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PLAN FOR RECONSTRUCTION

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Plan for
RECONSTRUCTION

A PROJECT FOR VICTORY IN WAR AND PEACE

by

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The central issue in reconstruction is the basis on which the State is to be organised. Will industry be organised in such a way as to produce the maximum of profits and wages for its staffs or so as to produce the maximum of goods and services for the community? Will trade be organised so as to produce the maximum of protection for its vested interests or so as to furnish the greatest possible flow of goods for consumption? . . .

It is inevitable that the post-war State should be more interventionist than ever before. But it must intervene to free the citizen, not to protect the clique or *claque*. It is Particularism *v.* the Commonwealth that is the question; and the crime of the parties before the war was that, with Particularism in charge on both sides, every answer but one was suffocated. (*The Economist*, 5 April 1941.)

THIS BOOK IS PRODUCED IN COMPLETE CONFORMITY WITH THE AUTHORISED ECONOMY STANDARDS

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PREFACE

IN this book I try firstly to sketch, in the broadest terms, the institutional requirements for the most efficient pursuit of a long total war; and secondly to describe in detail a way of tackling the immense task of turning from war to peace. I have written it in the security of Cape Town whilst Russia has been overrun and the British have been preparing for a second spell of resistance to ruthless bombing. Like others, I have wished to help. This is my contribution. I have invested my relative good fortune in making it.

My distance from Great Britain may well have given perspective to my studies of her problems. Detached from all active contact with British politics, I have for years been quietly thinking about the economic position of the Mother Country in whose prosperity and future strength we in the Dominions are so closely interested. And since the war broke out I have been even more deeply submerged in the study of issues which the British will have to face.

Some years ago, in one of my previous works, I promised a book containing the suggestions which follow. This is a partial fulfilment of that promise. The urgent necessity of making plans for economic recuperation has simply persuaded me to publish now a scheme which I first thought would see the light at a much later date. The times are ripe, so I have seized the opportunity.

Although I deal specifically with British problems, my remarks are directly relevant to the war and post-war problems which will confront the United States. Indeed, American readers are likely to have a more ready sympathy for the suggestions of Chapters XI to XV than British readers. But the *details* of my security suggestions would not be practically applicable in the United States.

The first four chapters are directly relevant to the conduct of the war itself. As I write (November 1941) I have just received *The New Statesman* (30 August 1941) in which "Urbanus" sketches a plan for separating the productive and distributive schemes in the interests of war efficiency. That is the basis of my own detailed recommendations for both war and reconstruction. As I shall show, the authorities in Britain are already being forced to *grope* towards a solution along the lines of my contribution. And so I hope that my suggestions will be regarded as opportune. Although hastily presented, they are not a hastily-

thought-out panacea for a desperate situation. However apposite or topical they may be, they have been pondered on and hammered out during the leisured study of years.

The apparent egotism of my constant references to books and articles which I have published in the past is due to this. My earlier writings have been steps in preparation of the present study. They contain more rigorous and technical treatment of some of the points which I here seek to explain in simple terms. I list below such of these books and articles from which I actually quote. Footnote references to these works will omit the name of the author.

I have tried to keep the book as brief as possible. But a plan for institutional reconstruction does not lend itself to pithy or laconic description. My footnotes will occasionally make points in the conventional jargon of economics. Otherwise I have defined as fully as possible the few technical words and phrases which I have been unable to avoid. The occasional repetitions and recapitulations to which I have had recourse have been prompted by consideration for the reader. My frequent use of the first person is partly due to its appearing to help exposition and partly to the humility with which I regard my own judgments.

For the ideas which I put forward I am grateful to so many sources that I cannot make just acknowledgments. Among contemporary economists I have found the deepest sympathy for my approach in conversations (at various times before the war) with Messrs. G. L. Schwartz and G. J. Ponsonby. I have been most influenced by Professors L. Robbins, A. Plant and F. A. Hayek; and I am indebted, of course, to all my economist colleagues at the University of Cape Town. But I can no longer trace the origin of my thoughts.

I should warn any hasty reader that my plan for income pooling as outlined in the draft Bills is *not* intended for adoption whilst war is in progress. A similar sort of scheme ought to be instituted during the war, but its details could only be appropriately determined by those on the spot.

I must apologise for the inevitable defects of rapid writing and thank the many friends in Cape Town who read the typescript as it grew and helped me to eliminate the worst faults of style and exposition. To expedite its publication, I have asked my publisher not to send me proofs.

List of Author's Previous Contributions Quoted

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[1] *South African Journal of Economics.*
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PLAN FOR RECONSTRUCTION

INTRODUCTION

THE discussion of organisation for war (in Chapters I to IV) is intended partly to point a moral, partly to give further support to suggestions which have already been made (notably by *The Economist* and *The New Statesman*) for obtaining fuller productivity immediately, and partly to describe the kind of war organisation which will be most conducive to the adoption of my reconstruction proposals.

The scope of my reconstruction plan, to which the following chapters are devoted, is limited to the "institutional pattern" of a post-war economic order. By that, I mean that my aim is the working out of a framework of laws and administrative methods which will permit rapid physical recovery from war damage, and serve at the same time as the basis for a more efficient and just economic system. I see no clash between those objectives.

Questions of the technical shape of post-war Britain, the concrete arrangements for the physical re-equipment and organisation of peace-time industries and pursuits, the new geographical distribution of people and resources, the rebuilding and replanning of cities, the financial arrangements for settling the "cost of the war", the type of currency scheme appropriate for the aftermath, the settlement of international economic relations—these are all problems which ought properly to be seen as subsidiary to those which my plan endeavours to cover. I am not here concerned with the choice of technical methods as such, but with the securing of social arrangements which are conducive to the most economic technical methods. Similarly, I am not here concerned with the ideals or ends for which a free society may strive, as individuals and collectively. The problem I have tried to solve is how to secure freedom to choose between social objectives (individual and collective) for the fulfilment of which there are limited means; and, objectives being chosen, how to secure responsibility in those whom we must entrust with the choice and use of the means for their fulfilment. Now the greater part of most discussions of reconstruction will probably deal with the very issues which I leave on one side or touch on incidentally. But I leave such issues, not because I do not think that they are important, but because I have chosen to concentrate upon a more radical question. I have ventured to deal with the most

fundamental plan of all—the economic basis of society. I have drafted a blue-print of the social ground-plan.

This plan is formulated in three draft Bills. They are printed at the beginning of the book. But I do not expect the reader to grasp their purpose and implications before reading the exposition which follows them. I print them first because they *are* the plan which I am presenting. As I have actually drafted legislation, the most unfair critic will be unable to say that my scheme is vague. It is, in fact, *really* a plan and not a vision. It is ready for submission to Parliament. But the reader will do best to study the reasoning which follows the draft Bills and refer back to their text *after* consideration of my case.

What is expected of a plan? Professor D. F. Pegrum has recently stated the requirements.[1] He says:

> If a model is to serve as a blue-print for reconstruction or a new order, it must be more than provisional or preliminary; it must be more than a set of definitions with formal implications deduced therefrom. It must be final and complete, and it must implement the definitions by giving them precise and practical content. The plan must be able to comprehend within its framework all the detail which will arise, and furthermore, there must be the certainty that details not thought of, or perhaps unascertainable at the time, will not affect the framework but will only cause shifts within its limits. In addition, it must be assumed that all of the social forces which are not taken account of by the plan will not vitiate its operation. . . ." [2]

I feel that my attempt conforms to these precepts.

What, in particular, do I claim for my plan? I claim that it resolves an extraordinary dilemma which has frustrated the realisation of full productive power from time immemorial. I am thinking of an age-old conflict which is recorded in economic history—a clash between policies of unrestrained production in the interests of plenty, and the ruin, insecurity of income and destruction of privilege which appear to result when restraints on production are removed. The draft Bill to which I have given the curious but informative title, *Resources Utilisation Protection Bill*, contains the provisions required to rid the productive system of the incubus of restrictionism which has been imposed upon it in the past. If there is to be rapid recovery from war damage that is essential. But the project offers infinitely more than a mere technique of transition. It offers hope of a social order from which poverty and insecurity as they have been known in the past can be for ever banished.

The two other draft Bills which I have prepared embody the

[1] D. F. Pegrum, "Economic Planning and the Science of Economics", *American Economic Review*, June 1941

[2] Ibid., p 299

laws necessary to ensure that ruin, income insecurity and cruel loss of privilege shall not accompany what might otherwise be regarded as "cut-throat utilisation". I have called them the *Labour Security Bill* and the *Capital Security Bill*. If these provisions can be practically applied (and I naturally believe that they can be) there can be no "over-production" of wanted things, nor can there be any unemployment as we have known it during this century. I claim that it is possible to achieve this result not by any economic conjuring trick with monetary policy or State spending but by a system of guaranteed incomes, including a national minimum, under which such incentives to efficiency as already existed in the pre-war type of private enterprise can be retained and fostered. For at the same time as the motive to make things scarce (in order to enhance or protect private incomes) is dissolved, the stimulus to economy in responding to the commands of consumers can be immensely strengthened. That is my confident belief. My critics must show either that the basic principle on which I build (explained in Chapter VII) is wrong or else that my specific proposals are administratively or politically impracticable. I devote the last chapter to the political prospects.

PART I

THE PLAN ITSELF

(*a*) LABOUR SECURITY BILL

BILL to promote and further security of income and to protect established expectations in respect of income from labour and personal services.

Section 1. The Minister of Labour, hereinafter known as the Minister, shall establish and administer a fund to be known as the Labour Security Pool, hereinafter referred to as the Pool, and a fund to be known as the Labour Security Reserve, hereinafter referred to as the Reserve, immediately after the passage of this Act.

Section 2. (i) The Pool and the Reserve shall be raised by means of a Levy to be known as the Labour Security Levy, hereinafter referred to as the Levy. The Levy shall be contributed by every person of the age of fourteen years or more in receipt of wages, salary or remuneration of any kind whatsoever for work done or services performed. Every such person shall be called upon to contribute as Levy from such wages, salary or remuneration, a percentage to be determined, from time to time, by the Labour Security Board (as constituted in Section 8), or to be determined by the Chancellor of the Exchequer if it is necessary to compensate the Capital Security Pool in accordance with Section 4 of the Capital Security Act. The percentage shall be the same for all types of employment. The Levy shall be calculated on gross wages, salary or remuneration, before any deductions of any kind have been made.

(ii) Three-quarters of the Levy shall be paid into the Pool and one-quarter into the Reserve, except that in the case of persons whose gross wages, salary or remuneration and/or reward in kind exceed £600 per annum, the proportion borne by their guaranteed minimum income (as determined under Section 14) to their actual gross wages, salary, remuneration and/or reward in kind in any year, shall be paid into the Pool and the rest into the Reserve.

Section 3. Every person, partnership or corporation paying wages or salaries, or remuneration of any kind whatsoever for work done or services performed, to persons whom they employ (other than persons working on their own account), shall deduct the percentage enacted as the Levy from time to time from all

wages, salaries or other such remuneration paid to those whom they employ (other than persons working on their own account), and shall pay the sum so deducted to the Labour Security Board. The Labour Security Board shall draw up regulations specifying the methods of payment of the Levy for different types of employment or occupation.

Section 4. Persons working on their own account, in all trades or professions, shall pay the Levy annually upon the whole or a proportion of their incomes, as assessed in each case by the Labour Security Board ; which assessment shall be made : (*a*) when income-tax returns are made, after consideration of such returns or other information submitted or demanded ; (*b*) when income-tax returns are not made, but returns are submitted by persons wishing to enjoy the benefits of Labour Security Grants (as defined in Section 19), after consideration of such returns ; and (*c*) in other cases in such manner as the Labour Security Board may determine.

Section 5. The Labour Security Board may make whatever arrangements may appear appropriate and issue Regulations in respect thereof : (*a*) for assessing the wages, salaries or remuneration of, and for the collection of the Levy from, such wage-earners or salary-earners or persons working on their own account as are not dealt with under the provisions of Sections 3 and 4 ; (*b*) for the collection of an amount from persons paid (wholly or in part) in kind which, in the opinion of the Labour Security Board, is equivalent to the Levy demanded from others.

Section 6. At all times before the expiry of a period of ten fiscal years from and after the date of the passage of this Act, the Pool shall be compensated by a sum transferred from the Capital Security Pool if it is estimated by the Chancellor of the Exchequer that the aggregate gross income on which contributions to the Pool are levied has declined in any year, whilst the aggregate gross income on which contributions to the Capital Security Pool are levied has increased in that year. The amount of the transfer shall not exceed (*a*) a sum sufficient to maintain the estimated aggregate gross income on which contributions to the Pool are levied and (*b*) the amount by which the aggregate gross income on which contributions to the Capital Security Pool are levied is estimated to have increased.

Section 7. (i) The Minister shall caused to be elected, within one year from the date of the passage of this Act, by contributors to the Pool, ... persons who shall be known as Labour Security Trustees, hereinafter referred to as Trustees. There shall be elections of Trustees at such intervals, not longer than five years, as the Minister may determine, the second election being held not later than two years after the first election.

(ii) The method of election shall be determined by the Minister, except that the right to vote in such elections shall be possessed at the first election by all contributors to the Pool, and in subsequent years or periods by persons whose contributions to the Pool and Reserve during the previous year or period have exceeded their receipts from the Pool in the form of Grants. The voting power of a contributor shall be approximately, and as far as is deemed practicable by the Minister, in proportion to the amount of such excess during the previous year or period.

(iii) The constituencies for the election of Trustees shall be laid down and modified from time to time at the sole discretion of the Minister, so that they shall, as far as is practicable, contain numbers of electors contributing equal amounts to the Pool and Reserve. The constituencies need not be geographical and may be based on industries, employments, professions, or trades.

(iv) The method of nomination shall be determined by the Minister, who shall, as far as is practicable, consult and make use of trade-unions, professional associations and like bodies, with a view to securing Trustees of responsibility who are representative of different classes of contributors to the Pool.

(v) In the event of a vacancy occurring in any constituency a new election shall be ordered by the Minister if such constituency would otherwise be without representation for a year or more.

Section 8. The Minister shall, within two years from the date of the passage of this Act, establish a Labour Security Board, hereinafter referred to as the Board in this chapter, of which six members shall be chosen from Civil Servants and appointed by the Minister and five members nominated and elected by the Trustees. After the passage of five years from the establishment of the Board one such elected member shall retire annually and be eligible for re-election. The elected members of the Board shall, if themselves Trustees, cease to be Trustees. Members of the Board shall resign from all other remunerated employment. They shall be remunerated at a salary to be determined by the Minister. Their salaries shall be paid from the Pool. The Board may delegate its powers to Trustees, duly appointed agents, and employees.

Section 9. Until the Board has been established, the Minister shall have all its powers and undertake all its functions; but all decisions and determinations within the Board's powers, if made by the Minister prior to its establishment, shall be deemed to be provisional, unless confirmed by the Board or allowed to stand without amendment for two years after the Board's establishment. To advise the Minister before the establishment of the Board, the Minister shall appoint a Temporary Labour Security Board

consisting of six Civil Servants and five Acting Trustees appointed under Section 11.

Section 10. The Trustees or any Trustee shall, after receiving due notice, be available at all reasonable times for consultation, advice or inspection duties at the request of the Board. In the event of a Trustee being called upon to perform such duties he shall be remunerated at the rate of £..... per annum, £..... per month, or £..... per day. In the event of a Trustee not being reasonably available for such duties, the Board may request the Minister to call upon such Trustee to resign or to declare that he is no longer a Trustee.

Section 11. As soon as possible after the passage of this Act, the Minister shall appoint Acting Labour Security Trustees who shall have the same functions and rights as Trustees until the latter have been elected.

Section 12. The Minister shall call upon all corporations, partnerships and persons to fill in, and return to the Board, at a specified address, a form for every person employed by them other than those working on their own account, specifying the wage-rates or salaries paid, whether by time or piece; any remuneration in kind; the period for which they have been employed; and to the best of their ability such other details as the Minister, on the advice of the Board, may require. In each case, before its return to the Board, the completed form shall be submitted to the person employed who shall be asked to sign a declaration that the information therein given is correct, or, in case of disagreement, to present the true facts as he believes them to be and to name the trade-union (if any) to which he belongs.

Section 13. The Minister shall call upon all persons in receipt of remuneration and/or reward in kind for services performed or work done who are not referred to in Section 12, including persons working on their own account, to fill in, and return to the Board, at a specified address, a form specifying their earnings and, to the best of their ability, such other details as the Minister, on the advice of the Board, may require.

Section 14. The Board shall, with the advice and assistance of the Trustees, determine a guaranteed minimum income for every person from whom a form specified in Sections 12 or 13 is received. The guaranteed minimum income shall in the first place be provisionally fixed, and the employee informed as soon as possible of the amount fixed. The provisional fixation shall remain subject to review until, not less than five years after its first provisional fixation, it is finally confirmed by the authority of the Board. The guaranteed minimum incomes so determined shall equal " established expectations " as defined in Section 15.

Section 15. (i) By "established expectations" is meant standards of guaranteed minimum incomes calculated to provide reasonable security of income. Established expectations shall be determined at the outset:

(*a*) for employees of the age of 25 years or more who were engaged in occupations in which trade-union standard rates were payable before October 1939, according to annual earnings under the trade-union standard rates of wages for the employee's grade of labour which were current before October 1939, allowance made for average unemployment among those who were members of the trade-union concerned; except that if annual earnings so determined amount to more than £450 per annum, established expectations shall be deemed to be £450 per annum or a sum determined as under (*d*), whichever is the higher;

(*b*) for other employees of the age of 25 years or more who were gainfully employed before October 1939, in relation to the average annual earnings or remuneration of the employee over a period of five years previous to October 1939, or such other standard as, in the opinion of the Board, is calculated to provide reasonable security of income for all such employees; except that if average annual earnings so determined amount to more than £450 per annum, established expectations shall be deemed to be £450 per annum or a sum determined as under (*d*), whichever is the higher;

(*c*) for employees under 25 years of age who were gainfully employed before October 1939, by an amount determined for each year as under (*a*) or (*b*), less 10 per cent. for each year or portion of year by which their age falls short of 25 years;

(*d*) for immigrants, for those who were not gainfully employed before October 1939, and for new entrants to occupations other than juveniles or persons under 25 years of age, and other than those in His Majesty's Forces, or in Scheduled War Employments, or Scheduled Reconstruction Employments, or Scheduled Impermanent Employments (as defined in Sub-Section (ii)), an amount determined for each year equal to 52½, 55, 57½, 60, 62½, 65, 67½, 70, 72½ and 75 per cent. of any rate of annual earnings which can be regarded as having been continuously earned in Great Britain for a period of 1, 2, 3, 4, 5, 6, 7, 8, 9, or 10 years, respectively. The established expectations of employees in this class may decline during the first ten years of employment. The established expectations determined for the tenth year shall subsequently stand until modified in accordance with the provisions of this Section;

(*e*) for juveniles or persons under 25 years of age entering for the first time gainful occupations other than in His Majesty's Forces, Scheduled War Employments, Scheduled Reconstruction Employments, or Scheduled Impermanent Employments (as defined in Sub-Section (ii)), an amount determined for each year equal to 62½, 65, 67½, 70, 72½ and 75 per cent. of their average earnings since the commencement of their employment, expectations being regarded as established from the ages of 20, 21, 22, 23, 24 and 25 years, respectively, if they are employed at or before the age of 19 years, and a sum equal to 65, 67½, 70, 72½ and 75 per cent. of their average earnings since the commencement of their employment for the second, third, fourth, fifth and sixth year of employment if they are first employed at or after the age of 20 years, excluding from the average in each case any period of employment during which their earnings were below normal owing to approved training being undertaken concurrently with employment in a workshop, factory, shop, office or other place of employment, and allowance made for any short-time worked by reason of training approved by the Board undergone concurrently with employment at a technical school or like institution approved by the Board. The established expectations of employees in this class may decline before the age of 25 years or before the passage of five years subsequent to the employee's first employment. The established expectations determined for the sixth year shall subsequently stand until modified in accordance with the provisions of this Section;

(*f*) for employees who were gainfully employed, before October 1939, in occupations deemed by the Board to be clerical or executive occupations, three-quarters of established expectations as determined under clauses (*a*) to (*c*);

(*g*) for persons in receipt of wages, salary or remuneration and/or reward in kind for services performed or work done amounting to more than £600 per annum, one-half of the excess of such amount above £300, added to £300;

(*h*) for persons in receipt of remuneration and/or reward in kind for services performed or work done who, in the opinion of the Board, are not appropriately dealt with under (*a*) to (*g*) of this Sub-Section (including persons working on their own account or in His Majesty's Forces, Scheduled War Employments, Scheduled Reconstruction Employments, or Scheduled Impermanent Employments, as defined in Sub-Section (ii)), according to such standards as are calculated, in the opinion of the Board, to provide

reasonable security of income to such persons. Regulations for determining established expectations in different types of employment or occupation and the guaranteed minimum incomes based upon them shall be issued by the Board.

(ii) The Board shall publish a schedule of occupations deemed to be War Employments, Reconstruction Employments, or Impermanent Employments. Except as provided for in this Sub-Section, the earnings of employees in such occupations shall not be taken into account in determining established expectations. But in the case of employees in Scheduled War Employments and Scheduled Reconstruction Employments, the Minister of Labour may, in consultation with the Board, determine established expectations for such employees, after making arrangements for the indemnification of the Pool for any Grants paid to such employees in excess of three-quarters of what would be payable to them under this Section if Scheduled Employments were not excluded.

(iii) Established expectations shall be regarded as increased :

(*a*) for an employee who was gainfully employed before October 1939, if his annual earnings during the first five years following his post-war entry into or continuance in employment (other than employment in His Majesty's Forces, a Scheduled War Employment, a Scheduled Reconstruction Employment or a Scheduled Impermanent Employment) have been continuously greater than the established expectations originally determined for him. Such earnings as have been continuously earned or exceeded during such five years shall, in such a case, determine the employee's established expectations ;

(*b*) for an employee who was not gainfully employed before October 1939, if the rate of earnings which he can be regarded as having continuously earned for a period of ten years (other than from employment in His Majesty's Forces, a Scheduled War Employment, a Scheduled Reconstruction Employment or a Scheduled Impermanent Employment) is greater than the rate of earnings which determined his former guaranteed income. In such a case, established expectations shall equal three-quarters of the continuously earned rate ; or, alternatively, one-half of the average annual earnings during the previous ten years, whichever is the higher.

(iv) Established expectations shall be regarded as declining at an increasing rate for each employee when he reaches the age of 55 years. The increasing rate of decline shall be determined separately for each employee according to the occupation or

occupations for which he is qualified, by the application of principles laid down by the Board and embodied in schedules which shall be published. From time to time the Board may revise such schedules in the light of experience.

(v) Established expectations shall be regarded as having declined following any loss of earning power due to ill-health or accident. The extent of the reduction shall be at least as great as any benefits received under the National Health Insurance and the Workmen's Compensation Act.

(vi) If the sum determined as continuously earned income in accordance with the provisions of this Section amounts to more than £600 per annum, one half of the excess of the sum so determined over £300 shall be added to £300 to determine established expectations.

Section 16. The guaranteed minimum incomes fixed in terms of Sections 14 and 15 may be temporarily reduced by the Minister by any percentage which, in his opinion, is appropriate, and for any period which, in his opinion, is appropriate, if the sum of the estimated aggregate earnings of labour plus any compensation transferred from the Capital Security Pool (as provided for in Section 6) is declining.

Section 17. (i) The guaranteed minimum incomes fixed in terms of Sections 14 to 16 shall rise or fall in proportion to changes in a cost-of-living index. The Minister shall: (*a*) specify the index or indexes to be used for this purpose, until the Board has compiled a special index or indexes for this purpose; and (*b*) issue Regulations for the application of such index or indexes. The indexes may be different for those domiciled in different districts and different for those in receipt of different levels of income from all sources.

(ii) If the Trustees are of the opinion that any person who makes an application in terms of this Sub-Section is prejudiced as the result of the operation of Sub-Section (i) by reason of reasonable contractual commitments, fixed in terms of money, other than contracts for the rent of buildings, and entered into before the date of the passage of this Act, they may recommend to the Board the payment of an additional compensating allowance.

Section 18. The Board may, at its sole discretion, and within the limits of the explicit instructions of this Act, at any time increase or decrease any guaranteed minimum income fixed which has not been finally confirmed in terms of Section 14, if it is of the opinion that any beneficiary therefrom or any class of person benefiting therefrom is unduly favoured or unjustly treated in relation to other persons or classes of persons in the light of the principle of established expectations.

Section 19. (i) Except as provided for in other Sections of

this Act, when the gross earnings (subject to the Levy) of any employee fall below his guaranteed minimum income, a grant to be known as the Labour Security Grant, hereinafter referred to as the Grant, shall be payable to him as compensation: (*a*) in the case of remuneration by time-rates, equal to the amount by which his gross earnings fall short of his guaranteed minimum income; and (*b*) in the case of remuneration by piece-rates, equal to a sum fixed for each employee compensated, based on the amount by which the average gross earnings of normal employees, of normal efficiency, and working for normal hours (as determined under Section 21), in the grade of employment concerned, fall short of the employee's guaranteed minimum income. The sum so fixed shall remain constant (except for revision to correct error, or unless changed in terms of Sections 14 to 18) until piece-rates in the grade of employment concerned are changed, when the average gross earnings for this purpose shall be recalculated.

(ii) From the Grants payable under Sub-Section (i) there shall be deducted a percentage equal to the Levy determined from time to time under Section 2.

Section 20. The method of payment of the Grant shall be determined for different classes of wage-earners, salary-earners and others in accordance with Regulations to be determined by the Board. In making such Regulations it shall be arranged that no person who has received a Grant during any year shall retain more than his guaranteed annual income for that year until he has fully refunded all Grants made to him during that year.

Section 21. (i) The normal hours of labour of any person in receipt of a Grant; or the normal hours of labour of any group of workers the majority of whom are in receipt of Grants, in any trade, occupation, industry, calling, factory or workshop; or employed by any corporation, partnership or person, or defined in any like way, may be determined by the Board. Normal hours of work shall be taken to be those existing at any time for workers engaged in the same or similar work who are not recipients of Grants. The Board may request the Resources Utilisation Commission to declare the normal hours of work.

(ii) Any person in receipt of a Grant who fails, for reasons under his own control, to work for the full normal hours so fixed, shall be subject to a proportionate reduction of the Grant payable to him until such time as he works for the full hours fixed.

(iii) A person shall be deemed to be working during any time that he is on the premises or place of work of the corporation, partnership or person employing him if, during such time, he has tacit or explicit orders from his employer not to leave the premises or place of work.

(iv) A person in receipt of a Grant shall work for such hours of overtime as are demanded by his employer if, in the opinion of the Board, such demand is reasonable; and if he fails, for reasons under his own control, to work for the full overtime period demanded, he shall be subject to a proportionate reduction of the Grant payable to him until such time as he works the full hours, including overtime if any, demanded.

Section 22. (i) The Minister shall cause to be determined and enacted a National Minimum Income. The National Minimum Income shall be such that, in the opinion of the Minister, it can be regularly earned or exceeded under conditions of competition and equality of opportunity in the labour market by all adult employees of normal physique and/or normal intelligence who are effectively and continuously available for gainful employment. The National Minimum Income may be determined and enacted provisionally until, in the opinion of the Minister, there is sufficient experience to justify a definitive determination. The National Minimum Income may be subsequently raised by the Minister on the recommendation of three-quarters of the Trustees.

(ii) Except as otherwise provided in this Section, every employee, man or woman, of the age of 25 years or more and not more than 54 years who is of normal physique and/or normal intelligence, and effectively and continuously available for gainful employment, shall be deemed to have established expectations in respect of income from all sources, including income from shares and/or property and including any Capital Security Grant determined according to the provisions of the Capital Security Act, not lower than the National Minimum Income; provided that, in the opinion of the Board, he exercises due diligence and industry in any occupation or occupations which he follows, that he obeys all lawful orders given by the Board in respect of his employment and that he does not sell, transfer or otherwise dispose of or deal in shares and/or property (other than shares and/or property forming part of his Compensation Capital as determined according to the provisions of the Capital Security Act) except with the express permission of the Board.

(iii) An employee shall be deemed to be below the normal in physique and/or intelligence if he suffers from any defect of physique or health, or intelligence, and if his inability to earn an income equal to or exceeding the National Minimum Income under conditions of competition and equality of opportunity is due to such defect of physique or deficiency in intelligence.

(iv) Women shall be ineligible under the provisions of this Section for a period of three months before confinement and a period of nine months subsequently.

(v) The Minister shall decide, in consultation with the National Institute of Industrial Psychology, whether an employee is below the normal in physique and/or intelligence in terms of Sub-Section (iii).

(vi) (*a*) If the joint income from all sources of married persons, or persons living as man and wife, either of whom would otherwise be eligible for the determination of established expectations under the provisions of this Section, exceeds twice the National Minimum Income, neither such person shall be eligible under the provisions of this Section.

(*b*) The Grant payable to married persons or persons living as man and wife, either of whom is eligible and a claimant under this Section, shall be such that the joint income, after receipt of a Grant determined in accordance with established expectations determined under the provisions of this Act, does not exceed twice the National Minimum Income.

(vii) If the following relations (domiciled in Great Britain) of a claimant under the provisions of this Section, namely, parents, sons, daughters, brothers and sisters of the claimant, together receive an aggregate annual income which, after deduction of £25 for each son or daughter of such relations under the age of 18 years, and after deduction of £100 for every married man among such relations who is living with his wife, exceeds £300 per annum, such claimant shall not be eligible. Whilst investigating the incomes of the claimant's relations, the Board may authorise the payment of a provisional Grant based upon established expectations equivalent to the National Minimum for a period not exceeding eight weeks. If the claimant is found to be ineligible, such relations shall be liable to the Pool, in any proportion held by the Board to be equitable, for any sums paid to the claimant as provisional Grant under the provisions of this Section.

Section 23. In the case of overtime work by employees remunerated by time-rates, and entitled to receive Grants, one-half of the sum so earned only shall be included in the calculation of gross earnings for the determination of the Grant in terms of Section 19, so that the minimum income of such employee (made up of the Grant plus overtime wages or salary received) for any period during which he has been engaged on overtime work shall be increased by a sum equal to one-half of the overtime earnings of a worker not in receipt of a Grant.

Section 24. The recipient of a Grant may be called upon by the Board: (*a*) to leave any existing employment for any alternative employment offered when the higher earnings in the alternative employment seem likely to permit a decrease in the Grant payable to him; or (*b*) to consent to a reduction in the amount of the

Grant payable by an amount equal to the Board's estimate of the amount by which earnings in his existing employment fall below probable earnings in new employment offered.

Section 25. The recipient of a Grant who is without remunerated employment may be called upon by the Board (*a*) to undertake any employment to which the Board directs him, or (*b*) to renounce the right to receive a Grant.

Section 26. (i) The recipient of a Grant may be called upon by the Board regularly to attend and diligently to perform the tasks set in any educational or training centre, school or like institution for such period (full time, or during or after working hours) as the Board may determine, and if the recipient of a Grant fails to attend regularly or, in the opinion of the Board, fails to perform with due diligence the tasks set, the Board may reduce the Grant payable to him.

(ii) The recipient of a Grant may be called upon by the Board to accept employment as a learner in any trade, calling or occupation. During such period the full Grant shall be payable to him provided that, in the opinion of the Board, the recipient shows due diligence as a learner. In the event of the Board determining that he has not shown due diligence, the Board may reduce the Grant payable to him by any amount and for such period as the Board deems desirable.

(iii) The Board may call upon any corporation, partnership or person to undertake the employment and instruction of such reasonable numbers of learners as, in the opinion of the Board, will not seriously interfere with the efficiency of their operations and may call upon such corporation, partnership or person to pay reasonable remuneration for the net value of work performed by such learners. Reasonable compensation shall be payable to such corporations, partnerships or persons from the Pool if the value of the work done by the learners is less than the costs of instructing them. In such cases, when any employee paid by the piece is called upon to assist in the instruction of learners, appropriate reasonable compensation shall be payable to such employee also.

(iv) (*a*) The Board may call upon any juvenile under the age of 20 years to attend and diligently perform the tasks set in any educational or training centre, school or like institution, for such period (full time, or during or after working hours) as the Board may determine, or to accept employment as a learner in any trade, calling or occupation ; and if the juvenile fails to attend regularly or, in the opinion of the Board, fails to perform with due diligence the tasks set, or fails to show due diligence in his employment as a learner, the Board may order that the sum to be determined as his established expectations under Section 15 (i) (*e*) shall be

reduced by any given percentage and/or that the age of eligibility for the security grant shall be postponed for a determined period.

(*b*) When a juvenile is required by the Board to attend full time at an educational or training centre, school or like institution, a training allowance or, alternatively, free board and lodging shall be provided for him from the Pool.

(v) In the interpretation of this Section, the determination of what is reasonable shall be at the discretion of the Board, but appeal may be made to the Resources Utilisation Commission.

Section 27. (i) For each grade of employment remunerated by time-rates in which Grants are being paid, the Board shall cause to be investigated the case of every employee whose gross earnings are, in the estimate of the Board, less than the average gross earnings of normal employees of normal efficiency in that grade. If the Board is of the opinion in any such case (or in any other case that the Board deems it expedient to investigate) that the services of a person are being remunerated at less than their true market value, the Board may request the corporation, partnership or person employing the said person to pay as remuneration a sum equal to the Board's estimate of the true market value, and in the event of their failure to comply with this request, the Board may call upon such person to leave his existing employment and accept some other employment offering higher remuneration or, alternatively, to sacrifice such part of the Grant as, in the opinion of the Board, is equal to the amount by which his actual remuneration falls short of the true market value of his services.

(ii) If, on investigation, the Board is of the opinion that any such employee is not working to the best of his ability, the Board may reduce the Grant payable to him by an amount which, in the opinion of the Board, is equitable, unless and until the Board is satisfied that the employee concerned is working to the best of his ability.

Section 28. On the death of any employee whose aggregate contributions to the Pool in the form of Levies have exceeded his receipts from the Pool in the form of Grants, there shall be paid to his heirs and successors, or on such an employee attaining the age of 65 years there shall be paid to the employee himself, in each case in any form that, in the opinion of the Board, is expedient or appropriate in the interests of security, a sum from the Labour Security Reserve. The sum so paid shall be determined in such a way that the whole of the Reserve is equitably shared among those employees (or their heirs and successors) whose aggregate contributions to the Pool in the form of Levies have exceeded their aggregate receipts from the Pool in the form

of Grants. Regulations for the equitable determination of such sums shall be drawn up by the Board and promulgated after confirmation by the Minister of Labour.

Section 29. In the event of any corporation, partnership or person reducing the wage-rates (whether time-rates or piece-rates) previously paid to one or more employees, it shall inform the Board and specify the cause of the reductions. The Board shall pass such information to the Resources Utilisation Commission.

Section 30. The Board shall cause to be collected and published the current average piece-rates and the current average time-rates in each grade of an employment in which Grants are being paid. All apparent discrepancies between the rates of remuneration paid by different corporations, partnerships or persons to employees of the same type and grade shall be investigated by the Board and, if any breach of any provision of this Act with which the Board is incompetent to deal is discovered or suspected, a report shall be sent to the Minister.

Section 31. The Board shall take over from the Minister the administration of the Labour Exchanges and such other functions as the Minister shall deem it desirable to delegate to the Board.

Section 32. The Board shall invite applications from corporations, partnerships or persons with vacancies for employees of any class and inform suitable persons, whether employed or unemployed, of existing vacancies. For this purpose an indexed register of all employees in a district, classified according to qualifications, shall be maintained by the Board. Corporations, partnerships or persons with vacancies for employees of any class may have access to such register at such times and for such periods as the Board shall determine for each Labour Exchange and, if necessary, the Board may make any charge which shall be deemed appropriate.

Section 33. The Board shall, as far as practicable, establish voluntary Advisory Employment Panels in the principal employment districts with a view to advising, through the Labour Exchange, juvenile and adult applicants (*a*) about superior openings for employment locally or elsewhere, (*b*) about the apparent relative earnings and prospects in different types of employment, and (*c*) about training facilities.

Section 34. For the guidance of the public and the Labour Exchanges respecting the prospects offered by different callings and types of occupation, the Board shall compile and publish from year to year statistics showing the relative wage-rates ruling in different callings and types of occupation, and the relative numbers in such employments. The Board shall take such steps as it deems effective to communicate to parents and juveniles,

through the schools, such of the data so collected as will assist in the most profitable choice of occupation.

. . . . . .

(*Schedule and minor Sections omitted.*)

(*b*) CAPITAL SECURITY BILL

Bill to promote and further security of income and to protect established expectations in respect of income from capital resources.

Section 1. The Chancellor of the Exchequer, hereinafter referred to as the Chancellor in this Act, shall establish and administer a fund to be known as the Capital Security Pool, hereinafter referred to as the Pool, immediately after the passage of this Act.

Section 2. The Pool shall be raised by means of a Capital Security Levy, hereinafter referred to as the Levy in this Act. The Levy shall be contributed by every person domiciled in Great Britain who is in receipt of income other than income in respect of which a Labour Security Levy, determined under the provisions of the Labour Security Act, is payable. Every such person shall be called upon to contribute as Levy from that part of his income on which a Labour Security Levy is not payable, but excluding Labour Security Grants determined under the provisions of the Labour Security Act and excluding Capital Security Grants determined under the provisions of this Act, a percentage to be determined from time to time by the Capital Security Board (as constituted in Section 6), or to be determined by the Chancellor if it is necessary to compensate the Labour Security Pool in accordance with Section 6 of the Labour Security Act.

Section 3. The Levy shall be assessed and demanded together with the assessments and demands in respect of income-tax, except as the Chancellor may otherwise decide.

Section 4. At all times before the expiry of a period of ten fiscal years from and after the date of the passage of this Act, the Pool shall be compensated by a sum transferred from the Labour Security Pool, if it is estimated by the Chancellor that the aggregate gross income on which contributions to the Pool are levied has declined for the previous fiscal year, whilst the aggregate gross income on which contributions to the Labour Security Pool are levied has increased in that year. The amount of the transfer shall not exceed (*a*) a sum sufficient to maintain the estimated gross income on which contributions to the Pool are levied and (*b*) the amount by which the aggregate gross income on which contributions to the Labour Security Pool are levied is estimated to have increased.

Section 5. (i) The Chancellor shall cause to be elected within one year from the date of the passage of this Act, by contributors to the Pool, ... persons who shall be known as Capital

Security Trustees, hereinafter referred to as Trustees. There shall be elections of Trustees at such intervals, not longer than five years, as the Chancellor may determine, the second election being held not later than two years after the first election.

(ii) The Chancellor shall nominate one candidate for each constituency, but other nominations may be made for any constituency provided that each such nomination is supported by the signatures of 100 or more income-tax payers within such constituency whose aggregate income during the previous fiscal year has exceeded £50,000 per annum, other than those who have been recipients of Capital Security Grants (as determined under Sections 13 and 14) or claimants of Capital Security Grants during the previous election period, or since the passage of this Act, in the case of the first election. The income-tax receipts of such signatories for the relevant fiscal year or sworn copies thereof shall accompany such nominations.

(iii) The method of election shall be determined by the Chancellor except that the right to vote at such elections shall be possessed by all contributors to the Pool whose contributions to the Pool as Levy during the previous election period or since the passage of this Act in the case of the first election, have exceeded their receipts from the Pool in the form of Capital Security Grants. The voting power of a contributor shall be, as far as is practicable in the opinion of the Chancellor, approximately in proportion to the amount of such excess during the previous election period or since the passage of this Act in the case of the first election.

(iv) The constituencies for the election of Trustees shall be geographical and shall be laid down and modified from time to time at the sole discretion of the Chancellor, so that they shall, as far as can be estimated, contain numbers of electors contributing equal amounts to the Pool.

(v) In the event of a vacancy occurring in a constituency an Acting Trustee shall be appointed within two months by the Chancellor, and a new election shall be ordered by the Chancellor if such constituency would otherwise be without representation for a year or more.

(vi) Every Trustee accepting nomination must signify his willingness to accept the obligations and undertake the duties of Trustee as laid down in Section 8 and his willingness to accept nomination for election to the Capital Security Board (as constituted in Section 6) on such terms as the Chancellor announces.

Section 6. The Chancellor shall, within two years from the date of the passage of this Act, establish a Capital Security Board, hereinafter referred to as the Board, of which six members shall

be chosen from Civil Servants and appointed by the Chancellor, and five members nominated and elected by the Trustees. After the passage of five years from the establishment of the Board, one such elected member shall retire annually and be eligible for re-election. The elected members of the Board shall, if themselves Trustees, cease to be Trustees. Members of the Board shall resign from all other remunerated employments. They shall be remunerated at a salary to be determined by the Chancellor. Their salaries shall be paid from the Pool. The Board may delegate its powers to Trustees, duly appointed agents, and employees.

Section 7. Until the Board has been established, the Chancellor shall have all its powers and undertake all its functions; but all decisions and determinations within the Board's power, if made by the Chancellor prior to its establishment, shall be deemed to be provisional, unless confirmed by the Board or allowed to stand without amendment for two years after the Board's establishment. To advise the Chancellor before the establishment of the Board, the Chancellor shall appoint a Temporary Capital Security Board consisting of six Civil Servants and five Acting Trustees appointed under Section 9.

