it for so small a payment had he known where his next meal was coming from, yet it is humanly probable that that is often the case; in which case a completely disinterested third party, with authority to intervene and say to the rich man, "You must pay half a crown for this job or go without having it done," would have struck a truer balance of cost and satisfaction than do the parties concerned when left to themselves.

Equally, of course, is it true that a planning authority which was not disinterested, which cared only for the satisfaction of one particular part of the community, such as its own relatives and friends, or the members of its own party, or which desired before all else to promote objects such as enormous military power or puritan simplicity of living, which happened to commend themselves to the

¹ See p. 113.

planners but not to the community whose life they ordered, would produce an economic system the efficiency of which, on our rating, would rank very low ; because this system would be setting people to work at making things which, in the judgment of those who made them and those who used them, were not worth the trouble of making, and would be preventing people from making other things which they would have judged as more than worth that trouble.

And there is this to be said. It is only too easy to exaggerate the degree to which a society that is regulated by the price mechanism waits upon the pleasure of consumers. In every complex economic system the initiative *must* lie with producers and sellers ; that much is true of a planned and an unplanned economy alike. Production must anticipate the wishes of consumers, not follow their orders ; which means, in effect, that producers must guess at the unpredictable tastes of those consumers ; which in turn means that they will sometimes guess wrong. Now it is true that in an unplanned economy it is impossible, beyond a point, to go on persevering with a wrong guess, pretending that it is right. If people will not buy an article that is offered to them, that is thrust upon them at every turn, that is applauded before their eyes on every hoarding, they will not, and there is no more to be said. The makers must in the end retire discomfited, for they cannot sell for ever at a loss. It is true, also, that in the planned economy there is no such definite limit, since mistakes can be covered up by subsidising one article out of the profits of another, or manipulating the purchasing power of consumers, or by similar devices which are open only to those who control virtually the whole economic life of the community, and not merely certain industries. But, notwithstanding this difference, it is plain enough that sellers in the unplanned societies have a great deal more control over the behaviour of consumers than a study of the economic text-books would generally lead one to suppose. Take away the whole apparatus of suggestive advertisement, and who will assert that we shall then pick and choose among the products

offered to us exactly as we do when we are subject to all the subtle influences of that apparatus? Everybody knows that the producer in the unplanned economy puts up a good fight to convince the public that his guesses are always right, and his products always worth buying at the price at which they are offered, and that he often gets away with these claims when the unbiased judgment of that same public would certainly pronounce him wrong. So that the statement that the unplanned economy gives us what we want often amounts to little more than saying that it makes us want what we are given.

The fact of the matter is that to the vital question: Does this or that economic system give us what we want, and only give it to us when we really want it badly enough to justify imposing the trouble of providing it upon other people? there is *never* any certain answer. The nearest we can get to an answer at the best of times is by observing how consumers behave when left to themselves, in face of the variety of goods which are, in fact, offered for sale; which, in practice, is not very near. For, in the first place, consumers never are left to themselves, and, in the second place, their choice is always limited by the prior decisions of producers. Consumers (with insignificant exceptions) can only pick and choose between the things that are actually offered to them; but their behaviour in so doing throws no light on the question whether they might not very likely have preferred to go without half the junk that they now buy, and be supplied instead with quite other goods that no producer has had the imagination to put on the market. Inevitably the whole trend and character of consumption is determined far more by producers than by those who actually use the goods that modern industry supplies. And in this respect there is probably not very much to choose between a planned and an unplanned system. Both, so long as they retain any kind of free market in which the final consumer can allocate his money between one article and another according to his fancy, are ultimately bound by a certain power of negation which this freedom confers upon him.

The unplanned economy may be liable to be pulled up short by this a little earlier than a planned system which is resolutely determined to direct consumption into certain channels, no matter how heavy the subsidies that have to be paid to achieve this. But it is quite farcical to pretend that the "free democratic choice of consumers" under modern conditions has, or can have, any more positive influence than this, whatever the type of economic organisation under which it is exercised.

III

We have now to ask whether a planned economy can hope to escape the peculiar type of breakdown which makes the capitalist world at the moment look so foolish ; whether it can avoid the paradox of unemployed labour side by side with unused resources ; whether, in fact, it is capable of a smooth and steady march towards ever higher standards of living without the continual setbacks which have chequered the progress of the rival system.

It is the firm faith of the Russian Communists that their planned economy has this power. There is, I suppose, no point on which the Russians are more emphatic than in this matter of the alleged immunity of that system from "over-production" crises and their attendant unemployment. The Soviet Union, it is proudly claimed, is the "Land Without Unemployment." Its problem is not to find something for people to do, but to train enough workers to carry through the jobs that are crying out to be done. If we are to look first at the evidence of the facts, we find that it is generally admitted that unemployment existed in Russia before the first Five Year Plan was well under way. This, at least in the early days of the plan and during the year or so preceding its inception, is commonly explained as due to the influx into the towns¹ of workers not previously employed in industry. But the existence of such unemployment, whatever its cause, shows that up to that date

¹ See Dobb, *Russian Economic Development*, pp. 398, 414.

Soviet planned economy was not capable of meeting all the demands for employment that were made upon it.

But I do not think it can be denied that during the middle years of the plan the title of the "Land Without Unemployment" was fully deserved. I cannot find that any observers, however hostile, contend that there was unemployment in our sense in the Union during this period. Herr Basseches, whose criticisms of Soviet economics are on the whole unfavourable, writes of an "appalling shortage of labour." Dr. Roellinghoff says categorically, in the same volume, "There is no unemployment in the Soviet Union."¹ Professor Hoover, writing in 1930, reports that the number of unemployed had continued to mount with considerable rapidity up to the end of 1929. "With the beginning of 1930, however, unemployment began to decline. . . . The great program of capital reconstruction planned for the summer of 1930 also began to have its effect, and there was an actual shortage of this type of labour even in the early spring of that year. . . . The figures on employment in the Soviet Union compare extremely favourably with those of capitalistic countries." He adds that this last is due "in part to special circumstances."² From that date onwards it does indeed appear that the problem of unemployment ceased to trouble the Soviet authorities at all. A decree of October 1930 put an end to the payment of unemployment benefits under the social insurance scheme, on the ground that "unemployment has completely ceased to exist and a lack of workers is felt."³ I have already referred, in another context, to the system by which the various State trusts recruited their labour in particular districts at the time that I was in Russia in 1932. It was evident that the purpose of these schemes was, at least in part, to prevent the trusts from poaching on one

¹ See Dobbert's *Soviet Economics*, pp. 113, 299.

² *Economic Life of Soviet Russia*, p. 293.

³ *Economic Conditions in the U.S.S.R.*, p. 111 (issued by the U.S.S.R. Chamber of Commerce, 1931).

another's supplies of labour—a possibility which does not dawn on the horizon of a country in which there is any serious unemployment. Moreover, the preoccupation at that time of all the authorities with the problem of reducing the high rate of labour turnover, and with maintaining their (generally very ambitious) programmes of output, implies, of course, that it was shortage, and not surplus, of labour with which they had to reckon.

I should not like to say with equal confidence that the same happy state of affairs has existed in Russia since the summer of 1933. There has, indeed, been no withdrawal by the Soviet authorities of the claim to immunity from unemployment which they put forward for foreign consumption. As recently as June 1933, Mr. Litvinoff is reported to have boasted to the World Monetary and Economic Conference that in his country "such symptoms as over-production, the accumulation of stocks of goods for which no market can be found, unemployment, wage cuts, increase in foreign indebtedness, bankruptcy, are conspicuous by their absence."¹ But there are certainly rumours current that the number of unemployed is on the increase. Signor Pietro Sessa² reports that the "first signs of unemployment" appeared after the middle of 1932; and the reduction of office staffs, which is reported to have turned over 153,000³ workers out of their jobs in the big cities, as well as the apparently large exodus of workers who do not hold the passport now required for residence in certain areas, may be ominous signs. As regards the combed-out office workers, it was cheerfully stated⁴ shortly after their dismissal that 60,000 of these would find employment in satisfying the urgent need for clerical workers on the State and collective farms. As the "number of State farms alone" (i.e. presumably as distinguished from collectives) was given as 5,000 only in a speech of Molotov's reported

¹ See *The Times*, June 15, 1933.

² Writing in Dobbert's *Soviet Economics*, p. 284.

³ *Moscow Daily News* (weekly edn.), December 10, 1932.

⁴ *Ibid.*, March 30, 1933.

elsewhere in the same issue of the *Moscow News*, the calculation seems somewhat optimistic.

The evidence of such facts does not, and indeed in the nature of the case cannot, thus take us very far. It is, however, well worth while to examine the experience of the Soviet Union in greater detail for any light which it may shed on the general conditions governing the chances that a planned economy may succeed in eliminating unemployment. For just as the future of capitalism largely depends on the answer to the question whether our present troubles are the result of minor defects in the system which may be shortly put right, or whether they are radical and incurable, so do the prospects of planned economies depend on the answer to the question whether the elimination of unemployment during the later stages of the first Russian plan was the result of some lucky accident—as, for example, of the economic conditions or of the particular policies of the moment—or whether it was the direct result of successful planning.

IV

If the years of no unemployment in the Soviet Union are to be explained as due to any incidental factor, much the most plausible hypothesis is that that factor was the adoption of a policy of monetary inflation. It is well known that inflation, if conducted on a sufficiently grand scale, will eliminate unemployment for a time, even in capitalist countries. Nobody acquainted with the facts denies, I think, that this was a primary factor in the absorption of virtually all the unemployed of every belligerent country during the world war. The belief of the man in the street that unemployment was eliminated during the war because millions of men were withdrawn from the labour market to serve in the army, and because of the insatiable appetite of the Government for munitions, as contrasted with the limited consumption of ordinary persons in time of peace, is too simple. The Government's insatiable appetite would have

been of no more consequence than the unsatisfied desires of the common man had it not been backed up by ample means of payment ; and, as for the soldiers, it is evident that if their labour was withdrawn so also was the spending power which they had formerly exercised as wage earners. But the gigantic purchases of the Government, and its payments of allowances to soldiers' dependants, filled the gap that would otherwise have been created by the cessation of the personal spending of wage earners who had joined the army and gone to the front.

The sequence of events and the means by which unemployment is eliminated in such an inflationary period is simple and well understood. Since, however, it is most important to find out whether it is this familiar history which is being re-enacted in Russia or whether something really new is afoot, it will be well briefly to recapitulate what happens in a typical war inflation. This is as follows. The Government wishes to divert to its own use an exceptionally large proportion of the resources of the country, in order that these may be used in the manufacture of munitions and supplies for the troops. In time of peace a margin of these resources is out of use altogether, owing to the mistakes and wastes of capitalism which we have already discussed, whilst the remainder is engaged in the provision of whatever commodities happen to find an effective demand at the moment. In order to employ the unemployed resources and divert the remainder from the manufacture of ploughshares to the manufacture of swords, the Government must itself provide an effective demand. It can do this by collecting in taxes, or by borrowing, the money already in the pockets of the consumers whose demands are at the moment served by industry ; or by itself manufacturing fresh money of one kind or another and spending this. The attractions of this last method, which avoids the necessity of directly and publicly removing from people's pockets money which is already there (always a proceeding upon which Governments engage with reluctance), are obvious, though in the end it may lead to difficulties no

less than those of any of the alternatives to which it is preferred.

Now the appearance of the Government as a huge new consumer with new spending power, when no reduction has been effected in the purchasing power of other people, makes a rosy world for sellers. Goods are sold with unusual ease in a market where there is so much money ; prices are raised so as to match supplies to the now greatly increased demands ; production and employment are enormously stimulated, and jobs thus created for unemployed workers ; all of which is very agreeable. The disagreeable part arises from the fact that if the Government is to be sure of winning in the race with other buyers, so that its demands are always satisfied in preference to those of others, it must continually issue more and more money ; with the result that when all the resources of the country are fully employed, and any additional purchasing power cannot, by definition, stimulate the immediate production of still more commodities, the only effect of further issues is to raise the price of all the goods that producers are straining themselves to offer to a world in which everybody has so much money to spend. For if sellers did not thus raise prices (in accordance with the principles explained on p. 19), they would soon find their shelves empty and unsatisfied buyers grumbling in their shops. (Incidentally they may also find that the penalty of conforming to the principles of the price economy, and putting up their prices, is that they are promptly run in by an ungrateful Government for profiteering.) This all-round rise in prices, however, makes the cost of living so high that the public soon find that they are worse rather than better off than they would have been if the Government had gone right out and taxed them to get the money that it wanted. This is the stage at which hardship begins. If the inflation is not of the very first order, nothing more dramatic than such hardship may be the result. In the end the Government gets frightened by complaints of the high cost of living and reverses its policy, whereupon sellers find the continual rise in prices, on which

they had come to rely, turned into a fall, and cut down their orders, whereupon manufacturers in their turn curtail their production programmes and dismiss their employees. If, on the other hand, the inflation is carried still further, the ultimate consequence is that the purchasing power of money falls lower and lower until prices are reckoned in astronomical figures, money comes to have no value at all, and the despairing public either reverts to barter or attempts to reckon values in terms of the currency of some foreign country which has not indulged in comparable inflation ; as the Germans took to quoting prices in dollars during the spectacular post-war inflation of the mark.¹

Is this what has been happening in Soviet Russia ? It is very difficult to get to the bottom of Soviet currency policy (which like other Soviet policies is subject to continual experiment and change) ; or, indeed, to determine what is the real meaning of currency and credit operations in a planned society. At the moment we may say that the bed-rock facts are these : we know that credit is issued to productive enterprises by the Soviet banks in accordance with the plan, and that with the purchasing power thus placed at their disposal these enterprises make payments for wages and raw materials. We know also that the money in the hands of consumers is of two kinds, namely, notes of the State Bank, which are required by law to have a certain percentage backing in gold, and Treasury notes, the issue of which is not limited by effective regulation of any kind. And we know that during the period of the Five Year Plan there has been a very substantial increase in the amount of

¹ The reader who suspects that the dismal picture here drawn of the results of continued inflation is hardly consistent with the suggestion given on p. 136 that an increase in the circulation of purchasing power would go a long way to get us out of our present troubles, may set his mind at rest if he notes that what is described in the above text is an inflation set going (as in practice inflations nearly always have been) by a Government which wants money and is determined to get it by the easiest way, regardless of possible consequences. This is a very different matter from a deliberate expansion of the currency, controlled and limited by the desire to maintain the monetary unit at a given value.

credit issued and in the monetary circulation, as illustrated by the following figures ; On October 1, 1928, the total monetary circulation (Treasury notes and bank notes and coin) was said to amount to 1,970.8 million gold roubles : in June 1932 it had reached 5,786.5 million gold roubles. It is indeed an old joke that the one department in which an achievement has most conspicuously outstripped the planned programme is in the issue of paper money.¹

Although (for reasons which are set out below) I do not think it can be said that the Russian plan has been financed by an inflation in the way that capitalist wars are financed, or that successful planning is in any sense dependent upon inflation, yet there is, I think, a strong hint in the recent experience of the Soviet Union which suggests that inflation has its attractions for, and may easily be a temptation to, a planning authority. It seems likely that the Russians have been fairly lavish in the issue of credit to productive enterprises, because this is the easiest way of putting purchasing power into the hands of those enterprises, and so ensuring that their work is not held up for lack of funds. And the increasing circulation of Treasury notes is an inevitable consequence of such a free credit policy, since it is obvious that firms which are doing big business on substantial bank accounts will need to make large drawings of notes for wage payments. Nothing will get round the fact that if you want certain people to have plenty of funds, and you have the authority to adopt this method, then the easiest way of placing those funds at the disposal of those people is simply to print the necessary money, or, by merely entering a figure in a book, to credit them with a handsome banking account upon which to draw.

It is no doubt in the first instance the seductive ease and simplicity of this method of financing ambitious public works which makes it attractive to the Russians, just as

¹ For a fuller treatment of this difficult subject the reader is referred to Professor Hoover's *Economic Life of Soviet Russia*, and Mr. Malcolm Campbell's essay in Dobbert's *Soviet Economics*.

these qualities have lured needy capitalist Governments on to the paths of inflationary finance. But I do not think it can be said that the success of the Russian experiment in planning has been in any great degree the product of effective inflation ; for the simple reason that the normal secondary consequences of an inflation, upon which its full effectiveness depends, are so far incompatible with the principles of the plan that they are not in fact permitted to take place ; so that, while an inflationary movement may be initiated, its normal consequences are inhibited and its usefulness is in large measure destroyed. What appears to happen, in fact, is this. New purchasing power is put into circulation to finance the planned programme of development. Under a system controlled by the price mechanism this new money would swell consumers' demands, get producers busy everywhere putting up their prices, increase profits and so stimulate a general expansion in production programmes with consequent absorption of unemployed labour and plant. As the point at which industry was working at full capacity was reached and passed, the rise in prices would become more and more rapid until the monetary authorities in their issue of new credit would, indeed, like Alice's Red Queen have to run faster and faster in order to stay in the same place.

Now at every stage this rise in prices is absolutely essential to the effectiveness of the inflation as a means both of providing the Government with funds and also of bringing unemployed workers and unused plant into activity. It is essential for the first purpose, because it is only the rise in prices, that is the high cost of living, which restricts the public's claims on the products of industry, and so enables the Government to use for its own purposes resources which, had there been no such rise in living costs, would have found employment in satisfying the demands of a less hard-pressed public. It is simply because the people cannot afford to buy so much that the Government is able to buy more. And the rise in prices plays a no less vital part in doing away with unemployment ; for it is just when the selling

prices of goods are rising faster than the cost of making them that profits begin to swell ; and it is swelling profits which alone, under the price economy, stimulate manufacturers to increase their production programmes and engage fresh workers.

In such a planned economy as that of Soviet Russia there are, however, evident difficulties in permitting a rise in prices, with these accompaniments, to occur. For regulation of the prices of at least a large proportion of the commodities produced by socialised industry is itself part of the plan. To permit prices to rise, contrary to the programme of the plan, merely because clamorous consumers have more money to spend than at existing prices there are goods to buy, is clearly to confess that the several parts of the plan have failed to match up. Further, the Russians employ, as we have seen, a rationing system as an important supplement to the method of distributing supplies by price movements. The fact that fresh paper purchasing power has been put into circulation does not, of course, mean that anything has happened to the supplies of goods making larger rations possible, or conversely, smaller ones, necessary. Yet if prices *and* supplies *and* rations remain unchanged, *and* new money is put into circulation, the final upshot must be that this money is no use at all to those who receive it since they find themselves unable to buy anything more with it than they could without. So far as rationed articles are concerned the public simply gets its rations as before, whilst in the case of goods sold at State-controlled prices, but not actually rationed, the only result of an increase in the amount of money in the pockets of would-be buyers is to play havoc with the system of distribution, by introducing new customers into the queue.

In practice it does not appear that the normal secondary consequences of an expansion in currency circulation are nullified quite as completely as this in the Soviet Union. The logic which dictates that, when once money has been put into circulation, some way of spending it advantageous to those who get it must be found, is too strong and too

simple to be wholly ignored. Hence a compromise results. The indications that in other countries would lead to an immediate rise in prices are resisted for a time. Thus it is claimed that there was no material rise in retail prices during the first two years of the plan ; but eventually when this pressure becomes too strong, the authorities yield a little and some rise is permitted, without reference to the plan. Unfortunately as the publication of an official figure of the level of retail prices in the U.S.S.R. has been discontinued for over two years past (a fact which is itself perhaps not without significance), it is impossible to quote any official record of the extent of the actual rise that has occurred. But it has been reported that at the beginning of February 1932 all rationed commodities were revised in price overnight by amounts varying from 25 per cent to over 200 per cent.¹

So long, however, as the planned system of socialised industry and trade does not cover quite the whole economic life of the country, the main outlet for new purchasing power is naturally found in the inflation of prices in the non-socialised fringe where neither planning nor socialism exists ; that is to say, in the markets where goods are sold by producers and dealers on their own account to private consumers, or in illicit trade. It is common knowledge that the fluctuations of price in these markets in Russia are enormous, and that goods sold there may be charged at rates out of all proportion to those fixed for similar goods in State or co-operative shops. Evidently, an inflation, the normal effects of which are firmly barred over the greater part of the economic system, is felt with proportionately greater force in the one sphere in which no obstacles are put in its way. But so far as the plan itself is concerned, it may, I think, be said that any inflationary movements have, up till now, been largely though not wholly ineffective. In short, it would seem that expansions of credit are set going without much regard for their natural after-effects (which

¹ According to a statement quoted by Mr. Malcolm Campbell in Dobbert's *Soviet Economics*, p. 167.

is not an uncommon happening in capitalist countries also) ; but that when those after-effects begin to be felt, and are found to be inconsistent with the principles of the planned economy, the authorities resist them strenuously—at the cost, of course, of denying themselves the full advantage which the inflation promised.

Moreover, the second important effect of inflation—that of inducing an expansion of industry through a rise in the profits reaped by sellers and producers—is clearly irrelevant to Soviet planned economy. As we have seen, the fact that a particular enterprise is making handsome profits is, under the Soviet economy, no particular reason why it should enlarge its programme ; and in any case the methods of accounting employed by that economy make the whole reckoning of profit and loss a most hypothetical affair. Hence the stimulus to industry which ordinarily results from swelling profits in a capitalist community cannot be depended upon to produce any similar result under the Russian system. Large profits are no more likely to set a boom going than small ones. The initiation of a new enterprise depends not on what the directors of that enterprise expect to get out of it, but upon instructions from the planning authorities, who may have other fish to fry. The most that can be said is that where a continuous outpouring of money and upward movement of selling prices are in progress, swelling the profits of socialised enterprises, the task of finding the wherewithal to finance a big programme of new construction is simplified ; and the powers that be may, therefore, be more likely to go ahead with such a programme, if on other grounds, they think it desirable. But the profits are in no way the motive power that sets construction going as in an unplanned economy. At the most they serve as a convenient auxiliary ; and their value and usefulness even in this respect are again, of course, contingent upon the authorities permitting the inflation to induce a rise in prices not provided for in their plans ; since otherwise no increase in profits will occur.

It should be added that while the Russians do not appear

hitherto to have allowed their plans to be extensively undermined by inflation, certain of their policies may yet tend in that direction. Reference has already been made to the decrees of 1932 and 1933 relating to the marketing of agricultural produce. Under these, both individual peasants and collectives are permitted to sell a substantial part of their produce on terms which will be determined by them in accordance with orthodox commercial principles. They are allowed to get the best prices that they can extract from consumers. The reward of a good bargain is, therefore, their own, and consequently an inducement to try and repeat the process. One effect of these concessions is bound to be that, if an inflationary movement is once set going, it will be more difficult than formerly to inhibit its normal secondary effects on prices and production. For, since the passing of these decrees, the control of prices charged for agricultural produce has largely slipped out of the hands of the planning authorities. A price programme may indeed be planned ; but in giving agricultural producers virtual freedom to get what prices they can the Bolsheviks have relinquished any effective power to see that such programmes are carried out. They now frankly rely, so far as agricultural production is concerned, on the pulls of demand and supply, and the inducement to increased production afforded by a strong sellers' market.

Now if, in these circumstances, abundant new paper purchasing power is put into circulation, there can be no doubt that this will quickly find its way into the markets, where prices are thus released from effective official control. What has happened, in fact, is that the sphere in which no obstacles are placed in the way of the full realisation of the normal effects of inflation has been enormously enlarged, so as to include not merely the fringe of industry and trade not hitherto socialised, but practically the whole business of producing and distributing food-stuffs throughout the country. And no less quickly will the peasants and collectives transfer this money from the pockets of their customers into their own by raising the prices which they charge. All of

which means that inflation will offer a simple and ready method of inducing a temporary boom in agricultural production exactly analogous to the boom produced in industry and agriculture alike by inflation under a capitalist system. And in a country where some of the people are hungry this may one day make inflationary policies perilously attractive.

We may, then, summarise the general position of a planned economy in the matter of inflation as follows. The planning authorities are faced always with the problem of getting the productive resources of the country directed into the channels appropriate to their plans. So far, their situation only differs from that of a capitalist Government which is engaged either in war or in a public works programme in that the requirements of the planners are enormously much greater and more varied. The planners can achieve the requisite distribution of resources in one or other of two ways. First, they may fix rates of wages, retail prices and rations at such figures as will keep the public's demands down to a level which will not fully employ all the labour and resources of the country. This surplus labour and capital, then, becomes available for carrying out any proposed development plans. In terms of financial policy this means fixing the prices of goods offered for sale at a level which is high in relation to wages, and paying for new capital development out of the excess of receipts over costs which these high prices enable the socialised enterprises to pocket. This is simply a way of taxing consumers through the prices that they are made to pay for the goods which they buy. What has happened in such a case is that the plan has itself duly enforced upon the community the measure of saving or abstinence requisite for the execution of its own programme of new construction. Such procedure is, of course, only open to a socialised economy which has complete control over prices and wages.

Alternatively, the planners may shrink from imposing in their published programmes such a stiff measure of abstinence as, one way or another, must be borne by the people, if the resources necessary for the plans are to be

forthcoming. This is exactly the mood of a capitalist Government which inflates rather than face the unpopularity that it would incur by imposing taxation adequate to meet its programme of expenditure. If a planning authority does likewise, it must, equally with a capitalist Government, permit the full effects of inflation to be felt in rising prices, or it will, of course, be no nearer getting hold of the plant and labour necessary for its schemes, for which it was afraid boldly and openly to ask in the plan. In this case the planners are, in effect, throwing away the special powers which their control over the whole economic system confers on them and denies to a capitalist economy, and putting themselves in the position of planning one thing, and subsequently doing another which they had not the courage to plan.

It is perhaps in this matter of the subsequent revision of plans that the chief danger of inflation in a planned economy lies. In the nature of the case there is no reason on earth why planning, as such, should lead to inflation; rather the reverse, for a planned economy has a hundred and one other ways of getting its own way, without recourse to the method of cheating the public of its expectations by supplying them with paper money which is steadily losing its buying power. But if it should be found that the plan, either through genuine miscalculation, or through the authorities' reluctance to ask too big sacrifices of the people, has not in fact provided sufficient resources to meet its own requirements, then the temptation to fill the gap by the issue of fresh paper may be very strong. True, this is of itself no help at all, unless steps are also taken to restrict the buying power in the hands of consumers by permitting a rise of price not included in the plan, so that an inflation and a frank revision of plans really come to the same thing in the end. But the more insidious method of inflation may well be preferred; first, because when people are in a tight corner they are likely to seize the easiest way of getting out, without thinking of the consequences involved; and, second, because, when those consequences can no longer be

evaded, a rise in the price level which can be explained away as a matter of book-keeping, necessitated by a change in the value of the monetary unit, may be made to look better than one which is frankly due to plans having gone awry. (People with far more political and economic education than the mass of the citizens of the Soviet Union are surprisingly simple in these matters.) The only way to avoid these difficulties is, of course, not to make plans in the first place, of which the several parts are not mutually consistent.

V

If the Russian plan has not in any large degree been supported by persistent inflation of the ordinary type known to unplanned economies, can it be said that its success in avoiding an over-production crisis is due to any other circumstances not inherent in the fact of planning? In this connection a good deal of weight is often given to the fact that the Russians are at present at a very early stage of economic development. The task of planning, it is suggested, is greatly simplified since, where so little has been done at all, there can be no doubt about what ought to be undertaken next : where all are so ill supplied with material goods, it is suggested, there can be no difficulty in finding people to consume the utmost that industry can produce for a long time to come.

In this argument there is, I think, a measure of truth mixed up with some confusion of thought which is likely to lead to quite a false view of the real problems of planning. The truth lies in the fact, already noticed, that the lower the standard of living and the stage of economic development reached, the less likely is a plan to break down because while attempting to produce goods in anticipation of consumers' demands it has failed to forecast the nature of those demands correctly. Such unemployment as arises from the fact that labour and plant have been devoted to making the wrong things is more difficult to avoid when the general standard of living is high enough to permit of

considerable range and variety in the consumption of ordinary people, than when the life of the great majority is still relatively nasty and brutish. It is, therefore, fair to say that the Russians have an advantage in that they have less to fear from the effects of misdirected production in causing a breakdown of their system than have their more developed capitalist neighbours. It may reasonably be assumed that a country which has so thin a network of railways, so few steel plants, so little soap and so few pencils, needs all these things so urgently that it really does not very much matter which of them it works hardest to produce.

It must, however, be borne in mind that this advantage has no meaning, unless we also assume that the planned economy feels bound to keep fairly close to the methods of its unplanned fellows in the matter of regulating production in accordance with a strict balance of costs and selling prices. For the only reason why the unplanned economies get into difficulties is that when they turn out goods which nobody will buy at a price considered remunerative by the sellers, there is in the last resort nothing more to be done but to shut down production. The planned economy, on the other hand, with its opportunities of subsidising one article out of the profits of another, of selling continuously at a loss here but only at very high profits there, and its arbitrary methods of reckoning costs, need not get into any such difficulties in similar circumstances. If the planners make mistakes exactly like the mistakes of capitalist producers, and embark on lines of production which are expected to be profitable but find a disappointing market, they are by no means obliged to shut up shop unless they wish. A mistake is, of course, still a mistake, but there is no necessity for it to reveal itself in the particular form of unemployment and unused plant. Instead, goods can be offered below cost to a public which does not consider them worth the money spent in making them, and the mistake is paid for in that way. Hence we are only justified in saying that there will be less unemployment in the planned economy because there will be less misdirected production,

provided that we also make the (by no means certain) assumption that the causal connection between mistaken forecasts of demand on the one hand, and unemployment on the other hand, will be the same in that system as in ours.

But to claim that the relatively undeveloped stage of Russian industry obviates all danger of an over-production crisis in any more fundamental sense than this, is quite unjustifiable. As soon as we go beyond the statement that an undeveloped economy is less likely than one that is highly specialised to produce the wrong things (for the simple reason that in the former it is only too clear which are the right ones), to the assertion, so often heard, that an over-production crisis is obviously out of the question in a country where production is so low that there is actually not enough for all to eat, we slip into the most dangerous confusion of thought. For a moment's reflection will show that what is commonly called an over-production crisis has very little to do with the level of production. It occurs in countries with the widest differences in their standards of living—among the poverty-stricken Japanese as well as among the (comparatively speaking) solidly comfortable British and the lordly Americans. The so-called over-production crisis is clearly not a matter of excessive production at all, but a breakdown of exchange. There is no question whatever of the aggregate of production reaching a level at which all possible desires of consumers are satisfied, so that nothing further is required. What happens in a crisis is that, for one reason or other, the machinery by which innumerable specialist producers and sellers normally exchange their products, to the presumed mutual advantage of buyer and seller, fails to operate. These products are, therefore, destroyed in despair, and production programmes are cut down for the future.

But the problem of exchanging—that is, of selling—different kinds of goods is in principle the same whether those goods are the luxuries of a well-to-do people or the necessities of a poor one. It is, as we have seen, a little more complicated in the former case, but it exists always in

every economic system which has passed the primitive stage where every individual produces by his personal activity the actual goods which he himself consumes. Those who make, and hope to sell, motor-cars must depend on finding persons who desire to possess motor-cars and have the wherewithal to pay for them ; but so, equally, do those who make and sell bread. In both cases the essential conditions for avoiding so-called over-production are the same, namely, that there should be persons who wish to possess the commodities offered for sale, and that these persons should be in a position to pay for them. The first condition is easily enough satisfied, whether we are speaking of motor-cars or of bread. The second is always the problem. Essentially it depends upon the income of the prospective consumers, whether of cars or of bread ; and this, both in the planned or unplanned economy, itself depends upon these consumers having in their turn contributed or permitted others to contribute to the production of some other article or service. That is to say, people can only buy motor-cars or bread if they have themselves induced somebody else (in the planned economy, a State trust, and in the unplanned, an employer or the buying public) to pay them an income for something which they have done or permitted to be done. In a poor community it may be just as difficult to sell even a moderate quantity of bread, as in a rich one it is sometimes found to sell expensive motor-cars ; in which event there is just as much an " over-production " of bread in the former, as of cars in the latter, case.

In other words, it is well to remember the simple fact that under all economic systems, at all times, we live only by taking in one another's washing. In the present state of the Russian economy this metaphorical washing consists for the most part only of the simplest necessities. In the case of the richer capitalist communities it includes many complicated luxuries. In both worlds there are enormous ranges of unsatisfied desires. If the Russians want a fuller and more varied diet, so do many of their fellow proletarians in

capitalist countries ; while millions of the more fortunate inhabitants of capitalism want longer holidays and more expensive clothes and more ample living accommodation. Since, therefore, an over-production crisis does not arise because of what has been mis-called the " infernal satiability of human wants," the danger of such a crisis exists both in communities where only the most primitive wants alone can be satisfied, and in those which attempt to cater for a greater range and variety of needs. It is perhaps a little easier for the Russians to determine what their people want than it is for us ; but the real danger of a breakdown occurring because people cannot buy what they want is just as likely to create an " over-production crisis " in a community in their stage of development, as in one which has reached the highest degree of industrial specialisation ever yet attained.

