

THE PLANNING  
*OF*  
FREE SOCIETIES

By  
FERDYNAND ZWEIG

AUTHOR OF  
'BRITISH WORKER,'  
'THE WORKER IN AN  
AFFLUENT SOCIETY'

FIRST INDIAN EDITION

GOOD COMPANIONS  
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# CONTENTS

|   |        |
|---|--------|
| Foreword  | 9      |
| Introductory Remarks  | 13     |
| <b>Part I The Nature of Planning</b>  |        |
| Chapter   |        |
| I The Idea of Planning.   | 17- 23 |
| A. Centralization of National Economy,<br>B. Control of National Economy, C. Planned<br>Economy as a whole.   |        |
| II The Roots of the Idea of Planning  | 24- 27 |
| III The Planning and Rationalization  | 28- 35 |
| IV Planned Economy as Economy Governed by Idea<br>of Planning   | 36- 38 |
| V <input checked="" type="checkbox"/> Planned Preferable to Unplanned Economy ?   | 39- 45 |
| A. Historical Formulation, B. The Dogmatic<br>Formulation   |        |
| <b>Part II The Driving Forces of Planned Economy</b>  |        |
| I The Great Emergency   | 47- 50 |
| II The Political Man  | 51- 53 |
| III Technical Progress  | 54- 58 |
| IV New Weapons of Social Control  | 59- 62 |
| V <input checked="" type="checkbox"/> Monopolisation of National Economy  | 63- 69 |
| A. Planning as Co-ordinated Control over<br>the few, B. Planned Economy as a source of<br>New Monopolies.   |        |
| VI The Growth of Public Finance   | 70- 77 |
| A. The Road from the Growth of Public<br>Finance to Planning, B. Public Finance as<br>an instrument of Planning. Note: Taxation<br>under Soviet Planning. |        |

|   |  |         |
|---|--|---------|
| VII   | The Break-up of World Economy<br>Note: The Growth of German Planned Economy.   | 78- 86  |
| <br><b>Part III The Objectives and Controls</b> |  |         |
| I   | The Objectives of Planning<br>A. Defence and Power Politics, B. Development of Backward Areas. C. Full Employment. D. Social and Economic Security. E. Social Equality. F. Postwar Reconstruction and Peace, G. Common Features of Objectives. H. The Scope of Objectives. I. Structural and Functional Planning. J. Permanent and Emergency Planning. K. Planning for Perfect State, and Planning as Adventure. | 87-104  |
| II  | The Scope and Methods of Control<br>A. What Sections are more suitable for control?. B. The Restriction of Producers and Personal Choices, C. Direct or Indirect Control. D. Planning by Propaganda. E. The Practice of Control in Planned Economy.  | 105-112 |
| III   | The Interconnection between different Fields<br>A. Control of Foreign Exchange. B. Investment Control. C. Control of Production. D. Control of Consumption. E. Control and Distribution of Income.   | 113-121 |
| IV  | Control and Ownership<br>A. New Form of Ownership. B. The Superiority of Amphibian Form. C. Democratization of Property. D. The Drive Towards State Industry under passive Capitalism.   | 122-134 |
| V   | The Area of Planned Economy<br>A. The Regional Planning. B. National Planning. C. International Planning. Note: Tennessee Valley Authority, An Experiment in Regional Planning.  | 135-152 |

CONTENTS

|   |  |         |
|---|--|---------|
| VI  | The General Framework: The Plan<br>A. The Nature of Plan. B. Varieties of Plan,<br>C. Drawing up of Plans. D. Planning Bodies<br>in different states. E. Limitations of the<br>Plan.   | 153-168 |
| <b>Part IV The Working of Planned Economy</b> |  |         |
| I   | The Planning and Pricing<br>A. Planned Pricing versus Free Pricing.<br>B. The Application of both Scales of Pre-<br>ferences. C. Stability of Prices. D. The<br>Problems of Billions of Equations. E. Condi-<br>tions of Successful working of pricing.  | 165-175 |
| II  | Wages in Planned Economy<br>A. Wage Fund and Wage Scale. B. Planned<br>Labour. C. The Arbitration of Courts, Fore-<br>runner of Planned Labour.  | 176-186 |
| III   | The Ideas of 'Just Price' and 'Just Wage'  | 187-189 |
| IV  | Money in Planned Economy<br>A. Paper Currency as an essential part of<br>Planned Economy. B. The Polymorphic<br>Development of Money. C. No International<br>Money System yet.   | 190-196 |
| V   | The Financing of Planning<br>A. The need for sound currency. B. No<br>International Credit System yet.   | 197-206 |
| VI  | The Banking under Planned Economy  | 207-211 |
| VII   | The Foreign Trade in Planned Economy<br>A. Quantitative Regulations. B. Terms im-<br>plied in Quantitative Regulations. C. Ten-<br>dency Towards closed Boundaries. D. Statis-<br>tics of Foreign Trade in Some Planned<br>Economies. E. How Autarky could be<br>checked in the postwar world. | 212-223 |
| VIII  | Planning and Agriculture<br>Note: 1. The A.A.A.: An Experiment in<br>Agricultural Planning. Note: 2. Planning for<br>Blood and Soil.   | 224-238 |

**Part V Is Planning More Suitable for Industrialized  
or Backward Areas ?**

- I National Income in Planned Economy 239-241
- II Backward areas—Source of Revolt against capitalism 242-258  
 A. Claims for Preference. B. Two Kinds of Schemes in Backward areas. C. Some Achievements of Planning in Backward areas. Note: Planning for Industrialization of Central Poland.

**Part VI Self-Government in Planned Economy**

- The Unsolved Dilemma 259-299  
 Three Kinds of Self Government. Note:  
 1. N.I.R.A.: Note: 2. Corporate Planning:  
 Note: 3. Nazi Order: A Military Camp.  
 Note: 4. Democratic Centralism in the  
 Soviet State.

**Part VII Implications and Conditions**

- I Economic Planning in Non-Economic Sphere 301-323  
 A. Population Planning. B. Planning and Politics. C. Planning & Education. D. Planning and Ideology. E. Planning and Social Psychology. F. National Planning and Peace. G. International Planning as an Instrument of National Exploitation. H. Planning and Freedom.
- II Conditions for the Proper Working of Planning 324-238  
 A. Separation of Functions. B. General Planning. C. Decentralization. D. Reasonable Equalization of Income. E. State and Authority. F. "Trial and Error Method".  
 G. International Agreements. Note: Lessons of Blum Experiment.

Conclusion 341-342

Subject Index 343-346

## FOREWORD

PLANNING is all the vogue today. The public is looking for "constructive" plans in order to find a way out of the Great Emergency which has overtaken mankind. Planning is the child of crisis; indeed, the strongest argument for planning is emergency.

On every hand we meet with "new orders," whether they be actual new social schemes of wider or narrower range imposed by authority, or paper patterns of new societies drawn up by constructive minds which combine imagination with courage. But in spite of this multitude of "new orders," whether they are actually functioning or exist only on paper, it is obvious that the right scheme of planning has not so far been found. We are struggling desperately to combine the old and precious values of freedom and democracy with the new requirements which have arisen from modern technology and social and political emergency, but so far we have failed.

Why is this? Is a combination between freedom and democracy on the one hand and a planned world on the other, like a union of fire and water, altogether impossible, or does the reason of the failure lie in our lack of courage, imagination or leadership? The latter supposition is the more optimistic, for the former leads us only to despair of the future of our civilization as developed in the last century on both sides of the Atlantic.

If the negative view is accepted, then two solutions may be offered as theoretical possibilities: one, a return to the position we left in August 1914, that is, to the pre-war world, and an attempt to build further on the principles applied until that fateful epoch; the other, the building-up of an entirely new civilization based on the principles of thoroughgoing planning.

But the former solution in reality reduces itself to the second, since a return to the pre-war position, a revival of what is already dead, must be regarded as impossible. Every year of total world war makes it more impossible.

The real alternative, therefore, with which we are now faced, is whether to build an entirely new civilization based on thoroughgoing planning, or to adapt the old world to the requirements of a new age. The real issue is not, To plan or not to plan? but, what kind of planning is needed; what must be its objectives, how far must it go, and in what spirit must it be carried out?

The present study, which makes no proposals, but confines itself to exposition and analysis, may help the reader to answer these difficult questions, or at least to formulate the problems more accurately.

These pages make no claim to constitute a systematic exposition, still less to exhaust the problems. Planning is a huge subject, embracing the whole field of social relations. Here will be found only some critical remarks on the subject. But as that subject must be regarded as one of crucial importance for the survival of mankind, even unsystematic remarks may be of some use.

My real purpose is to clear the ground for public discussion by setting forth the vast implications of planned economy and the wide range of alternatives connected with the different characteristics of many possible schemes.

It remains only to add my acknowledgments.

I owe much to the constant encouragement of Professor S. Kot, now Polish Ambassador in Moscow, and to the great interest shown in my work by H. Strasburger, Polish Minister of Finance, and Dr. Leon Baranski, Chairman of the Association of Polish Economists in London. They laid emphasis on the fact that the subject is one of the greatest importance, not only for Europe as a whole, but the post-war reconstruction of the economy of Poland, destroyed by the Nazi invasion.

Much kind help has been given to me by the British Council, whose scholarship I held for the first year of my stay in Britain after the collapse of France. I must mention also the assis-

tance of Count Rzewuski, the founder of the Polish-British Chamber of Commerce in Warsaw.

I must also acknowledge my debt to Professor Hayek, who kindly read the early drafts of my book; and to Professor A. B. Fisher and Mr. C. W. Guillebaud, who read later drafts and made useful criticisms and suggestions. Sir Henry Bunbury, of P.E.P. (Political and Economic Planning), devoted much time to elucidating certain points, and gave me much valuable assistance. Finally, I thank Mr. A. S. B. Glover for the correction of my English and his assistance in checking the proofs.

London,  
*May 1942.*

## INTRODUCTORY REMARKS

THE idea of economic planning may be dealt with either as a logical conception or as an economic-historical category.

As a logical conception, planning means the making of schemes to be carried out by successive steps, with foresight, and usually on a large scale. We plan a military, political or propaganda campaign. We plan a town or an industrial area, we plan new lines of communication, we plan great public works, such as the rebuilding of bombed areas. Economic planning in this sense would mean drawing up economic schemes with foresight and on a large scale for housing, agriculture, money and banking, foreign trade or public finance.

In this sense there has always been economic planning. It existed in the days of the Pharaohs of old, in ancient Greece, in the Roman Empire, under feudal and mercantilist society, in the days of early capitalism, in pre-war Britain. There has always been town planning, planning in relation to great public works, such as the Pyramids or large fortresses, and planning directed to building canals, harbours, and so on.

By approaching our subject from this angle, no fruitful results could be achieved. In a review of planning in this sense throughout the ages we could only state that undoubtedly there has been more of it in recent times than there was in earlier epochs. But this is due to the facts that large-scale works can be executed more easily to-day than of old, and that our foresight has been advanced, thanks to the progress of science and technology. Economic planning in this sense might be called planning *within* the economy.

But planning is more than a logical concept; it is also an economic-historical category, covering a definite phase of economic history, the recent period which begins with the years of the First World War. Economic planning in this sense is not an abstract logical concept, which might mean anything or nothing, but a definite economic-historical phenomenon with its own special working ideas and institutions.



The idea of economic planning is but a counterpart of many planned economies which arose in the course of the twentieth century. It is planning *of* the economy, not *within* the economy. It is not a mere planning of towns, public works, or separate sections of the national economy, but of that economy as a whole.

The present study, then, is devoted to economic planning in this latter sense, the planning of the economy of a nation as a connected whole.

In order to understand the fabric of planned economy we must first comprehend the idea of economic planning.

The continuous flux of economic structures is due to three kinds of phenomena :

(1) *The field of ideas* by which a given generation is affected. One generation, for example, is inspired by the idea of freedom in its most general sense, another by that of social equality, another by that of economic security, or the international struggle for empire or world domination.

(2) *The field of institutions* in which these ideas attempt to find their realization. A generation inspired by the idea of freedom will create institutions quite different from those of a generation inspired by that of economic equality or security, or by great political ambitions. Once built, the institutions have a certain autonomy; they develop on their own lines. As a rule, they are but imperfect reflections of the ideas that have given them birth, and after a time they bring those ideas into disrepute, thus bringing about a general disillusionment.

(3) Finally, *the field of actions* and their results, such as technological progress, increase of population, wars, revolutions, depressions, crises of various kinds, the struggle for profits and markets, etc. This field of actions creates new economic and social situations which call for new institutions and give rise to new ideas.

There is a constant interplay between these three fields. New ideas create new institutions, new institutions lead to new ideas, new situations bring about new ideas and new institutions.

This description of social and economic development must not be regarded as a denial of the materialistic conception of history, or as a return to an idealistic conception. Rather, it considers social and economic development from a three-dimensional standpoint, rejecting one-dimensional concepts which seek to reduce the whole of life to one denomination.

These introductory remarks serve to explain why our investigation starts from the *idea* of economic planning, regarding planned economy briefly as an economy governed by the idea of planning.

The world of today is greatly affected by the idea of planning, and this idea is responsible for the creation of many existing institutions. But the idea has become popular because the actual world was ready for its realization. The Great Emergency showed the genuine need for control, and the new technology provided ready-made the weapons of that control; while the old institutions were more and more deprived of their former functions and vitality.

The first two parts of this study are devoted to the explanation of the idea of planning, and of the driving forces of planned economy. Then follows a description of the objectives, machinery, and working of planned economy, and finally an exposition of the vast implications of planning in non-economic spheres. Special attention is paid to the problem of planning in backward countries and to that of self-government. Finally, a few conclusions are drawn from the considerations set forth.

The method applied is an analysis of the planned economy, based on the observation of actual trends implied in modern development, examples of which are given in the text and notes. The aim is to show the trends of this development and the interconnection between them.

The method followed is a combination of analysis and historical description, of a kind not unfamiliar in economic writings, especially in some older masterpieces, such as Smith's *Wealth of Nations* and Marx's *Das Kapital*, both of which made an extensive use of it. It has largely fallen into oblivion in modern economic literature, which separates abstract or mathematical analysis from historical description, a course which, in

my opinion, has not contributed greatly to the understanding of our fast-moving modern world.

It seems to me that this method may be especially useful in times of transition, or rather at the turning-point of great historical epochs.

**PART I**  
**THE NATURE OF PLANNING**

**CHAPTER I**  
**THE IDEA OF PLANNING**

ECONOMIC planning consists in the extension of the functions of public authorities to the organization and utilization of economic resources. It is based on the belief that by central control of the national economy certain general aims may be attained which cannot be achieved by an unplanned economy; that a country's productive resources must be utilized as a whole and in the interest of the whole of its people; and that this utilization will result in large-scale economies.

The idea of planning is not necessarily connected with any particular social or political creed. Advocates of planning may be found in various camps.

The technocrat or scientist, who seeks to achieve a maximum of efficiency in the national economy and the best use of the productive resources of the country as a whole (maximum output), may be regarded as representing one of the foremost types of planners. The socialist, who aims not at a formal rationalization of the national economy for its own sake, but at the social objective of a society based on economic equality, is a planner of another type. And the nationalist, who dreams of his country's aggrandisement, and whose aim is to make the national economy subserve the needs of maximum political power, is a third type of planner.

All three types have one belief in common, namely, that a planned economy is more suitable for the attainment of their general objective, of whatever kind it be. But they differ widely in regard to the ends for which control of the economy should be carried out.

Planning is often defined as *rational* centralized control of the economy; other writers define it as *social* or *political* con-

trol. These definitions do not exclude each other, but are to a certain extent complementary.

Some schemes of planning may be based on some particular rationalistic feature, such as extreme rationalism (technocracy), or belief in the eternal truths of science and technology, and may aim only at maximum efficiency of the national economy as a whole. Others again may have some particular social or political characteristic, or may aim at social or political ends, which would justify their being described as social or political control. But all planning is rationalistic in this sense, that, whatever its ends, it seeks to achieve maximum results from the given resources of the economy as a whole. The rationalistic principle is implied in every scheme of planning. It is not, however, the application of this principle as such that is the particular feature of planning—in essence the rationalistic principle is nothing but the economic principle—but only the application of the rationalistic principle to the economy *as a whole*.

We need not add to our definition that the control must be exercised in the general interest, for this would be superfluous and misleading. The idea of central control is based on the assumption that that control will be exercised not in any individual interest, but in what may be looked upon as the general interest. But the interests which will, in fact, be regarded as general by the central power which exercises the control need not necessarily coincide with the general interests defined as the interests of the community. Planning may be imposed by an invader, or by a ruthless dictator on behalf of his party, or by a small class for its own selfish ends (planning for exploitation). In none of these cases will the ends for which central control is undertaken coincide with the general interests; nevertheless, control of this kind may be considered as falling under the head of economic planning.<sup>1</sup>

<sup>1</sup> I should like to quote here some definitions of economic planning given by authors belonging to different schools.

F. Hayek in his study, *Collective Economic Planning* (1935), means by planning the direction of productive activity by a central authority. Lionel Robbins, in *Economic Planning and International Order*, defines planning for the purpose of his study as "collective control

Therefore we shall regard as planning every scheme of (1) central (2) control of the economy as (3) a whole, carried out for whatever purpose and by whatever means.

We must now explain the elements contained in our definition.

### A. Centralization of National Economy

Planning implies and leads to centralization of the national economy. By centralization of the economy is meant either concentration of ownership, concentration of production, or concentration of control. Concentration of production may take place without concentration of ownership (as in a large joint-stock company), and concentration of control may take place without concentration of production (as in a large cartel, trust

or supersession of private activities of production and exchange" (p. 13). H. D. Dickinson, in *Economics of Socialism* (1939) defines planning as "the making of major economic decisions, what and how much is to be produced, how, when and where it is to be produced, and to whom it is to be allocated, by the conscious decision of a determined authority, on the basis of a comprehensive survey of the economic system as a whole" (p. 14). Eduard Heimann, in "Types and Potentialities of Economic Planning" in *Planned Society* (1937), gives the following characteristics of planning: "Three elements derived from three different sources are combined in a contemporary attempt at economic planning: a dynamic, an equilibrating, and a social-political element. The modes and relative weights of the elements in the combination constitute the different types of plans." Emil Lederer, in his article, "National Economic Planning," in the *Encyclopædia of the Social Sciences* (1933), gives the following characteristics of planning: "National economic planning, as used by different writers, may mean anything from the introduction of partial planning measures to the complete transformation of the entire economic system on a socialistic basis. 'Planwirtschaft,' on the other hand, involves the idea of control of the economic system in its entirety, and controversy thinks only how this assumption of control by the state can best be realized" (p. 197, v, XI). L. Lorwin, in *Report of the Amsterdam Conference on World Social Planning*, has defined planning as "a system of economic organization in which all individual and separate plants, enterprises and industries are treated as co-ordinated units of a single whole for the purpose of utilizing all available resources to achieve the maximum satisfaction of the needs of a people within a given interval of time" (p. 774; quoted by N. S. Subha Rao in *Some Aspects of Economic Planning*, 1935).

or combine). The centralization creates large units of production resources which can be easily controlled by a central authority, while the control of an atomistic economy, composed of small units, meets with greater difficulties and may be ineffective and very expensive. Planning undertaken in an atomistic economy often deteriorates into futile legislation.

Where centralization does not already exist, the central planning authorities, before starting their work, must try to achieve such a degree of it as is necessary for the effective and economical execution of a given scheme of planning. Different schemes require different degrees of centralization in different fields. Planning may take place in economic structures built after different models, but it tends towards those which show a higher degree of centralization of resources.

Socialist economy, or State- or monopolistic-capitalism, is better suited for planning than the atomistic economy of the mid-nineteenth century. Planning once introduced tends to change the given structure in a certain way.

On the other hand, the mere existence of centralization leads to "planning" of some kind. Centralization involves the existence of central bodies whose work brings into existence a central will imposed on large sectors of the economy. If the economy is largely centralized, it is to that extent already centrally controlled.

In a centralized economy the problem of "planning or no planning" does not exist; the real issue is what scheme of planning is best adapted for a certain centralized field. We may say, in general, that planning leads to centralization and centralization leads to planning.

### *B. Control of National Economy*

By control of the national economy is meant a control that, on its basic lines, is a substitute for the market system. In a market system the prices and quantities of the goods produced, exchanged, invested and consumed are interrelated, being regulated and held in equilibrium by the mechanism of equalization of profits and marginal utilities. This mechanism is replaced by planning, which basically fixes prices and volume of production by more or less definite schemes.

The functions of the market are taken over by Planning Boards. Their primary tasks are to establish an equilibrium between production and consumption, imports and exports, the outgoing and incoming of money (the balance of payments), to regulate the distribution of productive resources among different forms of industry, the distribution of the national income between consumption and investment, etc. This equilibrium can be achieved by fixing prices as well as quantities; therefore, the control here envisaged may be called a quantitative control.

The different departments and sections of the national economy comply with the general plan, and are free to move only within the framework set up for them by that plan. The freedom of choice of individuals, whether entrepreneurs or workers, is basically restricted by the scope of the plan.

Planning implies the transfer of essential choice from entrepreneurs, workers and consumers to the Planning Authority.

The main choices in economics are:

- (1) Choice of production—the right to decide what and how much shall be produced, at what cost and with what factors of production, and to select the technique and the market;
- (2) Choice of profession and occupation—the right of everyone to choose his profession or occupation in whatever field he likes, and at the same time to choose between work and leisure;
- (3) Choice of terms of exchange—the right to demand or offer uncontrolled prices for services and goods produced or accumulated;
- (4) Choice of saving and investment—the right to save such part of one's income as one chooses and to invest it according to one's free preference in any manner or any branch of the economy;
- (5) Choice of consumption—the right to spend one's income freely on various consumers' goods.

When all these choices are suppressed, the control of the national economy is absolute. But the complete suppression of all these forms of choice is unlikely. Some may be abolish-



ed and some retained. Any one of them may be suppressed either in whole or in part.

Imposing restrictions is not in itself planning. Certain restrictions on consumption, production, distribution, investment or trade, which are found in every economy, cannot come under the heading of planning unless they give control over the utilization of basic resources for the attainment of certain objectives.

The problem of what extent and degree of control is needed for planning (like the problem of the degree of centralization) cannot be solved in a general way. Different schemes of planning involve different fields and degrees of control.

### *C. Planned economy as a whole*

Planning implies the management of national economy as a whole. The major idea of planning is that all the productive resources of a country should be directed rationally and consciously as correlated parts of a single whole.

Planned economy is supposed to be methodically subordinated to certain goals. The elements of the planned economy are co-ordinated with each other, thus producing a certain whole animated by certain aims. Planning imposes on the country a certain order, which emanates from a particular leading idea. Every unit in the economy is only an element in this order. In the framework of a planned economy there is no place for class struggle or for strife between particular sectors of the economy. It is an organized economy and approximates to the concept of an organism, in which, likewise, there is no room for struggle, but only for mutual co-operation.

Planned economy may, in reality, be the outcome of class struggle, but it inevitably leads to the liquidation of this struggle. Planned society is a unity bound together by common interests and ideals. Planned economy regarded as the outcome of class struggle may be yet another proof of the dialectical development in history. Neither in Soviet Russia, nor in Nazi Germany or Fascist Italy, nor in a war-planned economy, is there room for class strife. Planned economy excludes the idea of struggle and competition within its boundaries, substituting for it the idea of co-operation. A society deeply divided by class

war or by the strife of monopolists tends therefore consciously or unconsciously towards planning as an organized economy within the framework of an ordered society.

For such an ordered society to function properly and stably, there is needed a common belief that this order is a "natural," a "rational," a "scientific" order, which cannot, or at any rate should not, be altered. This belief must be based on some definite creed or scale of standard values. Where such a creed is lacking, the foundation of this ordered economy is weak and cannot be regarded as stable.

## CHAPTER II

### THE ROOTS OF THE IDEA OF PLANNING

THE idea of planning may be connected with the increasing mechanization and technicalization of economic life, as new implements tend towards the concentration and centralization of productive resources, which is a major factor of planning. But it may be also derived from the modern rise of the masses, and their efforts towards equality and self-government in the economic field. It may also be the outcome of modern nationalism and militarism, which strive after the best utilization of productive resources in order to attain their goal of world-domination or for the purposes of power politics or defence.

The idea of planning, however, is deeply rooted in human psychology. It is nearly twenty-four centuries old, having been first formulated by Plato in his *Republic*.

We see it developing and taking shape through the centuries in Thomas More (*Utopia*, 1516), Tommaso Campanella (*Civitas Solis*, first published 1623), William Godwin (*Enquiry Concerning Political Justice*, 1793).

In the nineteenth century we have already a profuse literature advocating schemes of economic planning, in the form either of Utopias or of scientific works. To confine ourselves only to the most prominent writers: M. Charles Fourier (*Le Nouveau monde industriel et societaire*, Paris, 1829); P. J. Proudhon (*Organisation du credit et de la circulation*, 1848); Saint-Simon (*Du Systeme industriel*, 1821-22; *Nouveau Christianisme*, 1825); Robert Owen (*A New View of Society*); Louis Blanc (*Organisation du Travail*, Paris, 1839); Wilhelm Weitling (*The World as It Is and Should Be*, 1838, and *Guarantee of Harmony and Freedom*, 1842); Theodar Hertzka (*Frieiland, ein soziales Zukunftsbild*, Leipzig, 1890); William Morris (*News from Nowhere*, London, 1891); Edward Bellamy (*Looking Backward--2000-1887*, Boston, 1888); finally, Marx, Lassalle, Engels. and the whole socialistic literature based on Marxism.

In the twentieth century the torrent of planning literature is swelled by the technocratic movement on one side (Scott, L. Ackermann, Fred. Henderson) and by the Communist, Nazi and Fascist movements on the other.

If we analyse this planning literature whether in its Utopian or its more scientific branch, as well as the actual schemes put into practice in recent times, we may trace the idea of planning to three different sources: extreme rationalism or technocracy socialism or communism, and nationalism or militarism. These outlooks cover a wide range of our psychological experiences, and so the roots of planning may be regarded as deeply engraved in human psychology.

The *technocrat* advocates a "rational" economy within the framework of an ideal society built up in accordance with the eternal truths of science and governed by scientists and technicians. He seeks to utilize the available resources as a whole to secure the maximum and optimum return. He is not specially interested in social equality, but he will arrange the distribution of income scientifically according to "objective" principles of reason. His approach is not a social but a scientific one. Planning of this kind may be described as scientific planning, and bears a close relation to "scientific management" in industrial plants. The distinction between them lies in the area of the productive resources that is subjected to scientific control: in the one the whole State, in the other a single large-scale plant.

The idea of planning is based in this case on the assumption that man is a rational being who can be induced to adopt a certain kind of behaviour by objective arguments, and that when an impartial, impersonal science demonstrates the validity of certain arguments, the "scientific" principles of economic control will be generally accepted.

In the technocratic conception a planned economy would not be one subservient to some alien principle or criterion, but a sovereign economy in which economic, or rather technical, values held the primacy.

The *socialist* advocates an economy directed towards certain definite social ends. It must be an economy without exploitation, and be based on economic equality. He may differ as to the degree of economic equality desirable, but he will not sacri-  
.E....2

He applies the principle of equality to the postulate of maximum output, or to that of the best use of resources on scientific lines. Generally, he believes that the best utilization of economic resources can be achieved on the principle of maximum equality, but he is ready to sacrifice the principle of maximum output to the principle of equality. In his opinion the economy must be subservient in its character to social ends, which take a much higher place than purely economic values. The economic ends cannot be attained in an unplanned economy, because it is sovereign and follows its own rules. The social ends are not inherent in an unplanned economy, which is orientated towards quite different goals.

The *nationalist* seeks to attain certain political ends which cannot be inherent in an unplanned economy. The economy he visualizes must serve certain political interests, as an instrument of power politics, or war, or dictatorship. He desires to use the economy as a weapon in the struggle of states or nations in the national or international sphere. In a state containing large minorities he may advocate planning for the benefit of the ruling nation at the expense of the others. He regards the welfare and the power of his own nation as a primary interest, which must be safeguarded at all costs. The economy must serve this interest, and this can be achieved only by central control.

The nationalist regards the interests of nations as inherently antagonistic to each other, and would like to organize the whole economy of his nation on the basis of maximum power for his own nation.

When we compare the strength of these three outlooks in the actual world, we are inclined to regard the technocratic as the weakest factor in planning and the nationalistic as the strongest. In the world of ideas, on the contrary, the technocratic factor may be regarded as the most powerful source of faith in planning.

Planning as a central control is control by a central power, and this central power is, as a rule, political in character. Even if the central power which controls the economy were restricted to economic life only, and separated sharply from the nation's political life, its mere existence would *ipso facto* create

a second centre of power that must compete with the political centre. Central power emanates from central control, and central power is synonymous with political power. Therefore, we may assert that planning introduced for non-political ends will of its nature tend to involve political planning.

A planned economy will always be used and abused by political power for political interests, internal as well as external. Therefore, planning cannot usefully be dealt with without considering the political aspect of the problem. A planner must say what changes he looks for in the domain of political structure, and what kind of political rulers may be expected if his scheme is put into practice.

Planning is an economic-political hybrid, and requires the application of both methods, the political and the economic, to the problem as a whole. Concentration on one side of the problem alone, as imposed by scientific specialization, must lead to false conclusions.

## CHAPTER III

### PLANNING AND RATIONALIZATION

RATIONALIZATION plays a part of the greatest importance in the idea of planning. For centuries it has been made the main argument for planning. "Planners" seek to build a perfect state which, like a perfect machine, works without failure, and is based uniquely on the principle of maximum efficiency.

Plato's ideal state was built on principles of reason, and he looked for its realization only when philosophers became kings or kings philosophers.<sup>1</sup> Campanella sought to build an ideal state on the principles of science and religion. Fichte calls his state *Vernunftstaat*, a state founded on reason.

Technocrats base their arguments for a planned economy on the same grounds. If, say they, everybody agrees that scientific management is necessary for a large-scale factory, why not apply the same principle to a whole industry, and finally to the whole national economy?

Even in socialistic and militaristic planning the rationalistic argument comes to the fore.

The worship of "science" and technique is the core of the idea of planning, and any attempt to dethrone science as a guide for social problems would indirectly affect faith in planning.

Planned economy may be regarded as an attempt to rationalize economic life on national lines, as a final stage of economic rationalization within State boundaries. It is an attempt to con-

<sup>1</sup> "Unless . . . philosophers bear kingly rule in cities or those who are now called kings and princes become genuine and adequate philosophers, and political power and philosophy be brought together, and unless the numerous nature, who at present pursue either politics or philosophy, the one to the exclusion of the other, be forcibly debarred from this behaviour, there will be no respite from evil, my dear Glaucon, for cities, nor, I fancy, for humanity; nor will this constitution, which we have just described in our argument, come to that realization which is possible for it and see the light of day." (Plato, *Republic*, Book V, 437 D.)

duct the national economy on lines consciously thought out in advance after weighing the pros and cons.

On analysing the advantages of rationalization of the economy as a whole, however, we may find that they are not unconditioned, but are linked with some disadvantages and restricted by other factors connected with planning.

The balance<sup>2</sup> of gain and loss as a result of the rationalization required by a planned economy may be summarized under the headings that follow:

(1) Planned economy would avoid wasteful expenditure necessary under a régime of competitive struggle, e.g., the costs of advertisement, or of the apparatus of commercial travellers and agents.

Not all the costs of advertisement, however, could be avoided in a planned economy, but only so much of them as subserves the purpose of competition. There remains the need for informative advertisement, especially when introducing new varieties of goods. There may also be a need for propaganda advertisement, when for certain reasons the consumption or saving of certain kinds of goods is advisable. Propaganda advertisement may also be called for in cases of emergency, when planned production has been maladjusted to demand and for some reason the demand cannot be regulated by price changes. In such a case it may be necessary to induce the consumers to adjust their demand to existing supplies.

The activities of commercial travellers and agents are likewise not wholly devoted to the requirements of competitive struggle. In part they serve an informative purpose, forming a necessary link between producer and consumer. They may be regarded as constituting a kind of personal inquiry on the part of the producers into the tastes and effective preferences of consumers, supplementary to the statistics of demand.

<sup>2</sup> Of course we can speak only about long-range tendencies arising from the full rationalization of the economy as a whole. These tendencies are connected with general features of planning and will come to the fore in every scheme, with this distinction, that in some their magnitude may approach zero, and in others it will be especially high.



It is interesting to observe that planned economy in the U.S.S.R. has utilized to some extent the services of commercial travellers in the form of agents coming from the manufacturing organizations with samples of new products in order to obtain the opinion of retailers before beginning production on a large scale.<sup>3</sup>

Advertisement also is widely used in Soviet trade, especially to encourage the consumption of non-essential, not to say luxury, goods. Newspaper advertisements of cosmetics and toilet articles manufactured by the Teje Trust appear more or less regularly, and some other newspaper advertisements chosen at random in the autumn of 1937 refer to billiard tables, a brand of cocoa, railway restaurant cars, musical instruments, sporting guns, wines, sweets and confectionery.<sup>4</sup>

(2) Planned economy would avoid waste arising from idleness of resources, the insufficient capacity of industry, and under-employment.

In particular it would be possible to obviate waste arising from the insufficient capacity of industry owing to competitive struggle ("aggressive idleness"<sup>5</sup>), or unprofitable prices and wages, or monopoly prices ("enforced idleness"), or "withheld capacity" by cartels and trusts, or that resulting from lack of credit and financial means.

Waste by under-employment could also be avoided, especially if it were due to excessive real wages, to lack of investment funds, credit arrangements, or consumer's income, or to unprofitability of industry; or, again, to strikes or "preferred idleness."

But in the event of the inefficient working of a planned economy new sources of idleness might emerge. When the programme of one section of an industry cannot be properly co-ordinated with the working of its other sections, enforced idleness may arise from lack of implements, raw materials, semi-manufactured goods, or skilled workers.

(3) Planned economy would avoid waste resulting from uncompensated disservices (called by A. C. Pigou external dis-

<sup>3</sup> E. Hubbard, *Soviet Trade and Distribution*, p. 212.

<sup>4</sup> E. Hubbard, *op. cit.*, p. 221.

<sup>5</sup> W. H. Hutt, *The Theory of Idle Resources*, 1939, distinguishes eight sorts of idleness, among them those I have placed in brackets.

economies) imposed by entrepreneurs on the State, on workers, on consumers, or on other branches of industry. Deforestation, for instance, leads to public expenditure on the prevention of inundation, land erosion, and so on; overcrowding to increased public expenditure on the preservation of health and the prevention of disease; the production of drugs or spirits may lead to greater expenditure on the prevention of road accidents. Technological progress introduced by entrepreneurs may, in some circumstances, lead to increased idleness of machines and men, impose additional charges on the public funds for the support of the unemployed, and so on.

Disservices of this kind may be avoided in a planned economy. But it would be futile to pretend that a planned economy might not create some other sources of uncompensated disservices imposed on workers or consumers, especially when their choice of consumption and occupation is restricted; for instance, by leading to queues at shops and restaurants, delay in deliveries of raw material, etc.

(4) A planned economy would bring about economies arising from the organization of productive resources according to the principle of maximum technical efficiency. The enlargement of the scale of organization of productive resources, the possibility of their rearrangement without regard to private rights and wishes, would provide new opportunities for specialization of machinery and labour on the one hand and concentration of resources on the other. This would make possible the transfer of industry to the most advantageous sites, the allocation of production to the best organized workshops, and amalgamation of industrial concerns, or close co-operation between them.

The standardization and typification of production, i.e., the compulsory establishment of fixed standards of quality, and the manufacture of machines and tools or houses according to established types or patterns, might bring about large economies.

(5) Better opportunities for the division of labour<sup>6</sup> would

<sup>6</sup> The arguments for specialization and division of labour as the main advantages of a planned economy were stated centuries ago. We may read about them in Plato's *Republic* or in Fichte's *Geschlossener Handelsstaat*. Plato's *Republic* is built upon the principle of strict division of labour and strict selection of men best fitted for

spring from the enlargement of the scale of *organization* of resources, and not from the size of the market. The size of the market, which is an important factor in the development of division of labour, is not enlarged by planning in itself. On the contrary, planning on a national scale will rather restrict the size of the market, as it tends to hamper international trade. It might be regarded as a general feature of planning that a central economic control coincides with political control in a state, and this tends to bind the national economy more closely together and to loosen the economic ties between nations. We will deal with this problem later on; but it is an indisputable fact that national planning does not facilitate international trade, but on the contrary rather hampers its development. It follows from this that the size of the market, which determines the process of division of labour and specialization, can only be diminished by planning. The furtherance of division of labour and specialization of industry can be attributed to planning only by disregarding the field of international relations.

(6) The organization (concentration and specialization) of industry must be distinguished from the working of the economic system. A planned economy may be superior to an unplanned economy in the domain of organization, but not in the actual working of the system. The utilization of resources in production and consumption depends to a great extent on the system of pricing of scarce factors of production in relation to our unsatisfied wants. The efficiency of a planned economy will depend on the accuracy of the indexes of economic valuation of scarce factors of production and consumers' goods in relation to our wants. Will the economic "measures" be more accurate in a planned than in an unplanned economy? The answer to this question depends on what system of control and pricing is applied, and whether we base our values on the desires of the public or their needs, whether these desires are more or less uniform, and whether the distribution of income is more equal or less, as well as on the standard of statistics, etc.

the work allocated to them. Fichte's State emphasized the great importance of the division of labour and the large opportunities of the "state of reason" in this respect. (*Der Geschlossener Handelsstaat*, Tübingen, 1800, p. 70.)

But we can trace two tendencies in pricing which arise under every kind of planning:

(a) A tendency towards restriction of the functions of pricing, and towards allocation of resources by direct methods, by orders or prohibitions.

(b) A tendency towards greater stability of prices and their lesser elasticity.

We will discuss the problem more fully later on. Here we will say only that these tendencies bring about some advantages and some disadvantages. The advantages arise from the economic and social security connected with the stability of prices and wages. The disadvantages arise from the lesser elasticity of value indexes, which are likely to be averages in space and in time.

(7) The technical results to be expected in a planned economy are to a very great extent conditioned by the skill and knowledge of the managers, experts and statisticians, and by the accuracy, sobriety and smoothness of administration. While the efficacy of an unplanned economy depends to a greater degree on the qualities of the average man, who must himself learn by the trial and error method, that of a planned economy depends on the qualities of the élite.

When the planning apparatus is motivated by cupidity, ignorance, or inclination towards bureaucratic abuses, the technical results may be poor.

(8) The influence of planning on the initiative of the managers of enterprises must be taken into consideration; but here any general discussion of gain and loss becomes difficult, because their amount will differ with different schemes of planning. But in any case the long-range tendency arising from central control will be towards a greater restriction of managerial initiative than in an unplanned economy.

(9) Planning has no mechanism for the equalization of failures, deficiencies, and omissions. In an unplanned economy the failures and omissions of some people in one direction might be compensated by other people in other directions. In a planned economy both the bad and the good qualities are multiplied and exaggerated. Instead of equalizing failures and suc-

cesses the mechanism multiplies and magnifies successes on the one side, and failures on the other.

(10) With the rationalization of the economy as a whole are connected also some disadvantages arising from the loss of automatism, of "unconsciousness," so to speak, in many small activities of everyday life. In an unplanned economy the provisioning of a city, the restocking of raw materials, the right proportion between spheres of industry, etc., are not matters for decision and reasoning, but unconscious and automatic acts, i.e., they are exercised by many independent activities renewed in a continual stream of everyday life.<sup>7</sup> The main advantage of these "unconscious" activities lies in this, that they are instantaneous reactions which do not call for any period of waiting, any deliberations or decisions, but can be continuously adapted to changed conditions without delay.

(11) Planning, as a rule, involves the introduction of other criteria as well as the rationalistic one, especially social and political criteria. These are often opposed to the drive towards rationalization. In a planned economy it may well happen that the rationalistic principle will be overruled by these other criteria, especially by politics.

(12) An important item in the balance of gain and loss under consideration is the tendency prevailing in a planned economy towards uniformity and monotony<sup>8</sup> in economic life. Central control of the economy tends towards monistic solutions, i.e., solutions based on one single principle applied to every part of the economy to the bitter end.

<sup>7</sup> See Walter Lippmann, *The Good Society*, London, 1938.

<sup>8</sup> A planned economy might bring us very near to that stage of economic development which was described by John Stuart Mill in the following words: "Nor is there much satisfaction in contemplating the world with nothing left to the spontaneous activity of nature; with every rood of land brought into cultivation, which is capable of growing food for human beings; every flowery waste or natural pasture ploughed up, all quadrupeds or birds which are not domesticated for man's use exterminated as his rivals for food, every hedgerow or superfluous tree rooted out, and scarcely a place left where a wild shrub or flower could grow without being eradicated as a weed in the name of improved agriculture." (*Principles of Political Economy*, Book IV, Ch. VI/2.)

(13) There are also costs involved in the apparatus of planning which cannot be disregarded when weighing in the balance gain and loss. These are the costs of organization, administration, and supervision of the planned economy, which must be set against the economies obtained by planning. In a transitional period the breakdown of historical continuity may inflict some losses on the economy, which between one day and the next might find itself in a completely different world.

We have thus seen that gain and loss are intermingled and entangled.

Since there is no possibility of a quantitative estimation of every kind of loss and gain, which may vary between one scheme and another, we can have no general answer to the problem of the balance of profit and loss. The complete rationalization of a national economy as a whole might give rise to certain diseconomies which would act as an offset to the economies which it made possible.

## CHAPTER IV

### PLANNED ECONOMY AS ECONOMY GOVERNED BY THE IDEA OF PLANNING

WE have defined the idea of planning, because it is the key to the understanding of a planned economy. It is very difficult to describe the latter without defining planning as an idea. Planned economy may be described as an economy governed by the idea of planning, one whose structure and working come very near to this idea. Every other statement would, in my view, be an overstatement.

The elements used in our definition of planning: Centralization, Control, National Economy as a Whole, are really indefinite magnitudes. What degree of centralization and control is needed, what large sections or regions of national economy must be controlled, in order that we may assert that we have a planned, in contradistinction to an unplanned economy?

It is, of course, impossible to define a planned economy by defining degrees of control or spheres of economy subject to control. Planned economy is a sociological concept which must be explained rather by the method of *Idealtyp* ("Ideal-typus" in the sense of Max Weber) than by logical definitions.

Even the economy of Soviet Russia is not completely and in all its sectors and regions centrally controlled. Some of its branches, especially in agriculture, are still unplanned.

I may quote a passage from a speech of Stalin's which shows us the limitations of the planning principle even in a rigidly planned collectivistic economy:

"It would be wrong to minimize the rôle and importance of planning; but on the other hand it would be still more wrong to exaggerate the part played by the planning principle, in the belief that we have already reached a stage of development when it is possible to plan and regulate everything. It must not be forgotten that, in addition to elements which lend them-

## ECONOMY GOVERNED BY THE IDEA OF PLANNING

selves to planning, there are elements in our national economy which so far do not lend themselves to planning..."<sup>1</sup>

In the U.S.A., on the other hand, even in pre-war days, some large sectors of the national economy were planned. But nobody will deny that the economy of the U.S.S.R. is a planned economy, or that the pre-war economy of the U.S.A. was an unplanned economy.

The reason for this is that the economy of the U.S.S.R. was governed by the idea and subjected to the rules of a planned economy, while the economy of the pre-war U.S.A. was governed by other principles, primarily by those of a price and profit system.

During the war the American and British economies may be regarded as planned economies, because they have been made subservient to the principle of organization and utilization of wealth for one purpose—that of winning the war.<sup>2</sup>

The social institutions introduced by men in an economic system are the expression of the ruling doctrine in that society, and when planning becomes the guiding principle the transformation of the economy to a planned model comes about very quickly.

Planning is the ruling doctrine of Soviet Russia and Nazi Germany, and their economies were transformed very quickly to a planned model, despite the fact that they have still large unplanned areas, however unrepresentative these may be.

Planned economy has not grown up independently of the will of rulers. It is to a great extent a voluntary creation, invented

<sup>1</sup> Stalin's speech to students of the Institute of Red Professors, the Communist Academy and the Sverdlovsk University, 28 May 1928; "On the Grain Front," *Leninism*, II, p. 11.

<sup>2</sup> There may, of course, be transitional forms, where some parts of a nation's economy are governed by the mechanism of a price-and-profit system and others by a system of planned economy. Such transitional forms may be effective over a long period, and even, in my opinion, significant for our epoch. In sociology, as frequently in biology, we are confronted with groups which form transitions, from one stage to another. The development or transformation of forms may be gradual, and their continuity so perfect that it is difficult to say where one form ends and the next begins. The difference is pronounced only in the final stages.



### THE NATURE OF PLANNING

and introduced by national rulers as the result of a system of belief or knowledge. It cannot be regarded apart from the doctrine which is the basis of the institutions created.

The institutions called into existence acquire later, of course, a certain autonomy. But if the doctrine which called these institutions into being passes away, we may be sure that after a certain time they will also lose their leading rôle and will undergo a deep transformation in character and function.

We must bear in mind that man is becoming to an ever greater extent a political being inspired by political and social ideals, by models of mutual relationship which he desires to impose on his fellow-citizens, and thus his economy becomes to an ever greater extent a political economy.

It is in this way that I regard the growing rôle of consciousness in the formation of the economic life of nations, and this means nothing else than an ever stronger trend towards planning.

## IS PLANNED PREFERABLE TO UNPLANNED ECONOMY?

A. *The Historical Formulation*

IN a historical mind this question could not possibly arise. It is as if one asked whether mercantilist economy is preferable to medieval guild economy, early capitalism to mercantilist economy, mature capitalism to early capitalism, and so on.

It would be futile to ask whether the policy of liberalism would be preferable in the medieval guild society to the policy of *justum pretium* and *justum salarium*; for liberalism could not be applied in that society. It would not have worked there. Liberalistic institutions would not have been understood; they would be null and void. For the same reason it would be futile to ask whether, under monopolistic capitalism, the policy of liberalism would be preferable to that of modern neo-mercantilism; for liberalism could not work in the world of big combines, trusts and cartels. Social and economic institutions, politics and outlook are not independent magnitudes; they are parts of a greater whole, which is constantly changing.

The world of ideas, institutions, technology and politics is changing as a whole, and the most that we can say is that we do not like the change, especially when it takes place at such a high speed. We may seek to stop the change all along the line. We may even succeed for the time being, or at least divert the direction of change to a certain degree. But we cannot take one single institution belonging to one stage of historical development and apply it as a going concern to another historical phase.

The questions: Is the gold standard preferable to a paper currency or: Is free trade preferable to the system of quotas? are devoid of meaning, for both gold standard and free trade are institutions born within a certain system, which had a part to play in the functioning of that system, but could not live or

develop outside it. In any other system they would be only relics without any positive function.

That is why pure economics, which completely disregards the historical process and the greater whole, and treats every institution, or rather every economic process, in a dogmatic way as an absolute totality in itself, is so poor and sterile.

Since the great classical school and Marxism it has retarded for decades the progress of economic thought by its unhistorical and its false naturalism and false ambitions. It sought to build an absolute economic theory, valid for all time and at all stages of economic development. It has served only to divert economic thought from real but more modest tasks, the observation and description of a changing world. Every science which turns away from actuality, and loses close touch with the real world, faces sterility and barrenness.

We shall see how far planned economy has been developed within the framework of an unplanned monopolistic economy. The institutions of price control, wage control, controlled paper currency with exchange restriction, and controlled foreign trade have grown up within the framework of unplanned monopolistic economy, waiting only for the one single idea which would bring them together and knit them into a whole.

The institutions needed for central control were already prepared; they were only waiting to be used. All the powerful means for effective central control, including modern propaganda, were already present. Finally came the demand for central control, presented by an unprecedented emergency of a social, economic and political character.

Then emerged planned economy. One thesis may be stated as an historical truth: where the means for effective central control exist, they will sooner or later be used in one way or another. And these means are provided by modern technology.

### *B. The Dogmatic Formulation*

With this reservation we can now approach the problem of preference for planned over unplanned economy formulated in a dogmatic way.

After what has been said above, we can hardly deal with the issue itself, but we may try to understand the meaning of the

great controversy which seems to divide public opinion in free countries, and to point out the factors which condition the answer to the question.

First of all we may ask, what is really meant when the question whether a planned economy should be preferred is answered in the affirmative?

Four different formulae can, I think, be set forth, which may be regarded as statements on different planes.

It may be asserted that planned economy:

(1) is more efficient than unplanned economy in regard to the full utilization of the available resources; in other words, that by a central control of the economy as a whole some economies may be attained;

(2) is more suitable for the achievement of some political end, e.g., for waging a war, for power politics, for speedy industrialization, for the economic (mercantilist) unification of territories recently amalgamated, for carrying out reparations, etc.;

(3) is more suitable for the achievement of certain social ends, such as social equality or security;

(4) is more suitable for the accomplishment of certain urgent tasks, e.g. in case of emergency, in war, or in post-war reconstruction, when the concentration of resources at one point within a short period is necessary.

I regard statement (4) as unquestionable, statements (2) and (3) as showing a strong case, and statement (1) as highly controversial.

I will discuss these statements separately, beginning with the last.

If, as in (4), certain urgent tasks are to be faced, it is clear that under a central control of the economy as a whole we may be able to enforce greater concentration in time or space of all our productivity resources than under an unplanned economy, where all productive resources are dispersed.

In regard to statements (2) and (3), we may say that some political and social ends specially mentioned under this heading can, as a rule, be achieved more easily in a planned than in an unplanned economy.

An economy planned with a view to certain definite social or political ends must, as a rule, serve those ends better than one which does not envisage those ends, i.e., one which follows its own rules, and is governed by its own criteria and values. Planned economy organized as an instrument of certain social or political tasks must in these respects have preference over an unplanned economy; for such a planned economy is subservient in its character to a given end (e.g., to war), while an unplanned economy must be a sovereign economy directed to its own autonomous values, which we call economic values.

In these arguments we assume, of course, that we have to do with a scheme of planning which is consistent in its structure and pays tribute to the conditions of time and space, i.e., that we have chosen the best scheme for attaining given ends under given conditions.

Moreover, it is no accident, but follows from the nature of things that anyone who rejects economic values as guides for economic activities must advocate some scheme of planning; as also must anyone who advocates an economy subservient in its character to general objectives. A society animated by great political ambitions or social ideas will make its economy subserve its ideals, and this means that it will adopt some scheme of economic planning.

But it would be futile to pretend that for all political and social ends a planned economy is to be preferred.

The machinery of planning might be harmful to some social and political institutions, such as traditional democracy, or peaceful collaboration of nations with equal rights, so that it may be questioned whether even the best planned economy would suit these ends better than an unplanned economy. Examples might be quoted at length.

It may be questioned whether a planned economy with its unavoidable exchange (trade and migration) control would better suit the integrity and development of the British Empire, a unique historical structure, based mainly on free and close economic collaboration of its component parts. It may be further questioned whether international planning would better suit the national interests of small countries which would necessarily be dominated by powerful nations.

Even when we take speedy industrialization, which in my view affords a strong case for planning, there may be important exceptions to this rule. Let us suppose a small and poor agricultural country, deprived of raw materials, which wishes to develop its industry by planning within a closed area, to a great extent cut off from world trade, credit resources and raw materials. Free access to world trade, world credit and raw materials might perhaps further its industrialization more than planning.

But even in a great country with large resources, and well equipped with raw materials, the question whether speedy industrialization calls for planning must be answered differently according as we wish to industrialize with or without great sacrifices on the part of the population. Only in the former instance (at the cost of great sacrifices) would I consider that there was a very strong case for planning.

And on this last argument I should like to generalize. Whenever great economic sacrifices are to be made, either by the population as a whole or by certain classes or social strata, and are to be imposed for the sake of some political and social ends, ideals or programmes, a planned economy designed for these purposes is more suitable than an unplanned economy.

We now turn to statement (1), the most important of which however, must be regarded as highly controversial. Can we here reach some definite conclusions without resort to further assumptions ?

We can formulate the statement in a different way:

- (a) Some economies can be achieved by planning;
- (b) The productive resources will be utilized to the fullest extent by economic planning;
- (c) The needs of the population as a whole will be satisfied to a larger extent in a planned economy;
- (d) The desires and wants<sup>1</sup> of the population will be satisfied to a greater extent in a planned economy, taking also into account the disutilities connected with restrictions on personal choice.

<sup>1</sup> The desires and wants of the population are felt by the population itself, while its needs are determined by the planning authority. They might differ widely when the taste of the population are not uniform.

Formulae (a) and (b) are more or less equivalent, but I should not regard them as identical. When all the productive resources hitherto employed in an unplanned economy are utilized in a planned economy with the addition of, e.g., a million units, the productive resources might be regarded as being utilized to a fuller extent in a planned economy; but it may be that the fuller utilization of productive resources is accompanied by a smaller average efficiency of work. Formula (a) stresses rather the technical efficiency of a planned economy; formula (b) that in a planned economy there would be no idle resources.

We can reduce the two to one common formula: the real income per head of population will be higher in a planned economy. But the concept of a real income is based on the economic valuation of many products, and we well know that by introducing planning the basis of economic valuation will be changed. By abolishing or restricting some kinds of economic choice, planning alters the relationship between values (prices) and the basis of evaluation of scarce resources in relation to our wants and desires; finally, it also alters the wants and desires<sup>2</sup> themselves.

Formulae (c) and (d) are by no means equivalent. Assuming that a planned economy will produce a larger real income per head of population, we are likely to satisfy the needs of the population, as seen by the planning authority, to a greater extent, but this does not mean that the desires and wants of the population (including the disutilities of allocated work) will be satisfied to a greater extent. Every abolition or restriction of free choice removes us from the point of optimum satisfaction of our desires and wants, and planning accompanied by a deep inroad into the area of free choice may remove us from the optimum point of satisfaction, even though it produces a larger income per head of population.

Take, for instance, an increase of real income per head in a planned economy based before abolition of choice of profession and occupation or of consumption, or even of saving.

<sup>2</sup> The wants and desires of the population are not autonomous magnitudes but are influenced by the economic system. After introducing planning, the desires and wants of the population will be changed.

The question of preference for a planned over an unplanned economy from the standpoint of economic values is really a question of the better satisfaction of the wants and desires of an average man in a given society—and this question in a general way, is insoluble. The problem could be usefully stated only by comparing a definite type of planned with a definite type of unplanned economy, and assuming that both economies, besides the changes necessarily connected with the introduction (or absence) of control, are working under the same conditions, and that the desires and wants of the population have remained unchanged. But these assumptions are rather unrealistic, because by introducing a central control of the economy as a whole, we introduce deep structural changes which affect every element in the economy and the basis on which those elements are working, while the desires and wants of the population are also intended to be changed. We cannot really compare the working of a planned with that of an unplanned economy under the same conditions, even in an analytical investigation.

All that we can do is to enumerate the advantages and losses connected with certain schemes of planning and compare them with the advantages and disadvantages connected with certain types of unplanned economy, from the standpoint of optimum satisfaction of the desires and wants of the "average" man.



**PART II**  
**THE DRIVING FORCES OF  
PLANNED ECONOMY**

**CHAPTER I**

**THE GREAT EMERGENCY**

**PLANNED** economies may be found at various stages of civilization, but in past history they existed as curiosities only, or as social experiments in small communities. As historical phenomena on a national scale spreading rapidly over wide areas from one country to another like a contagion, they appear only in recent times, strictly speaking since the First World War. Planned economy was first introduced as war socialism during 1914-18, then on radical lines over a sixth of the world's area in Soviet Russia, later in Nazi Germany, Fascist Italy, and Japan, and to some degree in the U.S.A. under the "New Deal"; and since the Second World War began it has spread, for war purposes, to all belligerent and occupied countries.

The beginning of planned economy over wide areas is marked by the disruptive influence of the First World War, followed after twenty years or so by the Second World War, these two wars, as we now see, being closely connected and constituting a single historical process.

Between the First and Second World Wars there has intervened a succession of civil wars, social and political unrest, financial and monetary débâcles, the Great Depression, and general economic warfare which has presented a single historical picture of transition, strain and emergency on a world-wide scale.

We now face the problem of how to deal with the phenomenon of planned economy. Shall we regard it simply as a single great disturbance in the life of world economy, which after a certain time will give place to normal development, as

disease when conquered leads to a return to health? Or shall we treat it as a structural change of a more permanent character—if anything in social life is permanent—of such a character, at any rate, that it will leave lasting features and initiate new trends of economic development?

The attempt to treat planned economy in the post-war period as a kind of anomaly is very attractive, and the fact of emergency in the political sphere may seem to lend it support. We cannot regard war and revolution as permanent characteristics of our civilization, and we shrink from the idea that the crisis brought about by the recent chain of wars and revolutions may last for an indefinite period. But it would be futile to suppose that all the structural changes induced by the Great Emergency from 1914 until now could be cancelled or disappear like an ephemeral disease.

The Great Emergency continues; we do not know how long it will last or what new forms it may adopt. It seems to increase in depth and to extend its area. When peace finally comes, we must not expect the Emergency to end, but only to take on new forms which may be even more difficult and strenuous. During this period, planned economy may develop further and introduce new structural changes.

Why does emergency lead to planned economy?

There are many reasons for this. Danger calls for concentration of effort in the shortest possible time in order that it may be overcome. The resources of a country as a whole must be called up for this purpose. Economic collapse or financial débâcle demand a central control of the economy. The same applies to political dangers, such as national or civil wars, which call for planning.

In normal times the objectives of planning may be disputed. But in times of emergency there is an indisputable, strictly defined, objective for planning, namely, to overcome the emergency. On this issue the whole population is united, and this implies a close collaboration and understanding on their part which may be regarded as an essential condition for a proper working of planning.

Emergency calls also for great sacrifices on the part of the population as a whole, or at least of certain social classes. But

where such sacrifices are required, there is need for planning in order to organize them on a basis of equality and to transform them into investments or armaments.

Emergency calls for a stronger State authority, thus bringing about the proper framework for planning. Planning cannot take place within the framework of a weak State. The orders of a weak State, as a rule, are disregarded or miscarry, and therefore planning in such a State always fails. Danger provides the right conditions for the apparatus of planning.

Planning requires for its proper working the spirit of sacrifice. But this spirit is more likely to arise in times of danger than in normal times. Emergency creates conditions of general insecurity, whether political, social or economic in character. At such a time security has the greatest "marginal utility" of all public goods. There is, in our time, a general quest for all kinds of security—political, social, economic and spiritual. It is a general reflection of the loss of all these kinds of security in actual life.

But security as a leading idea of our epoch imposes new institutions of economic planning. Security must be organized and constantly watched, which generally means centrally controlled. The quest for security is the strongest factor which points towards planning.

Finally, the quest for self-sufficiency imposed by the necessities of war is a very important factor. When faced with the danger or reality of a war we try to achieve the highest possible degree of self-sufficiency. But to do this we must plan to supplement our productive machinery by new unremunerative investments. We must transform our industry and agriculture, and ourselves supply those goods which formerly were provided by world trade. The drive towards self-sufficiency is a powerful factor of planning.

The present war has shown the necessity of planning in defence and what is even more important the necessity to start planning for defence much earlier than in the first days of war. It is impossible to improvise a war planned economy from scratch, since countries with an already established planned economy have a definite superiority in this respect. This may be regarded as an important argument for peace-time planning.

But besides political subversion, the world has faced revolutionary changes in many other spheres; in technology and economy, in social habits and beliefs. These changes are not divergent; they constitute one type, one historical picture.

The period of planned economy, although it began in 1914, has its real basis in many characteristics of the period before that epoch. Post-war development must be regarded as a continuation and accentuation of many characteristics of pre-war economy, already tainted by monopolistic institutions, social protectionism, neo-mercantilism, and ever-growing State interference.

Modern technology, social psychology and politics combined together to fight liberal capitalism. First of all faith in it was abandoned as a ruling doctrine; it was broken to pieces by the centralistic trends of modern technology; and the final blow came from politics, from world wars and their consequences. Wars and revolutions merely completed the work already begun by technological, intellectual and social processes.

Planned economy may take pathological forms, bringing about excesses; as a whole, however, it cannot be regarded as a disease, but as a certain stage of economic development which in some characteristics may be transitional but which undoubtedly marks a deep transformation of the social and economic pattern.

Perhaps, when the Great Emergency has passed, the excesses and aberrations of planned economy will pass with it; but we have every reason to suppose that they will not altogether disappear. Planned economy may shrink in area, depth or rigidity, but it is safe to suppose that it will constitute a permanent element in world economy.

Planned economy may be compared with the early capitalism of the beginning of the nineteenth century. It is in an early stage, and has its teething troubles. It may outgrow these troubles and develop a new shape which may be more agreeable than contemporary planning, as the later capitalism was fitter than the earlier.

## CHAPTER II

### "POLITICAL MAN"

ONE of the greatest forces urging towards a planned economy is the emergence of *homo politicus* combined with the receding of *homo economicus*. By *homo economicus* I mean man as governed by the incentive of profit or the effort for a continual rise in his standard of living. When a man competes in the market for profits, when he strives for better wages through his own efforts or those of his trade union, he acts as *homo economicus*. But when a man has on behalf of his nation or class or other social group great ambitions which he also expresses in the domain of his economic activity, when he strives that his nation may dominate the world or become a great Empire, or for social revolution, he acts as *homo politicus*.

What are the features of "political man"? He enjoys the satisfaction of the collective needs, and regards it as a partial satisfaction of his personal desires. He is willing to give up his own personal comforts for *some* political or social or ethical achievement.

He may do without butter or better cloth for the sake of the enjoyment he obtains from admiring his navy, his army, his gigantic Dnieprostroy dam, his huge works in Magnitogorsk, or his modern hospitals, fine roads, public gardens, etc.. He may give up many of his wants for the sake of "social revolution," or "eternal peace," or the "world domination" of his own nation.

In the nineteenth century, mass psychology was on the side of *homo economicus*. The average man was a "reasonable," well-balanced being, whose main desire was for a continual rise in his standard of living. This type still prevails in the Anglo-Saxon world, while on the European Continent, mainly under the disruptive influence of the chain of wars and revolutions since 1914, the opposite type has come to the forefront. But during the present war "political man" has expanded enormously, even in the Anglo-Saxon world.

Why does *homo economicus* recede at certain times while *homo politicus* expands?<sup>1</sup>

It might be argued that after a certain time, with the satisfying, up to a point, of the needs of the population, the drive towards further improvement slackens, and is replaced by interest in some public programme. Others might emphasize the rôle in this development of modern propaganda carried on not only by Governments but also by parties and social movements.

In answering the question I would stress the factor of danger and emergency. The Continent of Europe, since 1914, has been in a state of continuous emergency in many fields, political, social, economic and moral, on a scale unknown for centuries. At such times men have the feeling that their fate is primarily dependent on overcoming the common danger, that the satisfaction of collective needs is more essential to their well-being than that of personal needs.

Then appears *homo politicus*, whose existence may outlast the period of emergency. An economy working for the sake of *homo economicus* must have a different shape and structure from one working for *homo politicus*.

The former will be, as a rule, a competitive economy based on private ownership and free contract, on competitive prices and wages; the strife for profits and high earnings may lead under certain conditions to a monopolistic economy, based on

<sup>1</sup> Peter D. Drucker, who has devoted a remarkable study to this subject (*The End of Economic Man*, 1939), attributes this "end" to the collapse of Marxism. He describes Economic Man as a man who believes in the attainment of freedom and equality through competition in the economic sphere.