Section 8. The Trustees or any Trustee shall, after receiving due notice, be available at all reasonable times for consultation, advice or inspection duties at the request of the Board. In the event of a Trustee being called upon to perform such duties, he shall be remunerated at £.... per annum, £.... per month, or £.... per day. In the event of a Trustee not being reasonably available for such duties, the Board may request the Chancellor to call upon such Trustee to resign or to declare that he is no longer a Trustee.

Section 9. As soon as possible after the passage of this Act the Minister shall appoint Acting Capital Security Trustees who shall have the same functions and rights as Trustees until the latter have been elected.

Section 10. The Board shall recommend to the Chancellor the scheduling as Reconstruction Legislation of such Acts of Parliament as, in the opinion of the Board, are intended to facilitate the transition from war to peace, and likely to cause insecurity of income from shares or property.

Section 11. (i) Every contributor to the Pool shall be called upon to submit with his first income-tax return subsequent to the passage of this Act, or at such other time as the Chancellor may determine, a complete list of all assets owned by him, together with any pledges, mortgages or encumbrances on such assets. Pension rights and annuities shall be regarded as assets. Such assets shall form and be known as the Basic Compensation Capital.

(ii) Every contributor to the Pool who receives compensation for war damage or war losses subsequent to the date of the submission of the list referred to in Sub-Section (i) shall be called upon to make a return, within two months of the receipt of such compensation, of any assets held by him in addition to the assets forming the Basic Compensation Capital which are equal in value to a sum not greater than the value of such compensation. Such assets shall form and be known as the Supplementary Compensation Capital.

(iii) The income derived from the Basic Compensation Capital shall be estimated by the Board for each person after consideration of the income-tax return of such person and such other data as the Board may require and shall form and be known as the Basic Compensation Income. Each person shall be informed of such estimate, which shall be provisional and subject to reduction until final confirmation not later than two years following its provisional notification. If the Basic Compensation Income fixed for any person by the Board is less than his average unearned income as assessed for purposes of income-tax for the five fiscal years prior to September 1939, such person shall have the right of appeal to the Chancellor. In all other cases the decision of the Board shall be final.

(iv) Interest at the rate of . . . . per cent. on the Board's estimate of the value of the Supplementary Compensation Capital at the date of receipt of the return referred to in Sub-Section (ii), which value shall not be held to be greater than the compensation received for war damage or war losses, shall form and be known as the Supplementary Compensation Income. The Board's estimate shall be final.

(v) The Basic Compensation Capital together with the Supplementary Compensation Capital shall form and be known as the Compensation Capital ; and the Basic Compensation Income plus the Supplementary Compensation Income shall form and be known as the Compensation Income.

(vi) (*a*) If a dwelling-house is included in the Compensation Capital and is in occupation by the owner, and the owner vacates such a house or a part thereof, which is then leased or let to a tenant or tenants, the rent paid by such tenant or tenants, less a sum which, in the opinion of the Board, is necessary to keep the house or part thereof in good repair and/or provide for depreciation, shall, if the rent is regarded by the Board as fairly representing the rent currently paid for similar accommodation in the same or similar districts, be registered as an addition to the Compensation Income.

(*b*) If a dwelling-house is included in the Compensation Capital, and is leased or let, in whole or in part, to a tenant or tenants,

and the owner at any time occupies such house or part thereof by replacing a tenant or tenants, the rent paid by the tenant or tenants displaced, less a sum which, in the opinion of the Board, is necessary to keep the house or part thereof in good repair and/or provide for depreciation, shall, if the rent is regarded by the Board as fairly representing the rent currently paid for similar accommodation in the same or similar districts, be registered as a deduction from the Compensation Income.

(*c*) In the event of the Board regarding the rent paid under clauses (*a*) and (*b*) as not fairly representing the rent currently paid for similar accommodation in the same or similar districts, the Board may, at its full discretion, determine an estimate of such rent which shall be registered as an addition to or a deduction from Compensation Income in accordance with the provisions of clauses (*a*) and (*b*).

Section 12. If any contributor to the Pool is of the opinion that his aggregate receipts from Compensation Capital have declined, during any fiscal year, in consequence of the provisions of and/or the administration of the Resources Utilisation Protection Act and/or Scheduled Reconstruction Legislation, he may submit to the Board, together with his income-tax return, a claim for a Capital Security Grant for the previous fiscal year, hereinafter referred to as the Grant.

Section 13. The Board shall, with the assistance of the Trustees, examine every such claim ; and if, in the opinion of the Board, such claim is justified, authorise the payment of a Grant for the fiscal year in respect of which the claim is made, in any form which, in the opinion of the Board, is conducive to security, in full compensation for any decline in the claimant's aggregate receipts from Compensation Capital below his Compensation Income provided that such decline was caused, in the opinion of the Board, by reason of the provisions and/or the administration of the Resources Utilisation Protection Act and/or Scheduled Reconstruction Legislation.

Section 14. In cases of acute distress due to a decline in aggregate receipts from Compensation Capital to an amount less than the Compensation Income caused, in the opinion of the Board, by reason of the provisions and/or the administration of the Resources Utilisation Protection Act and/or Scheduled Reconstruction Legislation, the Board may authorise the payment of an interim Grant after receipt and consideration of a special claim and before the receipt of the claim referred to in Section 12.

Section 15. (i) If, in any fiscal year from and after the fiscal year commencing three years after the date of the passage of this Act, the Grant paid to any person declines (by reason of an increase in his aggregate receipts from Compensation Capital)

by any given amount below the Grant paid for the fiscal year commencing two years after the date of the passage of this Act, and if the reduced Grant does not increase (by reason of a decrease in his aggregate receipts from Compensation Capital) in any year for a period of five successive years, the Board may authorise the payment of a " Compensation Bonus ", hereinafter referred to as a Bonus, to such person for every successive subsequent year in which such reduced Grant does not increase.

(ii) The Bonus shall be equal to the following proportions of the reduction in the Grant referred to in Sub-Section (i): (*a*) for the third to the seventh fiscal years inclusive after the date of the passage of this Act, 25 per cent.; (*b*) for the eighth to the twelfth fiscal years inclusive after the date of the passage of this Act, $37\frac{1}{2}$ per cent.; (*c*) for all subsequent fiscal years, 50 per cent.

Section 16. If, in any year, the aggregate receipts from Compensation Capital of a person who has received Grants during the previous five years exceed his Compensation Income, the excess shall be refunded to the Pool until a sum equal to the aggregate Grants paid during the previous five years has been refunded. Bonuses shall not be reckoned as Grants for the purpose of this Section.

Section 17. On the death of an original beneficiary, compensation shall be payable from the Pool to heirs and successors in proportion to the amount of the Compensation Capital inherited by each heir or successor as follows: (*a*) surviving wives, surviving invalid husbands, and totally disabled persons (as defined in ..... [1]) shall be entitled to full compensation in the form of Grants and Bonuses as though they were the original beneficiaries in respect of that proportion (as estimated by the Board whose estimate shall be final) of the Compensation Capital inherited by them; (*b*) partially disabled persons (as defined in ..... [1]) shall be entitled to that proportion of the Grants payable under (*a*) as their disablement bears to total disablement, or, alternatively, to Grants determined as under (*d*) (below), whichever is, in any fiscal year, the higher; (*c*) surviving children under the age of 21 years shall be entitled to full compensation in the form of Grants and Bonuses as though they were the original beneficiaries in respect of that proportion of the Compensation Capital (as estimated by the Board whose estimate shall be final) inherited by them, but Grants shall be determined as under (*d*) (below) from the fiscal year following that in which they reach the age of 21 years; (*d*) all other inheritors of Compensation Capital from a deceased beneficiary shall be entitled to a proportion of the Grants and Bonuses as determined under

[1] The definition is omitted from the Bill as I am not sure of the most appropriate basis for the present purpose.

(*a*) except that the Grants and Bonuses shall be reduced year by year, by one-twentieth each year, as from the date of the passage of this Act, until, after 20 years from such date, no Grant shall be payable to those in this class; (*e*) all Grants and Bonuses payable under the terms of this Section shall cease completely on the death of the heirs of the original beneficiary.

Section 18. (i) No person may, without prejudice to his Capital Security rights, sell, transfer or otherwise dispose of or in any way pledge, mortgage or encumber any shares and/or property forming part of his Compensation Capital (except, with the consent of the Board, for investment of the proceeds in other approved shares or property). In any case of unauthorised dealings, the Board shall reduce the Compensation Income by an amount equal to the Board's estimate of the probable annual receipts sacrificed, allowance made for the relative risk involved in any new investment which may be made. The decision of the Board shall be final on all such matters.

(ii) The Board may authorise the sale or transfer or the disposal otherwise of shares and/or property forming the Compensation Capital of any person who undertakes to invest the proceeds in any other shares and/or property of which the Board is informed and approves. The approval of the Board may be either unconditional, or conditional on the existing Compensation Income being reduced by an amount equal to the Board's estimate of the sacrifice of probable annual receipts from the Compensation Capital. The decision of the Board shall be final on all such matters.

(iii) As an alternative to reducing the Compensation Income under Sub-Sections (i) and (ii) and under Section 19, the Board may accept the inclusion of such further shares and/or property in the Compensation Capital as, in the opinion of the Board, is likely to maintain the annual receipts from the Compensation Capital. The decision of the Board shall be final on all such matters.

(iv) The Board shall permit the transfer as a gift of any part or the whole of the assets forming the Compensation Capital. The compensation rights attaching to such transferred assets shall be those defined under Section 17 (*c*) and (*d*).

Section 19. Notwithstanding the provisions of Section 18, the Board may expressly permit in writing any person to buy or sell, or pledge or mortgage, shares or property forming part of the Compensation Capital without specific authorisation, provided that a complete record of all such dealings is regularly submitted to the Board in any form determined by the Board, and provided that the Board shall have the right to reduce the Compensation Income by an amount which, in the opinion of the

Board, is equitable, in the event of any transactions which, in the opinion of the Board, are likely to affect adversely future receipts from the Compensation Capital.

Section 20. The Board shall have the right to demand proxies for the exercise of shareholders' voting rights from recipients of Grants who are shareholders in companies, if the shares in question form part of the Compensation Capital, and if, in the opinion of the Board, the exercise of shareholders' rights by a representative of the Board is likely to be in the interests of the Pool.

Section 21. The Board shall be entitled to sue in its own right in respect of any contract influencing the capital value of or receipts from property and/or shares forming part of the Compensation Capital of any person.

Section 22. The Board shall have the right, at all reasonable times, to inspect the property, and the operation and general working of the property, and the books and records of any person whose property forms part of his Compensation Capital. In the event of such a person refusing to give adequate facilities to the Board, a permanent or temporary reduction of the Compensation Income may be registered.

Section 23. The Board may warn persons that any use or employment of their property is, in the opinion of the Board, likely to be detrimental to its value, and that a reduction of the Compensation Income will be registered if such use or employment continues.

Section 24. (i) All Grants and Bonuses payable in terms of this Act shall rise or fall in proportion to changes in a cost-of-living index or indexes. The Chancellor shall: (*a*) specify the index or indexes to be used for this purpose, until the Board has compiled a special index or special indexes for this purpose; and (*b*) issue regulations for the application of such index or indexes. The index may be different for those domiciled in different districts and different for those in receipt of different levels of income from all sources.

(ii) If the Trustees are of the opinion that any person who makes application in terms of this Sub-Section is prejudiced as the result of the operation of Sub-Section (i) by reason of reasonable contractual commitments, fixed in terms of money, other than contracts for the rent of buildings and entered into before the date of the passage of this Act, they may recommend to the Board the payment of an additional compensating allowance.

. . . . . .

(*Schedule and minor Sections omitted.*)

(*c*) RESOURCES UTILISATION PROTECTION BILL

Bill to protect the utilisation of the natural and produced resources of Great Britain and the sale and exchange of the services and products thereof from coercive, collusive or other restraints ; and to protect the utilisation of the services of all persons resident in Great Britain and the sale and exchange of the products thereof from coercive, collusive or other restraints ; to protect the utilisation of the natural and produced resources of Great Britain from the voluntary withholding of valuable capacity by persons owning natural monopolies ; and generally to promote the fullest utilisation of valuable resources in response to the preferences of the community as consumers.

Section 1. The President of the Board of Trade shall, immediately after the passage of this Act, appoint a permanent body to be known as the Resources Utilisation Commission, hereinafter referred to as the Commission.

Section 2. The functions of the Commission shall be to enforce the provisions of this Act, and, in so far as is consistent with other legislation, to enforce, in any manner deemed expedient, the objects of this Act.

Section 3. In case of doubt, in the interpretation of the provisions of this Act, the standard of the advantage of the ultimate consumers shall, as far as possible, be applied.

Section 4. The Commission shall consist of (*a*) three judges, one of whom shall be chairman, (*b*) three economists, and (*c*) three persons chosen for their practical knowledge of the institutions of production, trade and finance.

Section 5. The Commission, and the Central Board of Review and the Regional Boards of Review appointed by the Commission in terms of Section 10, shall have the status and powers of Courts of Law in respect of their functions as defined in this Act.

Section 6. Members of the Commission, in the course of their duties under this Act, shall have the status and privileges of His Majesty's judges.

Section 7. Members of the Commission shall have permanency of salary and tenure but may be called upon by the President of the Board of Trade to retire on attaining the age of 65 years.

Section 8. Members of the Commission shall ; (*a*) take no part, except as voters, in Parliamentary elections, nor shall they be concerned, directly or indirectly, with propaganda connected with Parliamentary elections ; and (*b*) within one year of their appointment, possess no shares, directorships, partnerships or like

financial interests in any corporation or partnership engaged in industry, agriculture, fishing, transport, trade, commerce or finance; and, on accepting membership of the Commission, they shall dispose of any such shares or like financial interests, and resign from any such directorships or partnerships; except that nothing herein contained shall prevent them from acquiring and possessing life-insurance policies and Government securities.

Section 9. (i) The Commission shall appoint subordinate Control Boards, specialised according to localities and/or types of production controlled.

(ii) Control Boards shall, as far as is practicable in the opinion of the Commission, consist of one lawyer, one economist and one person with expert knowledge of the locality or the type of production to be controlled. When the specialisation is according to type of production, no member of the Control Board shall have any financial interest, direct or indirect, in such type of production.

(iii) The Commission may nominate Advisory Panels to assist the Control Boards in the determination of facts.

(iv) An adequate staff of economists, statisticians, accountants and inspectors shall be placed at the disposal of the Control Boards.

(v) The Control Boards shall act under the guidance of, and in accordance with, the powers delegated to them by the Commission. Decisions and orders issued by them shall be deemed to be orders of the Commission. All decisions and orders of the Commission shall in the first place be issued through the appropriate Control Board.

Section 10. (i) The Commission shall appoint a Central Board of Review which shall contain at least three members of the Commission, at least one of whom shall be a judge, and at least one an economist. The Central Board of Review shall submit its findings on any questions brought before it to the full Commission for final approval before promulgation.

(ii) The Commission shall appoint Regional Boards of Review consisting of three members of Control Boards other than those through whom the decisions or orders to be reviewed have been made. At least one member of such Boards of Review shall be a lawyer and at least one an economist.

Section 11. The President of the Board of Trade shall, immediately after the passage of this Act, establish a permanent body to be known as the State Trading Board, hereinafter to be referred to in this Act as the Board.

Section 12. The Board shall consist of three Civil Servants, three economists, and six persons chosen for their practical knowledge of the institutions of production, trade and finance.

Section 13. Members of the Board shall have permanency of salary and tenure, but may be called upon by the President of the Board of Trade to retire on attaining the age of 65 years.

Section 14. Members of the Board shall: (*a*) take no part, except as voters, in Parliamentary elections, nor shall they be concerned, directly or indirectly, with propaganda connected with Parliamentary elections; and (*b*) within one year of their appointment, possess no shares, directorships, partnerships or like financial interests in any corporation or partnership engaged in industry, agriculture, fishing, transport, trade, commerce or finance; and, on accepting membership of the Board, they shall dispose of any such shares or like financial interests, and resign from any such directorships or partnerships; except that nothing herein contained shall prevent them from acquiring or possessing life-insurance policies and Government securities.

Section 15. It shall be the function of the Board to promote national or local State-owned corporations to engage in industry, agriculture, fishing, transport, trade or commerce in such fields as the Commission may recommend if, in the opinion of the Board, such ventures are (*a*) a good speculative risk and (*b*) in the light of the definitions given in Section 78, Sub-Sections (v) to (viii), likely to cheapen products or services, or likely to stimulate a greater diversity of products or services, or likely to bring about increased availability of products or services at times at which they might reasonably be demanded.

Section 16. Every corporation set up in terms of Section 15 shall have limited liability and shall be known as "The ..... (name of enterprise) State Corporation, Limited".

Section 17. The capital for the promotion of such corporations shall be provided from public moneys, within limits prescribed from time to time by the Crown; and the Board shall represent the State as the sole shareholder. The amount of the capital to be invested in any corporation shall be at the discretion of the Board but shall in no case exceed 20 per cent. of the present value of the capital invested in the industry, or (with the exception of public utilities) 20 per cent. of the present value of the capital invested in any competitive area, as estimated by the Commission, except by express permission of the President of the Board of Trade on the joint recommendation of the State Trading Board and the Commission.

Section 18. The directors of State corporations shall be appointed by the Board, and their contract with the Board shall provide for remuneration partly by salary and partly by a rate of commission on profits which increases (*a*) as the price of the product falls and (*b*) as the amount of the output increases. The

terms of their remuneration in accordance with the provisions of this Section shall be approved by the Commission.

Section 19. The State corporations shall be subject to the same control by the Commission as private corporations, partnerships and persons, they shall be liable to all taxes, rates and like charges imposed upon private corporations, partnerships and persons, and they shall receive no beneficial discriminations, as defined in Sections 28 to 29, either from the State or from other State-owned corporations, or from other corporations, partnerships or persons.

Section 20. On the recommendation of the Commission, the President of the Board of Trade may authorise the Board to take over the assets, as a going concern, of any corporation or partnership or person, and pay such a price for them as the Commission may determine. The price to be paid shall be fixed by the Commission and shall be the estimated capital value of the present and future earning power of the resources forming the assets, except that it shall be assumed by the Commission in making the estimate that the earning power of the resources forming the assets is: (*a*) not greater that it would be if the output thereof was maintained at a point at which the marginal cost of every type of product or service (as defined in Section 87 (i)) was equal to the price per unit; or (*b*) actual present and future earning power, if aggregate receipts are less than fixed cost (as defined in Section 87 (ii)) plus avoidable cost (as defined in Section 87 (v)). The estimate of the Commission shall be final.

Section 21. (i) The Commission shall require State corporations to maintain the output of every type of product or service at a point at which, in the estimation of the Commission, the price obtainable for each product or service is equal to the marginal cost of that product or service, unless aggregate receipts are less than fixed cost plus avoidable cost.

(ii) The Commission may exempt any State corporation from the provisions of Sub-Section (i) or the owners of any public utility from the provisions of Section 56 (ii), in respect of any new undertaking, for a period determined at the Commission's sole discretion, but not exceeding 14 years, after receipt of a petition (from the State Trading Board or the owners or promoters of such public utility) offering to provide a defined new undertaking on the condition that a given period of exemption from the provisions of Sub-Section (i) or Section 56 (ii) be granted by the Commission. The petition shall include plans and such details of the projected undertaking as the Commission may, by regulation or otherwise, require. Before determining any such exemption the Commission shall advertise a summary of such petition in the *Gazette* and, in any other manner deemed expedient, draw the attention of interested members of the public

to the proposed new undertaking and invite comments on the petition. The Commission shall grant such exemption if it is of the opinion that the projected undertaking will be to the advantage of the community in respect of cheapness, reasonable diversity and reasonable availability of products and services as defined in Section 78.

Section 22. As from the date of this Act, and except as provided for in other Sections, every contract to restrain the utilisation of natural or produced resources, or to fix prices, or to limit output, or to restrain production, trade, commerce, or the exchange of resources, products or services or to restrain the sale of labour or services, or to restrain the acquisition or employment of skill or knowledge, is hereby declared void. Every such contract entered into or renewed after the date of the passage of this Act shall be void and illegal.

Section 23. Except as provided for in other Sections of this Act, every person who shall, from the date of the passage of this Act, form or conspire to form any monopoly, monopolistic combination, association, conspiracy, collusion, cartel, syndicate, trade-union, trust, price-ring or like organisation or arrangement, with the object of restricting or fixing output, prices, or wage-rates, shall be guilty of a misdemeanour, and on conviction thereof shall be punished. . . .

Section 24. From and after a date ten years subsequent to the passage of this Act, or from and after an earlier date fixed by the President of the Board of Trade, of which at least two years' notice shall be given, and except as provided for in other Sections of this Act, every person who shall knowingly engage in any monopoly, monopolistic combination, association, conspiracy, collusion, cartel, syndicate, trade-union, trust, price-ring or like organisation or arrangement, with the object of restricting or fixing output, or with the object of fixing prices or wage-rates, shall be guilty of a misdemeanour and on conviction thereof shall be punished. . . .

Section 25. (i) At and from a date, not later than one year from the date of the passage of this Act, to be fixed by the President of the Board of Trade, strikes and lock-outs shall be illegal.

(ii) By " strike " is meant any one or more of the following acts or omissions by any body or number of persons who are or have been employed, either by the same person, partnership or corporation, or by different persons, partnerships or corporations :

(*a*) the refusal or failure by them to continue to work (whether the discontinuance is complete or partial), or the failure by them to resume work or to accept re-employment, or the wilful retardation by them of the progress of work, or the wilful obstruction by them of the progress of work ;

or (*b*) the breach or termination by them of their contracts of employment if, *firstly*, the refusal, failure, retardation, obstruction, breach or termination is in consequence of a dispute regarding conditions of employment or other matters and is in pursuance of any combination, agreement or understanding, whether expressed or not, entered into between them ; *and secondly*, the purpose of such refusal, failure, retardation, obstruction, breach or termination is to induce or compel any persons to comply with any demands concerning conditions of employment or re-employment or other matters made by or on behalf of them or any other persons who are or have been employed.

(iii) By " lock-out " is meant any one or more of the following acts or omissions by one or more person, partnership or corporation employing labour, or which has employed labour, hereinafter referred to in this Section as " the employer " :

(*a*) the exclusion by the employer of any body or number of persons who are or have been employed by him from any premises on which work provided by him has been performed ;

(*b*) the total or partial discontinuance by the employer of his business or of the provision of work ;

(*c*) the breach or termination by the employer of the contracts of employment of any body or number of persons employed by him ;

(*d*) the refusal or failure by the employer to re-employ any body or number of persons who have been employed by him, if, *firstly*, such exclusion, discontinuance, breach, termination, refusal or failure is in consequence of a dispute concerning conditions of employment or other matters, *and secondly*, the purpose of such exclusion, discontinuance, breach, termination, refusal or failure is to induce or compel any persons, who are or have been employed by the employer, or employed by other employers, to agree to or comply with any demands concerning conditions of employment or re-employment or other matters, made by the employer or on his behalf, or by or on behalf of any other employer.

Section 26. Any person, partnership or corporation which shall be injured in an employment, or a calling, or a business, or property, by any contract or monopoly, monopolistic combination, association, conspiracy, collusion, cartel, syndicate, trade-union, trust, price-ring or like organisation or arrangement which is illegal under this Act, may institute proceedings, either directly in the Courts, or indirectly by lodging a complaint with the Commission, and shall, if the suit is proved, recover the costs

of the suit and (*a*) the damages sustained, or (*b*) after five years from the date of the passage of this Act, twice the damages sustained, or (*c*) after ten years from the date of the passage of this Act, three-fold the damages sustained. The Courts may refer any such case brought before them to the Commission for investigation and report concerning the facts at issue and their economic significance.

Section 27. Except as hereinafter provided, it shall be unlawful for any corporation, partnership or person engaged in industry, agriculture, fishing, trade or commerce either directly or indirectly to discriminate in price or charge between different purchasers of resources, products or services ; provided that nothing herein contained shall prevent different prices being asked on account of differences in the grade or quality of resources, products or services sold ; and provided that such resources, products or services of any grade or quality are offered without discrimination to all purchasers ; and provided that nothing herein contained shall forbid the charging of different prices for products sold and delivered when such differences make only due allowance for differences in costs of selling or transport.

Section 28. (i) Discrimination in price or charge is practised when the price or charge demanded at any one time for the resources, products or services at the place of actual production, manufacture or origin, or at any place of sale, is different as between different purchasers.

(ii) Discrimination in price or charge is practised also when the price or charge demanded at different times for the same or similar kinds of resources, products or services at the place of actual production, manufacture or origin, or at any place of sale, is changed so as to place at a disadvantage or place at an advantage any purchaser or purchasers who happen to purchase at such times. Except that :

(*a*) *bona fide* changes in the price or charge demanded from time to time for resources, products or services, if based on changes in costs of production, including costs of storage and interest, or if based on changes in other competitive circumstances, and not apparently to the detriment or favour of a particular and selected purchaser or particular and selected purchasers, shall not be deemed to be discriminatory ;

(*b*) changes in the price or charge for services of non-storable products, such as electricity or transport services, the demand for which varies in the course of the day, or in the course of the week, or in the course of the year or other period, shall not be deemed on that account to be discriminatory ;

(*c*) differential mileage charges for transport on different routes, or on the same route in opposite directions, shall not necessarily be deemed to be discriminatory.

(iii) Discrimination in price or charge is practised when the charges for delivery or transport of resources, products or services from the place of actual production, manufacture or origin, or from any place of sale, to the place of delivery, or the costs of packing and containers, or the costs of other services essential to sale and delivery are different for different purchasers, but not charged for, or charged for at rates which are different as between different purchasers similarly situated ; except that, when the costs of delivery do not in the case of any single delivery exceed .... per cent. of the price of the product, or when the average cost of delivery in no case exceeds .... per cent. of the average price of the products, or in the case of retail sales of goods advertised for sale in catalogues or the press or otherwise at fixed prices for delivery within a given area, it shall not be deemed to be discriminatory or an offence to make no specific charge for delivery, or to charge a standard price for delivery, unless the Commission, after investigation, reports that the practice is of the nature of a discrimination in price and is in restraint of, or is calculated immediately or ultimately to restrain, the utilisation of resources or the sale or exchange of the products and services thereof.

(iv) Discrimination in price or charge is practised when any onerous or beneficial surcharge, rebate, gift, condition or practice whatsoever, not applicable to all purchasers, is applied to the sale or exchange of resources, products or services, except that such conditions or practices shall not be deemed to be discriminatory if they are changed from time to time as *bona fide* changes in policy or as *bona fide* reactions to change of circumstances, in such a way that they are not to the apparent or actual detriment or favour of a particular and selected purchaser, or of particular and selected purchasers.

(v) Nothing in this Section shall make void or illegal *bona fide* long term contracts for the supply and purchase of fixed or defined quantities of resources, products or services at fixed or defined prices ; provided that, in the opinion of the Commission, such contracts have not been used to defeat the purpose of Sections 27 to 34, and that the corporation, partnership or person supplying the resources, products or services is prepared at the time of the conclusion of such contracts to offer long term contracts to other purchasers on equivalent terms ; or, in the case of contracts already concluded at the date of the passage of this Bill, is prepared to offer long term contracts to other purchasers on terms which, given the resources at its disposal, are, in the opinion of the Commission, reasonable.

Section 29. Discrimination in price or charge between purchasers on account of differences of quantities purchased or on account of the status of the purchaser, or on account of the purchaser being a consumer, or a retailer or a wholesaler, or a co-operative society, or on account of the customs of trade, or on account of the purposes to which the resources, products or services purchased are to be put, are hereby declared illegal, except as allowed for under Sections 31 and 32.

Section 30. From and after the date of the passage of this Act, it shall be unlawful to remunerate, wholly or partially, employees in the retail trade by a rate of commission which varies according to the price obtained by such employees from the purchaser of commodities; except that employees selling by *bona fide* public auction may be so remunerated.

Section 31. (i) Corporations, partnerships or persons owning transport undertakings, or such natural or produced resources as are defined in the Schedule to this Act as public utilities, shall be exempt from the provisions respecting discrimination in price or charge in Sections 27 to 29 for the period of two years from the passage of this Act, which period may be extended for a defined period not exceeding .... years by the President of the Board of Trade following a recommendation from the Commission. But the Commission may, at any time before the expiry of that period, call upon such corporations, partnerships or persons to cease and desist from discriminating in price or charge, or to modify, in any manner laid down, any such discrimination if, in the opinion of the Commission, such discrimination is calculated substantially or seriously to prevent, immediately or ultimately, the fullest utilisation of the natural or produced resources in their ownership or influenced by their policy.

(ii) Within one year from the date of the passage of this Act, corporations, partnerships or persons owning transport undertakings, or such natural or produced resources as are defined as public utilities in the schedule of this Act, may submit to the Commission details of such existing discriminations in price or charge as they believe to be in the interests of consumers. If, after consultation with those purchasers or consumers who are paying, or who are to be called upon to pay, the higher schedules of prices or charges, or otherwise to be discriminated against, or after investigation among any such class of purchasers or consumers, the Commission is of the opinion that such discriminations are essential for the continuance of supplies to such purchasers or consumers, and so to their advantage as a class, the discriminatory prices, charges or practices may be specifically authorised by the President of the Board of Trade, after receipt of a recommendation from the Commission, within limits defined by the

Commission, for a period not exceeding .... years. At the expiry of any such defined period the Commission may require any discrimination in price or charge to be modified or to cease.

(iii) The Commission may at any time recommend to the President of the Board of Trade the authorisation, for a limited and defined period, of a new discrimination in price or charge, in whatever form, in the case of transport undertakings, or such natural or produced resources as are defined as public utilities in the Schedule of this Act, following a petition from parties who, in the opinion of the Commission, are sufficiently representative of the class or classes to be called upon to pay the higher schedules of prices or charges, or to be subject to apparently onerous conditions or practices if, after due investigation, the Commission is of the opinion that such discrimination in price or charge is likely to be to the advantage of the ultimate consumers upon whom the higher schedules of prices or charges, or the results of the apparently onerous conditions or practices, are ultimately to fall.

Section 32. The Commission may at any time permit the practice of discrimination by a person, partnership or corporation, provided that the fixed cost plus the avoidable cost of the output of the undertaking (as defined in Section 87) does not equal or exceed the total receipts from the sale of that output, and the Commission is satisfied that the fixed cost plus the avoidable cost of the output during the previous financial year of the undertaking did not exceed the total receipts from the sale of that output, or the Commission's estimate of what the total receipts would have been if the whole of that output had been sold ; provided that a person owning such an undertaking is drawing no more than the equivalent of a reasonable salary for services actually rendered to the undertaking ; or in the case of the partners of a partnership, that they are not receiving more in drawings plus salaries from the undertaking than the equivalent of reasonable salaries for their services actually rendered to the undertaking ; or that in the case of a corporation it is declaring no dividends and making no contributions to reserves. The Commission's judgement on the question of what constitutes a reasonable salary shall be final.

Section 33. Notwithstanding the provisions of Sections 31 and 32, the Commission shall authorise no discrimination under the terms of those Sections if it is of the opinion that the object is aggressive, malicious, extortionate or calculated in any way materially to conflict with the purposes of this Act.

Section 34. Corporations, partnerships or persons engaged in industry, agriculture, fishing, transport, trade or commerce may

not, individually or collectively, boycott or threaten to boycott, or refuse, or threaten to refuse, to supply resources, products and services held for sale to any corporation, partnership or person which is prepared to pay for them in cash, except when supplies are not available, in which case orders must be accepted and registered according to date, and supplies delivered in strict priority.

Section 35. It shall be unlawful for any corporation, partnership or person engaged in industry, agriculture, fishing, transport, trade or commerce to offer for sale, or make a sale, or enter into a contract for the sale of resources, products, or services, whether patented or unpatented, for use in production or for consumption or for resale, or fix a price charged therefor, or discount from or rebate upon, such price on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the resources, products or services produced or supplied by one or more (named or unnamed) corporations, partnerships or persons, or all other corporations, partnerships or persons engaged in industry, commerce or trade. Nor shall credit facilities be offered or provided on similar conditions. All contracts, agreements or understandings imposing such restraints shall be void from and after the date of the passage of this Act, and illegal after one year from such date ; and all such contracts, agreements or understandings entered into from and after the date of the passage of this Act shall be void and illegal.

Section 36. It shall be unlawful for any corporation, partnership or person engaged in industry, agriculture, fishing, trade or commerce to sell or offer for sale resources or products with the proviso that they shall not be resold except at a certain price or above a certain price. All contracts, agreements, or understandings to this effect shall be void from and after the date of the passage of this Act, and illegal after one year from such date ; and all such contracts entered into from and after the date of the passage of this Act shall be void and illegal.

Section 37. The Commission is hereby empowered and directed to forbid the use of any methods of purchase or sale which, in the opinion of the Commission, are calculated to prevent immediately or ultimately the full utilisation of valuable resources, or to restrain the sale, purchase or exchange of the products thereof, or which are, in the opinion of the Commission, calculated to mislead purchasers.

Section 38. When the Commission is of the opinion that any corporation, partnership or person is using any methods or indulging in any practices which are unlawful under this Act, the Commission shall make a report in writing in which it shall state its findings, and shall issue and cause to be served on any corporation,

partnership or person using such methods or practices, an order, to be known as a "cease and desist order", requiring such corporation, partnership or person to cease and desist from using such practices or methods; and the continuance of the use of such practices or methods after the expiry of 28 days after service of the order shall be an offence unless, before the expiry of the 28 days, notice of appeal has been given and security for costs deposited.

Section 39. Appeal from decisions, cease and desist orders, or other orders made by the Commission under this Act, shall be heard in the first place by the Regional Boards of Review; appeal from orders of the Regional Boards shall be made to the Central Board of Review, except that the Commission may direct that any appeal shall be first heard by the Central Board of Review without prejudice to the appellant in respect of costs; and appeal from orders of the Central Board of Review may be made to the Courts in respect of questions of law. The appellants must in all cases give full security for costs. Appellants and interested parties may be represented by counsel before Boards of Review but the Boards of Review may direct that arguments of counsel be put with due brevity, or in writing, in order to expedite procedure.

Section 40. The findings of the Central Board of Review concerning facts and the effects of such facts upon the utilisation of resources shall be final, except that the Courts may order the Central Board of Review to take additional evidence, in which circumstance the case shall be remitted to the Central Board for reconsideration. If the findings of the Courts should be different from the findings of the Central Board of Review on matters of law, the case shall be remitted to the Central Board for reconsideration in the light of the law as determined by the Courts. When appeal is made to the Courts, the Central Board of Review shall file the transcript of the record.

Section 41. The Boards of Review shall meet in public but they may direct, as a safeguard against the victimisation of a witness, that evidence shall be given *in camera.*

Section 42. (i) Nothing in this Act shall cause to be regarded as conspiracy or collusion any *bona fide* public discussions and public consultations between competing corporations, partnerships or persons to discuss arrangements for more effective synchronisation, co-ordination or standardisation of their activities, or the establishment of an independently owned, or, subject to the provisions of Section 45, jointly owned corporation to supply some resource, product or service for their mutual purposes, or, subject to the provisions of Section 46, to lease some resource for their mutual purposes. An agreement or contract

relating to such arrangements shall be enforceable if, prior to its conclusion, the Commission is informed of its content and certifies that, in its opinion, such agreement or contract has as its *bona fide* object the achievement of economies which will, or which are calculated to, cheapen, or add to the diversity, or increase the availability at all reasonable times of products or services, and not calculated to raise such prices or to force purchasers to buy grades of products or services higher or more expensive than those which they would otherwise purchase, or to buy in quantities higher than they would otherwise purchase. Before reaching a decision the Commission may disclose the content of the agreement to any interested parties, or cause the proposed agreement to be advertised and invite criticisms.

(ii) Discussions and consultations shall be deemed to be public if no steps are taken to keep them secret or confidential. The notification to the Commission of intention to negotiate with competitors, the issue of notices of meetings to the Commission, and the filing with the Commission of copies of correspondence with competitors will be deemed to make consultation and discussion public.

(iii) Collective discussion between the employees of any person, partnership or corporation ; or, with the express permission of the Commission, collective discussion between the employees of more than one person, partnership or corporation among which mutual arrangements exist for co-ordination, synchronisation or standardisation of productive activities, with a view to drawing up the terms of a request for a change in the specific conditions of labour, or for a change in the hours of labour worked, shall not be deemed to be monopolistic combination, association, conspiracy or collusion.

Section 43. Except as provided for in Sections 45 and 46, no corporation engaged in industry, agriculture, fishing, trade or commerce shall, from and after the date of the passage of this Act, acquire, directly or indirectly, the whole or any part of the share capital or debentures of another corporation. Nor shall such a corporation acquire by purchase, directly or indirectly, as a going concern, the assets, including goodwill, of any competitor. Nor shall such a corporation arrange in any way an amalgamation, merger or holding company with any corporation, partnership or person being a competitor.

Section 44. No director of, and no shareholder owning more than 5 per cent. of the called-up share capital in, any corporation engaged in industry, agriculture, fishing, trade or commerce shall, from and after the date of the passage of this Act, purposely purchase, or otherwise acquire, or retain ownership of (except for a reasonable time to enable disposal), shares in, or the debentures

of, any corporation which is a competitor, or become a partner in a partnership which is a competitor, nor shall any such director or shareholder acquire by purchase, directly or indirectly, as a going concern, the assets, including goodwill, of any competitor.

Section 45. Notwithstanding the provisions of Sections 43 and 44, competing corporations, partnerships or persons may jointly promote and take shares in one or more new corporations to supply some resources, products or services for their mutual purposes ; provided that if any corporation, partnership or person taking part in such promotion, or any director of, or shareholder owning more than 5 per cent. of the called-up capital in, any such corporation, or any partner in any such partnership, shall own more than 5 per cent. of the called-up share capital in any new corporation so promoted, he shall report his shareholding to the Commission and dispose of the excess, within two years from the date of registration of the new corporation, to an independent (as defined in Section 58) corporation, partnership or person, or alternatively he shall cede any voting rights conferred by such excess shares to the Commission.

Section 46. Notwithstanding the provisions of Sections 43 and 44, the Commission may authorise the lease, as a going concern, of the assets (including goodwill) of an insolvent corporation, partnership or person by a competitor when the highest price for the assets offered by any independent corporation, partnership or person is a price which, in the opinion of the Commission, is unreasonably low, and when, in the opinion of the Commission, such independent corporation, partnership or person seems less likely to utilise the assets fully and efficiently than the competitor, and the Commission is satisfied that the leasing of such assets by the competitor is not calculated, immediately or ultimately, to discourage the utilisation of such assets or restrain the sale and exchange of the products thereof. But if the Commission is at any time of the opinion that such leased assets are not being fully employed by the lessee, it shall, after one year's notice, terminate the lease, and in the meantime cause the assets, including goodwill, to be offered in the open market as a going concern, either for purchase or for lease. The assets, including goodwill, shall be sold or leased to the independent person, partnership or corporation offering the highest price or the highest rent, whichever is, in the opinion of the Commission, the most favourable to the seller or lessor. In the event of no such offer being received, the existing lease may be renewed on such conditions as the Commission may determine.

Section 47. Notwithstanding the provisions of Sections 42, 43 and 46, when no independent person, partnership or corporation can be found to offer a price which, in the opinion of the

Commission, is reasonable, for the fixed plant or equipment of an insolvent corporation, partnership or person, the Commission may authorise the purchase of such plant for utilisation by a competitor.

Section 48. Notwithstanding the provisions of Sections 43, 44 and 46, the stock-in-trade, materials utilised in production, and tools other than fixed plant may be freely purchased from competitors at any time.

Section 49. From and after ten years from the passage of this Act, no person shall be a director of more than one corporation engaged in the same or similar type of production or business; and from and after five years from the passage of this Act, no person who holds, directly or indirectly, more than 5 per cent. of the share and debenture capital of any corporation shall retain shares or debentures in any competing corporation unless all voting rights in respect thereof are ceded to the Commission.

Section 50. From and after ten years from the date of the passage of this Act, no person shall be at the same time a director of two or more corporations, any one of which has capital, surplus and undivided profits aggregating more than £500,000; and from and after the date of the passage of this Act, no person shall be appointed a director of such a corporation if he is already a director of such a corporation. The eligibility of a director under the foregoing provisions shall be determined by the aggregate amount of the capital, surplus and undivided profits, exclusive of dividends declared but not paid to shareholders at the end of the fiscal year of the said corporation next preceding the election of directors, and when a director has been elected in accordance with the provisions of this Act, it shall be lawful for him to continue as such for one year thereafter.

Section 51. If the Commission is at any time of the opinion that, by reason of a shareholder or director holding shares in two or more competing corporations, a condition exists which is calculated to, or liable to encourage the withholding from productive employment of valuable natural or produced resources in the ownership of the said corporations, the Commission may call upon any such shareholder or director to transfer his shares in one or more corporations by sale in the open market or otherwise, within one year from the date of notice, to an independent person, partnership or corporation, or, alternatively, to cede immediately to the Commission any voting rights conferred by such shares. The shareholder or director concerned shall be entitled to choose one corporation in which he shall retain shares and (in the case of a director) his directorate.

Section 52. If the Commission is at any time of the opinion that the purposes of Sections 44 to 51 are being evaded or defeated

by reason of a person dependent upon or a nominee of a shareholder or director in any one corporation acting as a shareholder or director in another corporation, the Commission may call upon such person to transfer his shares by sale in the open market or otherwise, within one year from the date of notice, to an independent person, partnership or corporation, or, alternatively, to cede immediately to the Commission any voting rights conferred by such shares.