If anyone doubts the force of these observations, and is disposed to believe that over-production is the penalty of industrial progress, he should study the economic history of the early years of the New Economic Policy in Russia, before the beginning of systematic State planning, of which a useful short account will be found in Mr. Michael Farbman's *After Lenin*. During the winter of 1923-4 there was a most serious breakdown of trade, accompanied by severe unemployment and the accumulation of enormous unsaleable stocks of goods amounting, according to contemporary estimate, to as much as 40 per cent of the annual output of industry at the time.¹ Here we have all the features of a capitalist crisis occurring in a country in which a large proportion of the people were nearly starving. Mr. Farbman comments on the situation in these terms : " This catastrophic situation was a crisis of the market. In that respect it was a capitalist crisis. Every capitalist crisis of this kind is due to over-production. . . . But one cannot speak of over-production in a country like Soviet Russia, where at this time production reached only 30 per cent of the

¹ Dobb, *Russian Economic Development*, p. 235. See the whole of that chapter for a fuller description of the crisis.

pre-war level and where the people had been for years deprived of goods. The fact that the situation was met by a cut in prices shows conclusively that it was a crisis not of over-production but of under-production."¹ This distinction, however, will not stand at all. For Mr. Farbman overlooks the fact that his diagnosis of the Russian crisis as due to under- not over-production is equally applicable to any ordinary capitalist crisis. In this also, the people, if they have not been "for years deprived of goods" which they were accustomed to consume, are always hungry for more than they can get. And the capitalist crisis also is commonly resolved in the end by a cut in prices which finally brings unsaleable goods within the means of unsatisfied consumers. Every crisis of over-production may be just as accurately described as a crisis of under-production as that to which Mr. Farbman refers in these terms.

VI

The foregoing discussion brings us near to the crucial question whether there is anything in the nature of the planned economy itself which is likely to avert the typical tragi-ridiculous breakdown of capitalism. Are the Russians, in fact, not so much favoured by incidental policies or circumstances, as really justified in their claim that planning, or at any rate wise planning, is the key to perpetual economic progress uninterrupted by the miserable and wasteful stoppages characteristic of our system?

I do not think it can be denied that a planned economy, which desired above everything to avoid this particular form of inefficiency, could do so. If unemployment reappears in Russia, this will, indeed, show that the Russians for their part have not successfully used their plans in this way. But even this will not do away with what is, I think, a fact: namely, that whereas under the unplanned economy the causes and cure of a depression of trade are still somewhat obscure, the planned economy has at least the cure

¹ *Op. cit.*, p. 130.

within its grasp, even if it may not yet be completely master of the cause. Let us imagine in concrete terms what measures a planning authority might enforce, should it find unemployment figures creeping up and the products of socialised industry difficult to sell. It might, for example, order a general reduction of all prices so as to bring the unsaleable goods within the means of the buying public. (This is, incidentally, how, at a much more primitive stage of planning than the present, the Russians did get out of the sales crisis of 1923-4 to which I have just referred.) If to this it be objected that such a measure would bankrupt all socialised enterprises, since it would reduce the prices which they received for their products, without making any change in their outgoings for wages (their expenditure on materials would of course benefit by the general reduction of prices), then one or other of two answers is appropriate, according to the way in which unsaleable commodities may be supposed to have come into existence. In the one case these may be the result of improving productivity of labour; that is to say, thanks to new methods of production, a given number of workers are able to produce in an hour what formerly required perhaps six hours of their labour. This is, of course, a normal incident of industrial progress. In this case it is quite obvious that the socialised enterprises can afford to offer their products at reduced prices without suffering any loss at all. If for every 100 roubles paid out in wages they get 600 units of product instead of 100, they are plainly in a position to cut their selling prices to one-sixth of the former level, and live as happily as before; while the fall in prices, by enabling workers to buy more with their wages, raises the standard of living all round.

In the second case we may suppose that the increasing product, which it is found impossible to sell, is produced by new workers who come into the labour market as a rising population grows to maturity. In this case (unlike that described above) there is evidently no source from which a higher standard of living for the whole people can be provided. If the planning authority decides in these

circumstances to order a general reduction of prices, it must order also a similar reduction of wages. The effect will be that everybody will have a smaller money income than before, but, owing to the reduction of prices, everybody will find that that income goes just as far as ever. Nothing has happened except that by the cut in nominal money incomes the necessary funds have been found to pay the wages of the additional workers who seek employment. An alternative and perhaps simpler way of achieving exactly the same result would be to leave prices and wages unchanged and simply to issue fresh money for the wages of the additional workers. In that way the new population would be provided with new money to spend, which money would make a market for the goods produced by that same population.

If these examples appear somewhat academic, we may illustrate the position still more concretely if we suppose that a planning authority finds itself faced with growing figures of general unemployment in different parts of the country—let us say, particularly in Moscow, Leningrad and the new cities of the Urals, but in considerable degree throughout the country. The immediate necessity is to find something that these workers can do. Now, as we have seen, there are always in any community a vast number of things which it would be in some degree useful to have done. The planners have therefore to incorporate into an emergency plan an appropriate selection from the list of things the doing of which they, at least, consider would be beneficial to the community. They may decide to open up a big timber-cutting programme in Siberia with a view to providing materials for rebuilding thousands of peasants' houses. No matter how high a level the standard of living may have reached, there will always be plenty of people who would be glad to have new and more commodious dwellings, if these are provided free or at a low enough price. Or, if a big proportion of the unemployed are textile workers, the planners may decide on a scheme for weaving the cloth for vast numbers of new shirts. Or, should there

be many rubber workers amongst the unemployed, why not take the opportunity to throw away all the doubtful tyres that might otherwise have been made to last another year, or set about satisfying the colossal appetite of the Russian people for snowboots? Merely to think of jobs that need doing is easy enough either in Russia or in any other country.

And what is the next step? As these plans are prepared, means must be found for carrying them out. Materials must be bought from existing socialised industries or from abroad, and money must be found to pay the wages of the unemployed workers while they are engaged on these new emergency plans. These funds, whatever the financial device employed, can, in the first instance, only be got in one way, that is, out of the pockets of the rest of the community. Under every system those who are at work, or are able to draw a profit from industry, have to find the keep of those who are contributing nothing to the output of agriculture or industry, whether they do this by payment of rates or taxes, by insurance contributions, or by sparing something from their wages to help a relative or friend who is out of work. If the unemployed are kept on the lowest possible standard of living, and not given anything whatever to do, as in capitalist countries, the drain on the employed is kept down to a minimum. If, on the other hand, under a planned system the unemployed are reabsorbed by new emergency plans, and paid wages just like everybody else, the tax on the rest of the community will be *greater* for the time being. More will be needed for maintenance and something also for materials. The first consequence of reabsorbing the unemployed by planning will thus be that everybody will be at work again, but that everybody will also have suffered a reduction in his standard of living.

What happens next depends on the circumstances in which the unemployment arose. If the country is ill supplied with raw materials and food-stuffs, and has no easy access to foreign markets, this reduction in the standard of living may be indefinitely prolonged. It may be necessary

to bring the coal or the timber required for the new plans from distant parts of the country, or to attempt to produce cotton or rubber in areas in which these do not easily thrive, or, alternatively, to export food-stuffs formerly consumed at home in order to acquire foreign currency with which to pay for the import of these materials from abroad. In these circumstances, although the workers formerly unemployed will actually be at work, they will still, in a sense, be living at the expense of the rest of the community, whose incomes or rations have been reduced in order that there may be sufficient surplus left over to keep the ex-unemployed and supply them with plant and materials; or, to express the matter more accurately, if the ex-unemployed are not exactly living at the expense of their fellows, it is strictly true that the community is better off without, than with, the presence of members whose hands put in less than their mouths take out of the common stock.

This lamentable situation, however, clearly only arises in a country which is over-populated in relation to the resources from which it can maintain its people. In a community in which the scientist's skill in making more and more out of less and less keeps ahead of the growth of population, any reduction in the standard of living caused by the necessity of reabsorbing unemployed workers need only be quite a temporary affair. For the unemployed, as they get to work on the emergency plans, will presently be supporting themselves just as much as are any other members of the public. This will immediately become clear if we make the rather artificial assumption that these ex-unemployed become a sort of closed community, buying and selling the products of each other's labour, and yet not having any economic contact with the rest of the country. In these circumstances it is obvious that if some are engaged on building, others on food production, others on textile and clothing manufacture and so on, the members of this community will be, collectively, maintaining themselves; and their comrades, who had previously to contribute to their support, will now be relieved from the necessity of so doing.

This last assumption looks distinctly less artificial when we realise that, on a very small scale, an unplanned economy sometimes tries to meet the problem of unemployment in exactly this way. In our own country, for example, centres are provided where unemployed workers may perform small productive services for one another, such as mending boots or making furniture ; but on no account must they sell the products of their labour in the outside market, on pain of provoking a first-class row with the trade union organisations that cater for their employed colleagues (and not, indeed, with them alone). Thus the capitalist community accepts the fact that the productive labours of unemployed persons are virtuous and useful as long as they minister only to such consumers as also happen to be unemployed, but brands them as wicked and anti-social if those products are offered for sale to the public at large. Now this is hardly a very logical attitude, since the same reasoning that proves that it is wrong for me to have my boots mended at an unemployed centre, on the ground that this will damage the interests of those engaged in the regular trade of shoe-repairing, also proves that it would be wrong for me to offer an unemployed worker a regular job in my shoe-repairing firm ; since this also, by increasing the supply of workers in the industry, is prejudicial to the interest of those already there.¹ And the illogicality reaches a superb level when we are told that, while men at the centres " had given their word of honour not to sell any article they made " and were mending or making things for their own

¹ There is, of course, a distinction in that the worker at the unemployed centre is more than likely to do the job for less than the trade union rate, whereas in a strongly organised trade he will not be permitted to undercut in this way if he accepts regular employment ; but it is still true that the union rate is itself fixed only as the result of a bargain between workers and employers, in which the most powerful factor on the workers' side is that their numbers should be as small as possible in relation to the demand for their services ; so that every additional worker who comes into the industry is a menace to the security of the union rate and the interests of those already employed there—a fact that is fully appreciated by those unions which, in an attitude more logical than that described in the text, attempt to limit the numbers of workers qualified to enter their particular trade.

homes or for the centre, "nevertheless, they might give them away."¹

For the explanation of this illogicality we have to look to the persistent disruptive force inherent in the unplanned economy which was discussed at the end of the preceding chapter. A capitalist community dare not permit the public authorities to step in when there is unemployment, and arrange plans for setting the unemployed to productive labour and selling the resulting products on the market in the ordinary way, simply because the additional output of the unemployed workers (let us suppose that it consists largely of boots) will bring down prices and so diminish the profits, perhaps even turning these into losses, of those already engaged in the boot industry. True, these reduced prices will be very nice for consumers of footwear who, if they do not buy more shoes, can now afford to spend a little more on other things. But this is of no interest whatever to the bootmakers in an unplanned economy who are interested only in the takings of their particular industry. The fact that when I can buy a pair of shoes for 7s. 11d. instead of 10s. 11d. I take the opportunity also to buy stockings to match, leaves the bootmakers quite unmoved unless they happen also to have money in a hosiery business.

But it is otherwise with a planned economy, in which all industry is in social ownership. Under such a system the planners can offset the losses of one industry against the profits of another. They know that what they lose upon the roundabouts they—that is, the public, whether this is in truth the whole community or a favoured class, on whose behalf they act—are bound to gain upon the swings. The economics of the planned community are, in fact, just like those of the unemployment centre writ enormously much larger. In the centre there is no question but that it is more to the advantage of all that John Jones should repair Tom

¹ According to the statement of the secretary of one of the centres, as summarised by the *Manchester Guardian's* London correspondent in the issue of June 16, 1933.

Smith's boots, while Tom Smith makes a go-cart for John Jones's baby, than that they both should be at the street corner doing nothing at all. The difference is that, while in the centre this kind of small interchange of services may be organised directly on a barter basis, in a large planned economy money will, at any rate at the present stage of economic development, be used as an intermediary. But this does not obscure the essential similarity between the two cases. A planning authority, with full control over all prices and wages, can raise the price of this and lower the price of that so as to keep *any* plan going ; provided only that it does not price the total output of industry at a figure higher than the aggregate of the incomes of the people who are to buy that output ; in which case there must obviously be a breakdown as a matter of simple arithmetic. The capitalist community gets into an *impasse* because the prices at which an industry can sell its goods, and the costs incurred in making those goods, are not, except in a very limited degree, within the control of the same authority ; and the prices and costs of industry as a whole are, of course, never considered together by any authority whatever. Consequently industries may be bankrupted because their selling prices fall so low that they do not cover costs of manufacture, or, alternatively, goods may be priced so high in relation to the level of incomes that they are out of the reach of the consumers who are intended to buy them.

But a planned society which got into any of these difficulties would have only itself to blame. For whereas, in the unplanned society, prices of all kinds must for the most part be taken as independent variables, under a planned system they may be manipulated by the planners themselves to suit the convenience of their schemes. Under an unplanned economy, movements of price, and the responses of individuals to these, are themselves the forces which direct the country's industry here or there, open up this enterprise and close that down. Under the planned system these movements are merely the tools by which industry

may be directed into the channels along which the plans intend that it should go.

VII

This is not to say, of course, that it is *impossible* that there should be unemployment in a planned economy. The upshot of the foregoing argument merely amounts to this: *If* the authorities controlling a planned economy consider it more important than anything else that everybody should be found a job, and that all the stuff that is produced for sale to the public should be promptly consumed, then there is no reason why they should not get very near to achieving this aim. This does, I think, amount to saying that planning is itself a powerful lever for doing away with the particular form of unemployment crisis which besets the capitalist world of to-day: that is to say, prolonged unemployment which, though more severe in some trades than others, is yet so nearly universal as to raise the unemployment figure above the normal average in practically every single occupation, and which is accompanied by closing down of plants and congestion of markets with unsaleable goods. But it remains true, of course, that this unemployment will only be eliminated if the authorities are prompt in putting forward supplementary schemes, as soon as it becomes clear that those already in progress will not provide full occupation for the people; if, that is to say, they are quick to subsidise industries which are unable to maintain their volume of output and still show a profit on the basis of the current methods of calculating this; or if they promptly order a reduction in the wages of the workers employed or cut the prices charged for the materials used in such industries, or open up new enterprises which will take the place of those that are not able to show good returns, and will provide fresh jobs for the rising generation. The mere fact that a plan has been made will not, of itself, in a changing world of fallible people, eliminate unemployment once and for all without more ado. A planning authority must

be continually revising and adapting and extending its plans in order to make good its own mistakes and to meet the needs of new situations. If it sits still and does nothing, it will be faced with exactly the same situation as the Government of an unplanned economy which sits still and does nothing, or next to nothing, to find employment for those to whom private industry offers no place.

The true difference between the two types of organisation is that the capitalist Government, except so far as it can initiate a few schemes of public works the products of which are not offered on any commercial market, is *compelled* to sit still and do nothing, because, if it should go further than this, its efforts to restart industry that has stopped will have the effect of stopping such industry as is already going ; whereas the controllers of a socialised system, if they set additional plans afoot in order to absorb unemployed labour, are merely extending the existing system of industry, instead of establishing a rival one which cannot work harmoniously with that already in operation.

Further, unemployment cannot, of course, be avoided under a planned system, unless workers who expect to have, or have had, employment in one industry can be easily drafted to another. This is merely a particular case illustrating the general principle that planning is impossible unless the men and women on whom it falls to carry out the plan can be induced to do what is expected of them. Unemployment, unused plant, unsaleable goods, are all merely outward and visible signs of the failure of existing plans to meet the situations that have in fact arisen. If these mishaps are to be set right by revised and supplementary plans, the authorities cannot afford to be tender towards any such feelings among unemployed workers as that, if a man has once been employed as a miner, and if in the original plan mining was to have been his job, it is unreasonable to expect him to take to timber-cutting or navvy work, should the revised plans provide for less coal production and more road-making or timber-production.

In short, either by the use of economic inducements or by some such powers as those described in Chapter II, the planners must have effective control over the distribution of labour.¹

In this matter the governors of a planned system are, of course, bound, as much as anybody else, by the simple limitation that it is impossible to make people do things which they are not mentally or physically capable of doing. In this limitation lies perhaps the most likely cause of unemployment under an intelligently planned economy. If the authorities propose, either in the first edition of a plan, or in a revised version prepared on account of unexpected developments, to diminish the importance of one industry in the national economy—let us say soap-making—and to expand another—say cotton planting—it may be that a large proportion of the soap-makers are really quite unsuited to work in the cotton-fields. In these circumstances the authorities may think it really not worth while to find alternative jobs for the former soap-makers. They may feel that these workers are highly specialised people who cannot make any contribution to the national output, otherwise than in the form of soap, that would be worth the trouble of organising; and that additional supplies of soap are not worth the cost of the necessary materials. They will then forbid the soap trusts to take on fresh workers, and will permit unemployment to occur in this industry until such time as the natural wastage by death and retirement brings the number of soap-makers down to the required level.

A planning authority which acted in this way would, of course, have quite definitely abandoned the view to which we have been assuming that it would adhere, namely, that the first and most important object of all plans is to find *some* job for everybody to do. It might, perhaps, reasonably discard this opinion on occasion, particularly in circumstances such as those just described. But, of course, nobody supposes that planning will automatically eliminate

¹ See also below, pp. 329 ff.

unemployment, if those responsible for the plans take the view that other things are more important than finding tasks for all to do. What we are, I think, justified in concluding is that the powers which planning confers do offer a most powerful weapon against prolonged and general unemployment in the hands of any authority which has a reasonable amount of courage and enterprise, and which desires to use that weapon.

This does not, alas ! imply that a planned economy which made full use of this weapon could claim to be 100 per cent efficient according to our definition of economic efficiency. It is clear that a plan which was intended to do so could find something for pretty well everybody to do. But full economic efficiency is attained, not where everybody does something, but where each of us does the job the doing of which gives a more useful result than any other alternative job that we could do ; where nothing is done which does not more than repay the effort required for its doing ; and where nothing is left undone the doing of which would repay such efforts—all of which is an altogether different story.

The whole argument of this book goes to show, however, that in practice this standard of economic efficiency is something of a will-o'-the-wisp ; and that this is true both of a planned and of an unplanned economy. At the one end of the scale everybody realises that to set people to dig holes and fill them up again is a wasteful and futile proceeding. It is a work which has no utility at all. To set people to dig holes without filling them up again, where these holes may conceivably one day be wanted to interrupt the progress of a forest fire, should such a fire ever take place, is a proceeding which is, in a small degree, less wasteful and futile. To set people to dig a trench in order to divert a river which overflows its banks every spring is decidedly more useful. To set people to dig the foundations of a factory in which cosmetics will be produced is—who is to say how useful ? Everything depends upon the view taken of the place of cosmetics in the scheme of things and upon the

existing supply of these articles. The truth of the matter is that in any complex and specialised society it is extremely difficult to say which of us is in effect digging holes and filling them up again, and therefore living on his fellows, and which of us is doing work that may justly be said to earn his keep. The unplanned economy, with its elaborate apparatus for measuring costs and utilities, professes to have devised an instrument which will accurately detect these differences. But when allowance has been made for all the qualifications discussed in Chapter III, we may be pardoned if we adopt a decidedly sceptical attitude towards the practical value of any results obtained by the use of that apparatus.

And there is this, further, to be added : if we abandon in despair the attempt accurately to measure the worthwhileness of different kinds of work, we are still left with the basic fact that where costs have to be incurred in any case, it is better to get some result from them, however trifling, rather than none. When it is said that economic efficiency requires that work ought not to be done unless the results justify the costs, it is assumed, of course, that if there are no results, there will also be no costs. Thus if, for example, it is held that the further production of stockings would not justify the wages that would have to be paid to all associated, directly or indirectly, with the making of stockings, then in the inference that those stockings ought not to be made there is also implied the principle : no stockings, no wages. It is an essential implication that the potential stocking-makers would be more usefully employed in some other way on work the result of which, unlike the manufacture of stockings, would justify the cost of their keep.

In practice, however, we know that this assumption is quite unreal in any society which has not succeeded in providing full employment for its people. The practical issue is not between making stockings and making, let us say, handkerchiefs, but between making stockings and doing nothing at all. And since the majority of unemployed persons do not literally starve in any community, whether or

no there is organised public provision for them, it is fallacious to argue as though the cost of keeping them disappears when they cease to be employed. That cost is no doubt diminished, in so far as unemployed persons scrape along on a much lower standard of living than they attain when in work ; but it cannot disappear. Hence, even though in a perfectly efficient society there would be nobody doing work that did not fully justify its cost, it is ridiculous to rush to the conclusion that, in the imperfect worlds that we know, a man ought to do nothing at all rather than be employed on work which, it is suspected, is not valuable enough fully to compensate for the cost of his maintenance. If he can produce anything which has any utility at all, he is contributing *something* to the cost of his maintenance ; for all the crazy economics of an individualist system cannot do away with the ultimate truth that half a loaf is better than no bread. That my work should fully justify the cost of my keep is economic efficiency of 100 per cent ; that it should justify an outlay equivalent only to 10 per cent of my keep represents a higher standard of efficiency than that I should produce nothing whatever towards the said keep.

When these two factors—the difficulty of deciding when we are merely digging holes and filling them up again, and the ancient truth that something is better than nothing—are weighed against the human miseries of involuntary idleness, we have, I think, very good grounds for reckoning the superior ability of a planned system to eliminate prolonged and general unemployment as a big item to its credit in contrast with the unplanned type of economy ; even if we frankly admit that under a planned economy unemployment may often be avoided by people being set to do jobs which only doubtfully justify the cost of doing them ; because the planners, in their wisdom, have not correctly discerned just what is worth doing and what is not. For what counts first for a man's personal happiness and self-respect is that he should have a job of some kind. Only a minority, I think we may safely say, go on to ask whether the job that they have is a job worth doing ;

wherein, if the argument of this book is well founded, the majority are wise, since there is no certain answer to the question. And few even of those who believe their jobs not to be worth doing would not count themselves happier far than those who can find no job at all. So the clerk with a bowler hat and an umbrella, who goes every day to keep the books of a firm manufacturing an at best entirely useless patent medicine, is an entirely different creature, alert and self-respecting, from the dispirited crowd of his fellows whom he sees waiting outside the employment exchange. Nobody thinks of him as a social problem ; and yet who is prepared to say that he is an economically more valuable member of society than any of these others, or that his work is to be preferred to that of digging a hole and filling it up again ?

VIII

If, then, we are to conclude that a planned economy has a considerable power to prevent disastrous unemployment, even though it may not at the same time achieve perfect economic efficiency, or indeed anything approaching that standard, can we also say that that type of economic system will be immune from those further blemishes which were suggested in the last chapter as important factors in the typical capitalist crisis ? In particular, if it is true that the unplanned economy sometimes comes to grief through the imperfections of its monetary system, is there any reason to suppose that the mere fact of planning would do away with this danger ?

In so far as monetary systems go wrong because nobody knows what sound money really is, we have to admit that the planned and the unplanned economy are in the same boat. There is nothing in the mere fact of planning which will provide the answer to unsolved riddles. And so far as actual practical experiment goes I think we have also to admit that on this subject there is as yet very little to be learnt from the experience of the Russians. The continual changes in Soviet monetary and credit policy (by no means

always in accordance with previous plan) appear to be dictated solely by day to day necessities. A good example of this opportunism is afforded by the practice, already described, of embarking upon an inflation and then nullifying most of the consequences which alone make inflation any use. Indeed I think we may say that, beyond the hope that they will before long be able to dispense with money altogether, the Russians have not troubled to formulate any reasoned monetary policy.

At the same time it is indisputable that a planned economy is in a much stronger position than one regulated by the price mechanism to make use of such glimmerings of light as we already enjoy on the subject of what money ought to be and do. If, for example, those criticisms of existing monetary systems which were discussed in the last chapter have any validity, planning would certainly go a long way to meet them. If it is true that under any kind of system in which people still have money to spend in shops, the problems of marketing would be greatly simplified if some stable relation were maintained between the amount of money put into their pockets for this purpose and the supplies of goods displayed for them to buy, then the planned economy has an evident advantage in that the authorities have knowledge of, and, indeed, control over, the quantities involved on both sides of this equation. An unplanned system is both much less well informed and much more at the mercy of circumstance. It is true, indeed, that the issue of money, in the strict sense of legal tender cash, is practically everywhere regulated by law; and that control over credit policy is in some degree¹ exercised by a central bank or banks acting in fairly close contact with the Government. But there can be no similar centralised knowledge of, and control over, the production of goods, where the regulation of this is simply left to the responses of individuals to price movements.

Again, it was suggested that the unplanned economy gets

¹ Not, however, necessarily a very large degree, as witness the American bank crashes of 1933.

into a mess because it fails accurately to match up the amount that is saved with the total that is actually used in the creation of new capital resources.¹ The main reason for this lay, we found, in the fact that investment is controlled by one set of forces and saving by another ; that investment is governed closely by the expectation of profit, whereas saving is largely a matter of habit. A planning authority which decides just how much is to be saved and just how these sums are to be used in setting new construction going, has, at least, not the excuse of ignorance if the two figures do not square.

It is true, of course, that all mistakes are not due to ignorance or to errors in arithmetic, and it is accordingly possible that, notwithstanding its superior knowledge and powers of control, a planned economy might be tempted to err in one at least of the directions along which unplanned systems are suspected of travelling to their ruin. It might, in fact, succumb to the temptation to allow investment to outstrip savings ; to set works afoot for which it has not, in plain terms, provided the money ; thus bringing about a state of affairs strictly parallel to that which arises in capitalistic societies, when new investments are undertaken by people who borrow through banks money that nobody else has saved, and so direct production into lines in which, as it turns out afterwards, there is no real demand for it. In the capitalist society this happens, generally speaking, simply because nobody bothers to see whether anyone is willing to save sufficient funds from his personal consumption to reimburse the enterprising investor who has decided to engage workers on erecting new factories. In a planned economy the same thing might occur because saving, whether collectively or individually performed, is on the whole an unpleasant process except for those who are constitutionally misers (and these probably derive only a morbid pleasure from what is really suffering), and the planners may not be strong-minded enough to ask the public to perform as much of it as their plans require. This

¹ See p. 140.

is, in effect, simply to admit the possibility already conceded that a planning authority which is inclined to be faint-hearted, or which has made a mistake and wants to cover it up, may have recourse to the old-fashioned method of trying to eat one's cake and save it, which is called by the name of inflation.

It is, however, worth adding that the opposite error—that of permitting investment to fall short of savings, which it has been suggested may be a serious aggravation of a capitalist depression—is much less likely to occur in a planned system. For in such a system saving is effected, in the main, by socialist accumulation, that is, by setting aside sums out of the proceeds of the various socialised industrial enterprises, instead of by distributing money to individuals and then trying to persuade them not to spend it. And it is difficult to conceive any motive that would induce the managers of socialised enterprises to set aside reserve accumulations if they had no use to make of these reserves themselves, and if the superior planning authorities who controlled their price and production programmes did not want these funds for other purposes. If indeed, the authorities should on occasion take fright at the scale of their own plans (which is conceivable) and fall victims to something analogous to the investment phobias which bring capitalist communities to a periodical standstill, it is hardly credible that they would not simultaneously cut down the programme of accumulations which was originally intended to finance the investment that they have now decided to abandon ; or that the industries which have to make these accumulations would raise objection to such a change, since a corporation which cannot itself use its surplus funds, and is not permitted to hand them over to others to use on its behalf, is hardly likely to suffer from either the blind habitual, or the usurious, type of saving-mania manifested by nervous or greedy individuals.

In other words, it is impossible to imagine that the actual hoarding of purchasing power which is neither spent on the current needs of its owner, nor invested by him in

some new productive enterprise, could occur in a socialised economy as it does in ours. In an unplanned system, people hoard money which they think it extravagant to spend because they fear that the need for it will be greater at a later date, and also money which they would like to invest but for which they cannot find any investment which they regard as both sufficiently safe and sufficiently remunerative. In a socialised system, in which the opportunities of investment by individuals are negligible, the second of these grounds of hoarding disappears. The first, it is true, remains, for we should hardly all rush to spend all our money the very moment that it was paid to us, keeping nothing in hand for future contingencies. We would still wish to lay by for a rainy, or a wedding, day. But the proportion of the money issued that would be hoarded in this way, would, except in periods when political conditions were extremely unstable, and people were afraid that the world was going to fall about their ears in some war or revolution, be reasonably constant. It would certainly be liable to far less violent fluctuations than is hoarding, the amount of which is influenced not only by these factors but, in addition, by anything so wildly irrational and so much at the mercy of crowd emotion as the public's ideas about the prospects of investment.

Nor, I think, need we be long detained by the question whether the success of a planned economy is likely to be imperilled by the kind of obstacle which we have described as the "rigidities" of the older unplanned systems. Obviously these matters appear in a very different light in a society in which wages and profits are authoritatively regulated. For, whereas, in a system which is dependent on the responses of individuals to price movements, deliberate control of prices or wages by law or custom appears as an external force, running counter to the normal working of the system, in a planned economy, on the other hand, such control is part of the system itself. This does not of course relieve the planning authority from the necessity of making sure that one part of the plan is consistent with another ;

that wages are not fixed, for example, on principles which will upset such distribution of labour between various jobs as may be called for by the production plans. Rather does it imply that the special problems associated with the rigidities of an unplanned system, which is subject to a certain measure of State interference, do not arise in a planned economy, except as part of the general conditions within which alone successful planning is possible.

IX

Finally we have to ask whether a planned economy, in addition to any power that it may have of avoiding the typical capitalist crisis, can also claim immunity from the centrifugal force which, we have suggested, is the fundamental menace to the efficiency of the price economy. Here it has to be admitted that neither in the Russian system, nor, I think, in any alternative planned system which is likely to be workable within a future near enough to be worth visualising, can this unfortunate influence be *wholly* eliminated. We have seen that the Russians still rely in considerable measure on something not very different from our price mechanism as the instrument by which the distribution of labour is effected in accordance with the plans. They still tempt people to become specialists and experts and teachers by offering them economic and social advantages not enjoyed by the mass of those who are content to rub along in jobs where little skill or responsibility is called for. But, so long as these methods are employed, it must remain true that it is to the advantage of any particular group of workers that their labour should be as scarce as possible in relation to the demand for it offered by the various socialised enterprises. We are back in the old position in which it is to everybody's interest that there should be an abundant supply of workers, all of them doing as much work as possible for as little money as possible in every occupation but his own, where, of course, the exact opposite should hold good. If it is the shortage of specialists

which causes their relatively high pay, then the specialists have an immediate inducement to see that on no account does their wisdom become as common as mustard. This much cannot be denied.

On the other hand, the Russians seek, as we have seen,¹ to check these insidious influences by attempting to create a public opinion which frowns upon acquisitiveness, and which upholds everywhere and at all times zeal for the success of the plans. This is doubtless much assisted by the emphasis also laid on the violent hostility towards the Bolsheviks with which the rest of the world is credited ; for it does not take any very profound knowledge of psychology to perceive that nothing so readily calls forth devotion to a common cause as fear of a common enemy.

Further, groups of workers certainly have less power to exploit their own sectional interests at the expense of the community as a whole in a planned system than under one regulated by the price mechanism, even though they may have something of the same inducements to try to do so. For, in the first place, the fact that workers are faced with what is practically equivalent to a single monopolistic employer must greatly weaken their bargaining power in the actual fixation of wages. Nominally rates are fixed in Russia by collective agreement between trade unions representing the workers and representatives of the appropriate industrial combination or trust, after a fashion which, on paper, looks much like the system of collective bargaining in use in unplanned economies. Actually, however, the freedom of this bargain is closely restricted by the obligation laid upon the trust or other enterprise not to "depart from the limits upon wages and hours of labour which are specified in the planned Control Figures for the given branch of industry or trade"² ; while, in addition, if

¹ See p. 78.

² Hoover, *Economic Life of Soviet Russia*, p. 276. The control figures are the estimates of the plan as revised from time to time in the light of later experience.

the plan has provided for an increase in the productivity of labour, any advance in wages may be made contingent upon this being realised. Nor has the worker the same power of extorting higher wages by threatening to go elsewhere as (when he is lucky) he has in an unplanned system. For the various socialised enterprises in any industry are naturally not permitted to compete against one another in anything except quality and quantity of performance. It would certainly be literally as much as a manager's life was worth to attempt to steal workers away from some neighbouring plant by the offer of better wages and conditions. Yet some such measure of competition between employers is a necessary essential if workers whose labour is particularly much needed are to extract the most out of that need.

And, second, the authorities have in the background the methods, already described,¹ of controlling the distribution of labour by direct order, instead of by attempting to lure workers by the attractiveness of the prospects offered into the jobs which they are wanted to perform. If a group should attempt to stand out for terms which were held to be unreasonably high, I think we may be sure that the authorities would have little hesitation in bringing these powers into play. And it must not be forgotten that the criminal code of the Russian, and I believe also of the other federated Soviet Republics, provides that counter-revolutionary activity and sabotage—terms which are susceptible of very elastic interpretation—are offences punishable in extreme cases with death.

Although, therefore, it remains true that in any economic system in which rates of pay are employed as a means of controlling the distribution of labour supply, what we have called the characteristic centrifugal force of an unplanned economy is not wholly eliminated; yet in the present Russian system at least, those who might be tempted to yield to that force are likely to be in large degree restrained by equally powerful inducements of an opposite kind.

¹ See pp. 79 ff.

And, what is indeed more important still, a planned economy can at least restrict the influence of this potential conflict between the interests of the one and the many to the sphere of activity of those who are to carry out, as distinct from that of those who frame, the programmes of economic activity. So far as industry at least is concerned the Russians can claim that, while this conflict may impede the execution, it cannot affect the content of their plans ; though they cannot yet say the same for agriculture whether conducted by collective or individual farms. The social ownership of all the instruments of industrial production secures that those who make the major decisions of economic policy—who settle what is to be produced and where and by what methods—are immune in the making of these decisions from this disintegrating influence. They may not, indeed, be persons inspired solely with a single-minded zeal for the public welfare ; they may be open to corruption, or their decisions may be affected by such irrelevancies as a desire to secure a large place in any new schemes for the particular locality in which they themselves were born, or to find jobs for the members of their own national minority ; but they are at least exempt from the temptation, which is the despair of capitalism, to frame plans according to which the industry with which they are personally concerned will deliver as little product as possible in exchange for as much money, that is for as large a slice of the product of other industries, as possible. Because the remuneration of the planners, or managers, does not vary directly with the margin of profit of any industry for which they have responsibility, this temptation has no meaning for them.