"The collapse of the society of Economic Man was inevitable as soon as Marxism had proved itself unable to realize the free and equal society. Beyond Marxism there is no possibility of reconciling the supremacy of the economic sphere with the belief in freedom and equality as the true aims of society. And the only justification, the only basis for Economic Man or for any society based thereon, is the promise of the realization of freedom and equality" (p. 47).

Drucker's conception deviates from the common meaning of the Economic Man as a man inspired by the drive towards maximum profit or the continual rise in his standard of life.

cartels, combines and Trade Unions, which aim primarily at better prices and wages. On the other hand an economy working for *homo politicus* must be subservient and centrally controlled for the achievement of political and social ends. It will be an economy consciously directed towards these ends, and based on the sacrifices of individuals.

When individuals are ready to accept sacrifices in their everyday life for the achievement of some general ends, they must be organized on the basis of equality and transformed so that the ends in view may best be secured. And then arises "planned economy."

### CHAPTER III

## TECHNOLOGICAL PROGRESS

TECHNOLOGICAL progress is, to a large extent, responsible for the wide spread of planning. It has prepared the way for planned economy along different routes. There are many reasons for this.

(1) It has brought about a high degree of specialization in industrial activities, and such specialization is synonymous with monopoly. When one factory is specialized for the production of a single commodity or of an article of a particular shape or pattern, it enjoys *ipso facto* a monopolistic position in the market.

High specialization in modern enterprises has also caused their great susceptibility to the influence of market fluctuations. Depression brings about a greater decline in the sales of a specialized enterprise than in those of a plant producing various kinds of goods. The greater susceptibility to market fluctuations in modern enterprises calls for control of the trade cycle.

(2) On the other hand, technological progress has contributed to the process of concentration of production in large-scale plants and factories. This is due to the enlargement of the market by greater transport facilities, and to the mechanization of industry, which makes possible the accumulation of energy and power within a small area. The concentration of production in large factories and plants cannot be ascribed wholly to technical progress, but is also, to some extent, due to the restrictions and protectionism of the modern world.<sup>1</sup> But the technological factor in the process of concentration of production cannot be dismissed. It has come to the fore in war planning, while technical requirements of efficiency alone have imposed on industry a compulsory concentration of production under government schemes.

<sup>1</sup> Here I agree with Walter Lippmann (*The Good Society*, London, 1938).



The effects of this war concentration in industry will not disappear altogether after the war, when it will be seen that during the war some processes of concentration worked with advantage both to the whole society and to the interested parties also.

The drive towards concentration of production is at the same time the drive towards a monopolistic world, which calls for control.

(3) Technological progress has brought about a substantial lengthening of the period of production. It requires a fair number of years to complete some processes of manufacture. We have seen in this war that it takes years to build planes, ships, or tanks. The same applies to many investment goods. If we want to produce new classes of goods not produced hitherto, we have to build factories for the production of investment goods of many kinds and at many intermediate stages which will enable us finally to produce the goods required. We have to plan ahead and co-ordinate many stages and departments of industry.

Planning ahead is closely connected with the substantial length of the period of production imposed by modern technique. If we want to change the existing structure of industry in some respect, we must plan ahead many years before, since the period of production is very long. To build a cruiser requires two or three years, to build a battleship three or four, even when the shipyards are ready. When the shipyards are not in existence, the period of production is correspondingly lengthened. The concept of *Blitzkrieg* finds its counterpart in a substantial lengthening of the preparations in war production.

From this lengthening of the period of production arises the need for economic security. The long-term investment expectations call for the stabilization of many elements of economic life, and therefore require control in order to achieve this security.

The call for security is not only an effect of psychological changes, a sign of lassitude and senility, but is based on this ever greater lengthening of the period of production.

(4) Technological progress augments the share of fixed capital in industrial plants, i.e., the share of the capital value of machinery and buildings in the costs of production. The fixed

capital, which must somehow be amortized, and is used up irrespective of whether the factory runs or not, provokes a tendency towards chronic over-production. The high proportion of fixed capital makes it preferable for the entrepreneur to produce and sell at less than the full cost of production rather than close his factory, because the loss in the latter case may be greater than in the former. This brings about a tendency towards industrial agreements in order to adjust production and productive capacity to market conditions. But the existence of cartels, trusts and combines calls for public control.

The high share of fixed capital, combined with the lengthening of the period of production, has disturbed the automatic working of price economy. The elasticity of production, i.e., the possibility of an enterprise adjusting its production to changes in the market, is smaller than before, because of this high proportion of fixed capital. Very often the entrepreneur must work on in spite of his losses, as he is unable to restrict his production effectively. This hampers the working of market automatism.

The same applies to the lengthening of the period of production, already referred to. If the automatic working of price economy requires a long time before equilibrium between supply and demand can be reached, the application of automatism is highly disappointing to the public, and calls for readjustment; and this means control.

(5) Technological progress, by developing means of communication, news services, statistics, etc., has created new implements for effective central control over wide areas. Central control of the national economy was impossible in lower stages of technique. It is significant also that planned economies tend towards the construction of gigantic technical works, which control large areas. On the other hand, powerful implements of central control cannot be left without public control.

(6) Technological progress has produced a huge armament industry which provides powerful implements of attack and destruction not only within the boundaries of a given nation but also within the international field. The existence of this huge armament industry calls for control.

(7) Technological progress has produced a large system of commercial laboratories and research institute working in the industrial sphere. Besides the traditional apparatus of pure research in universities and high schools, a new apparatus has arisen which has become more and more an industry in itself. The efficiency of this industry is dependent to a great extent on the funds available for research, as the greater these are the greater are the possibilities of research. The danger that the "industry of science" may pass into the hands of plutocrats, who will exploit it in their own interests, calls for public control in order that the discoveries of science may be placed at the service of public needs on a national scale.

(8) Technological progress proceeds nowadays at such a speed that that very rapidity has produced a number of disturbing factors in the automatic working of price economy. Technical progress must cause disturbances both in the capital and in the labour markets. Some machinery and plants become obsolete and labour is replaced by machines. The automatic working of price economy tends to compensate the disturbances caused by this progress, and after a time the process of readjustment is finished.

But if before this readjustment is completed new inventions are introduced, then before the first disturbances are compensated new ones are created, followed by yet others, and so on, because of the speed of technical progress. Thus the economy is constantly maladjusted, and this again calls for control.

Technological progress brought to the fore the phenomenon of "technological unemployment," which even in time of boom remained unabsorbed on the labour market. The existence of a core of unemployed workers calls for public works to provide a supplementary source of employment. The need to provide employment has stimulated public works on a national scale.

(9) Modern technology has given rise to many undertakings which cannot exist under competition. Gas and electricity works, water supplies, radio, railways, other forms of communication, etc., need monopolistic rights if capital is to be invested in them. Their technique makes necessary a scale of capital investment which in a given area can be profitably made by one enterprise only. The competition of other enterprises would

bring about partial idleness of the machinery, and unprofitability.

This group of enterprises, highly suitable for public utilities operating under public control, is rapidly expanding.

(10) Technological progress is responsible for the "science of management" which has revealed many sources of wastage in capital and labour. This "science of management" is the forerunner of planning, as the enlargement of the scope of scientific management leads first of all to planned regions, and afterwards to planned economy. It is the extension of management control which constitutes the difference between "scientific management" and planning, as has already been pointed out.

We have seen that many developments of modern technology have accentuated the drive towards planning. On the other hand, it appears that planned economy accentuates further the drive towards technological progress and gigantic technical works with the aim of central control of wide areas. It has also contributed substantially to the process of further concentration of productive resources. It can be proved on the basis of statistical data that all types of planning have strengthened the process of concentration. This is true in the case of war-planning in Great Britain and in the U.S.A., as well as for Nazi,<sup>2</sup> Soviet,<sup>3</sup> and Fascist planning. In war planning concentration of production plays the most important part, and will produce permanent effects.

<sup>2</sup> The average size of German incorporated companies, as measured by amount of capital stock, was more than 60 per cent greater in 1939-40 than in 1932 (3.8 million RM. in 1939-40 compared with 2.3 in 1932). Important amalgamations of industry took place, especially in steel, oil, electric power and chemicals. The total capital involved in liquidations due to mergers amounted to 1,799,900,000 RM. in the period 1933-38, while in the period 1927-33 it was only 1,642,700,000 RM. The average size of the firm undergoing a merger was also greater (5,210,000 RM. of capital stock in the Nazi period instead of 3,740,000 RM. in the pre-Nazi period). See Maxine Y. Sweezy, *The Structure of the Nazi Economy*, 1941.

<sup>3</sup> "The industrial enterprises in the U.S.S.R. are, on the average, much larger than those of other countries (even the United States)." The Webbs, *Soviet Communism*, 1937, Vol. I, p. 111.

## CHAPTER IV

### NEW WEAPONS OF SOCIAL CONTROL

WHENEVER new weapons emerge, whether of military, political or economic warfare, we may be sure that sooner or later, as opportunity arises, they will be used. When new means of central control were presented by technological progress, these means were used almost everywhere, according to particular needs, situations and ideas.

Technological progress has presented us not only with new means of control of the national economy as a whole, but also with the means of control of the collective mind, the human agent in the planned economy.

We have learned that we can really transform the spiritual capacity of man in society, his faith, his fears and hopes, his preferences for good and evil, his feeling of content or discontent, the orientation of his vision and of his whole mode of life. We can influence his knowledge by presenting him with some suitable selection or interpretations of facts. We can inculcate a spirit of militarism or pacifism, materialism or idealism, collectivism or individualism, Christianity or racialism.

The means to this end are provided by a new technique of propaganda in a wider sense, which may be regarded as the most revolutionary factor in modern history. The spread of wireless, cinemas, newspapers, the gramophone, cheap literature and popular science provides most powerful weapons, which can shape not only a new economy and a new society, but also a new man within that society. Ruthless central control of radio, press, news services, schools, universities, academies and churches, of literature and popular science, makes possible after a certain time the emergence of a new "collective psyche."

Professor K. Mannheim<sup>1</sup> connects the modern drive towards planning mainly with the new "social technique," by which he

<sup>1</sup> *Man and Society in an Age of Reconstruction*. (London, 1940.)

understands the organization of social co-operation and the technique of "transformation and moulding of human behaviour." He goes even so far as to interpret the emergence of totalitarian states in terms of a "changing social technique."

Without doubt, the mere existence of new weapons of propaganda is a powerful factor leading towards a planned world. It induces planning, makes it possible and improves its functioning. There are many reasons for this.

(1) Planned economy without the new weapons of social control would be ineffective, because planned economy requires a wholehearted co-operation on the part of the population and a stable basis in the common objectives of planning.

(2) Planned economy may lead to failures or disappointments. The failures may be corrected by appeals and schemes to abstain from certain activities (e.g., the consumption of certain goods) or to speed up some branches of production. The disappointments which must be expected in planned economy may be relieved by raising new hopes, new fears or new collective stimuli.

(3) Planned economy can be but a part of planned society. Planning is not only an expression of our will deliberately to change our environment and adapt it to our needs, but also to transform ourselves. We start by changing the external world, but we very soon find out that for the achievement of our ends we must transform ourselves, or at least the spiritual being of our fellow-citizens. The human activities required for planned economy cannot be set in motion without some influence on the spiritual life of our fellow-citizens, and when the means for this influence present themselves they will, sooner or later, be used.

(4) Planned economy operates not in a traditional but in a newly-formed society. The old bonds and ties are mostly cut or loosened. The new society requires new bonds and ties, which can be provided mainly by propaganda and other weapons of social control.

This is especially true in a modern mass society from which emanate powerful forces capable, when uncontrolled, of spreading destruction. The mass society (and a planned economy always operates in a mass society), when deprived of its traditional bonds, requires an effective use of means of social control.

The existence of powerful means of social control is a source of special danger to the survival of the human race, especially in the age of mass society. We can no longer regard man as, by nature, good, or as imbued with a bias towards reason and liberty, as did the optimists of the last hundred years of intellectual illusionism. He is a mass of contradictions, of good and evil tendencies and urges. He may be temporarily governed by one or the other side of his nature; he may develop aggressive and bellicose traits or peaceful and sympathetic sentiments.

If the means of social control should fall into the hands of evil rulers, society may be debased and destroyed beyond repair. Therefore societies still governed by rulers conscious of the moral obligations of man as a part of the spiritual world should not hesitate to make deliberate use of the new weapons for strengthening in those societies the power of good implied in the eternal values of pure Christianity.

If a sceptical attitude were adopted, and it were agreed that a free society has no right to use the new weapons of social control, they would only be used by other forces which do not share such scruples.

Society, like Nature, does not tolerate a vacuum. When powerful means of central control exist ready for use, and these means are not used deliberately for a good cause, for strengthening the mythos of freedom, tolerance, and the brotherhood of men, they will not lie neglected for long. They will fall into the hands of those forces which are prepared to make use of them. The mere existence of such powerful means necessitates their control and use.

When after the present war the time for reconstruction finally comes, the first necessity will be the re-education of men all over the world, the inculcation and strengthening of the ideas of the brotherhood of man, of tolerance and of freedom by the use of new weapons of propaganda. The international control of these new weapons will be much more important than the international control of raw materials. There is nothing inherently evil in disseminating propaganda world-wide. It is only cheap propaganda on behalf of evil things, of hatred, destruction and the debasement of man, that is in itself evil.

The spiritual renewal of men all the world over must precede

any economic or political settlement of international affairs. Throughout the world certain standards of human conduct must be accepted as unchallenged and indisputable.

Common standards of human conduct are much more needed than common measures of length or of weight. Moral nihilism is the greatest threat to our common civilization, which must be based on a more stable scale of fundamental values of social intercourse.



## MONOPOLIZATION OF NATIONAL ECONOMY

FREE competition was but a transitional phase in the industrial system. After something of a struggle for profits and markets it led to the victory of the few over the many. This was due not so much to the nature of the struggle as to many factors which intervened from outside the field of battle. There was a certain amount of unfair competition which made this outcome possible for the few. Many political privileges played a part in their victory, such as concessions, public grants, guarantees, premiums and bounties, national protection for defence and employment, colonial privileges for shipping, trade and colonization.

We have already discussed the technological factors which led to this process. But besides these, there was a genuine drive towards safeguarding co-operation and security of markets.

Once the equilibrium in the competitive struggle between the few and the many was disturbed, the few became stronger and stronger.

The modern monopolistic organization of industry embraces various forms differing in cohesion and durability. They are sometimes based on some legal or semi-legal status. Sometimes they rest on patents, designs and trade-marks, or on extreme specialization of production (as, for instance, with electric locomotives in the U.S.A.). Some monopolies or quasi-monopolies are based on an actual concentration of capital (The International Nickel Company or the Aluminium Company in America have no competitors), or on industrial associations or trade agreements of various kinds.

In this latter field we have "gentlemen's agreements" (the loosest kind of association), cartels for regulating prices or output, "pooling" associations (in which every member pays a fixed sum per unit of output into a pool), syndicates with selling agencies, "Communities of Interests" (*Interessen Gemeinschaft*)

in which the partners pool the whole of the profits and divide them in certain proportions, and many kinds of trusts, mergers, or holding companies (with shares held by a common company), which really amount to the amalgamation of capital in a new company.<sup>1</sup>

The trusts are not only "horizontal," embracing one form of industry alone, but also "vertical" (combines). Automobile companies own their own mines, timber and rubber resources, ship and rail transport facilities, blast furnaces, glass works, wheel and bearings manufactures, paint and chemical production, distributing and financing agencies. And even when they do not actually take over independent companies, they achieve a similar result by their huge buying power and by contract.<sup>2</sup>

The degree of concentration and monopolistic control in the U.S.A. is shown in the following table, compiled from a study of concentration in the manufacturing industries by the National Resources Committee.<sup>3</sup>

In a far larger, more widely diversified group of American industries from 30 to 50 per cent of business is controlled by the four largest companies.

Not only in industry but in the production of raw materials also the monopolistic trend has made great strides, owing to the extension of the imperialistic control of big companies over wide colonial areas. Many monopolistic control schemes,<sup>4</sup> especially since the First World War and after the Great Depression, have been introduced in various countries—for instance, in coffee (1931), wheat, sugar (1931), cotton, rubber (1934), tin (1930), copper (1926). These schemes were restrictive in nature; they have prevented new investments in plantations and carried out a policy of destruction. They have attempted to achieve stability of prices and production, but have entirely failed in this, and have moved away more and more from private to Governmental control.

<sup>1</sup> See E. A. G. Robinson, *Monopoly*, in the Cambridge Economic Handbooks, with an introduction by C. W. Guillebaud.

<sup>2</sup> See C. A. Berard and G. H. E. Smith, *The Old Deal and the New*, 1940, p. 57.

<sup>3</sup> *Ibid.*, pp. 61-2. (See page 65 for Table).

<sup>4</sup> J. W. F. Rowe, *Markets and Men*, Cambridge, 1936.

**EXTENT OF BUSINESS CONTROLLED BY THE FOUR LARGEST COMPANIES IN CERTAIN INDUSTRIES**

(Measured by the value of their production)

*Percentage of Business Controlled*

| 90%         | 70%            | 60%             | 50%                |
|-------------|----------------|-----------------|--------------------|
| Motor-cars  | Rayon          | Refined Cane    | Meat Packing       |
| Cigarettes  | Motor Vehicles | Sugar           | Steel              |
| Chewing-gum | Bodies & Parts | Beet Sugar      | Carpets & Rugs     |
| Munitions   | Agricultural   | Shortenings     | Tobacco & Snuff    |
|             | Implements     | Cereal Prepara- | Watch-cases        |
|             | Corn Products  | tions           | Oilcloth           |
|             | (Syrup, Sugar, | Chocolate &     | Artificial         |
|             | Oil & Starch)  | Cocoa Pro-      | Leather            |
|             | Compressed     | ducts           | Baking Powder      |
|             | Gases          | Gold Leaf &     | Yeast              |
|             | Oleomargarine  | Foil            | Organs             |
|             | Sewing         | Abrasives       | Silverware         |
|             | Machines       | Surgical Appli- | Washing            |
|             | Photographic   | ances           | Machines           |
|             | Apparatus      | Excelsior Cards | Mirrors & other    |
|             | Chemical Fire  | Blast Furnace   | Glass Products     |
|             | Extinguishers  | Products        | Suspenders and     |
|             | Cork Products  | Gold, Silver &  | Garters            |
|             | Gypsum         | Platinum Re-    | Scales and         |
|             | Products       | fining          | Balances           |
|             | Aluminium Pro- | Zinc Smelting   | Wallboard and      |
|             | ducts          | & Refining      | Plaster            |
|             | Soda Fountains | Saws            | Aircraft           |
|             | & Accessories  | Needles & Pins  | Steel Springs      |
|             | Soap           | Sandlime        | Wood Distillation  |
|             | Electric &     | Bricks          | and Charcoal       |
|             | Steam Rail-    | Asbestos        | Products           |
|             | road Cars      | Products        | Collapsible Tubes  |
|             | Pens & Pen     | Optical Goods   | Fireworks          |
|             | Points         | Pipes           | Artists' Materials |
|             | Matches        | Engravings      | Foundry            |
|             |                | Cardboard       | Supplies           |
|             |                | Felt Goods      | Dentists' Equip-   |
|             |                | Candles         | ment & Sup-        |
|             |                | Motor-cycles    | plies              |
|             |                | Bicycles        | Distilled Liquors  |
|             |                | Salt            | Pianos             |
|             |                |                 | Wood Preserving    |
|             |                |                 | Coke-oven Pro-     |
|             |                |                 | ducts              |

The same trend towards concentration and monopoly can also be seen in the domain of banking and finance. In Great Britain fusion and concentration among the banks, already far-reaching in 1914, had by 1929-31 been carried so far that "anything further seemed almost unthinkable."<sup>5</sup> Further, a big concentration

<sup>5</sup> J. H. Clapham, *An Economic History of Modern Britain*, Cambridge University Press, 1938.

not its own monopolies. In a planned economy private monopoly may be replaced by, or combined with, public monopoly. But public monopoly, although in a democratic society it may exclude exploitation, does not lose the features and implications of monopoly in regard to production. As a matter of fact, planning, which weakens the old monopolistic position, very often contributes to the creation of new monopolistic positions. This is especially true under a system of private enterprise.

For instance, monopolistic positions are now created by war planning, under which the authorities distribute resources, allocate material and labour, fix prices and assign markets. Central control over private entrepreneurs imposes not only duties, but also rights. As part of a national machinery they enjoy an exclusive protection, or spheres or privileges which are refused to others. That is why (besides other factors) planned production must be accompanied by planned distribution. Planned production without planned distribution would mean the exclusive protection of some enterprises at the cost of others.

But in a socialistic economy also planning implies a creation of monopolistic positions for public firms, and even the adoption of a competitive form of socialism, if it were possible in a planned economy, would not exclude the creation of such positions. As a matter of fact, the socialized Trusts and Syndicates and Export and Import Corporations in Soviet Russia enjoy a monopolistic right for the export or import of certain groups of commodities.<sup>8</sup>

The links between planning and monopoly are very close. In a planned economy every plant and workshop or trading agency is specialized to the utmost, and specialization means, in the end, nothing else but monopoly. Every plant has its work, its markets and its raw materials allotted to it.

A planned economy is a contradiction to a competitive

<sup>8</sup>The statutes of Export Corporations set forth in Art. I this right as follows:

1. "The purpose of the All-Union Corporations (title) is to carry on operations on a monopoly basis in the export from the U.S.S.R. and the sale in foreign markets of categories of goods specified in a list sanctioned by the People's Commissariat of Foreign Trade of the U.S.S.R."

of tax on consumers in the form of monopoly prices for the benefit of the monopolists. But no private citizen has the right to tax his fellow-citizens in any form whatsoever.

Monopolistic control tends to schemes of restriction of output, which means hampering the enormous productive capacities provided by new inventions. As a matter of fact, not restrictive but expanding schemes of control are needed, because there will always be people who are under-clothed, under-nourished and badly housed.

The monopolistic structure of modern industry already contained the organization needed for central control. This was an important factor which pointed towards planning. Monopoly brought about centralization of the industrial system, and this has made possible the effective operation of a more comprehensive system which embraces all forms of economic activity.

There is also a psychological factor in the drive from monopoly to planning. Planning, which means restriction of economic liberty, deprives the entrepreneurs of some forms of choice. But it is one thing to deprive a few powerful men of some essential choices, and another to deprive a mass of weak, widely dispersed business men who have no control whatever over the market. Public control over the monopolistic world removes the free choices of the few only, and this in reality means nothing but the removal of the instruments of economic exploitation over the many.

The choice between monopolistic or oligopolistic unplanned economy and planned economy would be only a choice between a chaotic and uncoordinated central control executed by private monopolists for their own benefit on the one side and coordinated public control on the other. No arguments could be put forward in favour of the former solution.

Every strengthening of the monopolistic structure of industry, therefore, is a factor leading towards planning. On the other hand, every attempt to loosen the monopolistic ties of industry works indirectly against the spread of the principles of planned economy.

### *B. Planned Economy as a Source of New Monopolies*

But it would be wrong to assert that planned economy has

not its own monopolies. In a planned economy private monopoly may be replaced by, or combined with, public monopoly. But public monopoly, although in a democratic society it may exclude exploitation, does not lose the features and implications of monopoly in regard to production. As a matter of fact, planning, which weakens the old monopolistic position, very often contributes to the creation of new monopolistic positions. This is especially true under a system of private enterprise.

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economy, and monopoly is nothing but lack of competition. Planning creates either public monopoly or a combination between public and private monopolies. Sometimes it is meant to be an apparatus which helps to create new private monopolies or to give a more agreeable appearance to old ones.

We may say that monopoly leads to planning, while planning itself leads to some kind of monopoly.

CHAPTER VI

THE GROWTH OF PUBLIC FINANCE

SINCE 1914 the domain of public finance has witnessed significant changes. Adolph Wagner's "Law of continual increase of public finance" in relation to national income has, in fact, prevailed. We have seen an enormous growth in governmental expenditure, taxation and public debt.

The increase of expenditure occurred first of all in connection with the First World War and post-war reconstruction, and afterwards with rearmament. But it was also the expression of a fundamental change in men's view of the rôle of the State in national life. The State has to provide not only for education and scientific research, but also for social welfare, health and recreation, economic and social security and mass employment. What were regarded fifty years ago or so as private needs are now regarded as public needs. The range of "public goods", of goods serving the collective needs, is ever increasing. Social emergency and long-term structural unemployment have imposed new obligations on the State and new burdens upon the Treasury. In nearly every country public investments have been undertaken on an increasing scale.

The following table gives us the rate of increase in government expenditures in the U.S.A. during the period between 1915 and 1940.

GOVERNMENT EXPENDITURES IN THE UNITED STATES<sup>1</sup>  
1915-40

|         |    | <i>In Billiards of Dollars</i> |      |      |      |      | <i>Percentage Increase</i> |                |
|---------|----|--------------------------------|------|------|------|------|----------------------------|----------------|
|         |    | 1915                           | 1920 | 1925 | 1930 | 1935 | 1940                       | 1940 over 1915 |
| Federal | .. | 1.0                            | 6.0  | 3.5  | 3.8  | 7.3  | 10.3                       | 878            |
| State   | .. | 0.5                            | 0.9  | 1.4  | 2.1  | 2.2  | 4.5                        | 800            |
| Local   | .. | 2.2                            | 3.3  | 5.6  | 7.2  | 5.5  | 6.0                        | 173            |
| Total   | .. | 3.7                            | 10.2 | 10.5 | 13.1 | 15.0 | 20.8                       | 462            |

<sup>1</sup> Mabel Newcomer, *Taxation and Fiscal Policy*, Columbia University Press, 1940.



"Taxes, Federal, State, and Local, are estimated to have equalled 4 per cent of the national income in 1850, 10 per cent in 1900, and between 20 and 25 per cent to-day."<sup>2</sup> The amount of taxation *per capita* increased from 3.58 dollars in 1850 to 30 dollars in 1900 and 150 dollars in 1940.

*The Economist* (24 January 1942) estimates the total Government revenue (national, state, and local) of the U.S.A. in 1938-39 as representing 22.1 per cent of the national income and the total Government expenditure (national, state, and local) of the U.S.A. as representing 29.1 per cent of the national income.

The same tendency can be seen to operate in Great Britain. The national expenditure (Exchequer Issues) of the United Kingdom (but not the total) rose from £ 197 millions in 1913-14 to £ 1,018 millions in 1938-39; national revenue from £ 198 millions to £ 1,006 millions.<sup>3</sup> In addition to this, local taxation has likewise increased. According to the estimate of *The Economist*, the total (national and local) Government Revenue of the United Kingdom in the last pre-war year (1938-39) represented 27.8 per cent of the national income, and the total expenditure 30.9 per cent. (The total Government expenditure of the U.S.A. for 1941-42 is estimated as representing 45.9 per cent, and that of the United Kingdom 67 per cent, of the national income, the greater part of it being, of course, devoted to war purposes.)

On the continent of Europe before the Second World War began, the proportion of Government expenditure to the national income was even higher than in the two Anglo-Saxon Commonwealths. In Italy, Germany,<sup>4</sup> and France, expenditure has been estimated to range between 30 and 40 per cent of the national income, the expenditure being in many respects hidden in supplementary accounts.

In this connection we may note a further change in the grow-

<sup>2</sup> *Ibid.*

<sup>3</sup> *Statistical Abstracts for the United Kingdom, for 1913, 1923-36, and 1924-38.*

<sup>4</sup> Taxes and compulsory contributions in Germany in 1937 made up about one-third of national income. See M. Y. Sweezy, *The Structure of the Nazi Economy*, 1941.

ing rôle of the public debt which has affected the financial structure of the national economy.

The public debt (gross capital liabilities of the State) of the United Kingdom has increased between 1914 and 1939 from £ 706 millions to £ 8,301 millions.<sup>5</sup> The public debt of the U.S.A. has increased from 1,188 million dollars in 1914 to 40,445 million dollars in 1939. The increase *per capita* of the population was from 12 dollars to 308 dollars.<sup>6</sup> And in both countries the public debt due to the war is at present rapidly expanding.

#### A. *The Road from the Growth of Public Finance to Planning*

The interrelations between the growth of public finance and planned economy are manifold and very close. They may be described briefly under the following heads:

(1) The idea of planning is the idea of central control of the national economy as a whole. But the extension of the area of public finance is, as a rule, the extension of the area of central control.

With every growth of public expenditure, there is some invasion of the sector of private economy and a direct or indirect extension of control. With every new contract made by the Treasury with private enterprises, the Central authority assumes further indirect control of the private sector. The same can be asserted regarding the rôle of taxation, which, as it grows, becomes in reality an additional instrument of control.

(2) Public finance is a system of collecting means for production of "public goods" in a general sense. The production of "public goods" is, however, a centrally controlled production, which must always be a planned sector of the economy. Therefore every extension of the field of production of "public goods" involves the extension of a planned sector of the economy.

(3) The increased burden of taxation tends to diminish the share of private investment in the economy, partly owing to the worsening of the long-term expectations of investors, and partly to the shortage of large savings. From this follows the necessity of enlarging the range of public investments. The failure of

<sup>5</sup> *Statistical Abstracts for the United Kingdom*, Nos. 81 and 83.

<sup>6</sup> *Statistical Abstract of the United States*, 1939.

private investments leads to the necessity of enlarging the sector of public investments, which belongs to the planned sector of the economy.

(4) The increased burden of taxation may lead to attempts at tax-evasion on a greater scale, and to a waste of productive resources (as the entrepreneurs may be less interested in financial results). Hence the need for central control of productive resources.

Taxation may reach a degree at which central control must be regarded as an essential for its effectiveness. A "share system" of taxation might be followed by a "control system."

(5) The growing public debt imposes many structural changes in the field of money, credit and capital. The problems of the solvency of the Government, of raising new and ever-growing funds, of a cheap rate of interest for the benefit of the Treasury, lead to planned money, which will be discussed later in the chapter on Money.

The most important problem which arises is how to supply credit and money for the ever-increasing national expenditure while avoiding inflation and a race between wages and prices. This problem can be solved only by central control of the national economy as a whole, particularly a control of prices, wages, production, consumption and savings.

The present monetary policy of currency inflation differs from the old in just this, that it protects the currency by a scheme of thorough control. The inflated currency is backed by planning.

The expansion of public finance must be regarded as a major factor tending towards a planned economy.

### *B. Public Finance as an Instrument of Planning*

But there is a mutual relationship between public finance and planning. The growing body of public finance leads to planning, but the growing machinery of planning leads also to an increase in expenditure and taxation. Planning extends the field of the government's functions and imposes on the taxpayer new charges connected with the costs of the central control of the economy. Planning widens the area of public finance at the expense of private economy. The rate of growth of public finance as the outcome of planning may vary with different

schemes of planning, but the tendency itself is indisputable.

Public finance is a very important instrument of planning in both departments, expenditure and taxation.

By planned public expenditure over longish periods some stability of markets and employment can be attained. Public expenditure may be regarded as a corrector of the index of general economic activity. It might be of use as a remedy for depression, as a regulator of consumption, saving and investment. The volume of effective demand might be controlled in order to ensure the stabilization of employment and to prevent a drop in the national income in terms of money. The schemes elaborated in this connection for a liberal economy hold good also for a planned economy.<sup>7</sup> We do not intend to discuss these, but will confine ourselves to saying that expanding public expenditure is one of the necessary elements of effective central control. A Government restricted in its right to raise new funds for expenditure is to a very great extent restricted in its essential function and scope of planning.

Taxation also provides an important means for effective control, and most schemes of planning make full use of it. Taxation may be used as an instrument for the distribution of income and the redistribution of property, and in the utilization of productive resources by providing inducements (or discouragements) to produce certain quantities and qualities. Both inducements and discouragements are to a great extent brought about by fiscal measures, such as premiums, duties, taxes. Price-levels and price-relations also may be controlled by purely fiscal measures. The control of consumption may be effective to some extent through such measures. We can by these measures divert consumption or production or trade into certain desirable channels; we can even to some extent influence choice of profession and occupation; we can to some extent control the location of industries and the level of employment, etc.

Taxation as an instrument of planning plays a great part under the regime of private ownership, while under the regime of collective ownership its rôle, though more restricted, is not

<sup>7</sup> See A. V. Hansen, *Fiscal Policy and Business Cycles*. London, Allen & Unwin, 1941.

unimportant. Even in Soviet Russia taxation plays a great part in the planning machinery.

*Note*

**TAXATION UNDER SOVIET PLANNING**

In Soviet Russia one tax, the turnover tax, plays an important part in the working of planning. By this tax retail prices are raised very considerably above the cost of production. The margin between cost of production and retail price is determined by budget requirements for armaments, social services and education on one hand, and by the proportion of national income which the Government desires to devote to new investment on the other. The turnover tax tends at the same time to adjust the aggregate purchasing power of the population to the supplies of consumers' goods available. By lowering this tax, which is paid by every Soviet enterprise, whether producing goods or trading in them, the authorities can increase the sale of goods when stocks tend to accumulate, or *vice versa*.

The great part which the turnover tax plays in Soviet planning is shown by the following figures of the main items in the Soviet Revenue Budget for the years 1932 and 1940 in thousands of roubles.

| REVENUE*                     |       |      |       |
|------------------------------|-------|------|-------|
|                              |       | 1932 | 1940  |
| Total                        | .. .. | 27.5 | 184   |
| Of which the main items are: |       |      |       |
| From Public Enterprises      | .. .. | 22   | 139   |
| Including:                   |       |      |       |
| Profits of enterprises       | .. .. | 4    | 18.5  |
| Turnover Tax                 | .. .. | 15   | 108.5 |
| From the Population:         |       |      |       |
| Taxes                        | .. .. | 2    | 6     |
| Loans                        | .. .. | 2.5  | 12    |

The rates of the turnover tax are constantly changed, but they remain extremely high. They vary according to the kind of

\* Pat Sloan, *How the Soviet State is Run*, London, 1941, p. 98.

commodity, its quality, the status of the producers (co-operatives or individual or State producers), and the zones and districts into which the country is divided for the purpose. The rates are mostly calculated *ad valorem*, but there are also physical units—per kilogram, litre, ton or piece<sup>9</sup>—on a combined basis.

In 1938 there were some 2,400 different rates of this tax. For instance, cheese pays 75-86 per cent *ad valorem*; sugar, 82-85 per cent; salt 66-83 per cent; beef, 77-82 per cent; butter, 50-64 per cent; eggs, 6 per cent; cosmetics, 60 per cent; vodka, 82 per cent; sewing machines, 39 per cent; cotton cloth and cotton goods, 56 per cent; and so on. Apart from this, tax there is an additional sales tax called the "budget surplus tax," on certain commodities, such as flour and grain, textiles made by co-operatives and sold in rural shops, stationery, trunks, shoes, shaving-soap, umbrellas, etc., with rates varying from 20-50 per cent and more *ad valorem*.

In Soviet Russia taxes play a very important rôle in agriculture. Here new forms of taxation (or rather forms revived from the Middle Ages) emerged apart from taxes in money, namely, taxes in goods and services. Every collective farm is taxed in kind on the basis of the acreage under cultivation and in money on the basis of income. The collective farms have to make compulsory deliveries of grain, sunflower seed, beans, potatoes, wool, rice, milk, butter, meat. The deliveries of meat are made according to the number of cattle owned.

Besides this, the State receives remuneration for the services of tractor stations in the form of a percentage of the harvest. If, for instance, the harvest amounted to 700 kg. of grain per hectare, the remuneration of the station for spring ploughing would amount to 70 kg., for sowing to 12 kg., etc. Apart from this, the State mills charge for processing by retaining a certain percentage of the processed grain, rice, and so on.

Taxes in services are of many kinds; the most important of them is compulsory road work. Every man from 18 to 45 and every woman from 18 to 40 years of age in rural districts is liable for work, with certain deliveries in kind, for six days in every year.

<sup>9</sup> Professor Paul Haensel, "The Public Finance of U.S.S.R." Reprinted from the *Tax Magazine*, 1938.

Tax remissions play a very important part in agricultural planning, as by their means the collective farms are encouraged to increase the acreage cultivated in excess of the plan.

Since the excess burden of inflationary money and credit heavily taxed the financial structure of Soviet Russia, all socialized undertakings were also subjected to the taxation of their profits, according to the law of 17 February 1934. However, a distinction was made for two classes of undertakings. Those which, according to their plans, are not supposed to augment their capital investment or their working capital, pay 81 per cent of their net profits as a compulsory dividend; others from 10 to 81 per cent according to their approved plans. It is difficult to call this a tax; it resembles rather an arrangement among shareholders who decide the distribution of their profits.

The income tax on private persons, wage taxes, inheritance and gift taxation, taxes on theatres and restaurants and entertainments, the radio tax, fees, etc., play a minor part in Soviet planning.

## CHAPTER VII

### THE BREAK-UP OF WORLD ECONOMY

**PLANNED** economy is a very wide term, embracing many forms of centrally controlled economies with different characteristics. When we speak of liberal capitalism, we have in mind a more or less homogeneous model of economy. The same may be said of mercantilist or feudal economy. This is not the case with planned economy. It embraces in one picture Soviet planning, Fascist planning, the Nazi planning of Hitler's New Order, the Co-prosperity zone in Northern and Central China under Japanese rule, planning under the New Deal in the U.S.A., War planning in the United Kingdom and the U.S.A., and also the "scientific" planning advocated by progressive men of science.

The central control of the economy as a whole (or a large region of it) is a common feature of all these planned economies; all the other characteristics, whether objectives, methods of control, pricing, ownership, regional, national or international area or degree of centralization, may vary.

The planned society may be styled a class or a classless society; in the former case it may be under aristocratic, democratic or proletarian rule. Its aim may be social justice or class or racial exploitation, social welfare or political warfare, social revolution or social reform, industrialization or the unification of recently acquired territories.

The methods of control may vary in many respects. The central agencies which conduct the planned economy may differ from each other in essential features.

The ownership of the means of production may impose different aspects on the economy. The methods of pricing scarce resources may differ widely. The same applies to centralized control or self-government, which is also an important characteristic of planned economy.

I regard the objectives of a planned economy as its most important characteristics. They constitute what we may call



the soul of planned economy. The aims of control are the justification of the whole system. To the ends which are chosen, the methods and means are adapted. On these ends depends also the spirit in which a planning scheme is executed.

Central control gives society the possibility of united action in the economic field, inspired by a single aim; it transforms the national economy into a real living body. Thus it creates a much greater opportunity for clash of interests, ideals and ends between organized nations.

The great divergence between types of planned economies is a striking and very important feature of their modern development. That uniformity of economic trends which existed in a certain degree in the framework of liberal economy has been interrupted by the Great Emergency and accentuated by planned economy. Planned economy is related to the break-up of world economy, to the great schism of modern civilization.

There are epochs of convergent uniform development, in which the nations tend towards a uniform model of economic and spiritual civilization. The whole nineteenth century was of this character. It developed a uniform world economy based on many common institutions, such as the gold standard, free world markets and free movement of capital and labour. The nations were moving towards a liberal capitalism on a British or American model, and strictly co-operated in a world economy. Since 1914 we have been witnessing the disruption of world economy. We have seen in this connection the trend towards national self-sufficiency and closed boundaries. Free world trade has been replaced by the institution of "quotas" and the system of clearing and compensation. A primitive barter system on the basis of reciprocity has spread rapidly. The gold standard has been replaced by "nationalized" paper currencies, backed by exchange control. The flow of capital from richer industrialized to poorer backward countries has been interrupted and foreign capital investment stopped, producing the most disastrous results. The great decline in immigration movements resulting from emigration quotas has hindered the free movement of labour, and this has been a great blow to overpopulated countries.

Another blow has been the complete disruption of agricultural

production.

Planned economies arose to a great extent from this process. With the shrinkage and break-up of a world economy the possibilities of automatic readjustment within the framework of single countries became very restricted. This was especially the case in undeveloped, backward, over-populated countries, with a small rate of capital increase and little technological progress. They have felt the strong pressure of maladjustment and a great need for conscious readjustment through central control of the economy as a whole.

But the growth of planned economies has further strengthened the process of the breaking up of world economy and the disruption of the common civilization.

Planned economy is in its nature a conscious economy which pursues certain objectives, based on the interests and beliefs of a given nation. A planned economy is to a very great extent a voluntary creation by men of leadership and vision. It is not ready-made, or presented by historical processes, but is a specially created shape of economy. Therefore great diversity in types and structures is inevitable. That this is true in practice we see from the planned economies of the last two decades. There is no one single shape, no one single type of planned economy, but many divergent types, with different social structures, different objectives and institutions. The cleavage in our modern civilization expressed in its great divergencies of ethics, ideals and rules, has been strengthened by the application of the principle of planning to world-wide areas.

#### *Note*

### THE GROWTH OF GERMAN PLANNED ECONOMY

The organic growth of German planned economy is the best illustration of all that part of this book devoted to the forces tending towards planning. The introduction of planning in Germany after 1933 is regarded as the outcome of the Nazi revolution and the victory of the Nazi forces over the Weimar Republic; but this is true only in a small degree.

Nazi planning has assumed full control over foreign exchange, foreign trade, investment, man-power and production, distribution and banking, consumption and saving. It has proved a powerful, ruthless and efficient organization. We are astonished that all this was possible in so short a time.

Nazi Germany has worked out two long-range plans; the first Four-Year Plan from 1933 to September 1936, and the second Four-Year Plan from October 1936.

The former was the less elaborate and precise. It was the first attempt at recovery, and a substantial preparation for the second plan to come. It was known as the Four-Year Plan, because in 1933 Hitler asked for four years in which he promised substantially to improve economic conditions in Germany. This plan was carried out by Dr. Schacht, who laid the main emphasis on a recovery programme and on working out schemes for the financing of vast programmes of re-employment. During this period the basis for central control in all fields of economic activity was created, and the semi-militaristic organization and regimentation of the whole economy worked out.

Under the first Plan the greatest stress was laid on the achievement of full employment and the full use of existing productive capacity, while under the second it was laid on the enlargement of this capacity by large new industrial investments.

The next plan, known as the second Four-Year Plan, or the Four-Year Plan in its strictest sense, was more elaborate and precise.

The Commissioner for this plan, Goering, outlined its main points in his speech at the Berlin Sports Palace on 28 October 1936.<sup>1</sup> They were:

To assure sufficient fat supplies.

To safeguard food supplies, especially meat and fats, and make the country self-sufficient in respect of nutrition.

To obtain all raw materials to the maximum possible extent from German soil; especially to manufacture at home synthetic rubber and cellulose, materials for wearing apparel, petrol and mineral oils from coal, to make new alloys, use light metals,

<sup>1</sup> See the addresses and speeches collected under the bombastic title, *The Political Testament of Hermann Goering*, London, John Long.

open up low-grade iron-ore and other metal resources.

To build munition factories ("The most essential," said Goering, "are first of all those buildings necessary for our rearmament....").

We do not know the figures of the original plan or its rate of execution, but judging by its results as seen in the present war we may say that its carrying out was, unfortunately, not unsuccessful.

The efficiency of Nazi planning must be ascribed not only to the national character of the Germans as a disciplined people who like order and willingly obey, but also to the great preparatory work done in advance.

The Nazis found the ground well prepared for planning. The growth of industrial cartelization in Germany is reflected in the following statistics:<sup>2</sup>

| <i>Number of Industrial Cartels Estimated by</i> |    |         |                   |
|--|----|---------|-------------------|
| 1911   | .. | 500-600 | Tschiersky        |
| 1922   | .. | 1,000   | Liefmann          |
| 1925   | .. | 1,500   | Metzner           |
| 1925   | .. | 2,500   | German Government |
| 1930   | .. | 2,100   | Wagenführ         |

Of course the cartel, as a unity, lacks homogeneity, but in spite of that the growing numbers somehow reflect the rapid development of industrial organization in Germany and the elimination of the free market and free prices.

The process of industrial concentration in Germany is reflected in the following figures:

In 1930 there were 10,970 joint-stock companies in operation with a total nominal stock of 24.2 billion Reichsmark. Of this 189 companies controlled an amount of 12.5 billions, which means that 1.7 per cent of them possessed 52 per cent of all German stock.<sup>3</sup>

The counterpart of this evolution on the labour market can be seen in the rapid spread of collective agreements. This process is reflected in the following statistics:

<sup>2</sup> H. Wagnerführ, *Statistik der Kartelle*, Allg. Stat. Archiv, 1932 (22 vol.), p. 243.

<sup>3</sup> *Statistisches Jahrbuch für das deutsche Reich*, 1931, p. 361.

| Year |     | Number of<br>Collective<br>Agreements | Number of<br>Plant affected<br>by the<br>Agreements | Number of<br>Workers<br>affected |
|------|-----|---------------------------------------|---|----------------------------------|
| 1912 | ..  | 10,739                                | 159,930   | 1,574,285                        |
| 1918 | ..  | 7,819                                 | 107,503   | 1,127,690                        |
| 1920 | ••• | 11,624                                | 434,504   | 9,561,323                        |
| 1925 | ..  | 7,099                                 | 785,945   | 11,904,159                       |
| 1929 | ..  | 8,925                                 | 997,977   | 12,276,060                       |

According to Professor Wagemann,<sup>4</sup> 80-90 per cent of all wages and salaries in Germany were determined, not in the free labour market, but by collective agreements.

The system of Conciliation and Arbitration in wage disputes developed into a powerful economic force, "it gradually passed from the hands of the economic parties", being "used as a means of enforcing state policy in a mild dictatorship."<sup>5</sup> It became part of social administration. According to F. Wunderlich, it was the main source of the collapse of the German democracy.

The control of wages was carried out under the Weimar Republic through Arbitration Courts, and special powers of control were granted by Emergency Decrees in 1930 and 1931, when the whole wage level was regulated by decree. Compulsory cartels under public control were no rare phenomenon in the Weimar Republic.

The Nazis also found many other institutions ready to hand. Control of foreign exchange had already been in existence since July 1931; so likewise, had the control of foreign trade through the practice of clearings and compensation by which Germany tried to drive the small neighbouring countries into subservience.<sup>6</sup>

The Institute for Business Cycle Research and many statistical offices and research institutes prepared the way for planning by collecting data and statistics and by other researches. The Cartel Decree of 1923 and the Emergency Act of 26 July 1930 gave the Government extensive powers of price control, syste-

<sup>4</sup> Quoted by K. W. Kapp, *Planwirtschaft und Aussenhandel*, Geneva, 1936, p. 19.

<sup>5</sup> F. Wunderlich, *Labour under German Democracy. Arbitration, 1918-1933*, New York, 1940.

<sup>6</sup> See R. Brinkmann, *Wirtschaftspolitik aus nationalsozialistischem Kraftquell*, Jena, 1939.

mated only in October 1936, when the Commissariat for price supervision was created.

The Institute of Public Accounts was established in 1931, and its functionaries had to act as "business detectives." Their duty was to inform the appropriate Government department of any offence against the law. The so-called Councils of Confidence (*Vertrauensräte*) of workers, introduced by Hitler by a Decree on National Labour in January 1934, were only a substitute for the former "Factory Councils" introduced by the law of 15 February 1922.

The control of interest rates and of Stock Exchange activities had already been taken over by the *Notverordnungen* (Emergency Decrees) of 1930 and 1931. The plans for re-employment had been drawn up in 1928 by the National Institute for Labour Exchanges and Unemployment Insurance, and the framework for great public works created in 1930-31 in the "Offa" (*Deutsche Gesellschaft für öffentliche Arbeiten*).

The range and importance of public banks in pre-Nazi Germany was very great. To mention only a few powerful nationalized credit institutions: apart from the Reichsbank, there was the former Prussian State institution for co-operative credit, which became a national undertaking in 1932, the Gold Discount Bank (1924) and the "Deutsche Rentenbankkreditanstalt" (1925) affiliated to the Reichsbank, the "Bank for Industrial Debentures," Acceptbank A.G. (1931), Diskontkompagnie A.G. (1932), Deutsches Finanzierungsinstitut (A.G., "Finag" (1932), Tilgungskasse für gewerbliche Kredite ("Tilka," 1932), and many State institutions for financing transport and the building trade.

But it would be wrong to assume that Nazi planning was only a continuation of post-war development. As a matter of fact, it had been very deeply rooted both in ideological<sup>7</sup> and in economic development for centuries. We can trace its roots in the Kameralist economy (*Kameralwirtschaft*) of the sixteenth to the eighteenth centuries, and in the mercantilist planning of Frederick the Great. The second phase was the Bismarck State Socialism introduced by the famous "Imperial Message"

<sup>7</sup> See Spengler, *Prussianism and Socialism*.

of 1881, which announced the New Social Policy. The post-Bismarckian phase was characterized by a rapid growth of Trade Unionism (in 1912 there were 4,817 thousand members) on the one side and on the other by that of cartels, trusts, "communities of interests" (*Interessengemeinschaften*) and mixed (*gemischt-wirtschaftliche Unternehmungen*) public and private enterprises.

Then came the next and most decisive phase in War Economy, which introduced planning all along the line, with compulsory Cartels and semi-voluntary or mixed bodies supervised by War Commissioners (*Kommissars*) and War Centres (*Kriegsgesellschaften*) under the leadership of War Office, with W. Rathenau and Möllendorf as inspirers and organizers.

The phase of the so-called socialization laws (1919) during the time of post-war chaos and reconstruction was another contribution to the structure of planned economy. The planners, Möllendorf and Rathenau, tried to build further on the basis of the war organization. The *Reichswirtschaftsrat* (Reich Economic Council) was established as a centre of planned economy, and large powers of economic control were conferred on the Ministry of Economic Affairs. Some industries (coal, potash, electricity, etc.) were organized into self-governing bodies, representing employers, employees and consumers under public control. Planning in this phase was badly executed and miscarried, because the will-power behind it was lacking, the State was weak and indecisive, and the opposition to it too strong.

The final phase, which provided many new forms of the control required for planned economy, came with the Great Depression, especially in the years 1930-31, when the Emergency Decrees already mentioned were issued.

We see that the "roots of 'planned economy' run deep in German soil," as Prof. J.F. Rees says in his Foreword to a thorough comparative study by Prof. W. F. Bruck,<sup>8</sup> which is wholly devoted to a minute examination and proof of this thesis.

Nazi planning is the culmination of a long development, and it would be wrong to assume that, after victory, this process

<sup>8</sup> *Social and Economic History of Germany from William II to Hitler, 1888-1938*, University Press Board, Cardiff. See also Skopp, *Die Kämpfe um eine wirtschaftsstandische Sozialordnung in Deutschland vor 1933*, 1937.

can be reversed and a free economy re-established. On the other hand, the handling of controls in German planned economy may be very useful as a permanent instrument of the peace settlement.



**PART III**

**OBJECTIVES AND CONTROLS**

**CHAPTER I**

**THE OBJECTIVES OF PLANNING**

*A. Defence and Power Politics*

THE objectives pursued by the planned economies of the last twenty years have been partly of a political and partly of a social character. Emphasis has been laid, however, on the political objectives. The chief aims were preparation for defensive or aggressive war, defence, of peaceful nations, power-politics and the will to dominate on the part of aggressive states.

The attainment of self-sufficiency, which was to a large extent the professed goal of planned economy in many countries, was part of a programme of defence or power-politics. The speedy industrialization which was a professed objective of planned economies in backward agrarian countries was also to a large extent the most important section of a programme of defence and power-politics. Preparation for the Second World War for the domination of the German race was the chief aim of the Nazi planned economy which began in 1933. The goal of planning in Fascist Italy was the creation of an economic background for the establishment of a new Roman Empire in the Mediterranean. The aims of Fascist planning were defined in a Resolution adopted on 13 November 1933 by the General Assembly of the National Council of Corporations as: "to further the growth of the wealth, the political power and the well-being of the Italian people." The real aim is contained in the middle clause: "to further the political power... of the Italian people."

But even in Soviet Russia, which started with social-revolutionary objectives—economic and social equality—as the main end of planned economy, the necessities of defence, especially

since 1933, and perhaps also the dream of world social revolution, have overshadowed other objectives. The programme of defence was openly accepted as one of the foremost aims of planned economy, as defined in a clause of the Constitution of 1936, which reads as follows:

“The economic life of the U.S.S.R. is determined and directed by the State Plan of national economy for the purpose of increasing public wealth, of steadily raising the material and cultural level of the workers, and of strengthening the independence of the U.S.S.R. and its power of defence.”

The strengthening of the independence of the U.S.S.R. (self-sufficiency) and its power of defence are the political objectives which have in reality governed the course of planned economy in the U.S.S.R. during its whole existence.

The same objectives were aimed at in many other countries which attempted to work out a scheme for planned development of their economy, as for instance Turkey, where the Government adopted, in 1934, a Five-Year Plan for the industrialization of the country.

Poland actually initiated a scheme for the industrialization of the Central Area, roughly speaking between Lublin and Rzeszow, in which the industrial development of a very backward region as well as a defence programme played a great part. Central Poland was regarded as a safer area from the point of view of defence, and in connection with this the Government planned to transfer some of the plants of the heavy industries from the frontier area in Silesia to the Vistula-San triangle.

But even in the U.S.A., in the schemes for the economic development of the backward area of the Tennessee Valley begun by the Roosevelt Administration in 1933, the programme of national defence played a great part.

The steady rise of the material and cultural level of the masses was in planned economies neither attempted on a large scale nor, what is more, achieved. Even where planned economy started with other objectives, political aims soon emerged or were imposed by the necessity of defence.

It may be said that this happened because planned economies have been operated in the times of constant political emergency in which we have lived since 1914. But the planned economies

known to us cannot be considered apart from this emergency, because they are partly its outcome and partly its cause.

The objective of national or racial exploitation was another political aim manifest in some planned economies carried out on a large scale. It was a not unimportant objective of Nazi planning in Germany to deprive the Jews of their property and to transfer it to new channels. It is an important objective of Hitler's New Order in Europe, which is a first large-scale attempt at international planning for the organized exploitation of enslaved nations for the benefit of the "Herrenvolk."

The same objective is attempted in the Asiatic copy of Hitler's New Order put forward by the Japanese in North and Central China. Their aim is to exploit Chinese resources for the benefit of their war machinery under the guise of developing backward areas, applying early mercantilist methods of trade monopoly. Planned economy in North and Central China is directed by the Central Bureau for East Asiatic Affairs set up by the Japanese in October 1938.

### *B. Development of Backward Areas*

We now come to another very important objective which has already been mentioned in passing: the development of backward areas. The first planned economy was established in a backward area, Soviet Russia, and one of its goals was the "overtaking" of the industrialized Western countries. The same motive was present in all the planned economies set up in agrarian, undeveloped countries. Furthermore, in highly developed countries, one of the most prominent objectives of economic planning was the deliberate development of backward, poverty-stricken, or undeveloped areas. The most successful item in Roosevelt's planning was the scheme for the Tennessee Valley.

The development of backward areas as an objective of planning was, as we have already pointed out, often closely connected with the first objective, defence or power politics; or operated only as a screen for nationalistic or imperialistic ends. The development of a backward area, as a rule, takes the form of industrialization which operates in very close relation with the defence programme.

The development of backward areas may sometimes itself constitute an autonomous objective, but even then it is very seldom completely divorced from political programmes in home or foreign affairs. It is sometimes carried out as a kind of social appeasement for the benefit of farmers or workers in poverty-stricken areas; sometimes as the easiest way of raising the material and cultural standard of the country as a whole. It is well known that by improving the worst area in the country we achieve a general rise in the level of the country as a whole.

Sometimes the same objective is attempted as a kind of political appeasement in a dependent country or area, in order to divert subversive political movements by visions of prosperity.

This objective will certainly play a very important part in all post-war plans for construction and reconstruction.

The speed of technological progress has produced a great technical and economic disparity between rich industrialized and poor agrarian countries. This is the most striking feature in the political and economic relationship between countries, and is a primary cause of disruption in international life. This technical and economic discrepancy grows each year. It causes the increasing difficulty experienced by poorer countries in meeting, on equal terms, the competition of the industrialized countries not only in industry but also in agriculture. The sudden arrest in the international flow of credit and investment funds due to the Great Depression enormously increased the pressure on backward countries.

International plans for post-war reconstruction will have to meet these needs by courageous and generous schemes for the development of backward areas, based on the knowledge that this development will serve the purpose of raising the economic level of the world as a whole.

We have learnt the lesson that Society as a whole cannot progress satisfactorily so long as large masses of poverty-stricken people are left to themselves; furthermore, a country with large depressed or backward areas has great difficulties to overcome. The same applies to an increasing extent to the world as a whole. Planning is deeply connected with the phenomenon of backwardness. Backward areas, backward peoples, backward classes are the main object of planning.

### C. Full Employment

Another very important objective of planned economies was full employment, i.e., the provision of opportunities of employment for all workers. This objective was looked upon rather as a non-economic value. It was aimed at as a means not for increasing the nation's wealth but for the achievement of a particular "psychic income" for unemployed workers. This "income" consisted in the non-economic satisfaction of men who have work to do, even though it brings no additional pay, in their self-esteem as useful members of society, and in the eyes of their friends and families. "When you're working you feel like a cog in a machine; when you're out, you feel that no one has any use for you, and to see your wife busy makes you feel ashamed." The report entitled *Men Without Work*<sup>1</sup> made to the Pilgrim Trust, stresses "The feeling of uselessness with which many of the unemployed are obsessed, especially the skilled and semi-skilled workers." "The sample left no doubt that the majority of skilled and semi-skilled workers were normally deeply absorbed in their work. Often their manner suggested that their lives had been wholly centred in their employment and that the friendships made in the course of it and the association which it had brought with fellow-workers was the most valuable thing they had." The same phenomenon may be found in the *Memoirs of Unemployed Workers* (Pamiętniki Bezrobotnych), published by the Warsaw Institute for Social Research under the chairmanship of Professor Krzywicki.

The great "psychic and moral support" found by the workers in steady employment is a fairly new discovery made only in the times of the "Great Depression." Even more or less useless public works were regarded as important when they provided steady employment.

The provision of whole-time employment appears either as a primary objective of planning or a necessary by-product of planning of whatever kind primarily undertaken for other reasons. Full employment is inherent in the nature of planned economy. We know of no planned economy that does not ensure full employment, or does not, at least, make a close approach

<sup>1</sup> Cambridge University Press (1938), p. 150.

to so doing.

The Soviet planned economy has brought full employment. War economy everywhere has brought full employment. Full employment took its place as a basic objective in the first stage of the German planned economy, certainly in the years 1933 to 1936. The great driving power of the political offensive of Hitlerism in Europe before the war was mainly due to the pursuit and attainment of this objective and to its understanding of the importance of this aim conceived as a non-economic end in itself. Full employment was also the main objective of the economic planning attempted in the U.S.A. under the "New Deal."

But full employment very rarely appears as an ultimate objective in itself. It enters as a means to other ends, such as defence or development of backward areas.

When in many countries the provision of full employment was the main objective, it seemed quite natural that a useful way to ensure it would be the employment of men in defence works or rearmament. The planning for armament and defence which began in some countries in the thirties was to some extent connected with planning for full employment.

A government which proposes to plan for full employment must at the same time propose some aims which may be attained thereby. Of such aims armament or the development of backward areas seem the most popular.

We have seen that the three objectives—defence, development of backward areas (industrialization) and full employment—are closely connected with each other. Full employment is either the outcome or the source of these other objectives.

#### *D. Social and Economic Security.*

In highly industrialized countries where the development of backward areas (industrialization) is of secondary or no importance and where the programme of defence is regarded as a necessity which might disappear in the post-war world, full employment is advocated as a primary objective in itself, and at the same time as part of a larger programme known under the name of social and economic security.

By social security is meant full employment at fair wages, i.e.,

wages sufficient to support family life at a traditional standard. There must be a traditional standard of living varying with the existing different social strata, for otherwise fair wages would be undefinable, short of establishing absolute equality.

From social security in this sense we must distinguish schemes of social insurance directed to the institution of a national minimum income per head of the population, e.g., in the form of a National Dividend for every man, woman and child, which would enable them to live even without working. This National Dividend, if practicable at all, could, of course, only be fixed at a very low level, practically the level of a dole—just enough for mere existence. This is not what is meant when social security is put forward as the goal of planning.

Social security in the form of full employment at fair wages would require the achievement of *economic security*, this being defined as the security of entrepreneurs with fair profits. We can imagine economic security without social security, for instance, full utilization of plants at fair profits, going hand in hand with technological unemployment and mass poverty. But we cannot imagine social security accompanied by defaults of entrepreneurs and closed factories. Therefore, social security means at the same time—if private property in means of production is to be retained—fair profits for entrepreneurs, and fair profits mean fair prices, rents, rates of interest, etc.

A society planned for social security would need to secure the following conditions:

Full employment.

Fair wages.

Fair profits.

And, therefore, fair prices, rents, rates of interest, exchange rates, etc.

Bearing in mind what has already been said, we may regard a society planned for social security as following the type of medieval guild economy based on the principle of *justum pretium* and *justum salarium*. Many objective tendencies of modern industrial life lead society in this direction. For years the fixing of prices and wages has in many countries been based rather on the idea of *justum pretium* and *justum salarium* than on the equilibrium of markets.

This end is commonly accepted as the most desirable goal of the planning of modern society; it was also adopted in the Atlantic Charter on which the British Premier, Winston Churchill, and President Roosevelt agreed at their meeting on the cruiser *Augusta* on 14 August 1941, and restated afterwards in the Great Alliance of 1 January 1942, and in the standard Lend-Lease Agreement of 23 February 1942.

Planning for social and economic security as ultimate objective has never so far been attempted in a modern industrialized society, and it may be questioned if it could have any chance of success without the renewal of the spiritual outlook on which the concepts of *justum pretium* and *justum salarium* were based.

### E. Social Equality

Social equality is another objective of non-economic character which impresses large parts of the population.<sup>2</sup> This objective has its source in two emotions: resentment and the sense of justice. The programme of social equality of a materialist type is related rather to the former emotion, that of an idealist type to the latter.

The materialist programmes stress the great waste of national resources which arises from unreasonable inequality of income. Trifling wants of millionaires are satisfied whereas the necessities

<sup>2</sup> Social equality is also claimed by most Utopias. When we ask the planners of Utopias at what ends they aim, we get two typical answers, one given by Plato, whose *Republic* is a quest for justice, and another given by Thomas More, whose *Utopia* aimed at the greatest happiness of the greatest number by bringing to an end "the conspiracy of the rich."

In idealist as well as materialist Utopias social equality is fundamentally implied, because both ends—justice and the greatest happiness of the greatest number—imply some degree of equality.

Babœuf asserts in his *Manifesto of the Equals*: "The aim of society is the happiness of all, and happiness consists in equality." Psychologists may state that equality in itself gives the masses a feeling of happiness. It constitutes another kind of moral (psychic) "income" which can partly make good other deficiencies.

And Saint-Simon, starting from the religious point of view, in his *New Christianity*, declares: "Religion must aid Society in its chief purpose, which is the most rapid improvement in the lot of the poor."



of poor people are disregarded. From the standpoint of the nation as a whole the national resources would be better utilized in a society based on reasonable equality.

The growth of the nationalist movement has but contributed to the spread of programmes of social equality of the materialist type.

The programmes of social equality of an idealist type find their greatest support in the Christian ideals of justice and righteousness. A society based on unreasonable inequality must lead to deprivation and vice.