Section 53. The Commission may at any time question, under oath or otherwise, any person whom it suspects of being dependent upon or a nominee of a shareholder or director, and may call upon such person to declare under oath whether he is in fact directly or indirectly dependent upon or a nominee of such a shareholder or director, or of any shareholder or director of a named corporation.

Section 54. From and after ten years from the passage of this Act, no person who is a director of a corporation or a shareholder owning more than 5 per cent. of the called-up capital in a corporation may serve in a salaried capacity (*a*) for any competing corporation or partnership, or (*b*) for any corporation or partnership with which the corporation of which he is a director or in which he owns more than 5 per cent. of the called-up capital has dealings either as seller or buyer.

Section 55. (i) Notwithstanding the provisions of Sections 43 to 54, and except as provided for in Sub-Section (ii), the Commission may receive and consider a petition from any corporation (hereinafter referred to as the parent corporation in this Section) requesting permission to acquire the share capital and/or debentures of any other corporation which is a competitor, or which is engaged in the production or sale of the same or similar type of commodity or service (hereinafter referred to as the controlled corporation in this Section); and if the Commission is of the opinion: (*a*) that the *bona fide* object of the acquisition of control is the introduction of economies calculated to cheapen products or services, or add to the diversity of products or services, or add to the availability of products or services at times at which they might reasonably be demanded; (*b*) that the result of the acquisition of control by the parent corporation will not cause more than one-fifth of the supply of the commodity or type of commodity or service provided by the controlled corporation to be under the control of the parent corporation either in the United Kingdom as a whole or in any smaller area which cannot, in the opinion of the Commission, be provided with such product or service from outside such area except at undue costs in respect of communication or transport; and (*c*) that the result of the acquisition of control is not calculated directly or indirectly to

lead to a monopoly in any locality, or in any way to restrain the utilisation of productive power or the sale, purchase or exchange of the products thereof; the Commission may authorise the acquisition of the share capital of such corporation, which will thereby become a controlled corporation, by the parent corporation.

(ii) Notwithstanding the provisions of Sub-Section (i), the Commission may, after receipt and examination of a petition from the parent corporation, authorise it to acquire the share capital of a controlled corporation, provided that in a number of areas deemed by the Commission to provide adequate experience to guide the Commission, the parent corporation, or controlled corporations of which it has acquired the shares, is supplying less than one-fifth of the same or similar type, of commodity or service.

(iii) Subsequent to the acquisition by the parent corporation of the share capital of a controlled corporation in terms of Sub-Section (ii), the Commission shall regard as discrimination the charging of different prices for any commodity or service, due allowance being made for differences in costs, as between areas in which the parent corporation has control of more than one-fifth of the estimated supply and areas in which it has control of one-fifth or less of the estimated supply.

(iv) A controlled corporation shall remain as a separate corporation and shall in no circumstance be liquidated, or its plant or equipment be scrapped or destroyed, or depreciation of its plant and equipment be left unprovided for, except by express permission of the Commission; and if at any time the Commission is of the opinion that the parent corporation is causing the withholding of valuable productive capacity owned by a controlled corporation, or otherwise acting so as to restrain competition, the Commission may call upon the parent corporation to sell the shares of the controlled corporation or the assets of the controlled corporation to an independent corporation, partnership, person or persons.

Section 56. (i) If the Commission is at any time of the opinion that the owner of natural or produced resources is, without collusion with competitors, to the detriment of consumers, withholding capacity from production, the Commission may: (*a*) lay down such rules for the determination of dividends and the remuneration of directorates and managements as are, in the opinion of the Commission, calculated to create an incentive for the full utilisation of resources; (*b*) require the owner to increase production to any extent and to charge such prices for the product or service as, in the opinion of the Commission, are likely to promote the steady sale of the whole increased output, except that the output so laid down shall not exceed an amount which

requires the price to fall below marginal cost (as defined in Section 87 (i)).

(ii) The Commission shall call upon the owners of all public utilities, as specified in the Schedule to this Act, either to produce an output of any commodity or service, or to charge a price for such commodity or service, at which the marginal cost (as defined in Section 87 (i)) does not exceed the price, except when the aggregate receipts of the public utility are less than fixed cost plus avoidable cost (as defined in Section 87 (ii) to (v)).

(iii) The Commission may exempt the owners of any public utility from the provisions of Sub-Section (ii) in terms of Section 21 (ii).

Section 57. (i) If, in the opinion of the Commission, the range of productive and/or trading operations under the ownership of any person, partnership or corporation confers the power of seriously withholding productive capacity or restraining productive development, whether that power is utilised or not, the Commission may prepare and submit to the President of the Board of Trade a report specifying any sets of assets, or any subsidiary corporations of a corporation, the independent ownership of which would, in the opinion of the Commission, be conducive to the fuller utilisation of productive capacity and more unrestrained productive development. The President of the Board of Trade may authorise the Commission to call upon any such person, partnership or corporation, after one year's notice, to sell or lease certain specific sets of assets, or to sell the shares in any subsidiary corporation, to an independent person, partnership or corporation.

(ii) If, in the opinion of the Commission, certain essential natural and/or produced resources in the ownership of any person, partnership or corporation are not being fully utilised by reason of a large proportion of the available supply of such essential natural or produced resources being owned by such person, partnership or corporation, the Commission may, after one year's notice, call upon such person, partnership or corporation to sell or lease certain specified sets of assets to an independent person, partnership or corporation.

Section 58. (i) An independent person is one who does not share in the income of, or is not likely, directly or indirectly, to be a beneficiary from the income, earnings or profits of the person, partnership or corporation concerned by reason of family relationship or otherwise, or by reason of partnership if a partnership is concerned or by reason of ownership of shares if a corporation is concerned.

(ii) An independent partnership is one which does not share in, or is not likely, directly or indirectly, to share in the income,

earnings or profits of the person, partnership or corporation concerned; or a partnership none of whose partners is likely, directly or indirectly, to share in such income, earnings or profits.

(iii) An independent corporation is one which is not likely, directly or indirectly, to share in the income, earnings or profits of the person, partnership or corporation concerned; or a corporation none of whose shareholders, individually owning more than 5 per cent. of the capital of the corporation, are likely, directly or indirectly, to share in the profits of the said person, partnership or corporation.

(iv) Persons, partnerships or corporations which are not independent by reason of ownership of shares may bid for assets offered and become qualified as independent, if their bid is successful, by immediately disposing of the shares or by immediately ceding all voting rights to the Commission.

Section 59. (i) In any branch of industry, agriculture, fishing or transport, the Commission may instruct any or all corporations, partnerships or persons engaged in such branch that it shall be an offence to destroy or scrap, except through ordinary wear and tear and *bona fide* utilisation, any productive plant, equipment or like resources for which a bid greater than the net scrap value is obtainable, unless such plant, equipment or like resources is immovable and orders have been given for its replacement within a reasonable period by plant, equipment or like resources on the same site of at least equal capacity.

(ii) By " net scrap value " is meant the amount realised for the scrap less the costs of scrapping.

Section 60. (i) If, in any branch of industry, agriculture, fishing or transport there exists plant or equipment which is continuously or temporarily unutilised, and the Commission is of the opinion that such plant or equipment could be profitably used in production, the Commission may direct that such plant or equipment shall be offered for lease or for sale and leased or sold to the independent corporation, partnership or person offering the rent or price deemed by the owner to be most profitable; provided (*a*) that if no offer to lease the plant or equipment for a reasonable period is received, the owner shall not be bound to accept the highest bid for its sale, (*b*) that in the opinion of the Commission, the rent offered is more than sufficient to cover depreciation or loss of specialisation, (*c*) that the utilisation of the plant or equipment for some temporary productive purpose is not likely, in the opinion of the Commission, to destroy its availability at some certain or uncertain time for productive services of probable higher value, (*d*) that the subsidiary costs to the original owner of selling or leasing the plant are not greater than the sale or hire value, (*e*) that the partial idleness of the plant or equipment is

not due to investment having been made in plant or equipment the efficient unit of supply of which is indivisible and greater than is required for the output permitted in accordance with the other provisions of this Act.

(ii) In the interpretation of this Section, uncompleted plant or equipment in process of construction shall be held to be utilised if the immediate utilisation of such plant or equipment or the immediate utilisation of any part thereof seems likely to interfere with the most efficient or the most rapid completion of the construction.

Section 61. The Commission may call upon the owner of plant or equipment to offer for lease, temporarily or for certain specified periods or seasons, such unutilised plant or equipment as the owner is not prepared to utilise in production for the periods or seasons specified, provided (*a*) that, in the opinion of the Commission, the highest rent offered for the plant or equipment is more than sufficient to cover depreciation or loss of specialisation, (*b*) that the utilisation of the plant or equipment for some temporary purpose will not, in the opinion of the Commission, destroy its availability at some certain or uncertain time for productive services of probable higher value.

Section 62. If the Commission is at any time of the opinion that a corporation, partnership or person owning certain natural or produced resources and using such resources in production, is selling or offering for sale the services or use of such resources, or the product of such resources, to actual or potential competitors at a price which is equivalent to discrimination against such actual or potential competitors and in its own favour, or is refraining from selling or offering for sale to actual or potential competitors the services or use of any part of such resources or the product of such resources, for which such actual or potential competitors are prepared to bid, the Commission may require such corporation, partnership or person to sell, not later than one year from the date of notice, the whole or part, as the Commission may determine, of such natural or produced resources in the open market or otherwise to some independent corporation, partnership or person.

Section 63. The Commission shall have power : (*a*) to gather and compile information concerning, and to investigate from time to time, in any manner deemed desirable or necessary, the organisation, business, conduct, practices and management, of any corporation, partnership or person engaged in industry, agriculture, fishing, trade or commerce; (*b*) to require any corporation, partnership or person to file with the Commission, in such form as the Commission may prescribe, annual or special, or both annual and special, reports or answers in writing to specific

questions, furnishing to the Commission such information as it may require about the organisation, business, conduct, practices, management and relations with other corporations, partnerships and persons; such reports and answers may be made under oath or otherwise as the Commission may prescribe, and shall be filed with the Commission within such reasonable period as the Commission may prescribe unless additional time be granted in any case by the Commission; (*c*) to publish at its discretion, for the information of the State and the public, any findings on matters which it has investigated; (*d*) to make and publish recommendations to the President of the Board of Trade or the Minister of Labour respecting matters bearing on its functions which are outside its powers; (*e*) to draft and recommend additional legislation which, in the opinion of the Commission, will enable it the better to carry out its functions; (*f*) to investigate and report on the extent to which orders made under this Act by the Commission or by the Courts are being carried out; (*g*) to require by subpoena the attendance and testimony of witnesses and administer oaths and examine witnesses and receive evidence; (*h*) to advertise in the Press, technical journals, or other appropriate media, for evidence from corporations, partnerships and persons who may have knowledge of the facts and consequences of any organisation, business, conduct, practice, management, and relations between corporations, partnerships and persons upon the utilisation of resources or the free exchange of the products thereof.

Section 64. (i) For the purposes of this Act, the Commission's duly authorised agents shall have the right, at all reasonable times, to have access to, or require production of, for the purpose of examination, and the right to copy, or make extracts from, or when they may afford evidence of an offence under this Act to seize, all books, notices, records, lists, documents or documentary evidence whatsoever which, in the opinion of the Commission, may contain evidence relating to the corporation's, or the partnership's, or the person's organisation, business, conduct, practices, management and relations with other corporations, partnerships or persons. Such facilities as are required by the Commission's agents for the exercise of their powers under this Act shall at all times be accorded. Reasonable compensation for any interruption of production or business or heavy expenses thereby incurred by the party whose affairs are investigated may be paid by the Commission, at its own discretion, when no order is made by it as a result of the investigation.

(ii) The Commission may appoint its own auditors and accountants to examine the accounts and records of any person, partnership or corporation; and the Commission may issue instructions

to all privately appointed auditors concerning the valuation of assets, the determination of profits, and the compilation of data required by the Commission.

Section 65. In pursuance of the powers specified in Section 64, a duly authorised agent of the Commission may question any person, or any partner in a partnership, or any director, shareholder, official or employee of a corporation, or any employee of a partnership, or any person whom the said agent has reasonable grounds for believing to be in the possession of knowledge, or documents, or anything whatsoever which is relevant to the Commission's powers; and the said agent may call upon any such person to appear before him for questioning at any time fixed by him for the purpose of obtaining any information or evidence which the Commission may legally demand under this Act. Any person who refuses or fails to answer, to the best of his ability and power, any question which the Commission's duly authorised agent puts to him in the exercise of his functions, or who delays, or hinders such agent in the exercise of his functions, shall be guilty of an offence.

Section 66. It shall be the duty of all persons with knowledge of alleged offences against this Act, and it shall be the duty of all persons with knowledge of conduct or practices which seem calculated to prevent, immediately or ultimately, the full utilisation of valuable resources, or knowledge of conduct or practices calculated to mislead purchasers, to inform the Commission. Communications to the Commission made in good faith by such persons shall be regarded as privileged and shall be kept secret; and the origin of any charges or orders resulting after the investigation of such communications shall be kept secret. In questioning informants who voluntarily offer information to the Commission and who are employees, the Commission's agents shall endeavour to fix times other than normal working hours, and places to suit the convenience of the informants. From time to time the Commission shall take such steps as are, in its opinion, necessary to inform the public of its duties under this Section.

Section 67. No corporation, partnership or person shall dismiss any employee, or reduce his rate of remuneration, or alter the conditions of his employment to conditions less favourable to him, or alter his position to his disadvantage relatively to other persons employed by such corporation, partnership or person, by reason of the fact that it is suspected or believed (whether or not the suspicion or belief is justified or correct) that such employee has given to the Commission any information which, under this Act, it is his duty to give to the Commission, whether given voluntarily or in reply to questions put by the Commission and its duly authorised agents.

Section 68. The Commission may call upon any person, partnership or corporation to affix a price to every commodity offered by them for sale, or to publish, in any manner deemed appropriate by the Commission, for the benefit of purchasers, price-lists of commodities offered by them for sale. The Commission may also call upon any person, partnership or corporation to report any change of price for any specific commodity or commodities offered by them for sale.

Section 69. The Commission may call upon any person, corporation or partnership engaged in industry, agriculture, fishing, transport, commerce or trade to maintain records, in any form that the Commission may require, of wages and salaries paid, and of the price of materials, fuel, power and like commodities or services, and the sums spent thereon, and to place such records at the disposal of the Commission for inspection at any reasonable time.

Section 70. The Commission may cause to be analysed by some expert independent person or body of persons or institution, or by a department of State set up under the control of the Commission, any raw material, material, product or commodity whatsoever, and publish the results of the analysis, or call upon the producer or seller to quote such analysis upon any container or wrapping of the raw material, material, product or commodity concerned, or otherwise to draw the attention of the purchaser to its composition.

Section 71. The Commission may cause to be defined by some independent person or institution sets of standards of quality for any raw material or product or commodity whatsoever ; and may cause to be examined, in the light of those standards, any such raw material, material, product or commodity, and publish the results of the examination, or call upon the producer or seller to quote the standard attained upon any container or wrapping of the raw material, material, product or commodity concerned, or otherwise to draw the attention of the purchaser to the standard attained.

Section 72. The Commission may cause to be tested, by some expert independent person or body of persons or institution, or by a department of State set up under the control of the Commission, the standards of performance of resources or commodities rendering services in the course of production, or for consumers, and publish the results of such tests, and/or call upon the producer or seller to quote the reports of such tests in any printed description of any of the said resources or commodities, and/or otherwise to draw the attention of the purchaser to the results of such tests.

Section 73. (i) At and from the date of the passage of this Act,

all wage-rates being currently paid under agreements concluded between trade-unions and employers or between trade-unions and employers' associations shall have the force of law and become legally enacted wage-rates.

(ii) At dates to be determined at the sole discretion of the Commission, all legally enacted minimum wage-rates shall be lowered by enacted amounts or percentages to be determined and enacted at the sole discretion of the Commission.

(iii) When, in the opinion of the Commission, after inspection of wage-registers in any trade or industry, nine-tenths of the workers in any grade of employment subject to a legally enacted minimum wage-rate are earning wage-rates exceeding the legally enacted minimum wage-rate, the Commission shall declare that the legally enacted minimum wage-rate for that grade of employment has been rescinded.

Section 74. (i) At any time before the expiry of ten years from the date of the passage of this Act, the Commission may fix a maximum price for any commodity offered for sale by any person, partnership or corporation engaged in industry, agriculture, fishing or transport, (*a*) following any change in the wage-rates or salaries paid by such person, partnership or corporation, or (*b*) following any change in avoidable costs (as defined in Section 87 (v)), including the prices of materials, fuel, power and like commodities or services consumed by such person, partnership or corporation.

(ii) In fixing such maximum prices, the Commission shall apply the principle that any changes in wage-rates or other avoidable costs per unit of the product or services shall be fully enjoyed or fully borne by the purchasers of such product or services. In the interpretation of this principle the Commission shall have full discretion and the decision of the Commission shall be final.

Section 75. (i) At any time before the expiry of ten years from the date of the passage of this Act, the Commission may fix the maximum selling price to be charged by any person, partnership or corporation engaged in trade or commerce, whether wholesale or retail, for any commodity or commodities offered for sale by them following any change in cost price. By "cost price" is meant the price paid by them for the commodities which they stock.

(ii) In fixing the maximum selling price of any commodity under this Section, the Commission shall apply the principle that the absolute rise or fall in the cost price of the commodity to the person, partnership or corporation shall be added to or subtracted from the former selling price, to represent the new maximum selling price. Variations from this principle may be

permitted by the Commission in the case of any commodity if, after investigation at the request of any party affected, it is ascertained that the rate of turnover (as defined in Sub-Section (iii)) of the commodity in question, in relation to rates of turnover as a whole in the wholesale or retail trade of the person, partnership or corporation concerned, requires a higher or lower margin of mark-up (as defined in Sub-Section (iv)) in order to produce a return equal to the average gross returns on the capital invested in all stocks. In the interpretation of this principle, the Commission shall have full discretion, and the decision of the Commission shall be final.

(iii) By " rate of turnover " in the trade of any corporation, partnership or person is meant the rate at which stocks of goods are sold, and which shall be determined for the purpose of this Section by a calculation of the average rate at which stocks of goods have been sold over a period which, in the opinion of the Commission, is representative for this purpose.

(iv) By " margin of mark-up " is meant the amount added to the cost price of goods for sale to determine the selling price.

Section 76. In the case of a person, partnership or corporation engaged in industry, agriculture, fishing or transport, being also engaged in commerce or trade, whether retail or wholesale, the principles of Sections 74 and 75 shall both be applied by the Commission.

Section 77. The Commission may, at its full discretion, refuse to accept as authentic the records of any person, partnership or corporation, when such records are or appear to be incomplete or inefficiently kept, or when the recorded data are or appear to be inconsistent with the recorded experience of persons, partnerships or corporations as a whole or of those engaged in the same or similar pursuits. In such cases the Commission may, at its full discretion, fix maximum prices, in accordance with the provisions of Sections 74 and 75, according to its estimate of the true position.

Section 78. (i) When, in the opinion of the Commission, economies appear likely to be realisable in any branch of industry, agriculture, fishing or transport through the standardisation of the composition or sizes or both of units of materials, parts, semi-finished products, services, equipment or machinery used in production, or consumers' products or services under the control of independent persons, partnerships or firms ; or when, in the opinion of the Commission, similar economies appear likely to be realisable through the synchronisation of related productive operations or processes under the control of independent persons, partnerships or corporations, the Commission may conduct an investigation into the branch of industry, agriculture, fishing or

transport concerned, and prepare a plan for standardisation or synchronisation or both, and submit the plan for the consideration of those persons, partnerships or corporations which the Commission considers will, by the adoption of the plan, be likely to cheapen their products or services, or add to the diversity of their products or services, or add to the availability of their products or services at times at which they might reasonably be demanded. If, in the opinion of the Commission, the mutual adoption of the scheme, or of some alternative (which is also likely to cheapen products or services, or add to the availability of products or services at times at which they might reasonably be demanded) is prevented by the unreasonable unwillingness to agree to the scheme, or the demand for extortionate terms on the part of one or more person, partnership or corporation, and if the scheme is approved by the owners of at least two-thirds of the capital (at current values) invested in the sphere of production to be covered by the plan, the Commission may, after due notice, call upon any person, partnership or corporation unreasonably refusing to agree or demanding extortionate terms to conform to the scheme upon such terms as the Commission may decide and declare. Any such terms lawfully and validly declared by the Commission shall be considered by the Courts as though they were a binding contract concluded by the person, partnership or corporation called upon to conform.

(ii) When, in the opinion of the Commission, and after investigation, economies appear likely to be realisable in any branch of industry, agriculture, fishing or transport through the standardisation of the composition or sizes, or both, of units of materials, parts, semi-finished products, services, equipment or machinery used in production, or consumers' products or services under the control of independent persons, partnerships or firms ; or when, in the opinion of the Commission, similar economies appear likely to be realisable through the synchronisation of related productive operations or processes under the control of independent persons, partnerships or corporations, and the Commission is of the opinion that the achievement of such economies is calculated to cause the earnings of such productive operations or processes to decline to an extent which is detrimental to the interests as a whole of those owning the resources engaged in, or those supplying services to the branch of industry, agriculture, fishing or transport concerned, the Commission shall submit a plan for standardisation or synchronisation or both to the President of the Board of Trade, and to the persons, partnerships or corporations which will be called upon to conform if the scheme is applied, specifying in what ways cheaper products or services, or greater diversity of products or services, or increased

availability of products or services at times at which they might reasonably be demanded, are likely to result. If the President of the Board of Trade is of the opinion that such results will follow from the adoption of the scheme, he may authorise the Commission to call upon the persons, partnerships or corporations engaged in the branch of industry, agriculture, fishing or transport concerned, to conform to the scheme upon the terms prescribed in the plan. Alternatively, the President may submit the plan for further investigation and report by some other independent body and either authorise the Commission to proceed with the enactment of the plan, or remit the report on the investigation to the Commission which may submit the same or a new plan to the President of the Board of Trade in the light of such report.

(iii) If any person, partnership or corporation, which receives notice by the Commission of the intention to call upon it to conform to any plan for standardisation or synchronisation declares in writing within 30 days that the plan is contrary to the interests of the purchasers of its products or services, or contrary to the interests of consumers, and supports such a declaration, within 60 days, by a statement or memorandum setting forth the reasons for such declaration, the Commission shall send a copy of such memorandum to the President of the Board of Trade and shall invite comments upon the scheme by means of advertisements in the Press and other appropriate media from interested purchasers of the products or services the production of which the plan is intended to economise, or from interested consumers of the final products or services into which such products or services are incorporated. After consideration of reports or comments received from such interested purchasers or consumers, the Commission shall report on them and recommend to the President of the Board of Trade the approval of the original plan submitted or some modification thereof, or recommend the approval of some new plan, or recommend that no action be taken.

(iv) The Commission shall in no case call upon any person, partnership or corporation engaged in industry, agriculture, fishing or transport, to conform to any scheme or plan for standardisation or synchronisation which is likely to have the effect of destroying or hindering the response to a reasonable preference for diversity of products or availability of products at all times.

(v) By " cheapen products or services " is meant (*a*) to cause products or services of the same grades or qualities to be cheaper, or (*b*) to cause products or services of superior grade or quality to be obtainable for a given price, without any withdrawal of supplies or any increase of price of any cheap grades or qualities

already obtainable when, in the opinion of the Commission, such would be materially disadvantageous to the poorer classes of consumers, or (*c*) to cause greater diversity of products or services for the same range of prices.

(vi) A preference for " diversity of products or services " is " reasonable " when, in the opinion of the Commission, the tastes which constitute such preference are not due to mere inertia or custom and when, in the opinion of the Commission, the response to such preference is likely to foster the process of experiment and trial and error both in respect of production and consumption.

(vii) A preference for " availability of products or services " at different times is " reasonably " demanded when, in the opinion of the Commission, the availability is required for convenience in production, or convenience of consumption, or convenience of consumption arrangements.

(viii) A preference for " diversity of products or services ", or a preference for " availability of products " at different times is " unreasonable " when, in the opinion of the Commission, it is due merely to inertia or custom, or failure to realise the extent of the advantages to be secured through the sacrifice of diversity, or through the sacrifice of availability of products at different times.

Section 79. The Commission may recommend to the President of the Board of Trade that all rents payable for the hire of buildings based upon contracts concluded before the date of the passage of this Bill shall, allowance made for site value, fall proportionately to any fall in average building costs as estimated by the Commission subsequent to the date of the passage of this Act.

Section 80. (i) If any corporation, partnership or person contemplates the production of some commodity or service which is a novelty, innovation or invention, or which incorporates in any way some novelty, innovation or invention, of a kind which cannot be protected by means of the Patent Acts or the Copyright Acts, application may be made to the Commission for protection of such novelty, innovation or invention. A fee of £10 shall be payable with the application and an additional fee to pay for costs of investigation may be demanded by the Commission. The corporation, partnership or person concerned, hereinafter referred to as the " Applicant " in this Section, shall submit an application containing full details and plans of the proposed commodity or service, clearly defining the element of novelty, innovation or invention which is claimed. After consideration of such details and plans, the Commission may (*a*) suggest that recourse be had to the Patent Acts or the Copyright

Acts in so far as they are applicable ; and/or (*b*) register the said applicant as the innovator (hereinafter referred to as the " Registered Innovator " in this Section) of the novelty, innovation or invention and (*c*) offer to the said Registered Innovator its protection from the competition of all commodities or services which, in the Commission's opinion, are imitations of or in any way incorporate or make use of imitations of the novelty, innovation or invention as described in the application to the Commission, for such period, not exceeding ten years, as the Commission may prescribe. In offering such protection, and in determining such period, the Commission shall take into account the likelihood of the same or similar novelty, innovation or invention, being introduced by some other corporation, person or partnership if it is not introduced by the Registered Innovator.

(ii) In pursuance of the purposes of this Section the Commission may call upon any corporation, partnership or firm to cease producing or selling a particular commodity or service protected under this Section ; or to abandon any protected novelty, innovation or invention in any way incorporated in it ; or, alternatively, to pay to the Registered Innovator, in return for a licence to make use of the novelty, innovation or invention during the period of protection, a royalty fixed by the Registered Innovator.

(iii) The Commission shall give no protection to the Registered Innovator in any district in which he cannot reasonably supply the product or service being or incorporating the novelty, innovation or invention owing to the costs of transport or communication, unless within a reasonable time he commences to produce such commodity or service in any such districts or grants a licence for its production in that district as provided for under Sub-Section (i).

(iv) Any royalty demanded by the Registered Innovator for any district may be reduced by him at any time but not increased.

(v) Royalties demanded by the Registered Innovator must be such as are, in the opinion of the Commission, non-discriminatory.

(vi) Notwithstanding any promise of protection made under Sub-Section (i) the Commission shall give no protection to the Registered Innovator if it can be shown at any time that the commodity or service claimed by him to be or to incorporate a novelty, innovation or invention has been produced and sold before the application for protection was received ; provided that the Commission may call upon any supplier thereof to omit from the product or service any defined novelty, innovation or invention incorporated in it which, in the opinion of the Commission, appears to be an imitation.

(vii) A Registered Innovator may draw the attention of the

Commission to any alleged breach of his rights under this Section. In so doing he shall deposit the sum of £10 with the Commission or such larger sum as the Commission may determine to cover the costs of investigation.

Section 81. From and after the date of the passage of this Act, all previously existing patents shall be void except: (*a*) patents which have been continuously owned by a person being the first and original inventor, and at no time transferred for consideration to any other owner; (*b*) patents owned by persons of the nationality of countries other than Great Britain which are signatories of the International Patent Convention; patents owned by partnerships of which one or more of the partners is of such nationality; or patents owned by corporations registered in such countries. Notwithstanding the provisions of this Section, no person of British nationality resident in Great Britain shall receive any income direct or indirect from the ownership of a patent unless he is the first and original inventor, except from the ownership of shares in corporations entitled to own such patents.

Section 82. (i) From and after the date of the passage of this Act, no corporation owning a patent, even if such corporation was the first and original inventor thereof, shall determine the utilisation of such patent. Control of patents owned by corporations shall be vested in the Commission which shall act as trustee for the corporation being the inventor.

(ii) From and after the date of the passage of this Act, the utilisation of no patent shall be controlled by the first and original inventor if he is in the employ of, or in any way remunerated (otherwise than by patent royalty) by any corporation, partnership or person using the invention or engaged upon any productive process or processes which the invention, in the opinion of the Commission, is likely to affect. The control of the utilisation of such patents shall be vested in the Commission which shall act as trustee for the inventor.

(iii) In the case of a patent controlled by the Commission under the provisions of this Section, the Commission shall, after consultation with the corporation or person being the inventor, fix a reasonable royalty for the use of the said patent and charge this royalty, for the benefit of the inventor, without discrimination, to all who may wish to make use of the patent. In fixing the royalty the Commission shall have due regard to the possibility of a high royalty preventing the desirable utilisation of an invention.

Section 83. (i) Until such time as the Commission reports that the damage to physical capital resources caused by the war, which commenced in September 1939, has been more than

made good ; and that the output of goods and services of the type normally consumed by the working classes is sufficiently large to ensure that the ruling wage-rates provide a tolerable standard of living for all adults of normal intelligence, physique and character : (*a*) the Commission may enact the minimum hours of labour to be worked in different occupations and employments ; (*b*) the Commission may suspend, for an experimental period not exceeding two years, for all productive activities or for certain defined productive activities, any Sections of, Regulations under or requirements under, the Factory Acts and similar legislation which, in the opinion of the Commission, are seriously adding to the costs of production; (*c*) the Commission may suspend or refuse to authorise in terms of Section 85 any clauses under an agreement between a trade-union and an employer or between a trade-union and an employers' association or between employees and one or more persons, partnerships or corporations employing such employees, relating to conditions of employment which, in the opinion of the Commission, are seriously adding to the costs of production.

(ii) The Commission shall, at the end of the first year of the suspension of any Section, Regulation or requirement as provided for in Sub-Section (i) (*b*), or any suspension of any clause under an agreement as provided for in Sub-Section (i) (*c*), or any refusal to authorise an agreement in terms of Section 84, submit a report on the consequences thereof and make any recommendation thereon to the Minister of Labour who may thereupon extend the suspension of the Section, Regulation, requirement, clause or agreement for a further period not exceeding one year, and introduce legislation for the further extension of the period of suspension or for the repeal of the Section, Regulation or requirement, or declare any clause under the agreement or the agreements to be void.

(iii) The Commission shall invite corporations, partnerships or persons to submit reports on such Sections, Regulations or requirements of the Factory Acts, or such clauses under agreements as appear to be seriously adding to the cost of production.

(iv) The Commission shall, after inquiry, submit to the Minister of Labour a report on and definition of the term " tolerable standard of living " under this Section for approval or amendment.

Section 84. A collective request for changes in the conditions of employment other than wage-rates or hours of labour by the employees of any person, partnership or corporation or (in accordance with the terms of Section 85 (iii)) the employees of more than one person, partnership or corporation among which mutual arrangements exist for co-ordination, synchronisation or standardisation of productive activities, shall be considered by

the person, partnership or corporation, or the persons, partnerships or corporations concerned, which shall specify any increase or decrease in remuneration and/or hours of labour which can be offered or must be demanded by the person, partnership or corporation, or the persons, partnerships or corporations concerned in consequence of the change. Any agreement so reached shall be submitted : (*a*) to the Commission which shall authorise the agreement, if, in the opinion of the Commission, in terms of Section 83 (i), the agreement does not seriously add to the cost of production ; and (*b*) to the Labour Security Board which shall authorise the agreement if, in the opinion of the Board, any sacrifice of income accepted by the workers is not likely seriously to burden the Labour Security Pool.

Section 85. (i) Except as provided for in Section 83, the hours of labour to be worked by the employees of any corporation, partnership or person in any branch of industry, agriculture, fishing, transport, trade or commerce shall, whether remuneration is by time or by the piece, be determined by the hours which are customary, or by mutual agreement between each corporation, partnership or person being an employer, on the one hand, and each individual employee or the employees thereof collectively on the other hand.

(ii) When the hours of labour are determined by the employees of any employer collectively, there shall be a free vote of the employees to determine the hours of labour to be offered by the employees at the rates of hourly remuneration or the piece rates offered by the persons, partnerships or corporations offering employment.

(iii) If, by reason of arrangements for the co-ordination and/or synchronisation of the operations of different corporations, partnerships or persons, the Commission is of the opinion that it is desirable that the hours of labour to be worked by employees of more than one person, partnership or corporation shall be the same, the Commission may specify certain persons, partnerships or corporations the employees of which may collectively determine, by free vote, the hours of labour to be worked in return for the rates of remuneration offered.

(iv) In cases of dispute about the method of voting among the employees of any person, partnership or corporation or of any number of persons, partnerships or corporations in terms of Sub-Section (iii), the Commission may, on the request of a substantial proportion of such employees, determine the method of voting.

(v) If the Commission has grounds for believing that the voting may have been decided in collusion with employees in competing undertakings, except as provided for in Sub-Section (iii),

with a view to raising the price of labour or with a view to sharing employment, and is not in the nature of a *bona fide* demand for leisure, the Commission may determine the hours for such employees, and the collective refusal by the employees of one or more corporation, partnership or person to work such hours shall be regarded as a strike.

(vi) When payment is by time, the Commission may, at the request of, and after consultation with any corporation, partnership or person being an employer, or with one or more corporations, partnerships or persons being employers concerned with bargaining in accordance with Sub-Section (iii), and representatives of the employees thereof, draw up a schedule specifying the proportion of earnings to be sacrificed for each hour of work given up per day and/or per week and the proportion of earnings to be paid in addition for additional hours worked per day and/or pre week. . The schedule shall in every case be based on the principle that each successive hour of work performed per day and/or per week shall be valued more highly than the preceding hour, such that an increase of the hours of work shall entail a more than proportionate addition to remuneration, and a reduction of the hours of work a more than proportionate sacrifice of remuneration. Rates of overtime payment shall in all such cases be determined by the schedules drawn up by the Commission.

(vii) When payment is by the piece, the Commission may, at the request of, and after consultation with any corporation, partnership or person being an employer, and representatives of the employees thereof, authorise a schedule of penalties, in the form of deductions from aggregate piece earnings, to fall on the remuneration of employees whose weekly output falls below a given standard.

Section 86. (i) All trade-unions, professional associations, employers' associations and like bodies which are in existence at the date of the passage of this Act shall, within six months following the date of the passage of this Act, apply for registration in terms of Sub-Section (v) of this Section, or they shall be presumed to be void and illegal under Section 22 and their officials and members shall be guilty of a misdemeanour under Sections 23 and 24.

(ii) The holding of meetings and the opening and carrying on of negotiations with a view to the formation of trade-unions, employers' associations, professional associations or like bodies shall not be regarded as an infringement of Sections 22 to 24, provided that the Commission is informed in advance of the intention to hold such meetings or to negotiate, and is kept informed (in any manner in which the Commission, by regulation

or otherwise, may determine) of the proceedings at meetings and/or the course of the negotiations, and provided that the trade-unions, employers' associations, professional associations or like bodies concerned apply, before the adoption of their constitution, for registration under the terms of Sub-Section (v).

(iii) The functions of a trade-union, employers' association, professional association or like body may include the following:

(*a*) to protect the income security of its members as laid down in the Labour Security Act and the Capital Security Act;

(*b*) to carry on negotiations in terms of Sections 84 and 85 respecting the hours and conditions of labour;

(*c*) to protect individual members from illegal discriminatory treatment, intimidation or victimisation of any kind by bringing alleged cases thereof to the notice of the parties responsible and, in the case of failure to rectify such alleged offences, to the notice of the Public Prosecutor or the Commission;

(*d*) generally to advise its members concerning their legal rights in their employment, calling, profession or type of business;

(*e*) to take legal action in defence of the legal rights of one or more of its members respecting their employment, calling, profession or type of business;

(*f*) to encourage voluntary thrift and insurance among its members and to promote and carry on schemes for mutual thrift and insurance;

(*g*) to undertake any other activities defined in its constitution which, in the opinion of the Commission, are not inconsistent with the terms of this Act.

(iv) (*a*) Membership of registered trade-unions, professional associations, employers' associations and like bodies shall be voluntary and no person shall be compelled to join, unless at least two-thirds of those to be included as members vote (in any manner which, in the opinion of the Commission, is equitable and appropriate) in favour of membership being compulsory. (*b*) A compulsory trade-union, professional association, employers' association or like body shall cease to be compulsory at any time in accordance with the provisions of its constitution and, not sooner than five years after any date on which compulsory membership is authorised or confirmed by the vote of two-thirds of the members, on a resolution passed by one-third of the members. (*c*) In the case of employers' associations the voting shall be based not on the number of members voting but on the proportion of the aggregate capital owned, as estimated by the Commission.

(v) The Commission shall receive applications for registration from trade-unions, professional associations, employers' associations and like bodies. Such applications shall include a copy

of the proposed constitution of the body concerned and, if the Commission is of the opinion that the proposed constitution does not confer the power to do things which are contrary to the provisions of this Act, the Commission shall issue a certificate of provisional registration within one month from the receipt of the application. A certificate of final registration shall be issued within one year from the date of the provisional registration, provided that, in the meantime, the constitution of the body concerned has been amended in any manner which the Commission may, to ensure compliance with the terms of this Act, determine.

(vi) The constitution of a trade-union, employers' association or professional association shall not be amended except in terms approved in each case by the Commission.

Section 87. (i) By " marginal cost " is meant the addition to total cost incurred by the production of the last unit of output, such that the marginal cost of n units of output is the total cost of n minus the total cost of $(n - 1)$. In the interpretation of this definition recourse may be had to the text-books of economics.

(ii) By " fixed cost " is meant a sum equal to interest at the current rate (as estimated by the Commission) on (*a*) the current replacement value (as estimated by the Commission) of the fixed plant and equipment employed in the production of goods or services plus (*b*) the site on which the plant and equipment stands.

(iii) In the determination of fixed cost in the case of plant and equipment, the Commission shall estimate the current replacement value of the capacity to be equal to one of the following, whichever is the smaller: (1) the current value of the most up-to-date and efficient plant or equipment of equal durability which fulfils a similar or competing service or provides a similar or competing product (for this purpose road motor transport shall be considered as fulfilling a similar or competing service to railways, and gas undertakings as providing a similar or competing product to electricity undertakings); (2) allowance made for durability, the least capital expenditure necessary to set up new equipment of equivalent capacity and efficiency.

(iv) Site value shall be estimated by the Commission which shall, as soon as possible, cause to be conducted a survey of rent and site transactions with a view to the determination of true site value. The Commission shall take into account the prices at which sites in the same neighbourhood are being or have been offered for sale or sold; and rents at which sites have been offered or leased; the typical relations of situation and site value in different towns and other districts; and the trends of site values in relevant districts. The terms of all sales or leases involving sites shall be reported to the Commission and the data

so collected shall be employed by the Commission in the determination of true site value. The site for this purpose shall include the area reasonably necessary for the type of productive operations which are carried on. The estimates of the Commission under this Section shall be final.

(v) By "avoidable cost" is meant the sum of all expenditures, other than rent and interest on capital and loans, which, in the opinion of the Commission, are essential for the productive activities carried on, except that in the case of long term contractual obligations of any kind for the purchase or hire of things required for production, the true current price or rate of hire of such things (as estimated by the Commission) shall be taken as part of avoidable costs.

. . . . . .

(*Schedule and minor Sections omitted.*)

PART II

THE PLAN EXPLAINED

SUMMARY OF CHAPTERS

(Ch. I) A study of the British war economy leads to the diagnosis of restrictionism as a crushing economic disease (Ch. II) which persisted owing to the restrictionist mentality of controllers and others. (Ch. III) Aggravated through distributive difficulties, it frustrated effective national planning and, (Ch. IV) in particular, hindered recourse to entrepreneurial machinery and economic concentration of production. (Ch. V) As restrictionism has undermined war efficiency, so it had for long weakened the economy of peace. Reconstruction aims must be based on its eradication. (Ch. VI) " Equality " may be accepted as an agreed ideal, but it has never been fruitfully sought. (Ch. VII) It may actually be realised if society can be taught that the notion of " distributive justice " is based on " established expectations ", and that ultimate equality may (in spite of sociological stresses) be sought without the restraint of production, and without distributive injustice, through a system of income-pooling accompanied by the release of the full equalitarian force of competitive capitalism. (Ch. VIII) The " established expectations " of workers can be protected (during the eradication of restrictionism) by Grants, carrying no stigma, and paid from a vast Pool to which all workers must contribute a fixed percentage of earnings. Incentive and the effective direction of labour can be preserved under this scheme. (Ch. IX) The scheme may be applied to salaried and professional occupations as well as to artisans and labourers. (Ch. X) Capital security arrangements must also be based upon " established expectations " and administered through a similar system of Grants from a Pool. A temporary limitation of investment discretion will be necessary, but thrift will not be penalised, prodigality will not be encouraged, and incentive will be preserved. (Ch. XI) The achievement of distributive security will permit a fundamental revision of the institution of property, eliminating the right to withhold productive power, (Ch. XII) which is outlined in the Resources Utilisation Protection Bill. The scheme is to be administered by the Resources Utilisation Commission, a permanent, quasi-judicial, quasi-administrative body, consisting of judges, economists and men of affairs. (Ch. XIII) The State must itself take some initiative in the field of production ; but it must do so through " State corporations " which possess no privileges, which are subject to full control by the Resources Utilisation Commission, and which are prevented (by a scheme described in detail) from following the monopolistic price leadership of private enterprise. (Ch. XIV) Collusive monopoly and (with defined exceptions) price discrimination must become illegal, corporate monopoly must be restrained, the withholding or destruction of productive power must be prevented, public utilities must be subjected to special control, and patents and copyrights must be redefined. (Ch. XV) The co-ordinating and planning functions of the State must

aim at the provision of certain "collective aids" which, by releasing "competitive pressure" towards the least-cost arrangements, permit the free enforcement of economic co-ordination. These collective aids include, in addition to direct co-ordination functions, the elimination of monopolistic arbitrariness; the extension of the patent principle; and functions connected with the determination of the hours and conditions of labour, the amount of saving and the amount of conservation. (Ch. XVI) The cost of the plan as a whole is not likely to be high. (Ch. XVII) Although the winning of consent for the Plan is a serious problem, it must be tackled without the sacrifice of ideals. But owing to the weakening of ideologies during the war there are some hopes of support even from "the Left". The political acceptance of the plan depends upon the impression it makes upon influential readers, and the willingness of readers to work for its aims.