And it must be remembered that this is true not only of those who prepare plans in the secret councils of the State Planning Commission, or even in the directives of great nation-wide corporations, but also of the far more numerous managers in charge of individual plants. The plan may indeed require that the Union Steel Combination, for example, must show a surplus of returns over expenses ; and even that every single plant controlled by the Combination

must also show a profit on its working. The meaning of such a requirement may, as we have seen,¹ be almost anything, according to the actual methods of accounting which happen to be employed. It is just a way of securing that the production of steel (or of any other commodity) shall be carried up to a point which the planners have decided, upon grounds of their own, is proper in relation to their programmes for other industries; whether in fact the method of calculating profit corresponds closely to that which a capitalist concern would employ (in which case the planners would happen to have decided to assign to steel production roughly the same share in the national output as it would have absorbed in an unplanned system), or whether the profit is calculated in such a way that an enterprise which would be bankrupt under capitalism is made to show a handsome profit (in which case the planners are giving the steel industry a bigger showing than our price mechanism would permit). But this requirement that a paper profit be shown as planned, whatever its meaning in a particular instance, in no way lays the manager of a socialised enterprise open to such unfortunate temptations as normally dictate the policy of the proprietor, or manager acting for the proprietors, of a capitalist enterprise. For, in the first place, the manager in the planned economy, though he is expected to fulfil his financial programme, and may, indeed, be rewarded, if he improves upon this by introducing new technical methods or changes in factory organisation which have the effect of increasing the rate of output from his factory, has no power of increasing the profits of his business in any other way; since he does not control his own selling or buying prices, or, within the narrowest limits, the rates of wages which he must pay. He cannot, therefore, attempt to swell his profits by robbing the public or sweating his workers. And, in the second place, he would have no inducement to behave like this even if he were in a position to do so, since he knows very well that any extra profits realised by his business are not destined

¹ See pp. 88 ff.

for his personal pocket, and that short shrift awaits anybody in a responsible position in the Soviet Union who is suspected of activities that imperil the success of the plan as a whole.

X

The Russian* planned economy, then, cannot indeed claim, during its brief and chequered career, to have offered those who live under it anything approaching the standard of living that is enjoyed by all but the most unfortunate who live under capitalism. On the other hand, it has stuck to the principle of distributing what there is to distribute in much less unequal fashion than do the more developed capitalist communities ; and it has, in some degree, attempted to make up for the immediate lack of articles for personal use, by offering for collective enjoyment the homes and treasures of unsurpassed magnificence which it has expropriated from Tsars and princes and merchants of fabulous wealth. It can offer no convincing evidence that the major economic decisions which it makes are necessarily those which considerations of true economic efficiency would dictate ; and it has very little use for the elaborate mechanism which unplanned economies employ to guide them in this matter. But it is full of hope for the future. Particularly does it claim that it has nothing to fear from the so-called over-production bogey of capitalism, and that its success in eliminating unemployment, at least during the busiest years of the first plan, has not been due to any incidental policy such as concealed inflation, or to any passing economic advantage such as the relatively primitive stage of economic development of the country in which it operates, but to the very nature of the planned economy itself. This claim we found to be by no means without substance, since an analysis of the working of a planned economy suggests that it is quite within the competence of the authorities controlling such a system to eliminate our kind of unemployment if they think that that is their first

and most important job ; although this is not to say that in so doing they will thereby satisfy the very elusive demands of economic efficiency to the measure of one hundred per cent. And, finally, we found that the potential efficiency of an unplanned economy of the Russian type is greatly increased by the fact that those conflicts of parts with the whole which pervade the *whole* structure of our system can be confined within a relatively restricted sphere, while drastic measures are taken to render them comparatively innocuous in those matters from which their influence has not been entirely eliminated.

CHAPTER V

WHAT NEXT ?

I

WE HAVE NOW reviewed the structure, the achievements and something of the potentialities of the two contrasted types of economic system under which the world's business is conducted. This brings us face to face with the exciting question : What are going to be the future developments of these systems, and what will be their relations to each other ? The answer to that question will shape the framework of the daily lives of millions.

That answer cannot, however, be sought in economic terms alone. For at this stage we have to widen our horizon and take account of the fact, hitherto almost completely ignored, that each of these economic systems is intimately connected also with a particular type of social, or class, structure. In the capitalist countries that social structure has not, in the main, been created as the result of deliberate choice ; neither is it, in consequence, the expression of a complete and consistent philosophical system. But its identity is recognisable in all those communities which have made any considerable progress in industrialisation under unplanned economic systems ; though in any particular instance it is modified by the influence of local tradition surviving from earlier phases of development, and by national or geographical factors. Essentially that structure is characterised by the division of the whole community into social classes which do not normally mix in ordinary social intercourse, and of which some are held in higher public esteem than others. The grading of these classes is in the main determined by their income, although in this country an occupational and a hereditary caste system have

both left marks which blur the lines of a purely plutocratic classification. These marks are found in the survival of such anomalies as "gentlemen farmers" and "ladies in reduced circumstances"; in the preference accorded, in the lower economic grades, to occupations which are clean, as compared with those which are dirty, even when the latter may be slightly more remunerative; in the peculiar privileges enjoyed at a higher economic level by those who engage in what are known as "the professions"; and in the social hierarchy that rests upon hereditary titles and culminates in the Court. But it is unnecessary to elaborate the outlines of a structure so intimately familiar. Everybody knows that a millionaire does not invite his charwoman to tea, nor the dustman's wife leave cards upon the Kensington residents whose bins her husband empties. It need only be added that this structure is seldom analysed, perhaps seldom even realised, except by those who dislike it. By the great majority in all classes it is tacitly accepted.

The Russians, on the other hand, are prepared with an exhaustive analysis both of their own system, which they admire, and of ours, which they despise; seeing both alike in the light of, and terms of, the all-embracing philosophy known as "dialectical materialism." It is only in the light of this philosophy that their economic experiment can be seen in its true proportions.

Reduced to its baldest essentials, that philosophy may be stated in the following series of propositions. Every part of the universe is in a state of continual development. This development proceeds by way of an "inner contradiction of opposites," which may be visualised as a sort of internal tension created by the pull of opposing forces at work in every entity or concept. This tension is finally resolved in a new balance of forces, or synthesis, whereupon a fresh pull is set up and the whole business, which is known as the dialectical process, begins all over again. Further, this dialectical process is now a continuous, now a discontinuous affair, each new synthesis being brought about much in the same way as victory in a tug of war. First there

is a long pull by both teams, then suddenly one flops. And it is essentially the same process alike in the physical world, in the world of social organisation and the world of thought. (The quantum theory comes in handy here, the jumpy behaviour of electrons affording an elegant parallel to the epochs of revolution in social history; while the picture is made perfect if we include also the mutations that occur in the animal and vegetable kingdoms.) And, finally, it is a *material* process. It exists in itself, and is in no way dependent on the mind of God (which does not exist at all) or the mind of man, which is, indeed, itself subject to the very same dialectical movement. The most that man can do is to act in accordance with "conscious necessity": to understand the nature of things and fall in with it, instead of trying to kick against the pricks. But this is not to say that the universe is a mechanistic affair, a mere structure of atoms blindly controlled by a balance of forces. It is to be interpreted in terms of growth rather than of equilibrium, to be visualised as an organism rather than as a machine.¹

As applied more particularly to social and political life, dialectical materialism interprets our various forms of social organisation as the result of man's adaptation to his economic environment in accordance with this same law of the interaction of opposites. That environment changes as the processes of production change. First we live under a régime of simple agricultural production; then we have the beginnings of specialised industry carried on, first in the homes of the workers, then in factories built for the purpose; now we have the great industry and the age of steam power, already giving way before the, perhaps even greater, electrical age. And each age in turn throws up the social,

¹ The reader will no doubt remark that this dialectical process, with its vital urge pervading every part of the universe, opens a dangerous opportunity for the re-entry of the God whom the Bolsheviki claim to have so successfully banished from every part of their system. A number of other criticisms could also be directed against their philosophical doctrines (e.g. this conscious acceptance of necessity is a very slippery affair); but this would take us too far afield.

or class, structure appropriate to its methods of production. The capitalist system, for example, could never have done what it has done had it not been accompanied by a form of social organisation, in which a relatively small class of propertied capitalists on the one hand are faced with an enormously much larger class of propertyless proletarians on the other hand, and in which it is the business of the latter to do what the former tell them.

The law of the inner contradiction of opposites appears in social life in the tension between opposing social classes, which grows tighter and tighter until at last a breaking-point is reached, and new social groupings appropriate to a new economic background are formed. So "the history of all hitherto existing society is the history of class struggles. Freeman and slave, patrician and plebeian, lord and serf, guildmaster and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open fight, a fight that each time ended either in a revolutionary reconstitution of society at large or in the common ruin of the contending classes."¹ Further, the whole coercive apparatus of the political State—the military forces, the police, not to mention the noble army of privileged officials—is regarded as merely an instrument by which the class which is on top holds down the class which is underneath. The theories of those social philosophers who look on the State as the caretaker of the common good, as a democratically controlled organisation designed to adjudge the claims of conflicting interests such as are unavoidable in the complex modern world, are dismissed as mere bourgeois vapourings. It is impossible for the State to promote the common good, since in a class-ridden society no good is common. The good of one class is the doom of its opposite. And as for our boasted democracy, that has long ago been effectively disposed of by Marx, when he pointed out that it amounts merely to the right of the oppressed "once every few years to decide which particular representatives

¹ *The Communist Manifesto*, pp. 7 and 8.

of the oppressing class are to represent and repress them in Parliament."¹

Reading history, then, in the light of this philosophy, the Communists see the contemporary world much as follows. On the one hand are the capitalist States. In these the class structure has become greatly simplified in response to the demands of the technique of modern production. "Society as a whole is more and more splitting up into two great hostile camps . . . Bourgeoisie and Proletariat."² The days of the bourgeoisie are, however, numbered; for it is no longer equal to its own job. "In order to oppress a class, certain conditions must be assured to it, under which it can, at least, continue its slavish existence. . . . And here it becomes evident that the bourgeoisie . . . is unfit to rule because it is incompetent to assure an existence to its slave within his slavery, because it cannot help letting him sink into such a state that it has to feed him, instead of being fed by him."³ Hence the capitalist societies are ripe for one of those revolutionary breaks which precede a new orientation of social forces. In the meantime, the increasing tension between the bourgeoisie and proletariat necessitates an enormous extension of the powers of the State. The ruling classes, as they feel themselves less and less secure, must have more and more soldiers and police to maintain law and order (or to provide the excitements of foreign conquests), and more and more bureaucrats to supply the people with the bread and circuses which it is hoped will keep them quiet. The State "swells" as the inner contradiction of opposites becomes unbearable. And presently it will burst.

In the Soviet Union, on the other hand, a later next stage has already been reached. Here the bourgeoisie has been overthrown by the revolution, and the proletariat reigns in

¹ Quoted by Lenin, *The State and Revolution*, p. 90. This pamphlet may usefully be consulted for the whole Communist theory of the State.

² *The Communist Manifesto*, p. 8.

³ *The Communist Manifesto*, pp. 15 and 16. Written by Marx and Engels seventy-five years ago, these words were perhaps somewhat premature. Quoted by the Bolsheviks of to-day, they have a significant aptness.

its stead. The struggle, however, is not yet finished, and for the time being the apparatus of the State must be retained to serve its old purpose of keeping the oppressed classes in their place ; only now, of course, it is the bourgeoisie against whom this force must be directed. This is the phase known as the dictatorship of the proletariat, whose authority is "shared with none else" and relies directly upon the armed force of the masses.¹ As Engels put it : "The proletariat needs the State, not in the interests of liberty, but for the purpose of crushing its opponents" ; on which Lenin embroiders : "We must crush them in order to free humanity from wage slavery ; their resistance must be broken by force."² In this phase, naturally, true democracy, true liberty, true equality cannot be realised ; but in so far as the class that now rules, unlike all its predecessors, rules in the name of the great masses, the Bolsheviks hold that it brings us much nearer to these ideals than ever before. The State is still an instrument of suppression ; but now for the first time it suppresses the few in the interests of the many, not the many in the interests of the few. Incidentally, this makes possible a considerable simplification of the cumbrous machinery of the capitalist State ; for in this new suppression practically everybody can be relied on to take part willingly, and it is therefore no longer necessary to assign such large numbers of persons specially for this duty. "The exploiters are unable, of course, to suppress the people without a most complex machine for performing this duty ; but the *people* can suppress the exploiters even with a very simple machine—almost without any machine at all, without any special apparatus—by the simple *organisation of the armed masses.*"³

The economic organisation to which this phase of social and political development corresponds is a species of State socialism. It was sketched by Lenin in the pamphlet from which I have been quoting, which was written a few months

¹ Lenin, *op. cit.*, p. 30

² *Ibid.*, p. 91.

³ *Ibid.*, p. 93. Italics in the original.

before the Bolshevik Revolution. Its essential characteristics are, first, that the instruments of production are no longer private property; second, that incomes are regulated by the twin principles that "he who does not work, neither shall he eat" (or vote, it may be added), and that for an equal quantity of labour equal payment is made. True Communist justice, which would require observance of the rule, "From each according to his ability, to each according to his needs," is not yet attained.

As is well known, the Bolsheviks have carried this social and political philosophy into practical effect with astonishing faithfulness. They have used the machinery of the State as an instrument of suppression, directing it against the classes that formerly enjoyed a position of economic domination; and if they have not outdone their predecessors in the vigour and effectiveness with which they have thus maintained the rule and the privilege of the now favoured classes, they are second to none in the candour with which they admit that the whole apparatus of law and justice is intended to promote, not the common weal (which cannot be promoted because there is no such thing), but the welfare of the dominant social class. They deprive all persons of whose method of living they disapprove, including the great majority of the socially prominent classes of other countries, first of the right to vote; second, of the right to hold a trade union card, and therewith of the opportunity of getting passably well paid and secure employment; and, third, of the right to be members of a co-operative society and therewith of the chance of buying food and other necessaries at reasonable prices. To protect themselves against any insidious recovery of influence on the part of the dispossessed classes they have instituted the Commissariat of Workers' and Peasants' Inspection, under whose auspices rank-and-file workers all over the country intrude into the shops and offices of all officials from the highest to the lowest, there to examine any books and papers that they fancy, and to pry into the personal lives

of these officials with a view to detecting and stamping upon incipient "bourgeois tendencies." And the Bolsheviks have even the courage to admit that the very justice meted out by their courts makes no pretence of impartiality. A lenient view must be taken of offences committed by proletarians, while the case against persons of bourgeois origin is prejudiced from the outset. Indeed, so frank is the Bolshevik admission of the class character of their whole administration that in all official and legal proceedings persons are required to state their "social origin," just as much as a matter of routine as in other countries it is usual to record particulars of age, sex and marital condition.

As has already been hinted, this drastic régime is intended to be purely temporary. In due course we are promised that, in accordance with the dialectical process, the second stage of Communism will emerge from the first. In this final consummation of Communist society we are promised the disappearance of all class distinctions whatsoever. At last we emerge into the free air of the classless society, in which there is neither proletariat nor bourgeoisie, but only the free and equal company of comrades. It follows, of course, that thereafter the apparatus of the State will be no longer necessary. The State, as Lenin, following Engels, picturesquely expresses it, will now "wither away"; for there is "no one—in the sense of a *class*"—to suppress. True, there may still be need to restrain individual persons. "But . . . for this no special machine, no special instrument of repression is needed. This will be done by the armed nation itself, as simply and as readily as any crowd of civilised people, even in modern society, parts a pair of combatants or does not allow a woman to be outraged." "We do not expect the advent of an order in which the principle of the submission of the minority to the majority will not be observed. But . . . there will vanish all need for force, for the *subjection* of one man to another, of one section of society to another, since people will *grow accustomed* to observing the elementary

conditions of social existence *without force and without subjection.*"¹

If it be asked what is now to happen to the dialectical process and the inner contradiction of opposites, the answer is not, I think, very clear. According to the imaginary Socratov of Professor Hecker's *Moscow Dialogues*, the immanent contradictions remain, but in place of the conflicts of class with class we now have "an endless change of qualitative forms within a classless society."² Otherwise Communism would be static, which is contrary to the laws of the universe as they appear to the dialectical materialist. Presumably this means that the organisation of a Communist society, like other social and economic systems, will change so as to meet the requirements of changes in productive processes. If, for example, as some believe, the substitution of electrical for steam power is destined to make a widespread distribution of small industrial units more economical than the giant factories of the steam age, then great socialised enterprises will give place to small ones, and rural workshops, where only a dozen or so workers are employed, will again be seen. In this case the contradictory opposites would be the big unit, which is in process of being superseded, and the little one which is coming into the limelight. This, however, is only my own guesswork as to what is meant by an "endless change of qualitative forms." The one thing that is quite certain is that, after the present phase of the dictatorship of the proletariat has come to an end, we are to hear nothing more of those contradictions which exhibit the dialectical process in contemporary social life, namely, the conflicts of social classes.

II

I have given some little space to the social philosophy of the Communists because this has an obviously vital influence on the probable future relations of their economic

¹ *Op. cit.*, pp. 85, 93. Italics in original.

² Hecker, *Moscow Dialogues*, p. 187.

system and ours. If those relations were likely wholly, or even mainly, to be governed by a consideration of the rival merits of the two systems, viewed as methods of housing and feeding and clothing and entertaining the people who live under them, we should all have a great deal less to worry about. But in fact, of course, it is just because the Communists associate the planned economy with the social and political doctrines which we have described that the chances of a fair comparison between their system and ours are so small. For these doctrines are highly repulsive to the dominant opinion of the capitalist world.

They are repulsive, for one thing (to begin with what is probably the smallest item in the compound nightmare conjured up by the word Bolshevism), because they are atheistic. The philosophy of the Russian Communist, as we have seen, is completely materialistic. It allows no place for God, or for any worlds which cannot be seen, heard, smelt, touched or tasted, either directly by the human organism, or with the aid of the elaborate machines by which we have extended the power of our senses. And, more than that, the Bolsheviks, not content with abolishing God for themselves, are at pains to ridicule the gods worshipped by non-Communist peoples. In their schools definitely anti-religious propaganda has taken the place of religious instruction, even for the smallest children, while young people are proud to call themselves "militant atheists." All this is very shocking, both to those to whom religion is a genuine and vital thing (and these number more millions, especially of simple people, than is always realised by the left-wing intellectual, whose contacts with the proletariat are generally confined to the minority who think as he does), and also to the vast numbers for whom official recognition of a religion with which they do not personally trouble themselves gives a comforting sense of security; who accordingly demand that their children should be taught a faith in whose dogmas they do not themselves at heart believe, and whose moral precepts they would not themselves dream of obeying; and to whom blasphemy

is doubly blasphemous when it proceeds out of the mouths of babes and sucklings.

But, what is far more fundamental, the present phase of Russian Communist society is repulsive to the Western world because of its deliberate and effective inversion of our class structure. That people of money and position and influence should be shot, persecuted, imprisoned, suffered to go hungry—perhaps, even more, that people accustomed to the refinements of upper-middle class life should suddenly find themselves compelled to sweep the streets, to wear the same clothes at all hours of the day because they have no others, and to share their houses with unwashed and uncultured proletarians—and that this fate should descend suddenly, not only on the few who may be proved guilty of heartlessness and selfish disregard of the obligations of wealth and privilege, but upon whole classes, irrespective of individual merit or demerit—on the generous-hearted liberal as much as on the luxurious wanton—all this is not thinkable in countries where it has not happened. Neither is it thinkable to the comfortable Westerner that such a revolution, once achieved, should be perpetuated by a system under which a working London docker or bus conductor can enter the most sacred precincts of the Bank of England, scrutinise all the books and minutes of meetings housed therein, and publicly criticise, before a delighted audience of his own class, the personal manners or public policy of the Governor.

There are plenty who will, in the literal sense, fight rather than see this "nightmare" come true. Wealth, position, social esteem, the unquestioned rights to enjoy as a matter of course a thousand little luxuries and conveniences of which the vast majority of one's neighbours have never had a moment's use—these are things for which it is generally believed that life itself should be risked. Hence the unreasoning passionate hatred of *everything* to do with Soviet Russia which dominates so large a body of opinion outside that country, and the barely concealed delight of a substantial part of the press in the publication

of reports of privations and actual famine in the Soviet Union.

In view of this attitude we cannot entirely discount the possibility that the future relations of the Russian economic system and the older capitalist order will be determined by actual armed conflict. If the ruling classes of the capitalist nations believe that the security of their familiar social order is seriously threatened by the success, or even by the mere existence, of the Bolshevik régime, they will not hesitate to have recourse to arms to preserve that order from destruction. And it is, unhappily, not impossible that these classes may foresee, as well as see, a menace to their security in the course of events in Russia; in which case they may be tempted themselves to take the initiative and to embark upon what has been quaintly termed a "preventive war"¹ against the dreaded Bolsheviks.

Certainly, the Russians themselves believe with an almost hysterical conviction in the imminence of a war of capitalist aggression against the Soviet Union. It may come as a shock to the Western, and particularly to the English, visitor to that country to find how often he is asked: "What is thought about war in London?" or even: "When do you think, or do they think in London, that the war will be?" If the war does not come from the West, it is still bound to come, the Russians believe, from the East, where the covetous eyes of the Japanese have long been fixed on the wealth and on the great open spaces of Siberia. The severity of this war panic—or neurosis, as it might almost be called—apparently varies from time to time in accordance with the degree of current political tension; but it remains a basic and dominating factor in the whole attitude of the Soviet rulers and of a large part of those in whose name they speak.²

Nor have the Bolsheviks at any time any high opinion of

¹ Presumably because it is supposed to prevent another war at a later date in which the chances of success are less favourably estimated.

² For an admirable account of the war psychology of the Soviet Union see R. D. Charques's booklet, *The Soviets and the Next War*.

what may be called the pacifist ideology. They have no place for either of the two pacifist faiths—that ideas and social systems either cannot, or ought not to, be propagated or defended by force of arms. They believe neither that it is impossible to make people endorse a certain philosophy or accept certain social institutions by fear of physical violence, nor that it is wrong to attempt to produce such acceptance by the use of up-to-date weapons. And, indeed, they would hardly act consistently with their own materialistic philosophy did they give any ground for suspecting that they put their trust rather in the faith that was in them than in the sword that flames in their hand. It is true, indeed, that the Soviet representatives have made noble gestures of pacifism in international disarmament conferences, where they have proposed to the assembled nations of the world programmes of universal and complete disarmament. I do not wish to cast aspersions on the good faith of these magnificent schemes, or to imply that the Russians themselves, had they carried their motion, would have failed to disarm along with the rest of the world. But no project that is laid before an assembly which is known in advance to be quite certain to reject it has much *practical* significance. It may indeed reflect credit on the ideals of those who make it, but it has nothing to do with the world as it is, and throws no light at all on how its most fervent supporters may be expected to behave in relation to that world. I might as well suppose that people would be able to predict my normal behaviour by making a public announcement that if everybody else in London would wear only one shoe I would do the same.

What we do know is that in the meantime, pending the acceptance of their proposals for universal disarmament, the Russians proceed on the principle that, if you wish for peace, you should prepare for war. They are intensely proud of their citizen army. Some months ago a picture in the *Moscow News*¹ showed a row of eager-faced youths, armed with rifles and bayonets, under the legend :

¹ Weekly edition of February 25, 1933.

"Defenders of Socialist Construction." The members of the Young Communist League are trained in the use of arms, and I have myself seen these on occasion borne by girls as well as boys; while the vocabulary of warfare is used to describe practically every aspect of Soviet activity, with its "shock brigades," its "industrial and agricultural fronts" and so on.¹ Displays of military prowess on land or in the air form a conspicuous feature of all the great pageants which the Bolsheviks love to stage on public holidays and revolutionary anniversaries. And while many a gentle-hearted pacifist in England or France, Germany or America, often proclaiming himself a sincere admirer of the Russian Communist experiment, seeks to mitigate the horrors of warfare by prohibition of the use of poisonous gases or aerial bombing, the three United Russian societies—the Society to Aid in Defence, the Friends of Aviation and Chemistry, and the Friends of the Air Fleet—claim 5,000,000 members,² amongst whom they seek to spread knowledge of aeronautics and chemical warfare, as well as practical proficiency in handling rifles and gas masks. Fired no doubt by the memory of capitalist armed intervention in the early days of the Revolution, the Russians do not intend to be caught again. And when all allowance has been made for the apathetic, for the classes definitely hostile to Bolshevik rule, for the cowardly and for the convinced pacifists, I should doubt if it is an exaggeration to say that there are millions of young people in the Soviet Union who are prepared, if not eager, to defend the revolutionary régime at the risk of their lives.

On the other hand, it is no less true that the Bolsheviks have their hands much too full of other matters at the moment to be likely to engage light-heartedly on a first-class

¹ I have even heard of a history lesson in a Soviet school in which the class was divided into two groups described as opposing armies. The members of one army then attacked the other by posing questions. If members of the rival force were unable to supply the correct answers, they were described as "casualties" and sent to "hospital," where with the aid of books and teachers their wounds would be treated.

² Charques, *op. cit.*, p. 47.

war. Their popularity with the classes upon whom they must in the main rely to keep the food supply going is hardly well enough established for them to contemplate with equanimity the reactions of the people to the fresh privations which war would inevitably bring. And there is no doubt that, since the rout of the Trotsky party five years ago, enthusiasm for the cause of the world revolution has materially declined in official Russian circles. Its place has been taken by a species of national Pharisaism, less exalted perhaps, but probably of more promise for the peace of the world. It is the supreme ambition of the Russians to show that their country is not as others are : that with them the masses are happy, prosperous and free. Already they are able to thank themselves and their own philosophy that this ambition is in process of fulfilment ; but they have not reached a degree of success in which they can compel the rest of the world to join unanimously in this chorus of admiration and gratitude. They believe that, sustained by the glorious sense of their superiority to every other people, they are now on the road to the accomplishment of this final triumph. But they know also that unless and until that superiority is founded in absolutely invincible economic and military strength, all these ambitions could be ground in the dust within a week of the outbreak of a first-class war.

There is, therefore, some hope that these (unhappily somewhat negative) influences may suffice to prevent the contest between the planned and the unplanned type of economy being settled by force of arms. If, however, this hope is not realised ; if, for example, the strain of possessing magnificent armaments without opportunity to use them becomes intolerable again, as it has become intolerable before ; or if the factors which now hold in check the warlike impulses of the one side and the other grow weaker, as economic conflict between the two systems becomes increasingly embittered, until the emotions of hatred and fear and missionary zeal prevail over counsels of humanity and prudence—then there is very little more to be said. A

demonstration of the superior killing power of the one or the other type of economic system will add little to the materials available for judging which is better able to provide the means of living ; nor does it seem probable that at the end of such a conflict enough will be left of either system to enable the merits of the conqueror to be effectively displayed before an admiring audience of the vanquished. Let us merely hope that if this is how the issue is to be determined, we shall personally be fortunate enough to be dead before the battle is joined ; and let us count doubly blessed those who leave no children behind to enter upon this ugly heritage.

III

We have next to consider the possibility that, whether as the result of armed conflict with the Russians, or on their own initiative, other States, now living under the capitalist system, will adopt the whole Communist philosophy, with its social and political, as well as its economic, implications. This cannot, I think, happen anywhere without the accompaniment of a revolution, with all its implications in violence and bloodshed. For if those who enjoy wealth, social prestige and the freedom which these confer, will fight to defend their privilege against attack from foreign foes, they will offer no less fierce resistance when these are threatened by the dispossessed among their own countrymen. The mighty do not vacate their seats : they must be put down from them. Well-to-do Englishmen, Frenchmen, Germans, Americans (even those who are only moderately well-to-do) will not submit to change places with the members of their own working class, and make no more ado about it than about moving house from one suburb to another. We have, I think, once and for all to make up our minds that the price of absolute inversion of the social pyramid, or even of its complete levelling, is nothing less than revolution.

A revolution, however, as no Marxian writer ever tires of repeating, can happen only in a revolutionary situation.

And in the making of such a situation there are, I think, four elements, of which three at least are essential. The first is economic distress. The second is provocation, or at least the pursuit of outrageously unpopular policies by the authorities. The third is the existence of an effective revolutionary organisation. The fourth is foreign assistance.

Incidentally, we may recall that the Bolshevik revolution was accomplished in circumstances in which three of these four conditions were highly favourable. First, economic distress was appalling. Second, the war provided the necessary provocation. Indeed, for this purpose there is probably nothing more useful than a long, and not too successful, war. For war touches the lives of every section of the community. It exposes those to whom public affairs are ordinarily a sealed book to acute suffering; and to suffering which is obviously caused by the authorities who make, or permit the continuance of, the war. So the hatred even of the most unpolitically minded becomes focussed against the powers that be, and kindles quickly into a revolutionary flame. And, third, the exiled Social-Democrats had for years been perfecting an effective and disciplined revolutionary organisation. Only the fourth factor—that of foreign assistance—was lacking. In this respect, however, the Bolsheviks had the negative advantage that, while the nations of the world were fully occupied with fighting one another, they were hardly in a position to give much help to the Russian autocracy in dealing with its domestic enemies. And who will say how much the Russian Revolution does not owe to the Germans for facilitating the return of Lenin and his comrades to their own country, in the hope that their revolutionary plots might embarrass the official Russian Government in its conduct of the war?

Foreign assistance, moreover, is the one element in a revolutionary situation which can be dispensed with without fatally endangering the prospects of success. Certainly it is not *at the moment* to be counted upon as an

important aid to revolution in any capitalist country. The only source from which foreign assistance can be looked for by new revolutionary movements is Russia ; and, as we have seen, the Russians have little except words to spare for the encouragement of revolutionaries in other countries. Nevertheless, foreign assistance might be a very material factor in determining the *ultimate* chances of success of a revolution which had good prospects without it. The willingness of the Russians to give material help, particularly in the case of a revolution in any of the countries which are their near neighbours, would probably increase at a rapid rate as that revolution appeared to be marching to success. The Bolsheviks have nothing to throw away on lost causes, but a cause that looks like winning is another matter. Should the German Communists, for example, find themselves in a position to bring about a revolution that is nearly successful, we must not count out the possibility that the Russians might turn "nearly" into "quite."

And, in relation to the other factors in a revolutionary situation, it is clear enough that Germany is the critical spot. There is economic distress, mainly the result of the world-wide breakdown of capitalism, but aggravated more in that country than in any other (with the exception of Austria, which for this purpose may be included with Germany) by politico-economic policies arising out of the war ; for which reason economic troubles are likely to be more intractable in Germany than elsewhere, and a revival of trade cannot be relied upon effectively to obliterate all those troubles, even should history be repeated in the coming of such a revival. There is also acute provocation in Germany ; and there was until recently, although this appears for the time being to have given way pretty completely before the Fascist persecution, a strong Communist organisation.

Without doubt a potentially revolutionary situation exists in Germany. At the moment actual revolution is prevented by the collapse of the Communist organisation. But even if the Hitlerite repression continues to be successful at home, a revolutionary organisation may be built up from

abroad, as was the Russian movement in the days of reaction after the failure of 1905. And the Germans have two great advantages : first, in their native genius for organisation ; and second, in the fact that they have the Russian experience upon which to draw. These must be weighed against the crippling effect of the usual divisions between Social-Democrats of various shades and true Communists—divisions with which the Russians, no less, had to contend right down to the very outbreak of the Bolshevik revolution ; but which are likely to be in some measure narrowed as all sections of socialist thinkers are drawn together by the bond of common persecution.

Revolution in Germany is inhibited at the moment also by the cross-currents in the Fascist reign of terror. The straight class war against the Social-Democratic and Communist section of the working class is complicated both by elements of race prejudice and by the revival of national consciousness which is the result of Germany's long humiliation by the peace terms. In consequence of the latter factor particularly, the Nazi régime finds support from classes which, in not very different circumstances, might have found themselves in the ranks of the Communists. The imagination of young rebels, who might well have raised the banner of revolution against the privileged classes, has instead been fired by the idea of participating in the rebirth of a nation ; and in the circumstances of the moment their vengeful emotions are easily diverted from the domestic capitalist to the foreign oppressor.

Consequently, while the Nazi movement in one sense provides provocation enough and to spare, it has not, as yet, inflamed that widespread popular hatred which is the most likely guarantee of revolutionary risings. And there are classes counting millions of members who may quite reasonably find that movement, at least for a time, to their liking. It must not be forgotten that in pre-revolutionary Russia the absence of any large native middle class made both social structure and class conflict unusually simple. It is quite otherwise in Germany, where the upper working

class, small salariat, and moderate business and professional folk constitute a solid *bloc* of counter-revolutionary ideology. The Hitler régime may not in truth be a movement of the people ; but its strength is drawn from far wider circles than those of a narrow ruling oligarchy.

Where both political and economic conditions are as unstable, however, as they are in Germany, things may change very quickly. The influences which make an immediate Communist revolution appear to be out of the question may well be very much less deeply grounded than the forces making for such an upheaval. And if there should be a successful German Communist revolution in the next few years, two things may be foretold with confidence. First, such a revolution will give opportunity for exploring the possibilities of a planned economic system far beyond the wildest hopes that may legitimately be entertained of the Russian experiment for many years to come. It would indeed be difficult to conceive any people better qualified by native capacity and by industrial, scientific and administrative experience than the Germans to make a success of a planned economy. And second, such a revolution will light the flame of kindred movements, even in distant quarters of the globe where to-day no spark can be detected.