The trend towards social equality has found new support in democratic circles. A society with a wide range of inequalities of income cannot be a democratic society. Democratic institutions must perish in it sooner or later. Political democracy, built on a plutocratic structure of monopolistic industry, must degenerate into a mere void appearance. Social democracy is the objective of a new type of free society.

All the trends of modern thought and ideals seem to contribute to the drive towards social equality: the economic analysis which underlines the great waste implied in large inequalities of income; nationalism, which stresses the national community of a people; socialism and the modern rise of the masses, the revival of Christian ideals, and finally the attempts at the renewal of democratic institutions.

But social equality as an objective is not only imposed on planned economy by modern thought and the rise of the masses; it is also deeply connected with the working of planned economy itself.

Planned economy which is mostly instituted for non-economic objectives must impose sacrifices and hardships. But sacrifices and hardships call for equality in their distribution.

Free men, educated in Christian ideals and standards, in the belief in the moral equality of mankind, can endure hardships only if they know that those hardships are fairly equally distributed. Every planned economy in a society of free men must in the long run apply the principle of social equality. The measure of social equality may differ in different societies with different habits, customs and outlook.

In the light of the Soviet experiment the masses of the popu-

lation claim more and more not absolute, but reasonable equality, measured by the standards of efficiency and scarcity. The most important things seem to them to be free access to educational facilities and free opportunity of social and economic promotion.

In Soviet Russia, where social equality was a primary objective, there is no absolute equality, but a reasonable equality which tends to widen the range of incomes every year. It may be assumed already to have reached a range of 1 to 20 or so.<sup>3</sup> But it seems probable also that other planned economies aiming at other objectives, such as war and power-politics, or the development of backward areas, must restrict the range of income for the reasons implied in the principle of equality of sacrifice.

In British war economy, the excess profits tax and surtax take a heavy toll of profits and of the higher incomes (in the 1941-42 budget the effective rates for total income above £20,000 are between 81-95 per cent). It has been estimated that incomes below £500 now account for 85 per cent of the aggregate personal income of this country. Furthermore, equalization of income is achieved by compulsory saving and rationing.

In the U.S.A. the *Seven Point Programme*, proposed by President Roosevelt in a message to Congress on 27 April 1942, provides for special taxation of profits to the utmost point consistent with continual production and for a drastic taxation of higher incomes. "No American citizen ought to have a net income, after he has paid his taxes, of more than \$25,000 (£6,250) a year."

In the Nazi planned economy distribution of income displayed a tendency rather towards greater inequality of income and property. If we compare 1936 with 1932 or 1928 distribution of income in Germany displays an increase in average inequality of income, and the same is true in the field of the distribution of wealth (general property), as has been proved by Maxine

<sup>3</sup> Unskilled workers may receive as little as 100 roubles a month, while a minimum wage for skilled workers is about 350 roubles, and some successful Stakhanovite workers earn as much as 2,000 and even 3,000 roubles. A professor at the University may get 1,500 roubles, while teachers in small primary schools get 250, and 650 roubles in secondary schools.

Y. Sweezy.<sup>4</sup> But the effects of compulsory saving and rationing are not taken into account in regard to the distribution of income available for consumption. No figures are available for the later period, but it seems probable that in the last few years, as the controls expanded and tightened, the average inequality of income in the old Reich has diminished, even under Nazi economy.

The tendency towards social equality is somehow implied in planned economy. It may appear either as a primary or a secondary objective, or as a by-product of other objectives, assuming, of course, that exploitation itself is not one of these objectives as in Hitler's "New Order."

#### F. Post-War Reconstruction and Peace

Besides the objectives already discussed, we have to face two other important practical aims in the post-war world: post-war reconstruction, and planning for peace.

The first may be carried out on a local, regional, national, or even international scale. Besides economic demobilization and planning for the transition from war economy to peace economy, the main task of post-war planning will be the reconstruction of bombed and otherwise destroyed cities, factories, docks, ports and communications. Rebuilding, as a whole, will have to be

<sup>4</sup> *The Structure of the Nazi Economy*, Harvard University Press, 1941, and "Distribution of Wealth and Income under the Nazis," in *The Review of Economic Statistics*, November 1939. M. Y. Sweezy gives the following table of the distribution of income in Germany according to size (p. 212):

| Lower Limit Income    | <i>Cumulated Frequencies (1,000)</i> |        |       |        |        |
|-----------------------|--------------------------------------|--------|-------|--------|--------|
| <i>Class</i>          |                                      |        |       |        |        |
| (1,000 R.M.)          | 1926                                 | 1928   | 1932  | 1934   | 1936   |
| 1.2 .. ..             | 10,847                               | 13,180 | 9,863 | 11,664 | 11,492 |
| 3 .. ..               | 2,348                                | 3,239  | 2,279 | 2,563  | 2,504  |
| 5 .. ..               | 863                                  | 1,248  | 716   | 821    | 1,002  |
| 8 .. ..               | 333                                  | 469    | 196   | 256    | 367    |
| 12 .. ..              | 161                                  | 218    | 103   | 125    | 189    |
| 16 .. ..              | 97                                   | 132    | 60    | 74     | 119    |
| 25 .. ..              | 44                                   | 59     | 26    | 32     | 57     |
| 50 .. ..              | 13                                   | 17     | 7     | 9      | 18     |
| 100 .. ..             | 4                                    | 5      | 2     | 2      | 5      |
| Average Inequality .. | 549                                  | 552    | 500   | 491    | 599    |

tackled for the achievement of economic and social betterment, the avoidance of waste, the removal of slums, for the suitable location of factories and dwellings in order to separate areas, etc. Such planning will be mostly devoted to localization of industry and town-planning. Its main instrument is the control of investment and credit, and of the use of land.

Much more ambitious—ambitious in a very high degree—is planning for peace. This has never hitherto been attempted. It would imply international planning on a large scale.

Economic planning for peace would mean such a degree of control of the economic resources of the various nations as would prevent the arming of aggressive nations (or, in case of war, the effective application of economic sanctions) and ensure their close economic collaboration on an organized basis, i.e., on a basis of common institutions. Planning of this kind would restrict the national sovereignty of States by economic means, such as the control of world distribution of raw materials, credits, or certain machines and tools.

It seems probable that such planning will be attempted by the two great Anglo-Saxon powers at the peace settlement in order to safeguard "freedom from fear" (political security), although the dangers inherent in it, especially for smaller nations, cannot be overlooked. There would be danger of abuse of the immense power which would be conferred by the planning machinery on behalf of the selfish interests of entrepreneurs and bankers or of the imperialistic aims of leading Powers.

Assuming a plutocratic structure of the leading Powers, such international planning would come very near to the plutocratic control of world resources. Therefore it would presuppose the application of special caution in the structure of the planning authorities, the right selection of leaders, and strict supervision.

### *G. Common Features of the Objectives*

The objectives which we have just described have certain features in common. First of all they are mainly non-economic. They are based on some political, social, or ethical programme or creed. I would lay stress on this point, because it is very important for the understanding of the working of planned economy.

Further, they are objectives aimed at by large masses of the population, backed by Society as a whole. The successful working of planned economy calls for wholehearted co-operation on the part of the entire population; therefore it excludes all objectives for which the masses have no understanding or sympathy. Planning requires a great apparatus of mass propaganda. A planned economy is a mass economy run for objectives pursued by the masses.

All the ablest "scientific" plans worked out by the best thinkers are of no use, unless they can be understood and wholeheartedly accepted by the masses. The technocratic vision of a society governed by scientists and technicians is wholly incompatible with the working of planned economy.

Planning requires efficient mass-leadership, i.e., a central control of mass movements and tendencies, in order to bring the objectives of planning nearer to the masses.

The part played by science in planning will be the more effective the more it is understood by the masses and the greater its collaboration with the workers in factories and on farms.

Finally, many objectives are closely interconnected, so that one leads to or is based on another.

Defence, development of backward areas (industrialization), full employment and some degree of social equality in particular may be regarded as closely linked objectives which operate together.

## *H. The Scope of Objectives*

The objectives of planning already described need some further qualifications. The scope of the objective to be pursued is of primary importance.

Take, for instance, defence. The intensity of its pursuit may vary. When war is not expected until a long way ahead, it may perhaps suffice to transform only a small percentage of the national income into weapons of defence. When war is being waged, the percentage of national income that must be transformed into war weapons depends on the strength of the enemy and on the nature of the task to be performed.

The planned economy will differ considerably in its form and in the kind and extent of control it exerts, according as we want

to transform ten per cent or fifty per cent of the national income into war weapons.

In the former case the field bounded by the central control will be much smaller than in the latter. Furthermore, the extent and degree of control needed will depend on the stage of war preparation, or on the phase the war has entered. It will be influenced not only by the percentage of national income we wish to transform into war weapons, but also by the percentage we can actually so transform, and how far the completion of war factories has advanced. The measure of control becomes greater the longer the war continues.

The same applies to other objectives. The development of a backward country, industrialization, for instance, can be pursued with various degrees of intensity. The required or possible speed of industrialization as measured by the rate of transfer of population from agriculture to industry, or by the percentage of national income derived from industry, may vary. The shape of the planned economy and the measure of control will differ according as the additional percentage of national income derived from industry is 0.5 or 2 per year. The process of industrialization may be pursued with great sacrifice and hardship on the part of the population or without any sacrifice or hardship at all; for instance, with the aid of foreign capital.

The measure of self-sufficiency aimed at by Planning Authorities may also be different, and this too will affect the shape of the planned economy and the degree of control exercised.

The objective of full employment to a definite extent (e.g., 100 per cent employment) is also in practice an objective which may be pursued with different degrees of intensity. We know that every society has great reserves of man- and woman-power in "disguised unemployment" in agriculture, handicrafts and domestic and family services, or in the form of juvenile and elderly workers who can be easily brought into service when attracted by higher wages. On the other hand, we know that some of the industrial workers registered at Labour Exchanges as unemployed are not really such, but are examples of inability or industrial friction, or of the preference of workers for employment in certain localities. The objective of full employment may be pursued reasonably and in accordance with a reason-

able time-table which takes into consideration the completion of productive facilities, or in a doctrinaire manner.

As a matter of fact, the degree of control needed will depend in this case also on the gap between the real situation and the objective. The greater the disequilibrium of the national economy, the fuller the control needed. The greater the mass unemployment and the lower the standard of living of the working population, the greater the sacrifices and hardships that will be imposed on the whole population in order to absorb the army of unemployed (assuming that plants producing consumers' goods have reached full capacity).

Further, the objectives of social security or social equality can be aimed at by reasonable steps or in a doctrinaire way; and on all these factors depends the degree of central control which is needed.

The objective of post-war reconstruction may also be attempted with greater or lesser speed, and on that speed will, to a great extent, depend the range of control.

### *I. Structural and Functional Planning*

In considering the various aims from the point of view of their relation to the existing structure, we may distinguish between two kinds of schemes. One of them I will call structural, the other functional planning.

Structural planning aims at changing the social-economic structure of a given society, and creating something essentially new in the social and economic order. It may be more or less revolutionary. Its aim is not repair, but the building of a new order or structure. In contrast to this, functional planning will fit only into the framework of the existing order, and the changes at which it aims concern only the functioning of that order. Functional planning will only repair, not build anew; it will improve the work of the existing order, but not supersede it. It is a conservative, or rather evolutionary, type of planning, which will not overturn the existing structure, and moves only within its narrow borders.

Structural planning aims at different types of structure. The structures aimed at can be defined only in contrast to the existing structures.

A necessary assumption of structural planning is a common belief in the untenability of the existing structure, the conviction that it can no longer work. This belief is connected with great destructive factors usually caused by wars, revolutions or great structural crises, which produce a breakdown of the existing order.

Structural planning may involve elements not only of construction but also of destruction. The wider the gaps between the new structure and the old, the greater will be its initial destructive power.

Every kind of planning, of course, after a certain time becomes functional. Soviet planning after twenty years has become functional, because it is now working within a given structure, which it does not want to change further.

And every kind of planning is structural in this sense that after a certain time the social-economic structure becomes completely changed as a result of adaptation to the objectives and machinery of control.

The distinction here introduced is one of degree only. It is connected with the distinction between evolutionary and revolutionary changes. But we well know that the accumulation of small changes of an evolutionary type often brings about, after a certain time, a complete reshaping of the social structure.

### *J. Permanent and Emergency Planning*

These two kinds of planning have some special features. Permanent planning has a wider scope and more foresight. The goals at which it aims are more ambitious. The ends to be achieved are not fixed merely for a short time, and the framework it builds up has a permanent character. Emergency planning is of a more accidental nature. Its scheme is more transitory and narrower. It tends rather to temporary readjustment in connection with some industrial or trade disequilibrium, with war or post-war reconstruction. Planning of this kind which may be either preventive or restorative, is an emergency measure, and disappears when the "danger" is past.

This distinction can be related to that between structural and functional planning. But obviously the circles are intersect-



ing, not coincident.

Emergency planning, as a temporary measure, is more timid, vaguer, and weaker. It is less monistic and doctrinaire than permanent planning and is not usually based on a politico-social creed. The most frequent case of emergency planning is planning directed to master cyclical disturbing forces, in order to mitigate great business fluctuations. However,, emergency planning, when working over a longer time, tends to be transformed into permanent planning.

This distinction also is mainly one of degree. It is based not only on the measure of foresight present in plans, but also on the direct connection of plans with the danger, real or imaginary.

The connection between "danger" and planning is generally very close. Most schemes of planning arose from danger, as emergency plans.

#### *K. Planning for a Perfect State, and Planning as an Adventure*

Two different approaches to the reality should be distinguished.

One I should characterize as an unrealistic, the other as a realistic approach. The former is planning for a definitive perfect State, in which everything would be arranged once and for all, according to eternal revealed truths of social, technical or economic science. This is planning for a Utopia, ancient or modern, technocratic or socialistic. It may be described as planning to reach a safe harbour, which once gained should be well safeguarded and preserved without further structural development. This approach, in my view, is largely responsible for compromising the idea of planning, for no such safe harbour exists, and a perfect State is only an idea indicating the direction of our goals, which disappear when they are achieved. Real life appears to us as an endless struggle, in which we must gain a victory every day, and advance further or surrender.

The second approach may be called planning for adventure. It is based on the trial and error method. The advocates of planning seek in this case a perpetual improvement on the basis of a series of mistakes and failures from which they will learn continuously to do better. Modern defenders of planning (Dickinson, Taylor, Lange) and also actual modern types of

planning (New Deal in U.S.A., Nazi planning and even Soviet planning) turn more and more to this approach, which must be regarded as the most suitable basis for every realistic scheme.

THE SCOPE AND METHODS OF CONTROL

THE scope and methods of control are subordinated to its objectives. A reasonably planned economy has the kind and degree of control needed for the attainment of its definite objectives and no more. Any surplus of control which surpasses the objectives may be regarded as waste of energy or as doctrinaire control for its own sake.

The degree of control needed depends on the following factors:

(1) The nature of the objective. For instance, the objective of waging war calls for control of a different kind from the objective of social security.

(2) The scope of the objective. The degree of control required in war planning when 50,000 tanks are needed differs from that required when only 5,000 are needed.

(3) The position of the national economy. In the course of planning for certain objectives, different phases mark the completion of various production facilities for the attainment of these objectives. Every such phase requires a different degree of control.

(4) The measure of co-operation on the part of the population. The more wholehearted this is, and the better the population understand the objectives, the less the control needed.

(5) The reserves in foreign trade. The greater the reserves of national economy in gold or foreign exchange or other trade facilities to provide the needed resources through foreign trade or to export the surpluses, the less is the degree of control required. The failure of national planning to keep the required proportion in production in many forms of industry may be compensated by the facilities of foreign trade. Therefore rich countries need not be so strictly controlled as poor countries, because it is always possible for them to pay for the failures of planning, outside the area of their national economy.

### A. *What Sections are Most Suitable for Control?*

Control, even in a fully planned economy, does not embrace all sections of the economy, or all sections alike, but only those which are important for the attainment of the objectives of planning. It embraces, as a rule, all those sections or institutions which exercise the greatest influence on the course of the economy as a whole (strategic levers).

Sections which affect a small number of people, or which have only a local character, may be left uncontrolled even in a fully planned economy, since they are not important for the shaping of the economy as a whole. They will fit of themselves into the framework of an economy planned as regards its strategic levers. Only those levers must be controlled which give the economy its shape, or which determine the use of the economic resources of a country or region as a whole.

The use of basic commodities or raw materials may be controlled, while some trifling commodities may be left uncontrolled. Basic industries with the greatest concentration of machinery might be controlled, while some branches of industry, especially small industries or handicrafts or sections of agriculture, might be left uncontrolled.

When we consider the degree of control which may reasonably be applied to different sections of the economy, we shall discover that control is applied more strictly in that section in which machines play the greatest part. Planning is really a mechanistic system of economic government, fitting best into the world of machines. It is a kind of standardized uniform world completely quantified which makes possible a central quantitative management. Planning would work best as control over the interplay of machines. It regards the economy of a country as a kind of machinery. On the other hand, where the human factor plays the greatest part, or where not machines but Nature is in the forefront, as in the case of agriculture, the degree of useful control diminishes.

In transport, mining, basic industries, and munitions factories, machines play the most important part, and these are the sections best fitted for central control.

### *B. The Restriction of Producers' and Personal Choices*

We have distinguished five main forms of economic choice: choice of production, of terms of exchange, of saving and investment, of profession and occupation, of consumption. But each one of these in reality constitutes a whole group of choices.

If we take choice of production, which we have defined as the right to decide what and how much to produce, at what cost, and with what factors of production, and to choose the technique and the market, we see that these choices can be abolished either wholly or partially. The planning authority can fix what and how much shall be produced (programme of production), but the decisions regarding cost and factors of production, technique and market, may be left to the entrepreneur, whether private company or public enterprise. The choices, too, may be not abolished, but restricted in a negative way (e.g., by forbidding the production of certain articles). The choice as to how much to produce may be restricted by fixing minima or maxima or averages, which would mean that only some minimum or maximum output or an average over a certain period is prescribed.

Terms of exchange also covers a group of many choices, which may be abolished or restricted to a larger or smaller extent. All prices, wages, rates of interest, rents, and fees may be fixed, or only some of them. They may be fixed at a rigid level (as minima or maxima), or on an elastic basis.

The choice of saving and investment is a class of two choices. The right to save a freely determined part of one's income must be distinguished from the right to invest one's own savings in a freely determined manner in any branch of economy, whether at home or abroad.

The choice of profession and occupation is also a group comprising two different choices; one is the right to choose one's own profession, and the other to find occupation in any locality, branch of production or enterprise.

The choice of consumption may be abolished or rigidly restricted for all consumers' goods (total rationing) or for some of them only and with alternatives for choice.

All these choices are interrelated in this sense, that the restriction of one choice affects the possibility of free choice in another domain. For instance, if the planning authority fixes

what and how much is to be produced, the consumers' choices are indirectly affected. It is true that consumers still have a right to spend their income freely on goods A, B, or C, but if, by the decision of the Planning Authority, C is not produced at all, the choice of consumption is indirectly restricted.

Or, to take another example, if the wages of certain professions are fixed by the planning authority at an extremely low level, which does not cover its usual standard of life, the workers have still a free choice of profession, but the choice is affected indirectly in such a manner that it cannot be freely exercised. The same applies to the entrepreneur, whose right to fix the volume of production may be affected by a fixed price level and by control of the right to choose a particular technique of production, by fixed rates of wages and interest.

Some choices are more precious to individuals than others, especially among the masses, although for the planning authority they might be less essential for the construction of an effective system of control.

The most important choices from the standpoint of the planning authority are: (1) of production, (2) of investment, and (3) of terms of exchange. The first choice is the basis of the production programme the second of the investment programme, the third of the functional and personal distribution of income. These choices are those of entrepreneurs, not of the great mass of workers and consumers. They may be called here *producers' choices*.

The choices of individuals whose abolition they feel most keenly are those of consumption, of profession and occupation, and of saving. The direct abolition of these choices is regarded as an interference with the personal preferences of the population in its way of life. These may be called *personal choices*.

The restriction of personal choices may be found necessary under many schemes of planning, e.g., for war, or for speedy industrialization, or for self-sufficiency, or under emergency planning (famine), or when skilled labour is lacking, or in schemes directed towards social equality.

### *C. Direct or Indirect Control*

Economic choices may be restricted either directly or indirectly.

By direct control is meant control by administrative acts, such as prohibitions or commands. In the former case the decisions made by the public organs are of a negative character. Individuals are forbidden to commit certain acts. The degree and extent of such prohibitions may vary widely, but usually the negative method interferes with the market to a lesser degree than the second or positive method.

The latter means the commanding by the authorities of certain positive acts which individuals are obliged to perform. For instance, the planning authority may order entrepreneurs to employ a certain number of workers at fixed wages, or to invest their savings in a certain branch of industry. This is a positive administrative method, while a prohibition of the employment of workers below a certain wage level would be a negative method. When the authorities apply not only prohibitions but also positive commands, the control becomes much stricter and wider.

We now pass to indirect control. We may leave all choices formally free to the individual, but at the same time influence his decision indirectly. We may leave to the entrepreneurs their free choice as to what and how much to produce, but bring about in indirect ways the desired quantity or quality of production. We may leave to individuals the choice of how much to save, but we may, by the use of some inducements, achieve a certain volume of saving. The same applies to the choice of consumption, profession and occupation, etc. The main methods are economic incentives—premiums, subsidies, credits and guarantees—or economic deterrents—taxes, duties, fees, or “strategic factors”<sup>1</sup> governing the course of the market. These strategic factors are public finance, the monetary and exchange system, banking and credit, trade and customs policy, transport policy, business information, etc.

We can by public investments or by a public spending programme bring prices, wages and rates of interest, the production programme of entrepreneurs, the volume of saving, consumption and investment, to a desired level. The quantitative definition of a planning programme by indirect control cannot, of

<sup>1</sup> See J. M. Clark, *Social Control of Business*.

course, be achieved precisely, but only within a certain approximation; but this approximation may be sufficient for practical needs.

Planning by indirect control does not destroy the mechanism of the market. It influences only the trends of the market, and plays its part within the framework of the market. Planning of this kind may be called marketing planning (planning through the strategic factors of the market).

Indirect control is most suitable for a free society, because it leaves very wide fields of choice formally free.

#### *D. Planning by Propaganda*

Planning by propaganda may be regarded as central control exercised by means of appeal devices, news services and market analysis, which effectively influence the will of people in their free choices. It may also be regarded as a substitute for control. The more effective propaganda is, the less control is really needed. Planning of this kind might be effective in proportion to the self-discipline and self-control of the people, and their confidence in the public authorities. If the morale of the people is high, the effectiveness of the devices and appeals may be relied on.

If more saving is needed, this may be achieved by an appeal to the public, which may be as effective as the savings campaign during the present war. If less or greater consumption of certain articles is needed, that also can be achieved in this way. More investments, more imports or exports, more or less credit, more or less productive effort, even more employment can be achieved, if the people have confidence, self-control and self-discipline.

This is the most valuable kind of planning. It is based not on compulsion, but on the voluntary efforts of the citizen, and its running costs are lowest.

The basis of its proper working is only:

- (1) A high standard of education and morale.
- (2) Good leadership.
- (3) Good news service.

Planning of this kind is especially suited for countries with a great tradition of self-discipline.

Planning by propaganda, of course, may not achieve its object



completely. Its effectiveness may cover only some part of the economic activities in the controlled field, but taking into consideration its low costs and other advantages, even its inevitable lack of complete effectiveness may be, on balance, more advantageous than planning by compulsion, which also may be effective only to some extent and with the accompaniment of high costs.

### *E. The Practice of Control in Planned Economy*

With regard to the practice of control in many planned economies we may come to the following conclusions:

(1) Producers' choices have been most extensively controlled in those economies where private ownership of the means of production has been abolished, as in Soviet Russia.

(2) Personal choices have been most extensively controlled in those planned economies which called for sacrifice on the part of the population during emergency, war, or famine. But as planning involving sacrifices is the normal case, personal choices have been very often controlled. In Soviet Russia, where planning really started in 1928, only a short period from the beginning of 1936 onwards was free from rationing. Nazi planning introduced rationing at an early stage. And in War Planning in Great Britain rationing plays the most important rôle.

The proviso often made by well-intentioned writers, that planned economy should confine itself to restricting producers' choices, is mainly formal in character, since in reality planned economy cannot but invade, more or less, the area of personal choice. As a rule, planning requires some sacrifices, and sacrifices mean the restriction of personal choice.

Moreover, the distinction between producers' and personal choices loses much of its real importance under planned economy.

(3) Planned economy has a preference for direct quantitative control, while indirect control is used mainly as a subsidiary instrument of policy. It has also a preference for positive commands rather than prohibitions.

(4) Prohibitions are mostly used as methods of general economic policy in an unplanned economy, while a planned economy makes use of positive commands which make a certain

strictly defined behaviour compulsory. Restrictions create a framework within which entrepreneurs and consumers or workers can move more or less freely, while positive commands prescribe the way in which they must move, excluding all other choices, and determine the volume of certain sections of activity.

Administrative commands are the ordinary means of planned economy. Good administration, therefore, is the first condition of its proper working.

(5) Propaganda is used either as an additional instrument of control in order to make the citizen subservient to the orders given, or as a substitute for control, especially when effective control has failed.

For instance, if the production programme has failed to meet the demand, propaganda seeks to adjust demand to the existing supplies by asking the people to refrain from consumption of scarce commodities, etc. Economic propaganda has proved to be a powerful instrument of planned economy, and without modern means of propaganda, central control would be less effective, or much stricter and wider.

Good propaganda is the second condition for the proper working of planning.

THE INTERCONNECTION BETWEEN CONTROLS IN  
DIFFERENT FIELDS

A. *Control of Foreign Exchanges*

FOREIGN exchange control is the starting-point of every scheme of planning on a national scale. By exchange control is understood:

- (1) Control of exchange ratio;
- (2) Control of transactions in foreign exchange under the form of restrictions imposed on capital movements, on external debt payments, on purchases or sales of foreign exchange by exporters or importers, etc.;
- (3) Control of the export and import of gold, coins, notes, bank assets or securities;
- (4) Control of holdings of foreign currencies or foreign assets.

In short, it is control of the whole sphere of money and credit relations with foreign countries in a general sense.

(1) The control of foreign exchange rates is a necessary instrument for the control of price and wage levels, or in general for control of the purchasing power of money. The main concern of schemes of planning, once the right structure of prices and wages has been achieved, is their stabilization. This can be secured only by isolating the national economy from fluctuations and disturbances originating outside the area which can be controlled by the planning authority. If the planning authority stabilizes prices at a given level, while world prices fall or rise to a considerable extent, the goal aimed at can be achieved only by control of exchange rates through devaluation or revaluation of currency; or through a rigid stabilization of exchange rates.

For the safeguarding of a large public spending programme which is always connected with planning, the control of exchange rates may also be of importance.

- (2) Control of transactions in foreign exchange, especially of

capital movements, is the first control measure which must be undertaken, when planning is begun on a national scale.

The control of production, investment or distribution imposes on entrepreneurs some charges and burdens which may be greater than in other national economies. It might be more advantageous to evade the control and to invest some capital abroad, where conditions may be more favourable and uncontrolled. Among a number of countries there may be always one or even several working under better conditions and less control.

The Blum experiment, carried out in France under the Popular Front Government in the years 1936-37, collapsed, apart from other reasons, through lack of exchange control. *Crise de confiance* and an overcharging of industry caused a steady flight of capital abroad, which resulted in a continuous depreciation of the currency, disequilibrium in the money and credit markets, and disinvestments.

Therefore the first step in planning is a restriction on capital movements, which safeguards the integrity of the national capital for the objectives of the national economy.

(3) Control of the export and import of gold, coins, notes, etc., is an implement of control under (1) and (2). As a rule, it must be regarded as a necessary implement of control under (2).

(4) Control of holdings of foreign assets (not of their sale or purchase) is an emergency measure which may be useful for replenishing the foreign assets of the Central Bank, or for reasons of equity or equality in distribution, but it cannot be regarded as a necessary implement of exchange control under (1), (2) or (3).

Exchange control under (1) and (2), in a wider or narrower sense, must be regarded as a necessary assumption of every scheme of national planning. But this control has wide implications in other fields, especially in foreign trade.

Control of transactions in foreign exchange cannot be isolated from control of foreign trade. Capital export may take place in the form of export of commodities while the foreign currencies obtained through such export are held abroad. The increase of imports may take place as a form of external debt payment or as a credit transaction which will be paid for after

a certain time. The foreign exchange market is determined to a great extent by foreign trade, and therefore all control of the flow of national capital, money, and credit to foreign countries implies a certain degree of control of foreign trade.

When the stock of foreign exchange is very scarce, the Exchange Control has to resort to restrictions on imports to reduce the demand for foreign currencies, and to inducements to export.

Every restriction on transactions in foreign exchange is indirectly a restriction on foreign trade. When the importer has no foreign exchange allocated to him, he is unable to place his orders abroad. By allocation of foreign exchange to importers the amount and nature of imports is indirectly fixed.

Therefore the control of foreign exchange transactions not only leads to some control of foreign trade, but also implies in itself a certain control and strict supervision of foreign trade. It implies also a control over services rendered abroad, such as transport, banking, insurance. It implies, moreover, control of migration and foreign travel. Finally, it implies a supervision of the whole postal turnover with other countries, and therefore the imposition of a kind of censorship, however slight, on the whole sphere of foreign relations of the nation.

Exchange control affects not only the economic relationships of a nation with foreign countries, but also its cultural relationships, which always involve corresponding money- and credit-relations.

But the degree and extent of exchange control needed for planning depend on many conditions:

(1) The more rigid the scheme of planning, the greater are the hardships and sacrifices it imposes, especially on entrepreneurs, and the greater the tasks of planned economy in relation to the productive facilities of a country; the fuller, then, must be also the exchange control.

(2) The greater the stability of world economy, especially in world prices, the less rigid may be the exchange control which is needed.

(3) The greater the degree of adjustment of national economy to world economy, the less exchange control is needed.

(4) The greater the reserves of gold and foreign exchange or the credit facilities of a country, the less exchange control is

needed. It is also needed more for a debtor than for a creditor country.

### *B. Investment Control*

The control of investment is the core of every scheme of planning. The rational utilization of productive resources is closely connected with control of the rate of investments and their particular characteristics. Specialization of industry, subdivision of labour, concentration of industry, can be advanced by the control of investment. When we want to change the scale, structure, or efficiency of industry, we can do so through control of investment. If we wish to eliminate uneconomic utilization of resources and wasteful competition, we must control investment. The quantitative control of investment is a basic component of every planning scheme.

Planning for war or for power-politics is to a great extent control of investments and their direction into certain channels. But the same applies to planning for post-war reconstruction. The rebuilding of cities and towns, ports and industrial centres, as well as slum clearance, general improvement of urban sanitary conditions, the elimination of overcrowding, the segregation of industrial, residential, and recreational areas in towns, must all be based on investment control.

Planning for speedy industrialization is mainly control of investment, of its rate and its particular characteristics.

Planning for full employment is mainly control of the rate of investment, which determines the volume of employment, either by inducement or compulsion (control of foreign exchange), and finally by public works.

Investment control implies at least control of foreign exchange, some control of banking and credit institutions, some control of production in capital goods industries. Without control of foreign exchange the funds available for investment in a national economy might be placed abroad. Without control of banking and credit institutions some funds available for investment might be withheld. Without control of capital goods industries the investment programme might be hindered by lack of investment goods.

Investment control may be either restrictive or expansive. It may tend towards restriction of investment in some fields, which

is a special feature of "interest-group planning" (of entrepreneurs), or it may tend towards expansion of investment to the maximum. As a matter of fact, public control of investment is partly restrictive and partly expansive, tending towards restriction in some fields and expansion in others.

Investment control might be exercised not only by prohibitions (licences for building or enlargement of plants) and orders regulating investment (that a definite part of income must be invested in a definite way), but also by indirect methods or by control of distribution, consumption or production.

### *C. Control of Production*

The control of production has various objectives and uses various methods.

When the control aims only at economic security (for entrepreneurs) it tends towards stabilization of output or even its restriction (restrictive control).

When the control is exercised for social security, it tends towards maximum output (expansive control). Sometimes the control is exercised only for maximum output in special fields of production, as in war-planning or planning for industrialization or self-sufficiency (power politics) or re-agrarianization.

In any scheme of planning some fields of production are always preferred to others; in schemes for industrialization the capital goods industries; in schemes for war the war industries; in schemes for post-war reconstruction the building industries; in schemes for social welfare the consumption goods industries; in schemes for re-agrarianization the agricultural and food-producing industries, and so forth.

Change in the volume and nature of output is a major task of every scheme of planning. It can be achieved by a direct control of output, or by control of other factors which determine the magnitude of production, e.g., of investments, or of prices and wages, of consumption, of import and export of raw materials, etc.

The planning authority may fix quotas of output for different entrepreneurs, allocate them raw materials and skilled labour; prescribe the machinery which must be used, determine the stocks which must be held, fix prices and wages; regulate the

sale of goods in different markets, their quality, their standardization, the use of economizing measures, the compulsory exchange of information and results of research, etc.

The control of production implies the control of prices and wages in the controlled industries, of banking and credit institutions, of investments, and finally of foreign trade.

Changes in prices and wages may hinder the execution of a productive programme; if prices fall and wages rise, the enterprises might be unable to carry out the production programme. If we wish to augment production, but the firms concerned have no capital for the enlargement of production, the planning authority must provide them with credit. Or if we wish to augment the volume of production in a given industry which is already working to full capacity, we must control investment. Finally, exports and imports must be adjusted to the production programme.

The control of production is a most extensive field of control, and to be effective it implies deep inroads, direct or indirect, into almost every other domain.

#### *D. Control of Consumption*

Control of consumption may be expansive or restrictive.

*Expansive* control plays an insignificant rôle in planned economy. It might be needed in cases where the population has no desire for certain commodities which the planning authority regards as useful to such an extent as would enable them to carry on mass production. In this case, the planning authority may compel the population as a duty to consume or at least to buy certain commodities. Generally speaking, when the national economy is under-employed or working at only partial capacity, it may be necessary to expand the consuming power of the population by certain measures.

*Restrictive* control is the typical case in a planned economy. It may be needed as an additional instrument of enforced saving, especially when a high proportion of income is to be saved. It may serve as an additional measure for the effective control of prices, in order to avoid the competition of consumers. It may serve as an instrument of equalization of real income beyond



the measure of equality achieved in the distribution of nominal incomes.

Restrictive control plays an outstanding part in every kind of war planning as well as in schemes for enforced and accelerated industrialization. Restriction may be needed to obtain supplies required for the war machinery, to free goods for export, to reduce imports, to curtail shipping space or to free resources for investment in general, when full employment is attained.

Both restrictive and expansive control may be secured by indirect control in the field of production or distribution, or by rationing. The restriction of consumption may be effected by raising or lowering prices, by lowering wages and profits, by inducing or enforcing saving, by raising taxes, by import duties or export bounties, by lowering the quality of products, etc.

Where all these measures are insufficient or a very high degree of reduction in consumption is needed, or in the case of great scarcity of the necessaries of life, rationing cannot be avoided. Rationing may be more or less comprehensive in its scope; the most comprehensive form would consist in fixing a maximum of income which might be spent on buying consumers' goods of all kinds. So far as I know this integral rationing, now advocated by some writers in this country, has never yet been anywhere attempted.

In the control of consumption not only quantitative but also qualitative criteria are applied. When the planning authorities regard certain wants and desires of the population—from the point of view of health or efficiency—as unjustified, or incompatible with the interests of the community, they may impose some restrictions or prohibitions, excluding, for instance, the consumption of luxuries, spirits or drugs or trifling commodities. Goods of higher or of lower quality may be excluded from consumption. This kind of control also plays an important part in planned economy, as under it the desires and wants of the population do not constitute the pivot of national economy.

It may be stated that as planned economy has as its object the mobilization to the full of all productive resources, it tends towards the cutting down of luxuries and comforts and the extension of the range of consumption of the necessaries of life and efficiency.

### *E. Control of the Distribution of Income*

The control of *functional* distribution determines the relationship between the prices of different commodities, wages, rates of interest, profit, rents.

The control of *personal* distribution fixes the amount of the personal incomes of individuals and families and their utilization.

The control of functional distribution is a necessary implement for an effective control of production, investment and consumption. But, on the other hand, it must be supplemented and backed up by a comprehensive machinery of controls in the fields of production, investment and consumption. The price and wage control must embrace the whole course of production from raw materials up to the last link of the chain in consumption. If one link is omitted, the price-fixing may be ineffective. Price-control in one industry must be supported by price-controls in other fields. These must be reinforced by control of wage rates and rates of interest and profits, etc. Very often the direct control of prices must be supplemented by quotas imposed in the domain of raw materials, by allocation of skilled labour, or by import and export quotas.

Direct control of prices through orders and prohibitions always introduces a disequilibrium factor in the market, and must therefore be supported by other measures. Prices stabilized by administration are mostly below the point of equilibrium (which balances demand with supply), thus augmenting the demand and cutting down the supply. The gap between demand and supply grows with the duration of the administrative control. Therefore administrative control of prices often imposes the need for rationing because, if demand exceeds supply, the demand, not adjusted by a price-level, must be adjusted in some other way.

The *personal* distribution of income is needed as an instrument either of forced saving (investment) or of equalization of income (consumption). It is the more needed in more comprehensive schemes of full planning which have as their object the enforcement of a higher degree of collective effort.

We have seen that the controls in different fields are inter-related and interpenetrate one another. They are linked vertically (by phases of production) and horizontally (by the

principle of substitution). As far as we have observed the practice in planned economies, the introduction of control in one field has been only the prelude to the application, after a short time, of other controls.

But it would be wrong to assert that the chain of controls never breaks down, that when we start with one control we must necessarily exhaust the whole field of possible controls. The control we introduce can be best compared to a stone thrown into a river. It sets waves in motion around it which influence other parts of the river. But its influence diminishes with space and time, and breaks down completely after a certain radius is exceeded. This is the case with controls, which may be compared to larger and smaller stones. Every control has its own radius, but every radius is more or less limited. When we introduce one control there is a need for introducing other controls in the neighbourhood (for instance, in one and the same phase of production) for a certain time. But this does not go on indefinitely. There is an obvious limit for the working of the chain of controls. If not, since the first controls were introduced ages ago, we should now have a complete scheme of controls of all kinds and degrees everywhere.

We must also remember that the number and kinds of controls are constantly changing in the actual world; some are newly introduced, but others again are abolished.

The antagonists of planning always put forward this argument against any scheme of planning, asserting that when we start with a single control, we can stop nowhere, but must go on to the bitter end, since everything is connected with everything else. This, in my opinion, is a doctrinaire view resembling the sophistic thesis of Achilles and the tortoise.

It is true that in a planned economy the number, kinds and degrees of controls are in a constant state of change and transformation, so that equilibrium in their working has never been reached; as a matter of fact the conception of equilibrium has no sense in planned economy. Planned economy is extremely dynamic, and there is constant need for adjustment and re-adjustment, especially when the scope of the objectives and the volume of the resources change.

## CHAPTER IV

### CONTROL AND OWNERSHIP

**PLANNED** economy may operate under private as well as under collective ownership of the means of production. The system of central control is of much greater importance than the system of ownership. The essential condition is the existence of an effective central control, while the ownership may take any one of a number of widely divergent forms.

An economy composed of private enterprises may be a planned economy if it is centrally controlled, while an economy composed of socialized enterprises may be an unplanned economy if not so controlled. If the shares of all industrial companies were transferred to the State, while the companies remained as separate units independent of any central control whatever, merely transferring their profits or losses to the Exchequer, we should have an unplanned economy with collective ownership of production.

The best example of such an unplanned socialist economy was Soviet Russia in the N.E.P. period from March 1921 until about June 1927. The socialized enterprises were organized under Socialist trusts, but these trusts had to operate on commercial principles of market competition. They created even larger syndicates on similar lines to syndicates in capitalist countries. During this period Soviet industry constituted a monopolist unplanned economy with collective ownership of the means of production, and the competition on the market between the trusts and syndicates was a typical case of monopolist competition.

In theory, we can even imagine socialized enterprises composed of small productive units free from all central control, with the consumers and workers enjoying every freedom of choice (of labour, consumption and saving); we should then have a free socialist economy completely unplanned.

A competitive solution under socialism, as suggested by cer-

tain modern writers (Lange, Dickinson, Durbin),<sup>1</sup> when carried to its limit, with full freedom of choice left to consumers as well as to producers, would lead to an unplanned socialist economy. It is not the system of ownership which decides whether the economy is or is not planned, but the system of control.

The system of ownership, however, is connected by many links with that of control. It may exercise some restrictive or expansive influence on the scope and methods of control. Central control excludes some forms of ownership, namely, the orthodox types of unlimited ownership known in Roman law as the right to use and abuse one's property. Planned economy develops new forms of limited ownership which divorce the substance of property from its control and enjoyment. The new forms have a different content from the old. The administration of wealth is controlled in various ways, and the owner is greatly restricted in the management of his property. The enjoyment of private property, moreover, is greatly limited by restrictions imposed on the choice of consumption and investment. The connection between income and spending in consumption is limited.

Furthermore, the connection between property and income is greatly affected by the controls in planned economy. A huge enterprise may yield but a small profit to the owner. Total personal income is limited, irrespective of the amount of property held.

The extent of the owner's rights fluctuates in a planned economy, varying with the degree of control and also in various sectors of national economy. It has no inviolable boundaries. However, it must be strong enough to evolve some kind of link between the owner and his property and to give him some satisfaction from its possession, even though it be of an "irrational" character.

The central authority in a planned society may wish to retain private ownership for various practical reasons connected with the psychology of the people. It may be stated that the adminis-

<sup>1</sup> Oscar Lange and Fred M. Taylor, *On the Economic Theory of Socialism*, Minneapolis, 1938; H. D. Dickinson, *Economics of Socialism*, Oxford, 1939; E. F. M. Durbin, "Economic Calculus in a Planned Economy," *Economic Journal*, 1936.

tration of wealth is much more stable under private than under State ownership. It is, as a rule, more responsible and more flexible. The guidance or supervision of the owner, and his collaboration, may be a valuable asset to the administration.

But without any doubt planned economy tends to undermine the rôle of private ownership in the administration of wealth. And the more the degree and scope of control expands, the less of the real content of ownership is left.

If planning authorities tend to abolish all freedom of choice, i.e., if the central control is all-embracing and absolute, there is no use or justification for retaining private ownership. In this case the functions of private owners would completely disappear, and their income fall to the level of rents based on privilege only. It is quite unimaginable that a free society would long tolerate the paying out of incomes from property when no positive functions were left to private owners. Private ownership would very soon degenerate and become parasitical. In a modern society there is no place for rights without duties and positive functions, and when the latter are taken away, the former also must disappear.

Where control becomes absolute and detailed, abolishing all freedom of choice on the part of entrepreneurs, there is no room for the private ownership of means of production.

If we wish to retain private ownership of the means of production for this or any other reason, we must restrict central control to certain strategic choices only, and still leave a considerable field of choice to private ownership. Private managers must be called upon to play an important part in the framework of a planned economy.

#### A. *New Forms of Ownership*

The issue of private versus public ownership of the means of production, which not so long ago excited so many passionate disputes, is no longer formulated so sharply as of old. The character of ownership has undergone marked structural changes in recent decades, and this process is still in full swing.

The division into private and public no longer covers the whole field of the rights of ownership. New kinds of ownership have appeared, with a peculiar structure of their own, which do not

belong either to the realm of private or public ownership.

As a matter of fact, we have witnessed the rapid expansion of property represented in *corporate* businesses and in capital and credit markets in the form of shares, rights and all kinds of credit and capital. The shareholder, the holder of an insurance policy, or of deposits in a Bank, Investment or Savings Trust or Building Society, or of Savings Certificates or Government or other bonds, is a proprietor with a definite share in the national wealth and income. The administrators of his property are the big Corporations, Banks, and Investment Trusts, Insurance Companies, Boards of Social Insurance, or the Government and the Municipalities. His property is private to a limited extent only, for it is administered collectively. The property is really amphibian, taking a place between private and public property of a special type (*Corporate property*).

One large amphibian variety of property holding has developed in the form of *Public Utilities*. This includes a group of industries "affected with a public interest," supplying essential services such as water, electric light and power, gas, transport and communication. This group is not closed, but is rapidly growing. The Supreme Court of the U.S.A. has declared "there is no closed class or category of businesses affected with a public interest."

The general characteristics of this group are that they enjoy a franchise, are run under monopoly, and supply essential services.<sup>2</sup> They are subject to special regulations; they have special obligations with regard to regularity and continuity of service; the quality of service is determined when necessary by legal standards, and there are legal provisions affecting the volume of the service or special aspects of it.

"Reasonable" rates for such services are determined by rate schedules, and the rate discrimination is based on the requirements of the public interest. There may be free rates to municipalities or quasi-public agencies, reduced rates for public welfare organizations, charitable and social agencies, stimulating rates for infant industries or special users. The customers are

<sup>2</sup> Wilson, Herring and Eutsler, *Public Utility Regulation*, New York, 1938, p. 4.

classified in groups according to social criteria. The rate schedules are fixed on the principle of "fair return" (*justum pretium*) and the accountancy and reports of such companies are strictly supervised.

These Public Utilities may be under private, public, or State ownership, but they are generally administered by a Board enjoying public confidence, acting as a trustee for the public. The Board is elected or nominated on a basis more and more divorced from ownership.

This form of property-holding was developed especially in British experiments in Public Utilities, particularly in three large Corporate Boards—the Central Electricity Board, the British Broadcasting Corporation and the London Passenger Transport Board. All three of these Corporations represent public or semi-public (mixed) ownership for the supply of essential services on a national or very large scale, with special franchises and monopolistic rights, but with their management entrusted to a specially appointed Board which enjoys a large measure of freedom in the organization and conduct of the service "removed from direct and continuous political control," but "accompanied by arrangements for the full operation of public control."<sup>3</sup> The corporations have independent legal ownership of property and assets and can issue stock or loans.

The rapid growth of Public Utilities under many multifarious forms is a significant development of the amphibian forms of ownership.

The *mixed enterprises*, owned partly by the State or Municipalities and partly by private shareholders, belong to another widespread group. Germany was the centre of this evolution, which started at the beginning of the twentieth century. This type of enterprise was known there as a "Mixed Economic Enterprise" (*Gemischt-wirtschaftliche Unternehmung*). One of the first and largest was the "Rheinisch-Westfälisches Elektrizitätswerk," in which shares and seats on the Board were given to municipalities as early as 1905. Already by 1914, 75 great

<sup>3</sup> Terence H. O'Brien, *British Experiments in Public Ownership and Control*, London, 1937, p. 17.



German town corporations participated in 95 mixed enterprises. During the First World War this type of organization was used for war-time control of production by mixed Marketing Boards (Companies for War purposes), which included the State as well as the entrepreneurs. Under the Weimar Republic, and especially since the Great Depression, this form has been substantially enlarged in the domain of banking and insurance, foreign trade, etc. Nazi planning has made great use of this system in war industries.

The same development may be seen in many other countries, especially in Central Europe. Poland, for instance, had a large number of mixed enterprises. The Potash industry (*Tespy*), mining and metallurgy (*Skarboferm* or "Community of Interests": great smelting works in Silesia), the Company for the export of timber (*Paged*), some banks, such as the Bank of the Union of Co-operatives in Poznan, were all subject to this form of ownership.

*Co-operative Societies* represent another form of amphibian ownership, especially in farming, handicrafts and banking. There are old and new types which emerge in some planned economies, the new types being often mixed with public ownership.

New types of co-operative societies have emerged in Soviet Russia. In industry and the handicrafts there are some 25,000 Co-operative Societies under the names of Producers' Co-operatives, integral Co-operatives, Artels and Collectives. The range of their membership varies from five to hundreds and even thousands. They employ some three million people, and their importance has been growing in the last few years, especially in bakeries, canneries, distilleries, repair shops, etc. They are organized according to sectors of industry into Unions, which facilitate the purchase of raw materials and the sale of their products, and by regions into Regional Councils. At the head is the All-Union Council, whose President takes part in the State Planning Commission. The members of the Co-operatives draw, instead of wages, a share in the collective income according to the work done. The Co-operatives are subject to much less control than the State enterprises; they enjoy a much greater range of independence in the use of their

funds, in production and in the distribution of their income.

In Soviet agriculture there exist three kinds of Co-operatives (*Kolkhozy*). The most important of them is the *Artel*, the self-governing association of farmers who pool their arable land, draught animals and other livestock, farm implements, and the buildings necessary for running the farm in a large collective unit. The dwelling-houses of the members are not collectivized. They may have for their personal use a plot of land, some animals and poultry and minor agricultural implements. All work is carried out by the personal labour of the members who are remunerated according to work performed on the basis of a "working-day unit." For the performance of a defined day's quota of work, each member is credited with one unit. The working-day units are calculated and recorded by the head of the brigade in which the member works. If he performs more than his quota, his credit is correspondingly increased.

Authority is vested in the General Meeting, which elects a Chairman, a Board of Managers and Auditors, and decides on the plan of production and investment, or the division of income.

Another type of Kolkhoz is the *Partnership* (*Tovarishchestvo*), in which only the arable land of the members is pooled, while draught animals and other livestock and tools remain the private property of its members.

The communist type of Kolkhoz is the *Commune*, in which everything is pooled, the land and draught animals as well as homes, gardens, poultry, and there is a communal dining-hall and communal living accommodation.

The last two types are rather exceptional, while the *Artel* has become the predominant type of Soviet farming. In 1938 99.3 per cent of the whole sown area in the U.S.S.R. was already under collectivization.

Under German Nazi planning a new form of private property was created. Private rights are restricted by prohibitions, and some definite public duties are attached to the rights of ownership. The owners are bound to certain definite actions, for instance, to employ a given number of workers at a certain wage level, or to run the factory at a certain capacity, to produce certain commodities, to supply a given market, to train the workers, etc. The entrepreneur is styled a Works Leader, and

is subject to the control of Trustees of Labour and of a number of agencies. The owners who are unable to perform the tasks allocated may be deprived of the administration of their undertakings.

New forms of ownership have emerged in German agriculture, where the transfer or tenure of land is subject to official confirmation. Property was much more restricted by the law (*Reichserbhofgesetz*) of the Reich Peasants' Estate of 29 September 1933; this institution will be dealt with in the chapter on Agriculture.

### B. *The Superiority of Amphibian Forms*

We have seen how rapidly the new amphibian forms of ownership have spread. Ownership in our times has taken on a most dynamic form subject to rapid changes. In most countries private ownership in its orthodox form has been superseded by new collective forms of ownership, which have assumed prime importance. The issue between private and public ownership has been to some extent deprived of its real meaning, since private ownership in its old orthodox form has been, in many countries, largely relegated to a minor place in the administration of national wealth, and this process is going on everywhere.

I regard the amphibian forms of ownership, especially the Public Utility and Co-operative forms, as much more suitable for the working of planning than the rigid form of State ownership. The more or less private management of enterprises under these amphibian forms is, in my opinion, more skilful, more frugal and more efficient than State management.

These amphibian forms of ownership lead to the *restriction of central control*, which is confined to the strategic factors necessary for the achievement of the objectives of planning; while a purely State ownership of the means of production imposes no restriction whatever on central control and tends to detailed and all-embracing planning under a Leviathan State.

This has also been proved by the experience of the Soviet economy, where the co-operative enterprises in industry enjoy a much greater independence than the State enterprises; and this arrangement has proved a success from every point of view. Co-operative organizations were much more stable than the

organization of the State industry, which has been subject to structural changes every few years. At short intervals there has been a complete overhaul of the administration and structure of the State industry because of its lack of efficiency, hampered as it was by excessive bureaucracy and centralism.

To recall only some of the substantial changes which have taken place since 1917, we may briefly record the process of the continual reorganization of Soviet State Industry.

The régime of Workers' Control instituted by the decree of 14 November 1917 was replaced by wholesale nationalization and rigid centralization on the basis of the decree of 28 June 1918. This was a failure, and came to an end during the period of the New Economic Policy in March 1921. The Trusts which then came into existence had to operate on commercial principles of market competition, and were responsible to the Supreme Economic Council. They could create Syndicates which had functions similar to those of syndicates in capitalist countries.

As the planned economy grew, the status of the Trusts was changed by the law of 29 June 1927. The commercial principle gave place to the principle of compliance with the plan. The enterprises were given a greater independence by means of the Trusts. Trusts and enterprises were united in larger vertical organizations—"Combines."

The next reorganization came in January 1932, when the large "Combines" were split into smaller units and the Supreme Economic Council was dissolved and its functions taken over by three People's Commissariats—for Heavy Industry, for Light Industry and for the Timber Trade.

A complete reorganization was decided upon by the Seventeenth Congress of the Communist Party in January 1934, which agreed to abolish the Combines altogether, to reduce the number of Trusts and to increase the participation of local, regional and autonomous republican bodies in the management of industry.<sup>4</sup> Agencies based on the "functional" principle were liquidated and replaced by new ones organized on the "territorial-productive" principle.

<sup>4</sup> Michael Florinsky, *Toward an Understanding of the U.S.S.R.*, New York, Macmillan Co., 1939, p. 179.

The New Constitution of 1936 has increased the share of the Union and the Autonomous Republics in the direction of Soviet industry, and introduced great changes in the division and composition of the Commissariats controlling State industries and their subordinate bodies. A further complete reorganization of the industrial administration took place under the decrees of January 1939.

It is clear from this survey that the status of State industry is subject to much more fluctuation than the status of private ownership. The administration needs to be continually overhauled and reformed, and is remodelled with every change in the views of the Government.

### C. *Democratization of Property*

The running of a planned economy under private ownership would require not only a readjustment of the content of ownership but a further drive towards democratization of property.

A concentration of property accompanied by the existence of a large *proletariat* would, in the long run, destroy the working of a planned economy. The concentration of ownership would mean concentration of political power and the control of the whole planning machinery by magnates and industrial barons. A planned economy with a highly concentrated ownership of the means of production would come very near to a feudal society. It would be only a reinforcement of a monopolistic capitalism with guaranteed rights of inheritance, property and profits. It might very soon degenerate into an organized exploitation protected by the power of propaganda and attended by the keeping of the masses in ignorance.

The process of democratization of income is inherent in a planned economy, if it is not directed to mass-exploitation, and the same may be stated also with regard to the process of democratization of property, which, after a certain time, must follow on the former.

The accumulation of property serves no real purpose in a planned economy, because the entrepreneurs who accumulate more property are not allowed to derive from it either more personal income or more enjoyment beyond certain limits. With high death duties, high taxation of income and additional con-

trols as upper limits for maximum net personal income, the diffusion of industrial property under a planned economy may become a genuine process in a free society. We see thus how a planned economy works of necessity against old forms of ownership and the old structure of the division of property.

#### *D. The Drive Towards State Industry under "Passive Capitalism"*

The drive towards State ownership in industry is much more accentuated in underdeveloped than in highly industrialized countries. It is a significant and outstanding feature, which must strike any observer. In countries under "passive capitalism," the tendency towards State ownership in industry comes to the fore much more strongly than in countries under "active capitalism." By the former I mean areas under the control of foreign capital invested with the sole object of reaping maximum profits, which are afterwards exported, without any regard whatever to the real needs and wants of the population of the country in question. This happened in the case of Russia before the October Revolution, as also in Mexico, Iran, Iraq, India and certain other countries.

I would ascribe the strong drive towards State ownership in industry in Poland during the twenty years of Polish independence, known by the name of "Polish étatism," to the same factors.

I should like to here to explain briefly the factors responsible for a genuine drive towards State ownership of industry in Poland, because they seem to me to be significant for many countries in a similar stage of economic development. In many respects also we can see an analogy with Russian étatism before the October Revolution.

The Polish Government owned about a hundred industrial enterprises composed of more than a thousand units, some of them the largest in the country. It controlled also 70 per cent of the iron production, 30 per cent of the coal output, 99 per cent of the salt mines, a very large part of the chemical industry, 50 per cent of the engineering industry, 20 per cent of the oil refineries, 95 per cent of the merchant marine and the port of Gdynia, 100 per cent of commercial aviation, 93 per cent of all

railroads, 100 per cent of the aircraft industry and the munitions industry in its stricter sense. Apart from this there were five big State monopolies: alcohol, matches, tobacco, salt and lotteries; some of these were commercial and some production monopolies.

The State owned three of the largest Banks: the National Economic Bank for long-term credits for industry and municipal undertakings, the State Land Bank for long-term credits in agriculture and agrarian reform, and the Postal Savings Bank (with about three million savings accounts). But apart from these there were a large number of mixed banks with shares owned by the Government, a powerful network of municipal savings banks under Government control, and a large network of public and semi-public insurance companies.

How can we explain this genuine drive towards State industry, which became more and more accentuated especially after 1936, in spite of widespread popular opposition to any kind of socialist experiments in Poland?

The first factor was the existence of a large share of foreign capital in Polish industry. In 1929, foreign capital represented 38.4 per cent of all the capital of Polish joint-stock companies. In 290 of the large companies out of the total of 1,118 joint-stock companies, it controlled more than half the capital.

The foreign capital was not always unpolitical in character, which means that it was very often abused for political reasons. Such was the case with the big Flick concern which controlled the largest smelting works in Silesia (the Silesian United Royal and Laura Foundries), and was really directed by Berlin with a view to the restriction of Polish steel production. The concern was finally taken over by the State after an agreement with the shareholders.

Another case was the large textile concern of Zyrardow, where a whole town was controlled by and completely dependent on the French controlled firm of M. Boussac. There were many complaints of open abuse and exploitation. This concern was also taken over by the State on the basis of an agreement with the owner.

When industry is in the hands of foreign capital, which is not linked up with the people of a given country, and is not willing to co-operate with the public authorities or to sacrifice—if neces-

sary—its own interests for the time being, the issue between private and State ownership is easy for the latter to solve.

But the drive towards State ownership in Polish industry had other reasons also. When Poland emerged as a free country in 1918, many forms of industry were completely lacking because the process of industrialization was deliberately hampered by the Partition Powers. There was no armaments industry at all in the whole country, no industry of the kind needed for the equipment of a modern State, no adequate communications suitable for a new national economy, no merchant shipping in the ports. Those who had to build new factories were completely dependent on contracts with the Government for running the factories on the one hand, and on the public investment funds for erecting the factories on the other.

The country had been devastated, ruined and impoverished. Bank savings and deposits vanished during the war and post-war inflation and the accumulation of new capital was slow. Therefore the *public funds* were the chief available funds for investment. In such a case the issue for State ownership is easy to explain.

We can aver generally that, in undeveloped countries, where no genuine large savings are available for building up new forms of industry needed for defence or progress, and new investment funds must be created by enforced saving through central control of consumption and production, there must be a substantial drive towards State ownership in industry. The funds created by enforced saving by the entire population are to some extent collective funds which can hardly be transformed into private capital. The more the new forms of industry are built up on the basis of severe collective sacrifice, the more likely they are to pass into the hands of the State.

Undeveloped countries exhibit also in a small degree the amphibian form of ownership, especially what was called above corporate ownership in the form of savings, deposits, bonds and shares, and therefore the public at large is not really interested in the issue of the maintenance of private property.



## CHAPTER V

### THE AREA OF PLANNED ECONOMY

#### A. *Regional Planning*

REGIONAL planning is a central control of a certain geographical area which constitutes a part of a greater political unity, while national planning includes the whole State, and international planning several States.

By regional planning we mean sometimes a widely applied *regional decentralization* in working out plans, their execution and supervision. Planning of this kind is carried out within the framework of a national scheme in order better to meet the special needs of a given region and the wants of its population. Regional authorities are endowed with certain powers in regard to the regional area, viz., as to the constitution, execution and supervision of plans. Every country whose area is large needs a high degree of regional decentralization. The larger a given country, the wider the range of differences in the economic characteristics of its regions, and in the wants and desires of their population, the greater the scarcity of communications and transport; the greater also is the need for a wide regional decentralization.

Regionalism plays a most important part in agricultural planning, where climatic conditions, such as temperature and rainfall, and physical features such as rock structure, soils and the customs and habits of the population are the most essential bases for planning.

In a reasonably planned economy only those industries are planned by the central authorities which are of national importance and have a national market, while industries producing for regional markets are controlled by regional authorities and industries producing for local markets by local authorities. Henceforth, not only agriculture, but also handicrafts, supply of housing and furniture, all kinds of local services and some consumers' goods can be planned by regional authorities.

Regional planning assumes an especially great importance in a multi-national State, as for instance in the U.S.S.R. Planning requires the wholehearted co-operation of the entire population with the planning authority, and that is easier to achieve in an area confined to one nation only. In an area inhabited by several nations, all of whom are controlled by a single central planning authority, the emergence of national rivalries and jealousies would be inevitable. There would always be suspicion that the central authority gave preference to the interests of one nation at the expense of the others. Therefore, planned economy in multi-national States requires the widest application of regionalism.

In Soviet Russia all branches of economy are divided in their administration between *All-Union Commissariats*, which have no equivalent in the republics of the Union, and *Commissariats*, which exist both for the Union as a whole and for its dependent republics.

The exclusive All-Union Commissariats concerned with national economy are Foreign Trade, Railways, Communications, Mercantile Marine, River Fleets, Shipbuilding, Oil Industry, Coal Industry, Power Stations, Electrical Engineering, Chemical Industry, Heavy Metallurgy, Non-ferrous Metallurgy, Building Industry, Heavy Engineering, Medium Engineering, General Engineering, Aviation Industry, Armaments Industry, and Munitions Industry. Other Commissariats, such as those for Building Materials, the Food Industry, Meat and Dairy Industry, Fisheries, Light Industry, Timber Industry, Agriculture, State Grain and Livestock Farms, Finance, and Internal Trade exist both in the Union and in the Union Republics.

The Union Republics are divided into Autonomous Republics and Autonomous Regions. All these have their planning authorities who collaborate with Central Planning Commissariats and planning bodies in Union Commissariats. In actual Soviet practice, however, the principle of centralization is much more widely applied than would appear from the provisions of the Soviet Constitution.

From regional decentralization must be distinguished *independent schemes of regional planning* carried out in a certain region as a self-contained whole. The best instance of this is

the Tennessee Valley Authority, an account of whose work is given in a Note at the end of this chapter. This scheme is not a part of a national plan, for none such exists, but is conceived as a separate whole. It is executed within the framework of an unplanned national economy, and has therefore but few controls at its command. It is really a hybrid between a planned economy and a scheme of great public works. The region as a whole is only partially controlled by great public works, and its effective control is in fact rather difficult, since the area is not closed and the rest of the State territory is free.

Regional planning in this sense is mainly devoted to economic development of backward areas; therefore it constitutes a great contribution to the economic progress of a given country. It has mostly well-defined and strictly limited ends, which enable it to attain its objectives. It does not pretend to substitute a new structure for the existing economy. It intends only to bring into existence great new public works by the side of those which exist already. It plans mainly the creation of great plants, gigantic electric power stations, canals, railways, and so on. It is an enterprise on a great scale, so that it is sometimes doubtful whether we have to do with planning, as already defined, or a scheme of great public works. This hybrid form is most suitable for democratic countries, because of the lack of compulsion and many other features which will be commented on in the Note already referred to.