CHAPTER I

RESTRAINED PRODUCTIVITY

1. ALL will agree that the paramount immediate object of reconstruction policy must be the release (or creation [1]) of productive power appropriate to peace-time demands. This means firstly, that production to make up for the physical capital sacrifices of war must take place; and secondly, that arrangements to facilitate the flow of those things essential for the well-being of a community at peace must be made. Whatever ideals actuate the government which happens to have control after the war, the achievement of those ideals will be dependent upon its success in devising an efficient framework for productive arrangements.

2. If then, as I contend, the productive system which Great Britain inherited at the outbreak of war was antiquated and obsolete, how could a more effective *regime* be built up? Before dealing with remedies, I must try to show just how defective productive arrangements have so far been. The best way of doing so is to point to the lessons of war experience. There is a great deal to be learned from the war effort. Some of my economist friends and I thought that we had perceived the weaknesses of the existing system long before the war broke out. We saw the extent of and feared the results of restrained productive power, but we did not see any way of making our ideas understood.[2] When we hit upon effective methods of presenting our case, our drastic criticisms were embarrassing to the political parties. It was easy for the publicists of all political creeds to misrepresent us as the defenders of all contemporary evils. Perhaps we were forced into apathy due to discouragement. We certainly did seem to be preaching in the wilderness. But I myself seized a chance of expressing my own forebodings immediately after the outbreak of war, in an address to the Rotarians of Cape Town. I argued that the Germans had one huge advantage

[1] I prefer the word " release " here, for State policy cannot really " create " productive power. It can only construct institutions compatible with the accumulation of productive power. Governmental measures can, in other words, facilitate the response to the demand for those capital goods or developments, the services of which consumers (individually or collectively) want, and which they enjoy through the flow of consumers' goods and services. The act of directing such institutions may, however, be regarded as " creative " and may be undertaken by the State. But the only *motive* force is demand, expressed individually or collectively (e.g. through the State).

[2] *The Theory of Idle Resources*, which was an attempt to clarify and simplify teaching on the subject of unutilised resources, was published just as war was declared.

over France and Britain, namely, that whilst the right to withhold productive power in the interests of capitalist monopolies and trade-unions had been denied by Hitler, it still existed in countless disguised forms in the so-called democracies. I had no faith in the theories of Nazi weakness, in the assumption that their aeroplanes would fall to pieces in the air, or that their tanks were jerry-built. On the other hand, I risked confessing that I had serious misgivings about the Allied productive system.[1]

3. I refer to my prophecies not in order to indulge in the futile satisfaction of saying " I told you so ", but because they prove that my present remarks are no mere rationalisation of what has happened since.[2] In 1939 my warnings could easily have been mistaken for defeatism. To-day I feel they may prove to be a source of hope ; for, properly interpreted, they are a message of constructive optimism. I said :

> I believe that the democracies have it in their power to be incomparably more efficient, both for war and for peace, than the dictatorships. I believe, in other words, that *if* the leaders of the democracies are willing to do or are allowed to do the *right* things, they will be able not only to win the war, but pay for the war without having to impose a crushing burden on any class or community. At the same time, I believe the leaders of the democracies will in fact do the *wrong* things. I feel certain that they will fritter away their relative advantages . . . and they will do the wrong things, I suggest, because the sanctions for private property and private enterprise are hopelessly misunderstood to-day.

4. My pessimism was based on the fact that none of the pre-war discussions of the economics of war touched on what was to me the Allies' most obvious weakness. The " practical men " were completely blind to it. Thus, Mr. Paul Einzig, whose books have always echoed what practical men have thought on economic matters, at no point referred to the menace of withheld capacity and labour restrictionism in his *Economic Problems of the Next War*, published in 1939 (preface dated November 1938). Even his revision of this book, published as *Economic Warfare* in 1940 (preface dated November 1939), had not perceived the defect.

[1] A correspondent in *The Economist* of 10th February 1940, remarked that the " earlier prophecies of mere orthodox economists that German economy could not long sustain an armaments drive have been completely falsified ". This passage shows what we economists have to put up with ! It reflects an ignorance of the nature of " orthodox " teaching which is quite typical. The correspondent did not quote the economists' prophecies. All that has really been falsified is what he probably thought they would have prophesied.

[2] I first referred to these prophecies in July 1940 in my Presidential Address to the Economic Society of South Africa entitled " Economic Lessons of the Allied War Effort." The next two chapters quote large passages from that address, which was reprinted in the *South African Journal of Economics*, September 1940.

And most of the other contributors to the economic literature of war wrote as though financial and monetary matters were going to give rise to the dominant problems. They all seemed to view the war effort from the angle of the Treasury. And in Britain the Treasury in fact remained the controlling and restraining influence on all-out production from the beginning. The German Economic Council, on the other hand, was not manacled by the Treasury and Reichsbank which the Nazi authorities, recognising them as the merely subsidiary agencies that they are, wisely excluded. Since 1939, bitter experience has undoubtedly taught the British some of the lessons. Mr. Horsefield's Penguin book, *The Real Cost of the War*, must have helped to bring the discussion down to earth, and the folly of restrained production is now (during 1941) being widely repeated in the British Press. But before the war it was not seen as *the* great danger.

5. Were the fears which I expressed in 1939 based on recognition of the true origin of British weakness? Well, an article in *The Economist* of the 15th June 1940 exactly expressed the source of my misgivings. It attacked the system of industrial organisation which had apparently become the Government's ideal in Great Britain. It described that system as

> an orderly organisation of industries, each ruled feudally from above by the business firms already established in it, linked in associations and federations. This is the order of ideas [continued the article] that has transformed the trade association from a body of doubtful legality, a conspiracy in restraint of trade, into a favoured instrumentality of the State. . . . It is the order of ideas that led to the Import Duties Act being drafted in such a way as to put a premium on self-seeking monopolies and a discount on the public interest; that turned "high profits and low turnover" into the dominant slogan of British business: that raised the level of British costs to the highest in the world.

When the war broke out, the article alleged,

> the noble army of controllers was recruited from organised industry, the rings, from being tolerated, became endowed with all the power of the State. . . . British industry . . . has, until recent weeks, been making the maximum effort compatible with no disturbance to its customs now or to its profit-making capacity hereafter. . . . The result has been what we see—a startling inadequacy of production. . . . Both in tanks and aircraft (to take only the two outstanding examples) the existing rings have failed to produce the goods. . . ."

As "Urbanus" has pointed out in retrospect (in an article which came to hand during the final revision of this book),

> At the Ministry of Supply the Aluminium Controller was a director

of British Aluminium. The Paper Controller was the managing director of large paper companies. The Petroleum Board was composed of directors of the great petrol combines. The Controller of Cement was a director of four cement companies and chairman of the Cement Makers Federation. The Non-Ferrous Metal Controller was managing director of the largest firm of metal brokers in the country—the British Metal Corporation. . . . To cap it all, the railway executive, under the chairmanship of the Minister of Transport, was composed of the railway managers themselves who squeezed out of the Government the most fantastic bargain of this war—an agreement which guaranteed the railways for the duration of the war more revenue than they had earned in 1938 and entitled them to share equally with the Treasury in any excess profits until they received a pre-1914 standard fixed upon an over-capitalisation of railway assets ! [1]

6. Just why was it that the goods were not being produced at the time of *The Economist's* complaint (June 1940) ? It is, I suggest, futile simply to blame " the capitalist system ". The real issues cannot be faced by means of naïve discussions of the relative merits of " Socialism " on the one hand and so-called " private enterprise " on the other. These words do not describe the actual productive methods with which we should rightly be concerned. The remarkable recovery of Germany under Hitler, and the huge productive achievements of the Nazis, are surely traceable to one clearly distinguishable and hardly questionable set of factors. In the German dictatorship they have fairly effectively abolished the right to withhold resources from production ; whereas in the democracies the withholding of resources happens to be a common method, if not to-day *the* common method, of increasing or protecting private fortunes. That is, the holding back of productive power, when that power is demanded by the State, has been successfully repressed in Hitlerite Germany, whilst in the democracies an exactly similar withholding has not even been recognized as an evil. On the contrary, it is being increasingly advocated as a panacea.

7. I am writing whilst Hitler's regime is still standing. Naturally, I hope that by the time this book is published some signs of the collapse of his regime will already be apparent. But we have to explain why he has so far achieved so much success in the creation of a war economy. The economic strength of Germany has, I suggest, been derived almost entirely from the power of the State to ignore private interests in the arrangement of productive policy. Hitler's strength on the production side has been mainly due to his having kept the cartels and the trade-unions in subjection. Certainly he has not abolished them ;

[1] *The New Statesman*, 30 August 1941, p. 200.

at times he has conspicuously used them; but they have been made fairly effectively subservient to his policy.[1]

8. Now the same methods applied in the democracies would be even more successful; and they are not incompatible with democracy, quite the reverse.[2] The productive potentialities of private enterprise are incomparably greater than those of any rigid economic system. Private enterprise simply suffers from a serious disease, a disease which consists of various devices which we have wrongly come to believe are essential for the earning of reasonable profits, the achievement of distributive justice, the maintenance of prosperity, and the safeguarding of security. A study of modern statute books shows that at least half the legislation is intended to foster a policy of scarcity creation. Practically the whole of the marketing and industrial laws of modern countries appear to be designed to make goods and services relatively scarce. The *aim* is "legitimate" profits, "fair" wages and conditions, "prosperity" and "security". The *effect* is the scaling down of the economic return to all classes.[3] The policy is partly enforced through the fixing of prices and wage-rates, sometimes by the State, and sometimes by institutions like cartels and trade-unions. Now such fixing of prices and wage-rates has exactly the same economic effect as output restriction. Some readers may at first feel that these are outrageous assertions, or that they have outrageous implications. If so, they must reserve judgment for a short while. I do not suggest that the search for security and economic justice is wrong. That is precisely the aim of my plans! My case at present is that we seek these things in a foolish way.

9. It is only when some new and blatant monopoly holds the community up to ransom that any marked public uneasiness asserts itself. Otherwise, in normal times, most of us have no clear idea of what is wrong. For when restrictions become customary, they become respectable. They become part of the contemporary social order—which we cannot be for ever questioning in detail. The restraints on production and the resulting prices become facts in the light of which we devise all our policies, adjust all our day-to-day activities, and mould the habits of our daily life (as individuals, as directors of firms, and as officials). But such restrictions may still be the source of a vast sacrifice of productive power. A few output restrictions would not

[1] There seems to have been some friction with the cartels in Germany, leading to complaints of "waste" against "powerful economic groups". But the fact of their effective subservience cannot be disputed.

[2] See F. A. Hayek, *Freedom and the Economic System*.

[3] The words "all classes" are not an inadvertent exaggeration of my case, for I shall try to show that all may gain and none lose under unrestrained productivity.

mean a serious burden on society as a whole, if their effects could be isolated. Unfortunately, they cannot be isolated. I shall try to show, for instance, how the existence of one output restriction or price control makes another output restriction or price control appear to be reasonable (as, for instance, when a wage-rate increase obtained through trade-union pressure makes a price-fixation and output-control scheme to maintain the "legitimate" profits of the firm affected seem perfectly justifiable). But the effects of restrictions go much further than making additional sacrifices of productive power seem reasonable. In the following paragraphs I shall try to show how each restraint enforces further restraints. And later on I shall argue that the way of dividing up the claims on what is produced in a country, that is, the process of determining the incomes of workers, investors, and others, becomes dependent upon the existence of a whole system of restraints. Now when the "income structure" or the "distributive scheme" (as it is convenient to call the method of dividing up the "national income")[1] is determined by the wholesale withholding or restriction of productive power, any attempts to rectify it seem to threaten to cause insolvencies, wage reductions or unemployment on all sides. In other words, the remedy appears as "cut-throat competition"; and the remedy is usually thought to be worse than the disease. Because of this, it has become customary either to deny that the disease exists or else to assert that it is not really serious. These are the points of view which I have to challenge. They represent the gravest obstacles to a successful reconstruction programme.

10. What do I mean when I say that one price control or restraint causes others? When a particular commodity is made scarce (by an enforced price increase, or in some other way) the consumers may have less to spend on other things.[2] Then the demand for other things must fall. Thus, if women have to spend more on silk stockings they are likely to spend less on cigarettes. This is one of the principal causes of the "slowing down of the economic machine", as popular writers have sometimes described a tendency for industry to be depressed. The gain to the producers of stockings (investors and workers) does not fully offset the loss to the producers of cigarettes. Owing to the restraint, there is obviously a smaller flow of those things which society wants and would like to purchase.

11. But the effects go much further than this. Whenever the

[1] Economists use the term "distribution" to mean the division of the community's income (in other words, the division of the product of economic effort).

[2] The economist knows that this need not always be so. But it is always true in the short run—and, I believe, often true in the long run.

price of a raw material or the price of labour is raised by any of the methods I am criticising, it means that the costs which have to be met by producers who use that material or labour are also raised. And in an attempt to preserve their profits, or the wage-rates for their industry, those in any subsequent stage of production find it profitable (as well as apparently reasonable) to adopt *further* price and wage-rate increases. Thus, if the tanners raise the price of leather, either to increase profits or to offset a wage increase enforced by a trade-union, the costs to the boot and shoe industry will be raised. Those in this industry will, if they are competing, pass on the costs to the consumers, and consumers will presumably economise on shoes, buying less of them, even if they have to spend more on them than before. But if the shoemakers also can arrange a price-ring, the effects do not stop here. It will *usually* pay them to agree to a further price increase.[1] That is how the process of scarcity creation multiplies itself. In the end there is a cumulative withholding of productive power of a magnitude which would be staggering if it could be concretely represented. Only those who realise the extent to which modern industry consists of chains of separate productive stages, related to one another in the most complicated manner, can conceive of how much is sacrificed.

12. There is an influential school of writers on economics which believes that this withheld capacity can be effectively coaxed back into utilisation through the stimulus of higher prices or cheap credit created by an authoritarian dilution of money or credits. This school rightly perceives that the release of production in one industry tends to induce the release of productive capacity in all others. In this way there arises what they have called " the multiplier " effect. Now, I am not here dealing with the question of how far this way of rectifying the wastes of restrained competition can be effective. I mention " the multiplier " simply because I want to make quite clear to those of my readers who are familiar with economic jargon the fact that I am dealing with a phenomenon which is usually studied from a quite different angle.

13. Let us consider an actual case. A few years ago it was decided, with the full support of the British Government and the co-operation of the Bank of England, to reduce the capacity of British shipyards. The scheme was known as the " National Shipbuilders' Security ". Part of the supposed " surplus capacity " was " sterilised ", i.e. kept idle compulsorily. But in

[1] A rigorous proof of this proposition would be out of place here. See *Theory of Idle Resources*, Chapter X, " Withheld Capacity ". If a monopolist's avoidable costs increase, the output which maximises his receipts falls. But where co-operant producers stand in a joint-monopoly relationship the position is much more complex.

order to make sure that a good deal of the rest of the " surplus capacity " should not be used at any subsequent period, it was agreed to destroy it with high explosives. Accordingly, the so-called " redundant " shipyards were blown to smithereens—exterminated for all time. This had the immediate effect of checking the decline of incomes from investments in shipbuilding. But what were the consequences ? It enabled the price of new ships to be raised. The result of this was a reduced demand for steel, and a reduced demand for coal (because, when ships cost more, it is less profitable to invest in them). Then, to maintain the fortunes of investors in steel, the steel monopoly organised by the British Iron and Steel Federation (" one of the tightest and most drastic monopolies that the country has ever known " [1]) was tightened up and the price of steel raised. The coal owners and the miners' unions also welcomed a scheme for keeping up the price of coal, and their scheme was partly made reasonable because of the decline in the demand from the shipbuilding industry. In this way shipbuilding costs mounted merrily. Naturally, the building of new vessels was driven increasingly from British to foreign yards. A further consequence was that the British shipping interests (organised in monopolies called " conferences "), finding themselves faced with higher capital costs, were encouraged in their efforts to gear up all freights. Even tramp shipping became monopolised for the first time in history. Scrapping schemes were agreed upon ; and during 1939 there were quite a large number of scrappings of valuable, perfectly seaworthy vessels, as though for fear that they might later be sunk by German submarines ! Through the maintenance and raising of freight rates, investors in shipping were assured of " reasonable dividends ". But what of the other side ? Were not all the British export interests robbed of the benefits of relatively low freights ? And were not the railways equally hindered with higher costs, and so a wide range of industries therefore burdened with heavier internal freights ? (For the British are foolishly committed to a policy of keeping the income of railway shareholders intact by permitting the exploitation of railway monopoly power.) Are not the prices of coal and steel and transport ultimately effective costs of practically every British industry ? I need not develop this illustration further. A whole volume would be required to trace out in detail the repercussions of the shipbuilding restrictions. And whatever line of activities one chooses for study, the same sort of happenings present themselves. In cement, chemicals, cotton, quite apart from steel and coal, " redundant capacity " (perfectly payable under competition) was ruthlessly

[1] *The Economist*, leading article, " The Cabinet Changes ", 5th October 1940.

exterminated in the interests of profits (and incidentally, be it remembered, in the interests of the workers immediately concerned). And every restriction burdened innumerable other fields of production. Attempted parasitism by all means the waste of the community's resources and net gains to few in the long run. For years, organised groups have been trying (usually quite innocently) to live parasitically upon one another. But they have in fact only been engaged in the collective destruction of the wellbeing of the community generally. As Mr. E. F. M. Durbin has recently expressed it, " Industries live by strangling each other. Benefits are gained for a section by starving, not feeding, the whole of society. . . . It is a process of slow, suicidal, sectional restrictionism." [1]

14. But are the Nazis any better off in this respect? Do they not also have price and control schemes of the same nature? There *is* a superficial resemblance, but that resemblance is really the most serious illusion which could be entertained. The chief reason for the continuance of the similarities has been tact, the necessity for face-saving during a period of transition, even under the Gestapo. In fact, the cartels have relatively small power to fix or maintain prices (that is, to restrict productive power) in the dictatorship countries. Certainly private dealings have been restrained or suppressed, but that is not because the restraint is regarded as a means to the fuller utilisation of resources, but because the ideal is different from what it is under private enterprise. The dictatorships are efficient, not owing to price and output controls engineered on behalf of politically influential groups or by cartels and price-rings, but because such price and output controls have been effectively suppressed in the national interest. Nazi price-fixing seems to have but one basic aim, namely, to secure that prices shall be raised only on the grounds of increases in real costs—the complete elimination of all economic parasitism.[2] But the Allies tried to build on a basis which regarded the vested interests as having inalienable rights, even in time of war. Although public opinion (relatively unimportant in Germany) may have been to blame, that does not affect my case.

15. It is very easy for misunderstanding to arise on this question because, in time of war, the problem becomes very similar in the democracies to what it is in the dictatorships. All other social objectives must become subsidiary to that of winning the war. An overriding " collective " aim must supersede " private "

[1] *Politics of Democratic Socialism*, p. 101. The word " suicidal " is an exaggeration in so far as the peace-time situation is concerned. But the situation may well be " suicidal " in war-time.

[2] See below, Chapter IV, paragraph 33.

purposes.[1] In other words, with the onset of war, all resources (physical or human) which are capable of being turned from peace-time purposes to serve the requirements of war should be diverted to war production. For even under economic liberty the winning of the war must be assumed to be the paramount demand of all citizens, a demand to which all other demands must be assumed to be subservient.[2] And war demand must necessarily be determined in the light of one basic strategy which must be centrally formulated. The community's demand for effective war production must therefore be delegated to the high command and production executive for collective formulation and expression.

16. But such centralisation of demand does not overcome the supply problem. The onset of war makes especially urgent the dissolution of all restraints on utilisation irrespective of the effect upon capital values and earning power.[3] It is in *this* respect that policy seems to have been chiefly deficient. Either the imagination of the British and French Governments failed them, or else the curse of party politics tied their hands. In September 1939 they ought to have mobilised the community's resources with a ruthless disregard for the rights of vested interests, gross injustices being rectified by compensation. Quiet but vigorous steps should have been taken by the Allied Governments to bring into operation every element of their productive resources. This they obviously failed to do.

17. Immediate pre-war experience warned us of the danger. Even when a furious submarine campaign was threatened, the British Government took no steps prior to the outbreak of hostilities to desterilise the shipyards which had been compulsorily closed under the National Shipbuilders' Security scheme. Nor, apparently, were any steps taken before the war to rebuild the shipyards, which, under the same scheme, had been blown to pieces by dynamite. But this is only one of the more obvious illustrations of gross blindness. When war broke out, no obvious steps were taken to rectify a situation under which British productive power, in the days of peace, had been geared down to well under half its capacity. Cartels, price-rings, trade associations, systems of resale price maintenance, marketing boards, trade-unions, ca'canny practices and so-called unemployment

[1] See footnote 4 to Chapter II, paragraph 14, on the distinction between collective and private requirements.

[2] In the technical terms of economics, war introduces a new criterion of "productivity". See "Concept of Consumers' Sovereignty", *Economic Journal*, 1940, pp. 75–7.

[3] This does *not* imply that values and earning power can be ignored. Only in the light of such values can the authorities conducting a war choose rationally (and hence effectively) between vital means for conducting the war.

insurance had all contributed to the shackling of the British industrial effort; and this was at a time during which the Nazis were all out in their productive struggle.

18. The position in France before the war was just as disturbing. Her great resources would have been most formidable if they had been fully employed. But the course of French politics before the war had made the restriction both of the powers of her labour force and of her physical resources the accepted economic order. At a time when she was threatened more than she had ever been threatened in history, her industrial workers were being encouraged to agitate and to strike for the forty-hour week. That fight did not represent a genuine demand for leisure by a prosperous and secure people. It was wholly an output reduction manœuvre. And on the capitalists' side the situation was equally worrying. For years successive Governments had encouraged monopoly and the exclusion of newcomers from industry. And as in Britain, Right and Left co-operated harmoniously when it was a question of curbing productive power. Over 2,000 industrial agreements restricting prices, output, etc., were in existence in France at the outbreak of the war. When war broke out, there was, it must be admitted, less unwillingness than in Britain to sacrifice leisure for productivity. But even so an almost incredible blindness to the real potentialities of productive enterprise appears to have persisted. The notion of whole-hearted recourse to the multiple shift made far too severe a demand on the imagination of politicians and officials. Imbued as they were with the mental habits, and tied by the routine, of years of placating the organised pressure-groups of capital and labour, they were incompetent to grasp, let alone tackle the problem. M. Reynaud " decided one evening after dinner to make a tour of certain armament factories in the region of Paris. He was astonished to find them closed. They did not work at night. Next day he went to see Daladier: ' Do you know,' he said half-jokingly, ' if we go on in this way, we are going to lose the war ? ' The idea seemed incredible to him, as it did to all of us at that time. It was, alas, only too true ".[1]

19. During the first eight months of the war, we all hoped (i.e. my colleagues and friends with whom I discussed the European war from a distance) that our forebodings were ill-founded. We knew that plans had to aim at courageously sacrificing the immediate future for the distant future; that 1940 might have to suffer for the benefit of 1941 and 1942 (because the most efficient organisation for production usually brings its return rather late). And the pronouncements of British and French statesmen were, for a time, optimistic, confident and reassuring. We all hoped

[1] André Maurois, *Why France Fell*, pp. 53–4.

that the very reality and urgency of the problem was leading to a quiet revolution behind the scenes. Naturally everything had to be secret. It seemed to be everybody's duty to be passively trustful. But as the months wore on, there were anxious but guarded comments in the critical press; that is, in journals like *The Economist*, *The New Statesman*, *Time and Tide*, and so forth.

20. These questionings caused some of us to begin to doubt whether, after all, the British Government had really grasped the problem. A vast army of unemployed remained. That was a terribly worrying sign when it continued month after month. The right policies should soon have produced all the phenomena which are known as " labour shortage ". Moreover, one heard virtually nothing about the utilisation of two or more shifts in order to double or treble the productive capacity of industrial plant. No wonder Hitler's confidence continued to grow. No wonder the Nazis were openly contemptuous of the Allied productive arrangements. But whereas in France the seventy-two-hour week was immediately introduced in crucial industries when war commenced, Great Britain continued, on the whole, to adhere to normal trade-union hours. Only when the disasters which led to the fall of the Chamberlain Government had made clear the tragic inadequacy of previous productive efforts, do the trade-unions appear to have permitted the increase of output which longer hours would have made possible; only then, it seems, was the obvious step taken of exploiting whole-heartedly the multiple shift, wherever practicable. Nor did we hear anything about the dissolution or effective control of the large trade associations which had for years been devising schemes for destroying productive capacity and suppressing competition. Certainly there were control boards. But as organisations for smashing restrained capacity they were hopelessly constituted. As *The New Statesman* pointed out,[1] the Government " tried to use the existing trade associations, rings and combines . . . as the State's agents . . . It is altogether too much to expect that they will . . . introduce of their own accord an increase of capacity which they are bound to regard as a serious menace to their post-war prospects of profit." Is it surprising then that, as the months dragged on, the murmuring that the war was not being seriously waged in the factories and workshops of the Allies gradually became more persistent and persuasive. And when the German successes in the Norwegian campaign shocked the Allied public, the appalling truth began to become only too clear. The late start in rearmament was not being made good. There had obviously been a tragic failure on the production side. And since then we have been persistently reminded of that failure.

[1] *The New Statesman*, 29th June 1940.

21. Resentment and astonishment at home were paralleled by a deplorable loss of neutral confidence in the prospects of Allied victory.

> In the neutral countries [says André Maurois] people no longer believed in our success. It is certain, for example, that Italy, which at the outbreak of the war had observed operations with a certain impartiality (although Mussolini had an obvious preference for Germany), came to the conclusion in February that the Allies had made bad use of the winter months and that the disproportion between our forces and those of the Reich, far from growing less, was increasing . . ." [1]

22. Was the failure due to reprehensible blindness, or did the controllers, the leading industrialists and the trade-union leaders find themselves helpless in face of the traditions and ideologies surrounding them? All sorts of suggestions have been made to explain it. " Britain has been strangled by the old school tie," says one critic. Others blame pure nepotism in part. Others blame the " 200 families " in France. Others believe that members of the Chamberlain administration were unwilling that the community should bear the burden of a whole-hearted war production. Well, I suggest that the failure was due not to a moral defect on the part of the administration, but *in the main* to an intellectual failing. The British and French Governments had not perceived the nature of their monopoly organisation. They had not grasped the significance of " withheld capacity ".

Summary of Chapter I

Restrained Productivity

(1) As the essence of reconstruction must be productivity, (2) the defects of the present productive system must first be considered and illustrated by the war effort. (3) Fears of Allied weakness, expressed at the outbreak of war, (4) were emphasised by the general failure, in relevant contributions, to comment on the crucial menace of restrained productivity. (5) After the war was well advanced, however, restrictionism was recognised as the cause of a " startling inadequacy of production ". (6) The Nazis, on the other hand, had early abolished the more obvious restrictive practices, (7) the cartels and trade-unions being kept in effective subjection. (8) Restrictionism is a weakening but normally painless disease from which private enterprise suffers, (9) a disease which remains and spreads though the symptoms disappear. The attempted eradication of the disease is painful. (10) Limitation of output of one commodity deflates the demand for other commodities as a whole, (11) and when inflated costs due to the policies of cartels and trade-unions are " passed on " through the various stages of production, there is a cumulative and staggering

[1] André Maurois, op. cit., pp. 60–1.

withholding of productive power, (12) a situation which is the real cause of what has been called " the multiplier " phenomenon. (13) The case of British shipbuilding restriction can be used to illustrate the effects of industries attempting to " live by strangling each other ". (14) Apparent similarities in the Nazi economy are misleading. (15) In war, an overriding collective aim must supersede private purposes, even in a regime of economic liberty; (16) but the power to restrain the response to the collective purposes of war remained in the Allied countries. (17) The British started the war with their productive power geared down to less than half-capacity and took no steps to rectify it. (18) The French were equally handicapped. (19) Reassuring pronouncements, and the necessity for secrecy and long term plans, at first obscured the situation, (20) but the continuance of unemployment and the absence of other indications of full productivity gradually caused doubts to arise in the Allied countries, optimism to grow in the Nazi camp, (21) and confidence in an Allied victory to be lost in neutral circles. (22) It is suggested that the failure to perceive the nature of withheld capacity was to blame.

CHAPTER II

THE RESTRICTIONIST MENTALITY

1. IN the last chapter, I tried to diagnose the disease from which the Allied productive system has been suffering. In this chapter I ask the reader to enquire more deeply into the nature of this disease and the nature of the economic organisation which it has attacked. I want to consider, in particular, the factor of what I call the " restrictionist mentality ", the accumulation of ideas which militate against unrestrained production. I shall use recorded experience of the British war effort as " case material ".

2. I have already mentioned the shipbuilding situation which the British inherited when the war began. As far as one can see, in present retrospect, the same motives lingered on. For instance, a note in *The Economist* of April 1940 actually referred to the National Shipbuilders' Security scheme (for dismantling and " sterilising " shipyards) as " strikingly successful ". The note explained that " contract prices combine reasonable profits for builders with an incentive for shipowners to take a courageous view of their future tonnage requirements ". It seems that even *The Economist*, perhaps the most enlightened British periodical at the time, was still concerned, in April 1940, with what was going to happen to profits in time of peace ![1] Obviously, the unknown factor of the degree of success which might have been achieved by the Nazi campaign against British shipping made appropriate the building of many more vessels than would actually be required, given average luck, to make good war-time destruction. The question of the future incomes of investors in shipping companies should not have been allowed to determine policy in any way. What a truism this now seems ! But let us consider the shipowners' worries. Suppose we are so successful in the war at sea that eventually there is much more shipping capacity in existence after the war than there was before. Will that be, in itself, a deplorable result ? Of course not. If the consequences of war ultimately bear more heavily upon investors in shipping than upon other investing classes (for this or any other reason) they will have a good case for claiming compensation. That happens to be one of my chief points. But at no time in the future can a large survival of war-produced vessels be regarded as a burden on the community at large. On the

[1] *The Economist*, 12th April 1940. I quote from *The Economist* because that journal has condemned the restriction system more powerfully than any other journal I know since the war began. This brings out the extent of the grip which quite indefensible ideas were able to obtain.

contrary, the additional ships, however acquired, must be regarded as valuable assets. The point of view which thinks of such assets as an " over-supply " which has to be exterminated in the interests of the " prosperity " of ship-owning is a reflection of the very attitude which I am attacking. It is the outlook which led Britain into the economic disorder from which she is now attempting to struggle. In the middle of 1940, Sir Philip Haldin, President of the Chamber of Shipping, thought the time appropriate to advocate a scheme for the compulsory, subsidised or collusive scrapping of all British merchant vessels of more than 20 years old after the war. That is the sort of " economic leadership " to which I am opposed. I want the reader to consider the following proposition—that the scrapping of valuable productive capacity (i.e. *demanded* capacity) is in no circumstances justified, either in war or in peace. I shall come back to this question.

3. As a further concrete illustration of what had been wrong, we can consider the official and public attitude towards the case of Richard Thomas & Co. About the time when the Norwegian campaign was in full swing, it became known in Britain that there was trouble between the firm of Richard Thomas & Co., of South Wales, and that politically and financially powerful monopoly known as the British Iron and Steel Federation. We know that Sir William Firth, the Chairman of Richard Thomas, was dismissed, but the exact nature of the trouble did not come out in the Press. There are, however, certain things that we do know. The firm of Richard Thomas was very well equipped. It had an up-to-date plant which had been financed with the aid of the Bank of England. The scheme under which it was financed provided that the firm should be largely controlled by its competitors—an arrangement quite typical of the last couple of decades. The reason in this particular case has been explained by *The Economist*[1] in these words: " The mere existence of the new plant creates the gravest problems for the other members of the industry. It disturbs the whole system of production quotas . . ." Thus, the problem that confronted the industry was, in *The Economist*'s words, that " one company can offer a new and superior product at the same price, or even less ", especially when it operates at full working load. " And when ", says *The Economist*, " Richard Thomas & Co. was forced to submit to control from without, the form of the control clearly implied a decision to solve the problem by co-operation between the firm and its competitors." What are we to infer from these cautiously obscure comments? Are we to suppose that Sir William Firth's real offence, for which he was dismissed, was that

[1] *The Economist*, 27th April 1940.

he wanted Richard Thomas & Co. to go out for the highest possible production? Why else should his competitors on his board have dismissed him? *The Economist* commented guardedly: "In many respects he has been personally unfortunate in his laudable designs to improve the technique of the industry. He has had to yield to political considerations." They referred to the situation as a "test case" and asked, with a sudden burst of courage: "Can a centralised, a cartel-like organisation of industry . . . be reconciled with the community's interests in the utmost speed of technical progress?" But what an extraordinary question to be asking in the midst of a war! Surely that question should have been answered in the negative immediately war was declared. In May 1940, *The Economist* used this phrase: "If the insatiable demand for steel prevents any policy of deliberate restriction in war-time, will the same hold good after the war?" [1] So here we get the same indication of Britain's disease. In steel also, a major restraining factor was the investor's fears of so-called "surplus capacity" after the war. And a fear of the same origin is, I believe, still hindering the fullest development of British power, even as I write, in 1941.

4. In agriculture a similar blindness seems to have been overcome only after the fall of France increased the dangers of a successful blockade. Sir Daniel Hall apparently thought it necessary to point out, late in the history of the war,[2] that the "scarcity policy, of withholding supplies beyond the amount the public would absorb at a price and diverting the surplus to some channel, however uneconomic, must go". Again, one cannot refrain from commenting: what an extraordinary principle to have to assert after eleven months of war!

5. The waste of human resources has been at least as serious as the waste of physical resources. The British entered the war with an ominous weakness in this sphere. The economic organisation defended by the political parties had led to most types of artisan skill having been deliberately kept scarce. Now in peacetime this was a traditional method of maintaining inequality of opportunity in the labour field; and a method which meant (like other forms of scarcity contrivance) that the flow of goods and services required by the people (especially the poor) was very much smaller than it need have been. But only as a luxury of peace can such a means of maintaining the existing social order be tolerated. For whilst the monopolisation of physical resources is widely recognised as an evil (although many forms

[1] *The Economist*, 11th May 1940.

[2] In the *Manchester Guardian*, quoted from the *Cape Argus*, 15th August 1940.

of monopoly are not recognised as such), monopoly in the labour market (whether recognised or unrecognised) is universally approved and passionately defended by all politicians.[1] Regarded by the workers as their bulwark against exploitation, it has for long been politically suicidal to attack it. Thus, the relative material poverty which is caused by the limitation of skill could, in normal times, be looked upon as the sacrifice necessary for the continuance of existing political methods. Only a few intellectual cranks and theorists in the universities, not the least bit interested in the practical realities which face politicians who have to get votes—only they, insisted that the consequent poverty and engrossing of employment opportunities were unnecessary for security and social justice. Cranks of that kind were ridiculed by the politicians, and (most would say) rightly so; for they were questioning the sacred rights of "freedom of association" and the "right of collective bargaining". In time of war, however, things are admittedly different. All agree that the sacrifice of productive potentialities then takes on a new aspect. Whilst war continues, it is desirable to allow the supply of skill to be increased. After the war, of course, nearly all are agreed that the old order must return. It will be easy to restore the old state of affairs, and see that the ability to make war-goods is not diverted to the production of peace-goods which the poor can consume. That is, it can easily be arranged that the old restraints excluding unprivileged workers or restraining well-paid employment opportunities are reimposed. There will be no difficulty about returning to the poverty-creation system if that is wanted; no obstacle to the restoration of collective bargaining and freedom of association.

6. Unfortunately, it took a long time for the war-time justification for skill-creation to be adequately recognised. In this respect our Nazi opponents had a huge advantage over us. Setting out with slogans like: "We must abolish the unskilled worker", "We must make every skilled worker a foreman and every unskilled worker a skilled worker", they established a system under which 16,000 labour instructors, under the supervision of training engineers in each district, set to work to produce skill on a vast scale. By February 1940, they boasted that 500,000 new skilled persons had already been trained.[2] There is nothing inherently improbable about that claim.[3] We can be

[1] It might be thought that the responsibility should rest wholly on the Labour Party. But the Conservatives and Liberal Parties were equally anxious to pander to or placate the politically powerful trade-union movement.

[2] In November 1940 *The Economist* credited them with having trained over a million.

[3] This paragraph is based on H. W. Singer, "German Economic Periodicals, 1939", *Economic Journal*, December 1940 and April 1941.

quite sure that the quality of the training would not have satisfied British trade-unionists. But the workers were certainly taught adequately the tasks to which they were allocated.

7. What of the British? For reasons which should now be obvious they entered the war with practically no industrial training organisation. But what did they do to improve things? In May 1940, according to *The Economist*,[1] the British had as many pupils in training schools as the Nazis had full-time instructors. The British authorities, endeavouring to multiply skill, had been confronted with endless controversies about "dilution". As the organised capitalists feared "surplus capacity" after the war, so organised labour feared "surplus skill". What guarantee had the trade-unions that the skill created in war-time would not be used after the war to produce goods? An irresponsible writer to *Time and Tide* tactlessly argued that "if dilution is in the national interest when the nation is fighting a foreign foe, it is difficult to see, except for reasons of political expediency, why it is not beneficial in peace-time when the nation is battling against the eternal foe, poverty". But that was the very argument that was feared, and it took a long time to reassure the interests affected. Technically "unskilled" labour was very slowly, very cautiously, very suspiciously permitted to do the "skilled" work it could quite effectively undertake. Ought we to be surprised that the German comment on the "microscopic" amount of training in Britain was derisive? (I deal later, in paragraph 10 . . ., with another aspect of the inadequacy of the British training scheme.)

8. And no one seemed to know how to bring the huge unemployed labour residue into the war effort. The figure of 800,000 unemployed, which existed when the Chamberlain Government fell, was still the figure for unemployment at the end of 1940! The acceptance of more drastic emergency powers by the Churchill Government promised great things. It apparently achieved very little. The form of the powers taken certainly *did* suggest that the nature of the problem as a whole had been grasped. All persons were required to place themselves, their services and their property at the disposal of the State, when these were deemed necessary for maintaining supplies or services essential to the life of the community. Mr. Hore Belisha, the former Secretary for War, envisaged the problem when he remarked on the 12th August, after eleven months of war: "Our economic task is to recruit and embody fully all the productive capacity. . . . The present incompleteness of our industrial mobilisation must not be tolerated for a moment longer. We cannot beat Germany with 800,000 unemployed." But whatever the will, no way of solving the problem was found.

[1] 11th May 1940.

In November 1940, Professor Pigou pointed out, in a letter to *The Times*, that if we were really mobilising our labour resources for war, the continued existence of 800,000 unemployed was inexplicable. Only the shadow of disaster, in 1941, seems to have forced a ruthless elimination of the obstacles. Unemployment had dropped to under 300,000 in May 1941, when that healthy sign, general "labour shortage", had begun to force consideration of the compulsory recruitment of women for industry.

9. The truth is that almost every one of the unemployed of 1940 could have been early and profitably utilised in production, quite apart from the large numbers of women who could have been spared for industrial work in war-time. Why, then, did the British for so long fail? I do not contend that controversies over "dilution" fully explain the resistance. I am quite sure that those who were responsible for the task of getting the unemployed into useful and skilled occupations could tell of hundreds of other difficulties of a quite different kind. Nevertheless, the failure to solve these difficulties can probably be justly attributed to an attitude of mind. Statesmen and officials, as well as industrialists and trade-union leaders, have been inhibited from thinking of solutions which have conflicted too radically with the traditional restrictive policies of organised labour. The real reason why the British had no adequate industrial training scheme, even prepared on paper, after nine months of war, was, I suggest, that the authorities were excessively afraid of making skill plentiful. If some saw that it was urgently needed, they must have lacked the courage or acumen required to make the trade-unions realise the position.[1] The responsibility does not lie wholly, or even

[1] There seems to have been a woeful failure in leadership, so far as the trade-unions were concerned. At a critical time (November 1940), a substantial minority of the A.E.U. voted for a strike in preference to submitting a wage claim to the National Arbitration Tribunal. And as late as October 1941, the trade-unions were opposing the release of skilled men for the armed services, where they were urgently needed, because their places would have to be filled by dilutees! About the same time some were objecting to fire-watching on the grounds that it was unpaid work. "The official policy", remarked *The Economist* in July 1941, "which is designed to preserve the minutiæ of collective bargaining at all costs, may be a good trade-union policy. It is not a working-class policy . . " The following month the same journal remarked: "There is no sign that the trade-unions have been in any way deterred . . . in their determination to run up money wages as far as bargaining can take them." According to the latest available British journals (August 1941), the Committee on National Expenditure has reported that the employment of well-established technical methods is still prohibited by the trade-unions in the shipyards; shipyard workers are still being fined for working overtime; and methods of make-work are still being imposed. These charges are probably exaggerated, but they are symptomatic of a deeply-rooted disease. Fortunately, there are signs that since our alliance with Russia even the shop stewards have (in some industries) become concerned with the production problem. They should be able to point to countless inefficiencies on the management side which they had previously fostered or tolerated.

principally, on the labour side. When our industrialists themselves are haunted by the fear of plenty, how can they be expected to co-operate spontaneously in schemes which are likely to increase permanently the productive power of their industries? Can we expect anything else when, in peace-time, the great problem has seemed to be that of preventing too many workers from obtaining " skill " ?