IV

The question may be raised at this point whether the Fascist movement does not offer a complete alternative, economic as well as social and political, both to the old-fashioned type of capitalist society or to the Communist planned system. I do not myself think that it does. Fascism is undoubtedly a movement with definite *social* implications. The Fascist, for example, favours a form of class structure not materially different from that of existing capitalist societies ; and though the Italian blackshirt may extend fraternal greeting to the brown-clad German, Fascism may also be defined as a movement with a national, rather than an international, outlook.

But, viewed from the economic angle, the Fascist movement is little more than a counter-move against Communism. It has flourished only where there has been real danger of a Communist revolution. It was born in Italy in response to spontaneous working-class risings which looked like being the heralds of a big Communist movement. It has only made rapid headway in Germany as the existence of the essential conditions of a revolutionary situation have become more and more ominously clear. It may, I think, be said confidently that, in the absence of such threats to the security of existing systems, no Fascist movement would ever have been heard of. For Fascism represents an attempt to defend an established, not to experiment in the construction of a new, form of society. Whereas Communism stands, as we have seen, for a radical remodelling both of economic and of social structures.

This is true, I think, notwithstanding the elaborate institutions of the Corporative State in Italy, which represent a first attempt to give concrete embodiment to the economic and political ideals of Fascism. In that country, legally recognised associations of employers and of workers are built into the very structure of the State itself. To one recognised association of employers and one of workers in each industry is reserved the right of concluding collective labour contracts, and of acting as official spokesman on all matters touching the respective economic and social interest of the two parties; while, under the electoral law, it is to these associations, not to our geographical constituencies, that the right is given of nominating candidates for election to the Chamber of Deputies. Further, provision is made for the union in each industry of the employers' and the workers' association in a single corporation, whose business it is to look after the welfare of the industry as a whole. And while it is nominally permissible to form associations other than those which are thus recognised by the State, the activities of these bodies are confined to such matters as those touching the education or health of their members, and must not include discussion of any economic

interests which are deemed to be of public importance. Rival associations are therefore hardly likely to be important in practice.¹

But the motives which have inspired the builders of this structure are not far to seek ; especially when we remember that the Corporative State has been evolved during the years that followed recoil from what was believed to be the brink of Communist revolution. The first object is to prevent the possibility of the rise of militant labour organisations. The second is to emphasise in every possible way the common interests of employers and workers. The third is to provide, through the machinery of collective contracts and labour courts, means whereby a fair and open settlement may be made of those matters on which it cannot be pretended that the interests of the two parties are identical.

This theoretically equal partnership of employers and workers does not, however, destroy the essential characteristics of an unplanned capitalist economy. It still remains the business of the employer to employ as and where he thinks most profitable to him : on him the initiative still rests. And it still remains the business of the worker to seek what he thinks will be the most remunerative employment within his reach. The State, or the corporations that it creates, can indeed, as elsewhere, place certain limits on individual freedom of action, and attempt, on occasion, to control the readings of the price mechanism to suit its own designs ; and, under an able and energetic Government like that of Mussolini, these interferences may be carried to considerable lengths as when compulsory reductions are ordered in the rate of interest, or shopkeepers forbidden to charge more than certain maximum prices, or the opening of a new factory made conditional on the Duce's approval. But the Italian State cannot, any more than can the German or the British, impose a comprehensive economic plan and demand its fulfilment ; and if it engages (as it does) in public works, it too is bound by the restriction that it must

¹ For a detailed and sympathetic account of the institutions of the Corporative State see Pitigliani's *Italian Corporative State*.

choose works which fall outside the sphere of ordinary market industry, lest it throw the unplanned system, on which the country still depends for the bulk of its supplies, out of gear. The one peculiar feature which distinguishes the economic structure of the Corporative State from other capitalist economies is the success with which the machinery of the State has been used to side-track trade unions off the road to revolutionary action.

v

We cannot, therefore, I suggest, look to the Fascist movement to produce a new variety of planned economy. The *raison d'être* of that movement is to defend the social privilege enjoyed by the favoured classes of capitalist society, and to fight all revolutionary movements. But that is not to say that the chances of a revival of capitalism are to be wholly discounted the world over. I have already suggested that these chances are very much greater than they are reckoned by many socialists. Everything depends, of course, on the nature of the causes which have brought the capitalist countries to their present *impasse*; wherein lies the justification for the lengthy analysis of those causes attempted in Chapter IV.

The outcome of that analysis, in its bearing on the present problem, may be summarised as follows. First, we have to confess that no explanation of the typical capitalist depression has been put forward which is quite certainly right. There remains an element of doubt in every diagnosis which inevitably makes prognosis also uncertain. Second, while admitting this doubt, we were inclined to locate the trouble partly in the fact that in an unplanned system (except where strict monopolistic control has been established over a whole industry), every producer acts on assumptions which are themselves habitually falsified by similar actions on the part of every other producer. This flaw we found to be inherent in the very nature of the unplanned system. And third, it was suggested that the

blame should be laid partly also upon secondary factors, not themselves integral parts of the structure of the system, and, in particular, upon possible deficiencies in the monetary machine.

Now any inherent flaw in the system, just because it is inherent, is necessarily of very long standing. It is indeed as old as the system itself. And the flaw which we detected has, I think, played a great part in creating the recurring depressions of trade which have chequered the progress of capitalist economies along their whole course towards greater and greater specialisation. But in no previous depression has it proved fatal. On each occasion that the patient has been sick, he has, after a time, recovered his health and strength.

This does not, of course, justify a confident assumption that he is bound to get well from this attack also. But it does suggest that this particular disease is not one which, if wisely treated, is fatal to a patient of good constitution; particularly if we recall that, to drop the metaphor, the recurring depressions of capitalism have been setbacks on an upward course, not stages of a progressive decline. Between each depression and the next there have been notable advances in the level of output and, as a rule, in the standard of living of the people. If doubts are felt whether this is true of our own country in the post-war period (where specially adverse influences may be at work, with which we are not at the moment concerned), we have only to turn to the United States, where capitalism is in many ways most capitalist, for confirmation. They have had fearful depressions in the States, particularly in 1907 and since 1929. But, taking a long view of the economic history of that country, it would be mighty difficult to convince oneself that its inhabitants live under an economic system which is slowly crumbling to pieces. It would certainly seem much more consistent with the facts to argue that they live under a system which has immense potentialities, but which suffers from some defect which puts it periodically out of gear.

The fact, therefore, that there has been recovery before (and more than once, and in more parts of the world than one) is *some* presumption that, given equally favourable conditions, there will be recovery again.¹ Memories are short: experience is limited. For the younger socialists in this country it is particularly difficult to believe that bad times can be succeeded by good, because such a thing has never happened in the course of their lives; but it has happened, all the same, in days gone by, even when things must have looked extraordinarily black at the time. And we know, roughly, the course by which recovery has come about in the past. In industries where the cumulative actions of sellers, each acting in ignorance of what his neighbour is doing, have flooded the market with more stuff than can be sold at remunerative prices, stocks are eventually cleared, and not replaced by the now disheartened and often bankrupt manufacturers. For the smaller quantity of supplies now remaining on the market enough buyers can be found willing to pay a price that satisfies sellers. And at this point the influence of what we have called the secondary factors in a cycle of trade, particularly those concerned with monetary policy, is probably most important. After a sufficient lapse of time it becomes apparent that trade is depressed because nobody is buying. But only two things will make people buy more than they are buying. One is that they should spend money that they previously possessed, but for some reason or other would not hitherto spend. The other is that they should have more money to spend.

At the turn of the tide the monetary authorities begin to look favourably on the latter possibility. They are attracted by the idea of a larger circulation of purchasing power in and out of the pockets of the people. They invent the word

¹ Unless, indeed, we have the courage to believe with Mr. Cole (see *The Intelligent Man's Guide through World Chaos*, pp. 339-343) that, while capitalism has an inherent tendency to disintegrate, it has no corresponding tendency towards recovery, and has only escaped doom in every previous crisis by the timely appearance of a lucky accident. Since, however, Mr. Cole's diagnosis of the disintegrating tendency closely follows that of Mr. Hobson, which, for reasons given in Chapter III, appears to be mistaken, this view need not detain us further.

“ reflation ” to justify action which, under its old name of inflation, they have themselves denounced as the sin against the Holy Ghost. They do what they can to see that people *shall* have more money to spend. They smile on the idea that the business world should be invited to borrow funds for next to nothing. And the business world, writing off by degrees the losses arising from its bad guesses, and for ever casting about for new and better guesses, begins to think that with funds to be had so cheaply there must be a profit in this and that enterprise ; and some of the guesses prove to be right guesses, and that encourages the faint-hearted, and so new enterprises are started, and more wages paid, and the weekly shopping in working-class households becomes a more substantial affair, and that encourages the business world still further.

In other words, *given appropriate monetary policies* (and, without going further into technicalities, it will be apparent that I believe these to be, in the main, expansionist policies), the capitalist system has an inherent power of getting past the periodical choke-ups which arise from the fact that everybody's private plans are made in complete independence of everybody else's. Is there any reason why history should not repeat itself in a fresh demonstration of this power in relation to the present troubles ?

Fundamentally I do not think that there is. It is true that the present depression is of unparalleled severity. That is to be accounted for partly by the fact that, as our standards of living grow more varied and complex, the mistakes arising from faulty anticipations of demand grow more numerous and more severe—a point which has already been touched upon more than once. And partly the severity, and, in particular, the prolongation, of the present depression is to be explained by the fact that it has been treated by extraordinarily silly methods. An illness may be a long way from producing fatal consequences, but no patient will get better if regular doses of poison are administered to him.

Given, however, treatment at least as sensible as that which used to be applied in the old days before the war

(which consisted chiefly in leaving the patient alone), the chances of a return of prosperity in countries where the underlying economic conditions are favourable—which have, in fact, a skilled, resourceful and adaptable population, together with command of abundant resources of the kind that are useful in modern industry—are pretty good. If it is true that increasing specialisation makes the economic machine more and more delicate and complicated, it is also true that far greater efforts are being made than ever before to acquire full understanding and mastery of its works. I have already suggested that if we could devise a satisfactory monetary system three-quarters of the battle would be won, and that such an achievement hardly seems beyond the possibilities of human intelligence. And socialists must not forget that a recovery of capitalist industry is passionately desired by millions in all classes of society all the world over outside Russia. Such a revival is not the kind of thing which will not happen because nobody thinks it worth bothering to try and make it happen. If it fails to happen, it will be because the best efforts that can be used to make it do so have failed ; whether because people are too stupid to see all round the problem, or because they are too small-minded to perceive that a job which everybody leaves to everybody else to begin never gets begun at all.

In this connection all eyes will be turned to watch the course of events in the next few years in the United States. There, certainly, the underlying economic conditions are about as favourable as they can be in any single political unit in the modern world. There opinion is strongly in favour of expansionist monetary policies ; and there, also, enthusiasm for radical socialist experiments is comparatively little developed. To me, at least, it is difficult to believe¹ that the vigorous and gifted inhabitants of that country will not again make at least as good a success as they have done in the past of the fundamentally simple business of exchanging the products of their various activities to their mutual advantage.

¹ Subject only to the reservation mentioned on p. 254.

VI

It will be observed that in this estimate of the prospects of fresh Communist revolutions on the one hand, and of the recovery of capitalist prosperity on the other hand, I have so far discussed the fortunes of individual countries almost as though they were wholly independent of one another ; and in particular have said nothing of the part played by such international complications as tariff policies, war debts, reparations and so forth, which often loom in the public imagination as the prime causes of the present tragic-ridiculous plight of capitalist society.

There are two closely connected reasons for this. The first is that I doubt if the influence of all the economic stupidities of which politicians are guilty is anything like so important a cause of the present choke-up as an unhappy public, eagerly searching for a scapegoat, is ready to believe. The first causes of that collapse are, if the analysis of Chapter III is correct, to be found in the structure of the system itself, and in certain defective parts, which were defective long before the war, and made a deal of mischief before any of the present generation was born. It is important not to overlook the similarities between the present depression and its predecessors, as, in well-justified disgust at the idiocies of contemporary policies, we may easily be tempted to do.

One very simple fact should serve to discredit the view that the war and the payment of war debts and reparations are the chief cause of all our troubles. That is the fact that these troubles did not begin until the latter part of the year 1929 ; and that for five years previously the greater part of the world, including the principal countries of Europe as well as the United States of America, enjoyed an increase in wealth, which, judged by the previous attainment of the capitalist system, was quite remarkable.¹ It is true that we in this country were almost entirely left out of these

¹ For a good account of this period of prosperity see Mr. Loveday's *Britain and World Trade*.

pleasures, chiefly because it so happened that nobody wanted to buy the particular kind of things which we had always thought it was our business to sell. Ever since the end of the short post-armistice boom, we British have been, in fact, a rather lamentable illustration of one of those mistakes which are always liable to be made in the ticklish business of supplying a fickle world, which does not announce in advance what its fancies are going to be. But that should not blind us to the fact that other people were doing a great deal better than we were.

It is very difficult to believe that, if the stupidities of the war, the treaties and the financial settlements made under the treaties and afterwards, are the cause of the present choke-up, they should have been so slow in bringing their sinister fruit to maturity. And it is particularly difficult to understand why in that case the depression should have fallen with such extreme severity upon the United States of America, since that country has been relatively little concerned in these affairs. It may be useful to remind ourselves that the sums due from America's debtors under the various settlements, amounted only to 214,807,000 dollars, or approximately £44 millions in the year 1928-9,¹ whereas her imports of merchandise for domestic consumption in 1929 were valued at £891.4 millions, and her exports to other countries at £1,059.6 millions. These figures do not justify the fearsome pictures that have been drawn of the American market being "flooded with goods," and her banks drowned in seas of gold pressed on her by frantic debtors. The additional imports of goods or gold which must have found their way on to the American market as payment of debts due in consequence of the war were, after all, relatively modest in amount. Certainly, if her economic system had been otherwise in good order, they should have been digested easily enough and not reduced her to a state of severe dyspeptic prostration. In the case of Germany

¹ See Supplement to the *Economist* of November 12, 1932, on "War Debts"; and *Statistical Tables relating to British and Foreign Trade and Industry*, Cmd. 3737, 1930.

alone, perhaps, can it be said that payments to foreign creditors have been a factor of the first importance in causing a breakdown. The annuities payable by Germany to her creditors under the Dawes scheme were fixed at £50 million (gold) for 1924-5 (the year in which the scheme was adopted), rising to a maximum of £125 million in 1929, at which figure they were (subject to variation—upwards and downwards—in accordance with fluctuations in the value of gold, and—upwards only—in accordance with the estimated prosperity of the country) presumably to remain until the end of time. These are comparatively large sums. Germany's total exports in the year 1929 were valued at £659.9 million; so that the sums due to her creditors under the Dawes scheme amounted to nearly one-fifth of the total value of her exports of merchandise. Even so, I would not like to say that the Germans might not have accomplished even these payments in happier circumstances.

The second reason for ascribing comparatively small importance to what may be called incidental factors in the making of the present world depression is that the really dangerous trend in contemporary policies has manifested itself after, rather than before, the depression settled upon us. In Chapter III it was pointed out that in every unplanned economic system a certain centrifugal force is always at work, making the interest of the individual and the section pull counter to the interest of the whole. This force, it must be added, extends beyond national boundaries. Just as it is to the interest of every shoemaker in this country that I should buy the scantiest workmanship from him at the highest possible price, so do all British shoemakers unite together to persuade me to buy expensive British shoes instead of cheap Czechoslovakian sandals. This is, of course, the chief factor which is at work in the creation of tariff systems and import prohibitions. While we may each and all attempt to persuade ourselves that our own tariff is scientifically framed with a view to encouraging the development of those industries which are most conducive to our own national welfare, the truth is that every tariff

in the world has been shaped in greater degree by the pulls of rival interests than by any other single factor.

Now the last century and a half has seen, on the one hand, an enormous increase in the volume of international trade between different parts of the world, and, along with this, a corresponding increase in the complexity of the national tariffs which are intended to restrict and divert that trade. Built up, nominally, in deference to large ideas of national self-sufficiency or of maintaining an appropriate balance between agriculture and industry, or of encouraging lusty infant industries, these tariffs represent in truth the success with which butchers and bakers and candlestick-makers have from time to time made it appear to their Governments that the part is greater than the whole. Mostly such tariffs are, from an economic point of view, tiresome and wasteful; but they have not, if we take a long view, been so tiresome and wasteful as to prevent a spectacular growth in the trade between nations. And there have always been tariffs, and high tariffs, even in what we should consider some of the healthiest phases in the history of capitalist countries. Even the creation of new States after the war, and the zeal with which these youngsters set out to show that they could be as exclusive as their elders, did not prevent the relative prosperity of 1924-9; although these factors did impel the League of Nations to hold an expensive and practically fruitless Economic Conference at Geneva in 1927, at which representatives of nearly all the protectionist countries of the world outdid one another in their recital of free trade platitudes.

But it is in the years *since* the onset of the world economic depression that the economic nationalism, of which high tariffs are one expression, has reached the point at which it may fairly be described as mania. This is the period in which we have all been worried to death by alarming statements about the adverse balance of trade, by which is meant that more goods come into the country than go out of it—on the face of it, one would have thought, ground rather for congratulation than for lamentation! This is the

period in which the British and the Germans and the Americans and the rest of them have, all and severally, decided that the road to prosperity is to insist that everybody should buy British or German or American goods only, and on no account anything made by anybody else. This is the period in which not merely have tariffs been violently increased, as in America in 1930, but a host of new devices has been invented to assist in playing the difficult game in which it is everybody's business to sell and nobody's business to buy; in which high duties on articles imported from abroad have been supplemented by total prohibitions on import; in which Governments have tried to make it impossible for us to buy foreign goods, not merely by keeping the actual stuff out of the country, but by forbidding the banks to let us have foreign currency with which to pay for it; in which, if one country does consent, as a great favour, to accept some of another country's produce, it is only on condition that the selling country undertakes promptly to buy back in its turn a given quota of goods from the people who are kind enough to make such a concession; as for example, under the recent trade agreement between Great Britain and Denmark in which the Danes have had to promise that they will buy 80 per cent of their coal from us instead of getting much of it, as they previously found convenient, from the Germans or the Poles.¹

Now the worst of these excesses came too late to be cited as the causes of the capitalist crisis. But they are clearly anything but conducive to recovery. Any single unplanned economy can flourish only so long as the centrifugal force, which at all times threatens its disintegration, is held in check; so long, that is, as most of us take the risk of doing what it would be a good thing for everybody else to do, on the chance that other people will be equally adventurous. But if, as soon as anything puts the works out of order, we decide that the way to put them right is to reverse this policy, and actually to encourage everybody to do as

¹ See article in the *Economist*, May 6, 1933.

little work as possible for as much money as possible, then patently it is not much use looking for recovery. And the picture is of course substantially the same if it is enlarged to show the relations between countries instead of between individuals. Indeed we may say that the chances of a revival of capitalism of the older type depend as much as anything on the degree to which, nationally and internationally, those policies are renounced which seek to promote the interest of the part without regard to the effect on the whole; which attempt to gain for those who endorse them the advantage of being the exception, without regard to the fact that where all are exceptions the exception becomes the rule. And this in turn depends as much as anything upon the chances that the mentality which informed the palmy days of capitalism, and was mainly responsible for its achievements, will again be restored.

At the moment that mentality seems to have been destroyed with astonishing completeness. The view that everybody's work makes everybody else poorer has probably never been more firmly and universally held. Belief in the absolute limitation of all markets is becoming an axiom alike in the business world, among the politicians and in labour circles. Dramatic pictures are drawn of the rapid recent increase of productive power in this and that industry all over the world. We are told that "in 1913 it took 1,260 men-hours to construct a motor-car, in 1925 only 220"; that a single American collar factory can produce three collars a year for every American¹; and the inference is that we are indeed heading for destruction. The experience of the past, in which the continual cheapening of products by more efficient and rapid methods of production in unplanned economies has brought them within reach of wider and wider circles, and provided a living for populations that increased at a rate unparalleled in the history of the world, appears to have been entirely forgotten. Nobody any longer gives anything for the old-fashioned doctrine that each man's product itself makes a

¹ Hausleiter, *The Machine Unchained*, p. 183.

market for the product of others ; that in the very cheapening of goods brought about by machine production lies the answer to the question : How shall we dispose of this growing output ? Yet a century ago similar pictures might well have been, and indeed were, drawn of the limitless potentialities of production, almost as staggering for their time as is the capacity of modern machinery for our day. Relatively speaking the problem of marketing must have appeared no less insoluble to our great-grandfathers than it does to us. Yet we know that that problem has, on a long view, solved itself—even in a world of unplanned economies—not, indeed, smoothly and continuously, but by fits and starts, interrupted by periods of congestion such as that which strangles progress to-day. It has solved itself because the fact that every man's work makes somebody else richer has dominated over the belief that it makes everybody else poorer ; with the result that power of consumption, except during temporary crises when the interchange of goods is held up, as to-day, because buyer and seller cannot come to terms about a price of sale satisfactory to both, has shown itself able to keep pace with power of production.

If, therefore, public opinion and public policy alike continue to be used to bolster up the centrifugal force which is at all times a potential menace to an unplanned economy, then a recovery from the present depression may be indefinitely delayed even where conditions are otherwise favourable to it. If every nation continues to regard the wealth of every other nation as an infectious plague from which it must at all costs be isolated by impregnable tariff walls, prohibitions of import, or, at least, severely restricted quotas, then the recuperative power, which I have suggested is inherent in an unplanned system, may be effectively squashed into nothingness. Even the incipient revival in the United States, where the underlying economic conditions are particularly favourable, may yet be undone by policies based on paradoxical economics. The cherished recipe of the Americans for creating abundance for all,

by uniting employers in a nation-wide (but voluntary!) movement to pay more money for less work, may prove too strong for the digestion even of that stalwart community.

Moreover, we have to face the fact that even should there be a revival of industry in some at least of the unplanned economies, the danger of further breakdowns at a later date will not be removed unless and until economic science and art advance sufficiently to put right the defective parts of the machine. I have suggested earlier that this latter possibility is by no means to be ruled out. Research and business experience, particularly if there is close contact between them, may, for example, improve existing monetary systems out of all recognition. We should keep a due historical perspective, and remember that we, with our paper notes backed by mysterious ratios, have travelled a long road since the days when large and small payments alike had to be met by weighing coins of doubtful standard in a pair of scales; and that it is unreasonable, even if tempting, to suppose that the road goes no further, and that nobody who comes after can have anything to add to the sum of wisdom which is already ours. But at the moment we are bound to admit that, so far as present knowledge goes, the liability of all unplanned economies to tumble into these tragi-ridiculous *impasses* remains.

And to this we have, of course, to add that, in accordance with the argument of Chapter IV, mere avoidance of these pitiable exhibitions does not of itself constitute full economic efficiency. An unplanned economy, in which everybody had something to do and all plant was put to some use, might still exhibit in every sphere of activity faithful adherence to the professor's supposed motto: "As little history as possible for as much money as possible."

VII

Against all the possibilities outlined above there is much to be said. Nothing is more ghastly than the prospect of a war between the capitalist and Communist countries. A

complete repetition in other countries of the Russian Communist revolution, social and economic, can be contemplated with equanimity only by those who esteem a cause otherwise than in terms of the personal happiness of individual human lives : who, in particular, can steel their hearts completely to the effect of their heroic schemes upon the millions that make up the bulk of every nation—ordinary men, and, perhaps still more, ordinary women, who wish to lead their personal lives in their own way, and take society for granted without a thought, simply as the background of these lives. And a revival of industrial activity along the old lines of the unplanned economies leaves us with, at the best, an instrument of second- or third-class efficiency.

Can we hope that, alternatively, there might be fashioned either from the present social and economic order in the Soviet Union, or in some one of the non-Communist countries, an efficient economic system in the setting of a just and humane social order? The Russians, to take their prospects first, have, I believe, a unique opportunity, if they care to seize it, of creating such a structure. The planned economic system which they are in process of building has undoubtedly great potentialities. Wisely operated, it has, as we have seen, the power to steer clear at least of the cruder and more obviously deplorable disasters into which an unplanned economy habitually runs. If we have to admit that any criterion of full economic efficiency is highly elusive, then the next best thing to a certain achievement of such efficiency, is to avoid forms of inefficiency which are unmistakable judged by *any* criterion ; and which in particular, since they undermine self-respect, are the cause of acute mental distress. And a planned economy, if it cannot be sure of making the most economical use of all the human and material resources at its disposal, has, at least, a far better chance than an unplanned of finding *some* use for those resources which is reasonably satisfying to those who depend upon it for their living.

It is true, of course, that full realisation of the possibilities of the Russian *economic* system must be a long way off. The experiment of a planned economy is being tried in a country where almost the only favourable economic factor is the presence of abundant and varied natural resources, and where the two essential conditions of a people skilled alike in industry and in administration are most conspicuously absent. Even the most ambitious projects of the first Five Year Plan did not seek to place the Soviet Union on an equality with the leading capitalist industrial nations, except in one or two industries. Even after the heroic efforts of these years, by which the Russians aimed to raise their electrical capacity from 11½ to 42½ thousand million kilowatt hours, they are still far behind Germany with her total of 60½ thousand million; and that too, although, in accordance with Lenin's slogan "Socialism = Soviet power plus electrification," it is to electrical development that they give pride of place in their schemes. True, the Russians think in majestic terms. If they build a tractor plant or a blast furnace, they aim to make it the largest of its kind in the world; but it needs more of these giants than can be built in a day to outstrip the hosts of similar units, individually smaller perhaps, but with far larger aggregate capacity, already standing in countries that have long been exploiting the industrial field. Hence many years must pass before the superior possibilities of a planned economy can be demonstrated to those who believe only what they see. It is indeed most unlikely that even the second Five Year Plan will bring the Russian standard of living up to that even of the Germans of 1928, let alone the Americans of the same date. But the consequences that arise from the particular background in which the planned system is being tried out must not, of course, be confused with the effects and possibilities of the system itself. And of these last we have seen cause to take an optimistic view.

And we may, I think, be quite sure that the Russians, at least so far as industry is concerned, will go on trying to get the most out of their planned system. In view of the events

of the past year¹ it is not so certain indeed that they will keep up the unequal struggle to establish a similar system for agriculture. But it can hardly be doubted that in industry and in commerce there will be no return to freedom of private enterprise as far ahead as we can see. Indeed it seems most unlikely that such a return will ever take place unless the Soviet system is overthrown by force of foreign arms ; least of all is it to be anticipated if the promised rise in the standard of living comes at last to be enjoyed by the mass of the people.

Can we predict with equal confidence the future of the social and political system which the Russians themselves regard as an integral part of the whole Communist order ? Here it seems to me that we have to reckon with more uncertain factors. Much depends on what the rulers of the country want to do ; on the type of social order that in their hearts they believe to be just and proper. To defend their present social structure, with its effective inversion of the social pyramid commonly found in capitalist countries, is difficult indeed ; unless on grounds of necessity, or with the plea that, if there must be social tyranny, it is better that many should tyrannise over few rather than that few should tyrannise over many ; though to those who take the view that to enjoy privilege which has no plain and accepted justification is a more damaging experience than to be shut out from it, even this defence will be without validity. Particularly repugnant is the notion that a man should be publicly and officially branded by his social origin as with an indelible stain of dishonour ; that this should be taken into account against him if he is charged in a court of law ; that it should render him liable to imprisonment, deportation or sudden death ; or that it should be made ground for depriving his children of educational opportunities irrespective of their ability to profit from these. Anyone who reads the violent invective directed by the prosecution against the accused at the "wreckers' trial" in Moscow in 1933, and the prominence given to particulars of the

¹ See p. 87.

defendants' social origin in the official indictment, will see that this forcible inversion of the pyramid is still very much of a reality in the Soviet Union.

But there is no reason on earth why this state of affairs should continue for ever, unless it satisfies the people who live under it. It is in no way a permanent and necessary part of a planned economic system. It is a legacy of revolution; and if it is true that a planned economy which is begotten of revolution cannot, in its early days, survive without the aid of such a social system, it is equally true that there comes a time in its life when survival may well be impossible unless these swaddling clothes are stripped away. The persecution of the bourgeoisie swept into the same net traders, manufacturers, professors, scientists—the whole stiff-collar world. And therewith it swept away, as the Bolsheviks were to realise before long, a mass of administrative and technical ability with which they could ill dispense. Already we have seen that economic necessity has compelled the Soviet leaders to give considerable economic privileges to persons with knowledge and ability of a type valuable to their plans. Even in the early days they were obliged to staff their army with officers who had served under the old régime. But they have done, and still do, their best to prevent the fact of employment in specially responsible positions, or the enjoyment of economic advantages not accorded to less skilled workers, from carrying with it social prestige. By the continual prying of the representatives of the Commissariat of Workers' and Peasants' Inspection; by the appointment of commissars of proved loyalty to the Communist State to keep close personal watch upon every ex-Tsarist officer; and by giving weight to political merit as well as technical qualifications in making all important appointments, the Bolsheviks still remind the non-proletarian that he exists only on sufferance.

For the continuation of this system up till the present time, two factors in part may be cited as particularly responsible. The first is the genuine danger of sabotage from those who have not accepted the principles of the new order,

and who in their hearts desire nothing so much as its undoing. If this will never be wholly extinguished (there must, one would hope and believe, always be some rebels left to protest against any form of society), it is bound to become less and less important with the lapse of time—as the number of those who can look back on bygone days of privilege and social prestige continually diminishes. The second reason is rooted in the unfortunate psychological correlation which appears to exist between hatred and fear on the one hand and social enthusiasm on the other. The Soviet rulers appreciate the advantage of a bogey-man as a means of stimulating the zeal of the people for their plans. Here, perhaps, we touch upon a more deep-seated trouble.¹ But there is still this to be said : there are more ways of satisfying the need for a bogey-man than by the persecution of whole social classes irrespective of the merit or demerit of the individuals of whom they are composed. And it is not unreasonable to suppose that, as and when the planned economy proves itself increasingly effective and productive, the need for the bogey will itself disappear. It is particularly to excuse the failures of their schemes and the non-fulfilment of their promises that the Bolsheviks are driven to encourage heresy hunts and *kulak* hunts and bourgeois hunts.

Certainly, apart from these two factors, there is no reason at all why the present Russian social system should not evolve into something far less rigid and harsh ; provided always that the Russians themselves desire that it should do so. And indeed one is glad to detect already signs of some relaxation. Mr. Maurice Hindus tells us² that many ex-business men are regaining their citizenship ; and the return of the intelligentsia to public life, even if it is as cautious and guarded as the welcome that awaits them, is significant. But one thing is essential before the Russian social system can be regarded as anything but an unjust and arbitrary tyranny : that is, that all records of social origin should be completely and finally deleted. The needs of efficient government may require a census to be kept of the occupations

¹ See below, pp. 334 ff.

² *The Great Offense*, p. 50.

of the people. But there is no excuse for further classifying these occupations in accordance with some arbitrary social scale. And the erasure of all particulars of social origin must carry with it as consequence the removal of all the disabilities now imposed upon the bourgeois and, still more emphatically, of those that shut out his children from the common heritage.

VIII

If this measure comes, it seems likely that the social structure of the Soviet Union may develop somewhat along the following lines. There will still be differences in income as between different occupational groups ; and the advantage will be with the person whose work is more responsible or requires greater technical knowledge. The manager will get more than the men who work under him, the research worker more than the laboratory assistant who washes his bottles. The order of priority in income of different salaried callings will, in fact, come to correspond fairly closely to that to which we are accustomed in capitalist countries. But the differences between one group and another are likely to be very much less than with us. The reasons for this, already mentioned in another context,¹ are two. First, the abolition of incomes derived from successful business or financial enterprise will greatly lower the standard of expectation of persons even in the most influential posts of all.² It is the alternative opportunities open to its members

¹ See pp. 166, 167.

² The student of economics may protest that the incomes of business people are determined in an unplanned economy by fundamentally the same process as that which fixes the wage or salary of an employed person. Sir William Morris has acquired the income that he has acquired because he has been able to make the public who buy his cars pay him that income ; and, in the paying of it, that public have implicitly admitted that they think that he is worth it. In exactly the same way the receipt of any wage or salary is evidence that the employer who pays that wage or salary thinks the recipient worth it. Hence it might be argued that the exceptional people who get spectacular incomes in a capitalist economy will, just because they are so exceptional, be able to stand out for a similar price when they

which determine all along the scale the price which any particular group can get for its services. And, second, the establishment of equality of educational opportunity will materially reduce the monopoly enjoyed in capitalist countries by persons in professions for which a long training is necessary.¹ It is, I think, true, that at all levels the standard of human competence yet attained is surprisingly low. There are very few people who do the simplest jobs really well. But there is no doubt whatever that the number who could

are employed under a planned system ; that in each case they are only getting what their services are worth to those who use those services. But it has to be remembered that the working of economic laws is conditioned by the background in which they function. And here the fact that the earnings of an employed person are determined by a definite contract is all-important. Spectacular business incomes are paid by the public indirectly through the prices of goods which they purchase. They have no idea what the price which they pay for a motor-car is ultimately going to mean, in terms of personal income, to the head of the firm. It is another matter to say that if they were asked beforehand to agree to pay Sir William Morris a salary on the scale of his income during his more prosperous years, they would agree to the proposal ; or that, in a world where it was not open to him to engage in business on his own account, he would refuse to offer his services for less than this figure. And it has to be remembered, further, that into those very large incomes which pass sometimes as the reward of "rare natural ability" there must enter, in an unplanned economy, a large element of luck. One stroke of good luck (e.g. success in raising capital or making a correct anticipation of public demand at a crucial moment) must have been the turning-point in the career of many a captain of industry who would otherwise have been fated to die unseen. Others, no less capable, in the sense that their proportion of correct to mistaken forecasts was equally high, have remained for ever poor and obscure merely because their mistakes fell at critical moments. But in the planned economy the corporation pays its servants only for their services, and itself both pockets the gifts of good fortune and bears the blows of fate. In these circumstances luck can add nothing to a man's income unless he is fortunate enough to be employed by a corporation which rates his abilities (or rated them, when the terms of his employment were settled) as greater than they are.