This form may be regarded as a laboratory of planning for the future which enables the nation to acquire a better knowledge of the new problems of planning.

It may also be regarded as a nucleus of planning on a national scale, though this seems to me too optimistic, for the institutions of national planning differ in many respects from those of regional planning of this kind.

From schemes such as these should be distinguished schemes of *central* planning carried out for the development of a certain region. The best instance of such a scheme is the planning for the industrial development of Central Poland in the years 1936-39, carried out under the Polish Minister of Finance, Kwiatkowski, and a short account of how it was worked is given in a Note to the chapter on planning in backward areas. In this case

the national economy as a whole was controlled for the major task of the speedy development of a certain region.

This case is similar to that of the Tennessee Valley Authority as regards the objective (regional development of a backward area). The main difference consists in this, that while in the U.S.A. the national economy was uncontrolled, in Poland the whole national economy was subject to control, mainly with a view to this task, which was so great and so concentrated in time that for its execution it was necessary to control to a large extent the whole economy of Poland. During the years 1936-39 the economy of Poland somehow approached a type of planned economy in which foreign exchange, foreign trade, prices, wages and production were centrally controlled.

In general we may say that planning can be regarded as a great factor of regional readjustment and development of regional resources. The free play of forces under capitalism very often disrupted the life of a certain region, contributing to the concentration of wealth in small overcrowded areas at the cost of other regions which were impoverished. Poverty-stricken regions or depressed areas and backward regions have grown larger in favour of small areas with an enormous accumulation of wealth.

Planning can, to a certain extent, nullify this development and make good some of the most striking regional disparities in the living body of a nation. Many schemes of planning have shown this plainly, and the rapid development of most backward regions under Soviet planning is a striking example of the process.

### *B. National Planning*

The typical and most important case of planning is control on national lines. The area of planned economy tends to coincide with the political territory.

The following factors may be held responsible for this:

(1) The steady utilization of economic resources is possible if their control is backed by a political power, which is also the executive power.

(2) The economy as a whole is not an arbitrary unit, but a unity which must be felt by the citizens of a given area as

such, or must be held together by political compulsion.

(3) Planning is executed for common goals, and is backed by a common creed. Planning implies the existence of a certain community of ideas and interests; and this community constitutes a group which is usually governed, or tends to be governed, under joint rule.

Planning tends not only towards national control but also towards nationalistic or autarkic control in the sense of closed frontiers. This is because the full utilization of productive resources on the basis of rational specialization can be more effectively carried out without foreign interference; and also because an economy governed under joint rule (and planning is nothing but economic government) must be distinct from other national economies, and to a certain extent opposed to other economies.

National planning strengthens the economic border-lines between nations (see chapter on Foreign Trade). The ties combining the economic units in a given State become closer, while the economic ties between nations tend to loosen.

National planning, pursuing its own ends alone, disregards the needs and requirements of an international world and opposes internationalism. It makes use of exchange control, import and export quotas, managed currency, all of which create obstacles to closer international co-operation.

It is no accident, but follows from the nature of things, that most planned economies in Utopias from Plato onwards are organized as closed economies with no, or but insignificant, foreign trade.

National planning, since it creates a living and separate economic body, is in itself a source of economic struggle between nations. It must be regarded as a factor of nationalism, assuming that every nation tends to increase its own share of the world's wealth, raw materials and other resources. It creates difficulties in mutual relationships between nations, which must be settled in one way or another.

The tendency towards a closed economy raises the question whether a planned economy is suitable for all countries independently of their size and of the part which foreign trade plays in their economy.

By the size of the national economy I understand the number of factors of production at work, some agreed value of factors of production being defined as the unit. This must be distinguished from the area of the country itself. The economy of Great Britain is much bigger than the economy of Canada, because the number of factors of production at work in Britain is greater despite its smaller area.

I would regard large countries as more fit for planning than small countries. The size of a national economy determines the size of the market, the scale of division and subdivision of labour and of specialization of plants. In a small market, some forms of modern industry cannot be developed, because the necessary specialization of plants is unprofitable. A small economy with closed, or at any rate with a greater number of closed doors would be handicapped in its development, while the same country with free access to world trade would be in a more favourable position.

But from this it does not necessarily follow that the larger the national economy the greater the advantages of planning. There is a limit to the size of national economy which can advantageously be controlled by a central authority. The difficulties in the construction, execution and supervision of central plans increase with the size of the economy. The responsibility of the planning authorities is greater, and so is the probability of errors and mistakes.

A large economy may contain different regions with special characteristics and features of industrial centres, difficult for a Central Authority to overlook, and may include many nations with divergent ideas and interests.

Planning is the closest form of economic co-operation, and cannot go beyond a certain limited area.

The tendency towards a closed economy makes not only the size of the national economy, but also the part played by its foreign trade an important factor in the proper working of planning. Suppose that in one country 20 per cent of the national production goes abroad as exports or the same proportion of goods consumed comes from abroad as imports, while in another country the proportion is only 5 per cent. The latter country will be better fitted for planning than the former. The reason

is that many basic magnitudes of the planned economy would be related to factors which are beyond the control of the planning authorities. They would be dependent on factors scattered all over the world, very difficult to foresee, and uncontrollable by the planning authority.

There is another reason why a country with a greater share of foreign trade would be less manageable by planning than one with a lesser share. As we have pointed out, planning tends to a closer economy, loosening the economic bonds and ties between countries; therefore planning can affect to a much greater extent the development of a country based on close collaboration with world economy.

Countries which are more self-sufficient, with well-balanced and differentiated production, are more suitable for planning than those more dependent on foreign countries, or possessing a single culture.

### *C. International Planning*

In speaking of international planning we envisage two quite different things:

- (1) An enlargement of the area of planning, which would merge the economies of two or more countries into one single unit, such as occurs in the case of a federation or an empire based on subjugation.
- (2) Or an organized economic collaboration between two or more states, planned as independent units in their national boundaries, but controlled in some respects by international bodies.

The former case is really nothing but an enlargement of the area into a new economic-political unit. Planning in the U.S.S.R. belongs to this class, because the whole area of the U.S.S.R. is treated as one economic unit (in regard to customs, money and credit, defence, communications, and industry), only in some respects decentralized into Republics and Autonomous Regions. There the State Planning Commission has power over the whole area except with regard to industries of a more local character. Such an enlargement of the area of planning is really a political problem, one of unification by federation or by centralized empires based on force.

The second is a case of international planning in a stricter sense. Here customs and currency frontiers are retained. Economies are further planned within the framework of national boundaries. But the States are not completely sovereign; they are controlled in some respects by a super-national body which exercises authority over them.

The first instance of international planning in this respect is, so far as I know, Hitler's New Order in Europe. The customs boundaries, the national currencies, the exchange regulations, the national controls over industry and agriculture are retained, but the States are subjected to a super-national control by bodies in Berlin with the object of exploitation by the system of clearing and other direct methods.

Other systems of international planning can be imagined, based on conventions or international covenants accepted either willingly or under pressure of Great Powers.

The system of international planning could be based on principles similar to those of the Postal Union. We can imagine more than one international body controlling the economies of nations. The international control might be carried out by many bodies, working independently and situated in different capitals of the world on different bases. For instance, bodies similar to the Postal Union could be created to function as an International Clearing House in Paris, or a Union of Money and Credit Control in London, or a Union of Shipping Control in Amsterdam, a Union of Aircraft Control in Paris, a Union of Oil Control in New York, Cotton Control in Chicago, Iron and Steel Control in Brussels, Wheat Control in Ottawa, or Zinc Control in Warsaw, etc.

The pluralistic principle applied not only to the localization and number of bodies with varying ranges of control, but also to the structure of these bodies, would be an interesting solution of the problem of reconciliation of international planning with national planning.

But if the international control were to go so far as to embrace the main fields of the national economies, then national planning would have only an executive character, and national independence but a shadowy existence. We might say that in this case national economies as independent units would disappear.



National plans would have to be adjusted to international schemes and would be circumscribed by their framework.

National independence would be obliterated not only in the economic but also in the political sphere, for these cannot in reality be separated. Take, for instance, an international authority with the right to distribute among different states raw materials or credits or markets. The power of such an authority would be immense, and whoever commanded it could also exercise political control over the nations.

National sovereignty may be regarded as a mere superstition by powerful nations whose interests—owing to the weight of their power—are safe in international arrangements, but it is looked upon differently by small nations, whose interests in international arrangements are often overlooked.

The success of international planning would appear to depend primarily on the following factors:

(1) The strict limitation of international planning to certain strategic sections of international economy, essential for the achievement of strictly limited aims.

(2) The pluralistic solution in the localization, number and structure of international bodies and the limitation of their functions to the co-ordination of national rather than to the formation of international plans.

(3) The bestowal on international bodies of the power of executing plans, which presupposes the creation of an international political order backed by a single power or combination of powers.

(4) The ready collaboration of nations and the elimination of national rivalries.

We will devote a few remarks to the factors mentioned above.

(1) The aims of international planning are hardly to be sought in the domain of International Socialism. An equal social standard of life over a large international area, e.g., equal for France and Bulgaria, or the United States and Peru, or New Zealand and China, is hardly to be imagined. No powerful nation would accept the pooling of resources.

The aims for which international planning may be likely and useful are:

To avoid political struggle, i.e., to make war impossible.

To avoid economic struggle, and to bring about a close economic exchange of goods, capital and men among the planned economies, which deprived of international control, may fall to pieces in closed boundaries.

To stimulate and facilitate the economic development of backward world areas (a condition necessary for the peaceful collaboration of nations).

For the achievement of these ends the creation of an International Clearing House for exchange and trade regulation, an International Bank for long-term investments in backward areas, as well as the international control of a few basic raw materials and of heavy industries regarded as armament industries would be quite sufficient. The more restricted the sectors of international planning the better would be its working.

(2) The dispersal of centres of planning and the pluralistic structure of international bodies and the limitation of their functions to the co-ordination of national plans should further be regarded as an assumption essential to success.

The concentration of immense international power in one international body might very soon degenerate into exploitation by one plutocratic, bureaucratic or aristocratic centre or one imperialistic power, while many independent bodies constituted in different ways and at different centres would diminish this danger in some degree.

Common systems of regulation, like the Postal Union, rather than common positive plans imposed upon the nations, may be tried. The control might go so far only as to make impossible an offence against international economic and political order or to facilitate the closer economic collaboration of nations, while not interfering with their separate economic development and way of life.

(3) The creation of an international political order presupposes the working of the international planning apparatus, because the latter must be endowed with executive powers. If this were not the case, the execution of control would be a fiction which would very soon disappear.

(4) On what scale could such an international political order be established? On that of the whole globe, or only on that of a great empire? The issue of the Second World War will bring

us the answer to this question. After the victory of the United Nations, the answer will depend primarily on the degree of Anglo-American collaboration in post-war political and economic reconstruction, and to a great extent on the co-operation of Britain and America with France, the Soviet Union, China and the other Allies. The most essential condition of an international order on a world-wide scale, however, will be a close permanent collaboration between the two great Anglo-Saxon commonwealths and their readiness to take over responsibility for the political and economic reconstruction of world-wide areas.

I am not inclined to great optimism in this respect. It has yet to be seen to what degree collaboration between the Allies can take the form of enduring institutions and to what extent they would be willing and able to take over responsibility for a world-wide political order.

The willingness of nations, especially those of small or medium size, to collaborate freely, depends on whether their interests would be respected and their development furthered. The fair distribution of raw materials, of the monetary world gold stock, of credits, and settlement areas, and international contributions to the development of backward areas, would be essential conditions of a ready co-operation.

The exploitation of smaller nations by powerful nations is the real danger implied in international planning.

Now let us suppose that international co-operation on a world-wide scale, i.e., on the scale of the whole globe, should fail, and ask: What would be, in this case, the outcome of planned economy in the international sphere?

It would, in my opinion, be the emergence of wide politico-economic areas, continental or intercontinental, bound by a common rule, i.e., large empires. The German conception of the "Economy of Large Areas" (*Grossraumwirtschaft*) is but a counterpart of genuine trends implied in planning. The modern imperialism displayed by many planned societies was but strengthened by the working of their new economy. Escape from the many drawbacks of the economy of self-sufficiency was to be found in enlargement of the national boundaries.

And this is the real tendency implied in planning. National planning tends to enlargement of boundaries. The larger the

area, the greater, to some extent, the advantages of a planned economy, because of the enlarged opportunities for division of labour, specialization of plants, and control of raw materials.

If planning were accepted as a world-wide principle, the tendency towards the widening of national boundaries into larger international areas would be manifest. The rivalries of small nations will be replaced by the rivalries of great international areas. This is the danger implied in planning.

Planning may therefore be regarded as a factor tending to nationalism or imperialism, because planning on a national scale must reinforce nationalism, while planning on an international scale may reinforce imperialism. In both cases, it suits the interests of powerful nations, which can plan with advantage either on national or international lines; while smaller nations fear disadvantages in both cases, their small scale making them unsuitable for planning, or anyway for full planning, on national lines and constituting them only objects of international planning.

The only way of escape from the drawbacks of planning for smaller nations may be to set up genuine federations, large but closely-knit units in which the resources of the single federated nations would be merged and dealt with as a single whole, though with a wide application of regional decentralization. The example set by the Polish-Czechoslovak declaration of London of 11 November 1940, and the Greek-Yugoslav declaration of January 1942 in respect to their future confederation, may be the harbinger of a characteristic and significant movement of wider scope in this direction. The creation of an area of "co-operative solidarity" of small nations in Central Europe, free from domination and exploitation, could be the most useful instrument of peace and progress in post-war Europe. Planning for federation is an important subject of study, and I regret that it lies outside our scope.

#### *Note*

#### THE TENNESSEE VALLEY AUTHORITY AN EXPERIMENT IN REGIONAL PLANNING

The Tennessee Valley Authority is an extremely interesting experiment in regional planning in a backward area. Of all the

experiments under the Roosevelt administration, it was the most successful and withstood all attacks organized against it. It was upheld by the Supreme Court just because it was successful, because it promised a great improvement—already achieved in part—in the economic and social conditions of the region; because it had the most popular and commonly accepted objectives, such as flood control, navigation and reforestation; because the development of this area was closely connected with the programme of defence (Muscle Shoals).

The Tennessee Valley, embracing parts of seven Southern States, is one of the most backward areas in the U.S.A. It is 41,000 square miles in extent, with two and a half million inhabitants. Its rural population amounted to nearly 70 per cent of the whole. Destructive floods ravaged the Tennessee Valley from time to time and after 1919 it was the most depressed area of any. During the First World War, under the National Defence Act of 1916, the Government built Muscle Shoals here, a huge undertaking for war production, destined especially for the development of power and the manufacture of fertilizers. But the war was over before the programme could be carried out. The Government endeavoured to hand this enterprise over to private owners, but for various political and financial reasons this intention was handicapped. The gigantic undertaking remained idle, causing much misery among the inhabitants. At last came the Great Depression and one industry after another left the district, which became the symbol of the national distress. The whole region was dislocated, and consequently spread further depression around.

On 10 April 1933, President Roosevelt suggested legislation to create the T.V.A., which shortly after came into actual existence. Its objective was defined in his message to Congress as "The broadest duty of planning for the proper use, conservation and development of the natural resources of the Tennessee River drainage basin and its adjoining territory for the general social and economic welfare of the nation."<sup>1</sup> "Its duty should be also the rehabilitation of the Muscle Shoals development and the co-ordination of it with the wider plan."

<sup>1</sup> *The Public Papers and Addresses of Franklin D. Roosevelt*, Volume II, Random House, 1938, p. 122.

In his message Roosevelt openly admitted that the T.V.A. should be but a step towards more ambitious schemes of planning on a still wider plane. We read there: "Many hard lessons have taught us the human waste that results from lack of planning. Here and there a few cities and counties have looked ahead and planned. But our nation has 'just grown'. It is time to extend planning to a wider field, in this instance comprehending in one great project many States directly concerned with the basin of one of our greatest rivers. This, in a true sense, is a return to the spirit and vision of the pioneer. If we are successful here we can march on step by step, in a like development of other great national territorial units within our borders."

The Tennessee Valley Authority Act of 1933, as amended in 1935, was entitled "An Act to improve the navigability and to provide for the flood control of the Tennessee River; to provide for reafforestation and the proper use of marginal lands in the Tennessee Valley; to provide for the agricultural and industrial development of the said valley; to provide for the national defence by the creation of a corporation for the operation of Government properties at and near Muscle Shoals in the State of Alabama, and for other purposes."

In order to execute this programme an independent Federal Corporation (T.V.A.) was created, clothed with power and authority of Government, but endowed with the efficiency and flexibility of private enterprise and outside the range of political interference. It had to co-operate closely and kindly with all social groups in the Valley. It was meant to set new standards for Public Utilities.

At the head of the Corporation a Board of three members was set up; these were nominated by the President, the term of office of one to expire at the end of the third year, that of another at the end of the sixth, and that of the third at the end of the ninth year. Each member was to receive an equal salary of \$10,000 a year, and was not allowed to engage in any other business, nor to have any financial interest in any business affected by the activities of the Corporation. "All members of the board shall be persons who profess a belief in the feasibility and wisdom of the Act."

Large powers and duties were vested in the Corporation in regard to the whole region, especially for the production, distribution and sale of electric power, the production of explosives and fertilizers, the construction of dams, reservoirs, transmission lines and other structures, and navigation projects, the purchase of real estate, the establishment and operation of laboratories and experimental plants, co-operation with experimental stations or demonstration farms, and the duty to advise and co-operate in the readjustment of the population dislodged by the construction of dams, etc.

The execution of this vast programme began on 8 June 1933 with the nomination of the Board in the persons of A. E. Morgan (Chairman), H. A. Morgan and D. E. Lilienthal. The pioneer working of the T.V.A. has been a success from every point of view, as a gigantic public work, as setting a new standard of co-operation between the Government and all groups of the population, and as a laboratory for the whole nation in large-scale planning.

The T.V.A. has erected several dams. In 1939 four were completed and five under construction.<sup>2</sup> The system of publicly-owned dams is levelling-off the seasonal fluctuations of the river, reducing floods, and maintaining a 9-foot channel suitable for navigation. The Tennessee River was transformed into a navigable waterway, and new commercial transport systems for passengers and goods all over the region have been inaugurated.<sup>3</sup>

As water is released from the water dam, a large surplus of hydro-electric power is being produced, and the T.V.A.'s right to sell this surplus has been upheld by the Supreme Court. Electricity has been made available to those who did not use it before; this has been achieved by a substantial reduction (about 50 per cent) in the rates charged for power, which was followed by other privately owned utilities in this region (by about 30 per cent). A policy of stimulating mass consumption has been followed. Within twenty-two months after the application of the new stimulating rates, the total residential

<sup>2</sup> See *Tennessee; A Guide to the State*, New York, 1939.

<sup>3</sup> *Report of the President on the work of the T.V.A. up to 31 October, 1937; Report of Tennessee Valley Authority, 1933-1937; Odette Keun, A Foreigner Looks at the T.V.A.*, Longmans, 1937.

consumption in some cities increased by more than 200 per cent. In 1939, electric power generated at the dams was being sold to nearly one hundred municipalities and co-operative associations, supplying over 325,000 customers.

Rural electrification was tested, demonstrated and encouraged. It has been estimated that there are some two hundred uses for electricity on the farm, such as electric brooders, electrically heated hot-beds, pumping apparatus and refrigerators. Further, the electrification of small industries and homes was stimulated.

Behind the T.V.A. there lay, we may disclose, a philosophy analogous to that behind Lenin's slogan: "Socialism (progress) by electrification!" More electricity was the main constructive policy of regional development.

The T.V.A. has elaborated a vast land conservation programme, fighting erosion, exhaustion and leaching. It has encouraged soil-building and crops through testing new fertilizers for meadows, pastures and winter-crops.

The T.V.A. has not the right to sell its fertilizers to the public, but it has encouraged the formation of County Soil Conservation Associations which are given the fertilizers gratis for the purpose of testing and demonstration. At the beginning of the fiscal year 1936, there were 1,000 demonstration farms with a total area of 160,000 acres; at the end of the year there were 14,000 with a total area of 2,256,000 acres. The T.V.A. stimulates the diversification of farm production, especially new crops for industry, such as cotton seed, flax seed, soya beans, fibres, etc. The Corporation is conducting experiments and demonstrations in the development of new types of farm equipment.

The Forestry Division of the T.V.A. operates over an area of 117,000 acres of a protective shore-line strip surrounding Norris Lake, and its main object is to indicate how "rural families can live off the land and at the same time secure supplemental income from part-time employment in forest work." Forestry plays a major part in the programme of the T.V.A., especially watershed protection, forest development and promotion of forest tree crops.

The cornerstone of the industrial programme of the T.V.A. is the geological exploration and the county-by-county survey of mineral deposits. The Valley is rich in raw materials and the



T.V.A. endeavours to make full use of them by encouraging and stimulating production by means of cheap power. Here the main slogan is to decentralize industry by bringing industrial plants nearer to the rural, over-populated areas. The T.V.A. has established a laboratory at Norris which is experimenting in the electric-firing method for the production of porcelain from kaolin deposits which occur in abundance in the Valley.

The T.V.A. is also leading in other fields, such as education, local health and recreational activities (the T.V.A. has established two forest recreation parks of 4,000 acres each on the shore of the Norris Dam reservoir), survey of housing facilities, farm tenancy, studies in population movements, the social and economic conditions of the area, and credit and financial problems.

There is no doubt that the T.V.A. has done a good work. The inter-regional balance, broken by the free play of economic forces, has been partly restored by the conscious and elaborated activity of the T.V.A. The Authority has been regarded as the nucleus of a wider scheme of planning which may be carried out in future on a national scale, but it seems to me that such hopes are very much exaggerated.

My meaning is that the T.V.A. may be an example and incentive for similar developments in other regions, but it is difficult to see the road to planning on a national scale. The T.V.A. was largely inspired by the idea of planning and it seemed that its intention was to control, if not the whole economic life of the region, at least its economic development. Therefore, it has seemed useful to review its efforts and achievements. But the T.V.A. represents really a middle road between great public works and planning. So far it has had more of the character of a scheme of great public works than of regional planning in its stricter sense. Its powers of control over other enterprises were restricted in a large degree to some indirect controls over private power-plants and some inducement schemes to farmers and entrepreneurs.

Its remarkable success in the framework of a traditional society I would attribute to the following factors:

- (1) It has operated freely as a great public works scheme, laboratory and research centre.
- (2) It has operated as a regional scheme.

- (3) Its operations took place in a backward area.
- (4) The objectives of the scheme were very restricted and clearly defined.
- (5) It served a national interest in the armaments industry.
- (6) It had wide popular support.
- (7) It was outside the great political controversy.
- (8) It was very carefully prepared for in its early phases by investigation, research and inquiry.
- (9) Finally, its administrative form as a public utility based on commercial lines was a valuable contribution to its success.

Planning of this kind best suits societies anxious to preserve their traditional liberties and social structure, and may prove a valuable preparation for acquiring more detailed knowledge of the problem of planning.

## THE GENERAL FRAMEWORK: THE PLAN

*A. Nature of the Plan*

THE general framework of a planned economy consists in the Plan itself, which may be regarded as its pivot. In its most elaborate and comprehensive form the plan is not only a general picture of the national economy, mapping out its various branches and domains in their correct proportions, but also a quantitative scheme for its working and development. It combines the elements of research, will-power and foresight. In the words of the Soviet Constitution, it "determines and directs" the national economy.

The plan is a quantitatively defined scheme covering a stated period, in which all the objectives of planning and all the available resources are assembled within a common frame and expressed in terms of money, labour units, physical units, index numbers, ratios, etc.

Not every planned economy has this general framework; at least, it may not be elaborated exactly in comprehensive, all-embracing schemes. Where the scope of the objectives of planning is narrow, there is no necessity to elaborate so detailed a scheme for the whole national economy, as the controls imposed, accompanied by some partial schemes, may suffice for the attainment of the objectives.

With the enlargement of the scope of objectives and control, the plan will become more and more comprehensive and elaborate. The greater the effort needed and the scantier the resources, the more detailed will the plan become.

The Nazi and Fascist planned economies, and the war-time planned economies of Britain and the U.S.A., have not elaborated all-embracing schemes of national economy. Their schemes are more or less partial, some sections being excluded, or their working on previously accepted lines taken for granted. The degree of quantitative definition is less exact; they map out the

proportions of the various branches to an approximate degree or with great latitude, rather than by exact figures.

The most elaborate plans, and those with the widest scope, have been worked out in Russia. They include the determination of the national income and its division between consumption, repair works, capital investment and the overhead costs of the State; between different branches of industry, communications, agriculture, handicrafts, etc. The building of new industrial enterprises, the operations of the armaments industry, the production of consumers' goods are determined. Prices, wages and quantities of goods are fixed. The extent of social services—sanitation, instruction, education and health services—and of housing and municipal undertakings are laid down.

The Plan includes a budget plan (for financing by the Budget); a currency and credit plan (supply of notes and credits by the banks); a "valuta" plan (the supply of foreign exchange); and a plan for foreign trade.

The Plan is elaborated, in principle, in roubles at a certain price-value (of 1926-27). In these units the national income and its division are expressed. Prices and wages are determined by indices of different kinds. The quantities of production, investment and transport are expressed in the special plans in physical units—tons, kilowatts, hours, length of rails and many kinds of technical indices and standards. The productivity of labour is expressed in ratios.

As far as possible, every plan has two schemes, one determined in money units (Plan in Money), another in physical units (Plan in Kind). The Plan in Kind assumes extreme importance in partial schemes, while in a general plan which maps out the proportions of branches and distribution of income, the Plan in Money links up all the partial plans into a common framework.

### *B. Varieties of Plan*

We may distinguish two kinds of plans with different characteristics:

(1) The long-range investment plan, for instance the two Four-Year Plans in Germany, the 10-15-year electrification plan elaborated in 1920 in Soviet Russia, and the three Five-Year Plans

(the first from 1928-29 to 1932, the second from January 1933 to December 1937; the third from 1938).

(2) The current working plans, for balancing production with consumption, etc. These are usually one-year plans divided into half-yearly, quarterly or even monthly plans.

The two forms of plan must be co-ordinated, and the long-range plan must also be apportioned into smaller periods, which will fit in with the current plans.

The quantification of plans of either kind may reach different degrees under various types of planned economy. Some economies will concentrate their attention only on long-term investment plans and elaborate them in detail (e.g. in pre-war Nazi Germany); others will still further elaborate their current plans for production and consumption in minute detail.

The main objectives are reflected mostly in long-term investment plans, while current plans are mainly the necessary support for the former. Plans of either kind are divided into partial plans (sub-plans). On one side the general plan is composed of *regional* plans, on the other of *sectional* plans. Regional plans include plans for geographical units: regions, districts, localities. Sectional plans are partial plans elaborated for large sections: industry, agriculture, foreign trade, balance of payments (valuta plan), communications, etc.

The plan for industry is, of course, divided into further sub-plans for various branches, such as iron, coal, petrol, engineering, shipping, etc.

The lowest section is the plan for large-scale enterprise, and sectional and regional plans meet at this point.

Of course, not every planned economy has reached such a degree of planning as to be able to work out definite plans for individual enterprises. In Soviet Russia every large-scale industrial establishment has its own plan, which determines the quantity, quality and costs of production, the sale of wages, the selling price and marketing conditions, the number of workers employed, the office and technical staff, the standards of labour productivity, the amount of profit and the use to which it is to be put, whether renewals or investment, etc. The collective farms also have their plans, which determine the acreage and harvest yield for various crops, the machinery to be used, the

quantities of compulsory deliveries to the State, etc. Every large-scale store has a plan which stipulates the volume of trade and the amount of overhead expenses.

This is the highest point reached in the development of planned economy.

### *C. The Drawing-up of Plans*

We now turn to the drawing-up of plans.

All partial plans must be a reflection of the general plan. Every failure in the general plan will tax the partial plan heavily, and every failure in the drawing-up or execution of partial plans will affect both the whole and the other parts.

Therefore, the drawing-up of plans requires mutual verification of provisional drafts, namely, the verification of the general plan by partial plans and the verification of partial plans by the general plan, as well as the mutual verification of partial plans between themselves. The checking of a comprehensive general plan requires a longer period of preparation, because the partial plans must be compared with each other, co-ordinated and amended.

In Soviet economy the drawing-up of the annual plans begins as early as seven months before the new year. Though this early drafting, of course, has its advantages, there are also substantial disadvantages arising from changes which may occur in the meantime.

The checking of a comprehensive general plan also calls for the existence of planning departments at all levels of common administration up to the large-scale plants. All these departments must collaborate with each other and exchange their views and data. They must elaborate the plans for their own fields of activity, instruct the higher bodies and be instructed by them. Planning must be a product of collective effort and knowledge.

In the U.S.S.R., besides the State Planning Commission vested with the function of drawing up general plans, there exist Planning Commissions and planning departments in all federal, republican and regional offices of the authorities, State Trusts, combines, syndicates and large-scale plants.

Every All-Union People's Commissariat, Union Republican

People's Commissariat, every Autonomous Region, every trust, every combine or large-scale plant elaborates its own plans. The general plan drawn up by the State Planning Commission is forwarded to them and discussed by their members, and this leads to suggestions for amendments. On the other hand the planning departments of lower grade submit, from the start, their provisional plans through the usual channel to the State Planning Commission. There are, so to speak, two simultaneous currents, one from above, another from below.

The translation of objectives and resources into plans, especially into a general plan, requires gigantic mental effort. The task can be accomplished only on the basis of thorough and profound analysis and research.

The road to planning leads through research. Without actual knowledge of all branches of the national economy, without the mastery of columns of precise statistics based on true facts and scientific cost-accountancy, enquiries and reports, the drawing-up of plans must be a failure from the start.

Research and positive profound knowledge of national economy in all its aspects is the first presupposition of successful planning. And the first stage of preparation for every kind of planning is research, investigation and exploration of national resources, and good accountancy. Many schemes of planning have failed by reason of defective or incomplete knowledge, and lack of preparation by research.

#### *D. Planning Bodies in Different Stages*

The normal stages in the working of planning, as we see them, can be described as follows. Beginning with the laying down of objectives, it passes through research to the translation of those objectives into provisional plans which have been checked. Then the first stage is reached, when the plan has eventually been worked out, submitted to the Government or Parliament, accepted by it, and proclaimed as a binding rule. Then comes the next stage, when the plan must be carried out from the top to the bottom. The final stage is the reporting and supervision of the plan.

The tasks in all these three stages are usually divided up among different organs.

The formulation of general objectives is always the task of the political Government. It works out the guiding rules and the purposes to be achieved.

The task of research—extremely important in planning—is usually entrusted to scientific institutions and societies or the research departments of planning authorities. A close link is established between research and science on the one side and special branches of the economy on the other.

The task of defining general objectives in quantitative terms, i.e., the drafting of plans, is the work of a special body of experts, whom we may call the Central Planning Commission.

The more independent and highly qualified this body is, and the higher its authority in the framework of Government, the better will be the quantitative formulation of the objectives and the higher the probability of the successful execution of the plan. This body must be able to oppose the views of the Government and to point out the limitations of planning, or any inner contradiction in the objectives imposed, or to prepare alternatives and variations with their pros and cons from the point of view of accepted criteria.

The Central Planning Commission is usually an advisory body, but in spite of this status, its rôle is highly important, because it is in real command of the data necessary for central control. The Chairman of this body is sometimes a member of the Government, as is the case in Soviet Russia.

The adoption of plans is the function of either the Government or Parliament. They may change the plan, but only in theory. In reality it is difficult to change a plan when it is once elaborated, because a comprehensive plan covering the whole of the national economy may be compared to a great constructional work in which it is very difficult to make substantial changes.

In the U.S.S.R. the Gosplan is an advisory body composed of experts. The plans themselves are determined by the Supreme Soviet or by the Council of Commissars.

Where the State Planning Commission has power, not only to formulate drafts, but also to secure their final adoption as a binding rule, the Commission itself is presided over by the head of the Government or by someone in his confidence, because the Commission itself becomes an influential centre of power.



We come next to the execution of plans. Where the Central Planning Commission is only an advisory body, the execution of plans is entrusted to the Central Administration. Usually the measures necessary for carrying out general plans are adopted by the Government, or by Government departments and large-scale organizations. But, as a rule, some contact is established between the Central Planning Commission and the central agencies which are entrusted with the execution of plans.

In Soviet Russia the execution of plans is confided to the Government (the Council of All-Union Commissars) or to the Commissars and by them to the State Trusts, Combines and Factories.

Finally, we have the supervision of plans, which may be separated from their execution and passed on to a special body, or combined with the execution or allocated to the State Planning Commission.

The execution of plans requires constant supervision, so that failures and obstacles may be detected early enough for their removal, and so that the plans may be changed, when it has been proved that for one reason or another they cannot be executed. The plan must be constantly changed during its execution, i.e., adapted to new requirements, new facts and new data. Every change in a partial plan affects other departments as well as the General Plan. Furthermore, the constant supervision of plans is necessary also for drawing up the succeeding plan and for improving knowledge of the machinery of planning.

The supervision must be closely related to the execution of the plan as well as to its working out. Therefore links must be forged between the Planning Commission and the Administration. But the supervision itself would call for the creation of an independent body of experts and technical accountants. Supervision is the function of impartial judgment from a purely objective point of view, while men entrusted with the formation or execution of schemes would be inclined to some exaggeration, from the point of view of their original claims and standpoint, and the part which they have played in the drafting or execution of plans.

Many arguments of a political and economic nature may be found for separating the functions of planning into distinct

bodies; these bodies, however, must work in co-ordination and constantly exchange views and data.

### *E. Limitations of the Plan*

The magnitudes determined by the Plan are of three different characters:

(1) Some of them are merely the result of establishing collected and calculated facts. These data are borrowed from statistics, inquiries and reports, and their exactness will reflect the standard of research, knowledge and efficiency of the whole apparatus of the national economy as well as the co-ordination of statistical and accountancy services of enterprises, etc.

(2) Other magnitudes are the result of making programmes and amount merely to a quantitative definition of objectives. They are determined by the planning authorities in order to achieve certain purposes. But they are considered as a factual basis for other departments, for other partial plans. These magnitudes will be fully realized only if there is a complete achievement of the programme. If it fails in one section, other sections which based their plans on these magnitudes will be upset.

(3) There are, however, other magnitudes based merely on forecast. These are estimates of future uncertain facts which cannot yet be measured. The magnitude of future crops, and therefore the available food supply, can only be estimated; the prices to be paid for imports or what will be obtained for exports, the volume of export, the supply of foreign exchange, can only be estimated, because they are factors independent of the will of the planners; the increase and movement of the population can only be estimated, unless they are regulated.

From the relationship of these three kinds of magnitudes the limitations of the Plan will follow. The more agricultural a country is, or the more it is dependent on foreign trade, the more latitude and approximation will have to be allowed for in drawing up the plan.

The success of the plan will depend not only on research and investigation, right determination of rates of development, right forecast, right execution and supervision, but also to a great latitude and approximation will have to be allowed for in draw-

backs and breakdowns.

The plan will be carried out better, the more hidden reserves it possesses on which it can draw—and also the more stocks and reserves are accumulated in the national economy as a whole.

Large stocks of food make the country independent of changing weather conditions; large stocks of raw materials make it independent of imports; large stocks of different implements and semi-finished products make large-scale enterprises independent of the execution of the plans of other enterprises; large gold stocks or reserves of foreign exchange make the country independent of the fluctuation of export prices. Therefore, accumulation of stocks of every kind is the first essential of a planned economy. The tightening of the belt in the early years in order to acquire stocks is the road to success. This device was to a great extent followed by the Soviet Government as well as by the Nazi planners. The Soviet Government has specially emphasized the importance of holding large stocks of gold and foreign exchange.

Planning is closely connected with accumulation of stocks, and from this point of view the opinion which regards Joseph in Egypt as the first planner may be considered justified.

Another important limitation of the Plan is imposed by the existence of markets, legal and otherwise (black market). Not all sections of the national economy can be included in the Plan, and in every planned economy there are some sections left to the market, whatever may be its failings and deficiencies. Besides, the black market is always a counterpart of market regulations and plays, especially if the shortcomings of planning are evident, an important rôle. Even in Soviet Russia the market for agricultural products, after 1935, was a determining factor for food prices which constitute a basic element in the cost of living and the level of wages.

The prices and quantities determined by the market system are subject only to forecast by the Planning Authorities, and only to some extent to control by them.

A plan must in reality be but a compromise between a control-system and a market system—and no perfect single, all-embracing plan could be set up on the basis of common sense. The limits of deviation must be left widely open.

Other limitations of planning arise in regard to the time factor.

The realizable value of all plans is closely connected with the period of time for which they are drawn up. Plans for ten or fifteen years may be completely devoid of any realizable value.

The period of time for which a plan can be successfully drawn up depends on the stability of national and international economy, on international relations, on the rate of technological progress, the rate of increase in the population and other factors. In times of emergency, such as those in which we are now living, this period is substantially shortened.

The more the national structure and industrial technique are stabilized the more extended can the period of planning be. The need for stability, especially stability in prices, is deeply implied in planning, in spite of the fact that a planned economy is in itself a highly dynamic structure.

Whatever the extent of the period, the plans must be constantly reviewed, altered and adapted to new conditions. The idea that the planning authority, after making its plans, has only to watch their execution, is completely false. All so-called "final" plans have in reality only a provisional character; they require constant deviations in their course from unforeseen contingencies. Planning means a constant battle with the "unforeseen."

The time factor also plays another part in the effectiveness of plans. As time goes on, the machinery of planning improves, research and knowledge become more profound, the statistical and accountancy services more co-ordinated and accurate. The task of drawing up new plans is much harder than that of continuing and improving plans already in existence. Some sections can be taken over without great changes. The number of problems to be solved decreases with time. Some problems have already been solved; some prices and wages fixed; some quantities in the volume of production, distribution and consumption do not need to be altered.

At the start, the tasks of planners seem to be superhuman and the problem of planning on its original all-embracing scale insoluble. In the first years, indeed, only bad plans can be drawn up, since there is no stable basis on which one can rely and all the problems must be solved simultaneously. But as time goes on, the ground is cleared more and more and the number of

problems diminishes.

Every beginning in planning must be bad, and the time needed for its improvement is considerable. This point is extremely important, because the antagonists of planning experiments try to kill them at the start by airily pointing out the failures and defects inevitable during their teething stages.

## PART IV

# THE WORKING OF PLANNED ECONOMY

### CHAPTER I

## PLANNING AND PRICING

### A. *Planned Pricing versus Free Pricing*

FREE market prices are regarded as the best mechanism for the expression of the population's preferences in relation to scarce resources, i.e., as the best instrument for employing resources in a way which makes possible the greatest satisfaction of wants by the greatest number. As a result of free market prices it is supposed that scarce resources will be utilized in such a way that the wants of the population are satisfied to the maximum according to the principle of marginality (a rational principle to use every unit of scarce resources in such a way as to obtain the best satisfaction of our wants according to the law of diminishing utility as described in Gossen's first and second law).

I would agree with this proposition, but with some very important limitations. It is valid, in my opinion, only under certain conditions, which I should classify as follows:

(1) The distribution of income must be more or less equalized, in such a way that effective demand can adequately express the intensity of the unsatisfied wants of the population, at least roughly. If there are great inequalities of income, the resources may be wasted, because the trifling wants of a millionaire may be satisfied, while the urgent needs of a pauper are unsatisfied.

(2) The prices must be the result of perfect competition but not of monopoly, or semi-monopolistic positions, which latter case is in reality very frequent in our economy.

(3) There must not be external diseconomies (or economies) in a wider sense, i.e., uncompensated disservices (or unpaid services) imposed by the entrepreneurs or others on the com-

munity as a whole; for instance, overcrowding, deforestation, technological unemployment, enforced idleness of other entrepreneurs, unhealthy conditions of work imposed on workers, etc.

(4) The resources of the national economy, including manpower, must be perfectly mobile, as is the case in a single market, which means that they may be transferred from one use to another, from one enterprise to another, from one locality to another, if the utilization of resources does not correspond with the principle of marginality. The resources in an unplanned economy are not mobile in the juridical sense because they are governed by uncontrolled private rights.

(5) The wants of the population must be genuine wants, and not the outcome of the sales propaganda of trade machinery carried out for profit.

(6) The wage system must really reflect the scarcity of different kinds of work, the skill and efficiency of workers, and their preferences for work and leisure, and not be based on the political structure. Every price system is based on a wage system, and the wage system depends very often not only on the scale of preferences of workers for work and leisure, etc., but also on political factors, especially the distribution of income and the bargaining power of the entrepreneurs and workers and their share in the government. When the wage system is to a great extent political in character, market prices fail to be an instrument for the right allocation of scarce resources.

Taking into consideration these important limitations based on the real conditions of our economic system, we may say that there is room for controlling prices even from the standpoint of pure marginalism.

There is also a case for price control undertaken for reasons other than the marginal allocation of resources, such as political, moral and social considerations, which cannot find genuine expression in the mechanism of a free market.

We see that the superiority of market prices over centrally controlled prices is relative and conditioned, not absolute. It depends on the factors that have been pointed out, e.g., whether the market prices operate in a reasonably equalized community, whether they are free from monopolistic influences, whether the entrepreneur is or is not socially minded, whether the wage

system is or is not political in character, etc.

If, for instance, distribution of income is very unequal and necessities are scarce, rationing introduced for the distribution of these necessities will provide for utilization of scarce resources better than free market prices.

If market prices are monopolistic prices, central price control may bring about a better utilization of scarce resources, for instance, by the liquidation of idleness or withheld capacity.

If the utilization of resources for war is called for, price control will provide a better utilization of resources for this purpose than market prices.

If as a result of trade propaganda the population wants useless luxury articles, price control by Planning Authorities carried out in order to curtail this consumption may bring about a better utilization of resources.

If a certain area in a country is especially poor, and its quick development for some reason is needed, we may, through price control, establish for this area specially cheap prices, better adjusted to the level of income in the area, while market prices are equal for the whole country, subject only to varying transport costs.

We see that no price system is better or worse in itself than another from the point of view of the structure and needs of national economy. Every price system must be related to a particular set of conditions, in which one system would work better than another. A free price system, of course, would not work in a planned economy.

#### *B. The Application of Both Sales of Preferences*

The control of prices in planned economy may serve different purposes and may use different methods varying with the goals of the schemes. There is no need to enumerate them, for the range of possibilities is very great.

However, attention should be drawn to two main issues.

(1) Planning Authorities may wish to apply in all pricing the marginal principle based on free personal choice of work, leisure, and consumption. In this case, the pricing system would attempt to reflect individual preferences and to build up a price mechanism which would imitate the market mechanism. In the case



of greater scarcity of some resources the prices would be raised; in the case of lesser demand in comparison with supply the prices would be lowered, in order to maintain equilibrium between demand and supply. Pricing applied in such a way by Planning Authorities on a strictly marginal basis all along the line might be called *Competitive Pricing* in a planned economy.

In the pricing of consumers' goods this system would work only if all consumers' choices were left to individuals. In pricing labour it would work only if all choice of profession and occupation were left free to workers. In the pricing of producers' goods it would work only if all producers' choices were left to entrepreneurs, whether private or socialized. In the pricing of the rate of interest, it would work only if preferences for saving were left free to individuals or entrepreneurs.

But if all these choices were free, what would be left for Planning Authorities to do?

The competitive solution "under socialism" carried to its ultimate limits as suggested by some modern writers (leaving all free choices to consumers, workers and competitive enterprises), would really mean nothing else than an unplanned economy composed of socialized enterprises.

Planning means the abolition of some free choices, not change in ownership, and with the abolition of choices we remove the economy from the point of equilibrium in the marginal sense. This is not an argument against planning, but a proposition of merely logical character.

There is not, and never has been, any price system which would approach the marginal system in its theoretical sense (as conditioned by points 1 to 6 set forth above). One historical price system has one set of advantages and disadvantages, another has others, and there can be no real pricing system with advantages only.

For instance, a given price system may seem to possess all the advantages, but if it is based on starvation wages imposed by the overwhelming bargaining power of entrepreneurs the system will be wrong even when all other requirements of good pricing from the standpoint of marginality have been fulfilled.

The wage system is the most important basis of every price

system, and if it can be proved that a planned economy has or may have a better wage system than an unplanned economy, a powerful argument for a planned pricing system can be put forward.

The system of pricing in a planned economy is strictly connected with the restriction of choices (régime of control). The more choices are left to consumers and producers, the more prices will reflect the changes in the scarcity of goods and in the tastes and preferences; the fewer the choices left to consumers and producers, the worse the index of changes in scarcity of goods and preferences constituted by the prices. This is an argument for the restriction of control to that section where it is really needed.

(2) The Planning Authorities may wish to apply in pricing a public scale of preferences, i.e., a scale of preferences worked out by the Authorities which takes individual tastes into consideration only to some extent, as they are seen by the officials, and also other political, social, educational, or cultural aspects with special regard to the future.

Such a pricing system, which may be called *Authoritative Pricing*, would attempt to evaluate resources according to their scarcity in relation to public preferences.

In reality, planning can apply neither a system of purely Competitive Pricing nor one of purely Authoritative Pricing, but only a mixture of these two systems.

Planning presupposes a correction of individual preferences by a scale of public preferences, and it is of no use to propose that pricing in a planned economy should imitate market pricing in an unplanned economy. It cannot do so, for if such an imitation were perfect there would be no planning.

Pricing in a planned economy means the application of both scales of preferences, individual and collective; and the real issue is not one versus the other, but in what degrees they shall be combined.

We have seen from our discussion the many limitations which govern the abstract principles of pricing. There is no superiority of one principle over others. Economy and frugality require that an index of scarcity of resources should be applied, but in relation to some extent to individual and to some extent to

public preferences.

The degree of this combination and its technical application differ from one case to another, and it would be futile to pretend to discover a philosopher's stone for an economically most efficient pricing.

### *C. Stability of Prices*

Two general propositions, however, may be stated regarding prices in a planned economy.

(1) Prices in a planned economy have much less elasticity than in an unplanned economy.

(2) In a planned economy prices play a much smaller part in the allocation of scarce resources among alternative uses than in an unplanned economy.

Disregarding the objective for which planning takes place, it always turns out that in a planned economy prices are more stable, less elastic and flexible than in an unplanned economy (especially one of a non-monopolistic kind).

The tendency towards stability of prices is deeply rooted in a planned economy. Prices change much more slowly in a planned economy than in an uncontrolled one. From this arise some advantages and some disadvantages.

The disadvantages are connected with the less reliable index of scarcity of resources, which follows only slowly the changes in scarcity, in costs, and in the tastes of the population. Prices, less elastic and flexible, do not work so well as an instrument of allocation of scarce resources.

On the other hand stability of prices and wages is a most useful help in stimulating investment as a solid basis for long-term expectations and all other activities which require a longer period of expectation. Besides, they give the whole economy, and also the society, a sense of security which is specially appreciated nowadays. It has an economic and also a non-economic value.

The conception of social security is based upon stable wages, while the conception of economic security is based upon stable prices. Here again we have a relativistic answer to the problem of flexibility of prices.

From the lesser elasticity of prices and wages, it follows that

the part which prices play in allocating scarce resources among alternative uses must be smaller than in an unplanned economy.

It follows also from many features of planned economy in which the possibility of profits is not the general guide to economic activities that a planned economy is technically orientated rather than price-orientated. If a rise in the production of textiles is required, it may be achieved in a planned economy through the medium of management or direct control, while in an unplanned economy it is achieved mainly through the medium of prices.

When restriction of consumption is needed, a planned economy may use the instrument of prices, wages, and taxation as well as direct rationing.

Central control makes possible the allocation of resources in a direct way, and therefore prices are to some extent dethroned in a planned economy.

This leads also to important disadvantages in the working of planning, but no one will deny the existence of gains connected with the restriction of pricing in some spheres.

#### *D. The Problem of Billions of Equations*

It has been argued by some that pricing in a wholly planned economy would be impossible, and would not work at all, because it would require the superhuman task of solving billions of equations at once. A few comments may be made on this rather remarkable proposition. An authoritative pricing system with the abolition of all free choices (e.g., in a communist society) would come very near to an isolated individual economy.

If we assume an evaluation of present needs by the planning authority in a *programme of production* and one of future needs in a *programme of investment*, we could distribute all scarce resources, including all kinds of labour, in such a way as to achieve maximum execution of both programmes. Production and investment, as embraced by both programmes, would be distributed among the existing plants, and the scarce resources would be allocated first of all to the plants technically most efficient in order to achieve the optimum execution of the two programmes. The whole problem, assuming a given.....

- (1) programme of production and investment;
  - (2) gradation of technical efficiency of a given network of plants;
  - (3) method of production;
- would be mainly of a technical character.

But if we are to achieve the maximum satisfaction of public needs from the whole of the scarce resources at our disposal, all these three data: (1) programme of production and investment, (2) gradation of efficiency of plants, (3) particular method of production, cannot be taken for granted.

The construction of a programme of production and investment is a problem simple to solve, if we accept it without calculation, but extremely difficult if we are to achieve the maximum satisfaction of public needs from given resources, i.e., with calculation.

The gradation of efficiency of plants can easily be compared over small ranges, but not over wide ranges, e.g., in different branches of industry.

The choice of method of production cannot be based solely on technical considerations, if we have to choose between the use of different factors of production (such as land, labour, capital of different kinds) which cannot be reduced to a common denominator.

Therefore, in spite of a barter economy, whenever we have to achieve the maximum satisfaction of public needs we must elaborate a complete system of economic values.

Such a system may be based on the evaluation by the planning authority of:

- (1) Needs, present and future.
- (2) Different kinds of labour on a basis of their disutilities, scarcity, skill, responsibility or social estimation (scale of wages).
- (3) Rate of interest in order to charge for more roundabout methods of production (time factor).
- (4) Scarce resources which could not be reduced to labour or time-factor, such as land-areas, or mining, or other factors with a long period of reproduction.

On this basis an accounting system of costs of production could be established, starting from an historically given price

system and correcting it continuously by a "trial and error" method, as pointed out by Taylor, Lange<sup>1</sup> and Dickinson.

The value of goods would, roughly speaking, correspond with the marginal labour units necessary for their production, the different kinds of labour being reduced to wage units—assuming the time factor as constant. The formula would come very near to Ricardo's Theory of Value.

Knowing what and how much we need and knowing the technical coefficients of production and their remuneration, we know the costs of providing those goods we desire, and we can build upon this a set of alternatives in order to choose that combination of goods and costs which assures the highest satisfaction of public needs.

The planning authority would do this as an individual would do it for himself in an isolated economy, e.g., Robinson Crusoe, who might distribute his resources on the same basis, on the scale of preferences for goods and the scale of his disutilities of labour, all other scarce resources being distributed so as to get the maximum satisfaction of wants.

To set up a complete scheme of alternatives by a central authority would indeed be an immense task.<sup>2</sup>

However, the task of a central authority in setting up these alternatives would be substantially eased, if, as may reasonably be assumed, they could start from

- (1) an historically given price system,
  - (2) an historically given production and investment programme,
  - (3) a given method of production,
- and correct all three sets of data continuously on the basis of a

<sup>1</sup> Prof. Fred. Taylor and Oscar Lange, *On the Economic Theory of Socialism*, 1938, University of Minnesota Press.

<sup>2</sup> "In a centrally planned society this selection of the most appropriate among the known technical methods will only be possible if all this knowledge can be used in the calculations of the central authority. This means in practice that this knowledge will have to be concentrated in the heads of one or at best a very few people who actually formulate the equations to be worked out... It is probably evident that the mere assembly of these data is a task beyond human capacity." (Prof. F. Hayek, "Present State of the Debate," in *Collectivist Economic Planning*, London, pp. 210, 211.)

trial and error method.<sup>3</sup>

When once we have these three sets of data, we have a stable basis for evaluation on which every set of alternatives can be solved afterwards in a much simpler way.

Of course, if we persist in trying to solve the problem of the maximum in sets of millions or billions of simultaneous equations, it is bound to be insoluble (without any historical basis).

In particular, the economic calculation of resources on the basis of "the *ophélimités* of all different commodities for each individual, and all the conditions of production of all the commodities, etc.,"<sup>4</sup> would be practically impossible. But such a calculation would be quite pointless, because if a socialist state were to base its calculations on the '*ophélimités*' of each individual, it would not deprive individuals of their choices.

It would be a contradiction in terms to base a planned economy, which has transferred all the choices from individuals to the planning authority, on an economic calculation of individual preferences. If we regard these preferences as a proper basis for the distribution of goods, we must leave the personal choices free.

It is obvious that authoritative pricing would conform, to a greater extent, to the abstract needs of the population (as seen and determined by the planning authority), than to the actual desires and wants of the population, because that is the basis upon which it has been built.

### E. Conditions for Successful Working of Pricing

The maximum satisfaction of the desires and wants of the population in such a system would depend upon the following factors:

(1) The uniformity of wants and desires as a result of education, or equality of income, or the duration of control (the more uniform the wants are, the easier will it be to comprehend

<sup>3</sup> See F. H. Taylor and Oscar Lange, *op. cit.*, and H. D. Dickinson, *Economics of Socialism*, Oxford, 1939.

<sup>4</sup> Pareto, *Manuel d'économie politique*, 2nd ed., 1927, pp. 233-4; quoted by Prof. Hayek in his article, "Socialist Calculation: The Competitive Solution," *Economica*, May, 1940.

them in a public scheme).

(2) The stability of wants and desires (which would enable only corrections in the production programme to be undertaken from year to year).

(3) The standard of statistical service, questionnaires, ballots, personal interviews about the wants of the population.

(4) The stability of technique (assuming the technique to be unchanged, the value of goods would conform to their scarcity, but in times of rapid changes in technique the labour value would not correspond with the costs of reproduction).

Summing up, we would say that such a system might work reasonably in a static economy in the framework of a uniform society.



## WAGES IN PLANNED ECONOMY

A. *Wage Fund and Wage Scale*

THE determination of a general wage level and wage scale is one of essential functions of planning. We cannot imagine a national economy effectively planned without it. This must be so for many reasons.

The determination of wages is the basis for the establishment of a price structure. Without determining wages we cannot fix prices, and the control of prices is an essential part of any kind of planned economy. Prices and wages are the necessary factors determining not only the personal distribution of income but also its functional distribution for various uses, and the allocation of scarce resources between the different branches of production.

The aggregate wage fund (in a socialized planned economy, or the aggregate pay-roll plus profits and rents released for consumption in a non-socialized planned economy) must be equalized with the aggregate value of consumers' goods released for personal consumption in a given period. When the consumers' goods industry cannot be adequately augmented and the producers' goods industry must be rapidly executed, the gap between the wage fund and the supply of consumers' goods may lead to the necessity of cutting down wages or raising prices.

As the lowering of nominal wages is nearly always impossible (a fact commonly experienced in unplanned as well as in planned economy of every shape) and a general rise in prices is often very difficult, the equilibrium between the wage fund and the consumers' goods supply must be restored very often through other means. Among these compulsory or partly enforced saving, and direct or indirect taxation, play a large part.

Planning implies the distribution of national income among the following main lines of national economy:

- (1) *Wage fund*, which embraces the aggregate "personal

wages" and the aggregate so-called "socialized wages" (social services, educational, medical and recreational services rendered free of charge).

(2) *Overhead cost* of the State (the cost of running Government departments, national defence, research and scientific investigation, etc.).

(3) *Repairs* (making good the depreciation of plants and workshops).

(4) *Investments* (cost of extension of mines, factories, lines of communication, trading facilities, farms).

The distribution of national income among these main sections of national economy is impossible without determining the general wage fund. And the determination of the wage fund includes the construction of a complete national scale of wages.

The aggregate wage fund determined by the Planning Authorities must be divided among the whole array of workers and employees on the basis either of wage rates for hours of work or piecework rates.

The determination of a national scale of wage rates may be based on many principles, for instance the principle of maximum economic equality, or that of the normal needs of a family, or of efficiency and scarcity, or of responsibility, or even on a racial and national principle.

In the German planned economy the workers able to perform the same job are paid differently, according as they are Germans, Poles, Jews, etc. The racial principle is here largely applied.

In the first period of Russian Communism, the Soviet authorities tried to base the scale of wage rates on the principle of maximum economic equality, as the range between the wages of skilled and unskilled workers was very small. In later years they have differentiated the wage rates very much, trying to apply the principle of efficiency and scarcity. They have determined the rates in such a way as to stimulate the workers to acquire the highest possible skill and ability and to attract to factories the rarest crafts.

Soviet wages become more and more piecework rates as far as practicable. They are based upon a standard rate or norm. The fixing of these norms is the task of the norm-fixers. They

study workers at their work and determine chronometrically the time needed for a given operation.

In Fascist states, where hierarchy and authority play an important rôle, the principle of responsibility is applied on a large scale. Jobs which require greater authority, responsibility and social prestige must be very well remunerated in order to keep the distance between the *élite* and the large masses of the population. Here we have the phenomenon of mass-exploitation by bureaucrats and technocrats.<sup>1</sup> This phenomenon is deeply implied in every kind of bureaucratic State without true democracy.

The scale of wages may be related to national or regional areas. The wage rates may be determined on a lower level in one area and on a higher level in another area, in order to favour a given nation or a given area at the cost of others, as is practised in Hitler's "New Order."

The principle of "normal needs of a family" may also be applied in the differentiation of wage rates. Workers with larger families may be granted special family allowances. Different habits and customs of the population in different parts, and differences in consumption according to sex and age might be taken into consideration.

There has never been, and can never be, any single principle applied in the wage system in planned economy. Every planned economy starts from an historical wage scale which it is very difficult to change substantially in a short period. The social estimation of different kinds of labour, the political and social strength and prestige of different crafts (e.g., railwaymen), the tradition of entry into different crafts, besides the wage principles already mentioned, are important elements in the determination of the national wages scale.

Of course, a planned economy is the more efficient the more it bases its wages scale on the principle of efficiency and scarcity only, combined with the principle of economic responsibility.

<sup>1</sup> This phenomenon can be seen from the distribution of salaries in Nazi economy. Taking a percentage of the total number of salary receivers, the percentage of salaries above 500 R.M. rose from 5.1 in 1929 and 3.6 in 1932 to 7.4 in 1938. See M. Y. Sweezy, *op. cit.*, p. 216.

### *B. Planned Labour*

The determination of wages by planning<sup>1</sup> authorities opens up the problem of free labour in planned economy. In planned economy labour can be free in this sense only, that the worker is at liberty to accept or to refuse work at rates determined by the planning authorities. But labour cannot be free in the sense that workers retain the right to strike and to enforce change of wages through the power of Trade Unions. The right to strike would endanger the structure of planned economy and would make the attainment of the objectives of planning impossible.

Thus strikes (and lock-outs) are definitely ruled out in Soviet Russia, in Nazi Germany, and in Fascist Italy. Strikes under war economy in Britain and the United States, when they occur, are regarded as an abuse of the machinery of war planning and recognized as a great danger to the war economy. In every planned economy there is "collective bargaining" with compulsory arbitration of some kind, backed by the State authorities.

As a matter of fact, the planned economies, as far as we know them in practice, have not only abolished the right to strike, but also affected to some extent the range of personal freedom of workers. The discipline of labour is much greater in a planned than an unplanned economy. The Nazis had introduced labour books as early as 26 February 1935, and no worker or employee can be employed who is not in the possession of such a book. In the U.S.S.R. labour books were introduced on 15 January 1939, and they contain not only particulars of the holder and his employment but also the reasons for his leaving or dismissal. In both countries, even before the present war,<sup>2</sup> absenteeism or idling during working hours were considered criminal offences.

The partial conscription of labour started in Nazi Germany as early as 1934, and wholesale conscription of labour was decreed on 22 June 1938. The decrees introducing conscription of labour in Soviet Russia were issued on 2 October 1940, under the shadow of war.

We now come to the problem of Trade Unions in planned economy. They will have a different status in planned economy.

<sup>2</sup> In Soviet Russia by the Law of 28 December, 1938.

Conceived as organs of class strife, they have no place in planned economy, because there is no room for class struggle. The objective of Trade Unions, to extract the highest possible wages from entrepreneurs at the cost of their profits, is in planned economy unjustified, because the profits, when they exist in unsocialized industry, are publicly controlled in magnitude as well as in use. Only such an amount of profits and such a use of them are permitted as are justified by the objectives of planning within the framework of the accepted plans.

Trade Unions in a planned economy have functions different from those in a liberal capitalism. They are organs of co-operation with the planning authorities, and have but limited powers. The range of these powers depends on the social content and structure of the planned society. Where the workers are enslaved the powers of the Trade Unions in collaboration with the planning authorities are very limited or merely nominal. Where the workers assume full political control the powers of the Trade Unions in collaboration with the planning authorities may be greater.

But nowhere can Trade Unions assume full powers of planning. Trade Unions may have their representatives among the planning authorities and co-operate with them in working out general or local schemes and putting them into practice. But as decisive factors they may determine only minor elements in the wage structure, especially the local wages, or piecework rates in a certain range.

The Trade Unions in Soviet Russia have in some measure a similar structure to that in the German Labour Front, and they may remind us of Fascist Corporations. The Soviet Trade Unions are not unions of a single craft, but embrace the whole of a given establishment or a given branch of industry.

“Trade Union membership logically embraces the whole staff or personnel of the establishment, from the general manager to the office-boy, from the foreman to the apprentice, from the most scientifically qualified specialist to the least skilled general labourer. Hence the Trade Union in the U.S.S.R. is neither a craft nor an industrial union. It is nearest to what has been called in Great Britain in its most ideal comprehensiveness a

national monopoly.<sup>3</sup>

"All those who work within any one establishment, the manager, the technicians, the clerks and bookkeepers, the foremen, the artisans and labourers, the factory doctors and nurses, and even the canteen cooks and cleaners, and this entire personnel in all the establishments producing the same commodity or service throughout the U.S.S.R., are included in one union, whether the object of the nation-wide enterprise be extracting, manufacturing, transporting or distributing commodities, or rendering administrative or cultural services of any kind."<sup>4</sup>

On the same principles are built local, regional and Republic Trade Unions, as well as a nation-wide organization of Trade Unions (with an All-Union Congress of each Trade Union and an All-Union Congress of all Trade Unions at the top).

Soviet Trade Unions are organized as:

(1) *Vertical Organizations*. The Unions, as we have pointed out, embrace all men employed in one establishment or branch of industry.

(2) *Monopolistic Organizations*. In one branch of industry and in one establishment there can be only one Trade Union with the exclusive right to represent all workers employed in this industry.

(3) *Public Organs*. They have certain public powers and functions within the framework of a planned economy, public duties and rights. They share the duties and responsibility of government. The All-Union organizations of Trade Unions are organs for collective bargaining with "the organs representing the Sovnarkom of People's Commissars of the U.S.S.R., together with Gosplan and the various trusts directing the nationalised industries."<sup>5</sup>

Similar principles are applied in Nazi and Fascist States. The blocks, cells, and various groups of the German Labour Front are also vertical monopolistic organizations, which include all people working in the factory, irrespective of their economic function and social position. They are also conceived as public

<sup>3</sup> Sidney and Beatrice Webb, *Soviet Communism: A New Civilization*, 1937, Vol. I, p. 174.

<sup>4</sup> *Ibid.*, l.c.