10. The temporary renunciation of this attitude at the outbreak of war called for a revolutionary adjustment of ideas. It called, in concrete terms, for the deliberate creation of a vast training organisation. This involved the introduction of schemes not only to force " qualified " workers to impart the secrets of their crafts, but also the provision of the plant and machinery required in training centres or in the training departments of actual factories. Moreover, it should have been realised that full-time trainees must live. Not all so-called industrial " skills " can be rapidly acquired. Some of the key skills take several months to learn. For such trades a system of liberal training allowances should have been introduced; and part-time technical instruction should have been made, as far as practicable, compulsory for those employees whose value to the community could be increased in that way. The failure of statesmen and officials to conceive of the necessity for a huge scheme of this nature was due, I must repeat, to their traditional fear of unchecked production. Shortly after his accession to office Mr. Bevin was reported to have said that the British had now learned that their great weakness lay in monopoly. Has he really learned the whole lesson? If he believes that the representatives of organised labour have been less blind than the representatives of organised capital he has not learned enough.

11. When we come to the utilisation of the powers of women, it again appears that the British allowed their enemies to steal a march on them. In spite of the Nazi principle that the " place of women is in the home ", they set out in the first months of the war to " comb-out " suitable women from their households, especially those with previous industrial experience. They established communal crèches for the care of their children,[1] made special arrangements to ease the time burden of ration routine for women employees, and even established half-time factories to suit married women.[2]

12. But whilst the Germans were telling women that their place was shoulder to shoulder with the men, the British authorities

[1] Not until 1941 were special arrangements made in Britain for the care of the children of married women entering munitions work or services like the A.T.S.

[2] This paragraph is based on H. W. Singer, op. cit. (1940).

were still hesitating. I can usefully illustrate this point by quoting from a most interesting article which appeared in an English newspaper [1] before the fall of the Chamberlain Government. It was by Cecil Walton, who was one of Lord Weir's right-hand men when he was Director of Munitions in Scotland, during the last war. I feel that Walton overstates an excellent case. But there is so much truth conveyed in his vivid assertions that they are well worth quoting. He enunciates the following proposition: " In production, no previous skill is required." Skill is required only in *preparing* for production. He says that in 1916 he offered to produce anything on a basis of 95 per cent. unskilled men and women, and 5 per cent. skilled men for setting up the operations. It will be noticed that he says " produce anything ". He claims to have been completely successful in every job entrusted to him on this basis. " And ", he says, " it can be done far better to-day than twenty years ago." By splitting up even the most complicated job, " each operation is so simple that an operator can master it in hours, not weeks ". It will be noticed that he says " *hours* ". He adds: " Nothing was too intricate, too delicate to undertake . . . and if it is said that the products may have been inferior my reply is that inferiority is impossible under the system of Government inspection." Talking of a shell factory which was *entirely operated by women*, he says, " I have the millionth shell they made beside me now, as fine a specimen of workmanship as ever graced a machine shop." He explains how he established factories employing—to the extent of 95 per cent.—industrially inexperienced women. Factories of this kind even produced heavy guns and tanks on a huge scale. " We had ", he says, " a forge with heavy hammers and presses entirely manned by women and run without fatigue." This article ended by suggesting that the British were not, in May 1940, " even within measurable distance of making a supreme effort ". And, indeed, so far as the labour of women is concerned, that supreme effort was not made until the summer of 1941.

13. Of course, the incorporation of all and sundry into the sum of British labour resources is hardly an object which would be desirable in all circumstances. As Mr. J. K. Horsefield wrote (in July 1940):

> Nobody wants to see school-children set to work again; nobody wants housewives to have to neglect their homes and families; few people would wish to insist on octogenarians returning once more to the stress of daily work. But all such might have to man the

[1] It appeared in the *Manchester Guardian*. I quote from a reprint in the *Cape Argus*, 21st May 1940.

pumps on a sinking ship ; and all such may yet be needed in industry if the country's plight becomes equally desperate.[1]

How tragically true this prophecy has become as I write!

14. I believe that the verdict of history will be not only that the first nine months of the war were largely wasted in Britain's productive effort, but that the belated attempts which have since been made have been impeded because the nature of the problem has still not been fully grasped. It appears to have been only partially realised that the obstacles encountered are all the product of protectionist ideas or devices ; in other words, of notions and practices which limit utilisation ; or, in still different words, of mental habits and deeds which restrict competition.[2] The obstacles all result either in the direct withholding of capacity, or in that indirect withholding which is seen in the canalisation of the flow of resources and services through different stages of production—a canalisation rendered more permanent through the so-called " rationalisation " schemes (which have caused valuable capacity and avenues of trade to be stifled), and the trade-union demarcations (which have made it an almost unheard-of thing for a man to be, say, a mason to-day and a turner to-morrow).[3] The war has, I think, enabled us to see what an incredibly inefficient world the opponents of orthodox economics have produced for themselves. The rapid and harmonious transfer of productive aims from the private requirements of peace to the collective requirements of war [4] has been frustrated because the wrong sort of authoritarianism has destroyed fluidity. As

[1] J. K. Horsefield, *The Real Cost of the War*, p. 40.

[2] I point out this truth, namely, that restriction of utilisation and restriction of competition are in practice one and the same thing, with reluctance. For I know from long and sad experience that many people whose support I should like, get furious when it is mentioned. But they never deny it!

[3] The mentality and habits produced by demarcations remain as a serious hindrance even when their deliberate enforcement ceases. The extent of the demarcation burden in Britain can be gathered from *Are Trade Unions Obstructive?* by John Hilton and others (1935), a work which endeavours to minimise the burden but effectively exposes it. The remarkable *relative* freedom which has remained in this respect in the United States is casually illustrated in an article in the *Reader's Digest* (June 1940), entitled " Now I Work in a Factory ". A music teacher, aged 39, finding that business as a pianist has fallen off, joins a queue at an automobile factory and is taken on at $25 a week. He is soon put to work on power shears. He goes rapidly from this to work in the buffing room and is later made foreman of a plating oven.

[4] I cannot here discuss the important distinction between the " private " and the " collective " requirements of society. But for the sake of my more critical readers I can briefly illustrate the idea. Whilst I may legitimately demand the right to decide whether or not to employ a gardener, I cannot be allowed to decide, individually, whether or not to contribute towards the cost of the police ; for in the latter case I shall enjoy the benefits even if I evade the necessity of contributing my share. Hence gardeners are " private " requirements whilst the police are " collective" requirements. Implements of war are obviously " collective ".

things are, the attempt to substitute State demand for private demand has met with all the restraints which have been allowed to grow up under the policies fostered during the two previous decades (directly and through the State itself) by the Trades Union Congress and the Federation of British Industries. And the rapid and harmonious transfer of productive aims from the collective requirements of war to the private requirements of peace is likely to be frustrated in a similar manner.

15. The supply task in war, properly undertaken, requires as its foremost aim the vigorous application of a policy of forcing " withheld capacity " into utilisation.[1] Whatever other grounds there may be for the adoption of an " authoritarian " policy in time of war, this is the most important of all. Indeed, in the emergency produced by the mistaken policies of the past, State ownership and control may well be appropriate. In other words, the situation calls for the sudden and drastic application of State functions of an anti-monopoly nature ; and given the absence of any adequate body of anti-monopoly legislation, and given the absence of any established anti-monopoly executive authority, the policy adopted may have to take the *form* of authoritarian planning. The controllers should have been instructed that the dissolution of withheld capacity was their primary purpose. That function could have been undertaken in times of peace had the continued sacrifice of productive efficiency been recognised. Moreover, it could then have been undertaken without the arbitrariness and dangers incidental to extended State ownership and bureaucratic dictation. It could have been followed also without the ruthlessness and the scope for error and injustice which are inevitable when, as now, it must be frantically resorted to in dire emergency.[2] War seems to have forced the British to *grope* towards the remedy without accurately diagnosing the disease.

16. In fact, the controllers appear originally to have had no conception of their functions in this respect. Their ideas of " control " and " planning " were those of " P.E.P." (Political and Economic Planning), whose General Secretary actually claimed (in April 1940) that " it is notable that industries such as iron and steel, which had already achieved a high degree of organisation

[1] I cannot here attempt a careful explanation of the concept of " withheld capacity ". It is dealt with in *The Theory of Idle Resources*, Chapter X ; and certain sources of misconception are discussed in the *Economic Journal* (March 1940), " The Concept of Consumers' Sovereignty ".

[2] So far only one country has seriously tackled the problem in time of peace, namely, the United States, through her anti-trust legislation ; and even there, although the policy has undoubtedly brought enormous economic benefits, it has been largely frustrated owing to the political strength of " pressure groups " and the imperfect grasp of the problem by the legislature, executive and judiciary.

and were able to retain their own methods and personnel, have found relatively little difficulty in fitting into the new order" (i.e. the system of war controls).[1] Such notions of planning were, in fact, the origin of the appalling productive failure. I have already quoted (Chapter I, para. 5) *The Economist*'s scathing comments on control by vested interests. Others had, of course, stressed the same point. Mr. Herbert Morrison and Mr. Clement Attlee, some months before accepting office, had both referred to the weakness. Mr. Morrison charged the Government with having ignored an axiom of good public administration in appointing, "as controllers or to other official positions, men who have private interests in the matters with which they deal on behalf of the State". Mr. Chamberlain naïvely claimed, in response to such criticisms, that "it is just those who have been in a trade who are most fitted to be controllers, because of their knowledge of a trade".[2] But Mr. Morrison's entry into the Government did not produce the marked changes which may have been expected. Was it, perhaps, that one who was proud of, and whose reputation had been enhanced by, the part which he had played in the creation of so blatantly burdensome a monopoly as the London Passenger Transport Board, was incapable of seeing beyond the mere administrative principle? In other words, was Mr. Morrison able to recognise adequately that restraint on utilisation as such constituted the evil? Whatever the explanation, the basic lesson could hardly have been grasped by the Government as a whole when Sir Andrew Duncan was made Minister of Supply. For as *The Economist*[3] reminded us, he had

> devoted many of the best years of his life to restricting production, which is not the most fitting apprenticeship for the task of increasing production by every possible means. Moreover, the Minister of Supply is also responsible for the Raw Materials Department, and it is difficult to feel very happy about the development of raw material policy under the man who presided over the Iron and Steel Federation in the years when it was building itself up into one of the tightest and most drastic monopolies that the country has ever known. Sir Andrew is wholly in sympathy with the governing oligarchy of industry and finance, whose twin pillars are the Bank of England and the Federation of British Industries.[4]

[1] Max Nicholson, *How Britain's Resources are Mobilized*, p. 15.
[2] *The Economist*, 17th February 1940, p. 283.
[3] Ibid., 5th October 1940, p. 420.
[4] It is this fact of *sympathy* which is of greatest importance. Thus, Sir Andrew Duncan had formerly been the financially disinterested Chairman of the Central Electricity Board, an organisation which, through "the Grid", had successfully withheld from British industry the benefits of cheap electricity (made possible by immense technical economies).

Captain Oliver Lyttelton, whose appointment as President of the Board of Trade was announced at the same time, had similarly acquired his reputation in becoming a dominating figure in non-ferrous metal restriction schemes. Now I do not for a moment question the rare technical qualifications and exceptional personal efficiency of such men. They are probably unsurpassed. But were they the right people to guide the mobilisation of British productive power? And was not the House of Commons wrongly constituted?

> It represents [as "Urbanus" recently pointed out in *The New Statesman*] the compromises of the two exploiting parties in the national economy—organised capital and organised labour, or, as I prefer to put it, the employers' unions and the workers' unions. Capital, or the employers' unions, is faithfully represented by the Tory Party. . . . The Trade Unions are as faithfully represented by the Parliamentary Labour Party whose Socialist slogans suitably disguise the bargaining of the great Trade Union bosses. Each party puffs unashamedly in the House of Commons the claims of its sectional and selfish interests.[1]

How could truly enlightened criticism be expected from within such a House?

Summary of Chapter II

The Restrictionist Mentality

(1) To study further the disease of restrictionism, (2) we can consider the continued concern with the future of profits during the formulation of war shipping policy. (3) A similar concern prevailed in the steel industry. (4) Agricultural production also appears to have been hindered, at first, by restrictionist ideas. (5) And in respect of skill, which had been kept scarce before the war, (6) whilst the Nazis were able to introduce a huge technical training scheme on the outbreak of war, (7) the British were held up, largely through controversies about "dilution". (8) The extraordinary failure to get the unemployed into the war effort (9) was probably attributable to the restrictionist mentality of trade-union leaders, industrialists, officials and politicians. (10) Their restrictionist mentality was probably the chief obstacle also to the development of an adequate war-training scheme in Britain. (11) Moreover, whilst the Nazis were not inhibited from employing women without restriction, (12) the British hesitated for a long time, (13) although it was really a question of all hands to the pumps. (14) It seems that nearly all the hindrances to an uncurbed war effort which have been and are being encountered are the product of restrictionist ideas and devices. (15) The dissolution of such devices should have been the primary task of the controllers; (16) but, habituated to policies of restraint, they lacked the needed urge.

[1] *The New Statesman*, 30th August 1941.

CHAPTER III

STATE PLANNING FOR WAR, AND ITS OBSTACLES

1. IS it possible to put forward any general principle of economic planning for war? I believe that it is, but my statement of the principle may *at first* seem to be a highly controversial proposition. The existence of war does not make "State planning" essential except in the senses: (*a*) that when encountered, the monopolistic withholding of resources in the interests of profits must be boldly overcome by the State, even if it has been tolerated in peace-time; (*b*) that in the formulation of State demand, the amount of that demand, and the choice between immediate ends within it (e.g. between guns and tanks and aeroplanes), should be rationally determined; and (*c*) that owing to these immediate ends being concerned in the pursuit of a unitary ultimate end, i.e. the winning of the war, the appropriate administrative pyramid (through which knowledge of productive potentialities is gathered and demand communicated) is a centralised one. That is, under war conditions, the channels of information concerning productive potentialities should be as far as possible centralised, and the required data communicated, in summary, and *in price terms*, into one focal point; and the channels of information respecting the requirements for war must radiate from that same focal point to appropriate centres (private firms or State undertakings) in the form of demand for specific war products.

2. *In principle* (although in practice the principle must necessarily be obscured by countless short cuts in emergencies, and concessions to (*a*) political expediency, (*b*) the demand for apparent equality of sacrifice, and (*c*) contemporary ideologies), State planning for war does not justify the commandeering and employment of *otherwise utilised* (i.e. to satisfy non-State demand) resources for State purposes at prices less than can be earned by them for private purposes. That is, on the assumption that the monopolisation of resources in its countless forms and disguises can be overcome in some way, if the commandeering of *utilised* resources has to be resorted to on a large scale, it is *prima facie* evidence that the amount of State demand is too small, i.e. that war taxation or borrowing are unduly low, a point with which I must deal in the following paragraph. But the commandeering of property and labour *is* both defensible and necessary if it is regarded as the most effective way of overcoming the many types of withholding of capacity, or of breaking down

the inertias due to the persistence of a restrictionist social mentality.[1]

3. These are, then, the true grounds for State planning in war-time; grounds which justify the policy actually adopted in many cases, even when that policy has not been consciously based upon the principle that I have put forward. The difficulty I have in explaining this point is that undoubtedly the right kind of thing has often been done for the wrong reasons. In consequence, authoritarian war control has often not gone far enough. Thus, the determination of the amount of State demand is the key decision. All other war decisions must be subordinate to it. That decision and that decision alone ought to determine the amount of taxation and borrowing. If it does not, it leads inevitably to a host of complications. Foremost among the complications, the failure to tax adequately (and/or borrow adequately) makes essential the commandeering of property and labour as a means of preventing the production of non-essentials (i.e. as a clumsy and embarrassing alternative to taxation and compulsory borrowing); and rationing, and many other "controls" intended to supplement demand-and-supply forces (such as the establishment of "priorities" in the consumption of materials) are explicable on the same grounds. Now there is little doubt, I think, that the historians of the future will say that non-war consumption was for long allowed to remain unduly high. Indeed, I expect the word "unduly" will seem surprisingly mild. For if the trusted British leaders had recognised the full implications of a gigantic shift in the type of production, the community could hardly have been tacitly encouraged (by the failure to tax or borrow current incomes and the failure to freeze savings in all forms) to demand the flow of peace-time goods and services which the advertisements of 1939 and 1940 showed were available and in course of production. Why should the community have been allowed unwittingly to play tug-of-war with itself? It seems that the Government and their chief critics did not at first understand clearly enough, or flinched from trying to explain to the people, the fact that war implies a vast transfer within the community's demand. But they should have told all classes that huge sacrifices of luxuries and conventional necessities were essential for the purchase of the war effort. Whilst the Nazis were emphasising that income and consumption are, in time of war, unrelated quantities,[2] whilst they were explaining that

[1] I have not touched upon the question of conscription for war service. No wage-rate can compensate for the risk the individual is called upon to undergo in the collective interest. The case for conscription is the case for equality of sacrifice—a quite separate point.

[2] This seems to have been their principle also during war preparation in peace-time.

consumption must be limited by the " distributable social product ", i.e. what is left after the full requirements of the military machine have been met,[1] the British authorities had failed to enunciate any parallel principle.

4. We can see how obscure the question of demand transference originally appeared in influential circles by considering the attitude shown towards " the Keynes plan ". This plan involved compulsory saving for State purposes of given percentages of incomes, on a graduated scale, the sums so accumulated being " blocked " until after the war. Family allowances mitigated the incidence of the plan. It amounted, thus, to a mild frustration of the power to demand non-war goods—merely a gesture to the real principle. Yet it was for long regarded as a drastic, almost revolutionary suggestion. As Mr. Horsefield pointed out quite early, the plan was for that very reason dangerous. It encouraged the hope that only a slight extra effort would suffice to see them through.[2] And although the Purchase Tax was wisely conceived it was obviously only playing with the problem of diverting demand. In putting it this way I am skating lightly over a whole stretch of problems covering equitable incidence and the improvisation of practical methods of levying. The most formidable can be simply explained. A and B, with the same incomes, may not be justly called upon to pay the same increase of taxes. Their money commitments and obligations may be quite different. Moreover, some who would be able to pay much without hardship in the long run may be able to pay relatively little without suffering in the short run. The immense *difficulties* of imposing stringent taxation or forced loans to balance the full war effort have been concisely summarised by Mr. F. W. Paish. He says :

> Apart from the political and administrative difficulties of extending very high rates of direct taxation to all levels of incomes above the lowest, it would hardly have been possible to adjust taxation exactly to the particular circumstances of each individual. The result would probably have been the infliction of unbearable hardships on some, and widespread default on financial obligations of all sorts. . . . Further, many of those owning marketable assets would have attempted to realise them or borrow against them in an effort to meet their obligations or maintain their standard of living, and there would almost certainly have occurred a sharp rise in rates of interest.[3]

Yes, but if the principle had really been understood, could not the unbearable hardships to which Mr. Paish refers have been overcome in some way ? This is the " distributive " issue with

[1] H. W. Singer, op. cit. (1940), p. 542.
[2] J. K. Horsefield, op. cit., p. 73.
[3] F. W. Paish, " The Control of Prices in War-time ", *The London and Cambridge Economic Service Bulletin*, III, Volume XIX, July 1941.

which I deal in the next chapter and in Chapter VII. And could not the public then have been persuaded to make the full sacrifice required for a complete diversion of demand? I believe that that would have been possible. When Mr. Churchill promised the people "toil and tears, blood and sweat", they resolutely faced that prospect. Powerful and confident economic leadership would have had equally impressive results. Of course, as Mr. Einzig pointed out, "there are limits beyond which the restriction of luxury consumption would damage the spirit of the civilian population as well as that of the fighting forces."[1] But propaganda could have been appropriately designed if a lead had been forthcoming; and the urgency of renouncing non-war spending could have been tellingly communicated. Admittedly it would have been impossible to avoid certain maladjustments. Whilst in the ideal, war taxation (or forced borrowing) should have proceeded at such a rate that increased war expenditure took up the utilisation of all transferable resources (including labour) at exactly the same speed as decreased private expenditure released them, an exact reconciliation was technically unattainable. But again the fear of a temporary margin of unemployed would have been no deterrent if the "distributive" issue (discussed in the next chapter) could have been faced. What is the moral of all this? The rationing of materials for non-war products, the rationing of the products themselves, and the limitation of non-war imports, together with price-control, should have been regarded as *additional safeguards* against the wrong use of resources and not as substitutes for heavy taxation and compulsory savings.[2]

5. By the end of 1940 the authorities had come to understand a little about this aspect of total war. They realised that it implied an immense reformulation of demand and so a drastic change in the type of utilisation of resources. They had "roughly" learned "the lesson that non-essential manufactures must not be allowed to use up essential materials or needless imports. . . ."; it was "dawning" on them "that factories and machine tools must be brought in to do war work wherever possible . . ."; "but the lesson that labour must be released for training, in step with the economising of materials and the enlistment of plant . . ." had "scarcely been seen".[3] It was this blindness which was largely responsible for the failure to make more strenuous an effort to overcome the resistance to dilution and large-scale training schemes. It was this blindness which

[1] P. Einzig, *Economic Warfare*, p. 53.

[2] It must be borne in mind that rationing is necessary in war for reasons connected with distributive justice. But that is a quite separate point.

[3] *The Economist*, 16th November 1940.

caused employed workers to be thought of, until late in the war, as unavailable (except for the fighting forces). But the reason why employed workers could not be directly recruited for war work was simply that taxation and State borrowing had been inadequate to drive them from their peace-time employments, and inadequate to permit their being bid away. Even when crude attempts were made to rectify the situation by methods like the Limitation of Supplies Order, there was the psychological obstacle produced by two decades of " the dole ". When the restraint of non-war consumption led to the displacement of labour—and this should have been its deliberate and intended consequence —it was at first regarded as an evil which had to be put right. In spite of total war demanding unlimited man-power, Mr. Bevin was so soaked in the traditional ideas that, towards the end of 1940, he was actually trying to prevent successful labour economies in non-war industries, because they were causing unemployment.

6. There are, unfortunately, many other indications of how seriously the practice of central control was hindered by restrictionist conceptions. For instance, the fact that there must be an authoritarian formulation of war demand makes it essential that the high command and the production executive shall acquire a comprehensive general picture of the extent to which and the manner in which resources are divertible to war pursuits. As early as 1938, Mr. Einzig stressed the importance of " the compilation of an inventory of supplies, capacity of production, and requirements, both military and civilian ".[1] In July 1940 Mr. J. K. Horsefield was still pressing for a census of equipment and skill. But the restrictionist mentality of this age, together with puerile notions of the sanctity of commercial privacy under private enterprise, were apparently too rigid barriers, even in times of crisis, to permit such a course. That is, the most obvious normal collective function of the State could not be lightly undertaken ! In Chapter XIV I try to show how business privacy, in so far as it amounts to *the masking of profitableness*, is an important conventional restrictionist device ; and how, like other restraints on competition, it militates against efficient organisation and co-operation from the community's standpoint. " *Prima facie* there is no case for permitting the concealment of any knowledge which any individual may possess about the facts or the results of the pricing system."[2] Am I right or wrong in diagnosing restrictionist habits of mind as the obstacle preventing the State from breaking down the customary concealment ?

[1] P. Einzig, *Economic Problems of the Next War*, p. 29.
[2] " Privacy and Private Enterprise ", *South African Journal of Economics*, December 1939, p. 377.

How else can we explain the failure of the authorities to secure a bird's-eye view of the extent and nature of the resources at their disposal? The charge of general incompetence is an insufficiently explicit explanation. A mighty statistical effort ought to have long preceded the war. The Royal Statistical Society knew the whereabouts of the required statistical skill and talent. All equipment in existence which might directly or indirectly have been required for the war effort should have been listed. There should have been

> a complete census of skill in all trades which . . . (were) . . . likely to be needed in the war effort. . . . There should also have been taken a corresponding census of machinery, so that the Government would know how many lathes, drills and so forth, which could be used for war production, . . . (were) . . . being used on less urgent work.[1]

But by the summer of 1941 there had been no complete census in Britain. Yet when the war began, our Nazi opponents had arranged an " all-comprehensive statistical ' penetration ' of the economic system for war economic purposes ". 150,000 industrial establishments were being regularly circularised by questionnaires under a system which the German authorities claimed to be " without gaps ". " Red tape ! ", you may say. " We have too many forms to fill in already." Well, later in the war there *were* complaints in Germany that the " paper war " had become burdensome, and the amount of form-filling was cut down and the process simplified.[2] But the Nazi authorities were at any rate fully informed. I believe that the British were not.

7. A parallel failure is encountered in respect of the co-ordination function. The absence of adequate knowledge in Britain certainly handicapped both State and private attempts to secure effective co-ordination. But were there any other handicaps? This problem of the efficient co-ordination of productive effort, in war as in peace, is largely subsidiary to the problem of preventing withheld capacity. For wise foresight in arranging the synchronisation of production, whether under private enterprise or other State direction, requires dependableness. Decision-makers, whoever they are—officials or private entrepreneurs—must not be misled. And when the power to withhold capacity exists, dependableness cannot be adequately secured by means of contracts alone. The arbitrariness of the defence of incomes by restraints on utilisation is, I believe, the chief ultimate cause of what is called " business uncertainty " in peace-time, although

[1] J. K. Horsefield, op. cit., pp. 90–1.
[2] H. W. Singer, op. cit., December 1940 and April 1941.

seldom recognised as a cause.[1] The vagaries of taste and *natural* supply are of minor importance. The truth is that monopolistic practices generally are a major source of economic confusion, although ostensibly explained on the grounds of "orderly" production or "orderly" marketing. Now the absence of effective laws forbidding such practices has prevented the growth, in peace-time, of ideal co-operation between firms; and in war-time the absence of spontaneously arranged co-operation seems to have been serious. Not grasping this truth, the controllers were unable to rectify the defects. In normal times a large amount of technical resources are actually used in common. Thus, many firms whose business is necessarily irregular find it convenient to make use of the services of an independent transport undertaking rather than purchase and employ their own fleet of delivery vans. Nevertheless, the monopolisation of middleman transport concerns may make it profitable for firms with irregular business to possess their own individual delivery vehicles, in spite of such equipment having to remain idle for long periods. Even the *fear* of arbitrary action on the part of a monopolised transport industry may cause firms to provide their own vehicles, in order to prevent "exploitation". This is obviously wasteful; but we must be very clear about just what is wrong. *Given the monopoly*, there is nothing wasteful or disorderly in the situation. On the contrary, the apparent waste is an economy. It mitigates a wasteful situation. But a society which allows the monopoly, regarded as a whole, is obviously badly co-ordinated. Similarly, the restraint of competition results in the wasteful multiplication of plants (diffusion of production) in some cases and causes wasteful concentration in

[1] This cause of uncertainty is dealt with in "The Price Mechanism and Economic Immobility", *South African Journal of Economics*, September 1936, pp. 325–7. It is pointed out that the "elements of risk which fall into this class . . . arise from deliberate action in favour of certain interests *which stand to gain simply because* (*and to the extent to which*) *the possibility of such action had not been foreseen when the original investment was made*. We can refer to such action as 'exploitation' . . . Where uncertainty reigns as to the possibility of actions by governments or monopolistic groups, a great deal of what would otherwise be deemed to be profitable investment will not be made. Investors will not knowingly walk into a trap which will enable their exploitation by monopolists or the State. But they may sometimes be 'caught'; they occasionally invest in the belief that there will be no extension of contrived scarcity, or no new contrived scarcity created, or no new non-competitive price-fixation of *any kind* (that is, of the price of the product or the remuneration of any co-operant productive resource) which might affect them adversely when their resources have been locked up. And having invested, they are then confronted from time to time with new contrived scarcities of co-operant resources or (very rarely) new contrived plenitudes (in the short-run interest of the consumer). . . . From the point of view of the social good as a whole, however, it is not the breach of faith with investors, the unfairness to producers, which is the important thing. For the most part investors succeed in avoiding exploitation. The real social harm is a product of the diversion of development entailed by the avoidance of exploitation."

others.[1] And from the social standpoint, both must be regarded as types of inefficient co-ordination. It follows that, if all the modern fears of plenty had been of no avail, competitive pressure would have forced a sort of pooling or joint use of resources. For example, were it not for State-enacted and privately-contrived restraints, we should not find the machines in one factory standing idle whilst a factory not far away is held up because it does not possess such machines. But meeting this sort of absurdity, the authorities had no idea of how to deal with it. At least I have found no indication of any understanding. Not until August 1941 did one hear of a scheme for " capacity exchange "—a sort of clearing-house arrangement under which machinery which was temporarily to spare was let out to other contractors or departments in need of it. And as I shall try to show later (Chapter IV, paragraph 12), a similar direct solution of the " skilled labour hoarding " phenomenon was somehow inhibited.

8. About the superficial form of the required control there is, I think, no dispute. Orthodox economists and the traditional Socialists must here agree. Whatever the appropriate solution of the problem of superimposing co-ordination (upon a non-competitive, largely ossified regime) in times of peace, in the emergency of war, compulsory centralised co-ordination (including, when economical, compulsory concentration or pooling of productive processes) is clearly the direct solution. But, I suggest, only a real understanding of " orthodox " teaching can permit such a control to function rationally. Experience appears to teach us that the organisation of the joint use of equipment has apparently been woefully curtailed—because the planners' ideas have been wrong. If my diagnosis is correct, the barrier which has confronted the co-ordination authorities in Britain has arisen from the anti-utilisation, anti-competitive ideologies which this generation has inherited. If those who form the authoritarian administration in which power is focused, if those who are responsible for choosing the means for pursuing the ends of war, are themselves steeped in those ideas, are they capable of envisaging the arrangements required for the fullest utilisation of productive power? I believe that they were not. For instance, faced with the problem of overcoming resistance to the vast economies to be achieved by the concentration of monopolistically

[1] There is an extraordinary blindness to the phenomenon of monopolistic diffusion of production and multiplication of plants, probably owing to propagandist literature always referring to it as " wasteful competition ". The incredibly inappropriate terms of recent rigorous analysis, " monopolistic competition " and " imperfect competition ", have added to the confusion. (See " Economic Method and the Concept of Competition ", *South African Journal of Economics*, March 1934, pp. 14–15). For an explanation of the wasteful multiplication of plant stimulated by price controls (formal or tacit) see *The Theory of Idle Resources*, Chapter VII, " Participating Idleness ".

diffused production, they seem to have been oblivious to the significance and the " distributive " origin of that resistance. What do I mean by this ? The word " distributive " as used by economists has reference to the method of dividing and distributing the aggregate of incomes among individuals and classes. Thus, my point is that important economies threatened to affect adversely the financial interests of producers. Therefore the economies seemed to be unthinkable. Whilst they were beneficial from the standpoint of the community's interest in the war effort, they were privately disadvantageous. I believe that the authorities vaguely saw that the concentration solution was technically demanded for the general good, but they felt that it was a " cut-throat " solution unless it took the same form as the elimination of so-called " surplus capacity " under the restriction schemes which had become so popular before the war ! At any rate, the authorities obviously thought they had to consider the financial interests—the solvencies—of individual firms. Similarly, desirable standardisation and mass-production arrangements were probably deterred by fear of such distributive consequences. In the next chapter I shall deal with this distributive factor in special relation to what the economist calls " entrepreneurship ", and in relation to compulsory " concentration ".

Summary of Chapter III

State Planning for War, and its Obstacles

(1) *War requires central planning to overcome withheld capacity, to formulate war demand, to acquire knowledge of war data, and to communicate demand ;* (2) *but the commandeering of resources by the State, and like practices, are* prima facie *evidence of insufficient taxation or inadequate State borrowing.* (3) *Now central planning in Britain was defective partly because the British authorities, failing to realise the extent of the transfer of demand required by total war, failed sufficiently to restrain non-war spending.* (4) *Owing to the difficulties of imposing stringent taxation and forced loans,* (5) *the lesson was learned gradually and imperfectly.* (6) *Central planning was defective also partly because the restrictionist traditions of business secrecy prevented the gathering of knowledge essential for adequate State planning.* (7) *Moreover, the controllers failed to understand how restraints on competitive pressure hindered co-ordination and prevented the enforced pooling or joint use of capital resources ;* (8) *and distributive difficulties made the compulsory concentration of production appear to be a " cut-throat " remedy.*

CHAPTER IV

ENTREPRENEURSHIP, CONCENTRATION AND THE DISTRIBUTIVE PROBLEM

1. IN this chapter I make a plea for the bold discarding, during the war, of the peace-time methods of determining incomes. It is an argument against basing incomes, under war conditions, upon values in the economists' sense. The full grounds for this proposal will be explained in Chapter VII. I believe that the attempt to maintain peace-time incomes by the traditional means has meant an enormous loss of productive power, and has, in particular, frustrated a fundamentally important economic function called " entrepreneurship " and the achievement of what may be called the " economies of concentration ".

2. I must deal with this problem in order to answer two questions which, by this time, some readers are probably asking. Firstly, as I have held in previous chapters that in time of war a centralised administrative pyramid is required to arrange for the co-ordination of production, have I not argued in favour of a Socialist system ? Secondly, have I not, for the same reason, shown the essential efficiency of a centrally planned economy as against a *laissez-faire* economy ? The answer is that names do not matter. The term *laissez-faire* is seldom used except by those who wish to attack ideas by abuse instead of by argument. And if *laissez-faire* means something which essentially involves disorder, then it has never had any defenders. This chapter is a defence of planning in the true sense, as against the camouflaged disorder advocated by those who cry most loudly for a planned system. The planning which I am to advocate is based on a realistic recognition of the complexities of social co-operation. The planning to which I am opposed is that described in books which set out to contrast *laissez-faire* with " conscious control ". That sort of planning has always been based upon a deplorable unawareness of the social significance of two things : (*a*) values and prices, and (*b*) the process known as " entrepreneurship ". In the previous chapters, I have dealt with the more obvious and indisputable wastes of productive capacity. In this chapter, I deal with less obvious but equally important sacrifices of productive efficiency. Readers who are sufficiently convinced already, may skip this chapter. My critics must face it.

3. What do I mean by " entrepreneur ", " entrepreneur function ", " entrepreneurship ", and so forth ? Partly because I give a very wide meaning to these terms I shall try to illustrate

this meaning. They refer to decision-making in respect of the combination of different productive resources (e.g. materials and labour) with the productive resources possessed by the entrepreneur himself (e.g. capital equipment). In essence, then, these terms refer to the choice of the activity to which one's resources (including one's own powers) shall be applied. Any person making that sort of choice is acting as an " entrepreneur ". His return is greater or less according to his success in estimating the extent to which the community will demand the productive activity he chooses. In choosing, he must necessarily take risks —i.e. show enterprise. But the important point is that, when he is acting as an entrepreneur, he has an incentive to seek out those fields of employment (for his property or for himself) which are *most demanded* (or what amounts to the same thing, which are *most productive*). Thus, when a person with capital at his disposal (his own or that of others) is deciding whether to invest in a milk-bar or a garage ; or, say, having a milk-bar, when he is deciding whether to develop his limited facilities by supplying a wider range of milk-shakes or by adding soups to his bill of fare ; he is acting as an entrepreneur. Similarly, when a young man is deciding (or when his parents are deciding on his behalf) whether to become a mechanic or a bricklayer ; or being, say, a bricklayer, when he is deciding whether to leave his existing firm in order to work for another ; or when he is deciding in what district to settle in order to get the most remunerative employment as a bricklayer ; he is acting as an entrepreneur. Decision-making of this kind has the great virtue of responsibility, and it plays an enormously important rôle under " private enterprise ". Has it any part to play under war conditions ?

4. In my opinion entrepreneurship has a fundamental part to play in a rational war economy, in spite of the fact that the functions of the State become of paramount importance. But the recognition of this has, it seems to me, been prevented mainly through the failure of the authorities to realise the reasons and sanctions for the system (which is one of the features of " private enterprise ") of basing incomes upon the value of services rendered by personal effort and by property in physical resources. They simply saw that to allow war demand to determine incomes would, in some cases, mean intolerable losses to those whose property or personal powers were specialised to peace-time pursuits, and fortuitous gains to those whose property or personal powers were suitable for war production. Perceiving these " distributive injustices " (as the economists call them), the authorities apparently assumed that full utilisation (i.e. unrestrained production determined by war demand) somehow involved disadvantages—prohibitive disadvantages. And this

was, I believe, the chief reason for the inability to make good use of entrepreneurial arrangements. Entrepreneurship was so cruelly efficient that its "distributive" repercussions would have meant loss of morale and political difficulties. (Economists call such injustices "distributive injustices" because they use the term "distribution" to mean the division or distribution among persons or classes of the sum of all incomes.)

5. When war begins there is a revolutionary revaluation of different types of resources within categories as different as natural resources, plant and machinery, personal powers and skills; and so there are accompanying drastic changes in the incomes derived from ownership of these things. It follows that attempts to perpetuate or protect the pre-war distributive situation by means of the maintenance of values may bring about the most serious restraints of productive power. But this (the maintenance of values) is what the British have been trying to achieve, without really understanding it. In the war of 1914-18 the problem was much less urgent, and it was possible to muddle through in blindness to the wastes involved. The technique of warfare did not then call for that striking change in the content of productivity which is demanded for the total war of this decade.[1] Helped by a measure of inflation, the distributive system could stand the strain over the 1914-18 period, and the sacrifice of productive efficiency was not conspicuous. How different it has been in this war!

6. Parallel to the principle that, under conditions of total war, values ought not to determine incomes, is the principle that private enterprise ought not to be expected to bear the capital losses incurred through the ownership of specialised plant and equipment constructed for war purposes. Whilst most of the "capital goods" of war will probably be transferable to peace-time uses, whilst only a small proportion of such resources is likely to fall into the category of "valueless resources", whilst it is probable that only a small proportion of the new war factories and machinery set up will ultimately be *legitimately* scrapped, in many cases the peace-time value of such resources will be very much less than their cost of construction. It may be argued, of course, that the high prices offered for war goods are intended to compensate for probable capital losses of this kind. But the order of the risk is not one which private investors can efficiently

[1] As Mr. Einzig has reminded us, in the last war "to the very last day there was nothing to prevent any manufacturer from using labour and raw materials for the production of luxuries. . . . Producers were at liberty to employ workmen unfit for military service for any purpose they chose. They were at liberty to use up raw materials". *Economic Warfare*, p. 33. A war of that kind is so far from being total war that experience from it may be utterly misleading.

undertake through the normal process of investment-spreading. It follows that if an attempt is made to adhere to the methods which are appropriate in peace-time, the amount of specialisation of equipment and plant required for the most efficient production will not take place. But the British *did* try to adhere to peace-time methods; and I feel that this must have been a serious weakness. It is a grave disservice to the case for private enterprise to resist recognising that weakness. The greater part of the new capital construction necessary for war should have been financed by the State. Plant and equipment so financed should have been State-owned, and leased at rents determined from time to time by the State.[1] The rents should have reflected an official estimate of the relative immediate scarcity (i.e. the value) of the services of that equipment (a point to be clarified later). After the war, at a period when stable peace-time values appeared to be ruling, the plant could have been sold to private enterprise. Now, under this system, the directors of firms could still have requested the extension of the plant and equipment at their disposal. The difference is (*a*) that the firms would have leased, not *owned* any extension of capacity made available; and (*b*) that the decision about the desirability of the investment would have been made by the central production executive after weighing up the relative urgency of the specific capacity requested and competing developments. Now in part the difficulties which I discuss in the following paragraphs arise because of the non-recognition or the inadequate recognition of this principle. I shall be discussing problems which are partly due to a wrongly based policy of capital development having been followed.