¹ It may be remarked in passing that the Soviet planned economy may also reveal that the length of this period has in many professions been extended far beyond what is necessary, in order to strengthen the monopoly of those already qualified, or to provide work for those whose job it is to train new entrants. At the moment, in their desperate need for qualified workers, the Russians have gone to the other extreme and have to be content with the sketchiest training ; but, even in easier circumstances, they may be well advised to eliminate a great part of the long and arid training of many Western university courses.

do more difficult and responsible jobs *at least as well as they are now done* is enormously much greater than appears under our restricted and unequal educational system. There are very few excellent doctors ; very few excellent engineers ; but there are plenty of men and women who, if they had a chance to go through the necessary training, could acquit themselves quite as creditably as the doctors and engineers who now command disproportionately high salaries by reason of their comparative monopoly.

Differences in income spell differences in ways of living and in tastes ; and those who have common tastes and common ways of living are apt to associate with one another. Does this mean that the reappearance of an income scale which resembles that of Western countries in the principle, though not in the magnitude, of its grading, will, in its turn, lead to the reappearance of anything like the social structure of those countries ? Will the white-collars again come to look down on the no-collars, and those who wield the pen again despise those who are masters of the spanner ? And still more important, will the dirty hands in their turn come to look up to the clean hands, to address them in terms of special respect, and to accept as natural their own exclusion from all ordinary social intercourse with these superior persons ?

There is, I think, some danger of such a reconstruction of social castes. To estimate this we need to define more precisely the difference between income distinctions and distinctions of social class arising therefrom. Higher incomes may be paid for the possession of some *specific* knowledge or ability. They can be justified only in so far as the amount of such knowledge or ability which any individual possesses can be fairly closely measured ; his record, in that specific matter, being compared with the record of others, and his money earnings adjusted to the result. Now, higher incomes paid in respect of such superior specific qualities imply in principle no right on the part of the recipient to regard himself, or to be regarded by others, as *generally* superior to his fellows. Distinctions of class on the other hand

represent a pretended grading of human beings *as such*—a comparative estimate of individual human values. But such a grading can have no foundation in nature or in reason. No general standard of value exists by which a clever knave may be weighed against a righteous fool, or physical prowess fairly matched against mental dullness. In ultimate valuations we have to fall back on the rule that a human being is a human being ; as do even capitalist communities in crises of life and death, when the niceties of social status are overlooked in determining the order of precedence of rescue from fire or shipwreck.

Yet this profound distinction between specific and general superiority is in practice all too easily blurred. A man has money because he is a clever engineer. Because he has money, he has a large house and a bathroom in which he baths every day, and three-course dinners every evening. He goes abroad when he wants to, and he buys the books that he wants to read, instead of waiting his turn for them at the library. And because he baths and dines and travels and reads so lavishly, he must be a fine sort of a man. So runs the slippery argument. Most of us, alas ! are prone to believe that it is ourselves and not our opportunities that make us the admirable persons that we so evidently are ; and to demand respect, accordingly, for qualities which at best are the result of our exceptional good fortune. And the ease with which we impose this view on others suggests that the veneration of the have-nots for the haves is in tune with some profound instinctive trait in human character. Once, therefore, differences of income are admitted, the danger that the natural social grouping of those who have common tastes and ways of living will pass into an unnatural social grading is always round the corner.

For this reason it is much to be hoped that, even should the Russians relax their fierce repression of the now unpopular social classes, they will not lightly abandon their institution of Workers' and Peasants' Inspection. Undoubtedly the price of this meddlesome interference of the rank and file into affairs of which they must, in ninety-nine cases

out of a hundred, understand nothing at all, is a considerable sacrifice of efficiency. But, even at that price, it may be argued that the safeguard which this affords against the odious vulgarities of class distinctions is well worth having. For those who are accustomed by the nature of their work to give commands, or are divorced from the crude physical realities of farm and mine and factory, what can be more salutary than some such direct personal reminder that they are no better than their fellows? The official intrusion of those who perform the simplest, the dirtiest or the most tedious jobs into the secret places of those whose work is skilled, responsible and interesting (and paid for as such) provides a means of contact between the one group and the other that might never be established in any other way; and it makes at the same time a magnificent assertion that none shall judge the one superior to the other. Nor is it unreasonable to hope that, as the standard of proletarian education rises, the price of this intrusion, even in terms of economic efficiency, may be gradually diminished. The better educated the rank and file become, the more will they realise and respect the province of the expert; the less will such criticisms as they make be directed to technical matters, on which their opinion is valueless, and the more to human issues on which their judgment stands equal with that of others—on which those, upon whom their inspections descend, are no better qualified to pronounce than they; the more, in fact, will they concern themselves, not with the currency policy of the central bank, or the rotation of crops on a collective farm, but with the detection of those signs of personal ostentation and arrogance on the one hand, and of subservience on the other, which mark the insidious growth of class distinctions.

It will be seen that the type of social structure which I have sketched above is nearly but not quite the equalitarian classless society which the Russian Communists themselves believe will presently emerge from the Soviet experiment. On the economic side, it stops short of their slogan: "From each according to his ability, and to each according

to his needs." And I have admitted, if with reluctance, that it does not obviate once and for all the danger that some measure of class distinction may eventually reappear; though I have at the same time tried to indicate measures by which this disagreeable possibility may at least in some degree be avoided. But to those (among whom I would count myself) who still hanker after the ideal of complete social equality, I would commend the following reflection. Such modified inequality as I have suggested has at least a certain natural justification. The stock argument against all proposals for social or economic equality is that men are not, and never will be, born equal. True, they are not, at least in respect of those particular qualities which are capable of even approximate measurement. But the range of differences between one man and another in specific physical qualities, or indeed in any measurable characteristics, is closely limited. It bears no comparison with the range of difference between the top and the bottom end of the income scale of capitalist communities. In a group of adult men some may be 10 per cent or 20 per cent taller than another, or may score twice or three times as many marks in an intelligence test. But nature does not recognise differences of the order of a hundredfold and a thousandfold between members of the same species. If the differences between incomes were restricted within the same limits as the differences between one man and another in specific measurable qualities, our typical violent contrasts of wealth and poverty would be immediately blotted out, and we should be left with a picture, which, if it did not portray absolute equality, could yet show some rational ground for its limited departures from that happy condition.

We have certainly to face the possibility that some such measure of inequality will prove to be an ultimately necessary condition of the stability of large and complex societies. On this I should not like to dogmatise, or to count out the possibility of true equality without due cause. But we have, I think, to appreciate the force in the argument that equality is not a natural condition, and that the

strain of maintaining it artificially may prove too heavy for any society that we can construct. We have already remarked that the maintenance of economic and social equality implies definitely and deliberately weighting the scales in favour of the weak, the unfortunate and the incompetent—to whom the slackers must also be added.¹ Ordinarily civilised folk can readily accustom themselves to the idea that the first two groups have special claims. But that this generosity should be extended to include also the incompetent and the shirkers postulates a degree of civilisation seldom attained.

IX

Turning now from the social and economic to the political chapters in Russian Soviet philosophy, we may express far graver doubts whether the withering away of the State, sketched by Engels and Lenin, is destined to become more than a beautiful dream. It may be admitted that a considerable part of the business of the State in a non-Communist society consists in enacting and enforcing laws which are conceived in the interest of the dominant social and economic classes ; though it would be mighty difficult, and increasingly difficult, to make the whole of the legislation of progressive modern States fit into this category ; to say, for example, that laws requiring the medical inspection of children in elementary schools, or forbidding the destruction of wild flowers, or limiting the hours of work in dangerous trades, or a thousand and one others, have no object save that of enabling the well-to-do more effectively to oppress and exploit the poor. But, even when the widest possible allowance has been made for the class character of State activity in capitalist societies, to argue that because the State machine is necessary in order to uphold the class structure of a class-ridden society, therefore a community which knew no classes would hold together without any similar framework, is not good logic. Lenin

¹ See p. 106.

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admits that the compulsion of recalcitrant individuals would still be necessary even after all class distinctions have been done away ; but in supposing that this will be satisfactorily performed by the nation itself as " any crowd of civilised people . . . parts a pair of combatants or does not allow a woman to be outraged," he is surely bestowing upon primitive mob justice a dignity which it hardly deserves.

Rather, surely, is it true that the development of a Communist society imposes upon every man and woman an enormous mass of social obligations unknown to the world of individualism. Even in capitalist societies, legislation of the type that I have just quoted indicates the gradual recognition of new obligations which the public interest demands should be observed. And the establishment of a planned Communist society multiplies these enormously. Already the Russian criminal codes, with their sabotage, counter-revolutionary activity and so forth, have invented a host of crimes unknown to the courts of capitalism ; and not all of these can be dismissed as measures of social defence necessary to the transitional period in which only the dictatorship of the proletariat, not full Communism, has been established.¹ To contribute your best to the national output is not, in times of peace, one of the duties imposed by the State on its members in un-planned economies ; and the capitalist State is therefore relieved from the onerous task of hunting out and punishing those who evade this task. But it is of the essence of Communism, even in its most perfect form, to demand from

¹ This fact might profitably be borne in mind in view of the loud applause often given to the Soviet judicial and penal system. It is true that the Russians make prison sentences, for example, extremely tolerable, if not positively agreeable, for those who are sentenced in the courts for offences of the type recognised by capitalist law, e.g. thieving or personal assault, and that they pay great attention to the reformatory possibilities of life in a sanely conducted prison. But in fairness it should be added that they really do not regard any of these crimes as very serious ; and that in the treatment of those who offend, as by sabotage or counter-revolution, against the fundamentals of their society, they show no equal zeal for lenient and reformatory measures.

each according to his ability; and every Communist society must accordingly provide means for seeing that this obligation is fulfilled and for dealing with any who neglect it. Indeed it would seem that the further we pass out of the transitional proletarian dictatorship into the pure Communist society, the more will this machinery be required; for in the transitional phase, as we have seen, differences of income are permitted, and these provide the incentive to effective work. In the completely equalitarian society, towards which the Russians themselves believe that they are moving, no such inducements will be permissible; and the need for official public sanctions, to be used against those who attempt to do less than their share, will be proportionately greater.

Indeed it may well be questioned whether already this reliance on the sound instincts of the "armed nation" as a substitute for duly constituted law and justice has not gone a great deal further than is desirable in Russia. Endless stories are told of the unofficial means adopted for pillorying persons suspected of various shortcomings. The name of the idle workman is posted on the blackboard, whilst that of his industrious colleague is chalked up in red. Derisive articles (not sparing names) appear in the wall newspaper, or abusive posters are affixed to the house-door of a suspected drunkard. Even the name and address and photograph of a man suspected of resorting to prostitutes may be published in the local press.¹ It is obvious that these practices offer tempting opportunities for wreaking personal vengeance and venting petty spite under the guise of public duty. And moreover, even if the instinct of the armed nation for justice is fundamentally sound (and it is highly questionable how far this is true), the mob does not pause to verify facts. It may be right that a man should be prevented from outraging a woman; but a crowd, burning only to achieve this praiseworthy end, will tear a man to pieces, only to discover too late that nothing was further from his intentions than such dishonourable conduct.

¹ Hindus, *The Great Offensive*, p. 143.

Such methods are a poor substitute for careful judicial enquiry by persons trained in the scrutiny of evidence, and armed with the majesty of the State.

X

To us of the non-Communist world, more interesting even than any attempt to forecast the future of Russian social and political institutions is the question : Would it be possible for us to copy, and indeed improve upon, the Russian planned economy, without first passing through the welter of revolution, or transplanting also the social system which is the accompaniment of economic planning in the Soviet Union? Is it even possible that the future may see some sort of convergence of both capitalist and Communist societies towards a new order midway between the two?—the Russians, on their side, permitting a gradual relaxation of the extreme rigidity of their social structure, until this resumes a shape more nearly conformable to the lines of that familiar to us ; while the capitalist countries, in their turn, substitute a planned for an unplanned economic system, without forcibly inverting their social pyramid? In the past it has not been uncommon for one nation to use the experience of others as a stepping-stone towards its own more rapid advance. Those which come later into the field can miss whole stages through which their predecessors have passed laboriously. Thus the Russians themselves claim to have practically omitted the whole epoch of capitalism from their history, and to have stepped from the primitive agricultural life of the pre-industrial revolution era directly into at least the first stage of socialism. Might some of the present capitalist communities similarly miss the first, and emerge full-blown into the second, phase of economic planning?

Whether events take this course depends, I think, almost entirely on whether enough people wish that they should do so. There are no insuperable *technical* difficulties in the way of building a planned system on the foundations of

existing unplanned economies without at the same time upheaving the whole social structure of the country. But the human obstacles are very considerable. Those, however, who believe that this is, on the whole, the line of development most to be desired, should not despair on this account. For where the only obstacles to be met are those of human will, success depends on nothing more than ability to persuade enough people to think as you do. And what some people think to-day is thought by other people to-morrow.

The chief snag lies in the impossibility of effective planning, unless the planners have full control of the main instruments of production. And control, if it is to mean the power to say : This and that plan is to be carried out—not merely this and that is prohibited, but outside these limits anything can happen—practically implies ownership. Throughout this book it has been taken for granted that a planned economy is one in which all the resources (other than man power) of the area over which the plan extends are under the direct positive control of a central planning authority ; so that, when plans are made, the distribution and use of the plant and materials appropriate for carrying them out falls as a duty upon persons who are in the position of public servants. In the Soviet Union this condition is satisfied in so far as the industrial resources of the country are owned by public corporations, the managers of which have no personal pecuniary interest worth mentioning in the financial results realised by these enterprises. The planning authorities are able, therefore, to frame their plans confidently, in the knowledge that they can, for example, require the banks to make a certain volume of advances to the building industry, or a tobacco trust to divert its surplus profits to a mining enterprise, with instructions that these be used in opening up new mines in the Don Basin ; and without fear that these plans may be obstructed by such considerations as that the banks' funds belong to the bank, or the tobacco manufacturers' profits to the tobaccoists, and that these owners, just because they are owners, will

insist on doing what they please with their own money. It is always somebody's business to see that the material resources necessary for carrying out the plans are put where they are wanted, if this is humanly possible, or to explain, on pain of severe punishment, the reasons for this not being done.

In the chapter that follows, the grounds for regarding some form of public ownership of natural and capital wealth as an essential condition of effective planning are discussed a little more fully. Here, if we may simply continue the assumption which has been implicit in all that has been written up to this point—namely, that socialisation and planning are thus inevitably connected—we are brought up sharply against the fact that outside Russia capital instruments are normally privately owned. How can these be transferred to social ownership?

There are only two ways of making this transfer. The first is to expropriate the owners of property which it is desired to socialise in order that it can be brought within the purview of a national plan. The second is to compensate them. Both methods can, of course, be applied in combination, as when owners are bought out at less than the full market value of their property. But these two methods, whether singly or in combination, exhaust the possibilities.

Enough has already been said to show that expropriation implies revolution. The Russians, for their part, did not stop to weigh the merits of the two alternatives. They adopted the simple and expeditious method of trundling owners, whose property they wished to acquire, out of the way on trucks—a procedure which, it is entertaining to learn, has since been sanctified. At a theatrical performance in a children's theatre which I saw in Leningrad, the play ended with a group of ardent young Pioneers dragging the villain (an idle workman, needless to say) off-stage on a truck—"an old revolutionary custom," the interpreter blandly explained. But since persons who have been forcibly dispossessed of their property will be on the lookout for ways of forcibly re-acquiring it, expropriation

involves not only revolution, but also the establishment of something like the social and political institutions that followed the revolution in Russia. It demands at the least that the most rigorous measures shall be taken to keep the dispossessed, and perhaps also their children, in a state of subjection and dishonour.

So, on the assumption that a planned economy is to be built in such a country as ours otherwise than by means of revolution, and without any thoroughgoing inversion of the social pyramid, we fall back on the old-fashioned—to-day almost discredited—method of compensation. If owners are not to be expropriated they must be bought out. This means that those who now hold the stock of industrial enterprises must become creditors of the new public corporations into which these enterprises are transformed ; that their claims must be reduced to a definitely fixed rate of interest, whether or no they were previously holders of debentures, preference or ordinary stock ; and that as creditors they must be deprived of all control over management. Naturally the rate of compensation payable to these various classes of stockholders will not be the same in all cases, those who under private enterprise drew most of the profits having a higher claim than those whose interest was more limited. All capital loaned to socialised enterprises, will, however, carry a fixed rate of interest ; and it is to be hoped that the principle will also be observed of limiting this to a period of years, i.e. paying compensation in the form of a terminable annuity. Further, it will be expedient, and indeed necessary, to invite many of those who were the active directors and administrators of the various enterprises in the old days (as distinct from the passive shareholders whose latent powers of control will be abolished) to accept posts in similar capacities under the new public corporations. In these new posts, of course, all ranks alike will have the status of salaried or wage-earning employees, and personal financial interest in the profit of the concern will be totally absent, or at least negligible in amount. In short, the methods by which

London passenger transport has recently been unified as a public enterprise form an excellent model of the lines along which, with only minor variations, socialisation by purchase must proceed.

Now the chances of carrying out projects like these on the grand scale (that is, over a sufficient area to permit of effective planning of the economic life of the country as a whole) must depend, as has already been said, almost entirely on the degree to which people desire to see them thus extended. Is this desire in fact widespread, or likely to become so ?

All socialists (and their number is by no means negligible) believe that the transfer ought to be made ; though many are, of course, impatient of the idea of resorting to compensation rather than revolutionary expropriation. And I get the impression that amongst the technical and administrative personnel of industry also there are very considerable numbers who, disgusted with the stupidities and meannesses of profit-making industry, would most gladly find themselves public servants. The support of these classes is, however, not yet won for a programme of socialisation because at present socialism, as they understand it, is mixed up with ideas about class, and perhaps also about the nature of the universe, which are highly repellent to them.

In this connection it is significant that, as soon as the Labour Party in this country abandoned the narrow class basis of its appeal to the manual weekly wage-earning class, and, in an apparently splendid access of consistency, interpreted the term " workers " to include those who work by hand and by brain, it got into all sorts of difficulties ; and has, in fact, been incapacitated by sectionalism ever since. For it did not dare entirely to shed the old skin while displaying the new ; and yet the two are not in truth compatible. The prospect of an ordered planned economy under social control makes a great appeal to the salaried intelligentsia and to technical personnel ; and since these classes occupy many of the key positions for the successful

running of any and every industry, their enlistment in the ranks of a party which desires to build such a planned economy greatly strengthens the chances of that project being realised ; but since, further, these persons are not in the main drawn from the same social groups as the manual workers of industry, it is impossible for the same party simultaneously to hold the loyalty of the latter by inciting them indiscriminately against all the more economically fortunate classes.

For the better paid salariat, if not indeed the whole world of those who think in terms of salaries rather than wages, are not in fact members of the same social classes as the rank and file of manual workers. Their natural association is with those who fall into their own income groups ; which, at least in the case of groups standing near the top of the salaried classes, means association with owners as well as workers. A very gallant attempt has been made by the Labour Party to show that a works manager with a salary of £1,500 a year has more in common with a mechanic earning £3 a week than with a person living on an investment income of a thousand or two, by virtue of the fact that he and the mechanic know what it is to be employed—to be at somebody else's beck and call, and liable to find themselves at any time jobless and incomeless—whereas the man of private means, at least if he chooses his investments well, stands secure for ever. But the attempt fails, because of its obvious lack of contact with reality. For one thing, employed persons earning good salaries generally manage to defend themselves against the insecurity proper to proletarian status with a degree of success quite unknown in the weekly wage earner's world. They secure contracts for the month, quarter, year or term of years, instead of for the hour, day or week. They are far less liable to be dismissed as the result of passing personal caprice, as an unpopular workman may find himself fired by his foreman in a fit of temper. And, for another thing, the higher salariat give a good deal of their attention to the possibility of enlarging their incomes by shrewd

investment : the line between earner and owner becomes more and more blurred the higher we proceed in the income scale. And, more than all, the plain truth is that for the manager to ask the mechanic to tea, or to a round of golf, in the ordinary way of social intercourse would be a daring disregard of accepted conventions, and for the mechanic to ask for the hand of the manager's daughter would be classed as a piece of outrageous impertinence. And it is these things which reveal the true lines of class structure.

What it comes to, therefore, is this : if the object in view is to put down the mighty from their seats, no matter what the cost, then the class war should be preached in all its nakedness, and the apostles of that war must keep themselves clear of flirtations with the bourgeois classes, including the salariat. If, on the other hand, our aim is to build a planned economy under social control without a revolution in class structure, then propaganda must be directed towards that end. In that event the simple and appealing *motif* of the class war has to be dropped. On the other hand, such propaganda will be rewarded by finding a fertile field among technical and administrative personnel—that is, among persons whose co-operation is absolutely essential in the building and working of any planned economy.

To win the co-operation of the independent business man, and in particular of the captain of industry, for any scheme of socialisation is a more difficult proposition. Though a member of the same social group as the highest paid salariat, the captain of industry is naturally far more favourably disposed than they towards a system of industry which has made him both captain and wealthy. The prospect of becoming president of some nation-wide socialised corporation may satisfy to some extent his desire for authority and for room in which to conceive bold schemes ; but in accepting even one of the highest executive positions in a socialised economy he forgoes for ever the chance of reaping the fabulous gains, rendered more attractive by their very

uncertainty, which an unplanned economy bestows upon its most fortunate members.

In this, perhaps, lies the one good reason why the non-revolutionary socialist should desire the present sickness of capitalist society to continue long in its full severity. For the chances that men who have made thirty, fifty and a hundred thousand a year by their own initiative and enterprise will accept even twelve or thirteen thousand as public servants, clearly depend on the vividness of their hope that the golden opportunities of the old days will come again. The longer the present depression endures, the greater its severity, and the more it shows up the inherent weaknesses of an unplanned economy, the more easily will the minds of these leaders turn to consider on merits the possibilities of a planned economy, and the more readily will they begin to picture their own position in such a system in favourable contrast to their present plight in a planless world.

Moreover, while compensation and expropriation represent the only two methods by which *existing* capital resources can be transferred from private to public ownership, that transfer can be supplemented in another way. It needs to be constantly borne in mind that the structure of industry changes with great rapidity: to-day faster perhaps than ever before. The vital industries of to-day are not those of yesterday, and they will not be those of to-morrow. Hence something can be done towards building the planned socialised system of the future if a keen eye is kept open to see that the exploitation of big new possibilities is kept in public hands from the first. In so far as all new inventions pass through a highly speculative stage, and no State can afford to make a corner in risks while leaving all the comparatively secure, humdrum industries in private hands, this method has indeed to be applied with discretion; and there is the further limitation that individual experiment must not be discouraged by knowledge that the experimenter will not himself be permitted to reap what he has sown. But even within these limits

there is considerable room for building up a nucleus of socialised industries, actually before we are ready to face the problem of transferring existing capital to public ownership. After all, experiment is not so tender a plant, or one so dependent on the atmosphere of pecuniary profit, as is commonly imagined. A surprisingly large proportion of the inventions that have proved themselves of supreme industrial importance have been the outcome of research that was three-quarters pure, and one-quarter concerned with looking for the answer to some question quite other than that the solution of which has made it famous. And in our own time we are not without examples of the power of the State to seize upon and monopolise new industrial inventions in its own hands. The creation of the British Broadcasting Corporation, and the establishment of a public authority to control the distribution of electric power throughout the country, are often quoted as specimens of the new institutional forms which public enterprise may assume, in contrast to the old-fashioned model of nationalisation under a department of State like the Post Office. But they are equally important as illustrations of the new spheres into which public enterprise may intrude without any social upheaval or break in the continuity of economic life.

When all is said, however, we have to admit that the establishment of such general social ownership of the instruments of production as is a necessary condition of effective planning is likely to prove a tough job. In forecasting the possibilities of its being successfully tackled in the future we cannot go beyond the statement, already made, that it could be accomplished if enough people wished to accomplish it : except to add that the circumstances in which this wish might arise are not inconceivable, in the way that it is inconceivable that the present holders of industry should voluntarily surrender their property to the State without asking a penny in return.

XI

If now we suppose that the big stile has been climbed, and that a central authority has acquired by purchase sufficient control over the capital resources of the country to make comprehensive planning possible, what kind of a future lies before such a planned economy ; and in particular, what pattern may its social stratification be expected to assume ?

In the first instance, the class structure of such a society must approximate more closely to that already existing in this country than to the model either of the classless State, or of the modified proletarianism towards which the Russians appear to be moving. For income differences would still be large ; very large. The captain of industry cannot be bought out on terms that bear no relation whatever to his accustomed standard. If he can be bought for even a third of his sometime market value the price will still be high, as the experience of the London Passenger Transport Board¹ has shown. Moreover, the mere fact that existing owners are bought out, not expropriated, implies the continuance, for a time at least, of a class of idle persons, many of them very wealthy. Few, merely because they have been transformed from employers and shareholders into State servants and State pensioners, will be prepared on that account immediately to embrace the manual proletariat as their brothers.

Does this persistence of class and income differences mean that such a society, having laboriously acquired the means of planning, would find itself incapable of either framing or executing any plan ? That is indeed the crux of the whole matter. And to that question the Russians, for their part, would unhesitatingly reply : It does. For it is part of the unity of their whole philosophy, on which so much stress is laid, that the economic experiment which they are making cannot be severed from social revolution ; that a planned economy is no use at all unless it is the instrument by which a victorious proletariat in the first place, and a

¹ See p. 167.

happy company of classless co-equals in the second, satisfy their bodily needs.

For a plan, the Russians would say, must have unity of aim ; and a society in which a small upper class, consisting of the well-to-do, the idle and the holders of interesting and responsible jobs, stands socially superior to millions of poorly paid drudges, can have no unity of aim. It is fatally divided against itself. That its economic system should be planless is, in the Bolshevik view, not only appropriate, it is indeed inevitable. A national plan must be conceived in the national interest. And prior to the proletarian revolution there is no such thing as national interest. There is only class interest.

This argument cannot be dismissed as the frivolous vapourings of academic revolutionaries. But it does not, I think, tell the whole story, and it exhibits the normal bias towards the belief that one's own is the only way. For one thing, it undoubtedly exaggerates the sharpness of the lines of class distinction in such countries as ours. The highest of our social classes are indeed separated by an immeasurable gulf from the lowest ; but each shades imperceptibly into its neighbour, and so on throughout the whole scale. In pre-Revolution Russia the absence of any large and solid middle class made the class struggle both simpler and more dramatic than it can be in Germany, France, England or America. Indeed, it may be said that the point in which Karl Marx's bold forecast of the social and economic future of the Western world has been least justified by events is his confident prediction that society would more and more split up into two opposing camps : the proletariat and the bourgeoisie.

According to other parts of the Marxian analysis, it is to changes in the technical methods of industry that we have chiefly to look to explain changes in social groupings and mental outlooks. And it is just such technical changes, the nature of which Marx could not possibly have been expected to foresee, which have increased the numbers and the social importance of those middle and professional classes who

fit uneasily into either of the two classes which alone are permitted a place in the simple Marxian scheme of things. It is not, in reality, true that a planning authority in this country, for example, would be faced with the choice between planning for the bosses or planning for the masses ; and that if not preceded by a revolution which had resolved the conflict between these classes, it would be obliged to abandon its task in despair, owing to the impossibility of combining the interests of such irreconcilables within a single economic plan. A planning authority would be faced, rather, with a vast network of conflicting interests running throughout the whole gamut of society ; interests which are held in some sort of equilibrium—unstable perhaps, but none the less workable—within the framework of the existing order.

It may perhaps be objected that this more complex class structure would add to, rather than ease, the burden of planning for a whole national community. From one point of view it would, since the choices that must be made are far more numerous, and involve selection from a far larger range of possible alternatives than the Russians will admit. There will be no simple guiding rule of "Up with the proletariat, down with the bourgeoisie," but, rather, an endless weighing of the claims of the clerk against the doctor, of the artist's model against the railway porter, of the captain of industry against the hospital nurse. (To which it may, incidentally, be fairly answered that similar problems quickly emerge as soon as we tackle seriously the job of planning even in the interests of a single class, such as the proletariat.) But the Russians' insistence on interpreting Western social structure in terms of an implacable conflict between two entirely distinct classes, and two only, leads them to underestimate the strength of another and most important factor ; namely, the guidance afforded by the *status quo*. Any planning authority constituted otherwise than by violent revolution would start, not with a clean sheet, but with one on which the unplanned system had already made innumerable marks. The planners

would have to take the community as they found it, and their first plans would inevitably provide for a society whose economic needs were determined by the income-grading and social structure already familiar to us. They would have before them all available information about the output of bread and beer and toothpaste and tennis rackets and motor-cars and all the rest of it, and about the existing distribution of these articles among various classes of the community ; and the central part of their first plans would consist simply in supplying by deliberate plan about the same quantities of these things as had been previously produced by individual response to the readings of the price mechanism. Indeed, it would be a very condition of existence of any planning authority which had enjoyed a peaceful birth that it should not make too rapid and violent departures from the *status quo*.

It is evident, however, that it would not be worth while to undergo the arduous labour of socialising industry, and setting up a workable planning authority, merely in order that this authority might employ a single conscious will as the means of bringing about results identical with those previously achieved by the aggregate of millions of unco-ordinated decisions. The *second* job, therefore, of the planners, which alone justifies that labour, would be to complete the picture which the existing system of industry at the moment leaves unfulfilled : to make plans extensive enough to employ not only the 70 per cent or 80 per cent of the nation's workers and capital resources already at work under the unplanned system, but the additional margin which is at the moment wasted. And, in choosing the uses to which these additional resources would be put, the planners would again, in the first instance, be guided by the standards implicit in the *status quo* ; that is to say, they would attempt to push the production of the kind of things that are already produced a little further along the lines along which it already goes ; and they would remunerate people engaged in the execution of these plans according to much the same principles as determine the

remuneration of everybody who gets a job under the present order. They would, on the one hand, pay high salaries for skill, experience and willingness to assume responsibility ; and, on the other hand, they would take this distribution of wealth into account in framing their production plans, so that a substantial amount of goods of a relatively luxurious character would be supplied to meet the demands of those who enjoy these superior salaries. In these circumstances, the job of planning becomes a matter not of deciding on general principles how much of this and that to provide for every one of the forty odd million people who live in this island, but of determining whether the production of this or the other shall be increased or diminished x per cent in comparison with the existing scale of output. Even in that form it is a tough enough job, in all conscience. But the difficulties, great as they are, are not in the same street with those of drafting and executing a plan on a perfectly clean sheet, with no better guidance than that of abstract principles of social justice. And that is the task which a revolution, since it tears up all existing sheets, inevitably bequeaths to those upon whom falls the job of building the new social order which the revolution is intended to introduce.

A peacefully constituted planning authority, therefore, can in the first instance only modify the *status quo* in the light of standards which are already implicit therein. It would demand the co-operation of the *whole* people, of all social classes, in making the economic system feed and clothe and entertain the *whole* people more effectively, in relation to the established standards and expectations of different classes, than it does at present. It would require that an entire nation, ignoring its sectional and class conflicts of interest, should unite in doing something which is to the evident advantage of practically all the members of that nation ; though not equally to the advantage of all, and not as much, perhaps, to the advantage of some, as other courses which, however, must disunite rather than unite, since the gain they would bring to one

group would be counterbalanced by grave disadvantages to others.

To put the matter in concrete terms, nobody can dispute that if the whole of the unemployed of this country found work at jobs and at wages comparable to those of the workers already in work, this would be a genuinely national gain ; and that if the incomes of the present trading and manufacturing class were *also* increased by as much as the difference between those incomes in a year of good trade and a year of bad trade, the advantage would still be genuinely national ; though, of course, it may still be argued that the advantage of the *workers* alone would be greater, and the cause of social justice better served, if the incomes of the well-to-do were actually diminished and the proceeds distributed by some means or other amongst the poorer classes of the community ; in which case the gain would be, not national, but sectional.

It does not seem a very big thing to ask that the energies of a nation might be concentrated on the achievement of some such limited plan for the well-being of that nation as that suggested in the preceding paragraph : that in one country at least a plan might be evolved which, being to the advantage of everybody, might induce everybody to pull together in its support. Admittedly, however, even this modest aim has never been attained except perhaps when, in war, practically a whole people becomes united on the destruction of another people. For any peaceful end such union has never been experienced. In Soviet Russia they have indeed succeeded in uniting millions in the execution of plans that are almost certainly to the advantage of the majority ; but the counterpart has been vicious persecution of the minority to whom the plans bring, and are intended to bring, not gain, but loss. Modest, therefore, though this first objective may be, it is none the less beyond anything that anybody has yet seriously tackled.

XII

To those who, on the other hand, object that if a planning authority cannot hope to do more, apart from revolution, than keep our present society going according to existing patterns, then we had better plump for revolution or nothing, I would commend the following further reflections. So far I have spoken only of this limited objective as the aim of a planning authority *in the first instance*; as its first, or, at most its second, job; but there is no reason why we should leave the matter there. The Russian system, both social and economic, as we have continually had occasion to notice, is in process of perpetual, often most rapid, almost chameleon-like, change. And for a peacefully constituted planning authority the *status quo* is a point of departure, not of arrival.