<sup>5</sup> *Ibid.*, p. 195.

organs with public powers and responsibilities. In Fascist Italy there are separate employers' and employees' syndicates; they function, however, as parts of Corporations which embrace the whole industry or group of industries with the Ministry of Corporations and the National Council of Corporations at the top, and they are part of the State administration.

Of course, the social content of the Fascist or Nazi organization of Trade Unions and of the Soviet organization is completely different. In the Soviet organization there is no counterpart of the employers' union, of the existence of private property and private profits. Nevertheless, we find some common principles of organization of Trade Unions which arise from the very existence of a planned economy. The vertical, exclusive and public character of Trade Unions serves the same purpose: the ruling out of strikes, the imposition of industrial peace, the bringing of the workers' representatives into the machinery of the State, the establishment of some kind of self-government in industry.

I agree that the self-government in Fascist States is of nominal and purely decorative value, with the intention of camouflaging the main objective of depriving the workers of their professional liberties, but I would say that in Soviet Russia also the influence of Trade Unions as such on the machinery of planning, its objectives, apparatus and execution, is astonishingly small.<sup>6</sup>

It lies in the nature of planned economy that, where a separate planning apparatus exists, no other competitive apparatus which might interfere with the attainment of the objective of planning can be effective.

The conclusions to be drawn from our remarks are, that in a planned economy the workers must either be enslaved by political, bureaucratic or technocratic rule or granted a high standard of self-government in industry which could enable them

<sup>6</sup> "It seems evident that the Trade Unions have no say in the total wage bill, which is determined above all else by the planned volume of production and planned production costs. The only question left open for settlement by negotiation is the allocation of wage rates to the different workers' grades within the framework of the Plan." (L. E. Hubbard, *Soviet Labour and Industry*, London, 1942, pp. 112-6.).

to play a large part in working out and executing the schemes of economic planning.

### *C. The Arbitration Courts, Forerunner of Planned Labour*

One very often hears the argument that as planned economy deprives labour of its professional liberties, it is very difficult to imagine that in a free society labour would surrender the liberties it possesses in a framework of private industry. Labour, it is argued, would surrender its liberties only if other classes, too, had to give up theirs, and this means not only the liberties of free pricing and free profits but all the rights of private ownership.

In reply to this argument I should like to recall two long-term developments; one concerning the forms and content of ownership, the other the wage-fixing system. The régime of ownership in free countries also has undergone far-reaching structural changes with which I deal in Part III, Chapter IV. The issue of collective ownership versus private ownership has lost its sharp distinction, because new amphibian forms of ownership have emerged.

Another development affects the traditional liberties of Trade Unions, which have undergone a process of profound evolution in free countries. The procedures of conciliation and compulsory arbitration are rapidly spreading. The free countries also feel the need for peace in industry. Both industry and Trade Unions, when they are unable to reach a collective agreement, resort to State aid. The net of collective agreements based on joint conciliation bodies, mediation agencies and eventually on arbitration courts with the aim of joint peaceful settlement of social disputes in industry was rapidly spreading in many free countries even before the war.

When the collective bargaining functions are eventually based on compulsory arbitration, there is not much left of the traditional professional liberties of the Trade Unions. Joint bodies of conciliation, mediation agencies, assume gradually the authority of a State organ. Of course, the Arbitration Court is definitely a State organ which eventually can enforce the wage policy of the State on both sides in the struggle.

The institution of compulsory collective agreements was



already in operation in pre-Nazi Germany, in Czechoslovakia, in Poland, in Australia and New Zealand, in Belgium, France and Eire, and also to some extent in the U.S.A. and in many other countries.

Here may be recalled the statistics of collective agreements in pre-Nazi Germany, quoted in a Note (p. 83), devoted to the growth of planned economy in Germany.

In *Australia*, under the Commonwealth Conciliation and Arbitration Act as amended in 1904-34, representatives of organizations registered under the Act may, in the case of a dispute, be summoned to a compulsory Conciliation Conference convened either by a Conciliation Commission or by a Judge of the Commonwealth Court of Conciliation and Arbitration; and in the absence of a voluntary agreement, proceedings before the Court will lead to an award binding on both parties. "This, in effect, means that the Court is a wage-fixing authority."<sup>7</sup>

In *Czechoslovakia* the decree of 26 June 1937 declares the binding nature of collective agreements and provides that on application from employers' and workers' organizations in any industry, the Ministry of Social Welfare, in agreement with the competent Ministry, may make the agreement binding on all undertakings in a given district or trade, including undertakings in which the owner, or workers, or both, are not members of the organizations which are parties to the agreement. This institution is similar to the provisions in the Fascist Corporative State.<sup>8</sup>

In *France* the Act of 24 June 1936 and the Act of 24 February 1938 provide for the compulsory character of collective agreements. "Agreements concluded by the delegates of the most representative employers' and workers' organizations of the district or whole country in the branch of industry or commerce concerned may be made compulsory by ministerial order for all employers and workers in the trades and areas covered, and may thus replace all other agreements of more limited scope."<sup>9</sup>

In *New Zealand* the Industrial Arbitration Act of 1925, as amended, provides that the unions of employers and workers

<sup>7</sup> International Labour Office, *The Minimum Wage, an International Survey*, Geneva, 1939, p. 7.

<sup>8</sup> *Ibid.*, p. 73.

<sup>9</sup> *Ibid.*, p. 85.

registered under the Act are required to submit their disputes to Councils of Conciliation and, if no agreement is reached, to a Court of Arbitration for final settlement.<sup>10</sup>

In *Poland*, under the decree of the President of the Republic of 27 October 1927, as amended by the notification of 20 April 1937, the Minister of Labour has power to declare generally binding, wholly or partially, any agreement which is of pre-dominant importance to the particular branch of production.<sup>11</sup>

In the U.S.A. the Fair Labour Standards Act of 25 June 1938 introduced a "machinery for the nation-wide regulation of wages in the United States."<sup>12</sup> It provides for the establishment of minimum wage rates for employees engaged in industries in or affecting inter-state commerce.

*Great Britain* also has not been left out of this development. Before the present war there were wage-fixing practices provided by the Trade Boards Acts of 1909 and 1918. The minimum wage rates are fixed by Trade Boards set up by the Minister of Labour, and the number of workers in the trades concerned was estimated at the end of 1935 at 1,135,870. The Coal Mines (Minimum Wage) Act of 1912 applied to underground workers (male) employed in coal mines. The Agricultural Wages (Regulation) Act of 1924, applying to England and Wales, and the Agricultural Wages Act of 1937, applying to Scotland, provide for the establishment of Agricultural Wages Committees for each county or group of counties. They fix minimum rates for time-work and may also fix minimum piece rates and special rates for overtime. There is also a Central Agricultural Wages Board. The Cotton Manufacturing Industry Act of 1934 "enables an organization of employers and workers in the industry to make joint application to the Minister of Labour for the making of an order with respect to any agreement made between the organizations as to the rates of wages to be paid to any persons employed in the industry."<sup>13</sup>

The Road Haulage Wages Act of 1938, which affects directly

<sup>10</sup> *Ibid.*, p. 153.

<sup>11</sup> *Workers' Protective Legislation in Poland*, with Preface by J. Stanczyk, Polish Minister of Labour, London, 1941.

<sup>12</sup> *The Minimum Wage*, p. 142.

<sup>13</sup> *Ibid.*, p. 125.

between 500,000 and 600,000 workers employed in connection with vehicles for the transport of goods for which public, limited or private carriers' licences are required, provides an extensive machinery for fixing wages all over the country. It consists of a Central Wages Board for Great Britain, a Scottish Area Board, and Area Boards in England and Wales for each of the ten existing traffic areas.

During the present war wages regulations have been extended to form a complete planned system.

We see from this short survey that the position which had already been reached even before the present war in many free countries in this respect proves that we are already very far advanced in the process involved in planned economy. There is already no question of planned labour or free labour in a traditional sense, but of the forms and degree of planned labour.

### CHAPTER III

## THE IDEAS OF "JUST PRICE" AND "JUST WAGE"

THE statutory price and wage regulations which are the rule in planned economy have revived the medieval idea of *justum pretium* (and *justum salarium*), one of the principal conceptions of scholastic economics. The State or the Corporations or other public bodies under its supervision, not the market, are the creators of value.

But what are the criteria which should govern the State as the creator of economic value? Should the economic value be fixed as a point or with great latitude? What are the upper and lower limits of a just price? What share should be given to the principles of responsibility, authority, efficiency, skill, standards of living and family needs in the practice of wage-fixing?

What items of costs should be included in the "just" price? Are the necessary profits to be included or not? Should the just price for one commodity in one area be fixed as a single rate or as a multiple price with discrimination (1) for different plants with different rates of obsolescence of their machinery and equipment, (2) for different customers with different purchasing power?

The evaluation of the cost of capital in regard to owned or borrowed capital, the rates of depreciation, costs of advertisement and machinery, etc., are a huge subject<sup>1</sup> for controversy. And then arise the most controversial issues:

(1) Is the just price to be based on marginal costs or on average costs of industry?

(2) And in this connection what is to be done about the striking divergences in costs between large-scale modern enterprises and small old firms in the same branch of industry?

<sup>1</sup> See F. Backman, *Government Price Fixing*, 1938, New York.

(3) Where is the margin of costs of production to be fixed?

I do not intend to enter this jungle of problems, which really exceeds the scope of my book. The problems are insoluble as a general case valid for every time and place; they can only be usefully tackled when precisely defined by a given set of assumptions based on the concrete data of a given branch of industry and a given locality and dealt with on the basis of certain criteria drawn from definite objectives.

But what seems to me interesting in this connection is the fact of the revival of basic conceptions of medieval society within the framework of planned economy.

The concept of "distributive justice," taken over by Thomas Aquinas from Aristotle, is the pivot of the price and wage regulations in planned economy also. Many of the problems with which Thomas Aquinas struggled in his *Summa Theologica* and which seemed to us so strange not so long ago, have suddenly returned in all their vividness and actuality.

The idea of justice in exchange (*justitia commutativa*) based rather on arithmetical equality, and that of distributive justice (*justitia distributiva*) based on "geometrical equality,"<sup>2</sup> play a great part in our modern disputes. The problems: Should salaries and wages cover the *necessarium vitae*, or *necessarium personae*, what is the *mensura debita* of profits, what is the meaning of *labores et expensae* which must be covered by the just price, how to determine the latitude<sup>3</sup> of the just price, how to define the measure of earnings (for instance, *secundum conditionem et statum propriae et aliarum personarum, quarum cura ei incumbit*)<sup>4</sup> — all the problems and all the insoluble difficulties implied in their general statements are very well known in modern literature.

The revival of the theory of the just price is to be found in the works of many modern writers, such as O. Spann, G. Rittig,

<sup>2</sup> Geometrical equality distributes goods and rewards according to merits and rank.

<sup>3</sup> *Justum pretium rerum non est punctualiter determinatum, sed magis in quadam aestimatione consistit; ita quod modica additio vel minutio non videtur tollere aequalitatem justitiae.* (*Summa Theologica*, II-II, q. 78, ad 1.)

<sup>4</sup> *Ibid.*, II-II, q. 32, a. 6.

R. Kaulla, S. Lorentz, K. Schmaltz, H. Nicklish and others,<sup>5</sup> and in the actual practical dealing of public authorities with the price-fixing measures.

But the revival of the conceptions of medieval economics has a much wider range, which is not confined only to the idea of the "just price" and the "just wage."<sup>6</sup>

The scholastic conception of private property is very much akin to the conception seen in planned economies. The distinction between the "substance of ownership" and its "use", expressed by Thomas Aquinas, is the essence of the new formulation of property in our time. Thomas Aquinas acknowledges the right of property, but in regard to the substance (*quoad possessionem*) not in regard to its use (*quod usum*). The use should be under public control, and as Aristotle's phrase has it, "common to all friends" i.e., to the community.

The concept of money and credit in the scholastic writers comes very near to the concept of money displayed in planned economy. It is, as described by Thomas Aquinas, in its essence barren (*res quae non fructificat*); it is merely an instrument of exchange. Its main function is to facilitate the exchange of goods (*pecunia principaliter est inventa ad commutationes faciendas*);<sup>7</sup> all other functions are non-essential. It should not be used as a source of income, because, being barren, its fructification means exploitation. Its chief use is to be spent (*consumptio ac distractio*) not to be accumulated. How near does the modern idea of planned money come to this conception!

This similarity of concepts is, of course, not a mere coincidence, for many modern institutions in our newly organized society display a similarity to the medieval Guild society. The copies of these attempted by Mussolini, and by Salazar in Portugal, are not merely a product of imitation; they show a genuine similarity to many of the institutions of modern economy as an ordered, "organized" economy.

<sup>5</sup> Dr. H. G. Schachtschabel, *Der Gerechte Preis*, Berlin, 1939; R. Kaulla, *Theory of Just Price*, London, 1940. (Translation from German original published 1936.)

<sup>6</sup> F. Zweig, *Four Systems of Political Economy*, 1930. (German translation from Polish, 1932.)

<sup>7</sup> *S. Th.*, II-II, q. 77, a. 1.

## CHAPTER IV

### MONEY IN PLANNED ECONOMY

THE working of the *laisser-faire* system was closely linked up with the gold standard. A liberal economy was a money-centred economy, in this sense, that the basis of economic valuation was money conceived as an entity in itself. Money was regarded as a common measure of success in national as well as in world economy. In the unlimited competition for profits, markets, economic expansion, or a rise in the standard of living, money was an essential and independent vehicle in the free interplay of economic forces.

The gold standard was an international money system, based in every economically progressive country on the same principles, namely, free gold coinage, free import and export of gold, and free convertibility of notes into gold coins at a stable rate. Countries adhering to the gold standard had in reality a single common currency, though with different denominations and different nominal values.

The gold standard was an instrument of free trade. It facilitated international trade, while on the other hand free trade was an essential support for the gold standard.

The gold standard was an instrument of international credit and investment. It promoted the movements of international credit and investment, but at the same time free international credit and investment were a basic element for the proper working of the gold standard.

The gold standard created a central axis for international economic relations in trade, credit and movement of capital. It was an essential element in what we call world economy. Gold had a fairly equal purchasing power all over the world, because of free trade, free money and free capital movements created a certain automatic process of price adjustments, additionally facilitated by the control of bank rates according to certain commonly accepted rules.

Gold currency was a stable axis in national as well as international economy; all other elements fluctuated around it. The national economy had to adjust all its economic magnitudes to the value of money. Money was a rigid standard; all other economic values, prices and wages, were somehow elastic.

One kind of security was in the forefront of national economy, namely, the security of national currency in terms of convertibility of notes into gold coin. All other kinds of security were somehow neglected. The security of bank deposits in terms of their convertibility into money was not safeguarded, as was proved during the Great Depression in the U.S.A.<sup>1</sup> The security of public debts in terms of convertibility of Government bonds into currency could also not be safeguarded in many countries.

The security of entrepreneurs in terms of a fairly stabilized level of prices, as well as the security of workers and employees in terms of a fairly stabilized level of wages and employment, could not be achieved under this system.

#### *A. Paper Currency as an Essential Part of Planned Economy*

The gold standard was an essential part of the mechanism of liberal capitalism, and could be restored with liberal capitalism itself. In a planned economy, however, there is no place, no possibility and no useful function for the gold standard. The adoption of the gold standard would endanger the whole working of planned economy. There are many reasons for this.

The general principle of a planned economy is social and economic security in terms of stabilization of prices and wages. The stabilization of internal prices and wages might be endangered by the working of the gold standard regarded as the pivot of the economic system. National prices and wages under the system of the gold standard can be adapted to the international level only through changes in internal prices and wages imposed from the outside.

The gold standard is an automatic system of ebb and flow of money, trade and capital across the frontiers. If trade and capital are centrally controlled, the gold standard will not work.

Planned economy imposes quantitative control of investment,

<sup>1</sup> R. B. Warren, *The Search for Financial Security*, 1940.



and therefore free investment abroad cannot be allowed within its framework. Some control of foreign exchange in a planned economy (which has not a great abundance of gold stocks and assets of foreign exchange) must be imposed, and this excludes the working of the gold standard.

Planned economy requires full use of powers for the creation of money and credit. But the gold standard imposes a very substantial limitation on these powers. The financing of a planned economy would be hampered and checked by the working of the gold standard.

Planned economy requires a full use of the instrument of public debts. The public debt grows rapidly under economic planning. But the rapid rise of the public debt requires the fulfilment of two conditions:

(1) The steady lowering of the rate of interest on the public debt: By this the burden of debt can be kept constant in spite of the growing nominal value of the aggregate debt. However, the policy of the steady lowering of the rate of interest on the public debt is strictly connected with the general policy of "cheap money," of a low bank rate for deposits and credits. But the gold standard requires a manipulation of the bank rate according to the ebb and flow of gold and deposits, and would be completely incompatible with a one-sided downward trend of the bank rate.

(2) The growing volume of the debt requires a safeguard for the convertibility of Government bonds into currency, which presupposes a convertibility of currency into the public debt. This cannot be ensured by a gold standard.

Planned economy is connected with the ever-growing volume of deposits which are, to a great extent, forced on the public as compulsory savings. But the growing volume of deposits requires a safeguard for their convertibility into currency. This convertibility can be assured only in terms of paper currency, because the provision of such currency by the central authorities can be safeguarded, whereas convertibility into gold currency would be very difficult and could be achieved only in exceptional cases.

These are the main reasons why a planned economy would not work under the gold standard, which would, in fact, be

useless and deprived of its essential function within the framework of such an economy.

Planned economy is not "money-centred," but rather "commodity-centred." Money is completely subservient to the requirements of the economy as a whole. The myth of money as an independent invariable pivot of the whole economy is cast away. Money must adjust itself to the requirements of the economy as a whole, and not *vice versa*.

The main principles on which money is based in a planned economy can be brought under the following headings:

- (1) Full convertibility between Government bonds and currency.
- (2) Full convertibility between bank deposits and currency.
- (3) Full convertibility between deposits and Government bonds.
- (4) Control over the convertibility between currency and consumers' goods on a basis of price control or different uses of money.
- (5) Control over convertibility between currency and foreign exchange on a basis of exchange control.

These requirements are best fulfilled by a paper currency.

Paper currency gives the possibility of full control over prices and their adjustment to international price levels through control of the rate of foreign exchange. The varying of the exchange rate can easily adjust national prices to an international price level, without the necessity of deflating or inflating internal prices.

### *B. The Polymorphic Development of Money*

In all planned economies money became a domestic currency with no links or only small links with external exchanges. The rouble, the mark, the lira, were not quoted on international exchanges, as the process of planning of their countries' economies progressed.

Money in a planned economy approximates to the nature of a token or counter. Its "chartal" character, as described by the German writer, G. F. Knapp, in his *State Theory of Money*,<sup>2</sup>

<sup>2</sup> *Staatliche Theorie des Geldes*, 1st ed., 1905.

i.e., its token form, is one of the most characteristic features of planned money. It is entirely a product of the State.

It has no intrinsic value in itself. It is a cheque which entitles one to a certain share in national income, defined more specifically by the institutions and achievements of planned economy. The value of money is "covered" by the amount of the national income and the note will be redeemed by provisions made by the State to supply the required goods and services. If the goods and services required by the consumers are not supplied, the token may not be, at least in its entirety, "redeemed."

The power of the State over the money supplied does not end at the time of issue of means of payment; it is retained by the State for the time being until the transaction is really completed, namely, until the supply of goods is acquired.

Another characteristic feature of planned money is its *polymorphic* development. In spite of its paper uniformity, the money is split up into different kinds as regards its value and the range of its use. There is one kind of money for internal use (domestic currency); for use in dealing with foreign countries there are other kinds of money (exchange currency); there is a transfer currency for certain purposes (transfer money), and clearing money with different rates under many clearing agreements, (clearing money). But in domestic use also, the kinds of money sometimes vary for certain purposes and for certain customers. The same note has a different value in different fields of economy, and it varies also according to the status of its holders.

In the U.S.S.R. the same money has a value in the hands of co-operatives different from that which it has in the hands of individual craftsmen or State enterprises. It had a different value in "Torgsin" shops supplied with high quality goods (sold only against foreign currency and precious metals), in "closed" shops under the rationing system (liquidated on 1 January 1936), and in "commercialized" shops.

The splitting-up of the value of money is a simple product of the spread of multifarious restrictions. The more restrictions are imposed on consumption, production, saving and distribution, i.e., on the use of money, the more polymorphic money

becomes. It ceases to be a standard of value, and becomes merely a medium of exchange. And this latter function becomes more and more prevalent, while the former declines. In this connection we can observe much unfairness and many harmful results which arise in the working of planned economy.

This polymorphic development makes national accountancy and the economic calculus more and more difficult. The choice between different means and methods of production, the comparison between costs and prices is more and more void, because the price and wage units are really expressed in different kinds of money with no common denominator.

### *C. No International Money System Yet*

One of the most outstanding features of planned money is that it has not evolved any new form of international money system which can be compared with the gold standard.<sup>3</sup> This fact is, however, consistent with the whole trend of the basic tendencies in planned economy. Gold remains as a basic standard of value in international relations and as a principal means of payment. The quest for gold in all planned economies has been one of the chief preoccupations of the planning authorities. The Soviet Government has substantially increased its output of gold, and the U.S.S.R. has become a second greatest gold-producer in the world. The production of gold in the period 1929-37 increased about twelve times.

New means of payment arose in the form of clearing-agreements and in barter-agreements. Payment in kind has, to some extent, replaced payment in gold, and the trend in this respect is quite noticeable.

As a matter of fact, the mere existence of free economies with a gold currency has been a help to planned economies. They provided for planned economies an international standard of value and an international means of payment. It remains to be seen what international means of payment and standard of value would emerge should planned economies spread all over the world, and free economies completely disappear. It is probable that clearing money would replace gold and some

<sup>3</sup> G. Crowther, *An Outline of Money*, London, 1940.

international clearing arrangement, such as an International Clearing House would be instituted. The International Clearing House could issue notes acceptable by every country in its foreign relations, and these would become more and more a kind of international money, linked with national units by fixed ratios.

In this way the process of "chartalization" of money (as paper currency) would be completed, many difficulties connected with the unfair distribution of gold and the lack of foreign exchange solved, and a basis for international credit created.

Failing international arrangements, which are not easy to establish, gold would remain the international standard of value, because nothing else is in sight. However, the world would endeavour more and more to exchange in kind, and international transactions would follow the example of the "Lease and Lend Act" or would shrink still further substantially below the level already reached.

## CHAPTER V

### THE FINANCING OF PLANNING

WHEN we consider the schemes operating in Soviet Russia, Nazi Germany, Fascist Italy, under the U.S.A. "New Deal," or under War Planning in Great Britain or the U.S.A., we see one common trend in respect to the financing of planning. These schemes run on an expansionist money and credit policy. The aggregate monetary and credit circulation rises on an ever greater scale, and at the same time the aggregate indebtedness of the State. Planning has always, so far as we know, been accompanied by an expansionist credit and money policy.

Was this a coincidence only, or is there an organic link between expansionist credit policy and planning?

Every kind of planning rejects the primary rôle of finance, reducing it to a subservient character. Planning is neither "money-centric" nor "credit-centric," and is not affected by the "central illusion of credit," to use the term of Fred Henderson,<sup>1</sup> one of the most representative followers of technocratic planning.<sup>2</sup>

It regards financing in a planned economy as a kind of accountancy, and the difficulties of finance as merely technical difficulties in the co-ordination of resources. Where there are unutilized raw materials, unemployed machines and men, skilled or unskilled, the lack of financial means to put them into employment is only the lack of organization, co-ordination or accountancy and nothing else. To put idle resources to employment may mean some sacrifices on the part of other enterprises or workers or consumers, but it is the task of a planned economy to carry it out.

The lack of profitability of employment may not always be a proof that from the point of view of a community the employ-

<sup>1</sup> *Economic Consequences of Power Production*, 1931.

<sup>2</sup> All planners, beginning with Plato, Campanella and More, are hostile to the institution of money.

ment of resources is unremunerative; for instance, when employment covers all the costs of production except the "overhead costs" of the State, which must continue to run in any case (if the work does not cover all taxes), or except a part of the subsistence of the workers, which must be provided somehow (if the work does not cover fair wages).

The common doctrine of every planned society is that the economy must be provided with such financial means as to enable it to reach full employment and full capacity. It is no excuse for idleness that there is a lack of financial means. The only excuse for the idleness of some natural resources would be that there are also some other unutilized resources, whose alternative utilization would bring better satisfaction of our wants.

There is, also, no excuse in a planned economy for idle resources that cannot be utilized owing to lack of consumers' demand. If the increase of demand were regarded as desirable from the point of view of right allocation of resources, the consumers might be provided with adequate purchasing power.

There is no excuse in planned economy for idle resources not being utilized because of the high price of raw materials or the high wages of workers, since these things can be adjusted if the production is regarded as desirable from the point of view of the right allocation of resources.

The expansionist policy is deeply implied in planning and cannot be separated from it. And it is therefore not a coincidence that the follower of expansionist theories of money and credit is at the same time a partisan of planning, and *vice versa*.

As we have said, planning imposes the necessity of an expansive credit system. But, on the other hand, where an expansive money and credit system prevails, it leads to planning.

We have seen that monetary expansion to cover the cost of a deficit economy, and not backed by the frame of planning, very often degenerates into wild inflation. It leads to a race between wages and prices which sometimes brings about a complete collapse of the national economy.

The liberal schemes of monetary expansion in recent times have often failed, while the planned schemes have been much more successful. The reason is that monetary expansion requires

planning, i.e., a central control, not only of prices and wages, but also of production and consumption, of bank balances and security markets. The increased spending power must be diverted into some channels or balanced by imposing saving or rationing, etc.

If the recent schemes of monetary expansion have been much more successful than the old ones, thus disappointing the orthodox writers on monetary theory, it is because they took place not under a liberal economy, but under a planned economy; they were backed by central control. Where the need for an expansionist policy is manifest, there is also a need for central control, and this is an additional factor which leads our modern economy towards planning.

The public is very much afraid of inflation, attaching to it a disruptive social influence, and therefore it asks for the protection of an expansive money system in some schemes of planning.

But the question arises whether the expansionist policy can continue permanently in a planned economy. The financial experience of planned economies is too short to give us definite answers to this question.

Of course, we could imagine an expansive money and credit system so well managed that an overdrafting in money and credit would be counterbalanced by compulsory saving and taxation or rationing, but there are certain limits imposed by psychology or politics to these counterbalancing measures, especially after a certain time of steady accumulation of accounts. Then extraordinary measures in the form of devaluation, depreciation, capital levies and so on would have to be introduced with or without endangering the structure of the economy, especially when they have to be repeated after a certain time.

But as this kind of distribution of income, which was initiated by planning authorities, is supposed to be fair, the Government would hesitate before compromising it with extraordinary measures repeated at short intervals, and thus casting doubts on the workability of the whole system. Therefore, there are certain limits to the application of the expansionist money system, and this means that the principle of profitability must be to a great extent respected even in a rigidly planned economy.

Inflationary finance is a system of unbalanced economy, while



a profit system does not need a permanent injection of paper money. The latter is a method of financing deficit economy either in the State budget, or in industry supported by the State or the credit of the Central Bank, or by consumers' credits.

Where public and private economy is well balanced, the permanent injection of paper money is not needed, even if it were possible.

Therefore the principle of profitability plays a great part in checking the excesses of inflation which might afterwards outgrow the possibility of control; perhaps not the principle of profitability in its old sense, but the principle of balance between revenue and expenditure (while the funds for investment could be drawn by some kind of taxation, or by excess of price-sum over wage-fund, as in Soviet Russia).

Soviet Russia has found by experience that profitability is not a capitalistic principle, but an economic one, and has restored it over a wide range. In the public budget of 1932 the profits from public enterprises amounted only to four thousand million roubles, while in 1940 they increased to 18.5 billion. Besides, part of the profits goes into the industrial investment pool held by the "Prombank,"<sup>3</sup> and a large part is retained by the enterprises themselves on a Special Advance Account in the Gosbank, the State Bank of the U.S.S.R.

The Gosbank carries out a kind of financial supervision over public enterprises. "If the enterprise's accounts show that it is making losses, the Bank must investigate the seat of the trouble, whether, for instance, it is due to avoidable overhead and running costs, and suggest measures of alleviation."<sup>4</sup>

Enterprises which show profit have some advantages. They may evade to some extent the control of the State Planning Commission; they are more independent.

In order to stimulate profits it was decreed that half of all profit in excess of the planned profit is credited to the enterprise under the head of a Directors' Fund. "This remains at the disposal of the management for making further improvements in the conditions of the workers and for paying premiums to the

<sup>3</sup> Bank for financing long-term capital investment in industry.

<sup>4</sup> L. E. Hubbard, *Soviet Trade and Distribution*, 1938.

staff and workers. In practice, it is said, a large part of the Directors' Fund is devoted to paying premiums or bonuses to the heads of the enterprise. It may be noted that the policy of stimulating efficiency by offering rewards to those enterprises that, by reducing costs below the average, manage to exceed their planned profits, sometimes results in saving at the expense of the quality of the output."<sup>5</sup>

The principle of profitability was introduced by the Soviet Union as a necessity resulting not only from the need for economy, but also from a long period of inflationary credit.

The planned economy may, at the beginning, neglect the principle of profitability, but after a certain time the accumulation of inflationary means of payment hampers the proper working of planning to such an extent that it must again restrict the range of a deficit economy. And this means nothing else than the restriction of the principle of planning itself in a planned economy.

We come again to the same conclusion, drawn already from other arguments, that the principle of hundred per cent planning would be unworkable.

I would regard the retention of private ownership as a proper obstacle to the excesses of inflation based on a deficit economy. An inflationary credit for private enterprises must be much more limited than an inflationary credit for public enterprises. And private entrepreneurs are, as a rule, much more interested in a profit system than are public enterprises.

#### A. *The Need for "Sound" Currency*

The need for "sound" currency, as expressed by the leaders in all planned economies—in Soviet Russia, Fascist Italy, Nazi Germany, under War planning in Britain and the U.S.A.—is but a counterpart of the constant inflationary pressure exercised by the accumulation of money accounts in an expansionist policy.

The withdrawal of the surplus money in circulation could be achieved only by drastic measures, such as raising prices or lowering wages, imposing compulsory savings, or higher taxation. But it is difficult, for psychological-political reasons, to carry these

<sup>5</sup> Hubbard, *op. cit.*, p. 199.

measures to the limits required, and the accumulation of monetary accounts continues as time goes on. The monetary accumulation of funds finds its expression in the raising of prices in the black market, which constitutes the drawback of every planned economy.

The black market is the counterbalance of all planning, and in reality constitutes a sector of a deformed free economy. In many respects it is a refuge for many forces withdrawn by planning, and it sometimes helps greatly in the correction of certain drawbacks of a planned economy.

The existence of the black market is a very well-known phenomenon in all countries with a planned economy, and the Soviet economy even sometimes in the sector of socialized enterprises took refuge in its working.

The monetary system in a planned economy—in spite of its external appearance of stability—is the most unstable part of the whole economy. The whole burden of the drawbacks and failures in planned economy is concentrated on the back of public finance, and the monetary system feels the whole weight of its failures most.

It is for this reason that the monetary system of a planned economy needs from time to time to be overhauled and reformed. The need for this is very clearly expressed in the history of Soviet money and banking.<sup>6</sup> These are among the most unstable institutions in Soviet life, being completely overhauled and reshaped every few years. The process of inflation has upset the working of Soviet planning to a very large extent.

The need for "sound" currency, by which is meant a more or less stable currency which can perform all the traditional functions of money, has been expressed by many Soviet leaders and writers. We may quote a passage from Stalin's Report to the XVIII Party Congress, held from 26 January to 10 February 1934. It reads as follows:

"It is of course ridiculous and funny that these people who are incapable of organizing the simplest business of Soviet trade should prattle about being ready to organize the more compli-

<sup>6</sup> See A. Z. Arnold, *Banks, Credit and Money in Soviet Russia*, Columbia University Press, 1937.

cated and more difficult business of direct exchange. But Don Quixotes are Don Quixotes because they have not the most elementary inkling of life. These people, who are as far from Marxism as heaven from earth, apparently do not understand that we shall continue to have money for a long time until we achieve the first stage of communism, the socialist stage of development. They do not understand that money is an instrument of *bourgeois* economy, which the Soviet Government has taken into its hand and adapted to the interests of socialism in order to give full vent to the development of Soviet trade and thereby prepare the conditions for direct exchange of products. They do not understand that direct exchange can come only to supplant, and as a result of, an ideally organized system of Soviet trade, something which we are far from having and which we shall not have so very soon."<sup>7</sup>

And the Commissar of Finance, Grinko, at the same Congress expressed the same view, stating: "The dialectic of our progress lies in the fact that the sooner we organize our present monetary system on a sound basis, and the more we do to stabilize our *chervonetz*, the sooner will the work of building up the socialistic society be accomplished and the sooner will it be possible to throw our inheritance into the scrap-bag of history."<sup>8</sup>

Many quotations from the official declarations of Nazi and Fascist leaders (Hitler, Mussolini, etc.) might be made to show how great an importance they have attached to the defence of "sound" currency, attacked by the progress of planned economy. The defence of sound money also plays a considerable part in war economy.

### B. No International Credit System Yet

The expansionist credit system in planned national economy goes hand-in-hand with a substantial shrinkage of credit in international relations. The stoppage of the flow of international credit is one of the most outstanding features in recent developments in some way connected with the spread of planned economy. The magnitude of foreign investments since the Great

<sup>7</sup> Quoted by A. Z. Arnold, *op. cit.*, pp. 416-17.

<sup>8</sup> *Op. cit.*

Depression has declined year after year, and in the last years before the present war almost completely stopped. The figures for the foreign investments of the U.S.A. and Great Britain, the greatest creditor countries, were, according to the *Monthly Review* of the Midland Bank, as follows:

|      |    | <i>U.S.A.</i><br>(in million dollars) | <i>U.K.</i><br>(in million £) |
|------|----|---------------------------------------|-------------------------------|
| 1925 | .. | 1,076                                 | 88                            |
| 1926 | .. | 1,125                                 | 112                           |
| 1927 | .. | 1,337                                 | 139                           |
| 1928 | .. | 1,251                                 | 143                           |
| 1929 | .. | 673                                   | 94                            |
| 1930 | .. | 908                                   | 109                           |
| 1931 | .. | 229                                   | 46                            |
| 1932 | .. | 32                                    | 29                            |
| 1933 | .. | 12                                    | 38                            |
| 1934 | .. | —                                     | 43                            |
| 1935 | .. | 48                                    | 21                            |
| 1936 | .. | 23                                    | 26                            |
| 1937 | .. | 44                                    | 32                            |
| 1938 | .. | 35                                    | 25                            |

The process of shrinkage in foreign investments would but be strengthened by the spread of planning. Foreign investments take place, guided by the quest for profits and security. Both objects are adversely affected by the effects of planning.

Creditor countries, when planned, divert their available funds into the channels of the domestic economy, and their planning authorities would have no regard whatever for maximum profits obtained outside their own boundaries.

On the other hand, debtor countries, when planned, can hardly make an exception to the control within their own boundaries without injuring the working of their planned economy. For instance, all kinds of "concessions" granted in Soviet Russia to foreign capitalists turned out a failure, both from the point of view of Soviet economy and from that of the foreign capitalists, and have gradually disappeared.

This kind of security which a planned economy can offer to foreign capitalists has special features. When the régime, or even the views, of the Government change, the security previously granted is gone. The capitalists have to face great political risks concentrated on one front without any possibility of covering them by any kind of insurance. Furthermore, the

transfer of profits is always endangered in the framework of planned economy, and all guarantees in this respect are political in character and dependent on the real, usually very restricted, stock of foreign exchange in planned debtor countries.

Only one kind of international credit can really flourish in a planned economy, namely, political credit. All credit transactions between two planned economies have to some extent a political character. The "Lease and Lend Act" may be but the forerunner of many other credit transactions between two friendly countries, and may even prove a pivot of world-wide political planning.

There is another difficulty in international credit relations in a planned economy all over the world connected with the lack of an international standard of value, which could only be remedied by international co-operation and the creation of international credit institutions.

International co-operation would be an essential condition and basis for the restoration of international credit of any kind, more or less political in character.

The creation of an International Bank for foreign investments, linked perhaps with the International Clearing House, would be a necessary presupposition for that restoration of international credit so necessary for the development of backward countries. Failing this, we may only see transactions of export credits granted by one planned economy to another in order to place the surplus of their industries in a friendly country in anticipation of its future payments.

The difficulty of obtaining foreign investments which must face a planned economy, especially in debtor countries, is a grave problem for backward countries which intend to industrialize themselves rapidly.

Without the adoption of some form of planning the industrial development of backward countries could proceed but slowly and it would be basically dependent on the magnitude of foreign investment credits. But foreign investment credits are no longer available in a sufficient degree, so that backward countries now face a real dilemma: to choose between the way of industrialization through the problematical or at any rate insufficient influx of foreign capital, or that of planning through

their own sacrifices.

The two ways can hardly be combined, as foreign capitalists would refuse to grant foreign investment credits to countries bound by a planned economy, and the middle way between foreign investments and planning is not really acceptable.

The way out, especially for smaller countries which have no large reserves of raw materials and must rely also for their mechanical equipment on large foreign imports at the start, would be only the combination of their planning with some political credits granted by international arrangements. The need for the creation of an International Bank for Investments in Backward Areas is especially paramount in our days. Without this, conditions in backward areas would become in our time even more desperate, and the distance between more advanced and more backward countries would be only further augmented, with resultant harm and disaster to the peaceful development of the human race.

## BANKING UNDER PLANNED ECONOMY

BANKING in a planned economy has some special features connected with the tasks of planning and imposed by the nature of the economy. First of all, it is much more centralized than free banking. It is organized as a compact body which must perform special tasks. It is regarded as a financial instrument of the planning authority, and its main function is to carry out the financial arrangements connected with the execution of the plan. The task of the banks is not to earn for their shareholders as much profit as possible, or to carry on business independently of the general plan in what they consider the best way, but to comply with the plan, and to lighten the tasks of the planning authority.

In the first place the banks are regarded as the cashier of the State and of the planned economy. They have to provide the financial means for the execution of plans. The banks cannot grant credits for the carrying on of works not foreseen and approved within the plan. The allocation of credit must be co-ordinated with the allocation of raw materials and manpower.

The banks are not only a cashier, but they are also an instrument of supervision and financial control over the enterprises. They supervise whether the enterprises have complied with the financial provisions of the plans adopted for them. The financial supervision of undertakings takes place not so much from the point of view of profitability (and solvency), but rather from that of compliance with the plan. The degree of compliance with the plan is the guiding principle, which has to a large extent replaced the former principle of profitability.

The banks have to supply money for the planned investments. But as the necessary money comes principally from public sources, from the Treasury or Central Banks, the banks really



supply more or less public money.

The terms on which public money is supplied may vary according to planning, but not according to security requirements and profitability. Sometimes loans are granted without interest or at insignificant rates, and Soviet practice has also evolved the institution of "non-repayable grants," where the undertakings are freed from any obligation to repay the funds advanced.

The function of the rate of interest is not to limit the demand for credit and balance it with the supply, because the demand for credit is restricted or regulated in a direct way by the planning authorities, while the supply can be greatly expanded by the State through the issue of Treasury notes or notes of the Central Bank. The main function of the rate of interest is to ensure full employment while covering the costs of banking institutions connected with the administration of funds, accountancy and supervision.

Grants of credit given without interest would lead to the necessity of covering all administrative expenses of the banks by the State budget. Therefore, even in Soviet Russia the rates for credit are, as a rule, kept at a level which will cover the bank's expenses and sometimes produce a surplus for enlargement of credit activities. The law of 14 June 1936 prescribed certain rates of interest for deposits and credits. (The Soviet banks pay 1.5 per cent per annum on all deposits, except on deposits of collective farms, on which the State Savings bank pays 3.5 per cent. They charge 4 per cent on short-term loans, 2 per cent on loans secured on documents or collateral, and 6 per cent on overdue loans in default. Long-term loans for agriculture are charged at 3 per cent; sums lent to municipalities for up to 25 years at 1 per cent, etc.)<sup>1</sup>

From this it follows that the banks in planned economy have a more or less public status, even in those countries where they are not nationalized. They administer what is more or less public money, and their main task is the financial execution and supervision of the plan.

In Germany the share of the Government in banking has been

<sup>1</sup> Paul Haensel, *The Public Finance of the U.S.S.R.*, 1938. Reprinted from *Tax Magazine*.

estimated even for 1933 as 50 per cent.<sup>2</sup> But when added to co-operative banking with the Prussian State institution for co-operative credit and communal banking, the public share was in 1933 already much above 50 per cent. Powerful credit institutions, such as the Gold Discount Bank, Reichskreditgesellschaft, Deutsche Verkehrskreditbank, Deutsche Rentenkreditbank, Deutsches Finanzierungsinstitut, Bank of National Railways, Bank for Industrial Debentures, etc., were merely State institutions. The shareholders of many big banks, including the Reichsbank, have really the status of bondholders.

The concentration of German banking has also shown much progress during the financial crisis of 1931 and later during the planned period. All public, semi-public, private savings, co-operative, transport, and buildings banks were organized on vocational lines, as self-governing units, and subjected to the control and supervision of the Credit Control Office (*Aufsichtsammt für dās Kreditwesen*) under the Chairmanship of the Governor of the Reichsbank and working in close touch with the Ministry of Economic Affairs and the Reichsbank.

In Fascist Italy the share taken by the Government in banking is rapidly progressing. It has developed semi-official financing institutions run as public utilities but provided with public money known under the name of *parastatali* (beside the State) institutions. To mention only the most important: the Bank of Naples and Bank of Sicily, reorganized in 1927, the National Labour Bank in 1929, the Consortium for subventions on industrial securities, reorganized in 1924, the National Institute for Foreign Exchange, reorganized in 1927, Credit Consortium for Public Works, National Credit Institute for Italian work abroad, the Credit Institute for Public Utilities, Naval Credit Institute, National Consortium for agricultural improvement Credit, *Istituto Mobiliare Italiano, Istituto per la Ricostruzione Industriale*.

All Italian banks are organized into self-governing bodies under the Corporation of the Credit and Financial Institutions, and are subjected to rigid State control and supervision, and the

<sup>2</sup> *Untersuchung des Bankwesens*, 1933, Referat Bente, 1/7, p. 396. Quoted by F. A. Tambert, *Die Banken und der Staat in Deutschland*, 1938.

flow and utilization of national savings are directed by the State.

In Soviet Russia this process has achieved its most marked development. Banking is a State monopoly, and all banks are nationalized. The recognition of the official status of banking is the decree (15 January 1938), which makes the Governor of the State Bank a member of the Council of Commissars (Government) of the U.S.S.R. The State Bank is really a kind of Ministry.

There are few powerful State banks in the U.S.S.R.; one bank for short credits, as the universal cashier of the State and its socialized enterprises, the State Bank of the U.S.S.R., a gigantic clearing centre with 2,800,000 accounts; four long-term credit banks, (1) for Industry (*Prombank*), (2) for Agriculture, (*Selkhozbank*), (3) for internal trading and co-operatives (*Torgbank*), (4) for communal housing and cultural development, (*Tsekombank*); one for financing foreign trade (*Vneshtorgbank*); one for collecting savings all over the State, the State Savings Bank, with 14 million people as depositors on 1 January 1938.

Here we see the process of concentration, centralization and nationalization in the highest degree.

Another feature of banking in planned economy is its organization along special lines of economy. The banks have been allotted special tasks in certain branches of industry and are divided according to these branches. From the names of banks in Soviet Russia, Germany and Italy already mentioned, we see that the banks are created for a certain sector of national economy—for agriculture, housing, railways, or transport in general, for naval construction, for internal trade or foreign trade, and for specific branches of industry. The division in banking is merely a reflection of a division in trade, industry, and national economy in general. All financial tasks belonging to one industry are concentrated in a given financial institution. The enterprises are assigned to one bank and its branches, which has the task of controlling and supervising its financial condition.

We see how deeply planned economy transforms the status of banking. The banks lose their independent status as regulators of the money and credit market. The market itself is split up

into different departments; further, it has lost its functions, which have been ceded to the planning authority. The banks are becoming a powerful but subservient instrument of financial implementation and supervision of the Plan. It is sometimes difficult to recognize in the new institutions the old banks, which had a much greater scope for initiative, responsibility, imagination and daring.

## CHAPTER VII

### FOREIGN TRADE IN PLANNED ECONOMY

THE foreign trade system during the period between 1860 and 1914, a period of unprecedented development in the volume of trade and the stability of its institutions, may best be described as a world trade system.

It was a multilateral system based on the most-favoured-nation clause, on long-period treaties, on low tariffs fixed for a long time in the absence of any quantitative limitations of foreign trading, and finally on the smooth working of the gold standard, free transfer of credit and capital and free migration. The outgoing and incoming movements of goods were free, and so also were the outgoing and incoming movements of money, credit, capital and labour. The mechanism of free trade was closely related to the smooth working of the mechanism of the gold standard and of a free credit and capital market, and finally of free migrations.

Multilateral world trade was a part of the working of the free world economy, and the free world economy was strictly related to the free working of national economies in separate countries.

The equilibrium between exports and imports in a single country was an outcome of a long-term process, not enforced over a short time. The equilibrium was established by lowering or raising prices and costs, by credit and capital movements, by migrations and services. The lack of external equilibrium on the part of a country in relation to the world economy was largely removed by internal readjustment, which proceeded smoothly, as all elements in the national economy were elastic and moved automatically.

The first shock to this system came with the First World War of 1914-18 and the disruption that followed. The final blow was administered by the Great Depression and the chaos which succeeded it.

The decay of liberal economy in the internal domain has disrupted the free world trade system; on the other hand the disruption of free world trade has greatly contributed to the disintegration of free national economies. The trends in both sections were closely interrelated and have strengthened each other.

Political price and wage standards, the concentration and monopolization of industries, the quantitative control of production, have more and more deprived the world trade system of its former functions and rôle. The abandonment of the gold standard, the shrinkage of foreign investments, and emigration quotas have made the working of the world trade system more and more difficult.

For the multilateral trade system was substituted direct bilateral trade which equalized the trade between two countries. The world trade system was apportioned into small sections with different characteristics. Instead of a most-favoured-nation clause a preferential treatment was adopted. The democratic regime in world trade, free and equal for every country, great or small, rich or poor, was abolished, and yielded place to national discriminations and preferences. For the system of free uncontrolled trade was substituted one of State trading on monopolist and semi-monopolist lines. A general legal framework in the form of a stable tariff rate yielded place to quantitative control with quotas and exchange in kind.

#### *A. Quantitative Regulations*

In a planned world there is no place for a free world trade system such as that evolved during the period between 1860 and 1914, and all attempts to revive it would fail unless the whole economic system of this period were entirely restored in the internal domain likewise. Free world trade between planned economies could not work effectively and could not perform any useful functions. Planned economy must develop new institutions of its own, adapted to new functions and tasks.

Planned economy must also have its system of planned foreign trade. The plan for foreign trade is but part of the general plan. The plan must be drawn up with due regard to the

production, consumption, investment, communications and money (foreign exchange) of the country as a whole.

The *Import Plan* must be co-ordinated with the requirements of production and with the needs of the population that are not covered by internal supplies. The possibility of carrying out the production programme will depend in many respects on the execution of the import plan in regard to foreign machinery, raw materials and other products. The import plan must be co-ordinated with the agricultural programme, as every deficiency in food supplies in respect of necessities must be made good by imports. The import plan must be co-ordinated with the export plan, with the plan for transport and communications, and finally with the *valuta plan*.

The *Export Plan* is primarily concerned with the problem of covering the import plan. It may exceed the volume of imports, if the planning authority wishes to accumulate a reserve of foreign exchange. The planning authority may, however, decide to have a so-called unfavourable balance of trade, if it wants to draw on accumulated or (in the case of credit) future reserves, in order to ease the tasks of industry by providing foreign machinery, or to alleviate the sacrifices of the population by importing consumers' goods. The export plan must be co-ordinated with the production programme, on the execution of which it is highly dependent. The surpluses for export must be produced and stored, and if the production programme fails, the export programme cannot be carried out, unless new pressure on the population's standard of living is exercised.

The third plan is the *valuta plan*, in which both import and export plans are represented as most important items, apart from the assets and liabilities arising from services, credit and foreign loans, foreign administration, etc.

All these plans are, of course, quantitative plans which determine more or less the prices and quantities exported and imported. They are divided into sub-plans by regions and sections.

The prices included in both export and import plans can be determined only to a very rough approximation. The planning authority has no power over them, for they are largely dependent on business fluctuations in foreign countries. Therefore,

both plans can never be executed to a hundred per cent accuracy. They can be defined only roughly, and some margin of manoeuvrability must be allowed.

This factor makes the whole national plan vulnerable to the influence of business fluctuations in foreign countries. Even Soviet Russia in the years 1930-32 could not completely extricate itself from the influence of the Great Depression. Of course, this influence is the greater the greater the share foreign trade has in the national economy.

The planning authority tries to make its plan less vulnerable to foreign business fluctuations by accumulating large reserves of foreign exchange on which it can draw in years of depression, carrying out its import plans independently of the possibilities of export.

This has been largely true of the Soviet economy, especially during the Second Five-Year period. The surplus of exports amounted in 1933-37 to 2,402.8 million roubles, while in the First Five-Year period the surplus of imports amounted to nearly the same sum, i.e., 2,417.2 million roubles. Much talk was heard in the Second Five-Year period about Soviet "dumping" intended for the accumulation of foreign exchange.

The accumulation of foreign exchange reserves is a precautionary measure of great importance, because their possession enables the planning authorities not only to extricate themselves from the fluctuations of foreign business, but also, to bridge over many difficulties arising from failures in the drafting and execution of plans. Foreign trade is a kind of cushion for planners and enables them always to make good any deficiencies and failures of planning.

Another device of the planning authorities is long-term planning and long-term foreign contracts. In long-term plans the balancing of imports and exports may be extended over long periods. The surplus of imports in the First Five-Year period was really covered by the surplus of exports in the second, and the respective figures came amazingly close to each other.

By means of long-term contracts the planning authorities can stabilize in advance import and export prices and the volume of trade, and can rely on them despite future fluctuations.



### *B. Trends Implied in Quantitative Regulations*

Where the quantities of goods imported and exported and the quantities of outgoing and incoming money are fixed by the planning authorities—which may be regarded as the normal case in planned economy—the following transformations in foreign trade are likely to take place:

- (1) Foreign trade will become more and more monopolistic, tending towards a State monopoly.
- (2) It will become more and more political in character, tending towards national discriminations.
- (3) It will tend towards bilateral quota agreements and exchange clearings.

(1) If the productive forces of a country are managed as a whole, it is logical that its foreign trade should also be managed as a whole, and when this is done by creating a central body for its management, we have, in fact, a monopoly of foreign trade. Whatever may be said against monopoly in the domain of the internal economy, no argument from a national point of view can be found against the use of monopolistic power in the domain of international competition. By concentrating in its own hands a monopolistic power over the import and export of all kinds of goods, a central body assumes a huge bargaining power in regard to foreign branches of industry or enterprises. By this bargaining power better prices or terms of delivery or credit can be obtained; the long term contracts, so vitally necessary for the success of planning, may be concluded and safeguarded. If only one planning country establishes a central monopolistic body for foreign trade, other countries are more inclined to follow its example in order to nullify the pressure of the monopolistic bargaining power of their neighbour on their own economy.

With the establishment of quantitative regulation of imports and exports and foreign exchange, the whole field of foreign export became monopolistic in nature. The distribution of import or export licences among individual importers and exporters becomes an act of privilege and discrimination. The granting of a quota is equivalent to granting an annuity on an unearned source of income. The trade in licences in the black market flourished in many countries. The discrimination of some indi-

viduals in favour of the privileged can hardly be justified unless a total petrification of the relations hitherto existing between enterprises is achieved, which means granting privileges to old firms at the expense of new-comers. The most important elements in trade, prices and quantities, are subject to bureaucratization, and the traders assume more and more the character of executives of the bureaucratic decisions of committees.

Quota regulations change the whole field of foreign trade into a field of monopoly, which with time tends to become State monopoly.

The trend towards State monopoly is to be seen clearly in the practice of planned economy under Soviet, Nazi, Fascist, or war planning.

On the basis of the law of 22 April 1918, foreign trade in the U.S.S.R. became a state monopoly. It remained a State monopoly even in the N.E.P. period, and although the organization was revised many times, the apparatus as a whole was more stable than other aspects of Soviet life.

The organization as it existed in 1936 was composed of separate monopolistic Import and Export Corporations under the Central Control of the All-Union People's Commissariat of Foreign Trade. The Commissariat had local agents in the republics and regions, who exercised all the functions of regulating and controlling in connection with the task of production, storage and transport of goods for export. The Commissariat had also its Trade Representatives abroad in all the principal countries and commercial agencies in others.

Import or Export Corporations have been established for certain groups of commodities. For instance, *Soyusnaftaexport* exports petroleum, oils and products, e.g., gasoline, kerosene, gas oil, lubricating oil, mazut, crude oil; *Exportlen* exports flax and flax yarn; *Technoexport* exports machinery, tools, pig iron, electrical equipment and lamps, etc. No other State enterprises or individuals are allowed to import or export anything apart from postal parcels, sent as gifts by and to private persons (not traders) in limited quantities.

The same evolution towards similar institutions is to be seen in Germany, since the decree on foreign trade (*Verordnung über den Warenverkehr*) of 4 September 1934 and the new formula-  
P.E...14

tion of the law of foreign exchange (*Bekanntmachung des Gesetzes über die Devisenbewirtschaftung*) of 4 February 1935.

The New Plan, as the Decree on Foreign Trade was called, has erected Control Agencies (*Überwachungsstellen*) empowered exclusively to grant import licences for certain groups of commodities. There were twenty-six such Control Agencies for import. The control of export is licensed through exchange- and clearing-controls.

Similar institutions have been set up in Fascist Italy. These began in May 1934 with foreign exchange control, and were completed during the period of sanctions at the time of the Abyssinian War.

(2) It is easily understood that, with quantitative control of foreign trade, trade becomes political in character. National discrimination will be substituted for the principle of national equality as expressed in the most-favoured-nation clause. This clause loses its meaning under quantitative control of trade and exchanges. In this system tariff-rates have much less importance than quota and exchange regulations. In spite of the granting of the most-favoured-nation clause the nation can be deprived of equality of terms by not allocating the appropriate quotas or exchange licences. When trading is in the hands of governmental or semi-official bodies, even the granting of quotas and exchange licences does not mean that the quotas and licences will actually be used. The transaction itself and its liquidation is what really counts, not treaty clauses of any kind.

The bargaining power of the State can be used or abused for political reasons, and this procedure has been seen very clearly, especially in the case of Germany, which consciously used her foreign trade as a political weapon for imperialistic conquest.

The whole foreign trade of Germany was redistributed among the various countries in order to make Central-South-eastern European countries subservient to her political ends. The figures of foreign trade in these countries representing the share of Germany in this trade show clearly the progress of this process.

Germany's share in the foreign trade of these countries in

percentage of its total value was: (the figures for 1939 include Austria)

|            |    | 1928 | 1936 | 1939 <sup>1</sup> |
|------------|----|------|------|-------------------|
| Bulgaria   |    |      |      |                   |
| Import     | .. | 22   | 61   | 65.5              |
| Export     | .. | 30   | 48   | 67.8              |
| Yugoslavia |    |      |      |                   |
| Import     | .. | 16   | 27   | 47.7              |
| Export     | .. | 9    | 24   | 32.0              |
| Rumania    |    |      |      |                   |
| Import     | .. | 24   | 39   | 39.3              |
| Export     | .. | 28   | 21   | 32.3              |
| Greece     |    |      |      |                   |
| Import     | .. | 9    | 23   | 30.1              |
| Export     | .. | 23   | 36   | 27.5              |
| Hungary    |    |      |      |                   |
| Import     | .. | 20   | 26   | 48.6              |
| Export     | .. | 12   | 23   | 50.1              |

No real national equality in trade can be safeguarded by treaty clauses if the State itself trades or effectively controls trade through monopolistic bodies.

In this respect the position of small countries is of course at a great disadvantage compared with great Powers which represent a vast weight of bargaining power.

(3) The trend towards bilateral quota agreements, barter and clearings of planned economy follows from the quantitative regulation of trade. The bilateral quota-agreements are really implied in the institution of quantitative regulations. The quantities which are to be imported and exported must be secured through their division among exporting and importing countries. The bilateral agreements make it possible to fix the quantities in advance, and the clearing agreements provide for their payment. However, this tendency would be much stronger in countries deprived of gold and foreign exchange, i.e., in debtor countries than in creditor countries with large gold stocks and foreign exchange reserves.

No multilateral trade system has so far been developed on the basis of quota agreements, and it remains to be seen whether such a system could work effectively, unless a high degree of

<sup>1</sup> *South-Eastern Europe*. The Royal Institute of International Affairs, 1940.

economic and political co-operation and co-ordination of planning on an international scale were achieved.

No practical institutions in this respect were in operation between foreign States, although some proposals were elaborated and discussed. The most remarkable among them was the Draft Convention worked out for "Integral International Compensation" by Professor E. Milhaud of the University of Geneva. The draft provided that all foreign transactions between foreign countries should be settled not by remittances in gold or ordinary foreign exchange, but by means of a new kind of payment called "Compensated Exchange," the final destination of which was to be its conversion into purchases of goods and services in the issuing countries. These certificates would have a limited time validity. In each country the National Compensation office would undertake the issue and liquidation of the Compensated Exchange of the country as well as supervise the totality of the transactions to which it gave rise, notably their exchange for foreign Compensated Exchange. A central agency would be created, the International Compensating Office, entrusted with ensuring the international circulation of the Compensated Exchange. A close collaboration between the National and International Offices and an effective information service would be established.<sup>2</sup>

A kind of multilateral clearing agreement was established under the Nazi New Order, however, in the framework of a single continental war machinery.

The lack of an international trade system, together with the lack of an international monetary or credit system, is the greatest handicap to a planned world.

### *C. The Tendency Towards Closed Boundaries*

Another characteristic tendency is the drive, already referred to, towards closed boundaries in a planned economy. It arises from the desire of such an economy to safeguard the course of planning in the greatest possible degree from the outside world, from all factors which cannot be controlled by the planning authorities, especially from world prices. The tendency

<sup>2</sup> E. Milhaud, *Organized Compensating Trading*, 1939, p. 305.

is strengthened by the desire of planning authorities to use and develop all national resources without regard to rentability and to obtain full employment.

On the other hand, the more stringently a country is cut off from world economy, for instance, by lack of means of transport or of credit and foreign exchange, the greater the need for planning. The degree of planning needed for a country is related to the measure in which the country is linked with world economy. Full control is needed only when the country is completely cut off from world economy.

We see that there is a mutual relationship between closed boundaries and planned economy. The more rigidly an economy is planned, the more it must shut itself in from the outside; on the other hand, the more shut in it is from outside influence, the more rigidly it must be planned.

The tendency towards closed boundaries is especially manifest in debtor planned economies, while planned economy in creditor countries would produce a much weaker tendency towards closed boundaries.

The mere existence of a large world market is a valuable asset for all planned economies, because it provides a valuable margin for all unexpected maladjustments in the workings of their own economies. And no country could give up foreign trade without which the hardships of planned economy would be much greater.

#### *D. Statistics of Foreign Trade in Some Planned Economies*

The tendency towards closed frontiers is manifest in the figures of foreign trade of Soviet Russia.

If we compare its percentage of world trade with the development of industrialization in the planning period, we come to the conclusion that the Russian percentage in world trade has decreased.

Industrial production in Soviet Russia had increased (1929 = 100) to 131 in 1930, 161 in 1931, 183 in 1932, 198 in 1933, 238 in 1934, 293 in 1935, 382 in 1936, 424 in 1937 and to 477 in 1938<sup>3</sup> (the last two figures are provisional).

<sup>3</sup> See *World Production and Prices, 1938-39*, League of Nations, Geneva, 1939.

The figures of imports at the same time decreased in millions of gold dollars from 453 in 1929 to 362 in 1932, 151 in 1937, 155 in 1938; the figures of exports from 473 in 1929 to 296, 194 and 148 in 1932, 1937 and 1938.

The Russian percentage of total world trade decreased between 1929 and 1938 from 1.35 to 1.10.

The same tendency is also visible in the German figures of foreign trade, although on a smaller scale, because it was compensated by large imports of raw materials for storage as military stocks in preparation for war.

Between 1932 and 1937 (the last year of Germany in its old boundaries without Austria and Czechoslovakia) the German percentage of world exports fell from 10.61 to 9.11, while that of imports fell from 7.96 to 7.95 only.

The figures, in millions of gold dollars, for imports and exports are:

| <i>Year</i> |    | <i>Imports</i> | <i>Exports</i> | <i>..</i> |
|-------------|----|----------------|----------------|-----------|
| 1932        | .. | 1,112          | 1,367          |           |
| 1938        | .. | 1,296          | 1,250          |           |

Industrial production at the same time rose from 53 (1929 = 100) to 126.

Fascist Italy's percentage of world trade fell between 1929 and 1938 from 2.83 to 2.41, but industrial production fell also, though not to the same degree (from 100 to 98).

The tendency towards closed boundaries must be regarded as implied in planning, but reading the statistics of the three countries just quoted we must remember that these countries are all debtor countries, and that the drive towards self-sufficiency was one of the main objectives pursued in their programme.

### *E. How Autarky could be Checked in the Post-War World*

In the post-war world the tendency towards self-sufficiency will be dependent, first of all, on the measure of political security, which will determine to what extent self-sufficiency is needed for defence. It would also depend on the working of credit and investment world machinery, on the international arrangements for credit—and investment—facilities for debtor countries, especially for backward agricultural regions. It will

depend on the attainment of full employment in the creditor countries, especially U.S.A., and their willingness to import large quantities of goods. Finally, it will depend on the stability of world prices, especially the prices of basic raw materials, controlled by the Anglo-American Powers, and the stability of the dollar-sterling rate of exchange.

Stability of Anglo-American prices of basic commodities and stability of Anglo-American exchange could largely restrict the autarkic tendency implied in planned economy. This tendency is based mainly on the assumption that planning authorities wish to free their economy from outside disturbing factors. But supposing that great stability of exchanges and world prices were reached, this tendency would operate with diminished effect.

We would summarize the factors on which the volume of foreign trade depends as follows:

(1) The rôle assigned to foreign trade by planning authorities. If these desire to attain self-sufficiency, they will, of course, try to diminish the percentage of foreign trade. If they try to achieve prosperity only, the rôle of foreign trade must be of greater importance.

(2) The degree of adjustment of national economy to world economy, especially world prices. The more the national economy is adjusted to world economy, especially in the sections of the greatest importance to its foreign trade, the larger the volume of its foreign trade may be.

(3) The gold stock and foreign exchange reserves or the credit facilities of a country, or its character as a creditor or debtor country, determine to a great extent the rôle of foreign trade in a planned economy.

(4) The volume of its productive activities. As the planned economy tends to increase the volume of production, as freed from the consideration of rentability, the volume of foreign trade need not necessarily shrink, in spite of the fact that the percentage of production exchanged in foreign trade declines.



## CHAPTER VIII

### PLANNING AND AGRICULTURE

THE task of planning in agriculture must be adapted to the special conditions of agricultural production.