7. One of the ways in which the sacrifice of productive power has been most apparent is in respect of the utilisation of the available labour supply. Although faced with the problems of vast occupational and inter-district transferences, owing to the substitution of war-time for peace-time demands, and vast changes therefore in the valuation of different kinds of skills and specialist efforts, the authorities failed, it seems, to realise the urgent necessity of enabling these new valuations to be expressed in price form. That is, they were unable to see that the situation cried out for wage-rates to be left free and accompanied, when necessary, by rectifying compensations in the interests of justice and industrial harmony. Mr. Bevin, on taking office as Minister of Labour, thought that the pre-war machinery for wage-fixation, together with the new National Arbitration Tribunal, was appropriate. Unfortunately the chief critics of this system confused

[1] Of course, State ownership and operation, State leasing, and State guarantee of capital invested *were* actually resorted to. My point concerns the inadequate recognition of a principle which sheer necessity forced to be followed to some extent.

the issue by arguing against its retention, that " labour resources must be redistributed in accordance with the national interest and not with money demand ". Differential wage-rates should be dropped, they contended, and " a limited number of wage categories supplemented by family allowances " adopted. Well, if there had been *adequate* [1] taxation and State borrowing (compulsory or voluntary), money demand *would* have represented the national interest. But let us concentrate on the concrete issue. The controllers were confronted with two problems: (*a*) the distributive injustices caused by the multiplication of skill and the entry of unprivileged labour into protected occupations; (*b*) the distributive injustices due to the radical demand changes of war. But all they understood was the immediate dilemma that when workers were moved from one type of work to another type of greater urgency, their wage-rates were often lower, not higher. Then, I gather, dumbfounded at the situation which their restrictionist habits of mind prevented them from analysing, they, and some of their equally endoctrinated critics, seem to have been driven to the conclusion that differential wage-rates were the obstacle. " A fig for values and wage-rates! ", they seem to have cried. " Let us use compulsion without reference to values. It is so much more logical." And *The New Statesman* sympathetically and helpfully encouraged them in this belief, by arguing:

> There ought to be uniformity of working conditions as well as wage-rates over wide areas; so that men could be sent from one factory to another without any question of changes in their conditions of employment. . . . The problem of moving men from one district to another would be simplified if there were uniformity of conditions as well as wage-rates in each district.[2]

The New Statesman critic appears to have been unable to separate in his mind the ideas of incomes and wage-rates. But was that not the essential intellectual effort demanded? It is *my* belief that the situation actually required just the opposite of a fixed price of labour. Wage-rates, i.e. the valuation of different types of personal services, ought to have been left absolutely free. It was *incomes* which should have been determined by authority; and *incomes* should have been recognised as being completely independent of wage-rates.

8. Now Mr. Horsefield, possibly impressed with the error of allowing war values to determine war incomes, also appears to give his support to the idea that in war-time the pricing of labour

[1] The amount of taxation and compulsory borrowing should, as was argued in the last chapter, be determined solely in the national interest. The word " adequate " has reference to that.

[2] *The New Statesman*, " Economic Notes ", 1st February 1941.

is less necessary or even futile. He says that, under war conditions, the process under which the preferences of the public secure the application of labour to the most appropriate channels cannot be relied upon.

> There is not, as there is in peace-time, an infinitely graduated scale of preferences, influencing the public to want this rather than that, and to increase or decrease their purchases of each according as its cost alters. We are not, that is to say, able to rely upon prices to sort out skill into the directions where it is most needed. An aircraft factory and a contractor building a barracks may both need skilled carpenters; we shall not know any better who needs them more if they try to outbid each other in wage increases.[1]

But why not? The relative urgencies of aircraft factories and barracks, faced with limited resources for their provision (*inter alia*, skilled carpenters), can only be envisaged in terms of values; and values can receive objective expression, and so be of administrative significance, only when expressed in prices.

9. If Mr. Horsefield means that the State is, so to speak, bidding against itself; if he means, in other words, that the process of choosing between aircraft factories or barracks is itself one of the determinants of the relative values of the resources required, I agree with him. And when the range of operations relevant to the choice of means is small enough, when it is capable of clear assimilation by the directing authority, objective valuation as prices is not essential. Thus, *within* a factory, although there is theoretically a kind of bidding between departments for the given total supply of labour engaged by the firm, no actual tendering[2] by departments usually takes place. Nevertheless, what really happens is that one department is allowed by the management a greater power to bid for the labour as another is relieved by the management of an identical amount of power to bid. The expression of demand and the response of supply are identical and determined by the head of the firm in the light of the opinions and claims of the departments. Hence, once a given labour supply has been engaged by the firm, the operations leading to its detailed utilisation do not fall within the process of co-operation through market exchange. That is because the relative values of labour in the different departments can easily be envisaged (after the consideration of departmental claims) by the management. The head of the firm can therefore arrange the allocation of labour, in the absence of an internal market indication, so that its productivity is equal in each depart-

[1] J. K. Horsefield, op. cit., pp. 93 and 94.

[2] It could be claimed, however, that there is *virtual* tendering, for each department has to make out a case and promise results for the amount of labour allocated to it.

ment, i.e. so that no worker can be profitably moved from one department to another. Similarly, *materials* can be rationally allocated between departments. In each case, however, the process of valuation still takes place. Values are as relevant as ever.

10. But when the complex rival means which make up the war effort have to be co-ordinated, although the expression of demand and ultimate discretion in the direction of response to that demand emanate from a single authority, the two channels of initiative must be separated in practice, and for rational decision-making to be possible, both must be guided by the price mechanism. A central body must define the innumerable related productive objectives. And it must, *on an assumption of the relative costs*, declare *inter alia* the number and capacity of aircraft factories and the number and capacity of barracks required. Mr. Einzig, like many others, talks of determining the " order or importance of various branches of production ".[1] But the high command and production executive cannot do this, as some seem to imagine, in isolation from the price mechanism. And there are few short cuts to the determination of the relevant costs. *Obviously the controlling authorities themselves cannot grasp the relative efficiency of different combinations of the various types of resources (including labour) for the most efficient achievement of those objectives.*[2] *The labour and materials are required for countless competing purposes within the vast unity of a defined strategy.*[3] The only rational method of allocating such resources among the innumerable uses open to them is to allow some process which actually *is*, or else *corresponds to* entrepreneurship in bidding for them. In other words, firms, or officials with the same sort of

[1] P. Einzig, *Economic Warfare*, p. 44.

[2] It is on this point that " Populus ", in his critique, *My Dear Churchill*, fails, as I see it, to face the real problems. He has a perfect conception of the basic fact of competing forms of war production (e.g. op. cit., pp. 34–5) but appears to think that the production executive can solve the problems *in vacuo*. Surely it is the attempt to do so which has led to that very failure which he deplores. To talk of " holding the balance aright between conflicting claims " (p. 36) is not to indicate any principle. What *measures* of claims can be at the disposal of " planning departments " ? " Populus ", addressing Mr. Bevin, says : " You can only know what the other departments choose to tell you, and that will be only what it suits them that you shall know. It will be beyond your power to check what they say, or to form, on a basis of real evidence, an independent judgment of your own " (p. 39). Of course. But " Populus's " only remedy is a strong department and a " general authority to override departmental obstacles ". Just how rational co-ordination can be effectively achieved by an overriding authority in the absence of the crucial price knowledge, we are not told.

[3] In the case of certain scarce materials whose total quantity and whereabouts are known with sufficient accuracy, an appropriate priority may be allocated by the central authority with the order—on the assumption that the other materials (as factors in the equation) are relatively unimportant. In such cases the valuation is direct. But the problem is practically never as simple as this.

functions and responsibilities must submit tenders, based on their estimates of the supplies of labour and materials, for barracks and aircraft factories. Unless this method is in some way followed, the scope for hidden waste (i.e. uneconomic utilisation of resources) [1] must be enormous. Arbitrary and irrelevant factors like the force of personality or the ruthlessness of dominating heads, determine the actual response to centrally determined demand. The " Industrial Correspondent " of *The New Statesman* recently alleged that Lord Beaverbrook, as Minister of Aircraft Production,

> was fundamentally unco-operative and quite ruthless in seizing supplies which had been earmarked for other departments. Getting planes was his job, and he got on with it, regardless of the effects of his methods on the output of tanks or guns, or any sort of war equipment that was not under the auspices of M.A.P.[2]

The point of this allegation seems at first to be that decisions of a higher authority than Lord Beaverbrook respecting the relative urgencies of different uses of scarce resources were being thwarted. But the fact that there could be any conflict proves that there was one side of the question, i.e. supply—the relative scarcities aspect—in respect of which the higher authority was ignorant. That they recognised their ignorance is implied by their failure to communicate supply decisions together with demand decisions.[3] And the departments held up, apparently had no remedy but to protest. Relative urgencies had only been vaguely communicated to them. They had not been given definite authority in the form of power to *bid* against aircraft, i.e. to force the emergency of the only other data which would enable a rational decision to be made.

> All successful administration [said Wicksteed] consists of the purposeful selection between alternative applications of resources ;

[1] " Waste " means, of course, not only the non-use but the *wrong use* of resources in reference to given ends.

[2] *The New Statesman*, 5th July 1941, p. 2.

[3] I am here ignoring one important aspect of the *demand communication* process. The *apparent* efficiency of productive arrangements is dependent upon the efficiency of this process. For instance, if orders are given for short periods when they can, with shrewd foresight, be given for longer periods, or if orders are frequently changed or countermanded, higher costs will almost certainly be involved. The appropriate measure of specialisation of plant and organisation depends upon the probable continuity of demand for their services. One of the criticisms which has been made of the direction of the war effort is that of faulty ordering, i.e. the failure to give adequate guidance in such matters. Of course, in time of war, there are so many unpredictable factors that fairly long-run plans already made must often be scrapped, e.g. after disastrous losses of equipment as after Dunkirk. In these circumstances, there is scope for quite unfair criticism both of the demand and the productive arrangements. I have tried to avoid criticisms based on blindness to this issue.

> and the ultimate value or significance of success depends upon the nature of the objects at which the administration aims. . . . The idea of " worth " enters, as the regulating and dominating principle, into every act of administration.[1]

And " worth " can be reflected only in prices when the " alternative applications of resources " are as diverse as they are in total war.

11. But Mr. Horsefield's point is perfectly good if he is thinking of the bidding for labour (or other resources for that matter) on the part of firms remunerated on the " cost-plus " basis. For, as he says, this system renders the entrepreneur " largely indifferent what wages he pays—it may, indeed, make him anxious to pay high ones, so that the size of his outgoings may rise ".[2] If the cost-plus system is adopted, entrepreneurship is transferred from the firm (which becomes a mere executive agent) to the authority placing the order. But the necessity (from the standpoint of efficient utilisation) of pricing labour and materials is not in that way dispensed with.

12. The rational way of tackling the labour problem in war-time would therefore be to make incomes independent of wage-rates whilst leaving the latter free for market determination, and recognising that such a system involves the renunciation of the labourer's right to choose employments. The labourer obtains his income from the State whose orders he must for that reason obey. And the State must pay the wages of his efforts as they are freely priced on the markets. In *this* sense, conscription of labour is envisaged. In the same sense there is conscription of physical resources when profits are taken by the State. The worker is called upon to offer services which may have been specialised to his peace-time pursuits as his contribution to the pursuit of war; and the war-time valuation of his services may be greater than or less than the income which it is *just* that he should actually be paid.[3] But the pricing of his services remains as essential as ever. For example, one of the difficulties encountered in Britain has been the tendency on the part of firms to retain unnecessarily the services of key-workers. The highly skilled minority who are required for setting up machinery remain on the pay-roll of one firm and are given relatively unskilled work, in order to secure, for that firm, advantages in contracting.[4] But in time of war, the object of full productivity

[1] P. Wicksteed, *Common Sense of Political Economy*, Vol. I, p. 14.

[2] Op. cit., p. 94.

[3] The idea of a just distributive solution involves the notion of an *income* for each worker. Travelling allowances for the migrating worker must, of course, be kept quite separate.

[4] " Populus " refers to the practice as the " hoarding of skilled labour " (op. cit., p. 47). But his remedy also seems to be the elimination of entre-

causes the services of such workers to be very highly valued indeed; and if firms had to pay the market price they would find it unprofitable to employ them except upon work of genuine relative urgency. In other words, the free pricing of such labour would have forced its communal use, just as competitive pressure (see Chapter III, paragraphs 7 and 8) would have forced the communal use of scarce capital equipment. The failure to make the maximum use of scarce skill has been due, firstly and directly, to the rigidity and arbitrariness of the wage-system, itself a product of trade-union traditions [1]; and secondly and indirectly, to the failure to realise that a high price of skilled labour need not mean the receipt of correspondingly high incomes on the part of the workers providing it. But when, after the war broke out, the bidding for skilled labour began to result in its being attracted from firm to firm, the authorities at once stepped in and said, in effect:

"No. That is 'enticing', 'poaching'. It must stop. We must not allow tanks to bid against guns, and guns against destroyers. We must assume that the existing allocation of skilled labour is just right. And if any alteration is necessary, we must determine it through Labour Supply Inspectors, without reference to any expression of relative urgency on the part of those to whom we have communicated our demands for tanks and guns and destroyers." [2]

13. I am not overlooking the gigantic nature of the task which would have been involved in the introduction of so sensitive and effective a system for labour re-allocation as entrepreneurship in a free labour market. The psychological defects (or rather, *difficulties*) of the system arise from its very perfection as a mobility-promoting agency. It involves the confession that we are paying certain types of skilled workers much less than the market value of services rendered in war-time. It was disclosed in the House of Commons some months ago that the market value of air pilots in war-time is nearly £2,000 per annum, for that is what is paid by the British to United States ferry pilots. But it is impossible to pay British pilots an income determined by their value. Unfortunately, we cannot ignore the difficulties. Quite apart from the huge scope for political mischief-making—the possibility of subtle suggestion that it is all a scheme for

preneurship, i.e. the control of prices, the "taking over" of firms by the State, and the abolition of all real pricing.

[1] Quite apart from the fact that war values were an indefensible basis for war incomes, wage-rates in the different occupations had been determined by the relative power of the unions to exploit both private consumers and the State (with the backing of "organised" employers).

[2] There were complaints about the poaching of skilled labour in Nazi Germany at the outbreak of the war. (H. W. Singer, op. cit., 1940.)

exploiting labour and feathering the capitalist's nest—the re-direction of man-power involves

> an enormous complex of personal abilities, preferences and prejudices : . . . it necessitates overruling the habits and traditions of employers and employees alike. It is in such matters as this that the efficiency of the totalitarian system seems most striking ; for dictators need pay no heed to the human element. But actually the elasticity of the democratic system, its preservation of the importance of the individual, can go far to outweigh this advantage ; because in a democracy the priceless asset of personal initiative can be retained and indeed encouraged.[1]

But it is the possibility of the free valuation of labour which is the greatest potential source of democratic efficiency ; and a system of pooling for the maintenance of distributive justice could alone have ministered to and overcome the very real human obstacles thereby encountered. The right approach would have forced consideration of such a pooling into practical discussion. It may seem rather futile to make such a point at this stage. But I am thinking of the future.

14. Workers remunerated under an income-pooling scheme can, of course, no longer be regarded as self-directive as between firms and occupations. There will be no personal advantage in a worker's movement from one job to another of greater social urgency. That is the implication of labour conscription. The worker becomes the employee of the State whose orders he must obey. Is *that*, perhaps, Mr. Horsefield's point about the skilled carpenters he considers ? But materials are not self-directive and yet we still price them. He will agree, I am sure, that the position is that the *pecuniary* incentives to mobility and efficiency will cease to be individual when incomes are made independent of the value of services rendered. Bonuses to recreate the immediate efficiency-stimulus of piece-rates can modify the independent incomes guaranteed,[2] but the allocation of labour *must* be directed by authority. Fortunately, so far as efficiency is concerned, in time of war other individual incentives than the merely pecuniary can be relied upon much more than in peace ; and given the extent of national unity in Britain, both decision-makers and workers may be assumed to be actuated by the impelling incentive of winning the war. As defeat would mean utter disaster for all, policy should be based on the understanding that all are in earnest in seeking that single collective end. Unless this non-pecuniary motivation can be relied upon, distributive chaos is inevitable.

15. I do not suggest that non-pecuniary motives can be exclu-

[1] J. K. Horsefield, op. cit., p. 90. [2] See below, Chapter VIII.

sively relied upon. But monetary incentives to efficiency may be superimposed upon any acceptable system of distribution which is adopted. For instance, differential pay according to rank in the Army is far from being merely distribution according to status. Whilst the reward of promotion is not wholly a monetary incentive, the pecuniary aspect is by no means absent. But the general level of Army pay is based upon a notion of reasonableness. If the incomes of soldiers were determined by value, and if personal net advantageousness were allowed to influence employment preference, military pay would have to be much higher than that in civilian employments. Sir Richard Acland's plea that no company director should be allowed to receive a larger salary than a field-marshal is really an appeal for a new principle of distributive justice under total war conditions.

16. These are, however, subsidiary points. I am concerned with the separation of the issue of " distributive justice " on the one hand, and the issue of the pricing of labour on the other hand. So fundamental is this separation in my plan for the reconstruction transition that I devote the whole of Chapter VII to explaining it in more detail. In the present chapter I develop the point that I have just made, namely, that those whose remuneration is supplemented by compensation must renounce to the compensating authority (in time of war, the State) the right of themselves choosing the work they must do (the right of " entrepreneurship " in respect of their efforts), just as the employees of a firm must undertake such tasks as their employers may command. " Compulsion " in such a case is, of course, simply the fulfilment of a contractual obligation.

17. Mr. Horsefield has actually suggested a system which would to some extent solve the distributive problem in a similar sort of way to that which I have explained. He recommends that incomes should be made independent of the market price of labour ; but he thinks of this as a means of ensuring reasonable incomes to pay for personal consumption in war-time, after drastic taxation. He does not think of it as a means of maintaining a " just " system of distribution under war conditions. He has envisaged the proceeds of ordinary taxation being used for compensation (not a separate system of pooling such as I suggest) and incomes being fixed in accordance with two principles, namely, the " Allowances Objective ", concerned with needs, and the " Redistributive Objective ", concerned with distributive justice in respect of the poorest class only.[1] And official policy has tended in the direction of creating a " wages ceiling "—wage-rate stabilisation or " pegging "—without any clear indication

[1] *The Economist* about the same time (July 1940) advocated a not dissimilar scheme—a " national minimum " plus a " national maximum ".

of whether the object is to rectify distributive trends caused by natural war values or by continued restrictionism. But I think that we can see the issue more clearly if we keep rigidly distinct the question of taxation or compulsory borrowing to the point which properly limits non-war consumption, and the question of the pooling of incomes to maintain distributive justice (in spite of resources being freely revalued in the light of war demands).[1] If it had been possible to adopt the principle of income pooling, resistance to a full war effort would have been much less serious. I do not think that I am unreasonable in my conviction that the chief obstacle to immediate and sensitive labour transference has been an inhibition against the pricing of human effort. Have we not all been confused by the complacent maxim, "labour is not merely a commodity or article of commerce"?

18. So far, I have dealt mainly with the price of labour. But what about the remuneration of the services of property—ought they to be retained by their owners in time of war? Of course not. Exactly the same principles apply. The profits made or the losses incurred by firms to which entrepreneurship is entrusted should not be retained for their shareholders or borne by their shareholders. War values should *not* determine income distribution. At the same time it is important to permit the expression of values, the preservation of the criteria of relative urgency. The scarcity factor is as paramount a criterion in war as in peace. It is a factor which can receive rational representation only in price terms, and which can be applied only in profit-loss terms. In short, its utilisation is dependent upon the retention of the entrepreneurial and pricing system.

19. The *extent* to which blindness to the rôle of entrepreneurship has been the cause of confused planning efforts is difficult to estimate. I do not wish to underrate the magnitude of the task confronting the controllers. Perhaps the technical and human difficulties encountered would have beaten the wisest personnel, even if they were fully aware of the point that I am stressing. In fairness to the authorities I must emphasise this. It is very easy to criticise, especially after the event. But the nature of the muddles alleged by critics of the administration

[1] "Populus", op. cit., p. 51, has also put forward a very similar plan to mine. He says: "I should like to see . . . everyone concerned with the management of these factories on a fixed, war-time salary, and to compensate all owners and shareholders by the payment of fixed incomes in lieu of profits for the duration of the war . . . and to make every person engaged in the war industries a direct employee of the State, with no financial interest in the affairs of the factories . . ." He envisages, however, the suppression of the unit of entrepreneurship, the abolition of the "firms". But because the distributive problem has to be solved, why scrap the only machinery for rational co-ordination which is at the community's service?

implies that the controllers at the centre had failed to grasp the basic co-ordination principle. The facts as we have been allowed to know them, suggest that the centralised administrative pyramid which is required to arrange for the integration and synchronisation of war production (as well as to overcome the disorder created in the past by price-rings and " rationalisation ") was not planned in the light of entrepreneurial institutions. Yet only by making use of co-ordination arrangements fashioned through responsible decision-making habits in pre-war days could an orderly response to the complex productive requirements dictated by war necessities be facilitated. For instance, one gathers that orders have been given to factories (and even factories constructed) in districts in which the labour supply has been lacking, in which transport facilities have been lacking, and in which the minimum housing requirements for the workers have been missing! We have been told of factories waiting idly whilst others have been in process of construction with identical equipment to fulfil orders already placed. As a mere student of administration I am led to wonder how all this could possibly have happened. I cannot help asking: Is it that they have lost all conception of the true source of economy in production (which means the right allocation of scarce resources between competing social or State needs) through habits formed over years of profit-making from scarcity? Is it that once the controllers have ceased to think in terms of profit-maximisation, they have been unable to distinguish any principle of co-ordination? Whatever the answer to these questions, it is clear that *something* prevented the development of the necessary co-ordination machinery for enabling the required complex response. And so I feel that we cannot lightly reject the conclusion that the controllers and officials, failing to grasp the rôle of " entrepreneurship ", were at times almost completely at sea in attempting to disentangle a complicated situation. There are grounds for believing that they failed to realise that the entrepreneur function remains indispensable for harmonious co-operation within the framework of centralised control.

20. At times I have gained the impression that the doctrinaire hostility to entrepreneurship which we find in so-called ' planning " literature has actuated some of the controllers. This may be an unfair impression, of course. But can we be quite sure that the attitude of some cannot be quite justly expressed as follows?

" We cannot allow entrepreneurs to build their factories ' just where they like '. That would mean *laissez-faire*. Admittedly they know much more about their trades and the appropriate resources and markets than we can; and they have every motive

to build factories where production costs are lowest, given the probable demand (which we alone can make known to them). But to produce output at the greatest economy (when the economy has to be passed on) destroys profits in time of peace, and now, in time of war, it destroys the tidiness of the diagrams on our walls. We realise that independent contractors take into account things like available and potential labour supply, transport facilities, housing, accessibility to materials, and so forth. But we cannot quite see where that sort of thing leads ; and we know that to leave important decisions to contractors is to allow *laissez-faire* ; and *laissez-faire* is wrong. Everybody says that. Besides, as controllers we have the authority. Doesn't that mean that *we* must decide the general scheme of production ? So we shall erect factories where *we* like, in accordance with a comprehensive and beautifully neat paper scheme. Then, if we find things go wrong, if we find that labour, or skill, or housing, or transport, or materials do not happen to be available, we can easily arrange for them to be made available sooner or later. And so we shall place contracts where *we* like, with contractors who are known to us. Why should we worry about those contractors who feel that lobbying or petitioning us is undignified, indefensible or dishonest ? Of course, we *could* get into touch with them through the market and by means of the organisation of a widely decentralised tendering system. But markets, and tendering, and bidding are of the essence of *laissez-faire*. And everybody knows that *laissez-faire* is bad.[1] The custom of undercutting is the obstacle which our " planning " has to overcome. Those who can supply more cheaply than our contractors make us look rather silly ; and they smash the planned orderliness of our scheme. They are saboteurs. We must freeze them out or seize their plant. We have this great source of efficiency, as against the antiquated *laissez-faire* system, that we need not worry unduly about costs. Tidiness on paper is much more important than costs. For one thing, it is comprehensible to us. We find it so much easier to understand than the terrifying complexity of the relations between firms. And our problems are greatly simplified if we deal only with those representatives of vested interests who are our friends or known to us."

This is an exposure, but by no means a travesty of the typical " planning " mentality.

[1] " Small and middle-sized firms have got the impression that, if they want contracts, they had better employ an agent in London, or ' contact ' with somebody who is on the ground floor, and that they stand little chance of getting their works continuously employed on Government orders unless they attach themselves permanently to one of the recognized contractors or pay a rake-off, by way of commission, to somebody who is in the know." (" Populus ", op. cit., p. 45.)

21. There are all sorts of *apparently* sound objections to entrepreneurship in war-time. But when we examine them we see that the real objection is not to entrepreneurship as such but to the expectation that private enterprise can appropriately shoulder essentially collective risks.[1] Consider the tender system for instance. Let us agree that "red tape" and unnecessary formalities accompany tendering for official purposes in practice; but let us agree also that the right leadership could create the right amount of delegated discretion to allow the required degree of elasticity.[2] There remain two main objections. Firstly, the tender system requires time for its efficient working; secondly, the traditions of restrictionism have led to formal and tacit arrangements under which contractors tender collusively, in order to secure the largest possible profits, and under which intermediaries may be merely parasitic. But surely a grasp of these realities on the part of the Ministry of Supply would have meant that such difficulties could be overcome. Both could have been tackled by a drastic decentralisation of authority. This would have put the supply departments into intimate touch with all sources of production whether large or small. The results of a war production census (of equipment and skill) would have been invaluable in this connection.

22. And what of the time factor? With decentralised control, the time required for making tenders need, in general, not represent anything more than the time required for the careful weighing up of the relative advantages of committing valuable and scarce equipment to one kind of use as opposed to another. It is always easy to obtain speed at the expense of the sacrifices inseparable from blind haste. I am sure that the anti-tender advocates do not want that. But do they always realise the implications? I do not think that anyone would argue that, under the authoritarian control of production, costing would be unnecessary, and that capital commitments could be entered into without careful calculation. But costing and like calculations take time, just as the tender system does. Hence there is no obvious time economy inherent in the supersession of tendering under a regime of authoritarian control in normal times. Properly regarded, the process of tendering and entrepreneurial responsibility is merely the collection and objective representation of relative costs. This is another way of saying that tendering enables the determination of the relative efficiencies (in relation to defined ends) of different ways of combining specialised productive power.

[1] See paragraph 6.

[2] E.g., in the case of small recurrent orders, formal tendering could clearly be wasteful—i.e. in just those cases in which, if the task was performed departmentally, costing could be wasteful.

It follows that the abolition of the tender system cannot, *in itself*, effect any saving of time. The same argument applies throughout in defence of entrepreneurship. The question " Is it worth the cost of the required arrangements ? " is relevant, just as with every other worthwhile means which is chosen. My case is that distributive factors obscure the problem.

23. Confusion arises in part, I believe, because (for rather different reasons from those already noticed) private risk-taking is expected when it is quite inappropriate. Thus, tenders made rapidly in times of emergency and disorganisation caused by catastrophe, may often be much higher than those made after due consideration of details, for when the data are uncertain, entrepreneurs must protect themselves. But the high figures in such cases simply prove the extent to which there is danger of resources being used wastefully when haste is unavoidable.[1] The risk is, in fact, not one which can normally be efficiently shouldered privately.[2] If the entrepreneur cannot rapidly grasp the details of a complex combination of productive resources in a novel and urgently demanded undertaking or under conditions of emergency ; if, for example, he is unable to tell, without time-consuming calculations, the relative quantities of different kinds of labour and different materials which will be required ; then he is in a position to exercise efficient entrepreneurship only by offering (*a*) his services as an organiser and (*b*) the use of any resources he possesses, at a salary and rent determined by the value of those services and resources in competing pursuits. Tendering can, in such circumstances, simply cover the equivalent of salary plus rent. Yet tendering alone can appropriately determine these things. It may not be right that organisers and firms should retain the war-time value of their services ; but no other principles of valuation exist—no other means of visualising relative urgencies from the point of view of the war effort. The cost-plus device [3] and derived expedients have no rational basis at all, so far as I can see ; and what is more remarkable is that they place a premium on extravagance. The State's

[1] There are such cases, of course, especially on the outbreak of war or following a war disaster which has thrown the normal organisation of supplies out of gear. Tendering may then be dropped as the lesser evil. But the case for dropping it is dependent upon the condition of disorganisation, which should not exist permanently, even in war ! If tendering is risky because the price of co-operant resources cannot be adequately predicted, then tenders should be submitted in elastic form, to allow for changes in the price of such resources. The purchaser (i.e. the State) can properly be expected to bear that type of risk. This point is quite separate from that of the time factor in tendering.

[2] This is a special case of the point made in paragraph 6.

[3] The " cost-plus " system is that under which the State pays for work done on the principle of cost of production (defined) plus a " percentage for profit ".

contract with a firm so placed might well include an " incentive " clause under which the remuneration of the management varies *inversely* with costs. But that is the very opposite of the cost-plus system. Once again I feel that the obstacle preventing a clear recognition of this point is the fact that the distributive consequences of free tendering might be obviously unfair in either direction. Although leading to the least-cost arrangement, the free determination of the salary and rent elements might lead to the incomes of managements and shareholders being higher than is justified in the light of any principle of justice. On the other hand, the incomes so determined might conceivably be less than is demanded by justice.

24. The evils of collusive tendering could similarly have been tackled if detailed knowledge of plants had been available to the authorities. Thus, if any plant seemed not to be fully employed upon war production, it would be evidence (unless the plant happened to be valueless for war purposes)[1] of some serious weakness or error in the working of the entrepreneurial machinery. Free tendering should result in " full utilisation ". For that reason, if it were suspected that collusion was frustrating the response to war demands, well-placed firms could rightly be " taken over " by the State, if that really seemed to be the only practicable remedy. And if it *was* true, under the existing system, that the capitalists and financiers attempted deliberately to sabotage schemes for enabling full utilisation, because such would threaten " their powers of exploitation of their property rights ", as " Populus " alleges,[2] their property should have been seized at once. In the emergency of war that is the only tolerable short cut. But I feel myself that the resistance actually encountered was due to fixed ideas and the failure of imagination rather than to any moral obstacle.[3] Even so, ruthless commandeering, compulsory concentration of production, rationing and the enactment of " priorities " might have been the remedy. The transfer of shareholders' rights to the State is, however, necessary in any case when incomes are made independent of values. But this does not involve the disappearance of " the firm " as such, nor does it mean the elimination of entrepreneurship, as will be explained in paragraphs 30 to 31.

25. The failure to solve the distributive question has, I think, been the cause of another dilemma which the controllers have found themselves unable to solve, namely, the problem of the compulsory " concentration of production ". Common sense

[1] See *Theory of Idle Resources*, Chapter II, " Valueless Resources ".
[2] Op. cit., p. 24.
[3] " Populus " should realise, however, that intellectual rigidity is not confined to the capitalists and financiers.

showed that this was desirable as a means of overcoming monopolistically diffused production.[1] But exactly what factors caused it to be economic? The answer is that, *where truly economic*, competitive pressure would have forced the right measure of concentration in non-war industries, following the decline of demand.[2] And in monopolistically-dispersed industries (whether war or non-war), if competition could have been imposed on them (if, that is, the monopoly could have been dissolved), economic concentration would have resulted from the very same forces.[3] But the attempt to arrange such concentration under authoritarian exhortation or command was, as I suggested in the last chapter (paragraphs 7 and 8), apparently obstructed partly because of its distributive injustice, and partly because the nature of what I have called " monopolistic diffusion " was unrecognised. It probably appeared unreasonable, even to the controllers. The same applies to attempts to rectify under-taxation and inadequate State borrowing by directly forbidding non-war production. The private ruin threatened by an effective rectification of the situation was an evident obstacle.

26. The recognition of the necessity for an all-embracing compensation system would have overcome the whole opposition to the violent readjustments, including concentration, entailed by an efficient war economy. It seems that, in Nazi Germany, the parallel problems had at least some sort of early solution in the form of a system of compensation, and devices for goodwill preservation, for the benefit of firms whose production was compulsorily transferred. Compensation was paid in the form of a " work conservation subsidy " ; and goodwill was preserved (*a*) by means of " participation certificates ", through which the merchanting activities of the firms shut down were maintained (by their continuing to handle their former output), and (*b*) by means of a system of " reserved contingencies " of customers.[4] Only in the spring of 1941 did the subject of concentration appear to become a major question in Britain ; and then it was precisely this distributive factor which appeared as the real hindrance.[5] Even so, many seemed to regard the scheme as a system which would enable losses to be recouped from con-

[1] See Chapter III, paragraphs 7 and 8.

[2] For competition provides a powerful urge (if not the *only* urge) to the least-cost arrangement (i.e. least-cost arrangements excluding " fixed costs ", i.e. commitments which, once incurred, are not rational determinants of policy).

[3] I do not want to beg the question of whether or not it is possible to dissolve the collusive monopolies which lead to monopolistic diffusion. My argument says " if ". I deal at length with the possibility of monopoly dissolution in Chapters XI to XVII.

[4] Information on Germany in this paragraph from H. W. Singer, op. cit., April 1941.

[5] See " Methods of Concentration ", *The Economist*, 5th April 1941.

sumers. But a clear recognition of the complete independence of the distributive factor would have led to the process of concentration being guided solely in the light of costs, i.e. the relative economies, determined by the different techniques and structure of the various industries.

27. On this question there exists so much confusion that it is very difficult indeed to make the economists' standpoint clear. *On the assumption that taxation and State borrowing are adequate,* the only legitimate grounds for any form of compulsory or co-operative concentration is that it causes capacity to be closed down which would in any case have been forced into idleness under competitive conditions. That is, the capacity which ceases to produce must, while the concentration lasts, be valueless. Whatever the method of concentration—authoritarian compulsion or competitive pressure—that is the test of whether the concentration is justified. The idle plant created must be temporarily valueless.[1] Even in time of war, it is wasteful for any plant to stop producing unless conditions are such that it will not pay anybody to use it, even if no charge is made for its use. Given my assumptions, *there is no exception whatever to this principle.* How, then, can a plant fall valueless under conditions in which compulsory concentration is economic? It can only do so when, owing to the low price of the final product, there are no resources (e.g. labour and materials) available to co-operate with the plant. And co-operant resources can only fail to be available because, given the low price of the final product, it has been profitable to bid them away for relatively more urgent purposes demanded by the State or private consumers. If the users of the plant into which production should be concentrated cannot economise to an extent which will enable them profitably to outbid for co-operant resources (e.g. labour or materials) or to undercut the price of the product, so that the supposedly redundant plant *must* be shut down, we know that the plant is *not* valueless, and that its enforced idleness must be wasteful. It is only when the " marginal plant " (as the economists have effectively termed it) loses all present hire value through costs rising and/or product prices falling that justifiable concentration of production takes place.

28. It follows that the system of compensation, rightly understood, need not be aimed at overcoming the resistance of the owners of " marginal " plant, i.e. the first to be eliminated by genuine economies. They cannot resist. Provided the price of the product is fixed as low as it should be, they will be forced out in any case. It may be *just* or expedient to compensate them, but they are in no position to resist (except politically, of course).

[1] See *Theory of Idle Resources,* pp. 41, *et seq.*

The *real* source of resistance originates elsewhere. It comes from the owners of the plant into which production *should* be concentrated, i.e. that plant which is *not* rendered idle. In short, where there is what I have called " monopolistically diffused " productive development ; or where the production of a thing remains diffused (in many separate plants, in a manner which is no longer economic) following a fall in demand (as with non-war industries in time of war), because of tacit or deliberate collusion to protect incomes in that situation ; where such conditions exist, the waste elimination solution entails (in the absence of compensation from outside the industry) sacrifices by *all* who produce that thing. Hence the resistance does not come from those whose plant would be the first to be driven into idleness, except in the sense that the marginal producers (sometimes called by economists the " high-cost producers ") may become the willing allies of those whose plant should rightly undertake the whole production. The practice of tacit or formal price maintenance pays them as a group. The most that piecemeal and privately arranged compensation arrangements can do, then, is to even out the incidence of the income sacrifices consequent upon efficiency. If the solution is wasteless, therefore, private compensation from the " low-cost producers " for the " high-cost producers " must be purely altruistic. If, on the other hand, the latter have to be *paid* to keep resources idle (i.e. not to bid for labour and materials) the idleness is definitely wasteful—what I have called " participating idleness ".[1] I repeat that this is as true of war as of peace.

29. In practice most of these compensation schemes disguise the fact that the consumer, that is, the State in respect of war goods, is still being exploited to some extent in order to maintain the distributive scheme. And even if there is no consumer exploitation the payment of compensation by the remaining producers is still hardly defensible. For there are no good grounds why the industry in which a producer's plant has been sterilised should compensate him. The producers who remain lose, they do not gain from his elimination, *if the benefits of the economy are passed on.* And the benefits *should* be passed on. Properly conceived, the scheme should have none of the attributes of the typical output restriction schemes of pre-war days.[2] But

[1] *Theory of Idle Resources*, pp. 104, *et seq.* I call such idleness " participating " because a share in monopoly revenues is paid to keep valuable (i.e. demanded) capacity out of production.

[2] Captain Lyttelton, who was originally responsible for such concentration as was actually carried out, told Members of Parliament that his scheme was " too complicated to be reduced to writing. Members felt that if the scheme could not be put on paper the thought behind it must be woolly ". (*The New Statesman*, 22nd March 1941, p. 291.) One cannot help feeling that Captain Lyttelton regarded concentration as merely a particular case of the

the " nucleus firm " scheme actually adopted in Britain (under which three or four firms in a non-war industry [1] select one firm to take over the whole output, and make their own financial arrangements for the compensation of the excluded " orphan " firms) certainly has a superficial resemblance to a collusive price-ring. It definitely *must* involve exploitation of the consumer (directly, or through the State), and the waste of capacity unutilised for war purposes, (*a*) unless increased taxation or compulsory saving, or both, cause a falling off in demand for the products of the industries brought under the scheme, and so render the plant of the " orphan " firms temporarily valueless, or (*b*) unless a purchase tax on the products of those industries has the same effect. The inability to consider the distributive issue (and the cognate problem of goodwill preservation) apart from the productive question has again frustrated attempts to obtain a clear insight into the sources of efficiency.

30. But, it may be asked, if labour ceases to be self-directive under the system of compensation, and if the earnings of firms are also pooled so that profits or losses in individual cases do not determine the receipts of shareholders, has not entrepreneurship in the usual sense been superseded completely? Does not conscription of capital and labour supplant the entrepreneur function? The answer is that the entrepreneur *mechanism* can be fully retained side by side with the pooling system: but the motivation will then be different. In other words, the profit-loss index can remain as a guide to any effective response to war demands, but as high profits will not benefit the owners of a firm, and as low profits will not be to their detriment, the shareholders can hardly be the effective source of entrepreneurship. Whilst resort can be had to some incentive-remuneration for the management, the enterprise must cease to be under the command of shareholders' meetings. In a sense, therefore, managing directors and managers must become State servants under a system of conscription of property.[2] When they direct labour,

exclusion of excess capacity, and that he could not forget his experience in organising international metal monopolies.

[1] The chief industries brought under the nucleus firm scheme seem to have been: pottery, blown glassware, toilet preparations, leather goods, hosiery, cutlery, gloves, toys, lace, sports goods, musical instruments, photographic goods, cottons, woollens, worsted, boot and shoe, paper. Monopoly seems to have been deliberately imposed upon these industries.

[2] Mr. E. F. M. Durbin has argued that the shareholder to-day is a " function-less pensioner ". " Property in industrial capital ", he says, " has wholly lost the social functions supposed to be grounded in it." (*The Politics of Democratic Socialism*, pp. 128 and 132.) Whilst I do not agree with this assertion and Mr. Durbin's inferences from it, whilst I believe that in normal times the great problem is that of finding ways of breaking up the lines of entrepreneurial authority, instead of concentrating such power in the hands of the State, I agree that, for the period of the war, there is little to lose and much to gain from the State temporarily superseding shareholders under a profit-pooling system.

for instance, they are exercising powers delegated to them by authority.

31. In the ideal war economy, therefore, the State must act as custodian for the shareholders, taking over all their rights and functions in the meantime. But shareholders do not interfere with the actual management of firms any more than electors interfere with governments. It follows that, whilst the State must be in a position to give direct and authoritative orders to managements, it should seldom fetter their discretion. That is, in general, apart from its prevention of the withholding of capacity, the sole active and continuous function of the State should be the formulation of demand. The managements of firms are more likely to be in a position to understand the local supply situation in respect of labour, materials, housing, transport, etc., than any central administration ; that is, of course, provided that the State does its job of gathering and making known the main facts concerning national supplies.[1] If the supply situation as a whole can be envisaged, the managements of firms will understand the cost significance of the relevant facts much better than would be possible for any centralised administration. All the war production problems must be solved in the light of detailed and local technicalities, the knowledge of which cannot be effectively centralised.

32. It seems, then, that there was available for the service of the State, in a whole-hearted war effort, entrepreneurial machinery which could have been used to arrange the most rapid and sensitive response to the drastic demand shifts required. But the authorities and their chief critics were apparently more aware of the vested interests side than they were of the directive function of the entrepreneurial system. They appear to have assumed that the confusion which inevitably arose could be solved by the suppression of entrepreneurship instead of by its utilisation. So long as those units of delegated and socially limited discretion [2] which we call " firms " are regarded as barriers, instead of as part of the institutional framework required for promoting mobility of plant and labour among the competing ends contributing to the unified end of war, a rationally co-ordinated effort must be unattainable.[3] And the failure to recognise and overcome the distributive hindrance has, I suggest, been the real source of error throughout.

[1] See my remarks on a census of skill and machinery, Chapter III, paragraph 6.

[2] The discretion of firms is, of course, limited by all those forces expressed through the price mechanism.

[3] The effect of my scheme would, of course, be to multiply the number of " firms " in fact, although not in law. The big combines, relieved of their monopolistic powers, would become decentralised in the sense that the motivating initiative would be localised and specialised.