The kind of changes for which we might reasonably hope, and which in their turn could be brought about by the creation of public opinion in their favour, are these. First, the range of income differences may well be reduced, even if we continue to rely, as I think we must, in large measure on economic incentives to regulate the distribution of labour between different kinds of jobs.¹ In the beginning, as we have seen, the planners have to maintain standards which have been inflated by the chance of making the fantastic incomes that non-socialised industry offers to a clever and fortunate few. The disappearance of that opportunity will make it practicable to reduce these standards in a measure and at a pace which is determined only by the strength of equalitarian sentiment in the community, and the acceptance of that sentiment by the haves as well as by the have-nots. Further, as we have already had occasion to remark more than once, income differences are inflated also at the moment by the fact that the acquisition of valuable skills is restricted by lack of opportunity, as well as by lack of native ability. The removal of the barriers of educational privilege—a process

¹ See pp. 329 ff.

which, incidentally, has already made enormous strides since the Education Act of 1902 laid the foundation of public secondary education in this country—will greatly increase the supplies of qualified workers at the higher levels, and will thus narrow the difference between the incomes which these groups are now able to demand, thanks to their partial monopoly, and those enjoyed by the rank and file of industry. And in so far as distinctions of social class are based, as in our country in the main they are, upon a comparison of incomes, the reduction of income differences in its turn may be relied upon to make inroads upon our hierarchy of social classes.

Second, the existence of a class of persons living on the product of industry, and contributing nothing by their labour to the making of that product—which is what makes the idea of socialisation by purchase repellent to many a good socialist—need not be taken as a permanent feature of the new society. I have already expressed the hope that when owners of industrial plant are bought out by public authorities, payment will take the form of annuities terminable after a period of years, and not stock that can be held in perpetuity, or even that is redeemable after a given date.¹ Now, the usual stock answer to any plea for the superior merits of annuity payments, as compared with perpetual obligations, in this connection is that it doesn't make a ha'porth of difference which form payment takes, provided that you are, as we have assumed, determined to pay the full market value of any property which you propose to socialise. For, says the objector, an annuity of, say, £50 for a term of years, is simply equivalent in capital value to a bond yielding, say, £20 or £30 (according to the length of time that the annuity runs and current

¹ Without knowledge of the actual social and economic conditions in which socialisation takes place, it is impossible to give any definite suggestion as to the period for which these annuities should run. Those, however, who hanker for figures and brass tacks might consider a period of twenty-five or thirty years as a possible standard to work from. There might also be some advantage in spreading the annuity unevenly through the period, so that the annual payments tail off gradually as the end approaches.

interest rates) in perpetuity. If a man receives compensation in the annuity form when he would prefer the other, all that happens is that he sells the annuity rights, in exchange for a perpetual obligation of smaller annual amount, to someone else whose preferences take the opposite direction. And in this way, it is contended, your clever plan for wiping out a class of permanent *rentiers* in a generation or so is completely diddled.

This objection, however, only holds *so long as an organised market exists* for the purchase and sale of privately owned capital values. If I inherit an annuity, or receive this from a public authority which is buying up my business, but would prefer a perpetual security of smaller annual value, I can, at the moment, easily effect the exchange simply because there are plenty of such securities for sale on the stock markets. Such are issued by Governments, by municipalities and by industrial enterprises organised in the form of companies. If, however, we assume that Government and municipalities, as a matter of policy, discontinue this kind of issue and deal only in terminable annuities; and if, further, the mass of industrial enterprises, having been transferred to public authorities, obey the same rule, then this source of supply dries up. The only opportunities for making perpetual investments that then remain are those offered by private borrowers on the one hand, and by foreign investments on the other. Of these, the former can be dismissed at once. In a community the bulk of whose industry is carried on by public corporations, and in which, at the most, a small fringe of private enterprise survives, personal borrowing, particularly for long terms, must necessarily become negligible. No individual can afford to contract a long loan unless he has a chance of using the proceeds in productive industry. When this opportunity is closed, the market for long domestic loans automatically disappears, as it has disappeared in the Soviet Union, except for dealings in State bonds. Hence the former stockholder in a now socialised enterprise, who laments the fact that his compensation annuity must come

to an end, and gladly would forgo part of his income in exchange for the knowledge that such amount as he retains is secured for all eternity, has now only foreign investments with which to console himself.

A Government which is not hidebound by the desire for complete symmetry and theoretical perfection may perhaps leave this loophole open to him. But it is not obliged to do so, if it does not consider such a course expedient. For the experience of the past few years has shown that strict control of foreign investment, extending at times to complete prohibition of all foreign issues, can be enforced even under the capitalist system ; and that, too, notwithstanding the fact that in the working of that system the unfettered movement of capital in response to the readings of the price mechanism plays so vital a part. It would be a small matter for the authorities controlling a planned system, with their proud independence of any capital market, to take the further step, if they wished to do so, of prohibiting dealings in foreign stocks altogether.

Moreover, even if we have to admit that it may not be possible *wholly* to eliminate the perpetual *rentier*, there are ways, not involving a revolutionary break in the continuity of economic life, of pushing him into a smaller and smaller corner of the economic field. Where industry is conducted by public corporations under salaried managers, the *rentier's* complete lack of function in the planning and conduct of industry needs no further demonstration. And if these corporations, following the Russian pattern, are required, as it is imperative that they should be, to provide the greater part of the new capital requisite for industrial progress by "socialist accumulation" out of their own profits, then the *rentier* ceases also to have any function as the channel through whom new savings are provided, and the needs of the morrow given their due weight as against the claims of the day. He appears at last as completely functionless.

In these circumstances it becomes possible to use the State's power of taxation as a means of modifying the

social and economic structure of the community with a new effectiveness. So long as people's earnings are not reduced by taxation below the minimum necessary to induce them to do the work that the plans require should be done, there will now be no *economic* limits to the level to which taxation can be raised on particular ranges, or particular types, of income : which is to say that there will be no such limits at all to taxation of incomes that are not earned. The limits that remain are social : that is to say, they depend on the community's sense of what is just and proper, and in particular of what is due to established expectations. In such conditions there is no *economic* reason whatever why, for example, a person who neither contributes personal service to industry, nor accumulates capital to be used for the enrichment of the future, should receive any income at all. His continued enjoyment of whatever income he does, in fact, receive depends, in these conditions, first, upon how far the payment of something for nothing is in harmony with the public sense of justice ; and, second, upon how far the receipt of an income on certain terms in the past is held to be a proper guarantee of its continuance undiminished into the future.

In these conditions it is quite legitimate to suggest that severely differential rates of taxation may be imposed upon unearned incomes¹ ; rates which may in the end be raised to a point at which they wipe out the last remnants of

¹ Such a differential income tax should be supplemented (and indeed preceded) by extremely stiff taxes upon inherited wealth. We are apt to underestimate the degree to which the contrast between riches and poverty in our society is due to the piling up of fortunes over more than one generation. In this connection the reader is referred to some of the conclusions of Mr. Wedgwood's valuable study, *The Economics of Inheritance* ; notably where the author suggests that not one in a thousand of the sons of working men ever accumulates as much as £10,000, and that two-thirds of the men (and a higher proportion of the women) in the upper and middle classes owe their fortunes either entirely to inheritance, or to luck and ability considerably aided by inherited wealth and opportunity. In an interesting study of the history of his own family, Mr. Wedgwood indicates that the social and economic position of the members of the present generation was largely determined as much as *five generations* back. See especially *op. cit.*, pp. 157-168.

such incomes altogether; provided only that public sentiment in favour of the view that everybody physically able to do so should work for his living is sufficiently strong.

And this is the kind of sentiment which experience shows it is quite possible to build up by judicious propaganda. The public attitude towards the obligations of the individual to society is not a fixed quantity that must be taken as invariable for ever. Neither, even, is the attitude of particular social classes. A most casual glance at the social history of the last two generations shows this plainly enough. In this very matter of taxation there have been the most astonishing changes. Even thirty years ago, in the days of an 11*d.* income tax and no super-tax at all, it would have been unthinkable that in the course of a single generation incomes of £50,000 should be charged with direct taxation equivalent to 11*s.* 4½*d.* in the £. It is true that the speed and extent of this change have been enormously increased by the war. But the war has been over for fifteen years and we have quite evidently settled down to regard taxation of this order as part of the normal state of things; and this, too, in conditions in which the economic objections to high taxation have still to be reckoned with.

Again, in the past century or less, there have been profound, if intangible, changes in the attitude of the whole community towards its own class structure. And these changes of attitude can be made into heralds of change in the structure itself. There are signs that we are becoming ashamed of our hierarchy of social groupings. In this connection the usages of common speech give evidence that is the more valuable because it is unconscious. It is significant, for example, that it is now impossible to refer publicly to the "lower" classes. Polite convention requires that we should cover up the reality which we are thus ashamed to admit by such terms as the "wage earning classes" or the "working classes" or the "poorer sections of the community"—terms which differ subtly from the

word "lower" in that they refer to *specific* economic attributes of the groups in question, which can be objectively demonstrated, and not to any general inferiority; whereas classification as "lower" or "higher," which implies some presumed scale of general worthiness or social value, has had to be dropped, as the public as a whole becomes too guiltily conscious of its purely snobbish character. And something of the same kind has taken place, also, even at the other end of the scale. It is still, to be sure, quite good taste for persons to refer to themselves as members of the middle classes. One can say in public or in print: "We members of the middle classes . . ." But it is scarcely possible any longer even for the richest members of the "oldest" families openly to describe their own group as that of the "upper" classes; and even those who are not themselves members of the group commonly refer to it as "upper-middle," rather than as upper. From which, incidentally, the odd result follows that in our present social scale the official place of the middle is at the top.

These are small signs; but they are indicators of a real change in attitude going on beneath the surface. And it is just because such changes *are* real that it is not a mere cynical subterfuge to suggest that the owners of existing capital resources should, in the first instance, receive full value for their property, and that, subsequently, any income which they may derive from this should be heavily taxed. For expropriation is immediate and violent and indifferent to everybody's plans and hopes. It takes no account whatever of current expectations and standards. But taxation moves in step with, or but a little ahead of, current standards. In spite of all the protests of the taxpayer, taxation is always in the main based on consent. At least this is true of taxation imposed upon the rich and powerful—that is, of the classes who would stand to lose most heavily under such a programme as I have outlined. For, though the poor may, in periods of severe oppression, pay what they have to pay, without even subconscious consent, the rich and powerful simply insist that the rates

shall be reduced, when they judge that these are getting dangerously near the line between taxation and expropriation. And even the poor rebel in the end.

While, therefore, immediate expropriation may be distinguished from taxation simply by its indifference to established expectations, it is essential to remember that no expectations are, or ever have been, established in perpetuity. Even if they are based on contractual obligations, they are conditioned by the social environment in which they operate. There is always a way of getting round contracts which have ceased to bear any relation to current standards of justice or propriety. And this fact is itself not a threat to, but a safeguard of, that sanctity of contract upon which the security of economic life depends; for it prevents public regard for contracts being undermined by demands for observance where clearly no respect is due. And here taxation can play a peculiar and most valuable part. For it is the special virtue of a tax that it can entirely alter the meaning of existing contracts without any breach of promise being involved. It can reduce to £5 a week an income that has been fixed by contract at £10; and this without damage to the contract. And, when that contract serves no economic purpose of importance, the power of taxation is limited only, as we have seen, by the movement of—what are surprisingly flexible—standards of social justice and expediency.

It is not unreasonable, therefore, to hope that the extremely imperfect kind of social system which I have outlined as a probable accompaniment of the beginnings of a planned economy in such a country as ours might in due course be made into something better. Here again the experience of the Russians will be of vital interest. The Russians are making a gigantic effort to turn current standards of social behaviour topsy-turvy with lightning speed. Without a revolution, we could hardly hope, like them, in the space of fifteen or twenty years to relegate the term "acquisition," or the lure of living on the labour of others, to the archives. But just as it has ceased within

living memory to be good form to laugh at the insane, or to scatter litter on places of natural beauty or to claim membership of the upper classes, so we might hope that if the socialists play their cards well, then within the lifetime of our children the *rentier*, who draws from a common store to which he contributes nothing, may become, if not an extinct species, at least an abnormality for whose existence apology must be made.

Certain it is that the peaceful evolution in the Western world of planned economies, free from the shackles of rigid and steeply graded hierarchies of social class, will be made enormously much easier if the Russians, so to speak, come half way to meet us. If before all they make a success of their planned economy, so that the rising standard of living promised to their people ceases to be like Alice's "Jam yesterday and jam to-morrow, but never jam to-day," and the whole Russian people come to live as well as or better than we do ; if, as the Revolution and the Civil War fade from living memory, the ferocities of the present social and political system are eased ; and if the goal of the classless society is pursued, not dogmatically, but with a practical recognition of the inherent inequalities of human nature—then, indeed, the inducements to the rest of the world to attempt a shorter and less thorny road to a similar system, economic and social, will be a thousand times strengthened. And the hints that we have already had as to the lines along which the Soviet Union is moving do not leave us without hope that we may look for such stimulus and encouragement ; provided always, of course, that peace is maintained, and that the next instalments of the world revolution are not delivered to time.

XIII

The case for the peaceful construction of a planned economy, and the subsequent gradual modification of social structures, stands not only upon its own merits, or upon its chances of success (which in the present deplorable

state of the world cannot be rated very high). It is reinforced also by the powerful arguments that can be brought against the only alternative road towards the benefits that economic planning offers.

That road is the way of expropriation and revolution ; and there is no doubt whatever that it makes a very strong appeal to many socialists in this country. Even in Britain, the pioneer of "bourgeois democracy" and "bourgeois liberties," the possibility of a Communist revolution is now being vividly discussed amongst serious-minded and intelligent people. For revolution has the attractions of swiftness and of evoking emotions of enthusiasm, with their accompanying acts of heroism, for which a stable society offers no adequate outlet ; and it satisfies the imperative and desperate urge to do *something* which drives almost to madness those who are sensitive to the increasing misery around them.

But revolution is no joke. And for three reasons it seems to me that it is, in contemporary Britain at least, the wrong way to go to work.

The first reason has not, perhaps, general validity. It derives from a system of values which is ultimate, in the sense that it cannot be convincingly commended on *rational* grounds. It is simply a bias against the use of physical force as such ; and particularly against its employment irrespective of the personal claims of the individuals against whom it is directed. Revolution demands mass violence : it sets one mass against another. It permits no squeamishness about individuals. And it is perhaps on that account no accident that the parties who favour the use of revolutionary violence are those who hold also a philosophy of economic determinism ; who believe, that is to say, that the march of human history follows the map of economic change ; and that the forms of society, as well as the means, peaceful or sanguinary, by which one form succeeds another, reflect not so much the progressive evolution of some ideal of the good life, as continual adaptation to the exigencies of new ways of earning our

bread and butter. For the correlative of any variety of determinism is individual irresponsibility. And it must be much easier to butcher or to persecute one's neighbour on account of his social origin, if one is freed from personal responsibility by knowledge that one is an instrument in the hands of an inexorable cosmic process.

The one rational, as distinct from moral, ground for opposing the use of revolutionary violence as a means of creating the new social order has its basis in psychological experience. It is, I think, a fair inference from the experience of past revolutions that the emotional states which accompany the use of violence tend to outlive the immediate causes which provoked that violence. People who have become used to fighting miss, when the fighting is over, a certain exaltation which it apparently brings. Hence contemporary Russian fiction and drama, I understand, deal extensively with the heroics of the Civil War : characters in the novel and on the stage alike lament the gradual extinction of the Whites and of the joys of rounding them up. Similarly, all over Europe to-day there are men who, paradoxically enough, suffer from a chronic, if suppressed, nostalgia even for warfare as monotonous, as deadly and as unglamorous as that of the last Great War ; and who have never, since the armistice, found psychological satisfaction in the ordered and secure world of which they are generally outwardly respectable conforming members. It follows that a nation or a class which wades through blood to power, in order that it may build a world founded on justice and good sense, is apt to encounter unexpected obstacles. The smell of blood is persistent ; and a taste for it, once acquired, does not appear to be easily lost. And the armies that have been taught to roar like lions learn with difficulty to coo like doves, and, simultaneously, to work like horses.

My second objection to the use of revolutionary methods in contemporary Britain is entirely tactical ; and it applies, it may be added (though not in all with equal force), also to contemporary France, Italy and the United States,

and (for the moment) Germany. It is the simple argument that the chances of failure are much too high. The Russians knocked over a structure that was already toppling. Already, by the time of the first Revolution of February (March by our calendar) 1917, the Tsarist Government had practically ceased to have any effective authority at all. The country was to all intents and purposes completely defeated in war, and the economic machine had slowed, until a point had been reached at which the army and the civil population alike were menaced with famine. The imperial Government had no Ministers, no trained and disciplined Civil Service at its command, and could not rely even on the loyalty of its generals; while the generals in their turn were rapidly losing command over the war-weary soldiery. In these conditions the imperial régime may be said rather to have crumbled away from internal rot than to have been overthrown by stalwart and determined revolutionaries. And the Kerensky Government, which actually inherited the mantle of authority, was foredoomed from the beginning by the single fact that it proposed to continue a war which was already lost; for which the necessary materials were wholly unobtainable; and which the soldiery, for their part, were quite determined not to fight. It was not, therefore, surprising that six months later the walls of Jericho collapsed before Lenin's programme of "Peace, bread and the land"; and that the Cossacks, who were ordered to hold back the revolutionaries in the streets of Petrograd, took up their stations, indeed, according to orders, but quietly allowed the mob to creep under the bellies of their horses.¹

Moreover, we have once more to remind ourselves that the Russians had practically no middle class. What there was consisted mainly of corrupt and incompetent bureaucrats whose support could have brought little of value to the new order, and who could therefore be swept away along with the empire and the nobility, without either fear

¹ For a magnificent account of this and other incidents of the revolution see Trotsky's *History of the Russian Revolution*.

that their resistance would wrest victory from the revolutionaries, or that their loss would damage the prospects of the future society.

But the exact reverse holds in this country. While the actual Government of the moment may be devoid either of constructive ideas or of moral stature in the eyes of the people, the whole machine of government and administration is extremely powerful and effective. If it came to the point, the government of this country could quite well be carried on by the Civil Service,¹ without any help from those political chiefs whose business it is as Ministers of State to sign the orders which these officials submit to them. And the Civil Service is not likely—least of all in its higher and more authoritative branches—to throw in its lot with class-conscious proletarian revolutionaries. It cannot possibly itself be squeezed into the category of proletariat, in any analysis of our class structure which takes account of the realities of the situation. Moreover, notwithstanding all the jokes about Government jobs, there is no doubt that it is an efficient service, and that its standard of competence and integrity continually rises. A revolution, therefore, involving violence and expropriation, will have to be conducted in face of the certain opposition, not merely of the Government in the narrow sense of the body of elected Ministers, but of a governmental machine which is far stronger and more effective than any Government : against administrators who know their job and whose social affinities, if at points ambiguous, will certainly not lead them to place their services immediately at the disposal of ruthless and angry proletarians—men who in dress and speech and mode of living are utterly foreign to our cultured bureaucrats.

Further, as we have already seen, our professional and technical middle class is large in numbers, by temperament and social grouping hostile to violence and expropriation, and of vital importance in the effective running of any

¹ Under which term I include also the permanent officials employed by local authorities.

economic system that can hope to satisfy our needs. Revolution will alienate the bulk of the doctors, engineers, chemists, electricians, journalists, nurses, salesmen, teachers, as well as the executive officers of every kind of business in manufacture, transport, importation, or whatnot. These classes, when it comes to a crisis, will put security and the continuity of an economic system which, taken all in all, has served them pretty well, in the forefront ; and, when their services are required in the task of reconstruction that must follow revolution, they will not be forthcoming.

And it has to be remembered that the failure of attempted revolution is a very different matter from the failure of peaceful persuasion. Quite apart from the waste of human suffering which it necessarily involves, all fruitless violence damages its own future prospects in a way to which the after-effects of unsuccessful propaganda offer no parallel. It opens the eyes of the enemy, arouses all kinds of fear, rational and irrational, and immediately leads to counter-arming and the exercise of oppressive force by the other side. One glimpse of the possibilities of a violent break in the continuity of economic and social life is sufficient to decide the allegiance of the millions of timorous, but not ungenerous, persons who might in principle be well disposed to such ideas as that of economic planning. In a moment the support of these classes is won, not merely for the existing régime, but even for measures of drastic reaction which, had their fear not been aroused, would have been far too strong meat for their stomachs. True, it is a favourite theory of idealists that the use of force is the most ineffective possible way of dealing with opponents who do not share your moral or political or religious opinions—that religions, for example, thrive on nothing so well as on persecution. But I fear that this view would scarcely stand the test of historical criticism. It would be difficult, for example, to establish that the reaction after the premature revolution of 1905 did not put the Russians back a good many years ; or that the Indians would not have attained self-government earlier if the British Government had refrained from

imprisoning any leader who showed signs of success in arousing nationalist sentiments among his people.

Unsuccessful persuasion, on the other hand, at least does not queer the pitch for the future. It is, in fact, the normal and proper prelude to successful persuasion. All experience teaches that if it is idle to approach the Almighty with vain repetitions, it is quite otherwise with man. Every politician knows that the candidate who is prepared to settle down and work the same constituency time after time (instead of running away to look for a more promising one, as most of them do) practically always wins in the end, no matter how much of a freak he may be, or how hopeless the job may have looked from the beginning. And from this experience there is a moral, of wider application, to be drawn.

To take only one example, the entire structure of the social services of this country has been built up as the result of cumulative propaganda carried on, often without visible effect, for many years. The normal process of advance by which social institutions are improved is : first, promulgation of a new idea ; second, general horri-fication ; third, familiarisation ; and fourth, embodiment in a law or other institutional form. Thus have we won free and compulsory education, insurance against sickness and unemployment, pensions for old people and for widows ; and thus might we hope to push our conquests still further in the future.

Which brings me to my third and final argument against the use of revolutionary violence in conditions like those of our own country. That is the fact that the high value set on security, and on the continuity of economic life, by the middle classes is not without reasonable foundation, nor based on regard for their own sectional interest alone. Revolution implies a break in the whole complex of law, contract and customary routine which is the essential framework within which alone an unplanned (or indeed any kind of) economic system can operate. If this break is made, the machine will stop just as much as it stops in an

effective general strike (which may indeed be one of the weapons that a revolution would employ). One day the milk will not be delivered, the undertaker will not come to measure the body, the trains will not run, the bakeries will not bake, the butcher may take a shot at a revolutionary but will slaughter no beef, cargoes will not be unloaded, and so on and so on. Now we can survive a break of this kind *if it does not last long*—and “long” means a matter, not of months, but of days. But if it endures, the number in any social class who will survive will be extremely moderate. And if, as I have argued, resistance is likely to be fierce, the revolution can only succeed, if at all, after a struggle that will certainly not be settled in the twinkling of an eye. After all, the Russians only came through (with a loss of who knows how many thousand lives, to be sure) because in the last resort the vast mass of their people maintained themselves in the years of Revolution and Civil War as they had always done : that is, by scratching the food which they required with their own hands from the soil of their own country, and putting it into their own mouths. If this is the price of survival, how many of our dense population, trained to highly specialised industrial jobs, and dependent on the products of the world for their breakfast and dinner, will live to bless the new social order ?

To me, at any rate, therefore, it appears that the risks and the price of revolution are too high. But it is, of course, quite likely that this view will not prevail, and that before long the advocates of revolutionary violence will have their way, even where they now appear to be but a weak and, frustrated minority. In this case, it must be added, the obligation on all who are in sympathy with the economic and social objectives of those revolutionaries who wish to build a planned economy, and to destroy the barriers of class, is clear. If their hostility to revolution is based on the pacifist's objection to force as such, they must, of course, refrain from battle. In that event, if they are rich, they must permit their property to be seized, without holding on to it even with one finger ; if they are poor, they must not

stretch out a hand to grab the property of others. But if their objection is not so much conscientious as tactical, and applies, not to the use of force as such, but to the use of force in certain circumstances, then it becomes incumbent upon them to throw their whole weight on the side of the revolution. Because once a revolution is under way is no time to argue whether it ought ever to have been begun in the first place; and because all the tactical arguments against the use of revolutionary violence are magnified a thousandfold, if that violence is exercised by the advocates of a cause who are divided amongst themselves.

So long, however, as the issue is not thus decided by the actual outbreak of revolution, I make no apology for commending counsels of restraint and moderation: not even in a world which is as much eaten up with sadism, and as ready a prey to all the destructive emotions, as is the world of to-day. The cause of reason and mutual toleration is not likely to be won by giving it up for lost. Neither do I offer apology for having sketched no Utopia, but merely indicated what appear to be the better among alternative possibilities of which none is perfect. For to do otherwise is to ignore both the plainest lessons of human history and the nature of human material. In neither is there ground to suppose that imperfect humanity will evolve perfect social and economic institutions. Yet even within the degrees of partial accomplishment that are open to us lie opportunities of choice, upon which possibilities of happiness or misery for nameless millions depend. We may already be set on courses which lead straight to disaster: disaster from which few perhaps will survive, and which will blot out, even for those few, all hope of the simple pleasures and interests which are the most satisfying substance of ordinary human lives. Such disaster is avoidable. Courses can be changed, and at human will. Because we cannot step straight into Utopia is no ground for despising the limited step, the partial reform, the measure which makes things not perfect, but better than they were

before. My own generation at any rate, in view of the lee way that they have still to make up, will have reason enough to congratulate themselves if they die confident that at least the helm is set in the right direction.

CHAPTER VI

THE CONDITIONS OF SUCCESSFUL ECONOMIC PLANNING

I

IT REMAINS to summarise any conclusions that emerge as to the conditions necessary to the success of any comprehensive attempt at economic planning.

The first of these is obvious enough. Successful planning is dependent before everything upon knowledge and the ability to use that knowledge. It demands the most detailed information about the scale of existing production and trade, the distribution of income between different classes in the community, the organisation and the limiting technical conditions in every industry, the age-composition and geographical grouping of the population—to mention only a few of the larger and more obvious matters. And it requires moreover an extremely high standard of administrative competence and integrity. Planning even for a fairly small and homogeneous community, much more for one like our own, is an extremely big job; and it cannot be effectively carried out by people who are stupid, careless or inaccurate, or whose minds are cluttered with vague generalities or with undigested detail, or who are ready to alter their course to suit the highest bidder.

On this topic little need be added. We may perhaps once more remind ourselves that these requirements are necessarily relative, not absolute: that no plan can be 100 per cent successful, judged even by its own standards, and that the Russians have given an amazing and encouraging demonstration of the low level of knowledge, ability and even, at some points, of integrity with which it is possible to carry through a plan with *some* degree of success. At least in this one matter the prospects for almost any

other country which might contemplate embarking upon comprehensive planning are brighter than those in which the Russians entered upon their experiment. Nevertheless, it may be salutary for the mass of the socialist movement to keep always in mind the extreme complexity of the task of constructive planning, and the urgent demands that this must make for expert competence at all levels—in minor technical and administrative positions all over the country quite as much as among the supreme arbiters of the destinies of a planned economy. Lenin was never tired of impressing upon his younger followers the importance of getting down to the concrete practical study of business organisation, of learning everything that there was to be learned from the capitalist about the actual conduct of industry and trade ; and socialists in this and other countries would do well to keep his advice in mind. For there are plenty of opportunities of thus acquiring *in advance* the kind of expert ability which will be invaluable to any planned socialist society.

It is perhaps permissible to add a doubt whether these opportunities are being fully utilised, or the need for using them fully realised. There are thousands (and there might easily be hundreds of thousands) of rank and file socialists who are prepared to take some little trouble to equip themselves for the understanding of economic problems. They go to evening classes and discussion circles in economics and so forth, often at a great sacrifice of their own time and convenience. But my own experience of this work suggests a doubt whether the results that it produces in solid knowledge and real understanding are in any way commensurate with the amount of effort that is put into it. For too much of that effort gets dissipated along two opposite but equally unprofitable channels. The first of these is the reiteration of generalities about the iniquities of the capitalist, and the merits of the socialist, system of industry—generalities, which even when they are well founded in fact (which is by no means always the case) are frequently quite valueless, because those who use them have

no grasp of the processes of economic reasoning by which they have been reached. Those of us, in particular, who are associated with educational work in economic subjects amongst wage earning people might as well be frank, and ask ourselves how many of the students who attend these courses acquire mastery of the simplest elements of economic analysis as this is understood, for example, in elementary university work? Precious few, I fear, would be the answer; for which the blame lies at the door of those who hold (and they are to be found alike amongst teachers and taught) that, since one type of economic system has produced results which are open to serious criticism, an alternative type could safely trust to the light of nature, and would have no need to consider either the principles that determine the rightness or wrongness of economic decisions, or the practical difficulties that are encountered in the attempt to follow those principles in practice. So we are left with such unhelpful generalisations as that a socialist system would "give the people what they wanted," or would have no need to worry about over-production since it would "produce for use and not for profit"; while no attempt is made to see how we should set about the task of estimating what the people want, or how exactly the business of marketing would be managed so as to obviate the danger of "over-production." Yet it is just upon such problems as these last that the attention of constructive socialist students should be concentrated; and for this purpose it is as necessary that the rudiments of economic analysis should be mastered as that a carpenter should be able to handle a plane.

The opposite line along which the efforts of socialist students are apt to be dissipated is that of obsession with critical detail. Working students who are themselves engaged in industry can give invaluable practical illustrations which are outside the experience of the purely academic thinker. They can test the completeness and correctness of the latter's theories. But such illustration is wasted unless it is in the first place relevant, and in the second

place recognised as illustration, and not elevated into general truth. Yet one of the obstacles which holds up progress at the moment is that those who have close practical contact with industry often find it too difficult to abstract themselves from their own quarrels with the present order so as to see their personal experience in due proportion to the whole. Being embittered, for example, with the hardships of wage reductions, they are blind to the purpose which these are intended to serve in diminishing the supply of workers in a declining industry ; and they are reluctant, therefore, to make helpful suggestions from knowledge of their own industry of alternative ways by which this purpose might be achieved, or to criticise constructively the application to that industry of similar suggestions made by others. Indeed, wage earning students often find it impossible to see that the very fact that a wage reduction is enforced under the present system is itself evidence of the existence of a problem which *any* system would have to tackle. Or again, a single instance, in which some claim for improved conditions in an industry that is already publicly owned has been unsuccessful, is often quoted as evidence that public bodies are no more enlightened than capitalist employers, without any attempt being made to see the example in the light both of the substance and merits of the claim itself, and of the conditions in which the public authority by whom it was rejected was operating.

It is hardly for the secure and comfortable to pass judgment on these mental states. They are the natural outcome of hardship and a sense of injustice. But it is urgent enough for all to unite in an effort to overcome the obstacles to constructive economic thinking which they present ; to set ourselves to think out with the utmost possible precision what exactly is the job that an economic system has to do ; what sort of decisions have to be made in the doing of this job ; what instruments are employed in making these decisions under an unplanned economy, and exactly where these instruments fail ; upon what sort of data a planned economy would draw, and what factors it would weigh in

arriving at the decisions that it, too, would be required to make in similar spheres ; what machinery it would employ in order to give effect to its decisions ; and just how its methods of framing and carrying out its plans could be adapted to the peculiarities of different industries. It would be a magnificent thing for the socialist movement if every industry could boast a nucleus of workers who had, first, mastered the elements of general economic analysis as applied both to planned and unplanned economies ; second, acquainted themselves with all that could be learnt about the structure and problems of their own industry, its costs, its capitalisation, its rate of turnover, its marketing methods, its machinery for recruiting and paying labour and its demands for technical, administrative or manual skill ; and, third, considered along what lines the future activities of that industry might be planned in terms of production programmes, organisation of labour supply, capital requirements and so forth, as well as how these plans might be fitted into a general scheme covering the whole economic life of the country. If none of these plans had any practical use at all, the experience of those who sweated to make them would be an asset of immeasurable value to any planned society. And it is an asset which we could be in process of acquiring *now*.

II

The second condition of successful planning is also a simple one. It is that an authority must be constituted which has the power both to draw up plans and to supervise their execution. There must be some body corresponding to the Russian Planning Commission and, like Gosplan, enjoying nation-wide authority as well as the support of local organs in every area and in every industrial unit.

While at the moment we cannot be absolutely precise about the constitution and powers of this authority, a few limiting terms can be laid down quite definitely, and perhaps also a few bogeys routed. Obviously such a Planning

Commission must have a semi-permanent character. Its members must be appointed for a considerable term of years ; and it would probably be desirable also to ensure continuity by requiring that they should retire in rotation. The appointments themselves should be made, in our country, by Parliament from among persons of recognised competence and experience in economic affairs ; though it might also be desirable to reserve a certain number of places to be filled from a panel submitted by voluntary economic associations of importance, such as trade unions.

Now we may immediately disabuse ourselves of the common belief that the appointment of such a body would imply the destruction of ordinary political freedom, or the substitution of dictatorship for democracy. The business of the Planning Commission would be to determine what factories should be built, what pits closed, what wages paid in this and that trade, and what prices charged for such and such goods. At the moment questions of this kind are decided by a mechanism which acts, as it were, in three concentric circles. In the innermost circle we have the unco-ordinated action of thousands of independent wills embodied in private contracts ; as when the directors of a Staffordshire colliery decide to close an unprofitable pit and dismiss their workers accordingly, or Sir William Morris puts £5 on to the selling price of his cars, or kind-hearted ladies set up in business as Universal Aunts Ltd. In the second circle come agreements voluntarily entered into, which have the effect of limiting the freedom of individuals operating within the smallest circle ; as when my liberty to pay what wages I choose to my workers, and charge what prices I like for my wares, is limited by trade union agreements or gentlemanly understandings with my competitors. And in the outermost circle we have the authoritative rules of government embodied in Acts of Parliament or the administrative orders of Government departments acting under Parliamentary authority ; as when laws are passed fixing minimum wages or establishing a board to control the marketing of milk.