Quantitative control of production is much more difficult to exercise in agriculture than in industry. The crops are to a great extent dependent on weather conditions, which cannot be controlled. But the volume of agricultural production is an important item in the balance of national economy. The size of the national income, the balance of foreign trade, the volume of consumers' goods available for workers in industry, the earning capacity of farmers, are to a great extent dependent on the harvest. This brings about an element of uncertainty in the planned economy in agricultural countries, especially those with large surpluses of agricultural produce.

The Planning Authority tries to overcome this difficulty by mechanization of agriculture, by greater use of artificial fertilizers, and by the application of scientific methods of production which tend to diminish the influence of weather conditions on the harvest. By industrialization of agriculture the volume of agricultural production becomes steadier and the range of seasonal fluctuations tends to diminish.

Another difficulty is the atomistic structure of agricultural production, widely dispersed in small productive units. This is especially the case in countries with a large extent of peasant farming. Control over small productive units is very difficult and wholly dependent on active and wholehearted co-operation on the part of the farmers.

The Planning Authority attempts to overcome this difficulty by organizing the small farmers into bigger marketing units, or into co-operative units for production and distribution. For instance, for 28,000 huge estates and 10 million peasant farms which existed in Tsarist Russia, the Soviet Union has substituted some 243,300 collective farms and 3,957 State farms (1938). These farms were controlled by some 6,350 tractor stations. In spite of

this, direct control in Soviet agricultural planning was used only to a certain extent by imposing standards of acreage and efficiency and quotas of compulsory deliveries of produce, while indirect control was applied widely, especially under the form of taxes, tax remissions, and premiums for the use of certain pieces of land for certain crops.

Again, other difficulties hampering the control of agriculture arise from the wide range of climatic and local conditions, which may vary widely in different regions. Planning of agriculture requires the adoption of regional schemes. The great variations in rainfall, temperature, sunshine, the physical and chemical composition of soil, the wide variety of local labour conditions, customs and habits, of supply and demand, call for the widest possible use of regional authorities in drawing up plans. In Soviet Russia agriculture is planned to a very large extent by Soviet Republics and Autonomous Regions.

The progress of agricultural science and technology has called for control of the use of land in order to secure the best utilization of land resources. The control of the use of land becomes an important instrument of agricultural planning. The idea of this control is to divide both arable and non-arable land into units destined for different kinds of cultivation and classified according to their different degrees of productivity, the physical and chemical characteristics of soil, climatic conditions, distance from the market, etc. The planning authorities would determine the exclusive or alternative use of these units for different kinds of cultivation (wheat or rye, sugar-beet or cotton, or grazing-land), and for different methods (intensity) of production. They could also determine the extent of the utilization of land (whether the whole of an area should be utilized or perhaps only 90 or 80 per cent of it). For instance, in the case of over-production of corn the planning authorities might diminish the corn-producing area by eliminating certain submarginal units of land area classified on the Land Utilization Map as showing the smallest degree of efficiency, or transferring them to other uses, or by crop rotation, or by diminishing the intensity of production.

The basic assumption for the proper working of such a control of the use of land would be the construction of a good Land Utilization Map, worked out by experts and constantly revised

as conditions change; finally, it would require the wholehearted co-operation of farmers with the central authorities, and a good system of supervision carried out by representatives of the farmers themselves.

Agriculture is suitable rather for indirect control, affecting the use of land through the prices of agricultural products and agricultural implements (fertilizers, machines, etc.), through wages, through agricultural credit, through control of foreign trade and the domestic market.

Agriculture is also most suitable for planning by means of advice and propaganda. The advisory control could bring about a much better use of land based on technical instruction, on research into market conditions and news service. The advisory control would assign the respective shares of responsibility between the planning authorities and the farmers themselves.

But every form of agricultural planning must be approached cautiously, because of the high degree of uncertainty implied in the nature of agriculture. Excessive control of the use of land must always fail, since expert knowledge is always of a general nature, not detailed, not related to this or that particular piece of land in use on a given farm. The human conditions differ with different farms, and these also must be taken into consideration.

Agriculture is an organic process rather than a mechanical one, a personal activity rather than an abstract production. In it the share of Nature ("Man proposes, God disposes") on the one side and the share of man, his culture and his personal links with the land on the other side, play an important part. This fact imposes great restrictions on extensive planning.

Full control is most suitable for those branches of production in which the machine plays the most important part. Planning is a mechanistic control over the interplay of machines. Therefore, it is no accident that a planned economy tends to further the process of mechanization of agriculture, and at the same time its concentration over huge areas of land.

In the Notes which follow will be briefly reviewed two large-scale experiments in agricultural planning: the American scheme worked out by Roosevelt's administration, and the very comprehensive Nazi scheme of planning for "blood and soil."

*Note 1*

## THE A.A.A.

*An Experiment in Agricultural Planning*

*The American Agricultural Adjustment Act, known as the Triple A.*, became law on 12 May 1933, and was in operation for two, and in some cases three, crop years until it was invalidated on 6 January 1936, by the Supreme Court as unconstitutional. Their verdict declared invalid, among other things, the processing taxes imposed by the Act, stating that control of agricultural production was not among the powers specifically delegated by the Constitution to the federal authorities, and hence every attempt to control agricultural production indirectly was an invasion of the rights reserved to the authorities of the separate States.

The Act was a typical instance of a restrictive scheme carried out on behalf of sectional interests; it was based on the conception of overproduction in agriculture and its insufficient share in the national income. Hence its programme was to control production in order to restrict output, raise agricultural prices and augment the aggregate income of the farmers.

The objective of the A.A.A. was very well defined in the Act itself. It had, in its own words: "(1) To establish and maintain such balance between the production and consumption of agricultural commodities, and such marketing conditions therefor as will re-establish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy equivalent to the prevailing power of agricultural commodities in the base period. The base period in the case of all agricultural commodities except tobacco shall be the pre-war period, August 1909—July 1914.

"(2) To approach such equality of purchasing power by gradual correction of the present inequalities therein at as rapid a rate as deemed feasible in view of the current consumption demand in domestic and foreign markets.

"(3) To protect the consumers' interest by readjusting farm production at such level as will not increase the percentage of the consumers' retail expenditures for agricultural commodities,

or products derived therefrom, which is returned to the farmer, above the percentage which was returned to the farmer in the pre-war period, August 1909--July 1914."

Three main terms govern the working of the A.A.A.—"basic commodities," "base period," and "parity prices."

The Act was to be applied only to certain farm products described as "basic." They were: wheat, corn, cotton, tobacco, rice, hogs, milk and its products. In 1934, the following were added: sugar-beets and sugar-cane, cattle, peanuts, rye, flax, barley and grain sorghums. In 1935 potatoes were included. "In practice direct production control was applied only to wheat, cotton, corn and hogs, tobacco, sugar, peanuts and rice."<sup>1</sup>

The "base period" regarded as showing the "normal" or "balanced" relationship between agriculture and industry was the period between August 1909 and July 1914; for tobacco, that between August 1909 and July 1929 was chosen, because of the change of technique in tobacco blending since the First World War.

The "parity prices" of this period were regarded as the object to be attained, and these were defined in terms of the purchasing power of agricultural articles which would enable the farmers to buy the same articles as were usually bought during the base period.

The scheme operated through semi-voluntary contracts with the Administration, backed by special compensations and tax levies. Each contracting farmer agreed to reduce his acreage or output for marketing by a certain percentage. For complying with this restrictive regulation, he received a certain compensation proportionate to the amount or rate of restriction.

The compensation was financed by special taxes imposed by the A.A.A., and known as processing taxes. They were taxes on the first processing of the basic commodity for domestic use, and it was these taxes which were attacked in a legal action before the Supreme Court. The rate of the processing taxes was guided by the difference between market prices and "parity" prices, and the limiting factor was the protection of consumers as expressed in paragraph (3) of the objectives contained in the Act.

<sup>1</sup> Miriam S. Farley, *Agricultural Adjustment under New Deal*. American Council, Institute of Pacific Relations, 1936.

On the other hand, production, which might be increased by non-signatories, was in some measure limited by additional Acts, such as the Bankhead Cotton Control Act of 21 April 1934, the Kerr-Smith Control Act of 28 June 1934, and the Jones-Costigan Sugar Act of 9 May 1934. The amount of production which might be marketed by any one farmer was limited by a special tax levy.

As an additional instrument the granting of crop loans was used, which enabled the farmer to withhold certain supplies from the market and to put them by as reserve stocks from season to season. The A.A.A. itself made direct purchases of commodities mostly for gratis distribution, but partly for the accumulation of stocks and to prevent a glut of supplies.

Another means of raising agricultural prices was marketing agreements, by which the farmers, with the co-operation of the A.A.A., regulated the flow of commodities to the market, thus limiting the supply of local and regional markets.

The results of the Act can be seen more clearly from the rate of restriction of acreage. In 1934 about 36 million acres were taken out of production, of which 15 million were under cotton, 13 million under corn, 8 million under wheat and 697,000 under tobacco. In 1935 about 30 million acres were withdrawn; this amounted in 1934 to one-ninth and in 1935 to one-twelfth of the total acreage.

The reduction in the numbers of cattle was also considerable; in some instances thousands of tons of sows and young pigs were slaughtered.<sup>2</sup>

The improvement in prices was marked and even spectacular. For instance, between 1932 and 1935 the average farm price of cotton rose from 6.5 cents to 11.1, of wheat from 37.9 cents to 83.8, of corn from 31.8 cents to 57.7, of tobacco from 10.5 cents to 18.5.<sup>3</sup> The yearly average price of all groups of farm produce increased 66 per cent during the period between 1932 and 1935, and moved up from 65 to 108 per cent of the pre-war level.<sup>4</sup>

According to the estimates, the total gross income of farmers rose, in 1935, 52 per cent above the level of 1932: 82.7 per

<sup>2</sup> See Ch. H. Thompson and F. N. Youls, *Economic Development of the United States*.

<sup>3</sup> See Farley, *op. cit.*

<sup>4</sup> Thompson and Youls, *op. cit.*

cent of the increase in the farmers' income of 2,773 millions came from improved sales, and 17.3 per cent from benefit payments.

The Agricultural Adjustment Administration set up in Washington spent from 12 May 1933 to 31 December 1935 the sum of 1,529 million dollars, and its main source of revenue was the processing tax collections, which amounted by the end of 1935 to about 1,200 million dollars.

Without doubt, the scheme has to a large extent attained the object it had in view, but it is difficult to ascertain the rôle played by the A.A.A. in the improvement of the agricultural market and to isolate it from other factors, such as drought, devaluation of the dollar, rise in wages, improvement of world trade and large public spending programmes. Even the restriction of acreage was partly due to the drought, which in 1934, especially, was a major factor in the market position.

The extremely severe and widespread drought of that year obtained of itself the objective of the scheme, for the destruction caused by the drought did the work better than the A.A.A. It contributed to the compromising of the whole scheme, because this destructive ally threw the programme of the scheme into greater relief. The whole scheme was in most striking opposition to the moral sense of the American people. Without sowing and ploughing a man could obtain benefit payment, which increased the more he contracted his acreage and restricted his output. The idea of the scheme struck at the simple but firmly rooted belief of public opinion that not less but more production was needed, that restrictionism was a road to general impoverishment for the benefit of the few.

The A.A.A. also demonstrated the dangers arising from the possibility of raising the income of certain groups or classes by means of political agitation and Acts of Congress. The scheme was an attempt to redistribute national income according to certain preconceived models. It has taken nearly 1,200 million dollars from consumers, very often poor families, and given that sum to the farmers, who were often very rich. The idea that farmers are at a disadvantage in comparison with industrialists, who are able through their agreements to restrict their production, and that therefore they should "pool" together

and operate as a national monopoly, was also received unfavourably by public opinion.

The A.A.A. worked better than N.I.R.A.; it was better prepared and had clearly defined objectives. The problems were less complicated, and the staff were better acquainted with the field of their work. The staff was selected mostly from the Department of Agriculture, Agricultural Colleges and many local farmers' committees. The fact that the Department of Agriculture had wide experience in dealing with agricultural problems greatly facilitated their task. But in spite of this there was a great deal of dissatisfaction with regard to many abuses, especially in those districts which were opposed to the whole plan of the A.A.A.

Many criticisms which arose in relation to the work of the A.A.A. were connected with the following points:

(1) The regulations affected only a few basic commodities; hence the danger of over-production in basic commodities spreading to non-regulated commodities.

(2) Most of the benefits which arose from the A.A.A. were conferred on landowners, tenants and share croppers profiting much less. As one-third of the farmland in the U.S.A. was worked by tenants, this was a very important point. In fact, the A.A.A. facilitated the raising of the rent of land, because any surplus was swallowed up by the owners increasing the rentals. The condition of the large masses of farm workers was not improved at all.

(3) The decline in exports was considerable. In the second crop year (1934-35) agricultural exports dropped in volume to the lowest point since 1877. In this year, for example, the volume of cotton exports dropped by 42 per cent as compared with the average for 1926-30.

(4) The conception of "parity-prices" is completely arbitrary, and no theoretical or practical argument can be put forward in its support. Why should the price-relation of 1909-14 be regarded as "normal"? Can the change of technique which took place in the meantime, the change in the wants and desires of the population, the evolution in world markets and communications be disregarded? Can an historical price-structure be mechanically restored by the mere will of a legislature, and



would not such a restoration be harmful to the national economy?

Certain lessons may be drawn from this interesting experiment in agricultural planning:

(1) The occurrence of drought is a significant warning to all agricultural planners. The quantitative direct control of agriculture always runs the risk of being obliterated by Nature; therefore the rôle played by Nature in agriculture must impose great restrictions on the quantitative control of production.

(2) Any partial control which embraces some commodities only will affect other commodities as well, namely, those which are connected with the former either by production or by the markets. Equilibrium can be restored by extension of control over a wider field.

(3) Sectional planning for sectional interests comes much nearer to the concept of monopolistic control than to the idea of planning, which is control of the whole and in the interests of the whole. That it may be backed by political authority does not alter this fact, for sectional interests may find their own political backing. This is especially true of restrictive control, which is in opposition to the principle of full use of productive resources implied in the idea of planning.

(4) The idea and the objectives of planning must be not only understood but also approved of by the whole population.

#### *Note 2*

### PLANNING FOR "BLOOD AND SOIL"

German agricultural planning is based on the idea of "preservation of national unity" in agriculture, or preservation of "blood and soil." The aims put forward may be summarized as follows:

German agriculture must be a primary instrument of economic self-sufficiency for Germany. It must be a political instrument of the stability of the Nazi order in Germany. To this end it must be decommercialized, independent of market fluctuations and of the outer world. It must have a definite stable structure

in accordance with National-Socialist doctrine. It must be an order of its own, a new Market-Order (*Markt-Ordnung*).

It must be planned as a totality having certain objectives in view and embracing a whole phase of production (*das Prinzip der zweckgebundenen Totalitat*), and based on the strict observance of the principle of leadership (*Fuhrerprinzip*)<sup>1</sup> and discipline (*die Disciplinierung der Marktbeteiligten*). It must be planned not only for momentum (*Marktsteuerung*), but for future development.

The German idea of planning for "blood and soil" is best expressed in the institution of the Peasants' Estates, created by the law of 29 September 1933; we will therefore briefly outline its working.

The preamble to the Peasants' Estates Act (*Erbhofgesetz*) reads as follows:

"The German Government intends to preserve the German peasants' estates as the source of the life-blood of the German nation by safeguarding ancient German customs of succession. Peasants' estates (*Erbhof*) are to be protected against indebtedness and partition among the heirs, to the end that they may always be held by free peasants as a family heritage."

The peasants' estates include all those of a size not less than sufficient to support a man, his wife and two children, but they may not exceed 125 hectares (roughly 300 acres). They may be owned only by a person eligible as a peasant (*Bauer*). "No one can be a peasant unless he is a German citizen, of German or kindred stock, and of unblemished character." The hereditary estate shall pass to the actual heir (*Anerbe*) and shall remain undivided. It may not be sold, and cannot be mortgaged for the purpose of loans. As security for loans the peasant has only his personal credit and such goods as do not belong to the ordinary process of farming.

Special local courts and a Reich Court are provided for the protection of this institution, and special registers of the Estates are kept for this purpose.

The peasant has certain duties to perform, especially as

<sup>1</sup> Dr. Herman Reischle, *Stabsamtsführer des Reichsbauernführers: Partei, Staats-und Selbstverwaltungsorganisation der Ernahrungswirtschaft* in "Die Deutsche Landwirtschaft," 1939.

regards proper management. If he fails, he can be deposed in favour of a more suitable heir. His brothers and sisters have a right to education, training and sustenance, equipment and dowry.

The number of such hereditary estates in Germany is about 700,000. Their owners constitute a kind of new nobility, supposed to be the backbone of the New Order in agriculture.

But not the peasants' estates alone, but also other agricultural land, may not be sold or rented freely; all transactions in agricultural property, as well as its use and tenancy, require official confirmation.

The law of 23 March 1937,<sup>2</sup> for the safeguarding of the rural economy, states that the proprietor or tenant may be called to account before the Court in respect of proper management and may be deprived by its decision of the management of his farm, which may be rented compulsorily to other farmers, or administered by trustees, if he persist in non-compliance with the rules of proper management.

We see thus how Nazi Germany has called into existence new forms of ownership of land—family ownership in the peasants' estates, and a divided ownership, in many respects restricted.

We now come to the organization of German planning for "blood and soil" as a whole.

All occupations concerned with production, trading in and processing of agricultural products, such as agriculture, forestry, horticulture, fishing, hunting, traders in agricultural products, agricultural co-operatives, manufacturers of agricultural products, are organized into a powerful, centralized organization, based on the law of 13 September 1933. This organization is called the "National Nutrition Corporation" (*Reichsnährstand*) with the atmosphere of a medieval Guild, being an authoritarian self-governing body bound by ties of tradition and creed (*ständischer Aufbau*).

At the head of this Corporation is the National Peasants' Leader (*Führer*). He is advised by a National Peasants' Council (*Reichsbauernrat*), whose members are appointed by himself.

<sup>2</sup> *Die Deutsche Wirtschaft*, 1939, p. 40.

The central office of the National Peasants' Leader has two departments :<sup>3</sup>

- (1) Planning Department (*Stabsamt*).
- (2) Executive Department (*Verwaltungsamt*).

Each of these has several sections.

The first department drafts plans for the current year as well as for years ahead. These plans include a production programme, pricing, wages, rents, training, working methods, trading, ownership, land tenure, etc. The second department carries out the plans already adopted and is responsible for the "market order," as also for the whole network of organizations set up under it for the administration of the Corporation and for the "corporate honour" of its members.

The multifarious organizations set up under the Central Office of the Corporation are built on two planes:

- (1) A vocational basis (branches of production).
- (2) A regional basis.

Within the former the Corporation embraces "National Unions" (*Hauptvereinigung*) for different food products, as for instance, "Corn Producers and Distributors," "Live-stock Breeders and Dealers," "Milk Producers and Distributors," "Egg Producers and Distributors," "Market Gardeners," "Agricultural Co-operative Societies," "the German Brewing Industry," "Confectioneries," "the Fishing Trade," "Margarine and Artificial Fat Industry," "Potato Growers and Distributors." These unions are vertical organizations including a whole phase of production; for example, in the Milk Union are all persons dealing with the production, marketing and processing of milk products. They exercise control on a self-governing basis over the whole phase, but are under the strict supervision and control of the Central Office.

On a regional basis the Corporation is subdivided into Regional Peasant Associations (*Landesbauernschaften*), generally coinciding with the respective provinces, with Regional Peasants' Leaders advised by the Regional Peasants' Council at the head. The Regional Associations are again subdivided into District

<sup>3</sup> See *Agriculture in National-Socialist Germany*, issued by the National Nutrition Corporation.

(*Kreisbauernschaften*) and Local (*Ortsbauernschaften*) Associations with a similar structure.

All the bodies set up within the framework of the Corporation are based on the principle of leadership. All the self-governing associations are only advisory bodies to their leader, and the members are nominated by him. The leaders are appointed by the powers above, and are subordinate to the orders of the higher ranks. The whole Corporation is under the control of the Minister of Nutrition and Agriculture, Walther Darré, who was nominated in June 1933 Leader of the Corporation. The whole Corporation is an instrument of the State authorities for the execution of their orders.

The Ministry of Nutrition and Agriculture, together with the Corporation, issue a mass of comprehensive Market Regulations (*Marktordnung*), which strictly define all relationships in the whole of agricultural production, marketing and processing.

The Marketing Regulations may be divided into two main groups:<sup>4</sup>

(1) Regulations for the main elements of the market, such as the quantities of supply or demand and prices. To this group belongs the regulation of the volume of import and export, and of supplies for the home market. The last regulation determines the volume of production, consumption, processing and investment.

The Market Regulations issued for many articles define prices, wages, rents, the rates of the middleman's margin, the delivery quotas of farms (*Ablieferungskontingente*) compulsory pooling (*Andienungszwang*), the allocation of supplies to regional and local markets, the licensing of dealers and manufacturers, the quantitative restriction of consumption and investment.

(2) The second group consists of regulations which do not affect the mechanism of the market, as for instance the quality standards, guiding rules for efficiency or technical work, qualitative restriction of consumption or processing, etc.

<sup>4</sup> Kurt Schiller, *Marktregulierung und Marktordnung in der Weltagrarwirtschaft*, Jena, 1940. Schriften des Instituts für Weltwirtschaft.

The network of regulations of both kinds became more comprehensive and complicated with time. The codes have become so voluminous and complex that a complete knowledge of them is accessible only to experts.

The prices are supposed to be founded on the idea of *justum pretium*, to cover the cost of production and to guarantee the continuance of agricultural production. However, after the first period of price readjustment, a rigid price stability has been adopted as a leading rule. The margin of profit of processing and trading is kept down as far as possible.

The prices fixed for producers are graduated according to region (variations in transport costs) and season (cost of withholding grain from the market). The production area of rye in the Reich was divided in 1934<sup>5</sup> into nine and that of wheat into eleven districts, each of which had its own fixed prices. Seasonally wheat advanced in price at a rate of from one to two marks per metric ton per month following the peak of the harvest.

"The organization of agricultural marketing itself became more and more monopolistic,"<sup>6</sup> but at the same time more and more bureaucratic.

It would appear that, just as in the beginning the German farmers benefited from the new organization, so as time went on the burdens and sacrifices imposed upon them must have much outweighed the original benefits.

The original conception behind the Corporation was to some extent similar to that of the A.A.A., i.e., to provide agriculture with a substitute for cartelization and monopolization in industry. The disadvantage of the atomistic structure in agriculture was to be made good by the compulsory body of the Corporation.

From the point of view of stability of prices the German structure has proved fairly successful, as agricultural prices have remained more or less constant. In my view, German agricultural organization has contributed to the working of the machinery of planning of the whole German economy; on the other hand it was much facilitated by the latter.

<sup>5</sup> J. B. Holt, *German Agricultural Policy, 1918-1934*, North Carolina Press, 1936.

<sup>6</sup> *Ibid.*, p. 199.

The Nazi scheme may be regarded as one of the most comprehensive schemes of agricultural planning; more comprehensive, at any rate, than that of the Soviets in this field. While Soviet planning has divided the agricultural market into two sectors, one free and the other organized, no such division appears in the German scheme for agriculture.

## PART V

# IS PLANNING MORE SUITABLE FOR INDUSTRIALIZED OR BACKWARD AREAS?

### CHAPTER I

## NATIONAL INCOME IN PLANNED ECONOMY

THE object of planning authorities is to maximalize national income, whatever the purpose for which it may be needed. National income, which may be defined in terms of wage units, is equivalent to national production in both departments: consumers' and investment goods.

The department of consumers' goods production serves to satisfy the current needs of the population in food, clothing, shelter, and services of many kinds, including medical, educational and recreational services.

This department includes not only plants for producing consumers' goods but also those producing producers' goods for repairing the existing machinery or for its enlargement over a short period (e.g., a period shorter than three or five years). In maximalizing the output in this department we try to raise the standard of living of the actual population. Planning for maximum output in this department only would mean planning for prosperity in our time, not for the prosperity of future generations or for non-economic objectives.

The department of investment goods production consists of two sections:

(1) Investments for producers' goods maturing after a long period in consumers' goods, for instance, investments for building roads, canals, railways, ships, gas works, steel works, or for production of machine tools. After a longer period it will augment directly or indirectly (by lowering costs of production



or transport) the stream of consumers' goods. The period after which the output of this section will increase the output of the consumers' goods department may be a very long one. It depends on the technological maturity of investments and the time-structure of production on the one side, and on the backwardness of a given country on the other side. A planned economy which seeks to maximalize output in this section will reach prosperity after a long period, let us say after twenty years or so.

(2) Investments in producers' goods which will never mature in consumers' goods. In our epoch this is a very important section of production. It affects the whole armament industry in a wide sense, and the machine tool industry for producing guns, ships, tanks, aircraft, railways or roads of strategic importance. Planned economy for maximum output in this section means planning for defence, or power-politics, or actual war.

Now when we observe the planned economies of the last twenty years, we shall come to the conclusion that we have had no planned economy for the purpose of maximalizing output in the consumers' goods department. There has never been planning for actual prosperity only for enjoyment in our time.

It is a significant feature of all the planned economies that they concentrate their efforts for maximalizing output on the investment goods department. This is no accident, but lies in the nature of planned economy.

Planning for social security and full employment implies great public works for building roads, dams, canals, railways, electric power stations, and this means augmenting output in the investment goods department.

Planning for speedy industrialization or the economic development of a backward country implies first of all the expansion of the investment goods department, especially in section (1).

Planning for war, defence or power-politics implies the extension of the investment goods department in section (2).

Planned economies have neglected the consumers' goods department and imposed hardships and sacrifices on the part of the population. This is their real function, so far as we know the working of planned economy in the last twenty years.

It may be argued that planned economy in highly industria-

lized rich countries in peace-time could serve one purpose only, the rise of the standard of living of the whole population through maximalization of production in consumers' goods department. It would be planning not so much for progress as for comforts.

But would economy planned for comforts work successfully? I deal with this problem in the chapter on the conditions for the proper working of planning. I may say here that the utopia of planned economy for comforts only may be very attractive, but it seems to me rather unrealistic, incompatible with the nature of planned economy.

A liberal capitalist economy may be developed within the framework of an "economic" society animated by the drive towards a constant rise of the standard of living. But a planned economy, in my opinion, can be developed rather within the framework of a non-economic society inspired by a political, social or ethical creed.

A backward country has in this respect a definite superiority over an industrialized country. It has an indisputable reasonable objective of planning which gives an economic prospect of a rise in the standard of living, but at the same time a non-economic objective of progress in power and defence for the country and the nation as a whole. It imposes sacrifices and can bring about a spirit of sacrifice for non-economic objectives which, however, are also very reasonable from an economic point of view.

That is why planned economy is so suitable for backward countries. The nuclei of a planned world emerged in backward areas and the planned economy as a whole, as far as we see it, first of all attempted to raise the economic standard of backward areas rather at the cost of industrialized areas.

## CHAPTER II

### BACKWARD AREAS—SOURCE OF REVOLT AGAINST CAPITALISM

BACKWARD areas are those left behind by industrial development in a capitalist economy, or disrupted and exploited by it. It is easy to appreciate that capitalistic economy has not developed all areas to the same degree. Some areas were greatly favoured by the development of capitalism, while others were greatly harmed.

In every country concentration of wealth took place in a few centres, overcrowded with industrial plants, trading and banking institutions while vast tracts were impoverished or left behind in a state of stagnation.

Large external economies arising from concentration of resources in a given centre, as pointed out by Alfred Marshall, have facilitated the process of territorial concentration. Many plants and factories concentrated around a centre very well equipped with transport and communications, with services of every kind, with trading and banking facilities, with laboratories and research, training and educational facilities, have a much greater productivity than plants scattered all over the country. And when a centre has been created, it becomes bigger and bigger and attracts more and more wealth and resources.

The same process was in operation on an international scale. Capitalist economy has greatly favoured some countries, which have accumulated in their hands all kinds of wealth, in industrial, trading and finance facilities, while large numbers of countries have remained stagnant.

The competition between industrial and backward countries became ever more difficult and, as time passed, took place on more and more unequal terms. The unequal terms were expressed in unequal conditions of industrial research, mechanical equipment, training of skilled labour, trading and shipping facilities, rate of interest, capacity of the market, apart from

national discriminations which have always operated to the disadvantage of backward countries, as they were weaker economically and politically in relation to the industrialized countries.

The gap between industrialized and backward countries and areas, expressed in terms of national income per head of population, became wider and wider, and there was no prospect of bridging this gap by keeping to the rules of capitalistic economy.

As backward areas were disrupted by capitalism, it is easy to see why they became a source of revolt against capitalism. This is true in national life as well as on international lines.

In Germany the revolt against capitalism came from East Prussia or the Austro-Bavarian border; the greatest need for planning arose in the Tennessee Valley or Central Poland and in the depressed areas in Great Britain.

The same is true in international relations. The revolt against capitalism started in Russia and Italy, both industrially undeveloped countries.

The revolt against capitalism in backward countries is much facilitated by the fact that these countries are mainly the object of foreign capitalism. I call them countries of "passive" capitalism, which may also be regarded as a profit-system *pur sang*. In these countries the industries are owned and controlled by foreign entrepreneurs who run them only for profit without any other concern whatever, with the sole object of pure maximum exploitation in profits which afterwards are withdrawn from their native source. This kind of capitalism combines the features of capitalism and imperialism, and the native population fighting against it is impelled by nationalist as well as socialist doctrines, a combination which has always proved a highly powerful mixture. To this mixture is mainly due the great response to anti-capitalist propaganda in such countries.

#### A. *Claims for Preference*

Planning in backward countries can put forward many claims for preference over planning in industrial countries other than those already mentioned.

A backward country is usually less intertwined with world trade, more self-sufficient and less subject to the international division of labour. Of course, there are some backward coun-

tries subject to a single culture, with over-developed one-sided lines of economy dependent entirely on export. But that is not the rule in regard to backward areas, which, owing to a low standard of living, are usually more self-sufficient than industrialized countries.

We have seen that the more closely an area is linked up with world trade, the less suitable it is, in general, to become a planned economy, which tends to approximate to a closed or semi-closed economy. Therefore the self-sufficiency of backward areas is an argument in favour of planning in such areas.

We must also take into account the complexity of modern industry in highly industrialized countries, with its intricate network of institutions and activities: full control over such a body may be more difficult and attended with greater drawbacks than control over a more primitive and simpler economy.

But the most convincing case for planning in backward countries is surely connected with the well-known fact that building anew is much easier than rebuilding an old structure erected for quite a different purpose. The introduction of a planned economy into an industrialized country presupposes the breakdown of many obstacles, and the overhauling of the whole industrial machinery, which must be adapted to new conditions. A planned economy in a backward country means the building-up of a whole new industry, which will be constructed with a view to being run under central control.

Planning in backward countries is equivalent to the opening up of a whole area which, from the beginning, is planned as a whole with a special view to being managed as a whole. The opportunities for pioneer investments are here specially great and correlated investments yield each other large external economies.

Take, for instance, Irak or Persia, Uganda or Kenya; what enormous possibilities there are for constructive long-range plans for the opening up and developing of a new economy. It is like building a new house or a new plant. Everything could be thought out beforehand in order to save costs of production and transport, to bring greater enjoyment, health and efficiency.

The plans might cover: the division between rural and industrial areas; the utilization of the land for different crops, and

the location of industry in different centres; the building of roads, railways and canals; the supply of electric power; the training of the population in the various kinds of skilled occupations which would be needed; trading and distributive machinery; housing and public health.

It is no accident that planning has arisen (except in the case of Germany) in backward rather than in progressive countries; that it has been introduced, as a rule, after the destruction of war in order to build afresh; and, finally, that even in progressive countries (as in the United States) planning has found its greatest application in backward areas (T.V.A.).

Full planning originated in Russia not only because a social revolution had taken place there, but because the conditions for constructive planning were most favourable in a backward country, and one which had suffered heavily from both external and internal wars.

#### *B. Two Kinds of Schemes in Backward Areas*

Two kinds of schemes in backward areas are to be noticed:

(1) Planned development financed by the influx of capital raised outside the area (supported industrialization).

(2) Planned development financed by enforced saving in the area itself (self-sufficient industrialization).

When we take a country which wishes to industrialize itself by its own sacrifices, i.e., by additional work without additional consumers' income or perhaps even with less consumers' income, we have a typical case where planning is an unrivalled method. The sacrifices of the population must be organized on the principle of equality, must be enforced and transformed into large-scale investments.

The scope of control required in "supported industrialization" is smaller than in self-sufficient industrialization, because the influx of capital from abroad frees the planning authorities from applying many kinds of control. The greater the sacrifice the population is called upon to make, and the greater the speed of industrialization required, the greater will be the scope and degree of control.

In a self-sufficient type of industrialization, the planning authorities face the greatest difficulties where:

- (1) The level of real wages (consumers' income) is already very low.
- (2) The essential raw materials needed for a modern industry must be to a large extent imported from abroad.
- (3) The skill of the population is on a very low level.
- (4) The mechanical equipment must be largely imported from abroad.

Supposing that wages have reached a level which just covers the necessities of life and those of efficiency, then every further curtailment of wages must be accompanied by curtailment of production. The equalization of the scale of wages also can only reach a certain level, because beyond a certain point curtailment of the wages of skilled workers would affect the consumption of what is called the "necessaries of efficiency."

When this point is reached, as happened in the Soviet economy after the first Five-Year Plan period, nothing else is left but a source of further acceleration of the process of industrialization, a drive towards industrial efficiency through mass-enthusiasm. The organization of Shock Brigades and Stakhanovites, the setting up of "socialist competition" between plants and factories and groups of workers, serve the purpose of replacing the necessities of efficiency by psychological stimuli.

Group competition has proved a powerful factor of efficiency, and no country with distressed areas can now neglect its influence.

Not every country has the same favourable conditions for industrialization as Soviet Russia, from the point of view of raw materials. The greater the percentage of essential raw materials which must be imported from abroad, the greater the burden of sacrifice which must be imposed on the population to achieve the same degree of industrialization. Planned industrialization will proceed much more slowly because great export surpluses in the traditional branches of industry must be maintained to be produced for export in order to cover the sales of industrial raw materials. From this point of view the prospects of self-sufficient industrialization in smaller countries are much worse than in large Empires with vast supplies of essential raw materials.

The industrial training of the population is perhaps the most

important part and the starting-point of the scheme. The influx of foreign engineers to train them may facilitate the task, but the essential thing is the willingness of the population to acquire more skill and to learn, even at the cost of some sacrifice, such as giving up rest and enjoyment. The creation of large training camps is a necessary instrument of the scheme.

The stages of industrialization cannot be taken at a bound. The speed of industrialization must be very low at the beginning, first of all because of the lack of mechanical equipment for new plants. After a certain time the speed is accelerated because the new national plants are already producing, to some extent, the necessary mechanical equipment, the population has already acquired some skill, and the national income has increased, and therefore the part which can be saved compulsorily has augmented.

At the beginning a certain amount of foreign help in mechanical equipment and training is an essential condition for the success even of a self-sufficient scheme, and a fair amount of this help was also in operation at the beginning of Soviet industrialization.

### *C. Some Achievements of Planning in Backward Areas*

Planned economy seems, in many respects, to have fulfilled the hopes of backward areas for an accelerated speed of industrial development. The most successful plans were those carried out in backward regions, such as the T.V.A. or Central Poland. Backward areas have been greatly developed under the Soviet economy, especially in the Urals, in Central Russia, and in the Arctic. The main emphasis in Soviet planning has been laid on opening up new industrial centres, located in the east of the U.S.S.R., the building of the Urals and Kuznetsk Basin Combine. But the U.S.S.R. as a whole has achieved a higher degree of industrialization, which was the main object of both Five-Year Plans (1928-32 and 1933-37) and of the first three years of the Third Five-Year Plan. Special attention was paid to the development of the basic industries: mining, machine-building, heavy metallurgy, electrical engineering, chemical industry, building industry and defence industries.

It is difficult to ascertain the correct speed of this indus-



trialization, because the methods of calculation adopted by the Russian economists may be questioned, and the low quality of goods must also be taken into account, but it seems to be rather great.

According to a report by N. Voznesensky,<sup>1</sup> delivered at the Eighteenth All-Union Conference of the C.P.S.U.(B), on 18 February 1941, the output of industry in the U.S.S.R. increased during the period 1929-40 by 430 per cent.

In the first three years of the Third Five-Year Plan, the industrial output in the U.S.S.R. increased by 44 per cent (i.e. from 95,500 million roubles in 1937 to 137,500 million roubles in 1940). This includes an increase in the output of the machine-building and metal-working industries by 76 per cent.

According to the figures published by the League of Nations in *World Production and Prices 1938-39*, the index of industrial production (1929=100) of the U.S.S.R. reflects the following movement: 1930, 131; 1931, 161; 1932, 183; 1933, 198; 1934, 238; 1935, 293; 1936, 382; 1937, 424; 1938, 477 (the last figures were given as provisional).

It seems, however, that the statistics of physical output in the main lines of industry have the best illustrative value.

Comparing 1940 with 1913, the output in the coal industry has increased 4.6 times; that in the oil and gas industry two and a half times; the manufacture of iron and steel has grown about fourfold. The gold output has advanced from fourth place in world production in 1913 to second place. The capacity of electric power stations has increased 7.6 times compared with Tsarist Russia, and the amount of electricity generated 19.3 times. In 1940 there were 523,000 tractors in operation, while in 1913 there were none.<sup>2</sup>

The fighting on the Eastern Front in 1941-2 has plainly confirmed this achievement in regard to the defence industries.

The speed of industrialization in the period 1929-41 may be regarded as impressive, especially when we bear in mind the closed boundaries, the untrained people, the primitive conditions

<sup>1</sup> *Economic Results of the U.S.S.R. in 1940 and the Plan of National Economic Development for 1941*, Moscow, 1941.

<sup>2</sup> *U.S.S.R. Speaks for itself: Industry*, London, 1941.

and difficulties in transport, which had to be overcome in such a large area as the U.S.S.R.

However, the indices of Russian industrialization should not be taken as equivalent to the rise of the national income in general. The industrialization took place at the cost of many other branches of national economy, such as agriculture, housing, consumption goods, industry in general, and of depreciation of individual households.

Unfortunately, we have no statistics of national income in Russia for the whole planning period until recent years, but we have very valuable estimates by Colin Clark in his illuminating book *The Conditions of Economic Progress*.<sup>3</sup> I will quote here some of his figures relating to Russia and compare them with those of other countries.

The estimation of national income produced per head of working population (i.e. of population in work and unemployed) has been made for the period 1850-1937, on the basis of the 48-hour week, and in International Units (I.U.), an international unit being defined as the amount of goods and services which could be purchased for one dollar in the U.S.A. over the average of the decade 1925-37, or an amount interchangeable with this.

Russia increased her national income during the period 1928-37 from 280 to 379 (35 per cent).<sup>4</sup> In the corresponding period, 1927-36, Japan increased her national income from 278 to 337 (21 per cent); Sweden, in the period 1927-36, from 634 to 804 (27 per cent); Norway, in the same period, from 542 to 705 (30 per cent).

We see that the rate of increase in Soviet Russia in the period under review is not very distant from the rates of increase in other unplanned economies.

But the national income of 1928 in Russia was a little below the pre-war standard of 1913, which is estimated at 306. This pre-war standard, as adequate to the natural resources of the country and the technical and cultural level of the population at that time, was not attained before 1935 or 1936.

<sup>3</sup> Macmillan, 1940.

<sup>4</sup> All figures are given in International Units as defined above.

If we compare the achievements of this whole period of industrial planning up to 1937 in the light of statistics of national incomes on the basis of 1913, the results are rather modest.

In the period 1913-37, the national income of Russia rose from 306 to 379 (24 per cent), while the national income of Japan, in the corresponding period (1914-36), jumped from 132 to 337 (155 per cent). In the same period, 1913-36, the national income of Sweden rose, without planning, from 474 to 804 (69 per cent); that of Australia, in the period 1914-37, from 742 (1914-15) to 1,212 (63 per cent); that of Norway, 1913-37, from 415 to 705 (70 per cent), and of Canada in 1911-36, from 1,061 to 1,352 (27 per cent).

Compared with the pre-war standard, the achievement of the planned economy in Russia is one of the lowest.

Of course, these figures cannot serve as a proper indication of the usefulness of planning, because Russia has, in the meantime, waged one great national war as well as a severe and devastating civil war, while the countries with which we have compared her effort were not ravaged by war and revolution.

If we compare them with France or even with Germany, the figures of Russia's achievement in the period 1913-37 are somewhat more impressive. The national income of France has remained stagnant (1913 to 1934, from 629 to 641), and in Germany, in spite of the planning in the years 1933-37, the income rose in the period 1913-37 per head of the post-war territory, from 756 to 828 (9 per cent).

Of course, in order to make proper estimates, we should have to take into account the sacrifices of the population over the whole period, and the composition of the national income (what kinds of goods compose the income, and to what degree they correspond to the desires of the population), and finally the degree of unemployment.

The development of national income is an historical process, and an historical process cannot be explained by a single factor like planning, being a result of a set of inner and outer conditions, unique in their composition.

*Note*PLANNING FOR THE INDUSTRIALIZATION OF  
CENTRAL POLAND

The Polish experiment in planning was very short. It started in the middle of 1936 and was interrupted in September 1939 by the Nazi invasion. It was in its early preliminary stage, and was a kind of middle expedient between Central Planning and Regional Planning.

It has some analogies with the Tennessee Valley Authority, in that it also attempted the speedy development of a backward area through great public works. But while under the Tennessee Valley Authority the main emphasis was laid on flood control, navigation, the supply of power, protection of top-soil and the development of agriculture, in Poland it was placed on the speedy building of munitions factories, huge engineering works, and heavy industries, while the supply of power, flood control, navigation, development of communications and the development of agriculture played a secondary rôle.

But the main difference between the Polish scheme and the Tennessee Valley Authority consisted in the fact that the Tennessee Valley Authority was in principle an independent scheme for regional development as an objective complete in itself, while the Polish scheme was an attempt at a comprehensive industrialization of the country as a whole with a location of the industry in a given region. The regional development was not in itself a primary objective; it was a part of a very ambitious and huge scheme of wholesale reconstruction and transformation of the economic structure of Poland.

There were many reasons for the decision that newly erected industries must be located in a certain region. The easiest way was, of course, to locate new factories in old industrial centres, which would yield large internal and external economies. But from the point of view of defence the old centres were in a vulnerable area, that is to say, too close to the western frontiers, a great disadvantage for heavy armament industries. Finally, the old centres were developed within the framework of the old Partition Powers, Germany, Austria or Tsarist Russia, and their localization reflected an old politico-economic structure, old links

with supply areas and markets, from which they had been already cut off.

The choice of a new and relatively concentrated area for the erection of a new Industrial Centre, which was named the Industrial Central District (C.O.P.), was, from many points of view, fortunate. The planning of an entire region hitherto nearly empty from the point of view of industry and communication could yield many external economies. It was the opening up of a whole area based on a planned network of new communications (rail, road and water) and a "grid" for the supply of electric power and gas.

The area selected was near the confluence of the Vistula and the San, and covered 60,000 square kilometres, with a population of about 5½ millions (between one-sixth and one-seventh of the area and population of the whole country). The main towns in the Industrial Central District were Radom, Kielce, Lublin, Zamosc, Sandomierz, Rzeszow, Tarnow. It included the major part of the triangle between Warsaw, Cracow and Lwow.

It was the most poverty-stricken area after the Eastern Marches. The rural population was extremely dense, and the peasants lived in great misery. The average density of the rural population (85 persons per square kilometre) was 25 units above the national average, which was already extremely high compared with other European countries. Dwarf holdings (below 2 hectares) constituted 60 per cent of all farms, and those below 5 hectares 80 per cent in this area. The proportion of a non-rural population to the whole population in the district amounted to 17.3 per cent, compared with 28 per cent for the whole country.

The rural over-population of this area, on the supposition of a reasonable farm system on a Western European model, was estimated at about 400,000. The District provided a large supply of surplus peasant labour for the country and for emigration, and the complete stoppage of migration caused by the adoption of small quotas in oversea countries was a great blow at the standard of living in the district.

The district itself had once been a centre of handicrafts and commerce before Partition, and was afterwards completely

neglected by the Partition Powers. The distressed area was created mainly by lack of communications. In spite of the fact that a central region is supposed to be a natural highway and cross-road, this area was completely deprived of communications. The Vistula was divided into three parts, and nobody took any interest in its regulation or navigability. (Tsarist Russia was specially inimical to the navigation of the Vistula.) The roads through the three frontiers were very often not connected. The railways ran parallel to the frontiers. There was no railway line between Warsaw and Lwow, and the railway between Cracow and Warsaw was indirect. Silesia was cut off from the east, as was Danzig from the south.

The Industrial Central District, besides cheap labour and its central position, had many economic advantages. The use of the Vistula, after the regulation of its course, should provide cheap transport. It was situated near large deposits of fuel, petroleum and natural gas and large reserves of electric power. It had various raw materials, although up to that time they had been exploited only on a small scale or not at all, such as low grade iron, zinc and lead ore, pyrites, gypsum, lime, dolomite, marble, china and clay.

The new industrial and transport equipment of this area was an attempt:

- (1) To industrialize the country as a whole.
- (2) To equip it with an armament industry of which kind nothing existed before, during the Partition, as the Powers did not intend to locate their munition manufacture in Poland.
- (3) To link the different parts of Poland with highways and railways, suitable for the needs of the new National Unit.
- (4) To regulate the course of the Vistula and to carry out a vast programme of electrification.
- (5) To provide in the Industrial Central District a large market for agricultural products and for the surplus labour of the Eastern Marches.

We thus see that the regional programme was really an instrument of planning for the industrialization and economic development of Poland as a whole.

The tasks allocated by the programme were enormous. The first three years were to constitute only a beginning for a further, even more ambitious and courageous scheme. As M. E. Kwiatkowski, Vice-Premier and Minister of Finance, the author and promoter of the Plan, pointed out in a speech on 2 December 1938, the first period is only a starting-point for a long-range and large-scale Fifteen-Year Plan, divided into three five-year periods from 1939-54. Each of these periods would have special tasks allocated to it.

He estimated that at the end of this fifteen-year plan the economic structure of Poland would be completely transformed, freed of the old divisions between the three occupation-areas and linked together by communications, and satisfactorily industrialized. The social reflection of this industrialization would be a new occupational structure of the Polish population, which instead of the ratio of 70 : 30 (of the population living by agriculture to the population earning their living from other sources) would show a new ratio of 50 : 50, somewhat similar to that of France.

The first period, which covered nearly three years, had shown remarkable achievement. A highly important pipe-line, for the transport of natural gas, was under construction and important sections of it were already in use. The biggest reservoir in Poland, at Roznow on the Dunajec, was completed at the beginning of 1939, and a second compensatory reservoir at Czchow. The electricity generated in these establishments was to be used in the Industrial Central District. Large transmission lines from Moscice to Starachowice, Rzeszow and Warsaw were under construction, and some sections of them completed.

The Government started works for the regulation of the course of the Vistula. Some railways for shortening the lines of communication between Warsaw and Cracow and Warsaw and Lwow and new roads were constructed.

The industrialization of the district was carried out partially by the Government, which erected large-scale State plants, and partially by private undertakers, who were granted special tax exemptions, credits, grants of privileges. Attracted by these inducements many entrepreneurs transferred their businesses to this district. Some plants were built as mixed enterprises,

partially owned by the Government or other State enterprises, and partially by private owners.

The largest and most modern war factory was completed at a cost of over 100 million zloty (roughly £5 millions) at Stalowa Wola (State Steelworks). A State Aircraft Factory was completed at Rzeszow at a cost of 30 million zloty, and another at Mielec at a cost of 15 million zloty. Large State munition factories, costing 85 million zloty, were constructed in Krasnik, and the plants at Starachowice were greatly enlarged. The State Aluminium Foundry was under construction.

The private, or rather "mixed," firms had set up many new plants, such as motor works, synthetic rubber factories, tyre factories, canning factories, engineering works, porcelain, metallurgy and chemical works, etc.

It was estimated that the large industrial undertakings completed in the first period would give employment to at least 55,000 workers, and with all the other small and medium-sized undertakings and services at least 90,000 workers, which is a considerable number compared with the totality of Polish workers (some 800,000 in all Polish industries—mining, smelting and manufacturing). For training the people in these areas steps were taken to start training camps and schools. Altogether the index of the industrial production of the whole country rose in the period 1936 to May 1939 from 94 to 125.8 (1928 = 100).

The chief problem, which always faces an industrially undeveloped country, was how to find financial means for carrying on such a vast programme.

The whole investment programme of the Polish Government for the District and other parts of the country amounted to about 800 million zloty in 1936 and about 1,000 million zloty in 1938.<sup>1</sup> In 1937 the Government Investment plan for the whole country amounted to 27.5 per cent of the total budget expenditure, which was already very high in relation to the national income. The Government expenditure for 1937 amounted in all to 2,900 million zloty and probably more, and it was estimated that it had absorbed already, roughly speaking,

<sup>1</sup> It is difficult to determine what part of this sum was swallowed up by the Plan for the Industrial Central District.



20 per cent of the whole national income. But the national income per head of the population was very low, covering just the minimum for bare existence, and therefore did not provide for any great genuine savings. The total net savings of the country did not cover the expenditure necessary for carrying out the plan in the first year, not to say in its future phases, when the expenditure would rise at a higher rate.

The expenditure of the first period was mostly covered—

by mobilizing all available idle resources accumulated since the Great Depression in public and private banks and in the private economy, partly also by the issue of Treasury Bills;

by means of the National Defence fund which had accumulated reserves for rearmament, strengthened partly by the French loan of £12,600,000 granted in the autumn of 1936, and partly by internal loans of semi-voluntary character;

by means of the Labour Fund, which had centralized the direction of public unemployment agencies, unemployment insurance and public works for the unemployed.

We may say that the first period was partly financed—

by idle resources from the Great Depression;

by foreign loans;

by a semi-voluntary saving campaign (long-term internal loans), but as time proceeded the emphasis was laid more and more on large saving imposed on the whole population and the issue of Treasury Bills.

The Government was aware that a wholesale central control of the national economy was needed to carry on the plan, and it started to transform the whole national economy to a model of more or less planned economy.

The control of foreign exchange was introduced in April 1936. Foreign trade was more and more put on a quota and clearing basis, of which the most important item was the Polish-German Agreement of February 1937, providing a balanced trade at 176 million zloty a year (machinery in exchange for butter and pigs). A Polish Clearing Institute was created in November 1938.

Prices and wages were more and more subject to Governmental

control. In spite of great monetary expenditure and increase of economic activity the prices remained unchanged during the whole period (the index of wholesale prices of industrial commodities rose from 539 in June 1936 to 549 in January 1939; 1928 = 100), the cost of living was unchanged (607 to 606), only the nominal wages of industrial workers rose from 806 to 861 (some rates, especially in mining, which were before very low, had been adjusted).

The whole of Polish industry, highly organized in cartels and State and mixed enterprises, was more and more commandeered by orders imposing quotas of production and export.

All financing institutions, such as banks, insurance companies, savings banks, communal banks, came more and more under Government control in order to safeguard all savings for the public investment programme.

Restrictions on distribution of profits and salaries in joint-stock companies had been in operation in many ways.

Polish economy was on its way to transformation into a planned economy when this process was interrupted in September 1939, and a ruthless new planned economy for exploitation and extermination was imposed by foreign invaders.

The real difficulties of planned industrialization in Poland of the self-sufficient type were:

- (1) The low level of real wages.
- (2) The high percentage of industrial raw materials which had to be imported.
- (3) The high percentage of machinery which had to be imported from abroad, although in the last years the development of the Polish engineering industry had greatly improved.

There was some lack of skilled labour, but this factor did not impose great limitations on industrial development, especially as training camps and schools were put into operation on an increasing scale.

The most limiting factor was the lack of certain industrial raw materials which had to be imported from abroad. This was the more difficult as the industrial programme had contributed to the lack of export surpluses in many branches of national economy, in industry as well as in agriculture.

Out of many raw materials required for industry Poland had no manganese, nickel, copper, tin, aluminium, rubber, or cotton. Wool was available only in small quantities, and only low-grade iron ore was available.

Half the Polish imports consisted of industrial raw materials, and this, added to the machinery required, and capital equipment, imposed a great strain on the Polish balance of trade, which was nearly equivalent to the balance of payments, apart from the burden of foreign indebtedness.

As the process of industrialization proceeded, the problem of foreign raw materials and machinery became more aggravated, and had to be solved by a substantial curtailment of consumption of every kind through enforced saving.

**PART VI**

**SELF-GOVERNMENT IN PLANNED  
ECONOMY**

**CHAPTER I**

**THE UNSOLVED DILEMMA**

It was very soon realized that successful planning requires a great measure of self-government.

A modern economy is extremely complicated and differentiated, with its intricate network of institutions and activities which require a detailed and specialized knowledge related to a particular section or group of establishments. A centralistic management could not meet all its needs and problems.

Further, planning requires not only a wholehearted co-operation on the part of the whole working population, but also a popular understanding of the objectives and whole machinery of planning. This can be achieved mainly by some kind of self-government.

Again, planning means the surrender of many traditional liberties on the part of the workers as well as on that of the entrepreneurs. And the only possible way of compensating them for the loss of their traditional liberties is to grant them a fair degree of participation in the functioning of planning in the form of self-government.

But real self-government in planned economy is not easy to establish. Self-governing institutions are essential parts of democratic organization and require a democratic way of life for their successful working.

Self-government requires independent autonomous institutions which can uphold their own powers and views. But a planned economy shows a natural tendency to bring all important economic institutions and firms under its own control and to

deprive them of real independence.

All the planned economies which we have examined have struggled until now to bring about some kind of self-government. But, so far as we know, they have failed in practice to establish a real and successful self-government.

The kind of self-government which can be established in a planned economy is strictly connected with the political structure.

In centralistic states of an authoritarian type the range of powers of self-governing bodies is restricted by the very principle on which the state is built, i.e., the principle of leadership. This principle when applied from top to bottom works against any real self-government, which, on the contrary, must be based on the principle of freedom with its accompanying power to oppose the central authority. The authoritarian state tries to nullify this by propaganda and mass-movements which give everyone the impression of participating in the work of the nation and the appearance of having an equal share in the spiritual leadership. The innumerable mass meetings, votes and resolutions foster the idea that everybody is consulted and takes his part in all vital decisions. Furthermore, everybody is driven forcibly into membership of the self-governing bodies, which are supposed to be a true representation of their members. Members, who at the beginning take part reluctantly, may, after a certain time, take an interest in the organization. But the organizations are controlled in all vital matters by the One-Party leaders and are entirely in their hands.

The self-governing bodies set up in Nazi Germany are really only advisory bodies to the leaders, who are nominated and subordinated on a strictly applied principle of leadership. They are not, in reality, representative of anybody but the Party.

The self-governing bodies in the so-called "Corporate State" of Fascist Italy lead only a shadowy existence, and are in reality mere implements of the central government.

The self-governing bodies in Soviet Russia, represented by the Trade Unions, although they cover a much greater range of representation owing to the more homogeneous character of society, deprived of the old class divisions, are also very restricted in their powers. As we shall see later, the organization and

management of Soviet industry is based on the hierarchical principles of a centralistic administration.

In democratic countries where self-government is expected to be a natural phenomenon easily established, quite a different difficulty in the planning machinery arises, which is connected with lack of cohesion in the society, and the divergence of interests and disunity in ideas and objectives. N.I.R.A. planning is a very good illustration of the difficulties involved in self-government in democracies. The prevalence of sectional interests, the fight between labour and capital, the monopolistic drive towards restrictionism, the lack of cohesion between different branches of industry, besides other things, brought about its downfall.

It appears as if, out of the two extreme opposites, some third structure might emerge, which would reconcile the need for greater cohesion and unity with the need for freedom and width of forms.

### *Three Kinds of Self-Government*

Again, the structure of the self-governing bodies which can be established in industry depends on the social structure, especially on the form of ownership. In this respect we can actually distinguish three structures of self-governing bodies. The self-governing bodies set up under State control may comprise:

- (1) Entrepreneurs alone, with no, or only insignificant representation of other interests.
- (2) Entrepreneurs with workers, with possibly a representation of consumers.
- (3) Workers alone, possibly with a representation of consumers.

Where private ownership prevails we may have the choice between "interest-group planning,"<sup>1</sup> as the first kind of self-government is often called, and "corporate planning," as the second kind is named.

When collective ownership is established, we may actually have workers' associations with representatives of consumers

<sup>1</sup> See Eugene Staley, *World Economy in Transition*, New York, 1939.

(farmers, the arts and professions) as advocated in the Guild Socialist movement, of which the main idea is to organize every industry as a self-governing unit, comprising workers of every grade, from manager to unskilled workers, not for profit, but for public service, especially to consumers.

(1) "Interest-group planning" cannot in my own opinion be successful, because of its inherent tendency towards monopoly and sectionalism. Sooner or later it turns out to be a restrictive scheme conceived in the interests of capital. The absence of representation of workers and consumers must be a disadvantage to the scheme.

The failure of N.I.R.A. says much in support of this view.

(2) "Corporate" self-government in a One-Party state must be a failure, because no real self-government is possible in a totalitarian state, based as it is by its nature on centralistic administration. The bodies set up under the Italian Corporate State do not conform in reality to the model of a Corporate State as preached by the theoreticians of Corporativism. They are not true representatives of anybody but the Fascist Government and Fascist Party. They have no real powers; they are strictly controlled and supervised by the Party and the Government. But what counts for far more is the spirit of the "Corporate State" in Fascist Italy. It is not a spirit of true co-operation between workers and employers on an equal footing for the prosperity of the masses, but the monopolistic spirit of exploitation and militarism, for the establishment of a solid superiority of capital over the workers, who, in their turn, are deprived of their liberties.

If similar institutions, based on real self-government, true representation and co-operation on an equal footing between capital and labour, were carried on in a spirit of unity, we might expect quite different results. It would be wrong to assume that the idea of co-operation between capital and labour in self-governing bodies on an equal footing is compromised beyond repair by Fascist experiments.

As in men, so in societies, the most essential thing is the spirit, not the body constituted by the institutions. Similar institutions may be filled with quite a different spirit and different objectives visualized.

The idea of collaboration between capital and labour on an equal footing, in self-governing bodies, on vocational and regional lines, under the control of a Central Authority, is, in my opinion, the right idea for democratic planning, but I agree that for its success it would require a spirit which, up to the present, democratic countries have not produced, and a much greater national unity in objectives and creed, achieved through genuine cohesion and self-discipline.

The problem of true collaboration between capital and labour in self-governing bodies is one of the utmost importance in democratic planning, because democracy is equivalent to self-government, and self-government could not work without genuine collaboration between capital and labour.

This is the crucial problem, and its solution requires, first of all, the creation of the right spirit for bringing about this collaboration. Only when this spirit is awakened is the formation of institutions which would express this spirit possible. It would therefore be wrong to proceed with the formation of institutions of collaboration before the spirit has emerged.

(3) The Soviet experiment in self-government is rather discouraging in respect of reconciliation between self-government and planning. A society, more homogeneous and united than any other nation, deprived of the old class divisions, with productive units comprising only workers and employees of every grade, could proceed much further on the road to self-government in guild-socialistic units granted wide powers of self-determination in their working, if not in their investment plans.

The fact that Soviet planning is far removed from the type of guild socialism and that self-government really plays so small a rôle in the whole machinery of planning, says a great deal for the centralistic trend inherent in every kind of planning.

I would attribute the failure of self-government in Soviet planning primarily to the one-party system which Soviet planning shares with the totalitarian states, but also to a large extent to the tendency inherent in the idea of planning. As the idea of planning is the management of the national economy as a whole, it may be regarded as unfavourable to self-government. Planning, even if introduced on a basis of self-government, tends



with time to develop towards more centralized schemes. The setting up of interrelations between planned regions and sectors leads to steady reinforcement of the centralized elements of planning. Planning produces problems affecting the whole, which must be solved centrally, and, once a central authority is established, it tends to enlarge the sphere of its management in regard to the most important and vital choices. I regard the tendency towards more centralized planning as more or less inherent in the nature of planning.

The following Notes will be devoted to the description of some recent schemes of planning, mainly in respect of self-government. We will start with the N.I.R.A. scheme, and then proceed with Nazi, Fascist, and Soviet planning.

#### *Note 1*

### N.I.R.A.: AN EXPERIMENT IN THE SELF-GOVERNMENT OF INDUSTRY

The so-called "New Deal" brought into existence by the administration of President Roosevelt under pressure of the Great Depression was composed of a series of legislative enactments of various kinds. They were not entirely consistent, and not all of them belong to our subject. Some of them were temporary measures for immediate relief, some acts of social legislation, others reforms in banking, currency and security legislation. But some of them had a more ambitious aim, that is, to create a permanent framework of central control for large sections of the national economy, which is relevant to our subject.

To this last group I would assign three important Acts, known under the initials: N.R.A., A.A.A., and T.V.A. It is the first of these which I propose to review here; the others are dealt with in other parts of this book.

The National Recovery Act of 1933 was the most ambitious, but at the same time the most ineffectual, of all these three planning measures. It was an important attempt to control industry by self-government through "codes of fair competition," drafted by the N.R.A. Administration for the advice of business and

labour in the branch of industry concerned. The attempt was carried out during the period 1933-35. By the end of 1934 some 550 codes, embracing more than 90 per cent of American industry, had been approved by the National Industrial Administration. But on 27 May 1935, the Supreme Court declared the Act to be unconstitutional and null and void, and the whole attempt collapsed.

The experiment was in its preparatory stage and must be regarded rather as an attempt at planning. It was not given time enough to be completed, improved and carried out in practice. But some of its trends can be observed and some lessons drawn from it, as we are mostly more willing to learn from practice than from abstract reasoning.

The N.I.R.A. was intended as a comprehensive instrument of planning in industry on the one side and of a recovery programme on the other. It has been understood as an attempt to plan industry by self-government and to attain a stable industrial organization suitable for whatever objectives might be needed in future. As President Roosevelt said, some kind of "partnership" between industry, labour and government might be established.

It has been regarded as an answer to Fascist, Nazi, or Communist planning, a middle way between free society and planned society, or rather as a free planned economy through genuine co-operation of all groups and classes. And as agriculture was at the same time embraced by other planning machinery (A.A.A.), it appeared that the New World might solve the riddle of free planning and give the right answer to the most profound and difficult dilemma of our times.

Unfortunately, it failed, both for external and internal reasons, from its inner inconsistency and feebleness and from its opposition to the legal and social structure of American society. It failed so utterly that, significantly enough, it has not been revived nor has any attempt been made to revive it later for a defence programme in 1940-42.

After two years of struggle it was rejected by the Supreme Court on legal grounds as being opposed to the federal structure of the American Constitution, but it was rejected by public opinion much earlier on the grounds of muddle, confusion and

abuse.

The N.I.R.A. encouraged the companies and various groups to unite in a legal framework for mutual co-operation under the provisions of a voluntary or semi-voluntary Code, approved and imposed by the President. Under section 7a of the Act, the workers were also encouraged to organize themselves in any unions they might choose and to bargain collectively without any interference from employers.