33. The great advantage which the Nazis had was that they had less need to study the "human factor"; in other words, they could worry less about vested interests. Even so, they seem to have had a more comprehensive system of compensation than the British.[1] In the authoritarian method of overcoming resistance to full utilisation, in rectifying concentration and in standardisation, the Nazis were much more successful therefore. But how far they exploited entrepreneurial machinery more effectively than the British, it is impossible yet to tell. An unofficial periodical was allowed to argue, in March 1940, against the compulsory sharing of markets between wholesale traders, that "it is not possible to replace a system built up in the course of decades through personal entrepreneurial achievements by a schematically constructed . . . system".[2] But this may well have been the plea of a vested interest, against a privately unprofitable concentration. There seem to have been marked divergencies between precept and practice in Nazi Germany. Thus, whilst the use of "price offered as an inducement to increased efficiency"[3] was officially renounced, increasing resort was had to piece-rate remuneration. And when things were felt to be relatively scarce, their maximum prices were raised, surely to supply a motive for the diversion of resources to their production. Everything considered, it is safer to assume that the failure to make full use of the entrepreneurial mechanism was a source of economic weakness in the German as well as the British system. But a far-seeing economic direction in Britain, which could have envisaged and found a solution to the distributive problem, would have been able to tap a huge source of efficiency and productive power. Drastic and direct authoritarian action to bring all potential and existing capacity into full operation would have been so much easier and so much more rationally planned had the function of entrepreneurship and the relevance of the pricing mechanism been understood.

34. At this point I must confess that I feel like Mr. Horsefield felt when, explaining his Allowances system, he remarked: "The patient reader will doubtless sit back, rub his eyes, and ask, What sort of fairy-story is all this logic run mad? How can such a fantastic scheme possibly be put into operation?"[4] But I certainly do not believe that any *simple* and *readily acceptable* scheme for compensation through pooling is devisable. To work out and to apply such a system requires unusual imagination, expository skill, courage and detailed knowledge. All the same, it would not beat a statesman with economic training, like Mr.

[1] See paragraph 26. [2] H. W. Singer, op. cit. (1941), p. 22.
[3] H. W. Singer, op. cit. (1940), p. 541.
[4] J. K. Horsefield, op. cit., p. 87.

Hugh Dalton, if he were transferred to that task. New problems encountered under the stress of war do require novel and hence fantastic-looking solutions, the distributive problem above all others. The disorganisation and destruction caused by bombing and other aspects of total war are bound to force a recognition, however reluctant, of the necessity for income-pooling and equitable distribution. Why should not the same principle be applied to rectify the income losses due to the substitution of war demand for peace demand ? Perhaps it is unreasonable to contend that war emergencies should have forced the recognition of this principle. But as I write the authorities do appear to be groping towards it.

35. When I say that the British authorities appear to be groping towards the distributive principle which I am trying to establish, I mean that they are at any rate beginning to recognise that the distributive problem is somehow separate from the productive issue. The moratoria provisions of the Courts (Emergency Powers) Act were based on a glimmering of the notion. The Liabilities (Wartime Adjustment) Act goes much further in protecting the unlucky war debtor. But the problem is still regarded merely as involving adjustments (dictated by Liabilities Adjustment Officers) between creditors and debtors. Suppose the creditor is also unlucky ! No real solution has been reached. The authorities have perceived, however, that in certain glaring examples of injustice due to specific State action or war hazards, compensation is inevitable, quite apart from collective insurance against certain war risks. In some cases, as I have just shown (paragraphs 26 to 29), they have endeavoured, unwittingly, to recompense losses by actually authorising the further exploitation of consumers. In other cases (see the following paragraph) they have tried more or less consciously to do so. But they did honour the real principles when the Manchester cotton associations were paid £500,000 as compensation for the State taking over completely the import and distribution of cotton. Again, there was apparent recognition of the principle when some of the bombed-out tenants on Crown property were relieved from payment of ground-rents. But such compensations and concessions have been haphazard. No general rules had been thought out, as far as one could see, by the autumn of 1941. Only the more powerful and articulate interests seem to have been considered. Apparently the State has been appalled at the financial consequences of comprehensive and all-embracing compensations ; but distributive pooling should facilitate and not compete with or hinder taxation for war purposes. As *The New Statesman* complained in the spring of 1941, " the whole problem of compensation now tackled piecemeal and on the basis of completely

divergent principles must be reconsidered before permanent injury is done to the body economic and politic ". But a complete grasp of the separateness of the distributive and productive schemes could alone permit a satisfactory solution of the problem. Whether by the time this book is published the apparent inhibitions against a comprehensive form of income-pooling will have been overcome, I cannot say. The growing stress of war production and growing distributive injustices seem to make it imminent.

36. Thus, even if not understood, the distributive issue has had to be faced. The authorities seemed for a long time to have seen no way of tackling it other than by the authorisation, specific or tacit, of the time-honoured method of income defence, namely, consumer exploitation. They unwittingly permitted exploitation, as I have shown, in the schemes adopted for compensation under co-operative and compulsory concentration of production.[1] But in other cases the burdening of consumers has been more direct. The kind of control to which resort was had, i.e. the placing of power in the hands of interested parties, meant that profit-margins were widened to compensate for any falling off in sales of rationed or non-war commodities. Towards the end of 1940, *The Times* actually described a scheme under which the British coalowners had raised the price of coal collusively (in connection with a compensation scheme) as a " notable step in self-government ". But as *The New Statesman* justly replied,

> . . . our ruined or bombed-out shopkeeper will pay out of his income, if he has any, a contribution for keeping coalowners' income and capital intact. The rise in the price of coal will increase the costs of the railways, and since the country is pledged to keep railway shareholders' income intact our shopkeeper, when he evacuates, will pay higher fares to provide this compensation fund. Similarly, if steel costs are adversely affected he will be mulcted if any of his demands require the use of steel.

It may be that the authorities comforted themselves in the case of non-war consumers' products with the idea that high prices were discouraging non-war or non-essential consumption. But a low cost of living would have facilitated thrift stimulation campaigns and schemes for compulsory borrowing; and if such schemes were inexpedient, the required shift of demand could have been forced by a severe purchase tax.

37. How much more sensible was the Nazi method. In Germany, losses could *not* be recouped by means of higher profit margins. On the contrary, the whole object of price control with our enemy seems to have been to enforce the full passing on to

[1] See paragraph 29.

the consumers of the benefits of all cost reductions and the prevention of higher charges for merchanting services. Parallel with the " wage-stop " (preventing unauthorised wage increases) there was the " price-stop ", permitting increases of price only on the grounds of increased cost of materials. Contending that they had lost the last war because of " price-political negligence " the authorities were determined to prevent the " snowball " effect of price increases multiplying through various stages from manufacturer to wholesaler to retailer. Elaborate accounting precautions were taken to prevent this from happening and *maximum margins* were fixed for thousands of articles. Such a policy is, of course, the most drastic type of anti-monopoly control, but fully justified when it is necessary, in times of emergency, to overcome the inertias of anti-competitive ideologies. The distributive injustices were met by means of a " price equalisation fund ",[1] a scheme which suggests that *some* part of the burden must have fallen on the German consumer (directly or through the State). But the burden was probably much less than in Britain. In Chapter VII it will be further explained how the attempt to maintain a tolerable distributive situation (during periods of war or revolutionary institutional changes) by means of restraint on competition is a colossally wasteful method.

38. I close this chapter with two quotations which show that, although the principle which I am trying to make has not been enunciated in the clear-cut terms which I employ, the urgent necessity for some solution of the distributive problem has been fully understood in critical circles.

The first is from *The Economist*:

> New methods are needed as well as new men and a new attitude. Individuals and interests do not haggle solely because of short sight and narrow minds. Often, they bargain because they are struggling to keep their heads above water as the tide of war-time change swirls and rises; and the most potent step to halt their haggling would be to end their struggle. It is not enough to denounce exasperation. It is no less needful to remove its causes, by ensuring that the risks of war-time economic policy do not fall haphazardly and without discrimination on workers, traders, industrialists, business men, households or families who have no special responsibility or redress. In the right conditions of war-time service—security of work, livelihood and diet for every citizen, whatever changes the exigencies of war may compel—there could be a truce to needless suspicion and to political barter and a mighty release for the willingness and resolution of the British people.[2]

[1] H. W. Singer, op. cit. (1940), pp. 540–1, (1941) pp. 26–8.
[2] *The Economist*, 21st June 1941.

The second quotation is from " Urbanus ", writing in *The New Statesman.* It came to hand just as I was putting the last hasty touches on this book.

> I am convinced that the economic demands of total war make the institution of the common pool of capital and labour a clamant necessity if we are to produce at our maximum capacity. . . . When a factory or business is required for munitions or any other Government purpose, the owner must not ask : " What are my profits to be, what guarantees am I to have, how am I to get my business back into shape after the war ? " He must accept the orders of the State ; he must surrender the plant and become a manager. . . . When a worker is required to transfer his labour from his home to another theatre of munitions far away he must not ask : " What are my wages to be, what about my union and craft ? " He must accept orders and the national wage of the industry agreed to by the Government and the union concerned. Are not the soldiers, the airmen and the sailors, who are called up under the National Service Act, accepting the orders of the Government and the pay fixed by the State every day of their lives ? Why differentiate between the fighters for democracy ? . . . All capital being vested in the State for the duration of the war, the net profits of all industry and trade accrue to the State. . . . The application of this principle would enable at long last the equitable distribution of the losses and waste of war. . . . But one thing is certain—that until the principle of the common pool is recognised and established by law we shall never restore our workers' morale to victory pitch or secure our maximum output for total war.[1]

Summary of Chapter IV

Entrepreneurship, Concentration and the Distributive Problem

(1) Peace-time methods of determining incomes have conflicted, during the war, with recourse to " entrepreneurship ", (2) an understanding of which is essential for consideration of the planning function. (3) The term " entrepreneurship " refers to the responsible choice of the activity to which resources shall be applied. (4) Recognition of the rôle of entrepreneurship in time of war has been prevented owing to the intolerable distributive injustices which it would cause in the absence of compensation ; (5) for total war entails a revolutionary revaluation of the sources of income, unless new and serious restraints on productive power are permitted. (6) The rôle of entrepreneurship is obscured also because total war makes inappropriate the private ownership of specialised plant which is of high value for war but of low value for peace purposes. (7) For distributive reasons, free wage-rates (which would have meant full utilisation of the

[1] *The New Statesman,* 30th August 1941, " Vested Interests *versus* Victory ", pp. 200–1.

labour supply) could not be permitted (8) and the false inference was drawn that the pricing of skill would not attract it into the most needed uses. (9) But whilst within a firm the objective valuation—in terms of price —of the services of resources (already acquired) and employees (already engaged) is not essential for rational administration, (10) such a valuation is needed for rational administration under the centralised direction necessitated by war, owing to the relative complexity of alternative means. (11) This does not imply that firms should be free to bid for labour under the " cost-plus " system. (12) But the pricing of labour according to its scarcity would have overcome a formidable waste of skill (13) and a system of income-pooling through the State would have weakened opposition to skill valuation by removing distributive injustices. (14) Admittedly, employees remunerated from an income pool will no longer be self-directive. Entrepreneurship in respect of their services must pass to the State. Yet their services should still be priced. (15) At the same time, pecuniary motives may be used through bonus payments. (16) But the separation of the pricing of labour from the determination of war incomes is essential. (17) A different scheme for making incomes independent of the value of labour has been recommended on distributive grounds, but the importance of the free pricing of skill has not been stressed. (18) The principles discussed for labour apply equally to the remuneration of the services of property ; (19) but the controllers, apparently failing to recognise this, seem to have been blind to the rôle of entrepreneurship, (20) or even hostile on doctrinaire grounds. (21) The objections to tendering in war-time could have been overcome by decentralisation ; (22) and the allegation of time-wasting against the tender system is not well founded ; (23) but for certain ventures in time of war, the entrepreneurship assumed through firms may appropriately cover only managerial salary and the rent of resources. (24) Collusive tendering could have been overcome. (25) The process of " compulsory concentration " of production has been similarly handicapped through failure to realise that competitive pressure tends to rectify monopolistic diffusion of production. (26) The distributive obstacles to concentration seem to have been better overcome in Germany. (27) The test of whether the compulsory closing down of plant has been economic or wasteful is whether the idle capacity is left valueless or valuable. (28) If the economies are genuine, the fall in the price of the product will make it impossible for marginal producers to resist elimination, and their compensation by the interests continuing to produce must be purely altruistic ; (29) for the latter do not gain but lose from the concentration, unless consumers (directly or through the State) are being exploited by the withholding of capacity (as a means of defending the distributive situation), which is what has happened during the war. (30) Entrepreneurship may be retained with income-pooling, but this implies a new motivation, (31) the State taking over shareholders' rights but leaving firms to follow the profit-loss index. (32) Properly regarded, firms are not barriers to, but essential institutions for, co-ordinated effort. (33) How far the Nazis have been more successful in using entrepreneurial machinery than the British we do not know. (34) Income-pooling to solve the distributive obstacle may at first appear fantastic, but the war will force disguised or open recourse to it. (35) Already the authorities have vaguely recog-

nised the separateness of the distributive issue ; (36) but consumer exploitation through wider price-margins has usually seemed the best way of solving the distributive difficulties, (37) a method which the Nazis wisely forbad. (38) Critical circles have recently recognised the necessity for a complete solution of the distributive problem.

CHAPTER V

LESSONS FOR PEACE

1. I HAVE undertaken this examination of war experience, less because I expect to be able to influence the future organisation of the war itself, than because it has enabled me to illustrate grave defects of contemporary organisation—defects which, I maintain, ought to be ruthlessly eradicated during the process of reconstruction. It is probably too late in the day to preach the economic lessons of the war with a view to rectifying the blind spots of actual war control. I can simply hope to show how such lessons bear on the task of planning for the economy of peace. But in choosing my examples from war problems I am in danger of being told: "Yes, your arguments are quite right for war-time, but quite wrong for peace-time." That has been the comment of an actual critic in my own country. I had given some of the above arguments in an article published in the *South African Journal of Economics*, and my critic said that whilst he accepted my thesis that in war-time the withholding of capacity was objectionable, he could not agree that in time of peace it could be held to be "inherently vicious". He said that "as applied to the greater part of the period between the end of the last war and the beginning of the present war, the doctrine of 'withheld capacity' as the principal economic weakness of the democracies, will appear to most business men as singularly unconvincing". He said, in explanation of his criticism, that the "unlimited demand" which modern war creates and which justifies full productivity, certainly did not exist in the three decades preceding the outbreak of the present war.[1]

2. Let us consider this way of arguing. It is going to be very common. More carefully expressed, the argument is as follows: "The withholding of productive capacity when it *is* demanded (as in war-time) is *vicious*. The withholding of productive capacity when it is *not* demanded (as in peace-time) is *essential in the interests of prosperity*." If the criticism can be so phrased the answer is simple. When I talk of "withheld capacity" I am simply thinking of capacity which *is* demanded. Price-rings, "cartels", and so forth, never find it profitable to make arrangements for keeping idle resources whose services are not demanded; for such resources withhold themselves from production. When I say this, I am not just playing with words. I am showing

[1] "Sigma", "Economics and the War", *Commercial Opinion* (Journal of the Associated Chambers of Commerce of South Africa), December 1940.

that the terms " unlimited demand " and " limited demand " do not help us to understand the ideas of " prosperity " and " depression ". On the contrary they confuse us.[1]

3. The fact is that there are no good reasons why the power of the community's resources, both material and human, to give us those things that we want should be curbed in peace-time any more than in war-time. Different things are demanded when we are at war (leisure, for example, may have to be sacrificed until the fighting is over). But that does not affect the principle. The catastrophe of war just happens to make the absurdity of restrictions more obvious, that is all. The belief that high productivity in normal times can be destructive of " prosperity " arises because, as I have already pointed out, it threatens the " income structure " or the " distributive scheme ". That is, it appears likely to upset the division of claims on the whole productive effort between different classes of income receivers. Whilst the abolition of price-fixations, output controls, wage-fixations, and so forth would enormously increase aggregate dividends and the aggregate earnings of labour, certain conspicuous classes of investors, and certain conspicuous classes of workers, would be faced with ruinous declines in their incomes. Moreover, the abolition of such practices would appear to destroy the time-honoured methods used by organised labour in defence of working-class incomes. I believe that the apparent ruin threatened by the full use of demanded productive power gives rise to a series of serious illusions. It is my thesis that these illusions constitute a principal obstacle to the achievement of the material Utopias of which the economists have dreamed. And I believe also that this obstacle is one which must be overcome if the return to peace is not to be accompanied by a regrettable lowering of economic standards. The plan which I am here putting forward tries to show how this can be done.

4. There has arisen, I believe, a false impression both of the economic strength and the power of recuperation of Great Britain. British productive capacity, unrestrained, remains colossal. Indeed, if the restraint policies which seemed, in 1939, to have become traditional could only be jettisoned, the great burden of a long and apparently exhausting war would be rectifiable with a rapidity which, I fear, certainly surpasses the imagination of the " practical-minded " British statesmen. Those who continue to think in terms of the time-honoured policies of the Federation of British Industries and the Trades Union Congress will hardly be able to envisage the possibilities. Unless the

[1] The term " surplus capacity " is usually assumed to have a self-evident meaning. But it is never explained how capital resources with hire value can be " surplus " in the sense of being unwanted by the community.

leaders of Britain can learn to think of these politically powerful organisations as obsolete equipment which could be tactfully transformed into machinery for the performance of apparently similar but actually diametrically different tasks, they will be unable to conceive of the extent to which speedy recovery and progress are achievable.

5. Fortunately, the preconceptions of the British politicians of all parties must have received a severe shock during this war. We *have* seen the close association of very different political parties; we *have* seen private interests generally forced to realise their subordinacy to the State's requirements; and although the "right of association" has not been suspended from all active assertion, men like Mr. Bevin and Mr. Morrison have probably seen its dangers. The changes brought about give scope for drastic reforms in the framework of productive enterprise. But there is another side to the picture. The development of war controls gives scope at the same time for the restoration, perpetuation, or even extension of the very regime whose serious deficiencies they were called into being to overcome. Whilst authoritarian organisation has been essential to *eliminate* the chaos and restraints which "rationalisation", cartelisation, unionisation and like institutions had gradually imposed upon industry before the war, the authoritarian controls are only too likely to assume just the opposite aims in times of peace. Unless there is a revolution of outlook, full utilisation of valuable resources will again be likely to appear "ruinous". The persistence of those spurious conceptions of "order" and "orderliness" which have dominated the P.E.P. publications and other literature advocating "national planning" will lead to the even more confident assertion that there is "surplus capacity" which is militating against the return of prosperity. The controlling groups will, in short, have it in their power to restore and carry much further the old order, whilst declaring their intention to fashion a new and better world based upon a discarding of the old *laissez-faire* shibboleths! The very focusing of power to which authoritarian organisation has led, gives unparalleled opportunity for the fixing of prices and outputs in the private interests of those who can really control the controls, whether through, or independently of, politics.

6. I gratefully admit that the authoritarian organisation created seems to be working (as I am writing) with the greatest energy to secure every economy. To-day the controllers in Great Britain can be trusted. Faced with the urgencies of war, politicians, bureaucrats and "controllers," from the highest to the lowest, may be assumed to be actuated by the impelling incentive of winning the war. Even those controllers who have been

associated with unionism and cartelisation can be trusted [1] because they are believed to be agreed and in earnest about the desirability of that single collective end. Defeat, it is realised, would mean utter disaster for all. Now, in such circumstances, it is possible to entrust powers to bureaucrats which could hardly be rightly entrusted to them when that overriding incentive no longer exists. Hence, whilst there can be no post-war abandonment of any of the sources of efficiency, whilst it is inconceivable that the various control agencies set up to guide the war effort could be simply liquidated, powerful safeguards against abuse will clearly be required. Those safeguards can be provided only within the framework of legal institutions the conscious aim of which is ultimately to dissolve all rights which give scope for the curbing of productive capacity. The superficial shape of those institutions, whether they accept, deny or qualify what I have elsewhere called the ideal of " consumers' sovereignty ",[2] whether they are termed " Socialist " or " Liberal," are, I shall suggest, questions of relatively minor urgency. We shall not all agree about the nature and valid ultimate aims of peace-time productivity. And, although as a political issue the question of distributive justice has been shelved by agreement during the war, an armistice will see it grabbed eagerly from the shelf. There will be other complications, too. Thus, whilst all are prepared to submit to the apparent injustices which are typical of authoritarian discipline, they will be less inclined to submit during the period of reconstruction, in spite of being assured that the problems of peace can only be solved by the methods which won the war. All may realise that arbitrary promotions, demolitions, confiscations, and impositions are inevitable consequences of rapidly-made decisions in emergency, but they may see no reason why they should not challenge apparently capricious or erratic commands in time of peace.

7. To sum up. It is not " private enterprise " which has proved wanting in Britain : it is a system of monopoly capitalism, largely State-protected. The full economic strength of Great Britain has remained unrealised through the failure of statesmen, officials and their advisers to understand the sanctions for private enterprise and private property. The functions of the State in relation to a system of economic freedom were unrecognised at the outset ; only under the stress of war did the weaknesses become obvious ; and faced with the complexities of unparalleled

[1] Their integrity is trusted, that is. Their ability to envisage full productivity may be doubted. See, for instance, Lord Wolmer's reply to *The New Statesman*'s allegations against the Associated Portland Cement Combine. (*The New Statesman*, 13th October 1940).

[2] See *Economists and the Public*, Chapter XVI : and " The Concept of Consumers' Sovereignty ", *Economic Journal*, March 1940.

emergencies, statesmen have been unable to do more than grope towards remedies. Before dealing with the rectification of these deep-set weaknesses during the post-war transition, it is necessary to consider the ideals of reconstruction, for clumsy attempts to increase production might well conflict with more fundamental aims. The most controversial of the aims that we must assume, is that of *equality*. The next chapter will try to show why this assumption has to be made.

Summary of Chapter V

Lessons for Peace

(1) *It may be argued that the withholding of capacity is wrong in war but justified in peace owing to limited demand ;* (2) *but the term " withheld capacity " refers only to capacity which is actually demanded.* (3) *The view that unrestrained productivity destroys prosperity arises owing to misconceptions about the distributive process.* (4) *If the traditional restraints could be eradicated, British recuperative power would be immense.* (5) *War developments have been partly favourable to a post-war regime of unhampered productivity and partly favourable to a relapse into the old complacent restrictionism.* (6) *During the war, authoritarian control can be trusted because controllers and the community may be assumed to be in agreement about a single collective end. But in peace-time, this assumption cannot be made.* (7) *Conclusion.*

CHAPTER VI

THE IDEAL OF EQUALITY

1. IN planning for peace, what are our aims to be? There is scope for disagreement over ideals as well as over methods. Hence we must be quite clear about what we are trying to achieve. Is it realistic to assume that *liberty*, *equality*, *security* and *plenty* [1] are the joint ideals towards which British reconstruction must be aimed? On first consideration it may seem that the answer must be "No", because of the inclusion of "equality". For whilst the war itself has been fought for the preservation of *liberty*, and whilst all will agree about the goodness of *security* and the necessity for building up productive power (to attain *plenty*), many may hesitate when it comes to *equality*. Then is this to be the great stumbling-block to unanimity of purpose in reconstruction? It need not be so.

2. There is a strong moral case for the view that freedom matters more to mankind than equality. But why is it so often assumed that there is any incompatibility between the two? It seems to me that the notion of equality of opportunity is actually implied by that of liberty in its fullest sense; [2] and I believe that a truly equalitarian society is only conceivable under social institutions which maintain such liberty. It is the assumption that equality may only be securable along authoritarian lines which gives rise to the more reasonable fears of it. Thus, Mr. Wickham Steed says:

> We are fighting for freedom. Let us have a care lest we drop the bone while we snap at a shadow. Higher standards of life and better housing will not by themselves give us freedom if they be surrounded by bureaucratic tyrannies of all sorts. . . . Freedom lies in the power to mould and to rise superior to material circumstance. It does not lie in the thought or fact that nobody is better off than one's self.[3]

But faith in the essential justice of social arrangements, faith that there is no exploitative discrimination between man and man, must be the cement of any truly free society. There should never be any need to sacrifice freedom for equality. Indeed, the complete attainment of the former will mean the accomplishment of the latter.

[1] I do not suggest that we all understand exactly the same thing by "shorthand formulas" like "liberty", "equality", "security", "plenty".
[2] See *Economists and the Public*, Chapter XV, "Conception of Liberty".
[3] *Time and Tide*, 8th February 1941.

3. There is one sense in which, I think, we nearly all believe in equality. That is, the more thoughtful members of all social classes are agreed that the abolition of material poverty must be an object of post-war reform aiming at a new order. And an effective move in that direction would be a move towards equality. The political parties have all been promising to lighten the burden of the poor for many decades ; and even if the politicians themselves have not been disinterested, even if we suspect *them* of insincerity, we all know that there has been much sincerity in the ranks of their supporters.

4. But it seems that we can go much further than this. I believe that there is an unexpressed, inarticulate understanding of the reasonableness of *equality of opportunity* in the hearts of the great majority of all classes in Great Britain. It is a kind of latent enlightenment which has long been hidden through the bitterness of party politics. The belief that social classes are heaven-ordained is no longer a very powerful influence. The belief that the poorer classes owe their condition to inborn inferiorities has been killed by the eugenists' greater devotion to science than to the preconceptions which stimulated their investigations. But purged of these delusions, the privileged classes have still been inhibited from clearly seeing that if social justice and liberty are joint ideals, they must imply also the ideal of equality of opportunity. The inhibition has been caused in part by their sincere but hasty conviction that such equality must necessarily " smash the foundations of society ". It has seemed to them that almost every equalitarian move has threatened deplorable consequences. They have feared that the wholehearted pursuit of equality would spell the disappearance of all that is, for them, most worth living for. And their fears have been encouraged by the virulent and acrimonious tone of much equalitarian propaganda. The Socialists have preached the " class war ". They have threatened to dispossess the rich. Even the most gentle among them have advocated the redistribution of income and capital by some form of spoliation of the propertied classes. And thus threatened with dispossession, the relatively well-to-do naturally resisted. I say " naturally ", partly because of the bitterness of the attack on them, and partly because private property has come to be regarded as something sacred. Most people who believe in private property have no carefully thought-out ideas about why individual ownership is defensible. Yet such ideas of property as do exist are very deeply rooted. And when the ideal of equality has seemed to criticise the existing forms of private ownership, it has seemed almost profane.

5. The resistance so stimulated has been strengthened by an attitude which it is easy for the demagogue to ridicule, but which

is certainly not empty of idealism. The well-to-do classes know that the traditions of elegant, refined and cultured living have grown up amongst them and have been preserved and passed on through them. This is true, in spite of obvious and vulgar ostentation, which is popularly represented as typical of private opulence. The resistance to notions of equality of opportunity has been largely inspired by the fear that, under a " classless society ", the distinguished and the graceful would vanish.[1] Poise, gentleness of manners and refinement of taste seem to be threatened by the mediocrity of mob demeanour and preference. And the means of attaining equality seem ugly in every way. Not only does a rebellious working class at once appear as both wicked and despicable but its leaders are often seen as traitors prepared to sell the well-being of society by pandering to the populace. And a sordid individualism causes the lower orders to strive for the means of aping their superiors. " Clever clerks ", from the lower middle classes, as an eminent divine complained a decade ago, " take the bread out of the mouths of our sons ". And industrialism poaches labour from the fields; factories entice the servant class, destroying conventional respect and comfortable servility; mass production spreads ease of living and consequently a new independence; production for the poor ravages the countryside, razing forests, polluting rivers, and pitting the landscape with new workmen's dwellings. And all classes are affronted by " the scab ", the interloper who seeks to worm his way upwards into their privileged ranks; and the animosity is not wholly, or even mainly rapacious, for the intruder imports a two-edged hatred into traditions of contentment; he is shy, sometimes clumsily obsequious, and sometimes jealous and resentful of the very virtues of those with whom he newly associates; he covets their self-assurance and the elusive traits of good breeding; he is inevitably wounded and goaded by a snub or an act of condescension. To those who have pondered on the psychology of the select club, the reasonableness and the understandableness of the social vice of snobbishness appear as a major psychological factor confronting the equalitarian reformer. This moral entrenchment against redistribution has been powerful. But I shall try to show that it can be removed—in other words, that the cultured classes can be sincerely reassured on all such points. Admittedly, no mere rational demonstration will end the difficulties. A formidable obstacle to equalitarian reform will long remain in the general emotional and intellectual inertia of society. It will be strong from below as well as from

[1] I feel that Thorstein Veblen's *Theory of the Leisured Class* almost completely overlooks this point. If it had not, his enormously important contribution would probably have had an incomparably greater influence.

above. But this also, I shall suggest, can be gradually overcome. Marx maintained that no privileged class ever voluntarily surrendered its privileges. Historically, he may have been right. But the implication that the harmonious achievement of a classless society under conditions of class goodwill is impossible, I do not believe. Physical science has now placed the technical means at our disposal; and the social sciences have shown us the institutional requirements.

6. The preaching of class warfare, whilst it has not been unsuccessful as a means of buying votes, has not led to very successful equalitarian policies. In so far as it has been the spur to progressive taxation, it may have had a limited success. On that point I myself have an open mind,[1] although I do believe that the proceeds of progressive taxation have been *largely* squandered in vote-buying projects.[2] More drastic transfers (as in the case of the " capital levy " advocated after the last war) have never been actually attempted. And the milder equalitarian expedients of industrial warfare (strikes) and State wage-fixation have been completely futile.[3] Most of the concessions which have been won in this way have had the opposite *social* effects from what has been claimed on their behalf. Class warfare, both in its violent and sober forms, has been politically fruitful but economically and socially barren. For instead of leading to a transfer of opportunities and income from the privileged and rich to the unprivileged and poor, it has actually dammed up the most potent equalitarian forces.[4] And in so doing it has seriously restrained the source of all material well-being. Owing to the short-sighted methods by which justice in the sharing of the product of industry has been sought, the services of both labour and capital have been held back on all sides.

7. If, in the future, the cry for equality—the cry for the abolition of poverty—is to be responded to, the old system of restraints must go. And that cry will have to be responded to. No realist will deny that the groping thoughts of post-war democratic society will be imbued with this idea. We shall find a burning conviction that a huge communal effort to fashion a povertyless order is an indisputably practicable aim. We shall hear it argued that if the

[1] Some self-termed " Socialists ", e.g. Mr. E. F. M. Durbin, hold that there has been over-taxation in Britain. (*Politics of Democratic Socialism*, pp. 293–4.) But there are good reasons for believing that, in a properly planned equalitarian regime, " the causes which lead to saving will not be absent ". (See *Economists and the Public*, pp. 332–8.)

[2] Progressive taxation has been most successfully employed in the interests of equality when spent on education, especially in connection with the scholarship system.

[3] This is the argument of *The Theory of Collective Bargaining*. Of course these expedients have succeeded in enhancing *particular* working-class incomes.

[4] See *Economists and the Public*, Chapter XX.

enormous expenditures forced upon the community by the war had been devoted to investment in productive capital, with a view to abolishing material penury and want, a bloodless social revolution would have resulted. Not only are the working classes likely to think this way of their own accord, but their leaders will harp upon it. I believe that the people will not freely accept any new regime which fails to guarantee an ultimate flow of wage-goods sufficiently large not only to eliminate fears of physical destitution in the future, but to promise opportunities of a much fuller life. (By " wage-goods " the economists mean the sort of goods on which wages are usually spent, that is, the actual consumption of the wage-earning class.) For the inherent feasibility of providing ample basic wage-goods for all cannot be convincingly or truthfully contradicted. But emphasis on this common-sense aspect of reality is unlikely to be accompanied by any popular realisation of the obstacle to its achievement. In the past, the very notion of endeavouring to abolish poverty by piling up productive power has seemed both reasonable and paradoxical. It has been recognised in the abstract, but implicitly denied in practically all influential discussions of " prosperity ". In the devising of concrete policies, the serious contemplation of unrestrained wage-good production has, in fact, been excluded through the restrictionist ideologies in which the reformers and teachers of the last two generations have been soaked. To have aimed at a huge extension of productive capacity would, to their way of thinking, have been to court disaster. It would have meant gross " over-production ". The supposedly practical thinkers have taught that if the economic system seemed to require " stimulation ", State capital expenditure should be devoted to the provision of public works, not to resources to supply wage-goods. To add to the actual or potential supply of *demanded* things would be wrong ; for that would engender cut-throat competition, glut, unemployment, depression and ruin.[1] " Every one benefits by a good crop in the things he does not grow, but may very well be injured by a good crop of what he does grow," wrote Wicksteed.[2] There we have the origin of the barrier. Once it has been overcome equality can be effectively achieved without the destruction of productive power and without individual insecurity.

[1] I often think it probable that economic historians in the distant future will reach the conclusion that the currency controversies of this century have largely arisen out of the failure to understand the nature of the competitive process. I cannot here deal with the important question of the ideal currency system to accompany the full utilisation of productive capacity. But the problem of unutilised valuable resources is clearly capable of solution, even if not of the ideal solution, under the crudest monetary system with which any country is burdened to-day.

[2] Wicksteed, op. cit., Vol. I, p. 351.

8. Obviously, it will not be possible to explain to the working classes just why this intellectual obstacle to an era of plenty has existed for so long. At the same time, the reconstruction plan will have to be acceptable by the mass of the electorate as leading to that degree of plenty which will permit the achievement of social justice. How, then, can the people be assured that, after the ravages of war have been repaired, there will emerge a social system from which physical poverty, as it has been known in the past, has been eliminated? In the case of my own plan this faith will be the paramount necessity; for the working classes will be called upon to renounce—in fact if not in form—their time-honoured methods of endeavouring to protect their standards of life. In the past they have tried to secure a "fair" share of the social income by the enforcement of a price for labour. This method they will have to surrender, not unconditionally, but in return for another, more powerful guarantee, namely, an income-security directly ensured by the State. And the fears of organised capital must be dissolved in a similar manner. Certainty of income will induce them to give up their restrictive practices. The next chapter will discuss the problem of the relation between the joint ideals of distributive justice and income-security.

9. The problem of distributive justice will be seen to involve questions other than those of mere equality. But equality of opportunity must remain the ideal, and its ultimate attainment be effectively ensured. Poverty must go, malnutrition must be wiped out, differential mortality rates as between social classes must be brought to an end. With these specific objectives in view, the *results* of the plan which I am submitting must be subject to continuous statistical testing. Whilst miracles can hardly be promised, the benefits of the reforms should make themselves felt after a few years. Indeed, in normal times, an almost immediate return could be expected from the sort of social changes which are to be sketched; but a revolutionary plan introduced at a time when the ravages of war have to be made good is in danger of being harshly judged. For this reason, the administration of the plan must, by general consent, be deliberately taken out of party politics for a given period, and thereafter kept out of politics so long as certain definite results, expressed in statistical terms, are being achieved. Detailed figures of income distribution must be collected and published, and detailed figures of real incomes, of mortality, of unemployment and so forth. If a steady, continuous and defined progress is not reflected in the indices so compiled, the agreement or understanding taking the administration out of party discussion may have to come to an end. The State should be able to

declare and guarantee concrete, measurable results. The plan and its administration must be judged on such results. Hence, the guarantee of growing equality will have to be the basis of working-class acquiescence, just as the separate but equally important guarantee of income-security will have to be the basis of the acceptance of the scheme by groups and classes as a whole.

10. To sum up, reconstruction plans must be fashioned in *shapes* that the community will *recognise* as indisputably *just*. The plans must not only *be* just, they must *appear* just. Although, as I shall try to show in Chapter X, this is a subordinate problem, it is still a most important problem. To be effectively solved, it requires the careful weighing up of what students of society call "sociological data". Political ideologies, social habits, the attitudes of peoples and classes towards one another and towards customary ways of doing things—all data of that kind must be taken into account. It is after trying to give due weight to these issues myself, that I have been led to my present opinion that it *is* possible to draw up an acceptable scheme for releasing full productive power. The fact that my scheme is able to guarantee (*a*) *security* to individuals, groups and social classes, and (*b*) *gradually increasing equality of opportunity* to the unprivileged classes, makes it recognisably just; but these guarantees must be capable of effective explanation. My optimistic view that this is possible is based upon a simple but apparently cogent principle. The enunciation and explanation of this principle is my next task.

11. Before taking up this topic there are two other aspects of the ideal of equality which must be mentioned. The first is the connection between its achievement and the policy of free immigration. The effect of the reforms which I am advocating will soon be to create a marked labour shortage. If the plan works as I intend, within a few years the value of labour will have risen rapidly. Moreover, unrestrained productivity in Britain will have made possible the provision of high national minimum incomes, together with generous pensions benefits. These advantages will act as a powerful magnet to the poor of regions in which institutions are less favourable; and if free immigration is permitted, the result will be the complete dilution or even destruction of the benefits. I do not ask that immigration shall cease; but I do insist that rigid control shall be exercised to ensure that the benefits exceed the disadvantages. I have reached this conclusion with the greatest reluctance. I happen to feel myself to be a citizen of the world. I do not like nations and nationalism in most of their forms and expressions. I believe the marriage of diverse cultures is fruitful; and I should like

to feel that *laissez-passer* could be made the universal maxim covering the relations between nations. But obviously the problem of poverty cannot be solved in any country which welcomes the results of unbridled breeding from regions in which the ideal is (in J. S. Mill's phrase) that of "a human anthill"; and less obviously, although for the same reasons, the human dregs of the poverty-creating policies of less wise regions cannot be justly permitted to swamp the wise. I have dealt elsewhere with this problem of immigration restriction as a protection of reforms aiming at the achievement of equality.[1] I cannot develop the topic here, except to say that the argument against free immigration does not support in any way the current argument against the free importation of foreign products. For an import represents an exchange of products to mutual advantage, whilst an immigrant, although he brings a pair of hands, brings also a claim on the value of home production; and his contribution may be so small as to lower the average product and so the average claim.

12. The other aspect of the equalitarian ideal on which I must touch concerns the inapplicability of my general plan in a country which does not accept this ideal. That is the position in my own country, the Union of South Africa. For the non-White races in South Africa, although they form the greater part of the population, are denied full democratic rights and are despised and subordinate. I live in a society in which the ruling race believes in democracy and equality of opportunity for the Whites alone. The desire to maintain an artificial and privileged superiority is perfectly understandable in the light of history. It is due to no inherent wickedness or love of domination. I confess that I have never heard a tolerably convincing attempt at an ethical justification of the differentiation; yet it is quietly and unashamedly accepted by the Whites. The Churches appear to fight shy of the issue or to find dubious authority for the *status quo* in the Scriptures. And the politicians must perforce pander to the ideas of the enfranchised. However, the inescapable fact is that, at the moment, the ideal which I feel *must* be the standard of reform in Great Britain cannot be accepted as South Africa's criterion. For this reason, the plan I am recommending will be inapplicable to the Union. The ideas will not be inapplicable, but they will be less easily illustrated and explained. I shall accordingly not complicate what I have to say by attempting here to adjust my scheme to a different notion of the just and proper relation between man and man. In all that I say I shall be thinking primarily of the situation in Great Britain.

[1] *Economists and the Public*, pp. 341–4.

Summary of Chapter VI

The Ideal of Equality

(1) Unanimity in reconstruction aims may be prevented by divergent ideals respecting "equality". (2) Equality may falsely appear to conflict with the ideal of liberty. (3) The abolition of material poverty is, however, a universally accepted aim (4) and the reasonableness of equality of opportunity would probably have been widely recognised but for the continued bitterness of attacks upon the established order, uncritical notions about private property, (5) fear that under equality the distinguished and graceful would disappear, and general psychological inertia. (6) "Class warfare" has been politically fruitful but economically barren; and popular equalitarian expedients have so far proved futile. (7) But the cry for the abolition of poverty will continue and appear increasingly reasonable, in spite of blindness to the restrictionist obstacle preventing its achievement. (8) The plan here put forward involves the substitution for restrictionism of a guaranteed income security (9) and a guarantee of gradual equalitarian achievement. (10) Consideration of psychological factors suggests that these guarantees are likely to make the plan democratically acceptable. (11) Controlled immigration will, however, be essential for its success. (12) Being frankly based upon the ideal of equality, the plan is inapplicable in a country in which there are subject races or classes.

CHAPTER VII

DISTRIBUTIVE JUSTICE.[1]

1. *SUBJECT to certain sociological stresses, the "distributive scheme" can be made completely independent of the "productive scheme".* I must remind the reader that by "distributive scheme" or "income-structure" I mean the way of dividing up (among individuals, groups, and social classes) the aggregate value of all productive effort (sometimes called the "national income"). Now, if certain sets of producers in the community (including the workers) could be persuaded to give up the restrictive practices by means of which they try to defend their incomes, the total flow of products satisfying the wants of the community as a whole would obviously be greater. Hence it *must* be possible to arrange for the maintenance of the real incomes (i.e. the goods and services which money incomes buy) of such producers by paying compensation for any losses incurred; and it *must* be profitable for the rest of the community to compensate in this way because they will enjoy the benefits of higher productivity.

2. This explanation expresses the principle in unduly simple terms. Indeed, it makes the whole problem look ever so much too easy. Any attempts to put this sort of reform into practice would run up against what I have called, in my statement of the principle, the "sociological stresses". This term refers especially to the weakening of the incentive to productive effort which is likely to follow when an individual's income is made independent of his efforts (as it would be if any decline in his earned income had to be made good by compensation).[2] Under such a system there would be no pecuniary advantage in accurately determining exactly what sort of goods were in demand and accurately determining the right quantities to produce. Nor would there be any pecuniary penalisation for errors. This does not mean to say that individuals as producers might not try to serve the community from altruistic, or patriotic, or other motives. There certainly exist other incentives than that of maximising earnings or profits and avoiding losses. But if pecuniary motives were weakened, the most important incentives on which we have all been in the habit of relying when we have

[1] This chapter is based on my Presidential address to the Economic Society of South Africa, 1941. The address is printed in the *South African Journal of Economics*, September 1941.