Now what goes on in the first two of these circles has nothing whatever to do with the forms of political government. Except in the very general sense that the smooth working of an unplanned economy requires the maintenance by law of a few such elementary principles as sanctity of contract and the right of free association, the decisions that are made within either of these two circles are made in just the same way, under Whig or Tory, democracy or dictatorship, monarchy or republic. To propose, therefore, to bring them under review by a central planning authority is in no way to suggest the abolition or curtailment of political liberties, since these matters have never been within the purview of any political Government at all : certainly they have never been made the subject of any kind of democratic control. The major economic decisions of an unplanned economy are the outcome of the responses of individuals, acting mainly in what they conceive to be their own interest, to the situations in which they find themselves ; and these decisions are carried into effect by similar responses on the part of other individuals to the situations which in turn result therefrom. Thus one set of individuals decide to erect a factory for the manufacture of fire extinguishers in Southwark because they believe that it will be profitable to them to do so ; and this decision is made effective by another set of individuals, who decide to seek work in that factory, because the wages offered there appear to compare favourably with any alternative opportunities that may be open to them. The establishment of an authoritative Planning Commission would certainly restrict the liberty of the first set of individuals, but it would in no sense deprive them of any political rights, or democratic power of control, which they had previously enjoyed, since their power never had, or professed to have, any political or democratic basis. At the worst it would substitute one arbitrary authority (that of a publicly constituted body) for another (that of the sovereign captain of industry). And if, as is suggested below,¹ a Planning Commission continues

¹ See pp. 310 ff.

to rely in large measure on the aggregated result of independent individual decisions for the means of carrying its plans into effect, in just the same way as do existing unplanned economies, then the liberties of the second set of individuals would be entirely unaffected by planning. Plans would be drawn up demanding the services of, say, a thousand bricklayers, but the decision whether John Smith or Tom Jones should be numbered amongst the thousand would be left mainly to the judgment of those gentlemen themselves.

It is only in the third circle that the appointment of a Planning Commission could be said to encroach on the functions of existing political institutions.¹ And here, surely, the encroachment has a great deal to commend it, for it is generally agreed that democratically elected Parliaments have proved themselves quite incapable of dealing with all the economic technicalities in which they have been entangled in recent years. There is no part of their job which Parliaments do worse than their economic work, and no department of affairs in which the theory of democratic control is further removed from actual practice; and no wonder, when one considers on the one hand the amount of detailed technical knowledge that constructive economic planning demands, and on the other hand the means by which members seek and gain election. So already this

¹ Municipal bodies which now own and manage local industries would, I presume, continue these functions in a socialised system; a local authority being one of the forms of public corporation to which the management of industry would be entrusted, just as in Russia there are factories owned and operated by local Soviets, as well as those belonging to the big trusts. The only limitation that planning would impose on these local political units would be that they would, of course, have to adjust their programmes to suit the general scheme. But in view of the fierce control that the Central Government already exercises over, e.g., the borrowing powers of all municipal enterprises, and the law which in effect forbids municipalities to do anything in the way of industrial activity which they have not been given express permission to do, this limitation can hardly be regarded as a blow at existing political liberties. Moreover, the management of these municipal enterprises within the framework of the plan would still remain, as at present, in the hands of a committee of the local democratically elected council.

pathetic inability of amateur Ministers and members of Parliament to handle extremely complex technical questions has become an old story and one which agitates every school of political reformer¹; and, thanks to this, theoretical democracy is visibly degenerating into a mere pull of rival vested interests.

The satisfactory course surely is to recognise once and for all that economic administration is a job for experts, and to hand it over to them. Detailed democratic control of economic affairs is at best a hopeless morass, and at worst (and more commonly) a hypocritical pretence. It has nowhere been effectively exercised in the past, and nobody has suggested any passable scheme by which it might be realised hereafter. Under every economic system the great majority of decisions, large and small, have either had to be left to make themselves, or been entrusted to one or other sort of bosses. This is a situation which we have, I think, to accept as quite inevitable; and, since most of us already have quite as much to decide as we can well cope with, we need hardly make it subject for lament. Its immediate moral is that we should give our attention to finding the right bosses, and to indicating to them any general views that we may hold about the matters over which they are to have jurisdiction.

For while the making of plans and the supervision of their execution must, I think, be in the hands of a permanent Commission, this does not mean that the public at large, through its representatives, may not properly express *general* opinions about the *kind* of results which it would like those plans to achieve. The Russian system, modified to suit a democratic political structure, seems to offer the right kind of model here. In the Soviet Union, while the Gosplan is itself the body responsible for making the plans and seeing them through, the Communist Party, as we have seen, can lay down guiding standards, as when it demands that the

¹ For a most valuable succinct modern statement of these criticisms the reader should refer to Sir Arthur Salter's *Framework of an Ordered Society*, especially ch. i.

second plan shall provide for an increase in the products of light industry, or when it calls for greater independence of foreign supplies). In a country which still enjoys democratic political institutions it ought to be the job of Parliament to give such general guidance to an economic Planning Commission, and to call attention also to results of the plans which may have other than economic importance, such as would arise, for example, if the planners proposed (as they probably would) to desecrate places of natural beauty or historical interest, or if their plans should involve a general abandonment of rural for city life. A democratically elected Parliament represents at best an assembly, not of experts on everything from cost-accounting to maternal mortality (which is the demand made on the unhappy member of to-day), but of guardians of common human interests; of people who appreciate the sort of things that their neighbours care about, and who know what will press upon those neighbours' corns. In a modern community there is work enough and to spare for a Parliament which does not attempt to do more than express these common human interests, both in relation to matters which are not primarily economic at all (Parliamentary control over which would not accordingly be affected by the introduction of economic planning), and also at the points at which such interests are touched by economic policies.

This means, in effect, that the making and execution of an economic plan in a democratic country will need to go through something like the following stages. First, Parliament will give general guidance. It will say, perhaps: We should like to see industry more highly concentrated in certain areas; or we should prefer a greater diversity of occupation; or we regret that more opportunities have not been provided for women to find employment; or we think that there should be a more rapid movement towards equality of income; and so on and so forth. Next the Planning Commission will prepare plans, beginning, as we have elsewhere suggested, from the *status quo*, and making departures therefrom in the light of these general guiding hints

from the representatives of the non-expert public. These plans will, of course, have to be built up from the miniature plans of local units, and they will probably be returned to these units for criticism and improvement before they are finally adopted by the National Planning Commission. When, however, the Planning Commission has done its best, the resulting Draft Plan will be submitted to Parliament, and a further opportunity given for discussion there. Parliament will then perhaps express disappointment with some of the proposals. It may, for example, point out that although some additional opportunities for women's employment have been provided, these are not to be found in the districts where, as in mining areas, the predominantly male character of industry makes them most urgently required. And at this stage criticism will be heard, not only from Parliament, but also from all manner of voluntary bodies such as trade unions, learned societies, or societies catering for particular interests, such as those of vegetarians or housewives.

The substance of these comments and suggestions will then be reviewed by the Planning Commission, which will incorporate some and reject others, offering, in the case of the more substantial criticisms which it is unable to accept, reasons for sticking to its original opinion. That the planners should thus have the last word is, I think, absolutely necessary. Otherwise their position will quickly be rendered impossible by the importunity of inexperienced persons, who want them to include all sorts of things in the plan without any idea of the practical or technical consequences which these notions entail.

To work out in detail the exact relations between Parliament and a Planning Commission would clearly be a subject for a book in itself. The above slight sketch is intended, not so much to grapple with that subject, as to illustrate the point that economic planning is one thing and political structure another, and that the introduction of the one does not necessitate a fundamental remodelling of the other. At the most, economic planning takes off the shoulders of

Parliament certain jobs with which Parliament has only recently loaded itself, and that to its manifest undoing. But the political purposes which Parliament was evolved to serve, and the political liberties of which it is the proper guardian, are not in themselves affected by the substitution of a planned for an unplanned economy.

Nor, it has to be added, does the introduction of a socialised planned system of economics call for changes in the actual constitution or mode of election of Parliament itself. The Russian paper political constitution is indeed built on principles quite different from our own. But it cannot, I think, boast any general superiority to the Western type of democratic government, nor has it any peculiar appropriateness for a community which proposes to plan its economic life. The two distinguishing features of the Russian political constitution are, as we have already had occasion to mention, first, that it is built from the bottom upwards by indirect election, and, second, that it is, wherever possible, based upon an industrial, and not a geographical, franchise. Indirect election, by which the members of assemblies wielding larger powers are chosen by and from the members of those of lesser importance, only the smallest local units (the village or factory soviet) being directly elected by the people, may have some advantages for a country whose members have had no training in self-government or local democracy. It enables the electorate to begin at the beginning by attending to the affairs of the village pump ; but it clearly does not enable them to go much further than that pump, and it is definitely less, rather than more, democratic than a system in which the members of the national Parliament are directly elected by the people. It is a common enough complaint that the contact between member and constituency is by no means as close as it ought to be under our system. But under the Russian constitution there is, even on paper, no such direct contact at all.

Much more public interest, however, has been focussed on the second distinguishing feature of the Russian paper

political system, namely, its industrial basis. Indeed during the last fifteen years the whole idea of industrial representation has enjoyed a great vogue, and it has been fashionable for those who are discouraged by the undemocratic results of geographical democracy to acclaim the merits of the industrial variety very loudly. Even in Italy, as we have seen, the syndicates of workers and employers are chosen in preference to local constituencies as the electoral units of the limited political democracy permitted in the Corporative State.

Contrariwise, I should like to suggest that there is nothing in this industrial method of election about which we need worry our heads at all : that it is neither more democratic than election by local units, nor in any way more appropriate to planned economics. A constituency consisting of fellow workers in the same plant will react differently from a constituency of similar size and social composition consisting of neighbours in the same streets, only to those topics which vitally affect the interests of the plant in the one case, or the neighbourhood in the other. In each case there will be a limited range of matters on which the electors will be keenly aware that their personal interest is at stake, on which they will be easily roused, and about which they will tend to think alike. The one group will be zealous for plans which will increase the pay and prospects in the plant, the other will unite in demanding greater amenities for the neighbourhood. Moreover, since work generally occupies a larger part of life than play, it is likely that this sensitiveness to special sectional interests will be somewhat greater in the industrial than in the local constituency. But that exhausts the differences between the two cases. On all those general topics which are the chief and proper content of political discussion—on such matters as freedom of speech, blasphemy laws, education, health, even taxation (apart, of course, from local taxation, or taxation affecting the particular industry in which the members of an industrial constituency are engaged)—there is no reason whatever to suppose that a group of fellow workers will feel more keenly,

vote more intelligently, or be more zealous in keeping their representatives up to the mark than a group of neighbours. There is no magic whatever in industrial representation¹ as such. And, indeed, the very fact that the sectional interests of an industrial group tend to loom larger and to be more acutely realised than those of a geographical group is a positive drawback to choosing the former as the basis of political democracy. For a Parliament consisting of members, every one of whom is absorbed in the limited sectional affairs of his own group of constituents—in the interests which they have *against* the community as distinct from those which they share with the rest of the country—is not much better than a dog fight. It exhibits most blatantly the disintegrating effects of that centrifugal tendency to which I have already called attention as the persistent enemy of all specialised communities. All the arguments, in fact, which the Webbs adduced years ago against general vocational or industrial assemblies, are as valid as ever to-day, and quite unaffected by the Russian leaning towards an industrial franchise.¹

For the Russian notions about political constitution-making are, of course, much more mixed up with the Soviet *social* system than with any idea of making democracy effective or making it relevant to a planned society. The Russians believe that the electoral unit should be the factory, because they do not think that anybody except workers should vote at all : which is quite another story. Obviously this gives an industrial constituency a peculiar appropriateness, for it both simplifies the practical problem of ensuring that persons who are not workers do not, in fact, succeed in voting (which, in the present rather primitive state of the Russian system of registration is a point not without importance), and at the same time gives a striking and visible demonstration of the superior prestige and privilege of the working class. Those are proper considerations to be taken into account by any who wish to copy the present

¹ See *A Constitution for the Socialist Commonwealth of Great Britain*, by Sidney and Beatrice Webb, pp. 309 ff.

class structure of the Soviet Union ; but, apart from this, there is little or nothing to be learned from them by a democratic country which desires to plan its economic activities.

III

If profound changes in political structure are not a necessary accompaniment of constructive national planning, can the same be said about changes in the structure of industry? Throughout these pages it has been implied that such planning is impossible unless the instruments of production are owned by public corporations amenable to the direct orders of the planners ; and we have given much space to the question how this troublesome condition may be fulfilled. Troublesome it most certainly is. Could we but persuade ourselves that the fulfilment of this condition is, after all, not necessary, the whole approach to a planned system would immediately become enormously easier. Could we but embark upon comprehensive and constructive planning without first having to convince the public of the necessity of carrying through the complicated job of socialising the instruments of production, and then actually carrying that job through, three-quarters of the battle would be won.

Recently Sir Arthur Salter¹ has argued with great persuasiveness that planning need not wait upon socialisation : that we can look forward to the evolution of a planned economy from the organisations already thrown up, or in process of being created, by various industries or industrial interests ; of which Chambers of Commerce, trade unions and employers' organisations are typical. These bodies, he points out, have a double character, partly defensive and partly professional, to borrow his own terms. In the former capacity they are engaged in "defending the special interests of those concerned, either as against directly opposed or competing interests or the public in general" ; while in their professional aspect their job is that of

¹ See *The Framework of an Ordered Society*.

“developing standards of efficiency and of conduct, of encouraging an internal self-discipline which is in the general public interest.”¹ The proportion in which these two sides of character are developed varies greatly from one organisation to another ; but it is admitted that hitherto the defensive has generally predominated. Nevertheless, Sir Arthur believes that the most hopeful line of advance is to concentrate on fostering the professional element in these organisations, and to make this an instrument for constructing and executing a deliberate plan. Large industrial corporations, he says, “constitute ready-made units for a wider organisation which can guide policy throughout the whole world sphere of the particular industry,”² with which they are concerned. While it is not claimed that a plan of this kind would, or should, cover all industries, the hope is expressed that if combined with a reform of the monetary and financial system, it would introduce such a measure of order into the chaos of an unplanned society as would enable the ordinary price mechanism to work “without intolerable waste or dislocation” in the spheres in which no corporations, capable of planning, yet exist.

This is surely an extremely optimistic view. For the tendency of the defensive element to predominate in any sectional organisation reflects more than a mere accident. It is symptomatic of our old enemy the centrifugal tendency which springs from the inevitable conflict of the part with the whole. As we have seen, the interest of any sectional group, be it single firm, industrial association or trade union, is to run counter to, not in harmony with, the interest of the whole community. Adam Smith’s invisible hand, which was supposed to guide us all to the common good through the pursuit of our own personal advantage, proves but a frail thing compared with the pull exerted by the attraction of exploiting a sectional advantage. The anti-social interests of any specialised group, in a world where practically all economic decisions, great and small, arise

¹ *Op. cit.*, p. 24.

² *Ibid.*, p. 35.

from the attempts of individuals to respond to situations in the way most conducive to their own advantage, are so strong that the defensive character of sectional associations is almost bound to predominate. The instances in which the professional aspect of such associations has acquired relatively considerable strength usually exhibit quite exceptional features, and do not hold out much hope that they might become a pattern to be generally copied and, indeed, improved upon. Sir Arthur quotes, as an example of such a laudably professional body, the General Medical Council. But the practice of medicine is hardly typical of industrial production generally. In this service the consequences of bad workmanship, or of a deliberate attempt by a practitioner to get as much money as possible for as little work as possible, are so blatantly disastrous that it would be a low standard of conduct indeed which did not demand that quality of service should be given comparatively high place among the aims of the association. And, what is more important, the General Medical Council is relieved of the most severe temptations to which an industrial corporation that had power to plan for its own industry would be exposed. The Council does not, as does the corporation, have to make such major economic decisions as those relating to the scale of output. It does not decide how much doctoring there shall be, as the steel cartel decides how much steel there shall be. And yet, with all these influences making for the growth of its professional rather than its defensive activities, Sir Arthur has to admit that even in the case of such a body as the G.M.C. "we sometimes find greater enthusiasm shown in dealing with professional misconduct which injures the profession—such, for example, as co-operating with an unqualified practitioner—rather than that which injures the public."¹

What it comes to, I fear, is that a general plan which is built up from the partial plans made by sectional groups in the pursuit of their own interest can at best represent an unstable compromise between the competing designs of

¹ *Op. cit.*, pp. 25, 26.

units, each of which inevitably puts its own advantage first and that of the general public only a poor second. So long as the instruments of production and the products thereof are the property of private persons interested in the financial results of operating those instruments and selling those products, the major economic decisions must be made, firm by firm, or industry by industry, in accordance with the view taken by those persons of the course most advantageous to their own industry or firm ; which means that the very substance of any plan will be at the mercy of this centrifugal tendency. The output of steel will be planned to make a paradise for the steel plants, the output of beer will be planned to make a brewers' paradise, the output of pictures will be planned to make heaven on earth for the artists ; and the final upshot may fairly be described as a community more planned against than planning.

This means that a planning authority which does not have the disposal of the instruments of production and of the product of industry directly under its own control, will, in effect, have to confine itself to planning of a negative and obstructive type. I do not say that such planning is valueless. It is already practised on an increasing scale in the older unplanned economies such as ours, and has there done much to blot out the more grossly hideous features of the mosaic that results from millions of completely unco-ordinated and uncontrolled decisions. But it has its dangers and its limitations. Frequently its decisions merely echo the voice of the vested interest that has shouted loudest or threatened most fiercely.¹ And, especially as exercised by inexperienced and overworked persons, it is apt, as we have seen, to defeat its own ends,² or to throw grit into a mechanism which depends upon unfettered personal initiative for its motive power. Moreover, at its best, such planning remains negative. It may be able to prevent an unplanned

¹ For examples see the cases of the sugar and the wheat subsidies quoted in Salter, *op. cit.*, pp. 14 ff.

² For a choice example of the unexpected and undesired ramifications that may result from any authoritative interference with an unplanned economy, we may quote the complaint sometimes made by innkeepers

system from shaping itself into certain particularly ugly patterns, but it cannot substitute designs of its own for these. It may fix maximum or minimum prices for milk or meat or metals, or schedule this area for dwelling-houses and that for factories, but it is quite unable to make two blades of grass grow where only one was before, or to add so much as four legs of mutton to the output of meat, or even to erect a single factory on the sites that it has prescribed for industrial production. It can forbid a man to let the premises which he owns for the sale of fish and chips, but so long as he does own those premises it is unable, without making nonsense of the right of property, to order him to use them for that purpose, or to lay down the precise number of haddocks and live eels that he is to offer for sale therein. In these circumstances, the only way to make him contribute his desired quota to the fish and chips business is to create conditions which will *induce* him to do this. And this, in turn, means that the terms of sale of these products will have to be regulated mainly in accordance with his wishes, and in particular so as to satisfy the interests which he has against, and not in common with, the rest of the community. And when this same story is repeated for every branch of production, the result can only be that the centrifugal force of these interests will continually pull to pieces the essential content of any comprehensive plan.

It is pertinent here to recall the contrast between the experience of the Russians in industry and agriculture respectively. In industry the chief troubles have been incompetent, shiftless and unskilful workmanship on the one hand, and inadequate plant, materials and means of transport on the other, acting upon an incurable optimism which always believes that far more than a pint can be got out of

that an increasing number of farmers are now able to offer accommodation to tourists on exceptionally favourable terms, thanks to their enjoyment of privileges, such as agricultural derating, which were intended to encourage domestic food production, but in effect merely put a bonus into the pockets of walkers and motorists at the expense of the innkeeper!

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a pint pot. But there has been no wholesale destruction of capital equipment, or concerted refusal to use this in the way that the plan demanded, and no widespread and deliberate restriction of production comparable with the repeated slaughter of livestock, withholding of grain and blank refusal to sow more than is required for the cultivator's own needs, which have again and again played havoc with the plans for agriculture. The peculiarities of peasant mentality are not the whole explanation of this difference. The factory labour of to-day is recruited from the peasant of yesterday, and is still peasant under its skin. The vital element of difference is that in agriculture both the hen and the golden eggs that it lays, both the cow and the golden milk that it yields, and, if not the earth, yet still the golden grain that it bears, are the property of persons (and even in collective farms of groups of persons) who are directly interested in the sale of these products. The co-operation of these persons can indeed be won on certain terms, but the price of its winning is that the sectional interests of these persons should make their mark on the very content of the plan itself.

IV

We have next to ask the difficult question : To what extent does successful economic planning imply dependence on, or independence of, a price mechanism ? How far will a planning authority employ the familiar notation of money and prices ; and, where this is employed, will it be merely a convenient mode of expression, or, as in an un-planned economy, the actual governor of economic policy ? This, of all aspects of planning, seems to me most urgently to call for further investigation. Happily, it is beginning to attract the attention of economists who are disposed towards socialism, and considerable clarification of our ideas on the subject may be looked for in the next few years. In the meantime the following reflections must be taken as quite provisional and tentative.

✓ First, I think we have to lay down that a planning authority will not be *wholly and automatically* guided by the readings of the price mechanism. It will not simply offer goods for sale in a free market, and expand or contract their production according as a profit or loss is recorded on their sale. If the planners are not to do more than observe a self-regulating mechanism, and conform exactly to it, they can hardly be said to be planning at all. It is silly to set up a cumbrous organisation merely in order to do what can be actually better done without it. If the price mechanism is, or can be made, a perfectly reliable determinant of all economic issues, then it is better to be guided by impersonal or multi-personal authority than to substitute deliberate human judgment with all its possible imperfections.

But a good part of this book has been concerned to show that the price mechanism cannot make these claims. Used as the tool of theoretical analysis, it has enabled us to define with great precision the meaning of economic efficiency, and it is an invaluable aid to clear thinking on all economic topics. Accordingly it has become the darling plaything of the economists, who are naturally inclined to resent any aspersions on its universal validity, and to conclude either that a planned economy must be no good because it could not be governed by this mechanism, or, conversely, that it is only in a planned economy that the mechanism would function perfectly. But, alas! the gap between theory and practice is here very wide. In practice, the price mechanism struggles with an almost impossibly difficult task. It has to measure and compare incommensurables—one man's work with another man's pleasure. It is distorted by custom and convention and faulty reckoning. It cannot, in fact, offer us any security that maximum economic efficiency will be attained in a community whose economic decisions are governed by the responses of individuals to its readings.

Nor can we get out of the difficulty by suggesting that a planned socialised system might create the conditions in which the price mechanism would work with perfect accuracy and would invariably reflect the true balance of

cost and satisfaction. It is possible that planning might correct *some* of the present shortcomings of that mechanism. For example, by removing some of the present causes of unequal distribution of wealth, it might improve the presumption (it can never be more than a presumption) that when I am willing to pay half a crown for a job which somebody else is willing to do for half a crown, it is to our mutual advantage that the job should be done. But we step out of the frying-pan into the fire. For if planning could improve the reliability of the price mechanism in one direction, it has just the opposite result in another. If the argument of pp. 99 and 100 is correct, it becomes quite impossible to get a true objective measure of all the costs of production where saving and investment are performed by collective units. There can, therefore, be no absolutely reliable index which will infallibly reveal to a planning authority the point at which additional output from any industry is no longer so urgently needed as to justify the cost entailed in producing that output. It follows that there must be a certain element of arbitrariness in the decisions of the planners. They will decide to plan for an output of so many million tons of coal and so many million tons of potatoes, not because these figures have been arrived at by any precise mathematical process, so that a ton more or less could be demonstrated to be a mistake, but rather because production on this scale appears to the planners to be of the right sort of magnitude, and because they have quite arbitrarily chosen these exact figures for no better reason than that one must in the end choose some figure or other. That is to say, the planners must be prepared to defend the *general* features of their plan, and to do this by using *general* reasoning. They will say: The production of potatoes makes men healthy, wealthy and wise, and we think, after considering the alternative possible occupations for the people of, say, Sussex, that it would be well to make Sussex much more of a potato-growing county than it is to-day. But they will not be able to abdicate in favour of an automatic register, or to evade responsibility for their judgments, by merely pointing to

the recorded costs and selling prices of potatoes, and remarking, in superior fashion, that these figures show the correctness of their decision.

On the other hand, no planned economy could tackle its job unless it employed *some* method of reckoning in terms of money prices, on whatever principles these may be calculated. The lessons of Russian moneyless accounting are still valid and should warn us off attempting anything equally ambitious, at least for a long while to come. The first function, therefore, of the price mechanism under a planned economy will probably be to serve as a means of expressing the content of the plans, and therewith also as a means of checking the measure of their fulfilment. That is to say, the plans would take the form of proposals that such-and-such quantities of goods should be produced at such-and-such costs and sold at such-and-such prices. If the method of calculating these costs and prices, and of deciding upon these quantities, is necessarily somewhat arbitrary, nevertheless the use of monetary terms for this purpose will be essential as a means of formulating what the planners propose to do ; and, on the understanding, which it is most important should be observed, that the methods of calculation employed, once determined, are adhered to until any project to which they have been applied is finished, the use of these forms of expression will also make it possible to judge whether the planners have accomplished what they set out to do, and, if not, at what points and by how much they have fallen short of their objectives. Thus it may be decided that, in the calculation of costs, interest must be included at, say, 4 per cent. This is a quite arbitrary decision, and there is no way of determining whether 4 per cent represents more or less than the cost of abstinence required for capital investment on the scale projected in the plans. But once this and other relevant figures have been fixed, then any enterprise which realises only 2 per cent on capital (or any which pockets 6 per cent) is at once seen not to have fulfilled the intention of the plans. Moreover, the use of a system of monetary reckoning makes it possible also

to record that the measure of divergence of result from plan in such cases is exactly 50 per cent. We may here remind ourselves of the merits of a system of prices, to which attention was drawn at a much earlier stage,¹ as an instrument for recording *quantitative* results ; for, in the execution of any economic plan, mistakes will be made, and a rod with which to measure the magnitude of these mistakes will be indispensable.

Further, within certain limited spheres, movements of prices may well play a part in a planned economy closely similar to that which they play in the world of no-plan. One of these spheres is that of regulating the distribution of workers between the various occupations which the plans require that they should follow. Here the usefulness of the price mechanism largely depends upon the type of incentive on which it is desirable to rely in order to keep the economic system going, and the matter is discussed in that context.² Another such sphere is that concerned with rationing the supplies of goods already produced amongst the consumers who are to make use of them. Here, at least when we come to the final stage—the moment when the bread, the ingredients of which have passed down the long chain of hands from ploughman to baker's delivery boy, is at last to enter the possession of the man who proposes actually to eat it—the method of attempting to fix prices in such a way that all (and no more than all) that is produced will find a market has much to commend it. So long as there is any scarcity of the agreeable products and services that we designate as wealth (and we have seen that that situation is likely to endure for a long while to come), there are really only two methods of regulating the distribution of goods that have reached the stage in which they are ready to be consumed. One is to assign definite rations in terms of quantity as the Russians do with sundry food-stuffs, the other is to put price tickets on to the goods and then let the public buy them for money.

The advantage of the second method over the first is that

¹ See p. 41.

² See pp. 329 ff. below.

it gives the consumer all the appearance, and a considerable measure of the reality, of personal choice. We have already seen that rationing necessarily stereotypes everybody's consumption, and this, as soon as standards rise below the lowest minimum, is surely deplorable. Certainly the introduction of any such method of regulating distribution would be deplored by the majority of any prosperous and independent-minded community accustomed to the alternative method. Some of us want to spend more on travel and less on domestic comfort, while others prefer to stay at home all the year round and devote their income to making that home worth staying in. These are harmless personal preferences, and, in the interests of colourful variety, it is good that they should be indulged : the more so, since the scope of the consumer's effective liberty under any type of complex industrial system is bound to be pretty narrowly limited.

Now, the real (as distinct from the apparent) measure of the freedom which the control of distribution by prices rather than by rations confers upon the consumer in a planned economy, where the planners have full command over the lines that production is to follow, may be described in this way. Under the rationing system the consumer is *compelled* to take what he is given. Obviously in this case his power of choice is nil. Under the price system, on the other hand, his range of choice is limited by the facts, first, that nobody can buy what is not there, and, second, that the planners will do their best to see to it that the whole body of consumers in the aggregate does actually buy all that is there. In pursuance of this aim they may hold out alluring inducements to beguile the public into buying more of articles which they have decided to turn out on an unusually large scale. These inducements will, in the main, take the form of pricing such goods on exceptionally favourable terms ; and, if this policy is carried far enough, the experience of an unplanned economy suggests that it will, in the end, be successful. If stuff is offered cheaply enough, *someone* will be found to buy it. But such policy remains a

matter of inducements, not of compulsions ; *and no given individual is himself obliged to be the someone who buys a particular something.* Hence, where a price system is employed in this way, on the one hand the planners are still able to shape the general lines and proportions of the community's production (and therefore of its consumption) as they think best. But, on the other hand, every individual is able to ring his own particular changes on the common theme, and to diverge from this in proportion as he is able and willing to stop his ears against the blandishments of subsidised prices.

It may be added that the peculiar blend of rationing, selling goods for money, allocation of non-monetary privileges, and manipulation of prices in accordance with the incomes of particular buyers, which the Russians employ at the moment, appears to be a very clumsy affair, not to be recommended in preference to the simple use of the ordinary type of price mechanism in this sphere. The objections to rationing have already been discussed ; but the same kind of criticism can be made of the various methods, so dear to the Bolsheviki, of loading a large money income with incidental disadvantages and enhancing the value of a small one by the same token. One is constantly told that workers earning smaller wages in the Soviet Union find themselves actually better off than others with larger nominal incomes, because the former enjoy such privileges as the right to buy cheap meals in factory restaurants, while the rents charged for house-room appear to vary in accordance with the tenant's income, a lower sum being charged to a poorer than to a richer occupier for the use of the same accommodation. All this is an extraordinarily roundabout way of regulating the distribution of income on the one hand, and its correlative, the distribution of goods and services available for consumption, on the other. To charge different prices for the same goods to persons of different levels of income must add enormously, and to no purpose, to the complications of a machine that is bound to be complicated enough at the best of times. If it is agreed that A should be 50 per cent better off than B, the direct

and simple way of achieving this, as well as the way which gives most scope for the expression of personal taste, is to pay him 50 per cent more money, and then let both A and B spend that money as they please on goods which it is open to them both to buy on exactly the same terms. The Russians appear to base their peculiar system largely on the doctrine that a privilege, though still a privilege, is less likely to titillate the instincts of covetousness, if it is not actually paid over in cash to the person who is to enjoy it : a simple enough view at any time, but one which is astonishingly naïve when it is stretched to make the right of purchase on special terms appear less demoralising than the receipt of a correspondingly more substantial money income.

v

At a very early stage of our examination of the Russian plan we came up against the simple fact that it is no use making a plan if you cannot get people to carry it out. In other words constructive planning demands a certain control over persons as well as over things. Just as the plan requires that coal should be carried here and a power station erected there, that suspenders should be sold in this shop and newspapers at that one, so also, by consequence, it calls for so many miners here, so many electricians there, so many haberdashers or newsvendors in this district or that. We have, therefore, next to ask : What are the most favourable conditions for enabling these requirements to be carried out, so that the plan may be translated from paper ambition to concrete reality ?

Here I should like to put in a plea for the use, subject, indeed, to certain limitations which are discussed later,¹ of the old-fashioned type of economic incentive as the principal means by which a plan, in a democratic community, should achieve the necessary distribution of labour between different places and occupations : that is to say, for the maintenance, in this sphere, of the machinery of the

¹ See pp. 339 ff.

price mechanism, operating in a labour market in substantially the same way as that mechanism controls the distribution of labour in the world of no-plan. It is true, indeed, that the simplest and most direct way of all of getting a plan carried into effect is for the planners to have the power to order people to go and carry it into effect : that is, for control over persons to be exercised in exactly the same way as control over things. This, however, implies the establishment of a slave state ; a measure which, notwithstanding the low value now commonly set upon personal freedom, is hardly yet practical politics, still less a commendable ideal. The economic incentives have, therefore, to be weighed, not against compulsion, unless it is compulsion applied sparingly at particular points, but against alternative methods of *inducing* people to do what the plan requires should be done.

Recently it has become fashionable to exalt certain of these alternatives at the expense of the economic motives, which last, particularly in the socialist world, have lately fallen into great disfavour. It is argued, first, that already we ply our various tasks for reasons quite other than the love of material gain ; second, that these other reasons are often morally to be preferred to the lure of pecuniary advancement ; and, third, that they are capable of much greater development in the conditions of a socialist society than they can attain in a world where, as we have already seen, everybody's zeal to get as much money as possible for his own use itself supplies the driving force that makes the wheels go round. In particular, we are reminded that most of us work from habit, or even from a simple preference for doing something rather than nothing ; and that nearly, if not quite, all of us boast a rudimentary sense of social obligation—a power of response, at least in certain circumstances, to exhortations to do our bit, which is based on an appreciation that only the addition of everybody's bit can make the requisite total.