The Act provided that each industry should draw up its own Code and present it to the President, who could approve it if—

- (1) It imposed no inequitable restrictions on membership.
- (2) It was approved by truly representative groups.
- (3) It was not designed to promote monopolies or eliminate, discriminate against, or oppress small enterprises.
- (4) It, in his judgment, tended to effectuate the policy of the law.

After approval of a code by the President, the code was legally binding and action in case of violations of it could be brought by the federal authorities.<sup>1</sup> If the industry failed to take the initiative, the President was empowered to promulgate a Code as a binding rule. All codes approved by the President were exempt from the provisions of the anti-trust laws.

The Act itself delegated all powers to the Administration, but did not include any settled principles or criteria for their use. (This was also an important legal argument in the Supreme Court for invalidation of N.I.R.A.)

The programme behind the N.I.R.A. was:

To raise wages, because it was supposed that a rise in wages must lead to an increase in purchasing power and in production.

To curtail hours of labour, in order to distribute mechanically the opportunities of labour and the existing purchasing power.

To raise or stabilise prices for the sake of economic security.

To eliminate unfair competition, in order to strengthen the position of the so-called "ethic" firms.

<sup>1</sup>G. B. Galloway, *Industrial Planning under Codes*, 1935; Robinson Newcomb, *How the N.I.R.A. Worked*, 1936; Theodore J. Kreps, *Business and Government under N.I.R.A.*, 1936.

To control production, mainly for the raising of profits.

Altogether some 750 codes were drafted. The most important of them were: the Textile Cotton Code, the Oil Code, the Steel Code, the Automobile Code, and the Coal Code. The codes included labour, price and production provisions.

About 10 per cent of the codes (in terms of the number of employees affected) provided for 36 hours of labour or less per week, 60 per cent of the codes for 40 hours or less, and over 90 per cent for 48 hours or less.<sup>2</sup>

Apart from provisions for hours, the codes included provisions regarding minimum wages and partly for wages above the minimum. The minimum rates differed widely according to geographical areas (Northern and Southern States), the size of the city and costs of living, age and sex, skill, etc. The bulk of the workers covered by the codes were granted minima of between 20 and 40 cents per hour.

The codes were usually vague about wages above the minimum, and this induced many employers to regard the statutory minimum as their maximum, which harmed the interests of semi-skilled or skilled workers. Over three-fourths of the codes contained provisions for minimum prices, in one form or another with or without the approval of N.I.R.A., but over half of them provided for prices at levels regarded as unjustly high.

The actual control of production took place by limitation of hours of operation of plants or limitation of output or by provisions for withheld capacity, or the amount of stocks which could be manufactured apart from the execution of orders. Such controls were contained in only sixty codes, in the textile and basic raw material industries.

The control was carried out by the staff of the N.I.R.A., which grew constantly from 400 in the first two months to over 4,000 by January 1935. To advise the Administration certain advisory boards were called into existence: the Labour Advisory Board, Consumers' Advisory Board and Industrial Advisory Board. However, little attention was given to the Consumers' Board: the greatest pressure came from large well-integrated Corporations; the advice of small concerns was at a disadvantage and

<sup>2</sup> Newcomb, *op. cit.*

the Labour Advisory Board likewise did not play its full part.

The codes were drafted in extreme haste by business representatives, and they constituted, in reality, a kind of compromise between the conflicting interests of different groups, while the best-organized groups, which exercised the strongest pressure on the Administration, reaped the greatest benefits. The codes really reflected the bargaining power of the principal parties.

General Hugh S. Johnson, Administrator of the N.I.R.A., laid the greatest emphasis on speed. He considered the task of drafting codes as urgent, and did not attach great importance to their consistency and co-ordination. Moreover, the great idea of imposing and linking all these codes together was lacking.

The codes reflected sectional and not general interests. They were rather a mass of contradictions. Codes which prohibited the installation of machinery in consumers' goods industries were in conflict with codes in machine tool industries which aimed at the enlargement of their production. Codes which raised prices in some lines of industry, imposed burdens on other lines of industry which were customers of the former. The provisions for wages were in contradiction to those for hours and prices, and the sharp rise in industrial prices was in opposition to the scheme for agricultural planning (A.A.A.). The idea of expanding purchasing power and employment through the medium of codes was in conflict with the idea of raising profits by imposing restrictions on output and assignation of quotas.

Another source of weakness of the N.I.R.A. was the failure to enforce its provisions all along the line. "The N.I.R.A. proved almost a complete failure in enforcing labour standards. It had neither the personnel nor the equipment to secure enforcement of labour provisions."<sup>3</sup>

"The only enforcement that could be relied upon was such as resulted from voluntary acceptance on the part of employers or enforcement through strikes by strong unions."<sup>4</sup>

The entrepreneurs sabotaged the labour provisions, but they willingly accepted the price provisions and other terms which suited their interests. The innumerable daily violations were

<sup>3</sup> Newcomb, *op. cit.*, p. 24.

<sup>4</sup> Newcomb, *op. cit.*, p. 25.

not followed by prosecution, and the Department of Justice instituted court action in only two cases.

Mr. Kreps describes the N.I.R.A. as "Government of Business by Business and for Business," and in his opinion "the fundamental difficulty proved to be that business men simply could not act as detectives and judges against their fellows."<sup>5</sup>

According to Professor Burns: "The codes approved under the Act revealed in the most striking manner the objectives towards which trade associations had been striving, often with little success, during the preceding twenty years. The legal sanctions behind the codes of fair competition not only forced into the associations or code authorities most of the producers in each industry, but also permitted the more direct attainment of their ends; they were no longer limited to devices that would avoid the prohibitions of the anti-trust laws."<sup>6</sup>

And Professor Burns concludes: "There is little doubt that the programmes in the main successfully urged by business managers were not even in their own interests as a group."<sup>7</sup>

The N.I.R.A. control came very near to the compulsory cartels (*Zwangskartelle*) in Germany. It, to a large extent, induced monopolistic practice. This may be seen from the report of the Board of Review which was established to investigate the monopolistic practices of N.I.R.A. schemes. The Board concluded: "Monopoly sustained by government . . . is clearly the trend in the . . . National Recovery Administration. . . . Fair competition is merely a resounding and illusory phrase . . . what the powerful producer calls fair, his weaker rival fiercely denounces as most unfair; and there is no way to reconcile the difference."

"There is no hope for the small business-man or for complete recovery in America in enforced restriction upon production for the purpose of maintaining higher prices. . . . To give the sanction of the government to sustain profits is not a planned economy, but a regimented organization for exploitation!"

Finally, we may quote the thorough study of the Brookings

<sup>5</sup> Kreps, *op. cit.*, p. 34.

<sup>6</sup> A R. Burns, *The Decline of Competition and study of the Evolution of American Industry*, New York and London 1936, p. 465.

<sup>7</sup> *Ibid.*, pp. 518-19.

Institution,<sup>8</sup> which regarded the N.I.R.A. as an impediment to recovery. "The N.I.R.A. not only became administratively impossible and a source of endless confusion and controversy, but it failed to increase the real income of the labouring classes as a whole and tended to checkmate the policy of measuring the real purchasing power of the agricultural population" (p. 458). And in the special report of the same Institution<sup>9</sup> it expressed grave doubts "whether the collective pursuit of special self-interest by separate self-constituted groups furnishes a sound foundation upon which to build a permanent reconstruction of economic relationship."

Now we may ask: what are the lessons to be drawn from the failure of the N.I.R.A.? The main reasons responsible for its failure (the constitutional problem will not be discussed here) may be related to the following factors:

(1) The lack of a major idea behind it. Planning must be inspired by some major idea which can touch the imagination of the masses and originate a moral force which imposes itself even on reluctant followers.

Moreover, public opinion did not understand the idea of the N.I.R.A., and what is more, did not accept its programme as its own. N.I.R.A. was an alien body suddenly introduced into American life, completely unfamiliar to American tradition and the American way of life. There was no willing co-operation with the Central Authority on the part of the population. Planning in a free society can take place only for commonly accepted ends with the wholehearted co-operation of the whole population.

(2) The lack of well-defined objectives of planning. The forerunner of planning is thought, while the whole structure of the N.I.R.A. was built on chance, hastily, and without any foresight. It was a collection of inconsistent, accidental elements brought in by conflicting interests. They mixed transient recovery measures with measures for permanent reform. Neither the framers of the Act itself nor the Administration really knew what they wanted to achieve. They wanted

<sup>8</sup> *The Recovery Problem in the United States*, 1936, p.709.

<sup>9</sup> *The National Recovery Administration*.

to achieve something, possibly with the greatest speed, and with the greatest publicity in press, radio and cinema, but they did not really know for what objective. It was, from the beginning, a body without a soul.

(3) Planning is a control of the whole from the standpoint of the whole. Therefore where the Central Administration is deprived of authority, is weak and unable to enforce its orders, the conditions for planning do not exist. The mere existence of powerful groups must be regarded as an obstacle to planning.

N.I.R.A. was from the beginning in the hands of pressure groups and the contents of its schemes were entirely dependent on the bargaining power of those groups. Therefore it served sectional interests, not the public interests of the country as a whole. Every group was given something, as in the case of the Blum experiment, reviewed elsewhere, and eventually it turned out that many groups were finally deprived of their original benefits.

(4) The frame of mind in which planning was executed was not willingness to bring about some contribution to the common good, but to extract some narrow-minded benefits and grants.

(5) Planning Authorities, before they start their work, must have some real insight into the actual working of the economy. They must collect statistics, reports and inquiries. Finally, they must have some experience in handling economic control. This was not the case with the Administration; research material was completely lacking. The Administration having been built on liberal traditions, had no experience of economic control and no real insight into industrial life. It had, therefore, to rely completely on the reports of business men, which were reflections of their own interests and wishes rather than facts.

(6) Finally, we come to one point which perhaps should have been given first place in our summary—the time-factor. Every scheme must operate for a certain time before it can settle down, before its provisions can be accepted, adapted to actual conditions, and improved. The Administration needs time to acquire real insight and knowledge. Any scheme can operate only after its initial failures and errors have been committed, and can be improved by learning from them. The number and weight of the problems which must be simultaneously solved decrease



with time. While at the beginning everything is a problem, with time some things are already settled and can be relied upon.

Soviet planning was astonishingly inefficient at the start, and has been greatly improved as time has passed, with the growth of experience.

This time-factor, essential for a planned economy, is an additional reason why a Government which conducts such an economy must have great authority. The authority must be sufficient to enable it to stand up to the attacks of all justifiable criticism which arises from the many initial blunders and failures. It must ensure the survival of a given scheme through the necessary period of its inefficiency.

### Note 2

#### CORPORATE PLANNING: THE FACADE OF SELF-GOVERNMENT IN A TOTALITARIAN STATE

The Labour Charter promulgated by the Fascist Grand Council on 21 April 1927, marks an important step towards the introduction of a Corporate (Guild) State in Fascist Italy. The main principles of this State are already outlined in this Charter.

The "State-Nation" is there conceived as an "organism," as a "moral, political and economic unit." "The mass of production represents a single unit; it has a single object, namely, the well-being of the individual and the development of national power." From that follows the "solidarity between various factors of production. It is expressed by the Collective Labour Contract which conciliates the *opposing* interests of employers and workers, subordinating them to the higher interests of production."

I have italicized the word "*opposing*" interests to emphasize that the Fascist writers do not deny (as do, for instance, the Nazi writers) the existence of opposing interests between employers and workers. They only try to "conciliate" these opposing interests by "subordinating" them to the higher interests.

The structure of Fascist Syndicalism is quite different from the structure of the German Labour Front. While the latter includes both employers and workers, Fascist Syndicalism is based on separation of employers and workers in the formation of their associations. Only in the Arts and Professions is there no separation.

The Syndicates are associations for the protection of the "opposing" interests; the syndicates of employers and the syndicates of workers try to reconcile their interests in a collective agreement. All strikes and lock-outs are ruled out as crimes under severe penalties, and all disputes between labour and capital must be settled by agreement or litigation.

But apart from the syndical organization there is another higher organization, namely, the Corporate organization, composed of Corporations, which embrace the associations of both workers and employers, with the National Council of Corporations at the head. Finally, both Syndical and Corporate organizations are controlled by the Ministry of Corporations, the highest authority in the field of social and economic affairs.

The structure of Fascist Corporativism was completed by the law of 20 March 1930, on the reform of the National Council of Corporations, or rather by that of 5 February 1934, which created the powers of the Corporations and defined their range.

The "Guild structure" as then established may be described as follows :

Its base is constituted by multifarious forms of syndicates; each category of workers having a definite physiognomy of its own forms a syndicate. Wherever a particular occupation or trade is carried on, it belongs to this syndicate.

There are Communal Syndicates, provided there be at least 30 individuals engaged in the same occupation in one Commune; Provincial Syndicates, which embrace the occupation in a given Province; and National Syndicates, which take in the whole State. As mentioned before, the employers have their own associations.

The National Syndicates of workers are organized into National Federations which cover certain occupations akin to one another in a certain branch of national economy. The same applies to the syndicates of employers. For instance, in agriculture, there exist four Federations of workers and four of

employers :

*Workers*

- (1) Federation of technicians and employees in farming and forestry.
- (2) Federation of farmers and dairy farmers.
- (3) Federation of wage-earners and labourers.
- (4) Federation of skilled workers, specializing in the raising of livestock and in forestry.

*Employers*

- (1) Federation of land-owners managing their own and rented property.
- (2) Federation of land-owners who lease their land.
- (3) Federation of persons who farm their own and rented property.
- (4) Federation of persons who manage property for third parties.

In industry there exist 20 Federations of workers and 45 Federations of employers; in trade and commerce there are 5 Workers' Federations and 37 Employers' Federations: in banking and insurance 4 Federations of employees and 12 Federations of credit and financial institutions.

In the arts and professions there exist 22 national syndicates equivalent to federations, and, as already mentioned, no separation exists between employers and employees (for instance: National Fascist Syndicates of Doctors, Pharmacists, Veterinary Surgeons, Midwives, Engineers, Architects, Surveyors, Chemists, etc.).

Finally, the various federations and the syndicates of the arts and professions are organized into nine Confederations, which are the supreme organs of the whole Syndical structure. There are, namely, two Confederations in agriculture, one of workers and the other of employers, two Confederations in industry (workers and employers), two in Trade (workers and employers), two in Banking and Insurance (employees and Credit and Financial Institutions), and finally, one Confederation of the Arts and Professions.

Every association of a higher degree has the rights of supervision, co-ordination and control over the affiliated syndicates, and

the range of its powers increases with its field of activity. The Federations are mere branches of the Confederations, and their activity is strictly subordinated to the national authorities of those bodies;<sup>1</sup> the same applies to both National and Provincial Syndicates. Disciplinary powers over the affiliated associations are vested in the President and Executive Committee of the Confederation.

The legal functions assigned to the syndical associations are supposed to be :

- (1) To protect the interests of all categories represented and to favour their economic and technical development.
- (2) To examine and settle economic and social functions concerning each of the categories covered.
- (3) To stipulate collective labour contracts between categories and to regulate economic relations between them.
- (4) To supervise social welfare work and the technical and mental training of members, while promoting the development and improvement of production.
- (5) To appoint representatives of the various categories to sit on Corporations and other Councils where such categories ought to be represented.

How are the Syndicates constituted, and whom do they really represent? The Presidents of the National Confederations are appointed by Mussolini, and the principle of designation from above is the rule in every kind of Syndicate.

All syndicates have legal status as exclusive associations "legally recognized" by the State and endowed by it with certain official rights and duties. They are public organs with monopolistic rights, as no other syndicate can operate alongside of them. They are an integral representation of all persons occupied in a given branch of trade or profession, even of those

<sup>1</sup> See G. Lowell Field, *The Syndical and Corporative Institutions of Italian Fascism*, New York, 1938; Ebenstein, *Fascist Italy*, New York, 1939; Benito Mussolini, *Four Speeches on the Corporate State with an Index including the Labour Charter, the Text of Laws on Syndical and Corporate Organizations*; W. G. Welk, *Fascist Economic Policy*, Harvard University Press, 1938; Hellmut Vollweiler, *Der Staats- und Wirtschaftsaufbau in Fascistischen Italien*, 1938; Mussolini, *My Autobiography*, Revised edition, 1939.

who have refused to take up membership.

The one and only restriction is that the association must comprise at least 10 per cent of workers in the special category for which the association is intended, or, as in the case of associations of employers, so many employers as employ at least 10 per cent of workers.

By the last requirement it is easy to explain the leading rôle played by big business in the Employers' Associations, which is a very well-known feature of Fascist Syndicalism. The small employers, shopkeepers and farmers do not take an active part in this framework.

Again, as far as the workers' associations are concerned, the initiative lies in the hands of the Fascist Party, as the law of 3 April 1926 requires for the legal recognition of the syndicates that their leading men should give "the guarantee of efficiency, morality and fidelity to the National Spirit."

When the syndicate is legally recognized, no other syndicate has the right to operate. The legally recognized syndicate can collect fees even from non-members of its category, and can stipulate a collective labour contract which can be legally enforced over the whole category.

Next comes the second step of the Fascist pyramid, namely, the Corporations (Guilds) themselves, which did not come into existence until 1934.

They are supposed to be the instrument of planning, "of the integral, organic and unitarian control of production." The Corporations are conceived as the links between the two wings of the syndical structure of capital and labour, but they are not merely a product of this structure. Besides the representation of capital and labour, three other factors are also represented—the Government, the Fascist Party and the expert technicians.

The Corporations do not emanate from below, but from above; they are imposed upon the Syndicates. They are initiated by decree of the Head of the Government and upon proposals put forward by the Minister for Corporations, and they must take the oath of loyalty. They are part of the State administration, as a State organ directly subordinate to the Ministry of Corporations.

The Corporations usually embrace a whole cycle of production. Some are agricultural-industrial-commercial Corporations

from the agricultural farm product to the finished product, as for instance the Corporation of Sugar-beet and Sugar, which comprises sugar-beet growers, sugar-making industries, first-grade alcohol industries and trade in sugar and alcohol. Others represent the whole cycle of industry from raw materials to commerce, as for instance the Corporation of Textiles, which embraces the cotton industries, silkworm breeding, production of wool, the wool industries, silk-cocoon raising, silk-throwing and reeling, rayon, weaving of silk and rayon, cultivation of flax and hemp, the jute industry, dyeing and printing of fabrics, sundry textile industries, and finally commerce and retail trade in these fields.

There are 22 Corporations, but they are allowed to co-operate as groups of two or more Corporations or to work as a branch of one, according to the range of problems concerned.

Their functions and legal status are best described in the Resolution adopted by the National Council of Corporations on 13 November 1933, which reads as follows :

"The National Council of Corporation defines the Corporation as the instrument which, under the ægis of Government, carries out the integral, organic and unitarian control of production with a view to the expansion of the wealth, political power, and well-being of the Italian people.

"It declares that the number of Corporations to be formed for the main branches of production should, generally speaking, be in keeping with the real needs of the national economy.

"It establishes that the general staff of each Corporation shall include representatives of Government departments, of the Fascist Party, of capital, of labour, and of technical knowledge. It assigns to the Guilds as their specific tasks: conciliation, consultation—compulsory on problems of major importance—and the promulgation, through the National Council of Corporations, of laws regulating the economic activities of the Nation.

"It leaves to the Fascist Grand Council the decision on further developments of a constitutional and political order, which should result from the effective formation and practical working of the Corporation."

The regulations drafted by the Corporation may include the

quantitative and qualitative control of production and the control of prices, wages and salaries and distribution. The rules constitute a code which comes very near to those drafted by the N.I.R.A. under the New Deal.

As an example may be quoted the "Rules for the Regulation of the Cultivation of Beet" assigned to the Beet and Sugar Corporation before referred to which were approved by the Central Corporative Committee on 30 April 1935. They read as follows:

- (1) Cultivators of beet for the production of sugar must cultivate during the 1935 season an area not greater than that fixed in the contracts of cultivation made according to the convention of 8 March 1935 between the National Association of Beet Cultivators and the National Consortium of Sugar Producers.
- (2) The farmer who has made a contract for the cultivation of beet for the production of sugar is forbidden to plant land with sugar-beet for use as cattle feed.
- (3) The competent syndical association shall establish a rigorous control of areas cultivated and of consignments. They may, when necessary, avail themselves of the bodies referred to in Article I, within the limits permitted by their respective by-laws.
- (4) For penalties in case of non-observance of the present rules the provisions of Article 2 of the law of 5 February 1934, are to be followed.<sup>2</sup>

The "rules" become law only when they are approved by the General Assembly of the National Council of Corporations, and confirmed as well as published by the Head of the Government in the *Law Journal* and decrees for the kingdom.

At the top of the Corporate system is the General Council of the Corporation, a kind of Economic Parliament. The Council consists of representatives of Syndicates and Corporations, of Government departments, social and economic bodies, and high officials of the Fascist Party, and is presided over by the head of the Government. Every member must be appointed and his appointment confirmed by decree for three years, but his appointment can be cancelled. The Council is divided into Sec-

<sup>2</sup> Quoted by G. Lowell Field, *op. cit.*

tions and Sub-sections, the General Assembly, the Central Corporative Committee and the Permanent Special Committees.

The National Council has, to some extent, legislative powers provided that the Resolutions of the General Assembly are confirmed by the Head of the Government and published by it. They are called upon to give their authoritative opinion on any question relating to national production, and in some very restricted cases their opinions are compulsory (e.g., on the question of reorganization of syndical and corporative associations).

The Council, like other Corporations and Associations, is supervised by the Ministry of Corporations, which also has its own offices in all provinces and important districts: the Provincial Councils and "Corporate Inspectorates," which fulfil the task of oversight and control over the whole field of the Corporate Economy.

We have seen in our description how strong are the bonds and restrictions legally imposed on the Syndicates and Corporations. They are, as a matter of fact, much more burdensome in practice. Neither the Corporations nor the Syndicates are autonomous or independent; they are only a subservient implement in the Fascist Central Government. They are merely a facade, serving primarily to one end, the breaking of the bargaining power of the former Trade Unions; and they are the executives of central bureaucratic bodies with some advisory powers.

"Workers' and employers' assemblies exist," writes Professor Welk, "but they are not free; syndicates and corporations may make plans and recommendations, but only those approved by the government will ultimately be put into effect. . . . Italian syndicalism and corporations actually represent in practice only the means through which the productive forces of the nation are made to co-operate with the Fascist government and the Fascist party in the achievement of the latter's ultimate economic and political ends. . . . Yet, if few fundamental changes have been made in Italian economic life, it must nevertheless be recognized that a surprisingly complete and effective system for the centralized control of the Italian economy has been evolved."<sup>3</sup>

<sup>3</sup> W. G. Welk, *Fascist Economic Policy*, 1938, p. 153.



Even the German writer, Vollweiler,<sup>4</sup> who is much in sympathy with Italian Fascism, speaks of the monopolistic features of the Syndicates and Corporations which develop cartel-like activities. And Dr. Pirelli, head of the Association of Italian Joint Stock Companies, spoke as early as 1934 in the National Council of Corporations about the dangers inherent in this system :

The possibility of the undue prevalence of the interests of certain categories of production over those of others and over the collective interests.

The possibility that the stimulus to progress afforded by competition might be eliminated.

The possibility that the improvement in the standard of living of the masses might be checked by rising prices due to sheltered conditions arising from multifarious forms of protection.

The greatest essential for every kind of planning and control is the spirit which animates the whole body; is it the spirit of sacrifice, or the spirit of exploitation and advantages for a certain class or group? Is it the spirit of self-government or the spirit of totalitarianism?

The driving force behind the whole structure is the Fascist Party, which is in exclusive control of the corporate economy. We may allow Mussolini to speak on this matter in his own words. In his speech to the National Council of Corporations on 14 November 1933, he explained the working of the system, stating that its success really depends on the three following conditions :

- (1) "One party, so that economic discipline may be accompanied by political discipline, and so that above every contrasting interest all may be bound together by a common faith.
- (2) "There must be the totalitarian State, that is to say, the State which absorbs in order to transform and give power to all the energies, all the interests, all the hopes of a people.
- (3) "The third, and last, and most important condition is to live in a period of high idealistic tension."

<sup>4</sup> *Op. cit.*

We accept the first two conditions as actually conforming to the practice in Fascist Italy; while the third condition is merely a wish.

To refer again to Vollweiler, he emphasizes the excessive growth of cartels in Italian practice as favoured by the Corporate State. This clearly indicates the spirit by which it is animated.

In my opinion, the Fascist experiment (if we consider it as an experiment) has utterly failed, for the following reasons :

- (1) As an experiment in self-government, because self-government leads only a shadowy existence.
- (2) As an experiment in planning, because Italian planning was ineffective and inefficient (as can be easily proved by Italian statistics).
- (3) As an attempt at reconciliation between capital and labour.

To confine ourselves to the last point, I may say that the Italian experiment has established an overwhelming bargaining power for capital over labour. Peace in industry was established through the complete breaking up of the bargaining and the political power of the workers. This is due not so much to the forms of the institutions themselves, as to the spirit which animated the whole body of the one-party system.

The experiment has proved that the totalitarian State cannot bring us any nearer to the establishment of a right equilibrium between capital and labour.

### Note 3

#### THE NAZI ORDER: A MILITARY CAMP

The Nazis do not claim to have a fully planned economy; on the contrary they often say that their Four-Year Plans have nothing to do with full planning of the Soviet type. Their intention is to create a compact, closed National Economy (*geschlossene National-Wirtschaft*), as an economy subservient

to national interests for the sake of attaining the maximum political power for the national State. But what they describe as their ideal model of national economy, and what they really have achieved since 1933, is in reality a scheme of centralized full-scale planning.

The central pivot of Nazi Planning (before the present war) is the idea of self-sufficiency, i.e., the idea that the national economy must have the greatest possible independence from the outer world; more especially that all the necessaries of life and of political power from the point of view of defence must be provided by the German soil. All resources of raw material, even the poorest, must be utilized to the full without regard to cost. All man-power must be utilized to the last man. All machinery and capital must be mobilized to serve the nation.

The idea of self-sufficiency is closely connected with full mobilization of man-power and resources for the idolized Nation-State. Full mobilization means full conscription and full control over man-power and resources, and is really the central idea of a war socialism.

The Nazis regard the national economy as a large military camp, and the early Nazi writers very often referred to the conception of a beleaguered camp. The commander has the right to commandeer all resources and all the men needed for the best attainment of his objectives. The principle of leadership and authority must hold the whole structure together from top to bottom.

Employers and workers, industrialists and farmers, financiers and shopkeepers must regard their activities, not as securing their right to happiness or the development of their personality, but as their duty towards National Unity (*Volksgemeinschaft*), as do soldiers and officers. The range of their powers and their income is in some respects a reflection of the range existing between the different ranks in an Army.

Social stratification must be based on the principle of functionalism. Just as in the human body each member has its function, so in the State each individual has a certain function to perform. There is no place for the struggle between classes and groups, but for organized co-operation alone.

Economic activities must be subjected to a certain Order

(*Markt-Ordnung*) regulating prices and quantities to be produced and exchanged. The Order must be the outcome of the central will, or if you prefer, of the spirit of the nation, and must be substituted for blind market forces.

The national economy must be regarded as a living body, not as part of a world economy, and as the highest entity in itself. Therefore the Government must first of all look after its inner structure and map out the right proportions between all branches of production and all kinds of economic magnitudes necessary for its development and strength.

Nazi writers refer to Frederick the Great as the prototype of Prussian socialism and to J. G. Fichte as the early philosopher of the closed economic State (*Geschlossener Handelsstaat*, 1880). The close connections between Prussianism and Socialism are fully demonstrated in Oswald Spengler's *Prussianism and Socialism* (1920).<sup>1</sup> The organization and control of Nazi planning is fully adapted to this idea of German centralized planning. It went through several stages, controls being expanded and tightening as time went on, with a marked tendency towards centralization and bureaucratization.

In the first Four-Year Plan the Central Planning Authority really consisted of Dr. Schacht and his staff. He was Governor of the Reichsbank, and after August 1934 head of the Ministry of Economy also.

In the second Four-Year Plan from 1936 the Central Planning Authority for the execution of this plan consisted of Goering and his staff. On 18 October 1936 he was given plenipotentiary powers of far-reaching significance. He was authorized to issue State decrees and make administrative laws, and to summon every Government department. The law of 29 October 1936 created a special office to carry out Goering's plans, the office being a kind of economic headquarters over all the other departments of economic affairs. The highest degree of centralized control was not achieved before January 1940, when Goering, with the assistance of a Council, "was placed in command of all economic activities, including the jurisdiction of private

<sup>1</sup> "Friedrich Wilhelm I, and not Marx, was . . . the first conscious Socialist. Marx was but a stepfather of socialism."

business, the war department and Government." This may be called the head of Nazi planning.

The body of Nazi planning has an extremely large number of wide and complicated ramifications. The national economy is not only organized, but over-organized, and overlaps in many respects.

The three pillars of the organization of the national economy are supposed to be:<sup>2</sup>

- (1) The Organization of Industrial Economy (*Organisation der gewerblichen Wirtschaft*), based on the Act of 27 February 1934, with subsequent modifications.
- (2) The National Labour Act, promulgated on 20 January 1934 (*Gesetz zur Ordnung der nationalen Arbeit*).
- (3) The German Labour Front.

The whole national economy, with the exception of agriculture,<sup>3</sup> is centrally organized under the Reich Ministry of Economy; the organization being twofold – vocational and regional.

Vocationally, the national economy is divided into six *Reich* Groups (*Reichsgruppen*)—Industry, Handicrafts, Commerce, Banking, Insurance and Power Economy. Industry is again divided into seven *Principal* Groups (*Hauptgruppen*) and these are further subdivided into *Economic* Groups (*Wirtschaftsgruppen*). Five other *Reich* Groups are divided into *Economic* Groups. Membership is compulsory for all industrial undertakings and employers. The heads of these *Reich*, *Principal*, and *Economic* Groups are nominated by the Reich Minister of Economy, and are under strict control on the principle of leadership.

This vocational organization is supplemented by a regional organization, which is made up of the Chambers of Economy (*Reichswirtschaftskammer*). Every region has its own Chamber; before 1938 there were 18 regions. The Chambers of Economy are the regional representations of the Chambers of Industry and Commerce, of the Chambers of Handicrafts, of

<sup>2</sup> Maxine Y. Sweezy, *The Structure of the Nazi Economy*, 1941, Harvard University Press, p. 53.

<sup>3</sup> An outline of Nazi agricultural planning is given in the chapter on Agriculture.

the Reich, Principal, and Economic Groups of a given district.

At the head of these two organizations (vocational and regional) is the Reich Chamber of Economy, as a legally constituted Corporation and the focus of all economic activities apart from agriculture.

Since the agreement of the Reich Minister of Economy with the Leader of the German Labour Front, announced on 26 March 1935, the Reich Chamber of Economy has assumed the central authority over all the labour and social policy of the Reich, as well as the central representation of every kind of economic organization in the Reich.

The function of all these organizations according to the official formula is: to give advice to their members and to promote their well-being, with due regard to the general interests of the National Economy and the National Socialist State.<sup>4</sup>

This economic organization is supplemented and backed by a labour organization in the factories and by the German Labour Front.

The National Labour Act, also called the Law of Labour Order (*Arbeitsordnungsgesetz*) of 20 January 1934 regulates the relationship between employers and employees. The employees are bound to give respect, loyalty and obedience to the employer, who is their leader; the relationship is much the same as in a feudal society. The worker is a kind of medieval bondsman bound to his feudal lord and linked with him through many restrictions. The owner of the firm is styled the "Works Leader" (*Betriebsfuhrer*), and is responsible not only for the enterprise but also for the health and social conditions of the employees as far as the undertaking is concerned. He draws up Regulations for Work (*Betriebsordnung*). In this respect he has a public status with which certain liabilities and duties are connected, especially with regard to the training, health and social conditions of the workers. If he fail in his duties, he may be deprived of his rights and disqualified.

Where twenty or more workers are employed, the employer

<sup>4</sup> Emil Helfferich, *Some Aspects of German Economic and Social Policy*, 1939; Dr. Paul Blankenburg and Max Dreyer, *Nationalsozialistischer Wirtschaftsaufbau und seine Grundlagen*, Berlin, 1936.

is advised concerning his functions in the business by the Council of Confidence (*Vertrauensrat*) presided over by himself. The members of the Council (who must belong to the German Labour Front and must be known as unswervingly loyal to National Socialism) are nominated by the employer in such a way that each year he issues in March a list of his nominees from whom the employees can choose by secret ballot. If all of them are rejected by the ballot, the Trustee of Labour decides. The Councils are supposed to be an instrument, not of struggle, but of co-operation with the employer.

We now come to the position of the Trustees of Labour, the most important position in the German Labour Front. The *Treuhänder der Arbeit* are Government offices, constituting a part of the administration of the Reich Ministry of Labour. They have vast discretionary powers of supervision over Works' Leaders and Councils of Confidence, especially with regard to regulation of wages, hours of work and individual employment contracts. As a matter of fact, the Trustees are dictators in all wage disputes, and wages are determined by them. The Trustee of Labour is advised by a Board of Experts representing industries in his district. He has also a share in the jurisdiction of the Tribunals of Social Honour.

The Tribunals of Social Honour (*Sozial Ehrengerichtbarkeit*) are set up for the protection of "social honour," both of workers and employers, especially in the case of unjustified dismissal of the worker. The tribunals can, as a punishment, disqualify the employers from being "works' leaders."

The "Labour Order" is strengthened by the German Labour Front, which, as the central organization of all employers and employees in every field of the national economy, assumes a position of the utmost importance in its whole framework.

The German Labour Front (*Deutsche Arbeitsfront*, or, for short, D.A.F.) is styled a corporate organization and has replaced all former Trade Unions, but not all Employers' Associations and Federations. Its membership includes all persons engaged in remunerative occupations (excluding Government officials, who have an organization of their own), irrespective of their social position. This organization is closely related to the Nazi Party and is led by it. The Reich organization leader

of the Party is at the same time head of the Executive of the D.A.F.

As in the Party, there are all sorts of blocks, cells and local groups. The heads of all the Groups are strictly subordinated on the basis of the leadership principle.<sup>5</sup>

At the bottom of the hierarchy is the Factory Union (*Betriebsgemeinschaft*), which includes every person occupied in the factory, from the owner to the lowest employee. All factory unions in the same branch of economy in a certain locality are organized into local groups, and these latter into district, regional and finally Reich groups (*Reichsbetriebsgemeinschaften*).

The leader of the D.A.F. is advised by the Reich Chamber of Labour (*Reichsarbeitskammer*) and the leader of the regional groups (*Gauwalter of the D.A.F.*) by the Regional Chamber of Labour (*Gauarbeitskammer*). The Reich Chamber is composed of representatives of the Party, Army, heads of the Reich and regional Groups of the D.A.F., a number of employers and employees, and other delegated persons.

The D.A.F. has five sections:

- (1) Section for the Maintenance of Social Peace, which is the most important task of the D.A.F.
- (2) Section for raising the standard of living, which includes the branch known as "Strength through Joy."
- (3) Treasury Section.
- (4) Supreme Tribunal of Social Honour and Discipline.
- (5) Section for factory troops (*Werksscharen*).

The objective of the D.A.F. is the totalitarian desire to embrace the whole life of the nation in an All-Union, which starts from the "cell" in the factory up to the Reich. This objective was clearly defined in the decree issued on 24 October 1934, which declares: "The object before the D.A.F. is the creation of a genuine national community of all Germans."

This short outline of the organizational control of the German planned economy has shown us that, in spite of its styling itself a self-governing organization, it is really a strictly centralized

<sup>5</sup> Helfferich, *op. cit.*; Blankenburg, *op. cit.*; Gassert, *Werden und Wesen der sozialistischen deutschen Wirtschaft*, 1939, Berlin.



and authoritative organization built on the principle of leadership and obedience. The self-governing bodies represent really only the Nazi Party. In spite of their being called "Chambers," they have only advisory powers for their leaders, the regional Chambers for their regional leaders, and the Reich Chambers for their Reich leaders. They are subservient instruments for the execution of orders and for supervision. Their influence and independence has been steadily reduced with the tightening of controls exercised by "commissars" appointed for industries and regions and directly subordinated to Goering's office. The self-governing bodies became a mere facade as time went on, while the controls were taken over by the Commissioners.<sup>6</sup>

The utmost concentration of all resources and every effort, directed by one central will, is the real content of all the institutions of German planned economy. As Dr. Schacht, the former Governor of the Reichsbank, once in charge of the head of the Ministry of National Economy, said: "The secret of financing Germany's political and economic tasks lies in a centralized and rigid concentration of the German Reich, that is, public finance as well as private economy. This concentration is only possible within a state based on authoritative rules."

This statement is true, not only for the financing, but for the whole field of Nazi planning, which may be regarded as a model of a highly centralized framework of planning in a military camp.

#### Note 4

### "DEMOCRATIC CENTRALISM" IN THE SOVIET STATE

The conception of the Soviet State lays down as a fundamental principle that all industry belongs to the workers. The working population is the State, and the workers employed by the State are really their own employers.

This theory provides for the explanation that no protection

<sup>6</sup> Sweezy, *op. cit.*, p. 54.

for the workers is needed, and the Trade Unions must assume a new status of co-operation with the State as a part of the State machinery, and not as professional associations for the protection of their interests.

The nature of the Soviet State in the opinion of Communist writers excludes the possibility of conflicting interests:

- (1) Between the State and the workers.
- (2) Between classes or groups of workers, because of the "absence of exploiting classes."

The theory of the integral and genuine solidarity and the class and moral unity of the Soviet people is the basis of the whole organization, political as well as economic.

In the political life of the Soviet people there is no room, claim the Communist theorists, for conflicting political parties, because, in their opinion, conflicting parties are only an expression of conflicting interests. Hence the one-party system. The State is run by the Communist Party in the sense that all key positions, committees and officers, are controlled by the Party. The Communist Party in Russia dictates through "the men who are members of the Politbureau and who control the mechanism of the Party."<sup>1</sup> The political and economic organization of the State which embraces the totality of the nation's activities is based on a triangle: Communist Party—State Administration—Labour Unions.

The first is the motor of the whole State vehicle, or rather the "leading nucleus" of the State organism. The second constitutes merely the State bureaucracy. The third (and weakest) link in the chain is the large body of followers, organized for mass co-operation with the "leading nucleus" and State bureaucracy.

We may briefly outline the working of this triangle as far as is necessary for the understanding of the organization of the Soviet planned economy, in regard to self-government.

The Party is the exclusive expression of the political will and political consciousness of the people. Article 126 of the new Constitution (1926) recognizes it as the "leading nucleus of all

<sup>1</sup> Sir W. Citrine, *I Search for Truth in Russia*, London, 1938, p. 322.

organization of the toilers, both public and State" and as "a vanguard of the toilers in their struggle to strengthen and develop the socialist system."

The membership of the Communist Party comprises about 2-2½ millions; that is, less than 1½ per cent of the whole population. The members must be actively engaged in the work of the Party, and are specially selected and disciplined. Periodical purges, or cleansings, expel non-active, "reactionary," or unworthy members. (The Amendment of the Communist Party Charter in 1939 abolished the institution of periodical mass purges, but retained the right to "cleanse" the ranks.) The Committee for Party Control has special duties connected with the maintenance of the morale and discipline of Party members, and "guarding their conscience."

The whole structure of the Party is based on principle of "democratic centralism." The "cells" established in every factory, collective farm or institution, are the primary party organs. On this basis is erected a whole pyramid of higher organs. Each town, county, territory, province, and Republic has its own Party organ. At the apex of this pyramid stands the All-Union Congress, scheduled to meet at least every three years, which elects the Central Committee, the supreme organ, in the interval between the two Congresses. The nucleus of the Central Committee is the Secretariat of four members, headed by Stalin as Secretary-General. Two other leading bureaux of the Central Committee are (2) the Political Bureau, and (3) the Organization Bureau, which supervises the working of the whole Party machinery and decides all major policies of the State and Party.

"The whole structure is based on the principle of hierarchy, the lower institutions being responsible to the higher ones and subject to their supervision. The officers elected by the lower organs are confirmed in office by the higher ones."<sup>2</sup>

The Webbs describe the Party as "pyramidal in form, broadly democratic at the base, but directing its self-government from

<sup>2</sup> Michael T. Florinsky, *Toward an Understanding of the U.S.S.R.*, New York, 1939, p. 100. See also A. R. Williams, *The Soviets*, New York, 1937.

the top downwards.”<sup>3</sup> “It tends to erect one man as its head, who is nominally no more than an ordinary member, and may not hold the highest or any office at all in the State, but who reaches the apex of the pyramid by popular acclamation, based on election, at first direct and afterwards indirect; but who, once chosen, is professionally the chief director, and who becomes, in time, practically irremovable by the membership.”<sup>4</sup>

The same principle of “democratic centralism” applies to the organization of the State and especially to its economic administration.

The legislative power is vested exclusively in the Supreme Soviet of the U.S.S.R., elected for four years and consisting of two Chambers. As the U.S.S.R. is a federated State, formed of several Union Republics (before the present war in 1939 there were 11 Union Republics, some of them subdivided into Autonomous Republics, Autonomous Provinces and National Regions), it has adopted a two-chamber system; one Chamber is constituted by the Soviet of the Union and another by the Soviet of Nationalities. The first is elected on the basis of one deputy for every 300,000 of the population; the second, on the basis of 25 deputies from each Union Republic, 11 from each Autonomous Republic, 5 from each Autonomous Province, and 1 from each National Region. In fact, the Supreme Soviet is completely controlled by the Communist Party.

From the age of eighteen the people have, by secret and direct voting, the right to elect deputies, but only from among the candidates nominated for a given area by Communist Party organizations, Trade Unions, Co-operatives, Youth Organizations and Cultural Societies (Article 141).

Both Chambers have equal rights, and every Bill must be approved by both Chambers by a simple majority. They elect, at a joint meeting, (1) its Presidium, consisting of a Chairman, 11 Vice-Chairmen and 24 members; (2) the Government of the U.S.S.R., the Council of People’s Commissars.

The Presidium of the Supreme Soviet has in the interval between the sessions of the Supreme Soviet a wide range of

<sup>3</sup> *Soviet Communism : A New Civilization?*, 1917, Vol. 1, p. 413.

<sup>4</sup> *Ibid.*, p. 414.

legislative and supervisory powers over the Government.

The Council of People's Commissars (the Government) is the highest executive and administrative organ of the State, responsible to the Supreme Soviet, and in the intervals between its sessions, to its Presidium. It has wide powers; it directs the branches of federal administration, applies measures for the carrying out of the plan of national economy, and the task of monetary, credit and economic administration, and sets up all Boards, Committees and other offices for national economy, culture and defence, which come under the jurisdiction of the U.S.S.R.

The Government consists of a Chairman, Vice-Chairman, the Chairman of the State Planning Commission, the Chairman of Soviet Control, the Chairman of the Committee of Agricultural Stocks, the Chairman of the Committee of Arts, the Chairman of the Committee of Higher Education and the People's Commissars.

The Government appoints the chief Planning Authority of the U.S.S.R., namely the State Planning Commission (*Gosplan*), which collects all the necessary data and co-ordinates all factual information necessary for planning and prepares a comprehensive economic plan for the Union. The plan is submitted for the approval of both the Communist Party and the Soviet Government and the Supreme Soviet and then put into operation. The *Gosplan* is assisted in its work by a network of subordinate planning authorities—Institutions in the Union Republics, Autonomous Republics, the State Bank, trusts, combines, farms and enterprises, etc.

We now come to the administration of industry itself.

The administration of Soviet industry has been very unstable. Since 1917 it has undergone many substantial changes, having been modelled anew every few years. The many reforms attempted to counteract the strong centralistic trend implied in Soviet Planning, but eventually they were renounced and thereby only strengthened this trend. When the Régime of Workers' Control was instituted by the Decree of 14 November 1917, it appeared as if the Soviet Government had in mind the establishment of a Workers' Self-Government which would come very near to the programme of Guild Socialism.

"For the first few months after October 1917... the workmen assumed that they were, through their committees in the several factories, to take over the whole function of the owners and managers of the enterprises in which they were employed... There was a brief period during which the running of the trains on the Petrograd-Moscow railway was decided by the station staffs. Even on vessels of the Soviet mercantile marine, the captains took their navigation orders from the committee elected by the ship's company. Within six months, however, Lenin decided that such a form of workers' control led only to chaos, and that there must be, in every case, a manager appointed by and responsible to the appropriate organ of the Government."<sup>5</sup>

Now the whole of industry is rigidly centralized and directed by State administrative bodies set up under Commissars, administrators and directors nominated from above. They assume growing powers of authoritative management under the Chairmen of capitalist syndicates, trusts and employers.

The large-scale State enterprises—some 75,000—are ranged under several Commissariats (*Narkomat*), whose numbers and range of power very often change. Some of the Commissariats are All-Union (federal) only, and some have their equivalent in the separate Republics (States).

The industrial Commissariats are divided into principal administrations (*glavki*)<sup>6</sup> which embrace certain concrete branches of industry.

These administrations are again subdivided into Trusts and Combines. Trusts are "horizontal" combinations which include all enterprises manufacturing the same class of commodities throughout the whole State or in a given region. Combines are "vertical" organizations based on the "territorial-productive" principle, such as the Magnitogorsk Combine, which includes a whole phase of production within a given region. For instance, the latter includes Mining enterprises, a Coke chemical plant, Iron and Steel works, Electric Power plants, Machine shops, etc.

Again, the Trusts and Combines are subdivided into single

<sup>5</sup> Webb, *op. cit.*, pp. 166-7.

<sup>6</sup> Ch. Bettelheim, *La Planification soviétique*, Paris, 1939.

enterprises (mines, factories, mills, workshops) which are the lowest units in the economic administration.

All these administrative and productive units constitute a hierarchial pyramid directed from the top downwards. "Mid-way organs are simply the means for carrying out the directives of the higher organs."<sup>7</sup> The higher organs direct and supervise the lower organs. In some respects they function as bodies for selling or purchasing, like syndicates in a capitalist country.

All the organs have their own legal status and financial autonomy, their own accounts and funds. They all have their planning organs for co-operation with the State Planning Commissions as already mentioned. But their chief duty is the fulfilment of the Plan established for them by the higher organ.

All the industrial units, *glavki*, trusts, combines and enterprises have Directors at the head, usually with Boards and Councils, nominated by Commissars or by their higher organs. "The general manager, often styled director, with more or less consultation with his leading officials and recruiting committees, appoints the whole staff of the factory, and, with many responsible heads of departments, continuously directs all their operations, including every associated section, such as that of medical supervision and treatment of all the employees, and that of the canteen and restaurant which serves their meals."<sup>8</sup>

The organization and management of a hierarchy of boards and directors "is comparable to nothing more extraordinary than the organization of one or two hundred industrial leviathans like the United States Steel Corporation or Imperial Chemical Industries Limited..."<sup>9</sup>

The responsibility for all that happens in the enterprise lies with the Director, who during the last years has been given wide powers, authority and prestige.

In contrast to this highly centralized and authoritarian body of industrial State administration, the Labour Unions are supposed to be a counterpart in industrial self-government. Nearly 85 per cent of all wage-earners (28 millions) are members of

<sup>7</sup> A. R. Williams, *The Soviets*, 1937, p. 162.

<sup>8</sup> Webb, *op. cit.*, p. 111.

<sup>9</sup> *Ibid.*, p. 111.

Labour Unions. Their character is described in another part of this book. They are vertical, exclusive, monopolistic organizations (one industry—one union) of wage-earners in enterprises and industries; irrespective of the occupation or profession to which they may belong. Their main functions are:

- (1) To negotiate every year new wage agreements with the management of the industrial organization, as collective agreements are compulsory by law.
- (2) The organization of social services, educational work and leisure time activities and social insurance funds.
- (3) Co-operation with the management with regard to the methods of increasing productivity and (over-) fulfilment of plans, through the encouragement and organization of a "socialist competition" ("Shock-Brigades," Stakhanov movement).

The General Meeting of members elects the Factory Committee (*fabkom* or *mestkom*) of the workers, which, with the "cell" of the Communist Party and the Management, constitute the "Red Triangle" in the factory. This is the unitary organ of the movement. On this basis is built up a pyramid of Committees—local, regional, republican and All-Union—grouped according to the territorial production principle (according to their various predominant products).

There are some 170 Unions, and every one is directed by the Union Congress and the Central Committee elected by this Congress.

The apex of the whole pyramid is constituted by the All-Union Congress, scheduled to meet every third year, which elects the All-Union Central Committee as the supreme organ of the movement in the period between two Congress sessions.

The Labour Unions are organized and managed in the same way on the basis of hierarchy and "democratic centralism." They are parts of the State Administration. They not only control factory inspection but also administer large funds for social insurance. The external expression of this public character of the Labour Unions was the transference of the Commissariat of Labour to the All-Union Central Committee of Labour Unions in 1933.

The whole machinery is run by Union bureaucracy paid,



controlled and disciplined as are other State bureaucracies. The factory and local committees are controlled by the "leading nucleus" of the Communist Party and by the Administration (Management). As Sir Walter Citrine writes: "I had the feeling that the Unions had no real independence from the Communist Party and the Government and that they acquiesced too readily in all that was demanded of them by the authorities."<sup>10</sup>

"I asked, 'How could the Trade Unionists exercise any independent criticism of the system?'"

"If the individual worker tried to do so in the factory, he would first be given a friendly warning. The next time he would find himself up against the Communist nuclei in the factory, and finally the Factory Director. He would have a pretty rough time."<sup>11</sup>

Large masses of the members seem to be rather apathetic and not especially interested in the work of the Labour Unions. The best description of their work is given in the Resolution adopted by the Sixth Plenary Session (plenum) of the All-Union Congress of Labour Unions in 1937,<sup>12</sup> which reads as follows:

"The general meetings of the trade unions are summoned but seldom, they are poorly organized, are unbusinesslike and merely 'formal-declarative' in their character. The decisions are frequently not carried out, there is no control over their execution. . . . The administration of social insurance is carried on by bureaucratic methods, the members of the trade unions do not participate in this work, have no control over the distribution and use of the social insurance funds. This situation has made it possible for all sorts of swindlers, chisellers, and enemies of the people to invade the administration of social insurance, to use the funds improperly, to squander and embezzle millions of roubles. . . . The Trade Unions have frequently paid no attention to the complaints of the workers, engineers and technicians who pointed out criminal violations of labour legislation, and the non-observance of safety measures. . . . The Trade Unions have greatly weakened the drive for mass-production, have failed to lead in the organization of 'socialist competition' and the

<sup>10</sup> *Ibid.*, p. 404.

<sup>11</sup> *Ibid.*, p. 255.

<sup>12</sup> Quoted by Florinsky, *op. cit.*, p. 192.

Stakhanov movement. . . . The Presidium of the All-Union Central Committee of Trade Unions is proceeding by purely bureaucratic methods,<sup>13</sup> is invariably late in deciding the most pressing questions of the trade union movement. . . . The majority of the members of the Central Committee of the Trade Unions are not familiar with the conditions in the enterprises. They do not know and do not try to learn what are the interests of the membership, and show no desire to discuss the questions vital to the workers."

We have seen from this short outline that there is not much self-government in the working of the Soviet planned economy. Now we may ask to what extent the integral solidarity and unity of interests of the Soviet people, put forward as an argument for lack of self-government, holds good in the social structure of the Soviet State.

The social structure of the Soviet State is supposed to be classless, but in reality it is classless only in regard to the old division into capitalists, workers and landlords. Out of the Soviet State have emerged new social classes, and three of them are already acknowledged in many official statements.

In his speech on 14 November 1936, on the New Constitution, and in many later speeches, Stalin speaks of three distinct social classes: "the working class," "the peasant class," "the intelligentsia."

The intelligentsia, which in Stalin's conception includes the "engineers, technicians, workers on the cultural front, employees and so on," is really divided into two separate strata: the ruling

<sup>13</sup> The accusation of bureaucracy can be found of course in any report dealing with any part of Soviet administration. Endless reports and documents are written, endless forms filled up, endless questionnaires and inquiries replied to. The monster of "red tape" has been deprived of his heads many times, but every time new heads grow, with more powerful threats to efficiency and smoothness of working. Bureaucracy is even indicted in trials of specialists, engineers and responsible heads of trusts and enterprises. The leaders of large-scale enterprises are not financially responsible for the loss of capital, as are entrepreneurs in capitalist countries, but are responsible with their heads and posts. The "trials" are the measures employed in the fight against bureaucracy, indolence and evasion of duties.

bureaucracy and the clerical workers of medium and lower ranks. The ruling bureaucracy includes the Commissars, heads of trusts, combines, large-scale entrepreneurs (some 75,000), heads of big State farms and collective farms (some 250,000), heads of high offices in Government departments and Labour Unions, in the Red Army, in the banking and communication systems.

From the point of view of ownership of the means of production it likewise would be wrong to suppose that complete uniformity exists. Leaving aside the individual craftsmen and individual farmers, there are a large number of members of new forms of co-operatives of different descriptions. There are the Producers' Co-operatives, Integral Co-operatives, Artels and Collectives in Industry, some 25,000 in number, employing over 3 million people.

In collective farms there are *Kolkhozy* (co-operative associations of farmers), Partnerships (*tovarishchestvo*), where the land alone is ploughed and cultivated on a communal basis, and *Communes*, where, apart from a few personal possessions, everything else is socialized.

It would be also wrong to assume that the workers constitute one homogeneous class. They have their aristocracy—and their lowest ranks, composed of unskilled workers, not to speak of a not unimportant class of domestic servants still in being (maids, cooks, nurses, chauffeurs) and workers in the forced labour camps.

The Soviet society shows in reality a high degree of class differentiation, completely different from the old and in many respects with indefinite boundaries. Perhaps the new differentiation can be best compared with the social differentiation of American society in the times of the early pioneers. It would be wrong to suppose that a planned society, even of a socialist type, can be a classless society; it must show a new social differentiation even more accentuated in some respects than the old society.

The division between leaders and followers is, in a planned economy, much sharper than in an unplanned economy. The need for discipline and obedience is much greater in a planned than in an unplanned economy, and discipline and obedience

must be enforced by personal prestige and social distinction.

With regard to all this, I would say that the argument put forward for the lack of self-government—the integral solidarity and unity of interests—does not conform with the Soviet reality.

The speed of the planned industrialization, the relationship between prices of farm and industrial products, the determination of wages funds, the quantitative division between different branches of production, can all be viewed from different angles, viz., the standpoints of the representatives of the different social classes.

I would regard the tendency towards “centralism” as somehow implied not only in Soviet planning but in every kind of planning carried out on a national scale.

**PART VII**  
**IMPLICATIONS AND CONDITIONS**

**CHAPTER I**

**ECONOMIC PLANNING IN A NON-ECONOMIC SPHERE**

We have dealt in passing with the many inroads made by a planned economy into non-economic fields. But do not these inroads constitute rather a full-scale invasion? We must now deal with the non-economic implications of planning, restricting ourselves to pointing out the main issues.

The principle of planning once introduced into an economic domain tends to cross the borderline into non-economic areas. The division between what we call economic life and social, political, or cultural life is a division between abstractions, but not between real things: one and the same phenomenon may be regarded as economic from one point of view and cultural or political from another point of view. Economic planning, by altering the structure and working of the economic system, must affect also the non-economic sphere, because economic activities are either the outcome or the source of other activities, and in many respects determine them. In any case they are always one side of a full social life, which constitutes a single whole.

A few examples will give us a general idea of the vast non-economic implications of economic planning.

Planning creates a centre of power, and the mere existence of a centre of power brings about changes in the political structure, because beside the political centre of power there emerges a rival economic centre.

Planning with a production programme tends to change the wants and desires of the population. The population of the U.S.S.R. after some twenty years of planning has undoubtedly

changed its tastes under the influence of the programme of production. Some wants and desires have disappeared and have been replaced by new patterns of goods, which are now really desired. This, of course, affects the whole culture.

Planning, when it deprives people of certain choices, especially personal choices, interferes with their way of life. This is especially true when choice of profession and occupation is abolished.

There are many non-economic factors in the sphere of production which are likely to be regulated when the principle of planning is once introduced. To these non-economic factors belong the movement of population (especially migrations), the development of science and technology, industrial psychology and education.

Changes in the play of demographic factors, e.g., an increase or decrease in the number of the population or of some of its sections, bring about corresponding changes in the supply of labour, demand, savings, and production. Some schemes include a compulsory allocation of man-power with the corresponding changes in the geographical distribution of population.

The development of science and technology, as a basis for the development of industry and agriculture, is likely to be planned. Some writers regard planned research as an essential part of planning,<sup>1</sup> and in Soviet Russia scientific research has been consciously planned on a national scale.

The psychological type of the population is also affected by the nature of the incentives introduced for the efficiency of production and for compliance with the Plan.

In the following sections we shall consider non-economic implications of planning in some domains. Of course, every type of planning will bring about its own particular implications, but notwithstanding this, we can discern some common institutional trends which, after a certain time, will be derived from the core of the idea of planning and its basic institutions.

#### A. *Population Planning*

The control of the size of the population has been for centuries regarded as an essential condition of effective planning

<sup>1</sup> J. G. Crowther, *The Social Relations of Science*, London, 1941.

on equalitarian lines. This view is found in many patterns of planning developed in Utopias.

We find control of population in Plato's *Republic*,<sup>2</sup> where the marriage relations of the guardians, and the begetting and bringing up of children, are to be controlled by the authorities. Similar institutions are introduced in his *Civitas Solis* (1623) by Campanella, who also submits sex relations and the begetting and bringing up of children to public control; by More in his *Utopia* (1516); by Godwin in his *Political Justice*; etc.

We remember, too, the arguments of Malthus against socialism based on the belief that every scheme of planning will be made ineffective by the growth of population. This population free from fear of want—argued Malthus—will multiply at a rate incompatible with the growth of national income, especially with the rate of growth of food production.<sup>3</sup>

A planned society on equalitarian lines would, in Malthus's view, imply "extraordinary encouragements to population," and "the numbers would necessarily increase faster than in any society that has ever been known." (*Essay on the Principle of Population*, Book III, Chapter II).

The population would increase faster than the means of subsistence, "unless such increase be prevented by means infinitely more cruel than those which result from the laws of private property." (*Ibid.*, Book III, Chapter III).

Many of the arguments of Malthus may be now regarded as

<sup>2</sup> Tr. A. D. Lindsay, London, 1907. We read in Book V, p. 460: "The number of marriages we shall place under the control of the rulers, that they may as far as possible keep the populations at the same level, having regard to wars and disease and all such ravages, and also taking care to the best of their power that our city becomes neither great nor small."

<sup>3</sup> We read in Malthus, Book III, Ch. III, *An Essay on the Principle of Population* (in the last edition revised by Malthus): "Let us suppose that in a system of equality, in spite of the best exertions to procure more food, the population is pressing hard against the limits of subsistence, and all are becoming very poor. It is evidently necessary under these circumstances, in order to prevent the society from starving, that the rate at which the population increases should be retarded. But who are the persons that are to exercise the restraint thus called for, and either to marry late, or not at all?"

obsolete, or rather as having lost their validity under the conditions of rapid technical progress, and a falling birth-rate. The danger of over-population in many countries has given place to the danger of under-population. And when we speak about the desirability of population control, we mean nowadays mainly the control of the quality and quantity of a population rather for non-economic objectives, such as eugenics, preservation of the nation, power-politics, defence, etc.

It may be averred that economic planning nowadays does not necessarily imply birth-control.

It would, however, be otherwise, assuming:

- (1) A scheme of planning designed to guarantee a stable standard of life for the whole population.
- (2) That the rate of growth of the population is excessive compared with the rate of technical progress in industry.

But in the absence of these assumptions we do not see any necessity for extending the field of planning to birth-control.

The necessity for population control is likely to occur, however, in local movements of population connected with the rapid change in the location or concentration of industry, especially in war and post-war planning, for instance, in the case of planned reduction of the size of towns, or in rebuilding of cities.

The necessity for control of migrations, of emigration and immigration is obvious, but as it exists already in every country, it would not involve an extension of the principle of control.

### *B. Planning and Politics*

Planning extending the functions of government tends towards a Leviathan State, which includes all economic activities. As economic activities are activities of everyday life, the State evolves towards an organization which includes the whole of social life.

The doctrine of the "withering away"<sup>4</sup> of the State in a socia-

<sup>4</sup> "The interference of the State power in social relations becomes superfluous in one sphere after another, and then ceases of itself. The government of persons is replaced by the administration of things and the direction of the process of production. The State is not 'abolished,' it withers away." (F. Engels, *Herr Eugen Dühring's Revolution in Science, Anti-Dühring*, Part III, Ch. II.)



list economy can be paradoxically interpreted in this way. In socialism the State would be everywhere, would be an organization which includes everything. And where the State is everywhere, it is nowhere; when everybody is a State official, nobody is a State official.

In this sense, but in this sense alone, the State would "wither away." When the political State becomes an economic State, the former disappears. The character of the State would change completely.

The change in the character of the State is, of course, dependent on the nature of a given scheme of planning. But the tendency is implied in planning itself, as a central control.

From the mere existence of a central control of the national economy would follow further:

- (1) The tendency towards a more authoritarian form of government.
- (2) The necessity for a transformation of the traditional form of democratic régime.
- (3) The need for greater political stability.

(1) In a planned economy everything depends on the authority in whose hands the central control is placed and in whose interests it is exercised. Planning without true democracy would be organized exploitation. A planned economy in the hands of ruthless invaders or dictators, or controlled by a body of monopolists or technocrats, might bring about the highest degree of economic exploitation. The system of rule, whether personal, oligarchic, or democratic, will set its seal upon the scheme of planning. The real contents of one and the same scheme will differ widely under different political structures.

The importance of the political structure for the nation is deepened and widened by planning. Changes in the political life may lead to the remodelling of the planned economy, while an unplanned economy is to a great extent independent of politics.

In particular, the distribution of income, so vital in different schemes of planning, becomes largely dependent on politics. Political power becomes economic power. The economic strife for a maximum share in national income between industries, professions, and social strata, the class struggle in general, would

be fought out not in economic life, where there would be no place for it, but in political life. The seizure of political power might lead to the desired redistribution of property and income.

Therefore every scheme of planning, if it works properly, must tend towards more authoritarian forms of government in this sense, that everyone must believe that what is undertaken by the planning authority in the field of distribution (and every step in the field of investment, production, and exchange, has its parallel in the field of distribution) is in the general interest. As the general interest cannot be precisely defined, and the particular steps undertaken may always be questioned from this or that point of view, the government must enjoy a much higher personal authority, derived from the personal authority of the leader,<sup>5</sup> than in an unplanned society.

The same argument is responsible for the tendency towards equality of income. In a more equal society the problems of distribution are, as a rule, easier to solve on a basis acceptable by public opinion than in a society with large class inequalities. Wide gaps in the distribution of income would be very difficult to explain, while smaller differences would be more easily accepted. Planning does not imply absolute equality, but only a reasonably equal distribution of income. Even planning for power-politics must be based on a fairly equal distribution of income.