The potentialities of such motives as instruments for carrying a great national plan into effect must, however, be

considered in very close relation to the nature of the demands which such a plan necessarily makes upon the people who are to work it. In particular, we have to keep in the forefront the fact that every well-conceived plan is going to call for change ; even though it must begin from the *status quo*, its job is to improve upon what it finds. Indeed, all the communities that are in the least likely to experiment with planning are already in a state of continual change. Technical change introduces new methods of production calling for new varieties of skill and tools ; demographical change alters the proportions in which the population is divided between children, adults of working age and old people ; change of taste or standards demands the manufacture of commodities and services formerly unheard of—from all of which it follows that no plan is any good at all which cannot continually adapt itself to these movements. Every good plan will be different from that which it succeeds ; and, unless it is drafted to cover only the shortest possible period, it will almost certainly itself need to be revised in the course of execution, so as to meet new circumstances that have arisen between the time of its conception and the date at which it is intended to give place to its successor. A planned society cannot lay too much stress on this need for elasticity and adaptability. Since it is always a little easier to repeat what you have done before than to embark upon new courses, the planners are likely at all times to be in some measure biased in favour of conservative policies. It is of vital importance that every possible step should be taken to counteract this bias, and, in particular, that the instruments by which new plans are carried into effect should be as flexible and responsive as possible.

This elementary condition at once puts a limit to the possibility of relying upon the habit of work, or upon any simple undifferentiated preference for activity over idleness, as substitutes for the familiar economic incentives of the unplanned world. Yet the importance of this limitation is too often overlooked, particularly by those whose dislike of

the economic motives is based upon the good socialist's hatred of inequalities. Mr. Bernard Shaw, for example,¹ argues that one of the reasons for not quailing before proposals for universal equality of remuneration is the fact that already such equality has been found practicable for large classes even within the capitalist system. All the judges of the same standing, he points out, already receive the same pay, as do all the soldiers and all the members of Parliament. So they do—*after they have become* judges or members of Parliament or soldiers, as the case may be. But it is just this last qualification which is the flaw in Mr. Shaw's alluringly simple inference that, since everybody within these classes already receives the same pay, there should be no difficulty in extending this equality further, until a postman receives not merely the same pay as any other postman, but the same as the judges or the soldiers or the members of Parliament. For we may be sure that though, once a judge, a man gets the same pay as his colleagues on the bench, yet no one embarks upon the career of which becoming a judge is the final consummation, without an eye upon the economic advantages which the attainment of that eminence would bring, as contrasted, for example, with the pay and prospects of entering the postal service. The removal of certain class barriers may, indeed, as we have already seen, enormously reduce the present inequality of remuneration as between different callings, even while economic incentives still play their part in luring workers into this job and out of that one. But if we are to go all out for absolute and universal equality, or if on any other grounds we decide to discard economic incentives, then *some* alternative machinery for regulating the distribution of labour between various callings *must* be substituted; otherwise, what is to be done when more postmen and fewer judges are required?

Habit, then, clearly will not serve the purpose. Habit will make a man who is a wheelwright go on making wheels, it will make a doctor go on doctoring, a waitress go on waiting,

¹ *Intelligent Woman's Guide*, pp. 68-70.

and (without doubt!) a lecturer go on lecturing. It may even make the child of a wheelwright apprentice his son to wheelwrighting, or a doctor's child devote himself to medicine, or the daughter of a waitress take up waiting, or a lecturer beget future lecturers. But it will not supply more doctors and fewer wheelwrights, more waitresses and fewer lecturers. In times of crisis, habit is an invaluable aid towards keeping any kind of economic system going. And, even in ordinary times, it may play a larger part than any other single motive since, even in a dynamic society, change is always the exception rather than the rule—more people are trudging along in the jobs that they have than are contemplating any immediate change. But habit must be supplemented by some additional force which will induce adaptation to new conditions ; whether, as in an unplanned society, these conditions are the unpremeditated result of independent unco-ordinated actions, or whether, as under a plan, they are expressed in alterations of a pattern that is deliberately designed.

↳ That, for practical purposes, leaves us with the appeal to a sense of social obligation as the most likely alternative to exploitation of hopes of personal advancement, in our search for a means of making people do the jobs which the planners have decided must be done. All the varied keys in which this appeal can be pitched, together with the appropriate responses that men and women make to these, I propose to describe under the single term "uplift"; although admittedly this term carries a certain aroma of belittlement. Uplift will then comprise all those inducements to go here or there, and to do this or that, of which considerations of patriotism, of one's duty to one's fellow workers or to the party of which one is a member, are typical.

Now, doubtless the value of uplift is a matter about which the psychologist ought to have a good deal to say. In the meantime, from such experience as we already have of the working of this group of motives, the layman may well be forgiven if he views with grave misgivings the prospect of an economic system of which they are the main

acknowledged driving-force. For without, I hope, taking an unduly low view of the capacities of human nature, one cannot but observe two disagreeable features which appear to be the normal accompaniments of any public exploitation of our latent sense of social duty.

The first, which has already been remarked upon, is the fact that the correlative of ardent devotion to one cause or group seems to be the abomination of another. Our only experience of attempts to use sustained appeals to civic consciousness as the means of getting big things done on a national scale is derived, first, from countries which were at war ; and second, from the Russian Five Year Plan. In the one case the abomination and the devotion are necessarily as closely related as a pair of Siamese twins. In war, disservice to the enemy is service to one's country. The two are interchangeable terms. In the other case, it does look somewhat as if, where the Russians had not an enemy all ready to hand, they had had to set to work to invent one ; or, more accurately, since the Bolshevik régime can never be said to have been exactly devoid of ill-wishers, it looks as if no pains had been spared to get the fullest possible use out of the available stock of enemies. But until we can be assured that this coincidence of love and hatred, of admiration and disgust, is merely accidental, we may fairly hesitate before committing ourselves to an economic system, the motive power of which is supplied by the public's sense of social duty. The risk of a backwash of violent antagonism hurling itself against real or imaginary enemies at home or abroad is not attractive.

And, in the second place, continual emphasis upon the performance of public duty seems to produce a mixture of intolerance and Pharisaical priggishness which is not particularly pleasing. At least it has been so in Russia, where perpetual reiteration of the Communist's devotion to the calls of the Party, and of his indifference to the dictates of his own convenience, is both monotonous and irritating, and has produced a type of personality whose development appears to be extraordinarily one-sided. I do

not for one moment question the sincerity of these pronouncements ; nor, again, would I deny the existence of a latent sense of public duty in all normally constituted men and women accustomed to life in social groups. No one who has had any experience of the life of the smallest communal group in school, office, factory, club or holiday home, can be unaware either that this sense exists, or that its development varies enormously as between one individual and another. But the fact seems to be that this kind of communal responsibility is only at its best when it can be taken for granted ; and that its value is destroyed in proportion as it becomes the object of explicit public appeal. In any society which is not cleft from top to bottom by profound dissensions, the average man can probably be relied upon to do his job decently and regularly from a very seemly desire to avoid being a burden upon his neighbours ; and to expect him to do this makes of him neither a martyr nor a prig, any more than people are made martyrs or prigs by such requirements as the tacit understanding that they will wipe their boots before entering their neighbours' houses, put out the lights when they are the last to leave the room in a public building, and refrain from performing in brass bands under the windows of a hospital. But to ask a man to renounce one job for another, or to accept lower remuneration, or to work overtime in the interests of the public well-being, is a different matter. For, in the first place, no one can perceive unaided that the public interest demands that he should make these changes in his personal conduct, in the way that he can appreciate the annoyance that his cornet would cause to sick people, or his boots to careful housewives. His social duty in thus fulfilling an economic plan has to be pointed out to him in so many words ; which, in turn, means that he has to become *explicitly conscious* both of its performance and of the motive behind this ; and that is what makes him a prig. And, in the second place, since a plan must on occasion demand large changes in the conduct of individuals, such as are quite beyond the scope covered by the existing standards

of social duty in non-Communist countries, it is likely that a man will have to be moved to a very high state of civic exaltation in order that he may accomplish this duty once it has been realised. And it is the very loftiness of this state of exaltation which, I submit, is both repellent and dangerous. For this can only be maintained in a society whose members live in a perpetual round of self-consciousness, self-commendation and mutual admiration; and it may be questioned whether the accompanying suppression of individual preference and convenience does not also carry with it a repression of personality involving definite psychological loss.

This is tantamount to suggesting that the proper function of a sense of public duty is passive rather than active. As a kind of social cement the value of this sense is enormous. And, moreover, in a healthy community, with a rising standard of culture, the range of social obligations which the individual accepts without demur tends continually to extend. We have already hinted¹ that much has been achieved in the past, and that much may be hoped for the future, from such a gradual rise in the standard of public responsibility unaccompanied by explicit uplift. But this process, if it is to be valuable and free from the unpleasant accompaniments which we have just been describing, must proceed at its own pace. To force it is fatal. And an economic plan, the execution of which was dependent upon our response to the call of social obligation, would be out of the question without a terrific forcing of this pace.

To suggest that there are limits to the extent to which conduct should be motivated by consideration for one's neighbours, and for the larger circle of neighbours known as the general public, may sound cynical and dangerous. But I would urge that the lessons of experience warrant the inference that there are such limits; and that the dangers of overstepping them are (except for a small minority of highly-gifted individuals) hardly less than those of erring on the side of selfish individualism. We are not strong enough to live in a continual state of uplift, except at the cost

¹ See p. 290.

of a strain which inflicts real damage on ourselves and our neighbours, just as much as do the vices of miserliness or laziness. That is what both Christian ethic and Bolshevik uplift fail to realise.

By contrast with an atmosphere of general uplift, a community in which some appeal is made to motives of personal advancement (within the strict limits which, as we have seen, are immediately set by the social ownership of the instruments of production) has an appearance of common sense and naturalness which is quite refreshing. And it is perhaps significant how even the Russians have become increasingly lax in the place which they allow to the expression of these motives. The *Moscow News* is a paper published in foreign languages in order to win the sympathy of observers of the Soviet Union in other countries, and it is accordingly at pains always to put that face on the events which it records which the Russians think most creditable to their system. It is, therefore, the more remarkable to find, in the columns of that journal, one N. Shatkhina boasting that, as a result of her hard work on a collective farm, she "will have heaps of money and will buy herself shoes, a coat, dresses and underwear," and that it "has become clear to her and to the other girls who lead an independent life that they are well-to-do now"; while Ivan Buzak, a member of the same collective, confesses that he had at one time doubts whether he would really get all the rye, vegetables and money that were promised when he joined the collective, and that he tried "to figure out in advance how much he would earn"—only to find that the results more than came up to expectations, so that he and his wife intend to buy shoes, slippers, a coat, a winter jacket, underwear and all kinds of other goods, including a calf and some pigs and chickens.¹

Might we not do well to accept the simple desire of N. Shatkhina and Ivan Buzak, and the millions whom they typify, for greater abundance of the comforts and conveniences of life for themselves and their families, as the main

¹ *Moscow Daily News* (weekly edn.), September 20, 1933.

motive to which any planning authority will appeal in order to induce the public to do the things that it has planned should be done? The economic motive is, after all, but one expression of the wise and rational policy of getting the best use out of the good things that nature has provided, the wits that she has put into our brains and the muscles that give strength to our arms. This policy is, as we have seen,¹ in itself morally neutral: it becomes objectionable only when acquisition on the part of one implies loss on the part of others. In one sense it will even be the guiding principle of the planners themselves, the efficiency of whose programmes must be judged by the degree to which they have successfully accomplished the very ends which this policy seeks to attain; and for this reason, if for no other, it is perhaps as well that the public should perceive also in their individual lives the existence of some connection between effort and reward.

The one really substantial objection to reliance upon economic motives is, of course, that this readmits once more that persistent bugbear, the centrifugal tendency of every specialised society. As soon as it is decided that one kind of work shall be remunerated more highly than others in order that more people may be induced to take that work up (the implication being, of course, that there are not enough people engaged on it already), it becomes to the interest of these better-paid persons to maintain the relative scarcity of their type of labour and its counterpart, the relatively high level of their pay. The reader, however, who has followed the argument of pp. 216 ff. will perceive, first, that to risk the effects of this tendency in the *execution* of a plan is a very different matter from permitting it to influence the major decisions contained in the very plan itself; and, second, that a society in which the instruments of production are in social ownership, and in which, in consequence, all employers act under one unified guidance, is in a far stronger position to deal with the dangerous consequences of this tendency, than one in which the terms of employment

¹ See p. 53.

are settled on the pull-devil-pull-baker principle by associations of employers and workers, each pursuing their own sectional interests without regard to any common plan whatever.

Since, however, the dangers of the pull of the part against the whole cannot be kept too prominently in mind, it may be useful briefly to review the weapons with which a socialised planned economy, that relies on appeal to economic motives for the execution of its plans, can defend itself against these dangers. First, such an economy must be quite ruthless in the matter of the vested interests of particular occupational groups or of particular individuals in a given job. It must not admit that the enjoyment of a higher standard of living on the part of any group is a title to the permanent continuance of any such relative advantage. Since a measure of security is of the essence of any stable economic system, it will, no doubt, permit socialised enterprises to make contracts with workers for considerable periods, perhaps even over a term of years ; but it must not allow one contract to prejudice the terms of the next. It must start from the assumption that the onus of proof is always on those who seek pay higher than that of their fellows, and that the presumption is always in favour of equality. It will be prepared to pay special rates for special skill and responsibility as experience proves may be necessary to procure supplies of such skill and responsibility ; but it will not continue to pay these rates when the evidence suggests that people can be found to do the jobs required without them.

In the pursuit of this policy the planners must take energetic steps to prevent any attempt on the part of associations of workers in particular occupations to acquire monopolistic strength by forbidding qualified persons to enter their ranks. In the determination of wage rates (within the limits permitted by the plans) it may be presumed that discussion between the managers of socialised industries and unions representing the workers will take place somewhat after the fashion of the bargaining encounters

of workers and employers under our present system. But the unions must expect, in a planned society, to forgo the instrument which in the long run has proved the most effective means of enabling the members of one group to advance its standard in comparison with that of its fellows in other occupations or industries—that is to say, most effectively to exploit its own sectional interest. I refer, of course, to the various devices by which some trade unions and (with even greater assiduity) certain associations of professional workers have succeeded in restricting their membership. In a planned society it must be insisted that all associations representing occupational or industrial groups shall be freely open for all qualified persons to join ; and that if any limit is set on the freedom of the public to acquire the necessary qualifications for becoming a doctor, a miner or a cook, or, having acquired them, to follow one of these professions, those limits shall be decided by a central authority, and not at the discretion of the doctors', miners' or cooks' trade unions.

Further, a planning authority, as we have already had occasion to mention,¹ cannot afford to allow any individual to claim that he has an unshakable right to follow a particular calling. Wise planners, to be sure, will recognise that the number of jobs that any of us can do well is closely limited ; that, on the whole, most of us are better at jobs that we know and like than at ones which are strange or disagreeable or both ; and that there is waste involved in putting a man with highly specialised qualifications on to work which any fool can do. But they must not be bound by any more rigid rules than these commonsense principles ; and they will, on occasion, doubtless have to do violence even to these. Although I may have been a lecturer on economics for ten years or more, if the needs of the plan require that the university where I work is to be closed, I must accept dismissal ; and if, further, there are no alternative openings for teachers of economics available elsewhere, I must be prepared to accept any other job that

¹ See p. 204.

offers which I am capable of performing, or face the alternative of starvation. I must be ready to cook or clean or serve in a shop or tot up figures in an office, and not expect to live in leisured ease at the public expense until such time as I am successful in finding re-employment in my former calling. If, indeed, the plan has no work at all to offer that is within my capabilities, then I have a proper claim for maintenance ; but the success of a planning authority in mobilising its supply of labour efficiently, and in providing for all-important change and growth and progress, depends upon its recognising such a claim in no circumstances but these : upon its resolute refusal to admit that any individual has a vested interest in any particular type of occupation.

If these precautions are taken, the disruptive tendencies of sectional groups ought not to be a serious menace to a planned economy. In addition, there remains the possibility of controlling the operation of economic incentives by a limited exercise of direct compulsion. Compulsion in the positive sense of ordering particular persons to perform particular jobs, and enforcing the order with the sanctions of law or physical force, we have already ruled out as appropriate only in a community of slaves. We have found, indeed, indications that the Russians have not yet learnt entirely to dispense with controls of this kind ; but in this respect their practice will not commend itself to a free and democratic community. The use of the army, for example, in the performance of industrial tasks is obviously objectionable, unless in the gravest and most exceptional emergencies ; while forms of moral pressure, such as might be employed, for example, to induce workers to leave the country for factory work in the city, or to throw up their individual holdings in order to join a collective farm, are scarcely less to be deprecated than direct authoritative compulsion. These objections, however, do not apply in the same degree to certain negative forms of compulsion, by which a planned economy may, as it were, fix the limits within which the free play of economic incentive is permitted. In particular it seems reasonable that a central authority should have

power to stop recruiting for particular occupations, in which it is contemplated that the opportunities for employment will be considerably reduced under the proposed plans. To deny a man the chance of becoming a carpenter is quite a different thing from ordering him to become a window cleaner ; and to do so is obviously more to his interest, than it would be to permit him to add his name to the list of carpenters in circumstances in which it is known (as, for example, when extensive substitution of metal for wood-work in building and furniture is anticipated) that the prospects of employment for those already engaged in carpentering are bound to diminish. Such negative restriction, indeed, has already made a rudimentary appearance even within an unplanned economy. Under the Mining Industry Act of 1926 the Minister of Labour has power to make regulations for the purpose of securing that in the recruitment of miners preference is given to persons who have already been employed in the industry. These statutory powers have not indeed actually been exercised ; but a formal undertaking has been given by the mine-owners to the Minister that they will abide by an approved scheme of their own which gives effect to such a restriction on the entry of newcomers to the industry. A planning authority would no doubt make a considerable use of similar powers by instructing socialised enterprises from time to time not to accept new recruits in certain industries or occupations. And it might, in addition, check the flow of workers to certain skilled occupations at an earlier stage, by closing down the opportunities for further students to enter upon courses of training enabling them to qualify for such jobs.

To this I should much like to add one further mode of negative compulsion : that is, the imposition by law upon all who are capable of work of a minimum standard of honest and efficient workmanship failure to attain which would be a punishable offence. Such a measure, however, I suggest only with considerable hesitation at the present stage, since the possibilities of abuse, and the difficulties of defining bad workmanship or shirking so precisely that they

may safely be made criminal offences are obviously very great. The Russians, with their comprehensive and ill-defined crimes of sabotage, have certainly not avoided these difficulties ; but in the present state of their mentality this may well be as much because they are not particularly concerned about possible cases of individual victimisation and injustice, as because they have tried, but failed, to evolve just and consistent rules for the interpretation of these offences. Nevertheless, even if we cannot at the moment say with confidence that a planned economy ought to include idleness and indifference to the obligation to labour in its criminal code, the matter is one to which the lawyers might very profitably give their attention. For it is plain truth, which the plain man is more than ready to recognise, that the action of him who either attempts to do as little work as possible himself, or does his best to render the labour of others unproductive, is not distinguishable in principle from the action of him who steals from others property that they have already legally acquired. If the law could find some way of recognising the affinity between these two modes of action (without rendering workers whose manners or appearance happens to be uncongenial to their mates, or to the managers of the works where they are employed, liable to prosecution for sabotage) ; then both the cause of justice would be advanced, and the hands of a planning authority greatly strengthened in the task of securing the efficient execution of its plans.

To avoid misunderstanding, it should here be added that the restriction of authoritative control over the distribution of labour to such negative forms of compulsion as those outlined above does not imply any interference with the sphere of authority in directing the performance, as distinct from the choice, of jobs. I have suggested that in a planned economy a man should be free, within the limits already indicated, to seek any kind of employment that appeals to him ; and that his choice will be largely guided by the comparison of pay and prospects offered by alternative occupations. In this matter he will act as he thinks best,

and not as he is ordered to do by others. Once at work, however, he will, naturally, have to accept the observance of those conditions which alone make it possible for production to be carried on in the complicated specialised units of modern industry : that is to say, he will have to do as he is told by the foreman and managers who are responsible for the administration of the business in which he is engaged. The reader may have noticed that nothing has been said in this book about the methods by which what may be called the internal management of industry (that is to say questions of works discipline and managerial authority) will be regulated in a planned economy. The reason for this is simply that these matters are not in any important sense affected by the question whether business is conducted under a planned or an unplanned economy : a fact which the Russians realised early enough in the course of their experiment, when they abandoned the practice of attempting to run their factories by committees of the workers engaged therein, and proceeded to install authoritative managers, each of whom has power to give orders which must be obeyed, and is himself answerable only to the governing body of the trust or syndicate in which his factory is comprised.

In any business which is not to be in a perpetual state of chaos there must be some such final authority whose word, in the last resort, goes, and who is supported by subordinate officials, from departmental heads to foremen, responsible to him personally for the efficient conduct of the enterprise ; and this is equally true whether the manager is engaged in carrying out the instructions of a superior planning authority, or the wishes of a board of directors or his own personal fancies. The fact that he enjoys such authority does not, of course, preclude a manager from taking into consideration the effect of the policy of the business that he supervises on the men and women who are employed therein, or of availing himself of their constructive advice. Indeed, it is absolutely essential that the special interests of the employees should be safeguarded in every undertaking

by the establishment of representative works councils, in which the effect of this and that proposal on the comfort and convenience of the staff shall be thoroughly discussed and brought to the attention of the management, and through which the special experience of the workers shall be mobilised for the benefit of the whole enterprise. But such bodies must be advisory only ; and concerned for the most part only with the impact of particular projects on the peculiar interests of the employees. It is not the business of the staff to decide major issues of policy concerning the amount of goods to be produced, or the prices at which they shall be sold or the wages payable to those engaged in their manufacture. Nor is this even the business of the manager. These are matters in which a wider community than that of the particular works concerned is deeply involved. As such, they must be determined by a body charged with the care of those wider interests—that is, by one which acts under the direct supervision of the central planning authority itself ; while the manager's job is to see that what this body decides is done. Nor is it the business of the staff even to decide who is to be promoted and who passed over (although it is most proper that they should have a right of protest against what they believe to be unfair treatment or personal favouritism), or whether smoking is to be permitted in the works or what type of machine should be utilised for a particular job. These are matters which must be left to the discretion of the responsible manager of an enterprise to settle, after hearing all evidence from persons closely affected or from experts, in the manner which he judges best consonant with the general policy laid down by the superior authorities by whom he is employed, and to whom alone he is answerable. Neither in a planned nor in an unplanned economy is it practicable to conduct modern business after the fashion of a public meeting.¹

¹ It is perhaps fortunate that most people are not particularly anxious to concern themselves in a constructive and practical way with the problems of business management—a fact which was not always appreciated by the early enthusiasts for workers' control, who were convinced

VI

A final word must be added to justify the assumption underlying all these pages—that it is possible for a single national unit to substitute a planned for an unplanned economy, and to continue none the less to do business with the rest of the world. Is it true that national need not wait upon international planning?

Obviously it is a much more difficult job to plan for a country which is in large measure dependent upon international trade, than it is to operate a planned economy in a more nearly self-contained unit. In principle the methods followed are the same, whether the planners are providing for a million loaves of bread to be produced from home-grown wheat, or whether they expect these to be baked in England from the produce of Canadian prairies or Russian collectives. In the one case direct provision is made for certain farms to sow and reap the grain and for certain mills to grind it into flour; and these details are duly entered in the plan. In the other case the plan provides for the supplies to be purchased from abroad, and for the foreign currency necessary to pay for them to be obtained by the export of a quantity of toys or coal or motor-cycles which it is estimated will be sufficient for this purpose; and, accordingly, such production of toys or coal or motor-cycles is also duly included in the plan. But the practical application of these principles is clearly much more difficult in the second case than in the first. For, while a planning authority, in its purely domestic activities, may, as we have seen, maintain the machinery of the price mechanism to regulate the rationing of goods amongst competing purchasers, and to control the distribution of workers between that the mass of working people longed to add the worries of management to the physical labour of production, and would, indeed, be consoled for the monotony of their work and find an outlet for their personalities in so doing; whereas the fact is that all but the temperamentally interfering minority amongst us (from whom the ranks of managers should be largely recruited) want nothing more than fair consideration and no bullying at work, and a chance to leave promptly when the hooter goes—surely a sane and sensible attitude!

various occupations, it is not thereby rendered a mere pawn in the hands of a self-regulating market. Its power of control over the market by manipulation of prices and production, as, for example, by subsidising the manufacture of one article out of the profits of the sale of another, enables it to make the mechanism, which in the unplanned economy is wholly dominant, largely subservient to its will. In a sense, in fact, the planners can almost *make* their domestic plans come right.

But in relation to market movements outside the area of the plan it is of course quite otherwise. Here the spokesmen of a national plan are in just the same position as the merchants who operate in any unplanned economy. They must take the behaviour of the market for granted and adjust themselves to this, save only in the relatively exceptional cases in which enjoyment of a monopoly of the supply of some article, or the fact of being virtually sole purchaser, enables them to dictate their own terms. This means, of course, that the possibilities of error are bound to be much greater in the case of a plan which involves extensive trading with the outside world, as compared with one in which the planners can afford to let their neighbours go hang. The Russians have had unpleasant experiences in this connection since the violent fall in world prices of staple food-stuffs and materials which began in 1929. For the result of this decline in prices was that all their expectations as to the amount of wheat or butter that they would have to export in order to finance their import programmes were hopelessly thrown out. At the lower level of world prices the stuff that they had planned to export did not fetch nearly enough to pay for what they had intended should be purchased abroad with its proceeds ; and they were therefore obliged to offer far larger quantities of their exportable products than they had anticipated on the world's markets, with consequent detriment to their domestic plans, and to the happiness of consumers at home who would dearly have liked to eat much of what they saw despatched to foreign markets.

Hence a community which, like ours, is quite incapable of

supporting itself directly from its own produce,¹ must expect much more frequent scrapping of plans already half-accomplished, and subsequent modification of projects in the light of events outside the control of the planners, than should be necessary in one not so situated. But this is not to say that there is any *necessary* connection between planning and self-sufficiency. Trade, national and international, is a matter of the interchange of products between parties, both of whom are persuaded that it is more to their advantage to do business than not to do it. Whether trade is done or not depends, therefore, in the last resort, upon whether the two parties can come to terms which appear to both to be sufficiently advantageous; which, in turn, depends upon the willingness of each to pay well for the other's product and not to make exorbitant demands for his own. But there is nothing in the fact of planning which in itself modifies these factors on either side of the equation. The only difference that planning makes is that those who conduct foreign trade on behalf of a planned economy are not free to conclude bargains which violate the terms of the plans, whilst those who buy and sell in foreign markets under an unplanned economy are, like everybody else, restricted only by the necessity of responding to the readings of the price mechanism in the manner that they conceive to be most advantageous.

The idea that national planning must spell at least attempted national self-sufficiency is no doubt largely due to the zeal shown by the Russians, particularly in the early stages of their first plan, to make themselves independent of the rest of the world. But this fails to take account of the fact that the motives which led the Russians to adopt this

¹ This is not intended to imply that Britain is necessarily and permanently bound to maintain the same proportion of foreign trade to production for the home market as she has done in the last few years, or as she did in the days immediately before the war. But it is surely quite unnecessary to point out that the inhabitants of these islands cannot hope to attain anything like the independence of foreign products possible for the Russians, or even for the French, at their present stage of industrialisation; and that even the British Empire as a whole is not a completely self-supporting unit.

attitude had little to do with planning, and, indeed, were not primarily economic at all. The Bolsheviki desire to keep imports down to a minimum, and to confine that minimum as far as possible, to capital goods to be used in founding new domestic industries, the products of which would hereafter take the place of foreign stuff previously imported, has been, undoubtedly, inspired largely by military considerations. As we have seen, the fear of foreign attack is continually present to the mind of the Soviet authorities. It is this which is the driving-force behind both their desire to become independent of foreign supplies and their passionate eagerness to cram seven or eight years' work into five, and then cut the five down to four. And, in addition, it must be remembered that the intense pride of the Bolsheviki in their socialist economy makes them reluctant to deal with the rest of the world on what inevitably must be terms largely dictated by the economic laws governing capitalist economies. Nobody, not even a Bolsheviki, likes to admit that he has to truck with the Evil One for his living. The Russians, to be sure, can put a good enough face on the matter when it is a case of negotiating a new trade agreement or of securing imports which they know very well are vital for the success of their plans. But it is clear that they do not altogether relish the job, and it is reasonable and proper that they should not—not because they live under a planned economy but because they are Marxian socialists and dialectical materialists, while those with whom they must trade are double-dyed in the blackness of bourgeois ideology.

The experience of the Russians, however, in trading with non-Communist countries should make it plain enough that, while planning and self-sufficiency need not necessarily go hand in hand, yet a planned economy which wishes to trade with the rest of the world can only do so successfully if it will observe certain conditions. Some of these are social and political, others more strictly economic.

The social and political conditions are revealed by what has already been said about the tendency to judge an economic system not by its economic merits, but by its

accompaniments in spheres which are not strictly relevant to these at all. At the moment, scientific appreciation of the merits and demerits of a planned economy is commonly obscured by the opinions held in the non-Communist world about the religious views of the Bolsheviks, about their marriage laws and about their heretical forms of class prejudice and treatment of the outcaste social classes. And the same kind of attitude influences also, though no doubt quite irrationally, the behaviour of business people with whom the Russians might trade with advantage to both parties, as well as that of the Government which stands behind these foreign merchants. Hence it comes about that the trade relations of the Soviet Union with the rest of the world are always precarious. They are liable to be interrupted by events that are, fundamentally, irrelevant to them. So, when the Soviet authorities arrest a number of Englishmen and, after a trial of dubious impartiality, find some of them guilty of offences recognised by Soviet law, trade between the two countries is summarily brought to an end ; whereas, when the German Government arrests an Englishman and keeps him in prison without trial,¹ protests may indeed be made in the end, but trade continues unabated. The cynic will remark that trade with Germany has considerably greater economic importance to this country than trade with Russia, which is true ; but it is unquestionably also both true and relevant that the Germans are not Bolsheviks, and that, at least at the time of the events in question, they had not established a social and political system, or vowed themselves adherents of a philosophy, which offended against the canons of respectable conduct accepted by the capitalist communities of the world. The moral of all which is that a community which desires both itself to substitute plan for no-plan, and also to trade with the world of no-plan, had better pay attention to these canons. It cannot escape the condition that mutual

¹ See the case of Mr. Geoffrey Fraser, imprisoned without trial in Berlin from April 4 to May 13, 1933. *Hansard*, April 12, 1933, col. 2554 ; and May 18, 1933, col. 523.

intercourse of whatever kind can only be conducted in an atmosphere which is not poisonous or violently repugnant to either party.

Similarly, in the economic sphere, a planned economy must be bound by rules that are not of its own making, if it would conduct trade with communities living under economic systems regulated by the price mechanism. A planning authority, as we have seen, has great power to manipulate the price of any particular article; and this power can be applied to goods which are sold outside its own borders as well as to those which are made and consumed within the ambit of the plan. The Russians, for example, could sell butter on the markets of the world for practically nothing, if they chose to recoup the loss involved in so doing out of the pockets of the consumers of some other article, the profits of the sale of which might be used to subsidise the export of butter. In the ordinary course it would doubtless not pay them to adopt this course: it is a mistake to suppose that dumping is pure gain to the dumpers and that only the dumpee suffers. But if the Bolsheviks had some special reason for wishing to gain a dominant position in certain foreign markets, or if their need for particular foreign imports was overwhelmingly severe, there are occasions on which they might judge the game worth the candle. The unrestrained exercise of such power would, however, clearly make dealings with other countries impossible; for, while non-Communist Governments as well as organised groups of capitalists have tried their hands on occasion at subsidising particular exports, they could hardly hope to win in a contest at the game with a country which can, if necessary, draw for the purpose upon the entire produce of all the industry conducted within its borders. Their one card would be to boycott the planners; and all who could afford to dispense with the goods that the planners had to sell would not hesitate to play it.

It is, therefore, a condition of national planning in an unplanned world of which the planners are not economically independent that this power of subsidising particular

exports should be kept within limits. To say precisely where those limits lie is by no means easy ; as may be seen from the extreme difficulty which has attended the efforts already made to define the practice of dumping, as conducted by merchants in unplanned economies, with sufficient accuracy to enable formal protest to be made against it, and a defence put up for the introduction of measures of retaliation. Perhaps we cannot go further than to caution the planners that they must not dump more heavily, more widely or more blatantly, than do their fellow traders in the unplanned world. And if they are wise, they will realise further that their very possession of superior power in this respect makes their every action suspect ; and they will, accordingly, keep well on the safe side of the line set by the practice of their neighbours.¹

Enough has now, perhaps, been said to indicate the bare minimum conditions for successful economic planning on a national scale. Throughout this book it has been apparent that it is human will, more often than natural or technical difficulty, which presents the obstacle to their fulfilment. It is for the reader to judge whether in this lies cause for rejoicing or despair.

¹ In this connection the recurrent outbreaks about the sale in foreign markets of Russian timber, at prices said to be unfair on the ground that the wood is the product of convict labour, are significant. In view of the extreme arbitrariness of the Russian method of pricing anything, there is really no reason to suppose that timber produced by convict labour at exceptionally low rates of pay (supposing the facts to be as stated) is being offered on foreign markets at a price less consonant with its cost of production than, say, butter made from the milk of collectivised cows by free and independent workers who live on their wages or on their share in the produce of a collective. But the outcry raised about the timber illustrates with equal force (1) the failure of the public to understand the principles of the Russian planned economy, according to which the timber is no worse than anything else, and (2) the aroma of suspicion that gathers round everything Russian.

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