(2) Planning as central control creates a new centre of power. It is unimaginable that the centre of political power should accept the existence of an independent economic power, which would be a substantial rival to its own power. However, two alternatives are possible: the economic centre of power might master the political, or the reverse. In the former case we

<sup>5</sup> Plato in his *Republic* speaks already of the necessity of establishing "a myth of leadership" in his ideal State. The "myth" would be based on the following creed: "You in the City are all brothers, but God, as he was fashioning you, put gold in those of you who are capable of ruling; hence they are deserving of most reverence. He put silver in the auxiliaries, and iron and copper in the farmers and other craftsmen. For the most part your children are of the same nature as yourselves, but because you are all akin, sometimes from gold will come a silver offspring, or from silver a gold, and so on all around." (Book III, p. 114; tr. A. D. Lindsay, London, 1907.)

should have a technocratic or bureaucratic régime in politics (economization of politics); in the second a political régime in economic life. The former case would be very harmful for the survival of democracy; the second might be to a certain extent harmful to the economy, because economic criteria, economic skill, and competence might be disregarded.

But in reality the processes may overlap and interpenetrate each other. Expansion of economic bureaucracy in political life is inevitable, and the only question is to what degree this might happen. The same is true of the political régime in economic life, which to a certain extent is a necessary outcome of planning.

Planning brings about the serious and difficult problem of collaboration between the two great centres of power. The traditional threefold division in political life (administration, legislature, and judicature) may yield place to another division, that between the political and the economic centre of power. The problem can be approached only on the basis of a wide separation of functions of planning, as pointed out in the next chapter.

Traditional democracy was based on the assumption that there was no centre of economic power, and indeed where democracy faces the existence of a centre or centres (monopolist, plutocratic) of economic power, it degenerates very quickly. Democracy under planning must establish a new system of interrelation between the two centres of power, of which one (the economic) would certainly require a longer period of stability than the other.

(3) Planned economy requires stability. A planned economy dependent on politics requires a more stable political structure. If, for example, every four or five years a new régime is to be expected under the control of another party, which has different aims in view, and will adopt different methods, the functioning of planning may be endangered. Planning creates a need for stability in political life, as independence of the planned economy in relation to politics cannot be expected. The tendency arising from planning turns against party politics.

Some writers would like to dismiss the difficulties of a Leviathan State by the "functionalization" of the State, among

them C. B. Purdom,<sup>6</sup> who follows the ideas of Rudolf Steiner<sup>7</sup> and Otto Gierke<sup>8</sup> in Germany, Ramiro de Maetzu<sup>9</sup> and Salvador de Madariaga<sup>10</sup> in Spain. They propose free independent associations for different domains without a general State sovereignty. The associations would work only in their limited sphere and would be sovereign in that sphere. There would be a political State as well as an economic State and a cultural State. The three circles would work independently within the realms of their respective functions.

The idea of functionalization of the State is in my view based on false assumptions.

(a) It is assumed that the division between economic and political life is a division between real things, though it is, in fact, a division between abstractions only. Would the Exchequer belong to the economic or the political State? Does production of armaments belong to the economic or the political State? Is social legislation a matter for the economic or the political State? Is the problem of foreign trade and foreign credits economic or political in character? It can, indeed, be proved that every important question in economic life is also of a political character, and *vice versa*.

(b) It is assumed that government is only a function, and not a power used for certain interests. It is taken for granted that the three, or two, independent centres are centres of function, and not of power, and that they will be completely uninterested in the extension of their sphere of power to cover the interests which they back.

(c) It is assumed that a planned society can develop in three different directions; that in economic life one structure or ideology or interest may prevail, while in political or cultural life the trends may be different. In actual fact this is not so. The proper work of a planned society requires not only the closest

<sup>6</sup> *The New Order*, London, 1941.

<sup>7</sup> *The Threefold Commonwealth*, 1923.

<sup>8</sup> *Normal Law and the Theory of Society*, Cambridge, ed. E. Barker, 1934.

<sup>9</sup> *Authority, Liberty, and Function in the Light of the War*, London 1916.

<sup>10</sup> *Anarchy or Hierarchy*, London, 1937.

co-operation, but identification of trends. A planned society is a unity inspired by a common creed.

### C. *Planning and Education*

We have seen that planning will not be synonymous with exploitation only on the assumption that planning will preserve democracy (equal opportunity for government). The further assumption is that the masses will have an equal opportunity for education, because only thus can the road be opened for them towards sharing the functions of government in both its departments, politics and economics. Planning requires a large element of leadership, and the formation of a strong body of skilful technicians and bureaucrats.

Now let us suppose that the masses have no real access to educational facilities, and that the group of technicians and bureaucrats who form the functions of planning machinery reserve the educational facilities in the higher schools for their own children; then we may see after a certain time the emergence of a new class, a class of technocrats and bureaucrats. This is not unlikely to happen in reality, because it is natural that everyone should prefer to give his own children the best educational facilities, which cannot but be restricted in number.

It is mainly for this reason that the first planned Utopia, Plato's *Republic*, prohibited the marriage of guardians and rulers; the guardians and rulers were not allowed to know who were their own children.

Assuming that the access of the masses to educational facilities is not free, the exploitation of the masses by "plutocrats" would be replaced by their exploitation by technocrats and bureaucrats. The group of bureaucrats and technocrats might emerge after a certain time as a closed caste. And the distance between the leadership and the followers in a planned economy may be much greater than that heretofore experienced in an unplanned economy. This is a real danger which faces every planned society.

Therefore, besides the political problem the educational problem is one of the most important in a planned society. They are really one and the same problem, the problem of true democracy. True democracy is a necessity for the reasonable

working of the principles of planning.

Planning implies also some kind of control of education. The supply of skilled labour in its many forms depends on the educational system. If the planning authority avoids depriving people of their choice of occupation and profession, it may lead them by a planned education on vocational lines.

Planning, even in its most liberal form, cannot leave the wants and desires of the population completely untouched. The success of every kind of planning is better secured when a planned economy works for more uniform, more standardized desires and wants on the part of the population. Where these wants and desires differ widely, the planning authority faces a very difficult task. Once we start with rationalization we come to the conclusion that the wants and desires themselves are not always reasonable, that some of them are from the point of view of certain "scientific" criteria (food, or clothes, or lodging) unjustified.

Every planning authority will, as long-range tendency, affect also in every economy the key-position, which is the scale of preferences of individuals. This is proved by the experiences of planning in Nazi Germany, in Fascist Italy, in Soviet Russia. Even in N.I.R.A. and A.A.A. planning in the U.S.A., the authorities have tried to influence consumers' choices in agriculture.

Changing the desires and wants of the population is primarily the task of education. Therefore the rôle of education in a planned economy will be especially important, but it will certainly be subordinated to the planning authority.

Finally, we must consider the rôle of stimuli and incentives. The schemes of planning are, as a rule, connected with a particular social psychology. A capitalist society needs different stimuli and incentives from a state-socialist or a state capitalist society. Discipline and obedience play a much more important part in a state-capitalist or state-socialist economy than they do in an unplanned economy. The "contributive" motives (motives towards maximum contribution to national income), and acquisitive motives (motives towards maximum share in this income) are also of different importance in these economies. The most important sources of failure of some schemes of planning have always been in the field of the disparity between

changed social structure and social psychology. The structure has changed, but the stimuli and incentives have remained unchanged.

This is also a wide field for an educational programme, which implies its execution under supervision of the Planning Authority.

#### D. *Planning and Ideology*

In an unplanned economy it is supposed that every man knows what is in his own highest interests and acts accordingly, and the effects of his acts are not contrary to the general interest. In a planned economy it is supposed that individuals either do not know what is to their highest interests or that those interests do not coincide with the general interest. It is asserted that the acts of men must be guided and directed for their own "real" good, or rather for the real good of all. The idea of planning implies essentially that what is desired by men as good may not be their "real" good, and therefore a clash between the actual wills of men and the "general will" imposed on men in their own interest may occur.

*Science and reason* in general, is one answer, which is given in technocratic planning; a *personal leadership*, divinely inspired, is another answer, given mostly in nationalist planning; a *doctrine*, a set of sacred truths discovered by the founder of an ideology and based on a definite scale of values, is a third answer, given mainly in socialist planning.

Analysing the first statement, we may find that science and reason in general, without a definite scale of values, cannot really supply the answer. If we assume different scales of ultimate values, sciences gives us different answers. Economics provides different solutions of economic problems according to whether we want security, or liberty, or equality, or political power, or purity of race, or high standards of morality and culture, etc.

"Pure" planning, i.e., planning without a definite scale of values, for the sake of "science" alone (by the application of reason and science), is difficult to imagine. "Pure" planning, like "pure" poetry (which is only exercise in poetry) or "pure" history (which is only historical method), or "pure" economics (which is only economic analysis) would be a kind of exercise

in planning, the use of some method for its own sake. Rationality is only a formal principle, which can be applied within the framework of a given scale of values, but cannot be substituted for that scale.

When science and "reason" are chosen as guides, it is only a scale of values in disguise, a doctrine, which lies behind science and reason. It is not science in general, but science interpreted in a certain manner by a definite scientific "sect," who possess the truth. Other scientists who do not agree with this sect are wrong, misled, or decadent, not "fulfilling their social obligations." The government of science quickly degenerates into the "tyranny of reason," in whose name not a few men, and not a few scientists among them, have already been guillotined.

Two other statements mentioned above, personal leadership or a doctrine, may be reduced to a single thesis: the guidance of our choices is based on a socio-political and moral creed related to a scale of ultimate values.

Therefore we may answer our question in general: every kind of planning is related to a certain creed and doctrine, and clings to a certain creed and doctrine. It tends to be doctrinaire.

We may say in general that every planned society must have as its basis a common socio-political creed, which is the justification of its planning, a non-economic scale of values commonly accepted; what we call today a common ideology. Every planning must have as its basis a common ideology and a common spirit. Planning without this common ideology, without this common spirit, is a body without soul, a dead thing from the beginning. A society which is looking for a new pattern of planning must first of all produce a new ideology, a new spirit, from which the pattern itself will easily follow.

We may say that a society with a planned economy must have not only a common socio-political creed, but to a certain extent a dogmatic creed. If the creed were not deeply and commonly established, the objectives pursued in planning might often change, and this would imply an almost complete remodelling of the whole economy. A planned society must therefore be more dogmatic than an unplanned society, which may show a much greater range of views, more tolerance, and more relativism.

A planned society resembles, in part, a society waging a war.



While for the latter the principal war aim, namely, victory itself, is beyond discussion, for the former the objectives of planning must also be beyond discussion.

### *E. Planning and Social Psychology*

In the last resort the true criterion of every institution is the influence it exerts on man's mind and character, on his feelings, ambitions and desires, and his capacity for social intercourse.

What may be classed as the long-range tendencies of planning in this connection?

(1) The *ultimate decay* and decline of the entrepreneur as a type, a fact which must bring about some changes in national character. Our monopolistic world also displays the same tendency, but it is restricted solely to monopolistic areas, and cannot exert the same force as in a planned economy. In this respect, as in many others, a planned economy would only complete the work begun by the monopolistic world.

(2) *Economic dependence on the public authorities.* Independent man as a type might disappear or substantially decrease in numbers. Men would be economically dependent upon a central authority. Even if we ensure complete freedom of speech and thought, every citizen will remember that his opinion may be disliked by the central authority, which is master of his economic position. It is true that there are but few independent men in a monopolistic unplanned economy, but their dependence has no single focus, and their number is greater.

(3) For a planned economy the first virtues are obedience and discipline, but not initiative. Therefore a planned society would in the first place reinforce obedience and discipline. It may be averred that likewise in a monopolistic highly mechanized economy private initiative is not required, but discipline and obedience, though there would be considerable difference in degree.

(4) Planning tends to promote uniformity and to suppress individuality. It tends towards standardization and uniformity of wants and desires, which is a necessary condition for an effective programme of production. It tends towards equality of income, which is an additional factor of uniformity of wants. It tends also towards a common dogmatic creed. This must be regarded as a source not only of external uniformity, but also

of a tendency towards internal uniformity—what we call a collectivistic man, a man cast in one common mould, a type, not an individual.

The breeding of such a collectivistic man is the necessary condition for the success of a planned economy, as an individualistic man would feel unhappy in such a society, while a true collectivistic man would gladly accept it.

It is true that our highly mechanized monopolistic economy also promotes uniformity in the way of standardization of wants, by mechanization of culture (wireless, cinema, gramophone), and by concentration of great numbers in giant factories, but planning will progress further in this direction. It will only complete the work of the machine, being generally the outcome and ultimate consequence of the machine.

(5) Could we expect that in a planned economy man would be more eager for co-operation, and the aggressive impulses of man would be weakened or transformed or canalized into forms beneficial to society? This is the most crucial question for the problem of planning.

Of course, a planned society must tend towards reinforcement of contributive motives, and try to weaken the acquisitive motives. But can we expect the disappearance of acquisitive motives? What are the limits to the weakening of these motives, and will they not, lacking their proper domain, look for expression in other domains (e.g., in the political struggle, whose outcome would be decisive in every sphere)?

The acquisitive motives are deeply engraven in human psychology, and they may be regarded as a species in a wider genus of aggressive motives. In a free economy they find a wide field for their expression.

I may here quote Keynes's *General Theory of Employment* (London, 1936, chapter 24, p. 374):

"...dangerous human proclivities can be canalized into comparatively harmless channels by the existence of opportunities for money-making and private wealth, which, if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement. It is better that a man should tyrannize over his bank balance than over his fellow-citizens; and whilst

the former is sometimes denounced as being but a means to the latter, sometimes at least it is an alternative."

Social psychology may be considered at least as important for the solution of social problems as political economy. The importance of economics in relation to social psychology has been widely exaggerated.

The question considered here could be answered only by social psychologists, who could investigate the relative strength of motives and impulses, the possibilities of a change in their relationship by education, and the possibilities of transformation and canalization of aggressive motives. Of course, the answer may be different for different nations or races.

(6) Would a planned society breed a more rationalistic man, governed only by reason and not by emotions, as scientific planners expect? I should be inclined to answer this question in the negative.

A citizen in a liberal society with his bank account, his continual book-keeping, his large opportunities for free choices which he must make for himself, his drive for profit or optimum satisfaction, is likely to be much more rationalistic than a man in a planned society. A citizen in a liberal society has continual exercise in the application of rationalistic principles, while a man in planned society is secured, guided and protected, and the choices are made by the authorities. The rationalistic principle in a planned economy would be transferred from individuals to public authority. In a liberal economy man controls himself in his activities in order to obtain his maximum good, while in a planned economy he would be controlled from outside.

In any case, this statement must not be regarded as an argument against planning, because I am inclined to think, with John Dewey, that the answer to our "irrationalistic" times is not more rationalism, but more refined passions.

"The conclusion is not that the emotional, passionate phase of action can be or should be eliminated on behalf of a bloodless reason. More 'passions,' not fewer, is the answer. To check the influence of hate there must be sympathy, while to rationalize sympathy there are needed emotions of curiosity, caution, respect for the freedom of others—dispositions which evoke objects which balance those called up by sympathy, and prevent

its degeneration into maudlin sentiment and meddling interference."<sup>11</sup>

#### F. *National Planning and Peace*

If we adopt the principle of national planning, can we expect a strengthening of the forces of peace, as has been argued by many defenders of planning?

It is argued that, in a planned economy with collective ownership, the basis for economic imperialism would be removed by lack of incentives for profit-making. The exploitation of other countries by great capitalists, which is essential for imperialism, would be impossible. The truth of this statement is obvious because, if there were no great capitalists, exploitation by them would be impossible.

But supposing planning to take place under the régime of private ownership, we see no reason why exploitation of other countries by foreign capitalists under planning should not be continued, and even reinforced, by organization.

But even under a régime of collective ownership the exploitation of foreign countries may take place for the benefit of the whole nation, organized by the planning authority. Planning creates a real living economic unity in a nation; and the characteristic features of a unity are that it should have its own interests, concerned mainly with its own development and progress. One national unity is opposed to other national unities, competing in the international sphere for raw materials or markets. The inclusion of other unities would create greater possibilities for specialization of labour, and produce a higher efficiency of the economy as a whole.

It is possible that a planning authority would be endowed with a spirit of international collaboration and peace, but we cannot exclude the possibility that any great nation may be dominated by the other spirit.

As a matter of fact, planning provides ampler incentives for the organized exploitation of one nation by another, especially of small nations by great nations. If one nation annexes a country with a liberal economy, retaining its liberal régime, the

<sup>11</sup> John Dewey, *Human Nature and Conduct*.

exploitation of the annexed country can never go so far as in a planned economy. The planned economy of an annexed nation can be robbed to the utmost, because of the centralized control of the resources. The planning apparatus which already exists may be used for systematic exploitation.

Collective ownership of means of production creates wealthy and poor nations, not in a metaphorical but in the literal sense. Poor nations conquering the wealthier could enrich themselves in a similar way, just as poorer people could enrich themselves by dispossessing the wealthier citizens. The struggle between nations might have quite a different meaning, replacing the class struggle in a society.

Therefore the proper working of planning on a national scale would require the existence of a spirit of peace, which, however, could prevail only if the poorer nations have a proper share in the wealth of the world. We do not know exactly what this means, because no general criteria for the shares of different nations could be established in this matter, but it would require a just distribution of raw material resources, of the monetary gold stocks of the world, of land-settlement facilities for the overpopulated territories, the fair division of markets—for the most dynamic young nations in backward areas.

We see that planning on a national scale could work properly only in the framework of an ordered Commonwealth of Nations.

We turn, therefore, to planning on an international scale, which, unlike national planning, may be regarded as a factor of peace and international order. The establishment of an International Planning Authority would be a creation of power of not only economic but also political character. An international centre would be able to impose its will and to enforce its orders on other nations, and therefore to safeguard peace in a much more effective manner than in an unplanned world.

But planning on an international scale does not in itself mean that the possibility of exploitation of one nation by another could be excluded.

#### G. *International Planning as an Instrument of National Exploitation.*

In a liberal world a *systematic* exploitation of one sovereign

nation by another is really impossible. The price relation between raw materials and semi-finished or manufactured goods, or between ratios of national exchanges, might fluctuate to the benefit of one and the cost of another nation, but with the change in the trends of the market the relative advantage of one nation is replaced after some time by a similar advantage of another nation. A nation producing wheat or cotton which is getting cheaper might adapt itself to a new situation, and seek to expand its production in other directions; it might also, by certain measures, counteract the disequilibrating forces of the market.

The position, however, might be quite different in an economic world planned on an international scale. International planning creates implements for the organized and systematic exploitation of one nation by another. And the Nazi "New Order" in Europe<sup>12</sup> has shown us down to the smallest details how these implements might be used for the exploitation of the conquered nations.

Without planning on an international scale, the economic exploitation of the conquered nations in a systematic way would be impossible. By specialization and concentration of industries, imposed by an international authority, some countries might be de-industrialized, deprived of their armaments factories or their capital investment industries, and then made completely dependent on the industrial centre of a ruling nation. Some nations might be even degraded to the lowest functions.

But it is not only the imposed specialization of labour, but also the imposed working of the economy which might be harmful for the subject nation. Assuming that the ruling nation is an industrialized country, and the subject nations are producers of raw materials, the wages and prices in the production of raw materials might be kept at a low level, while the wages and prices of manufactured goods might be kept high. The wide gap between the prices of raw materials or any other goods produced by the conquered nations and the prices of goods produced by a ruling nation would be a constant source of enrichment for the ruling nation.

<sup>12</sup> See Paul Einzig, *"Hitler's 'New Order' in Europe"*, London, 1941.

If we assume that the ruling nation is a creditor, and the ruled nations are debtors, through a controlled rate of interest, a constant system of exploitation might be established.

The whole domain of inter-state trade between the subject countries and the ruling state might be regulated in such a way as to produce a maximum degree of exploitation. By exchange clearing agreements a ratio of exchange favourable to the ruling country might be imposed, or a credit balance or other advantages might be granted.

The volume of production and consumption of the subject nations might be fixed in order to give the ruling nation a maximum of surplus value in inter-state trade. Even control of population movements might be imposed in order to check the growth of one race for the benefit of the other.

The few examples we have quoted show that planning provides implements for a thorough and systematic exploitation of one nation by another, which would be impossible under conditions of liberal economy.

Now let us assume that the ruling nation which organizes the international planning is governed not by a ruthless oligarchy, but by a democratic régime, by a spirit of international co-operation. Can it be realistically supposed that this nation, given the power of international planning, would not consciously or unconsciously utilize this power rather for the benefit of its own citizens than for the benefit of other nations?

The existence of unchallenged power always inclines towards exploitation, as Plato already realized.

Therefore, international planning which should exclude exploitation, would require definite guarantees in a world democracy, i.e., in a political order based on genuine democracy in the framework of a Commonwealth of Nations.

## *II. Planning and Freedom*

Freedom today is a much abused term. Of all catchwords it seems to have the greatest market value. Even the dictators pretend to defend it. But in the profusion of literature and propaganda it seems that it has lost its meaning. Many people who thought they knew what freedom meant appear now to be confused.

Freedom may be defined as the right to make certain choices. There are many kinds of freedom in different fields. In politics the choice is between the various party programmes and leaders, between régimes and governments; in science and thought, between various methods, doctrines and outlooks. In religion, freedom consists in the right to choose between various religions, rituals and ways of worship. In education it consists of the right of choice between different modes of education and types of schools. Freedom of profession consists of free choice between various professions and jobs, different remunerations and ways of work. In consumption, freedom consists in unrestricted choice between different commodities which can be bought from one's income. In exchange, freedom consists in the possibility of choice between different prices demanded for goods and services.

We have now to introduce some distinctions in the field of these many kinds of freedom.

Is every restriction of freedom felt as a curtailment of liberty by the population at large?

In this respect we have learnt very much by the most recent developments. We have learnt to distinguish between unwanted and wanted choices, between formal and real choices, between the choices left to the few and those left to the many, and finally between essential and unessential choices.

If some choices are unwanted, the restriction of these choices does not affect the liberties of the people. For instance, if the whole population are really ardent followers of one political party only, the abolition of choice between various party programmes does not much affect the liberties of the people, because the choice is unwanted. If a country enjoys the rule of a king, the fact that it has no choice of any other rule does not affect the real liberties of the country, because the choice itself is unwanted.

If the wants of the population are uniform owing to education, the fact that choice of consumption is very restricted does not much affect the liberties of the consumers, because other choices are unwanted.

The restriction on the freedom of workers to work for more than eight hours a day or so is a restriction of freedom, but this



freedom is not wanted by the workers.

The distinction between wanted and unwanted choices is very important.

We next come to the distinction between formal and real choices, which seems to be even more important. We have discovered that most of our choices are only formal, which means that we have the right to make them in theory, but no real opportunity to put them into practice. The workers have a formal choice between living in a cottage or in a comfortable house, between buying bread or wine, between educating their children at Public or other schools, but they have no real opportunity to exercise these choices. The abolition of merely formal choices does not really affect the liberties of the people.

The distinction between choices left to the few and choices open to the many may also be introduced.

The freedom to own a huge estate, the freedom to command a swarm of domestic servants, the freedom of a millionaire to use his income for his own pleasure, the freedom to employ children or to run works during the night hours—they are undoubtedly freedoms of the few, which conflict with the freedom of the many. For instance, the possession of a huge estate will exclude many peasants from individual farming.

Finally, there are substantial and unsubstantial freedoms, even harmful freedoms based on bad education, prejudice and superstition. The restriction of the freedom of consumers in order to eliminate trifling luxury wants which effect a real waste of resources would be an educational work of great value. The restriction imposed on Hollywood production in order to eliminate undoubtedly bad films which spoil the taste of the population and their artistic sense would, in my view, be a great service to the community. Not all freedoms are worth preserving.

The extent, meaning, and appreciation of freedom undergo a deep change as time goes on. It is not so long since we appreciated the freedom to work twelve or more hours a day, the freedom to send children to factories and farms, the freedom to pay starvation wages, the freedom to ask monopoly prices, the freedom to sell unsound goods, the freedom to destroy raw materials when adequate prices could not be obtained, the freedom to become a millionaire.

We do not now appreciate these kinds of freedom, because we have realized that only an insignificant number of people can enjoy them, and only at the cost of a large number of other people. Freedom of this kind imposes "unfreedom" on other people.

But at the same time new kinds of freedom have emerged as, e.g., "freedom from want" and "freedom from fear," as expressed by the great leader of the American people and defined in the Atlantic Charter. These two kinds of freedom were never before formulated in democratic circles as "freedoms". But they appear to us nowadays in reality as new kinds of freedom. The whole field of social and political security (freedom from want and freedom from fear are in reality but social and political security) appears as a new field of freedom, discovered by us and placed in the first rank, instead of the abolished kinds of freedom, which disappear as unwanted and unappreciated.

Without doubt, planning means a substantial remodelling and recasting of the whole field of freedom in such a way that some old kinds will be rejected and new kinds will emerge. But what on balance will be the outcome of this recasting it is difficult to foresee.

Liberties are not goods which can be won once and for ever; they must be secured in sets of conditions which promote their work and must be constantly and carefully watched.

The most precious and essential freedoms, as personal freedom, freedom of speech and the Press, freedom of worship, freedom of association, cannot be defended *in vacuo*; they must be upheld and safeguarded by some social and political institutions which provide a stable frame for them.

We know that liberty will perish without social security and without political security; it is wise, therefore, to regard the last two only as freedoms.

The three principal goals: freedom, social security, and peace, might in part be conflicting, and in any case they partly restrict each other in their application. They are, however, necessary conditions for each other. Without social security no freedom exists and without freedom there is no social security. Peace is an essential both for freedom and social security; and social security and freedom are essential for peace.

Nowadays we see the close links which exist between the three partly conflicting principles, which, however, must be reconciled in a new and higher unity. We see that war destroys liberties, while on the other hand societies deprived of liberties destroy peace. The safeguarding of liberties is the safeguarding of peace, and *vice versa*. So it is, too, with social security and peace.

Therefore the defence of essential freedom nowadays presupposes planning for the reconciliation of three great principles:

- (1) freedom,
- (2) security,
- (3) peace,

in such a scheme as would, however, not destroy essential freedom as a necessary basis for the development of culture.

Is this problem capable of solution, or must it rather be compared with the effort to square the circle? On the answer to this question depends the future of our civilization.

## CHAPTER II

### CONDITIONS FOR THE PROPER WORKING OF PLANNING

WHAT are the conditions for the proper working of planning? We have dealt with them in passing. We will now summarize our analysis and emphasize some of our points.

The first condition is efficient preparation by research and investigation. The road to effective planning leads through research and perfect knowledge of factual relationships. Satisfactory statistics, inquiries, reports and cost-accountancy, besides good administration and thoroughgoing propaganda, provide for effective planning.

The time factor is of extreme importance for the success of planning. With time its working improves and the scope of the tasks of the Planning Authorities narrows. At the start nearly all the problems of national economy must be solved at once, but as time goes on the number of problems awaiting solution diminishes. It is, therefore, advisable to confine planning at the start to smaller sections and to increase its scale with the passing of time.

For successful working it is necessary that the planned economy should grow gradually, and not be imposed as something which suddenly emerges ready-made and fully grown.

Too many objectives constitute another danger for a planned economy. Such an economy works best when it starts with only one strictly defined objective. It then provides a clear index of value both for the authorities and for the population, a definite set of assumptions for their work and co-operation. This point is important also from the point of view of general understanding of the working of planning on the part of the population and their wholehearted co-operation, which is essential for smooth working.

Planning as we have observed it in practice presents a case of the concentration of resources for a single purpose; and it works

best in times of danger, real or imaginary. It closely approximates to the waging of a war, and requires enthusiasm, or, we might say, a fighting spirit. It is no accident that the Russian Planning Authorities have invented the slogan of "fronts" in their planning propaganda. The Russian workers have the impression that they are fighting an enemy on the front—in their factories, while at peace. The slogan of a fight on an industrial or agricultural front is always operative. This has kept the workers very much in a fighting frame of mind, and endowed the apparatus of planning with dynamic force.

Conditions which emergency creates are best for evoking this frame of mind, because danger indicates the goal to be achieved, namely, the overcoming of that danger.

Emergency creates the best framework for planning. That is why the present epoch seems so suitable for it.

The scope of the objectives must be reasonable. A scope which exceeds a reasonable measure exerts an extreme pressure on the planned economy, which may be too great for its structure. This is especially true in peace-time, when no immediate dangers exist.

Within the scope of reasonable objectives an adequate measure of control must be adopted, namely, so much as is needed for the attainment of the objectives, and no more. The control must make use, first of all, of indirect methods and propaganda, and when these prove inadequate, the direct method. To employ the minimum measure of control for the achievement of given objectives should be the supreme aim of the planning authorities. Where the scope of objectives and control is greatly enlarged, the danger of muddling and confusion proportionately increases, and contradictions between controls in many sections are inevitable. The principle of minimum control is one of the most important principles in planning.

There is a reasonable measure of control, and an unreasonable one. The borderline between them cannot be drawn by general principles, but only by common sense.

The public expects to derive enjoyment from planning, but it entails, so far as we know in practice, only sacrifices. Is this merely a coincidence, or does it arise from the nature of things?

Could a planned economy work in a society imbued with a

spirit of enjoyment, or must the spirit of sacrifice be regarded as necessary for the proper working of such an economy?

I have stressed the point that where great sacrifices on the part of the population are required, there is a strong case for planning, but I would add that the reverse is also true, namely, that for the proper working of a planned economy, the spirit of sacrifice is essential.

An economy planned to secure individual advantages and comforts would not work in practice, for it is unlikely that a society would accept restrictions brought about by planning for such advantages alone. The ordinary citizen would say: "I do not need to surrender the liberties to which I am accustomed for the advantage and comfort of others." I fear that such an objective would not produce the intense mass co-operation needed for planning. The factor of danger, either external or internal, either real or imaginary, must play its part in the working of planning. The danger of mass unemployment and social revolution may constitute such a factor when it is exaggerated by propaganda.

I have pointed out that the incentives of high profits and wages could not be sufficient in a planned economy, because the free play of prices and wages must be eliminated to a great extent. Higher profits and higher wages, if granted, might cause the whole edifice to collapse. Therefore these incentives must be replaced by others.

What kind of incentives could be introduced in their stead?

Competition as a stimulus to efficiency and progress cannot be renounced. It is greatly needed in every economy. The great progress of the nineteenth century was due, to a large extent, to the highest intensity of competition on an international scale ever achieved under the best conditions granted by a liberal capitalism.

But there is no evidence that competition can operate efficiently for money-income alone. There is proof that competition can be motivated, e.g., in the fighting services, by honour and duty. Soviet Russia has introduced so-called Socialist competition between factories and plants as single units. One factory fights a competitive struggle with another as if in sport. The same kind of group competition has come to the fore in the

Savings Campaign in Great Britain during the present war. One city, one borough, one institution competes with another.

Honours and rewards are other incentives which may help to stimulate the competition of workers in a single factory. The Soviet Union has introduced the title of "Hero," given for distinguished work, e.g., in coal mines, steel factories, and so on.

Efficiency wages in some occupations, holidays or gifts awarded to workers who have distinguished themselves by their efficiency, are further important means of stimulating effort.

But group competition is conditional upon the existence of an enthusiastic spirit, readiness for sacrifices, and wholehearted co-operation among the whole population. This is an additional reason why planning works so well in times of emergency.

#### A. *Separation of Functions*

I would regard the strict separation under distinct and independent bodies of the functions of (1) the making of schemes, (2) their adoption, (3) their execution, and finally (4) of supervision as an important condition of the proper working of a planned economy in a free society.

The drawing-up of schemes should be undertaken by a body of experts and research workers functioning in accordance with the directions of the responsible Government. They must enjoy a high degree of independence and authority, with power to oppose the Government as regards the co-ordination of objectives and their translation into quantitative plans.

The adoption of plans should be a function of Parliament; not of an Economic Chamber or Council, but of Parliament itself. Every splitting-up of the legislative power would constitute a danger to real democracy. It would introduce two competing centres of power, one of which would overwhelm the other. Besides, the splitting-up of legislative functions is not practicable, because there are many things, such as the Budget, which have a political as well as an economic character.

The execution of plans should be handed over to the Administration, to Ministers and administrative bodies.

Finally, the task of supervision should be allocated to a special body of completely independent experts.

Only this separation of functions among independent bodies

can prevent that concentration of economic power which planning tends to create, and diminish political dangers directed against democracy. Even in this case the dangers would not be completely removed, they would only be—I repeat—diminished.

### *B. General Planning*

Any kind of planning may be detailed as well as general. General planning affects only the major issues, the broad outlines of the economy, while detailed planning affects all the minor characteristics of a scheme. For instance, production can be planned in such a way that only the most important matters (e.g., what and how much to produce) are settled—all other choices being left to enterprises or regional bodies. General planning often works only by imposing definite restrictions or standards of competition or by setting up guiding principles of behaviour with restricted supervision.

Of course, the drawing of a line of demarcation between general themes and detail regulations is difficult. The position of this line changes with the development of the technique of economic control.

General planning is to be preferred to detailed planning, because it does not forfeit the advantages of the special skill and knowledge needed for executive work in particular branches of the economy, whereas these are often disregarded in detailed planning. The men responsible for detailed planning frequently lack the special knowledge and skill needed for their task. The apparatus of detailed planning is, as a rule, more bureaucratic, heavier, and slower, and leads to over-rigidity and overcharging of production.

The restriction of planning to general control is a most important factor of success in every scheme.

### *C. Decentralization*

This brings us to the question of centralized or decentralized planning. Everybody agrees that planning should, as far as possible, take the form of decentralized dispersion of functions.

All local needs, local communications, gas, electricity, water, food supplies, industry for local needs, trading, the whole of agriculture (in so far as agricultural planning is necessary),



should be carried out by local authorities within their own framework. If an industry supplies only a small region or province, there is again a case for decentralized planning on a regional scale.

Centrally controlled industries should be only those of national or international importance. Even then not all functions of planning should be centrally undertaken.

We have distinguished: (1) formation of plans, (2) their adoption, (3) their execution, (4) their supervision.

The adoption of plans alone (e.g., by Parliament) must be undertaken centrally; all other functions would require a great degree of decentralization, even in the case of industries of national and international importance.

The formation of plans should be a common task concerning not only the Planning Commission but also representatives of industries, factories and plants.

The formation of plans should not simply be imposed from "above," but should take two directions—from "below" and from "above"; one may be connected with the other.

The execution of plans might be entrusted wholly to decentralized bodies, whatever their nature, socialized trusts, guilds or combines.

In the supervision of plans the principle of decentralization could also be applied on a very large scale. Decentralization, combined with the principle of separation of functions, may diminish the political dangers implied in planning.

#### *D. Reasonable Equalization of Income*

I have emphasized that planning requires for its proper working a reasonable degree of equalization of income. To a certain extent, planning leads, of necessity, to some equalization of income. Planning with a large range of income inequalities would not work, for many reasons already pointed out.

By reasonable equalization of income I mean equalization carried out on some functional basis, and not merely on rights inherited from distant generations. It may be an open question whether this would mean a range of income between 1 and 50 or 1 and 100 or so, but in any case it could not cover a range extending from 1 to thousands, or even hundreds of thousands,

such as occurs at present in many capitalistic countries.

I have pointed out that planning, as a rule, involves sacrifices, but the principle of equality of sacrifice is deeply felt by everyone to be essential.

The abolition of unreasonable inequalities of income would not only do no harm to democratic institutions, but, on the contrary, would strengthen the integrity of democracy and deepen its spirit.

But planning does not necessarily involve collective ownership of the means of production. I agree that planning undermines in some respects the rights of property, by taking away some of its important functions. But many functions still remain to ownership in a planned society.

Moreover, collective ownership of the means of production would really transform the State into a Leviathan State. The State would become an exclusive entrepreneur, which alone could give employment and bread. Collective ownership would mean not only a detailed all-inclusive central control, but a bureaucratic management of factories and plants. It would impose a great burden upon the administration, as well as upon the Treasury and the Central Bank, which is unnecessary, and would only multiply the many tasks imposed on the State under a planned economy.

The retention of private ownership, or rather of amphibian forms of ownership, I would regard as necessary also for the safeguarding of personal freedom. Personal freedom without private ownership is a hollow principle. A man who owns nothing is really unfree, for he is deprived of any real possibility of choice in the most important matters. The status of a man without ownership approaches that of a slave under serfdom. Some measure of ownership is essential to the real enjoyment of freedom. And it is not the abolition of property which is needed, but on the contrary the extension of property to the masses, and their endowment with ownership.

I would regard the retention of private ownership, subject to the fixing of an upper limit of income and property, as a necessary condition of planning under democracy.

However, planned economy would work satisfactorily under private ownership only when the whole society had been taught

to regard private ownership as involving duties and service to society, and to look on the institution itself as a necessary requisite of a free society. If the private entrepreneurs regarded their ownership only as a right, central control would be sabotaged, and planning would not work. Should society regard property as a kind of monopoly excluding the people from the common use of resources, planning would not work, since no one would wish to make sacrifices for the benefit of the monopolist.

Planning, therefore, requires a recasting of the rights of private ownership, a remoulding of these rights not only in a juridical sense but also, and more important, in a moral sense. A new ethos of ownership would be required.

#### *E. State Authority*

There are also certain political assumptions for the proper working of planning.

Can planning work properly in a weak State without great authority, or does it presuppose a strong State with a high degree of authority?

If we confine our answer only to historical facts, we may state that up till now effective planning has taken place either within the framework of a totalitarian state or in democracies that are waging war, and are therefore more authoritarian in some respects. We may also refer to the fact that planning working within the framework of a weak and badly organized State without a high degree of authority has always failed.

Planning must impose sacrifices and hardships, if not on the whole population, at least on some classes or social strata. But the orders of a weak State are disregarded or miscarry. The stabilization of wages, prices and rents becomes a fiction, and inflation sets in. Restrictions on consumption or distribution within the framework of a weak State deprived of authority may have only a devastating and illusory character.

It has often been observed that planning has failed in democratic countries in peace-time, while in war it worked fairly successfully.

The attempts at planning in France under Blum's government (Popular Front régime) failed mainly because the State

was too weak to enforce its orders and regulations and to impose some of the controls essential for success.

Planning under the United States New Deal has also been, to a great extent, unsuccessful because the State itself was weak and indecisive.

In war-time the authority of the State increases, and there is a genuine willingness on the part of the population to co-operate and submit to the orders and regulations of the National Government. This explains the real point.

It has been somewhere argued that war planning in Great Britain is so effective because the creation of a great spending power is counteracted by rationing, by war savings, by high taxation or other enforced levies, or compulsory lending, and that this brings about the balance of the market and stability of prices.

This, however, is only part of the truth. The stability of prices cannot be explained by these measures alone. The many queues in front of shops and restaurants are proofs that the statement is only a half-truth. There is a great over-balance between consumption and supply, and every shopkeeper or producer knows perfectly well that the balance could be restored by a rise in prices. In the same way the workers know that their demands for higher wages could not be opposed on the ground of economic considerations.

If these opportunities are not used frequently enough to overwhelm the whole structure of planned economy in Great Britain, it is only because the authority of the National Government while waging war is very great, as is at the same time the readiness of the whole population for willing co-operation. This is the other, and in my opinion no less important, half of the truth about successful working of a planned economy in war-time.

The strength of the State Authority, not in the physical sense, but in the moral sense of a genuine submission on the part of the great majority of the population, is an important factor in the success of planning, and without it planning may degenerate quickly into futility. It need not be a totalitarian State, but it must be endowed with a high authority. The reader is here referred to the note on the lessons of the Blum Experiment at the end of this chapter.

### F. "Trial and Error" Method

Planning requires for its success a certain attitude of mind on the part of the public, which expects not wonderful achievements, but rather errors and mistakes. (Planning from some points of view resembles the conduct of a war, and requires the same attitude.) The control over the whole economy is a complicated and difficult task which may surpass the capability of our mind. The mistakes and failures may be due, not only to faulty execution of our plans, but also to our imperfect and partial knowledge. We know a great deal about the partial interdependence of many elements of our economic life, but the working of the whole in its changing structure, mentality, technique, population, and in the framework of the world economy cannot always be sufficiently clearly apprehended. We may always disregard some important elements which may intervene at the last moment, or whose importance has developed lately. Therefore, the best attitude towards planning is that of the "trial and error" method, admitting frankly the probability of error, which is taken into account as an item in the balance of profit and loss arising from economic planning. If the attitude towards planning is different, planning as a system may be endangered, because the people may be deceived. If we tell the people from the beginning that planning cannot avoid errors, we may hope for toleration, which may give the central authority a respite for improvement.

### G. International Arrangements

The weakest point in planning is its political character, the limitation of its area by political boundaries, and the tendency towards closed doors. Planning is less suitable for international collaboration than a liberal world economy. Therefore, planning needs extension into the international sphere.

I have already called attention to the difficulties of a correct solution of this enormous and complicated problem. Here I would only say: planning, if it is to work properly, requires some international arrangements, which we may call planning for two purposes: peace in the political and economic sphere, or if we prefer, peace and economic collaboration. This would prevent economic warfare, which is likely to result from the

principle of planning applied on national lines all over the world.

Schemes for these restricted goals, based on similar lines to the International Postal Union, and on pluralistic principles, as already pointed out in Part III, Chapter V, section C, might bring us nearer to the right solution.

### Note

## THE LESSONS OF THE BLUM EXPERIMENT

The Blum experiment in France, extending from the middle of 1936 to the middle of 1937, was really in its preliminary stage only, and was expected to develop later on the lines of Planned Economy. But after one year of unsuccessful attempts the experiment was frustrated, partly as being inconsistent and badly executed, and partly because it received a check when in June 1937 the Senate refused the Government the "plenary powers" for which it had asked. During its actual working the Blum experiment could hardly be called an experiment in planning. It should be called rather an attempt to work out a scheme of planning for the future.

But in spite of this some lessons can be drawn from this attempt.

The experiment was inconsistent, because it served too many gods—the rearmament programme (only too small in extent), the prosperity programme (with reduction of hours of work), and within the framework of the latter, it sought to achieve both high wages and full employment. The execution of the plans was indecisive, and the means necessary for carrying out the objectives were not accorded. The weakness of the Government and of the political structure of the Third Republic were the main reasons for the collapse of the whole attempt.

As M. Léon Blum said in his address to the National Council of his Party in May 1936<sup>1</sup>: "It will be the object of our experi-

<sup>1</sup> See D. W. Brogan, *The Development of Modern France*, 1940; Jean-Pierre Maxence, *Histoire de dix ans, 1927-1937*, Paris, 1939; Léon Blum, *L'Exercice du Pouvoir*, Paris, 1937.

ment, and the real problem that this experiment is going to set us, to discover whether it is possible to get out of this social system the amount of order, well-being, security, and justice that it can produce for the mass of the workers and producers. If this fails, I should be the first to come and tell you it was a chimera, it was an empty dream, there is nothing to be done with society as at present constructed." It was really an empty dream, because of failures inherent in the structure of French society of which the Blum Government itself was also the expression.

The experiment was sabotaged from both sides, by the Communists on the one side and the employers and the Senate on the other. Blum warned the Communists of what they had done by saying: "I sincerely hope that the Government which the Socialist Party is going to form will not be a Kerensky Government. But if it were to be so, believe me, in the France of today, it is not Lenin who would replace it." He was right in his prophecy.

The first wave of strikes in May and June 1936 ended with the Matignon agreement of 7 June, which made collective bargaining compulsory, and a rise in wages of 13-16 per cent.<sup>2</sup> Simultaneously, the institution of paid holidays was introduced. A forty-hour week in industry was adopted at the end of 1936. A second strike wave in the Spring of 1937 caused an average additional rise in wages of about 10 per cent. Altogether the cost of manual labour in France increased by about 60 per cent.<sup>3</sup>

Having given so much to the workers, the Blum Government had to give something to the peasants. A Wheat Board was set up to control wheat prices on a remunerative basis. This was a not unimportant factor in the rise of the cost of living, which influenced wages.

The enormous increase in wages set prices in motion, and there was a continual race between prices and wages, which put a great strain on the position of currency, Public Finance and production itself. The Government was too weak to en-

<sup>2</sup> In fact the figure of 15-20 per cent is probably nearer to the truth, as Kalecki points out in "The Lesson of the Blum Experiment," *The Economic Journal*, March, 1938.

<sup>3</sup> Kalecki, *op. cit.*

force effective price control, and moreover was unsupported by other controls (of foreign exchange, etc.).

The weak Government yielded first to the workers, then to the farmers, then to the small timid investors, and finally to the financial circles.

The great power of small investors in France had induced the Government to promise officially (on 13 and 26 June 1936) not to devalue the franc. But the franc was already overvalued in relation to the pound and dollar, and since the rise in wages the international disparity in prices was further augmented. This caused a heavy drain on the gold stock of the Bank of France. Between May and September 20,000,000 francs were exported in gold, i.e., more than a quarter of the total reserve stock of the Bank. Then at the end of September 1936 came the enforced devaluation of the franc, a financial necessity imposed by the emergency and the laws of "alignment" from 1 October 1936.

The degree of devaluation was fixed between 25.20 per cent as a minimum and 34.36 per cent as a maximum. *De facto* the first devaluation<sup>4</sup> approached the rate of 30 per cent, and the second, which took place in March 1937, the rate of 35 per cent in all.

But in handling the first devaluation the Government yielded to the popular feeling that no one must make a profit out of the devaluation. The holders of gold were made to give up their whole profit on devaluation for the sake of the Government. But on the other hand the Government was too weak to impose a compulsory sale of gold stocks and reserves of foreign currency. The result was that the devaluation was not followed by a renouncement of hoarding, and the technical defences of the franc remained weak.

Finally, at the second devaluation in March 1937, the Government yielded to the interests of gold holders, granting them the right to make a profit on the devaluation, but the *crise de confiance* was already too great to bring about the desired results.

<sup>4</sup> See Gaetan Pirou, *La Monnaie française de 1936 à 1938*, Paris, 1938.



The strike of capital, the hoarding of gold and notes and the flight of capital abroad (since the coming to power of the Blum Cabinet the gold stocks diminished from 80 milliard Poincaré francs to less than 50 milliards) imposed a great strain on the capital market and also on production.

Meanwhile the calls on the already overworked credit on the part of the Treasury had increased. The deficit on the ordinary budget, on the railways and the post-office had substantially increased, apart from the new expenditure for a special armament and investment programme of 16 milliard francs.

There was a constant *crise de confiance*. But the Government yielded to the interests of big business, as represented in the Senate, by refusing to impose exchange control, which was a preliminary condition for the success of the whole experiment under conditions which spread *malconfiance* among big capitalists.

Production was slackening. The rate of increase in industrial production during the recorded period rose no more than 3 per cent,<sup>5</sup> far less than the American, British, German, Polish, Czechoslovakian, or other indices, in spite of the great public expenditure for rearmament and investment.

Finally, the Blum Cabinet realized that the whole experiment could be carried out by control of foreign exchange, by effective control of prices and wages, by control of foreign trade, i.e. by a Planned Economy. It asked for "plenary powers." The Chamber granted them; the Senate refused. During the night of 20-21 June, the Blum Cabinet handed in its resignation to M. Lebrun and the experiment came to an end, not without some lessons for the democracies.

(1) The experiment was in reality a haphazard one, made up of accidental moves carried out in haste and without preparation, and not a carefully prepared and fully thought-out system of planning. But I regard the weakness of the Government as the

<sup>5</sup> According to the *World Economic Survey* of the League of Nations, the increase in industrial production in France during the first five months of 1937, compared with 1936, rose in France by 3, in the U.S.A. by 20, in Sweden by 10, in the Netherlands by 35, in Poland by 21, in Germany (first four months) by 13, in the United Kingdom (first three months) by 7.

main source of the failure of the Blum Experiment, because I attribute the many ostensible blunders and failures made by the Government not so much to their errors of judgment as to the political pressure exercised on the part both of their supporters and their opponents. The Government must be strong enough to work out its own consistent schemes, which can be carried out without fear of sabotage and imposed, if necessary, by force.

(2) The Government must be strong enough not only in a physical sense, but also in a moral sense, i.e., it must feel that the bulk of public opinion is behind it and that moral pressure can be imposed on all who could put up resistance against the rules.

(3) Society must be united behind the schemes in this sense, that the schemes must enjoy wholehearted co-operation on the part of the whole, and not only a section of the population. When the population is divided by a struggle over the main social or economic issues involved in given schemes, no effective planning can take place.

(4) Every country must at the beginning face the constitutional or other institutional obstacles to the carrying out of certain schemes of planning. Where such obstacles are in existence, they must either be removed at the start or the schemes must be given up. For most schemes of planning, especially if they impose sacrifices, a certain degree of exchange control is necessary. If that control cannot, for some political or economic reason, be obtained in peace-time in a given country, then the schemes must be given up or a lesser degree of planning adopted.

(5) The reason for the difficulty of planning for prosperity in democratic countries is that there arise from the start so many demands from various quarters and classes for economic benefits and advantages, which in the atmosphere of a drive for prosperity are extremely hard to refuse.

## CONCLUSION

### I

PLANNED economy is in full swing. Its institutions and its structure are still fluid. It is still torn by many contradictory forces. It has not reached a definite shape with features which may endure for some time. What may evolve from all the powerful forces and tendencies which are at work cannot yet be seen.

The contradictions between freedom and authority, ownership and control, central planning and self-government, national planning and international co-operation, have not been solved. The range of freedom, the forms of ownership and control, the part to be played by the market system and by the control system, the forms of self-government and co-operation of workers with the planning authorities, and those of international co-operation are undergoing a process of great and rapid transformation.

Planned economy seems to have solved one problem, on which it has concentrated its chief attention: the problem of the class struggle between capital and labour. The Soviet economy has solved it by destroying the old class division, other planned economies by other means. But in the place of the old class struggle, there has emerged a more embittered and much more severe struggle of much greater scope, which is inherent in planned economies and unsolved until now; namely, the national struggle.

The present world war will decide the issue of this struggle, and also the scale and scope of planned economies. We may expect that the national struggle will find a similar solution to the class struggle by imposing a framework of international co-operation on a wide regional scale, or even on a world scale.

All that we can say is that the world we once knew has disappeared, and the world to which we are coming is neither

known to us, nor perfect, nor stable. It has plastic, not to say volcanic, characteristics. It is inconsistent, full of unsolved contradictions, full of danger and of promise, full of mingled evil and good, and therefore presents us with unprecedented opportunities of reward for courage, imagination and leadership.

First of all we must study the new economy and new society, we must try to understand the working of its new ideas and institutions, and the implications of the new situations. The old problems, so well known to us, have assumed a completely new aspect and entirely new problems have emerged. The problems have completely altered in the range of their importance, and the links between them have undergone substantial changes. What we have learnt from economic text-books is of little use nowadays. The planned world as it is developing before our eyes is an entirely new economy, an entirely new civilization. It has other working ideas, institutions, technique, another structure. New formulation of our economic conceptions and problems is needed in order to understand the new economy and to master its difficulties.

There is also, it would seem, a genuine need for some revision of our political conceptions. We shall not get very far by repeating on every side the already antiquated, multifarious "isms," such as liberalism, socialism, nationalism, capitalism and so on. The old political divisions have, to a great extent, lost their former content. We need not only economic but also political readjustments, and the whole field of political, psychological and moral changes requires a very careful study from the angle of the new society.

This much, at least, can be said about the political structure, that the traditional forms of democracy are too weak to be able to bear the full weight of a planned economy. A nation which plans its economy requires a greater measure of national unity, and first of all of moral unity.

I would emphasize this latter point, and say that the roots of our great crisis are not technological alone, but in a large measure moral. The moral disunity, the lack of a common scale of moral values, is among the factors most responsible for the great emergency. And every post-war reconstruction must start with the moral unification of mankind, in its basic values.

## II

We have seen from our investigation that the same institutions of planned economy in different countries are very often animated by a different spirit. We can find many analogies between Nazi, Fascist, and Soviet Planning, the New Deal, and War planning in the Anglo-American countries. But the spirit is different. The most essential thing in a planned economy is the proper spirit. To yield in spirit, in moral attitude, to the new world would be a complete surrender and destruction of our culture. Planned economy requires for the neutralization of its many evil influences the strengthening of the tradition of tolerance and freedom. Those most precious values, tolerance, freedom of thought and worship, the moral sovereignty of every human being, must be upheld at all costs. If we yield in this matter we face, in the midst of planned economy, the danger of the complete destruction of all culture beneath the flood of barbarism. The powerful engine of central control requires a much greater moral restraint than ever before, and a greater respect for human rights and human personality.

## III

We have seen how wide and difficult are the implications of planning. Planning offers no easy solution; it is a source of immense difficulties in economics as well as in politics and culture. Planning offers wide opportunities for abuse and exploitation, for error and failure, based either on lack of knowledge or lack of character. Its proper working is conditioned by many factors, of which not the least important are the political and moral. Planning therefore, must be regarded as a powerful implement, which should be used with the greatest care and forethought. In working out any scheme of planning we must see clearly the difficulties and the possibilities of abuse, in order to overcome them, or at least to limit their scope.

But it might be replied that every structure of society based on a single principle (e.g., freedom) worked out to its ultimate ends, implies dangers and difficulties. It is true that every such structure finally destroys itself, and this may be regarded as the real content of the dialectical interpretation of history.

If we start with a fully planned economy, it can be taken for

granted that this economy, after a certain period, perhaps shorter than we imagine, will destroy itself by originating movements inimical to its assumptions.

It is easily understandable that our minds should naturally tend towards monistic solutions, but the deepest truth which we are taught by experience is pluralism, not monism. It is preferable to base society not on one single principle, but on many principles, which restrict each other, and may even be in conflict. The real issue lies not between a completely free economy and a fully planned economy, for the latter would be unworkable, but in many intermediate forms of different types, with one principle prevailing in one sector and other principles prevailing in other sectors.

The richness and wisdom of life lie in pluralistic and not in monistic solutions, and the greatest danger which faces planned economy is the tendency towards monistic solutions. The new pattern of planning, if chosen, should be a work of art rather than one of logic or economic mathematics. It may apply different régimes of control, or ownership, or organization, in different sections.

The principle of planning should be applied only so far as is necessary. In small doses it may be useful, like a medicine, but in large doses it may kill the patient. Planning as a full-scale programme may destroy the most precious values worth preservation, while partial planning for restricted goals, with precautionary measures such as maintenance of private ownership, implies much lesser dangers. The more we restrict our scope and the better we define our goals, the better will be the methods worked out and the more restricted the implications of planning in a non-economic sphere. The age of machinery has enforced on us a greater degree of rationalization, and planning only completes the work which the machine has started. But man and his activities can only reach a certain stage of rationalization. Nature sets limits to his rationalism, and when the stage of rationalization in one sector is overstepped, it is accompanied by dangerous counter-movements in other sectors.

## SUBJECT INDEX

- Agricultural Adjustment  
  Act 227-32
- Agricultural Planning, 106,  
  224-27, 329  
  in Germany 232-238  
  in U.S.A. 227-232  
  in U.S.S. R. 76, 136, 225
- Amphibian Forms of ownership  
  *See* Ownership
- Arbitration Courts 83, 183-86,  
  273-75
- Area of Planning 135-152
- Armament Industry, 49, 56, 82,  
  88, 92
- Artels 127, 128, 225, 298
- Atlantic Charter 94, 322
- Australia 184, 250
- Autarky 139, 220-21
- Authority *See* State Authority
- Authoritative Pricing 169
- Backward areas 89-90, 99, 144,  
  206, 239-258  
  —experiments in 147-52
- Banking 207-211
- Black Market 161, 202
- “Blood & Soil” Planning for  
  232-238
- Blum Experiment 114, 334-38
- Budget Plan 154
- Bureaucracy 111, 296, 307, 309,  
  313
- Central Planning Commission  
  158-59, 327
- China 89, 145
- Choice in Economics 21, 44  
  —choice and pricing 165-66  
  —consumers and producers  
    108-9
- Class Struggle 180, 260, 273,  
  289, 297-98, 305, 339
- Collective Agreements 83,  
  183-85, 273-75
- Combines in Soviet Russia 130
- Competitive Pricing 168  
  —Solution in Socialism 123,  
    168
- Concentration of Production  
  58, 118-19, 120
- Consumption 61
- Control of National Economy  
  20  
  and ownership 122-25  
  by propaganda 110  
  direct, indirect 109  
  interconnection between  
    controls 108, 221  
  of consumption 119  
  of distribution of income  
    120  
  of Foreign exchanges  
  *See* Foreign Exchange  
  of Investments 116  
  of production 117  
  of Quantitative *See*  
    Quantitative Controls
- Co-operative Societies 127-28,  
  330
- Credit in Planned Economy, 71,  
  118, 197-203
- Currency and Planning 154,  
  189, 191, 202
- Czechoslovakia 146, 184
- Decentralization of planning  
  135, 328
- Definition of Planning 17
- ‘Democratic Centralism’ in So-  
  viet Russia 289-300

- Democracy and Planning** 60,  
 67, 95, 261, 263-64,  
 271, 304-09, 338, 340
- Depression, The Great** 47, 64,  
 91, 191, 215, 264
- Distribution of Income** 68, 119,  
 306
- Drawbacks of Planning** 160-62
- Drawing up of plans** 156
- Economic man** 51
- Economics** 39-40, 339-40
- Economy of Large areas** 146
- Education and Planning** 309
- Emergency and Planning** 47,  
 103, 325
- Equalization of Income** 95-96,  
 131
- Equilibrium in Price** 56
- Exchange Control** 113-15, 338
- Exploitation and Planning** 89,  
 318
- Export Plan** 154, 160, 214, 215
- External economies and  
 Diseconomies** 165, 242
- Fascist Planning** 272-281
- Financing of planning** 197-201
- Five Year Plans** 155, 215, 246,  
 248-250
- Fixed Capital in industry** 55
- Four Year Plans** 81, 82, 155,  
 284
- Foreign Exchange** 195, 113-115,  
 215
- Investment 204
- Trade 49, 79, 105, 139-40,  
 212-13
- France** 71, 114, 184, 331,  
 334-338
- Freedom and Planning** 305,  
 319-23, 339
- Free Trade** 190, 212
- Full Employment** 91, 92, 93,  
 99
- Functions of Planning Boards**  
 156, 337
- Germany** 71, 81-86, 87-88, 127,  
 129, 177, 197, 209,  
 217, 218, 222, 232-  
 238, 243, 281-288,  
 310, 341
- Gold Standard** 79, 191, 192,  
 195, 212
- Gosbank** 200, 210
- Gosplan** 292
- Great Britain** 51, 65, 71, 78, 96,  
 98, 110, 111, 126,  
 145, 153
- Great Emergency** 9, 37, 50
- Guild Socialism** 262, 263
- System 262, 272-81
- Hitler's New Order** 142, 177,  
 318
- Idea of Planning** 17, 24, 271
- Ideology** 311-12
- Idle Resources** 43, 197-98
- Industrialization Plans** 43, 90,  
 116, 134, 144, 151,  
 155, 205, 251
- Inflation and Planning** 198,  
 200, 202
- International Bank for  
 Foreign Investment** 205, 206
- clearing House 144, 196,  
 205, 220
- Commodity controls 142
- Money and credit system  
 195, 204, 220
- planning 141-146, 196, 205,  
 220, 333
- Interest Group Planning** 262
- Italy** 72, 87, 222, 243, 260,  
 272-81
- Japan** 47, 89, 249



- Kolkhozy* 127, 128, 224, 225,  
298
- Land Utilization map 225
- Labour 176-186, 259, 339
- Labour Front German 182, 286
- Labour in Italy 182, 274-76
- Lease-lend Act 196, 205
- Large range Investment Plans  
155
- Machine and Planning 55, 56,  
106, 213-214, 342
- Marginalism 165, 166
- Market Regulations in  
Germany 234, 235
- Minimum principle in  
planning 105, 325, 342
- Mixed enterprise 85, 126
- Money, 73, 190-196, 200, 202-6
- Monopolistic Control  
Schemes 66
- National Economy 20
- National Income 44, 176, 239
- N.I.R.A. 261-62, 264-271
- Objectives of Planning  
40-41, 79, 90, 98, 158, 240, 324  
—and controls 105, 106  
—and plans 155, 158  
—interconnection between  
them 98  
—and scope of 98-101  
—the various aspects 102-04
- Ownership 85, 122-134, 330,  
342  
—amphibian forms 124, 129,  
330  
—co-operative societies,  
127-29, 330  
—democratization 95, 131,  
307, 330
- Paper Currency 191, 194, 195
- Passive capitalism 132-134
- Peace 98, 143-145, 316-17, 322
- People's Commissariats 131,  
157, 291, 294
- Period of Production 54
- Planning 17  
—bodies 157-59, 293-94  
—emergency, permanent 102  
—international, 141-42,  
318-19  
—national 138-139, 316-17  
—nationalistic 19  
—regional 135-37  
—socialistic 19  
—structural, functional 101  
—utopian 103, 104  
—plans, types, varieties 79,  
81, 154
- Pluralistic Principles 142, 342
- Poland 88, 91, 127, 132-34, 138,  
146, 243, 252-58
- Political Man 51-53
- Politics and Planning 259-60,  
304-08, 331-32, 340
- Post-war Reconstruction 61,  
98-99, 117, 340
- Power Politics 88-90
- Pricing 165-174, 178, 187  
—authoritative 166  
—competitive 169  
—free 165-67  
—just 93, 125, 187-189
- Production 54, 115, 116, 117,  
120
- Propaganda 59-62, 110, 112,  
260
- Quantitative Controls 111, 153  
—and machine 106  
—in agriculture 224  
—in foreign trade 213  
—in money 73, 199
- Rationalization of Economy  
312-342

- Rationing 111, 119  
 Research and Planning 57, 157,  
     160, 324
- Scales of Preferences 45, 165,  
     167, 310
- Science 57, 99, 302, 310  
 Scientific management 58  
   —Planning 17, 99, 312
- Self government 182, 260-64,  
     273, 288, 298
- Self sufficiency 49, 50, 87, 139,  
     221
- Socialism 94, 95, 134, 311, 312,  
     341, 342
- Socialist competition 246, 310  
 Social control 59-62  
   —equality 94, 96, 120, 131-32,  
     306, 329-30  
   —psychology 313  
   —security 49, 55, 92-94,  
     330-31
- Soviet Russia 68, 75-77, 78, 87,  
     95, 129-30, 154-55, 179-  
     181, 194, 197, 200, 204,  
     208-10, 215, 217, 221-22,  
     225, 243, 250, 263, 288
- Specialization 54, 63  
   —banking 210
- Spirit of Planning 262, 271,  
     280, 285
- Stability of prices and wages  
     93, 113, 120, 169-171, 237
- Stages in Planned Economy  
     100, 105
- State Authority 271, 305-306,  
     331, 338  
   —industry 132-134
- Stocks and Planning 105, 161  
 Structural Planning 161-62
- Taxation 71-77, 96  
 Technological Progress 54-58,  
     90, 105, 173
- Tennessee Valley 88, 89, 148-52,  
     243, 251
- Time Factor 162, 271, 324  
 Trade Unions 180-82, 266,  
     273-76, 285-87, 294-96
- Trustees of Labour 286
- Unemployment 57, 91, 93, 166  
 U.S.A. 51, 63, 71, 72, 78, 88,  
     89, 92, 98, 125, 145,  
     147-152, 185, 196,  
     223, 227-232, 261,  
     264-72, 310
- Valuta Plan 214
- Wages 82, 83, 93, 176-185,  
     187-88, 198, 267-274,  
     287, 295, 335
- Wagner's law 70  
 Wants of population 44, 111,  
     165, 169, 174
- War Planning 50, 87-88, 155,  
     179, 217, 346
- World Economy 78-80, 142-44.  
     333