[2] More accurately, but in the technical jargon of economics, the term "sociological stresses" refers especially to the weakening of the incentive to productive effort when distribution is made independent of the marginal net products of factors owned.

arranged for the co-ordination of the complex society in which we live would be rendered uncertain.[1] However, if we assume that this problem of incentives could be solved, we can express the principle in an alternative way :

3. *The division of the national income (among individuals, groups and social classes) according to whatever standard the rulers regard as just or expedient need not conflict with the fullest utilisation of the community's resources.* The key words here are " need not ", and they are the weakest link in my chain. I frankly confess that. Indeed, I am not sure whether, in the proposition as it stands, I have enunciated a truism or a fertile truth. As a generalisation, it seems hardly questionable. But it has never been very influential. Why ? Have the " sociological stresses " perhaps always been recognised as an insuperable obstacle ? Or have we overlooked the most effective means of distributive reform for other reasons ? It appears to me that we have been somehow blind to the full, practical significance of a rather obvious reality.[2] I propose, therefore, to put forward this truth as a simple basic law from which all principles of reconstruction should be reasoned.

4. The remarkable thing is that the policies advocated or defended by zealous reformers have nearly all come into conflict with this principle. This has probably happened because they have not perceived the full meaning of a fundamental fact. As things are, *the distributive scheme and the productive scheme are linked together through the nexus of value.* By this is meant :

[1] The difficulty was well expressed by J. S. Mill when he said : " The influence of a sense of duty, or feelings of philanthropy (are) motives never to be exclusively relied on."

[2] Moreover, it does not seem to have been simply and clearly enunciated until quite recently. The rigorous separation of productive and distributive issues (as in the plan of Professor Pigou's *Economics of Welfare*, referred to recently by Mr. N. Kaldor), although justified by the principle, has not led to a recognition of its implications. My own first enunciation of it was as a partial proposition, in *The Theory of Collective Bargaining* (1930). I pointed out that collusion to increase output among co-operant monopolists would often be to their general benefit as " no one need get less and all may get more than under independent action " (p. 100). This proposition was already implied by accepted analysis. I restated it, in respect of the compensation of labour, in an article in *Economica*, November 1935 (p. 474), and I put it forward as a general principle of reform in *Economists and the Public* (1936), (pp. 356–61). Professor A. G. B. Fisher's *The Clash of Progress and Security* (1935) obviously recognised the principle and based proposals on it, without enunciating any formal proposition. Mr. N. Kaldor expressed the general principle in the *Economic Journal*, September 1939 (pp. 550–2). " It is possible ", he said, " to make everybody better off than before, or at any rate to make some people better off without making anybody worse off " ; and Professor J. R. Hicks independently enunciated the principle in the *Economic Journal*, December 1939 (pp. 711–12). Of course, there is nothing new about the principle of compensation in reforms. What *is* new is the practical precept of " thinking of every economic reform in close conjunction with some measure of compensation designed to render it approximately innocuous from the distributive point of view ". (Professor Hicks's phrase.)

(*a*) our incomes are determined by the value (i.e. the price) [1] of our personal services and those of our property; the wages and salaries we receive are the prices of our efforts; and the dividends and rents we are paid are the prices of services rendered by the non-human resources which we call our "property"; (*b*) the value of such services not only determines our incomes but is also (i) the test (or criterion) of productivity and hence (ii) the rational determinant of productivity. This last explanation probably requires still further explanation. It means that we can only judge whether services are productive or not, according to whether they are valuable or not. For they can only have value if they are wanted, and individuals are prepared to make offers of other things (in practice, money) in exchange for them.[2] Under an efficient system, therefore, services are guided into those uses in which they are most valuable (or, what amounts to exactly the same thing, most productive). Hence values determine production as well as "distribution".[3]

5. If I have succeeded in surmounting this difficult expository hurdle, the reader will understand what I mean when I say that value is (*a*) a determinant of our incomes and (*b*) the test and rational determinant of productivity. It is owing to this connection between the productive scheme and the distributive scheme that the restraint of productive power has its origin. For the incomes of persons or firms may be raised by services (which human beings and property can render) being deliberately held back or otherwise made scarce. This being so, the "distributive situation" (i.e. the income structure) which has come about in the world that we know is the result of a whole network of deliberately created scarcities. *My suggestion is that this distributive situation can be maintained, if such a course is thought to be either right or expedient, without the continued restraint of the productive system.*

6. In putting forward this suggestion, I do not argue that the connection between value and the distribution of income *ought* to cease. Most of the Socialist critics of society appear to have argued this way. But modern contributors to the literature of Socialism seem to be realising that this view cannot be simply held.[4] I myself believe that there is an immensely strong case

[1] To the economists "price" is simply value expressed in terms of money; and "value" means the rate of exchange of wanted things for one another.

[2] They may be of immense physical or moral importance to us and yet be without value in the economists' sense. Consider the air we breathe, for instance, or traditions of religious tolerance.

[3] I must remind the reader that "distribution" means distribution of the community's income.

[4] O. Lange and F. M. Taylor, *On the Economic Theory of Socialism*; E. F. M. Durbin, *The Politics of Democratic Socialism*; H. D. Dickinson, *Economics of Socialism*.

for the opinion that value must *play a part* in the determination of any system of distribution which is likely to be rationally accepted as just. But I shall not distract the reader by trying to put forward a full defence of this view.[1] I shall say just enough about it to explain the difficulties involved in trying to get it accepted. It is an opinion which is capable of clear and consistent explanation only in its extreme form ; and it is extraordinarily difficult to state the proposition in its extreme form without making it repellent to contemporary ideologies. For it is the values resulting *when no productive capacity is withheld* which can be accepted as contributing towards a socially just distribution.[2] There is nothing just about value-determined distribution as such, although there is a strong case for this view *in the circumstances I have mentioned.* Unfortunately, no society has ever actually experienced a system of distribution determined in the absence of withheld productive power. Hence the objective justice and equalitarian significance of a system based on values unaffected by " contrived scarcities "—if the claims made for it are valid—have never been apparent. But the ideal is not rendered false by reason of its imperfect attainment in practice. The case for it is this : that the nearer it is to a regime in which values are unrestricted by purposely caused scarcities, the more just is the distributive result.

7. Nevertheless, the reader who cannot accept this case need not be deterred at this stage. If he seriously believes that social justice requires some standard quite unconnected with value for the division of the community's income, he must admit the possibility of applying his standard in a manner which does not conflict with the fullest utilisation of resources. Hence my major contention does not rest upon the validity of my case for value-determined distribution. Suppose the present system of distribution is defended, for instance. Then the existing income-structure, whether defensible or indefensible on basic ethical grounds, *could* be arranged without the restraints which in fact determine it, and so without the sacrifice of productive power. Similarly, any other system of distribution which was thought to be right could be arranged so as to enable resources to be employed without hindrance (to serve, of course, the demand made possible by that distribution). The snag would lurk in the " sociological stresses " to which I have referred.

8. But we must consider the reasons for the common, although usually inarticulate, objection to value-determined distribution.

[1] The case for it is developed in *Economists and the Public*, especially in Chapters XV, XVI, XX.

[2] The problem must be looked at as part of a comprehensive view of the impartial solution of that social conflict which arises from economic means being " naturally scarce ".

The result *does* often seem to be clearly unjust. And, in a special sense, it *is* unjust. Indeed, it is a pillar of my case that the dissolution of withheld capacity does not necessarily bring about a defensible distributive result. Here is a paradox which has to be explained. Here is the great source of misunderstanding. The paradox is heightened by the fact that the popular view of distribution recognises that justice *is* somehow connected with value. The fairness of values freely arrived at has some sort of wide, if vague, acceptance in society. That is obvious, for the word " monopolist " still carries opprobrium, and the income of a *new* monopolist is still thought of as including ill-gotten gains.[1] At the same time, competitive results seem wrong. I feel that this is a phenomenon of real sociological importance. It qualifies much of what I have to say in the ensuing discussion. How, then, is the paradox to be resolved ? What is the origin of the glaring inconsistency ! So far as *expressed* ideals are concerned, the paradox has never been resolved. Popular notions on the question are (as I have said) for the most part inarticulate ; but this does not make them any the less formidable.

9. We can, I think, understand the question if we consider what factors have really motivated society's strivings for social justice. Equalitarian ideologies appear to have had extraordinarily little direct influence. Great wealth and ostentation have been contrasted with poverty and privation, and have been condemned as obviously wrong ; *yet public feeling has been aroused chiefly as the result of particular or local assertions of the right to " reasonable " incomes.* The actual governmental measures adopted in Great Britain of recent decades (both the superficially socialistic measures of Conservative Governments, and the less superficially socialistic measures of Labour Governments) have failed to reflect the distributive shibboleths of politics in any obvious way. The slogans of equality have certainly been useful as election counters, *but supposedly equalitarian policies have been inspired by " pressure-groups ", by organised workers asserting the reasonableness of their immediate aim.*

10. This enables us to answer the question : What are the real accepted standards of justice in distribution ? I ask the reader to consider the truth of the following assertion : *Accepted standards appear to involve the principle, strongly if hardly consciously held, that established expectations, " reasonable " because they are customary, ought not to be violently upset.* It seems to me that when ideas of social justice (as opposed to the idea of justice for particular groups) have apparently been powerful in

[1] Of course, successful propaganda may enable new monopolies to be tolerated. The " public relations departments " of monopolistic corporations can no doubt do a great deal in this way.

actually affecting attempts to change distribution, they have done little more than confirm, or supply additional sanction for, demands based on what may be called " reasonable " grounds. Thus, a strike against an attempted wage-rate reduction will be mainly inspired by the feeling that it is a resistance to an unjust deduction from the workers' reasonable earnings. The wage-cut will mean their sacrificing amenities of life to which they have become accustomed. This will be the real source of their indignation.[1] At the same time they will be conscious of what they have been taught about the injustice of the contrast between wealth and poverty. But awareness of that contrast has seldom prompted strikes, although it may well have engendered an atmosphere conducive to industrial warfare. For reasons of this kind I reach the conclusion that *established expectations* are the really influential element in actual spontaneous ideas about what is *just* remuneration. I feel also that *established expectations* are an undeniably wise standard. Indeed, if the essential wisdom of this standard had been *explicitly* recognised, the deeper notions of social justice would have been more readily accepted. The idea of the justice of distribution according to the freely determined value of the services of property and labour (i.e. in the absence of " withheld capacity ") has usually seemed outrageous because, in the case of all protected incomes, it has appeared to ride roughshod over *established expectations*.[2] And it is from such expectations that spontaneous notions [3] of social justice have nearly always been derived. They have been unknowingly based almost entirely upon respect for what has been customary. However much political creeds and ideological doctrines have suggested the reverse, social justice has in practice meant the preservation of vested rights. It has assumed the goodness of an existing distributive scheme.

11. I have come to regard this as the most fruitful lesson of economic history. The lesson is strongly brought out in the introductory chapter of Rudolf Kaulla's *Theory of the Just Price*. Recognising that " value " determines incomes (indeed, defining " value " as " the ability of a commodity or service to provide, in the form of a price, an income or part of an income to the person who offers it to another "),[4] he shows that there has always been a clash between income so determined and the

[1] I am not suggesting, of course, that all strikes are essentially defensive, but that the moral strength of trade-unionism is derived from its appearance as a barrier against an attack upon the standards of countless groups of workers.

[2] I should remind readers that the acceptance of this fundamental thesis does not bind one to accept any existing distribution of ownership of property as just.

[3] By " spontaneous notions " I mean those which have not been produced by deliberate education or propaganda.

[4] R. Kaulla, *Theory of the Just Price*, p. 15.

" influence of status or rank upon the distribution of income ".[1] He illustrates the importance of the latter by reference to the fact that " until quite recent times the law of many countries provided that in distraint proceedings, the so-called allowance of the bankrupt—that is, the amount of property that must be left to him as his means of livelihood—might vary very widely according to his position in society ".[2] He shows that between distribution according to status and according to value a continuous conflict has existed from the earliest emergence of the exchange economy, a conflict which has become more obvious since the development of money has facilitated exchange. Moreover, according to Kaulla, individual security has been increasingly endangered by the uncertainties attending the exchange economy, and distribution according to value has been resisted for that reason also. The amount of the individual's income, he says, " became dependent upon accidental movements of the market ".[3] Thus, in ancient Rome the insecurities resulting from distributive difficulties caused the emperors to attempt to " guarantee the producing classes selling prices which would enable them to make ends meet—prices, that is, which would both cover their costs (calculated with reference to prevailing conditions) and leave them a profit. These subsistence prices received the sanction of the law. They were the prices recognised as just by the State ".[4] Such prices were evidently regarded as " just " because they were in accordance with established expectations.

12. Now the great blind spot of Kaulla and other writers who have attempted to interpret this search for economic justice is due to their failure to realise : (*a*) the extent to which " justice " so conceived of has been *opposed* to equality ; and (*b*) the extent to which the method of seeking this " justice " has destroyed productive power. *From time immemorial what has really been sought has been a " just " or customary distribution ; but it has been sought through the medium of the " just " price. Hence, the preservation of the security of the distributive scheme has continuously clashed with progress in productivity.* And it is not only the obviously privileged classes whose incomes have been so defended. Professor A. G. B. Fisher has described the phenomenon as follows :

> The root of the problem is that people who at any given stage of industrial development find themselves in a position which offers them an income and the privileges associated with income much above the average level of the rest of the community are prepared

[1] R. Kaulla, *Theory of the Just Price*, p. 17.
[2] Ibid., p. 17. [3] Ibid., p. 18. [4] Ibid., pp. 33–4.

> to oppose vigorously any policy which is necessary for moving to the next stage of development, if it seems likely to endanger their privileges and to reduce their incomes, either absolutely or in comparison with the incomes of other people.[1]

But apparently quite unprivileged, low-income classes have also traditionally groped for security by identical methods; and in so doing they have just as seriously restrained the realisation of productive capacity.

13. What is the relevance of these considerations to the transition from war to peace? It seems probable that the main problem of reconstruction will arise from an intensification of the problem which has dominated policy in normal times, namely, the defence or restoration of the " reasonable " or " customary ". It is preferable to phrase it thus, for a long war is itself a great destroyer of *established expectations*. But whatever group of rulers retains the reins of government at the conclusion of hostilities, it will be unable to ignore, in policies affecting distribution, the traditional economic status of the individual classes or interests affected. However revolutionary political programmes may appear to be, the real problem confronting statesmen will concern the devising of policies which will be felt to be " reasonable ". And only in the light of past status will " reasonableness " be determinable. That is why it is only too likely that the reimposition of restraints on production will seem just. They will seem to ensure the maintenance of " reasonable " incomes for different groups or classes; and, under cover of the slogan " we must abolish the profit motive ! ", the achievement of a " reasonable " distribution is almost certain to be claimed as their aim. The likelihood that restrictive policies will again be eagerly adopted is greatly enhanced for another reason. Security measures will be urgently demanded owing to inevitable technical dislocations.

14. Let us consider this notion of economic security.[2] It is, of course, the most usual form in which recognition is given to *established expectations*. But, and this is the crucial point, *as a means of achieving the collective benefits of security, measures which fix minimum prices or maximum outputs or limit recruitment are nearly all self-frustrating*. They are, indeed, usually destructive of social security as a whole; and they are always destructive of productive power. They fail, as stabilising influences in society, because they engross security for conspicuous minorities; and they curb production because they endeavour (or claim to

[1] A. G. B. Fisher, *The Clash of Progress and Security*, p. 88.

[2] I must beware of leaving the impression that restrictionism is merely the product of a crude striving for security. The most sordid acquisitiveness is not absent.

do so) to correct hurtful distributive effects by the enactment of values,[1] instead of by the direct transfer of part of the community's income to the individual, group or class whose security it is intended to serve. It may be said, in other words, that values so enacted tend to enhance insecurity for other, less discernible, interests. I have already shown how enacted values not only impose direct scarcities, but multiply their effects through becoming avoidable costs in the arrangement of the whole chain of production.[2] They lead to the cumulative withholding or diversion of productive capacity and reduce the flow of all the economic things we need. Every restraint of production which in any way enhances the costs of another trade or stage of production causes a further restraint.[3] The consequent destruction of well-being, both in material terms and in terms of security is, in my present opinion, one of the most amazing phenomena of this age. For if the distributive result aimed at were sought in an entirely different way, if it were so arranged that the avoidable costs for any subsequent set of productive activities were not thereby affected, there would be no concomitant insecurity imposed upon the general body; and the cumulative sacrifice of productive power could be avoided.

15. In an article published some years ago,[4] I was led to ask: "Are there no other means of achieving individual security than through the contrivance of scarcities? . . . Technical advances are not the principal vicissitudes of displaced artisans. Surely the individual worker's insecurity is mainly the product of wage-rate rigidity, demarcations, apprenticeship restrictions, and other practices which destroy economic mobility? Must we not blame, in short, all the attempts to secure private or group security? The problem of creating . . . certainty of earnings under existing industrial organisation seems to resemble that of creating . . . economic security in a world of tariffs, import-quotas, exchange-control and depreciated currencies"—all devices ostensibly adopted with a view to ensuring economic security.

16. Nevertheless, we must take it that the preservation of economic security is a collective function of the greatest importance in normal times. Still more, therefore, must we accept it as the State's function during the unavoidable upheavals of the reconstruction period. But cannot the unwarranted weakness of

[1] The fixation of values may be by legislative or privately arranged coercions; and may be either direct, as in wage-rate- or price-fixations; or indirect, through output-controls or restraints upon markets.

[2] I have illustrated this multiplication effect in Chapter I, paragraphs 10–12.

[3] Moreover, the aggregate effects of the less conspicuous restraints may well be heavier than the effects of the obvious restraints.

[4] *Economica*, November 1935, pp. 472–5. (Review of J. Hilton and others: *Are Trade Unions Obstructive?*).

the security-seeking policies of the past be avoided? Must the British still fail to see that, in so far as the State undertakes to preserve individual or group economic security, there are huge economic advantages in doing so by way of distribution of income acquired through some system of pooling? Must they still fail to see the enormously important implications of the simple fact that the redistribution of pooled incomes does not affect avoidable costs,[1] whereas the fixing of values (prices, wage-rates, or interest-rates), and the fixing of outputs to maintain values do have this effect, with a consequent induced withholding of capacity throughout the whole productive chain?[2]

17. I can illustrate the point from another field. There is a close parallel in the question of tariff-protection *versus* subsidy. There is no benefit which a tariff can confer on an industry which a subsidy cannot confer equally well. Why, then, is the subsidy so rarely adopted in practice? The reason is that the burden on the rest of the community is noticed when the "encouragement" of an industry takes that form. An analogous case is that of indirect taxation (i.e. the taxation of particular commodities instead of incomes). It is largely resorted to because of its political superiority,—because of the illusion created that the State services which it pays for (defence, police, etc.) are then gratuitous. Yet it must be a burden on the economic system in a way in which direct taxation is not.[3] Similarly, the great political advantage of all controls of price or output over subsidies or compensation is that, whatever their object, their nature is not understood and social acquiescence is thereby attainable. They are politically advantageous because electorates are economically ignorant. It may be said, then, that the economic benefits of seeking security through the redistribution of pooled communal income have been outweighed by the political advantages of price- and wage-fixations (determined and enforced by the State, or by trade-rings and trade-unions).

[1] I.e. the avoidable costs of the employers of the labour or the material or the processed material belonging to those whose incomes are affected by redistribution of pooled income.

[2] In one sense, taxation of incomes may also be avoidable. Taxation of individuals may drive them abroad; and taxation of foreign investors may deter the future investment of foreign capital.

[3] In my own judgment, it is a very much heavier burden than is usually realised. There are, in general, three good grounds for indirect taxation. (*a*) It may be the aim of policy to discourage the production of the taxed article. If the reason for that aim is moral, as with taxes on liquor, the means is more justifiable than if the motive is distributive, as in the taxation of luxuries. (*b*) It may be calculated that the low costs of collection of indirect taxes more than compensate for the productive sacrifice imposed on the community. (*c*) The indirect tax may be merely the price of services rendered by the State in special connection with the commodity taxed. For example, taxes on petrol and tyres may be used for the provision and upkeep of roads.

18. Perhaps the resort to pooling for such a purpose has been inhibited for fear of encouraging a general redistribution with equalitarian aim, which might be sought by the same means. Or perhaps the objection has been due to fear of the results of a policy of " something for nothing " ; an attitude which may arise from a failure to appreciate fully the desirability of State responsibility for security, but an attitude which may, on the other hand, be well founded. There is certainly ample foundation for fear of the consequences upon incentive, or of the political results of such a policy whilst vote-buying remains respectable electoral politics. Such undoubted dangers (with which I deal later) do not, however, weaken the importance of the principle that I am discussing.

19. The vastness of the productive task which lies ahead makes it imperative that all the obstacles to untrammelled utilisation shall be somehow overcome. But at this stage I am again brought back to the problem : Will the harassed British statesmen be capable of envisaging the problem with sufficient clarity ? Inheriting as they will a system of direct taxation of unparalleled height, will they be likely to have any patience with ideas which imply, *inter alia*, that some further pooling of incomes is preferable to restriction, and that direct taxation is preferable to indirect ? It may be even more difficult to convince the rulers than to reassure the masses. Only if the leaders of the people can be brought to see the magnitude of the potential release of productive power can we hope for the required reforms. Is it too extravagant to hope that men like Sir Andrew Duncan and Mr. Ernest Bevin (who represent, from the sides of capital and labour respectively, the traditions that I am so scathingly condemning) will be able to see the light ? However difficult the task, that is what we must aim at. It is imperative that the support of such men shall be obtained. Their efforts will be indispensable in reassuring the politically powerful groups whose consent must be won.

20. The essence of the scheme which I am to put forward in the next chapter is that restraints on production must be dropped and distributive justice and security guaranteed in a completely different way.[1] The guarantee must be in the form of an assured income-security, and not in the form of an assured price for labour or assured dividends on investments. As Professor A. G. B. Fisher has said :

> If investors hesitate about the wholehearted adoption of a wise investment policy, because it may mean the loss of part of the

[1] In this chapter I have stressed security and justice as the origin of restraints. But often their aim is indisputably " acquisitive " and sordid.

> capital which they already control, the effects of such hesitation will be diminished if there are not individual investors who can be liable to such fears of loss. The root of the labourer's objection to change lies not so much in his devotion to his customary work as in his devotion to his customary income. If he can be safeguarded against the risks associated to-day with the transition from one kind of work to another there will usually be very little objection to change as such.[1]

The common sense of this passage reflects the germ of the principle which I am about to apply. I feel that unless this principle is in some way recognised, all attempts to establish an acceptable new order will meet with the most disheartening failure, or cowed and despairing acquiescence in muddled planning. Ultimately a new feudalism, supported by Communist or Fascist ideologies is threatened; and that will mean the perpetuation of poverty at the base of a rigid caste system and the loss of Britain's most valuable heritage. Productive power alone can make freedom conceivable in the aftermath of war; and distributive security alone can make the maximisation of productivity acceptable.

21. In the background of the scheme for distributive security which the next chapter discusses, I envisage the full equalitarian force of capitalism. I have explained elsewhere the competitive roots of secure equality.[2] I need not repeat my argument in this book. But to reassure Socialist critics I should point out that the basic equalitarian character of competitive forces has been admitted by those Socialist writers who are familiar with economic analysis. Thus, Mr. M. Dobb has agreed that the "tendency to equality of incomes" has been circumscribed by "institutional factors". He says: "Where ideal economic freedom reigns, it will only be when natural limitations apply to personal endowments that the operation of this principle will be seriously prevented from equalising the incomes of individuals."[3] Now the purpose of my plan is to remove these institutional factors and so realise practically the equality which economic freedom can win for the world.

22.[4] But the seemingly subtle reasoning of the economists is generally less convincing to the great mass of the people than empirical demonstration; and the equalitarian pressure of competitive capitalism may be illustrated by a passage descriptive of nineteenth- and twentieth-century capitalism. Again, to avoid the charge of bias, I quote a passage from a well-known Socialist, Mr. E. F. M. Durbin. He tells us that until "capitalism"

[1] A. G. B. Fisher, op. cit., p. 228.
[2] *Economists and the Public*, pp. 313–47.
[3] M. H. Dobb, *Capitalist Enterprise and Social Progress*, p. 102.
[4] Paragraphs 22 to 27 are based on "Economic Institutions and the new Socialism", *Economica*, November 1940.

was shackled by increasing State control and monopoly it was powerfully expansive. In one hundred years there was "something like a 1,600 per cent. increase in the physical production and consumption of wage goods alone".[1] "Total real wages increased by approximately 100 per cent. in the second half of the nineteenth century."[2] And even with the handicap of the shackles which have been increasingly burdensome since the last Great War, the essential progressiveness of the capitalist system has not been destroyed. Real income per head of the British population rose between 1924 and 1936 in the proportion of 185 : 221·8[3] and real wages (unemployment allowed for) rose over the same period in the proportion of 184 : 202.[4]

> The power of the capitalist system to raise the level of consumption —to increase the production and consumption of consumption goods —has not wholly passed away. We live in a period of rapid expansion.[5] . . . The rise in the standard of living is rapid. It is impossible to escape the conclusion that great strength and consequent stability remain in capitalism, even in its State-controlled and monopolised form. . . . It may not be pleasant to face these conclusions, but they must be faced.[6]

Moreover, the British working classes are, he argues, rapidly becoming small-property owners, not in the sense of holding property as an important source of income, but as a reserve, especially against illness and death. Indeed, the growth of small property is a remarkable phenomenon of twentieth-century capitalism.[7] This growth has been "out of all proportion to the growth of the population". There is an *accelerating rate of growth*.[8] Even between 1930 and 1935,

> during a half-decade containing one of the greatest depressions ever recorded in our business history, the proportion of the adult population covered by the institution of small property was increased by something like one-twentieth, and the average value of all the small reserves was increased by one-fifth.[9]

The relatively poor are, in fact,

> now providing a third of the savings, and if their rate of saving is increasing at an accelerating rate, it is certain that the distribution of property will tend to become, slowly no doubt, but nevertheless surely, more equal.[10]

And on the basis of this far-reaching redistribution of income, Mr. Durbin suspects that research would disclose "the acquisition

[1] E. F. M. Durbin, *Politics of Democratic Socialism*, p. 84.
[2] Ibid., p. 85. [3] Ibid., p. 140. [4] Ibid., p. 142.
[5] Ibid., p. 142. [6] Ibid., pp. 143–4. [7] Ibid., p. 113.
[8] Ibid., p. 117. [9] Ibid., p. 118. [10] Ibid., p. 119.

of other and not unimportant habits that were once regarded as typically and exclusively middle class ".[1] " The society in which we live ", he concludes, " is an increasingly bourgeois society. That is an inescapable fact, whether we like it or not. . . ." Indeed, " the proletariat of the Marxist textbook is rapidly disappearing ".[2] With what seems to be subtle irony, Mr. Durbin admits the *unpleasantness* of these hopeful facts. But he is thinking of those Socialists who want modern capitalism to collapse from stagnation or increasing misery. Their misconceptions are, he feels, a danger to the success of the Socialist cause. For a realistic political strategy, the powerful equalitarian and productive potentialities of existing capitalism must be faced, at any rate by the politicians themselves.

23. Now Mr. Durbin's diagnosis of the factors holding back the beneficent expansiveness of capitalism is very similar to mine, although he does not *obviously* see, as I do, resistance to equality. He believes that the reactions of an ignorant electorate to insecurity and inequality, far from bringing security and equality have merely frustrated the system. In consequence, he tells us, " freedom of enterprise is rapidly ceasing to exist. . . . In its place is appearing an ever-thickening jungle of uncoordinated government control, whose main purpose is restriction, and whose chief fruit is the substitution of monopoly for competition ".[3] " It is *called* ' planning ',' " he says. " It actually consists in the substitution of monopoly control for competition in all the markets and industries that it touches. . . . The power of the State is used not to oppose and limit monopoly but to create it. We move at a bewildering pace into a régime of State-organised monopoly." [4] Labour groups as well as groups of property owners *seem* to benefit from such restrictions, but both groups in fact gain at the expense of the community. " Industries live by strangling each other. Benefits are gained for a section by starving, not feeding, the whole of society. . . . It is a process of slow, suicidal, sectional restrictionism ".[5]

24. But it is not only State control and State-protected capitalist monopoly which have frustrated the effectiveness of the present system. Mr. Durbin appears to consider that trade-unionism is the chief villain of the piece.[6] He says that " one essential

[1] E. F. M. Durbin, *Politics of Democratic Socialism*, p. 120.
[2] Ibid., p. 112. [3] Ibid., pp. 135–6. [4] Ibid., p. 100.
[5] Ibid., p. 101. The word " suicidal " is an inadvertent exaggeration. In spite of the stupidities of the existing system, it is still progressive and (as a system) stable, as Mr. Durbin himself strongly emphasises in the passages quoted above.
[6] Mr. Durbin regards trade-unionism partly as an expression of acquisitiveness and partly as a response to the demand for security. But it is doubtful whether he believes that it has actually *produced* security for the working classes as a whole.

omnipresent market " among the institutions of capitalism " is jammed and rigid ".

> It would be as sensible to expect an internal combustion engine to work smoothly with an immovable distributor, as to expect an economy based on private enterprise to work properly when one essential part of its self-adjusting mechanism cannot move at all. . . . And the evil consequences of wage rigidity (for the capitalist economy) are by no means fully revealed in the accentuation of unemployment. Maldistribution of labour between employments, and the failure to utilise certain types of capital, will still further reduce the national income.[1]

25. On the question of the huge growth of expenditure on the social services during this century, Mr. Durbin's attitude is not quite clear. He certainly does not think of these services as an appropriate and genuine response to the community's collective requirements. He regards them as, from one aspect, a response to demand for security; although whether they have really brought security or a just distribution of it he does not discuss. Of their equalitarian effects, he appears to be sceptical. In some of his phrases he seems to regard taxation of the relatively well-to-do as having been so severe as to devitalise the goose that lays the golden egg.[2] In other parts he suggests that " we may not have come up to that level yet ".[3] At times he seems to regard the proceeds of taxation as having been squandered upon vote-catching projects; at other times he apparently regards the social services as essential for security. He is, however, quite definite about the political popularity of these services. He says:

> The main historical feature of these measures is the enthusiasm with which they have been received by the electorate, and the widespread support that they now enjoy from all classes in the community.[4]

The victory of the Left in these matters " has proved amazingly popular ".[5] But the reverse side of the picture is ominous and cannot be overlooked.

> The process of taxation has already halved our Rate of Saving and reduced the collective saving of the rich to nothing. If it goes much further, the increase of taxation will wipe out social saving altogether, and leave us with a relatively stagnant economy.[6] . . . The continuous extension of the social services, and the steady rise in the proportion of the national income that is taken in taxation, imposes a strain upon the capitalist system that has already reduced its potential pace of development and will reduce it still further.[7]

[1] E. F. M. Durbin, *Politics of Democratic Socialism*, p. 91.
[2] Ibid., p. 300. [3] Ibid., p. 299. [4] Ibid., p. 293.
[5] Ibid., p. 293. [6] Ibid., pp. 293–4. [7] Ibid., p. 299.

Indeed, Mr. Durbin seems so apprehensive of the burden of taxation increasing that, under the sort of socialism which he wishes to introduce, " the people at large must be made to think about, and care for, something less immediate than better housing and family allowances ".[1] Few politicians would have dared to speak so courageously as this; but the *implications* of these passages are even more condemnatory. They clearly charge the State with squandering in vote-buying the proceeds of taxation which should have been devoted to saving. Unlike the individuals who were taxed, the Exchequer did not make a wise time-preference decision. The community's funds were badly allocated between present and future. Whilst the State should have been providing capital works or supplying the capital market it has been frittering funds away on politically conspicuous and popular projects.

26. Why, then, does not Mr. Durbin advocate the removal of the shackles which he perceives to be keeping productive power in check? The answer is chiefly that he thinks that such a course is politically impracticable. The accomplishments of the capitalist system have been limited by restraints imposed

> directly from the political pressure and the democratic power of the common people. . . . The right to form trade-unions and the principle of collective bargaining is one of the earliest and one of the most strenuously defended democratic privileges. . . . The right, once conceded, has been defended with obstinate pertinacity from every kind of attack. It would surely be unwise to deny the inherence of this demand in the nature of democracy and responsible government.[2]

This being so, do the advocates of restoring internal freedom of trade, he asks, really face the political implications of their policies? " They must go to the people with these proposals upon their lips. Let us liquidate the trade-unions! "[3] Such a cry would invite certain failure. Economic liberalism can in

[1] E. F. M. Durbin, *Politics of Democratic Socialism*, p. 298. For political reasons the electorate must, of course, be pandered to. The rank and file of the Party organisation, " the main core of party intolerance and unwisdom and intransigence " (p. 289) must be appeased, for without them power could not be retained. They must be given the " jam " [*sic*] of social legislation. But the Socialists must, nevertheless, " reduce their social service proposals to the minimum consistent with the retention of political power " (p. 298). The recognition of such issues sometimes makes the professional politician " appear hypocritical to those who bear no responsibility " (p. 290).

[2] Ibid., p. 358.

[3] Ibid., p. 359. Mr. Durbin has similar fears about attempts to get rid of over-taxation. How absurd it will be, he says, to go to the electorate crying: " We must reduce the social services! Progressive taxes must go! " (pp. 359–60). But who *has* seriously advocated the abolition of progressive taxation? The real defect of the present system lies less in the height and incidence of taxation than in the use to which its proceeds have been put.

fact only be achieved by persuading the people or through its being imposed against the will of the people. And it would be impossible to persuade them. "Freedom of enterprise seems incompatible with freedom," he suggests;[1] on these rather flimsy grounds putting forward the opposite thesis from that enunciated by Professor Hayek.[2]

27. On this point about political expediency the whole of Mr. Durbin's principal argument appears to hinge. But has he good grounds for his view? Would any reformer advocate going to the electorate and saying simply: "The trade-unions must be liquidated!"? Have any reputable economists ever assumed that any long-established social institution could be rapidly uprooted without the danger of deplorable reactions? Surely we all agree that (in Great Britain) habits, customs, morals and aspirations have in countless ways become adjusted to the existence of trade-unionism in its present form; that trade-unionism has come to provide the only existing system of organisation which performs innumerable essential services for those in the industries which it covers; and that the organisation which it has built is a necessary institution for the carrying out of the practical reforms required in freeing the labour market. It may well be that the importance of these empirical principles has not been adequately realised or stressed. In any set of fundamental reforms, the existence of vested interests in the labour field will have to be frankly recognised; the privileged sections will have to be secured against drastic destruction of their income rights; and the unions will have to remain in form and themselves supply the machinery required. Then, as in innumerable other fields of human progress, a new reality will emerge whilst the ancient show persists. That is the essence of my scheme for removing the shackles which have for so long restrained the forces of equality and plenty.

28. In describing ways of removing these shackles, I propose to concentrate on the less easily understood issues, which happen to be the more controversial issues. It is important, therefore, that I shall not be suspected of having overlooked the more direct and obvious methods. Recourse to reforms which conspicuously work towards the ideal of the classless society will powerfully influence the acceptability of the scheme. I have discussed methods of direct redistribution in a previous book.[3] But one set of reforms must be specifically referred to here: the reorganisation of the educational system—from the elementary schools to the universities—to ensure the maximum equality of

[1] E. F. M. Durbin, *Politics of Democratic Socialism*, p. 360.
[2] F. A. Hayek, *Freedom and the Economic System.*
[3] *Economists and the Public.* Chapter XX.

opportunity; the reorganisation of the methods of recruitment for and promotion in the Army, Navy and Civil Service, so as to place the fullest stress on proved ability and the least stress on social class; and the earnest organisation of a campaign (through broadcasting, schools and other agencies) for the gradual dissolution of (*a*) " inequality of aspect " (i.e. the distinction of social classes by dress and demeanour), (*b*) inequality of speech and manners, and (*c*) inequality of social attitude (i.e. differences due to the inculcation of habits of leadership and subservience in different social classes); these must be the accompaniments of the plan as a whole. It must, of course, be a " levelling up, not a levelling down ". Elegance of living must be preserved and spread, not destroyed. The scheme as described in the draft Bill does not provide for these reforms; but far from having disregarded them, I have assumed that they will in some manner form the background of my plan.

29. The political practicability of my scheme is the chief theme of the final chapter. But I can claim now that even if the specific details of my plan are inacceptable, I have indicated an approach which justifies optimism. Faith in the attainment of the classless society may persist in spite of the most formidable resistance to it. The trend to equality which the people have been unable to visualise has been checked in the interests of the immediate privileged securities which the people have been able to visualise only too clearly. The great equalitarian tide released by technology and competitive capitalism has been dammed up through the barren, conservative instincts of the masses and their leaders, searching for security and advancement piecemeal or by groups. But the continued erection of dams has never wholly stemmed the flood. Ever-tightening income protection by trade-unions, trusts and the State has not prevented, but merely slowed down, the surge to equal opportunities. Indeed, demands for the centralisation of all power in the State may well be regarded as a last desperate attempt to erect a permanent dyke and stay the torrent. But the weirs have always leaked. Why, then, should we be defeatist? Why should we assume that we must relapse into one of the rival feudalisms—Fascist or Communist? Why should we assume that the class consciousness of the workers must continue to manifest itself in the fight for the perpetuation, under a new demagogic clique, of the class structure which competitive capitalism is bursting to erode and carry away? Why should we assume that the class war must for ever remain as a triangular struggle in which " organised " capital and " organised " labour fight each other but join as allies in the common war against equality and plenty?

Summary of Chapter VII

Distributive Justice

(1) The independence of the distributive and productive schemes makes the guarantee of income-security both feasible and certain, (2) although it must give rise to sociological stresses connected with incentive. (3) It is obvious that no distributive ideal need, in itself, conflict with the fullest productivity. (4) Under private enterprise, the distributive scheme and the productive scheme are normally linked through the nexus of value, (5) which makes it possible to raise individual or group incomes by withholding productive power. (6) Nevertheless, value may be held to be a determinant of "just" distribution, (7) although my major contention does not rest on this assumption. (8) Popular notions of distributive justice are usually inarticulate and appear to involve a glaring inconsistency, (9) and supposedly equalitarian policies have been inspired more by pressure-groups than by ideals or shibboleths. (10) "Established expectations" are the real basis of conventional and spontaneous standards of distributive justice. They have implied the goodness of the existing distributive scheme. (11) Kaulla has shown that there has been a continued conflict over history between distribution according to status and distribution according to value. (12) The "just" income, in the sense of the customary income, having been sought through the "just" price, a clash with progress and productivity has arisen. (13) There is a danger that the same methods of preserving incomes will be resorted to during reconstruction. (14) As methods of achieving collective economic security they are self-frustrating, (15) just as international trade restrictions fail to produce economic security in the world. (16) We must hope, therefore, that income-pooling will be adopted, (17) in spite of the political advantages of price- and output-fixations (18) and the political disadvantages and incentive difficulties under income-pooling. (19) But will the harassed British statesmen, confronted with the necessity for unprecedented taxation, be capable of envisaging the benefits of income-pooling? (20) Unless income-security can be guaranteed and productive power released, the attempt to establish a more acceptable post-war order will meet with disheartening failure; (21) but if this security can be established, the institutional barriers to competition and equality can be removed. Recognised by Socialists like Mr. Dobb and (22) Mr. Durbin, the equalitarian force of competitive capitalism has been incidentally but vividly illustrated by the latter, (23) who recognises that restrictionism, government control and so-called "planning" cause industries to strangle one another and frustrate the expansiveness of the system, (24) whilst trade-unionism jams the self-adjusting mechanism of a free society (25) and the proceeds of taxation are largely squandered in vote-buying through the social services. (26) But whilst Mr. Durbin thinks that the removal of these restraints, especially trade-union practices, is politically impossible, (27) the present scheme is based on the gradual dissolution of the barriers erected by vested interests like organised labour. (28) Given a background of conspicuously equalitarian reforms, (29) the scheme as a whole gives ground for optimism.

CHAPTER VIII

LABOUR SECURITY

1. I AM afraid that the scheme which I am about to describe may at first give the impression of a Heath Robinson attempt at social engineering; but that will only be because what is novel often appears to be absurd. I admit that it is a drastic scheme. Yet it is by no means too drastic or revolutionary a plan for dealing with the probable post-war circumstances which will confront the British. Hence I hope that my critics will not be deterred by the mere novelty of my concrete suggestions. I expect them to admit the general principle on which my recommendations are based. They must therefore try to judge whether my recommendations are conformable to the material to which they have to apply—men, as individuals and in the mass. If my suggestions do not conflict with what we know of the aspirations and the psychology of mankind, the fact that they are necessarily untried is no defect. The inventor of human institutions knows full well that the devices he envisages must have their ultimate form determined by sociological factors the expression of which cannot be accurately forecast. He knows that owing to the nature of men in society there is a certain tentativeness even in his most definite proposals. But that does not make the task of invention any the less urgent. And the boldest economic inventiveness is of the most pressing urgency to-day.

2. I shall deal first with the gradual removal of restraints in the labour market. In doing so, I must remind the reader that restraints on the employment of physical resources are to be removed at the same time. The recognition of the reasonableness of my suggestions in part depends upon the recognition of the full scope of the reforms. The scheme involves the retention of the trade-union *organisation*. I say " trade-union organisation " and not " trade-unionism ", for the form and functions of the " organisation " must be changed. On 27th March 1941, Mr. Churchill made a pledge to the British trade-unions that their " privileges shall be restored and resumed when this crisis has passed away, *unless some other better arrangement can be made* ". I put forward my scheme as an infinitely " better arrangement ". The personnel of the unions will be required in my scheme as essential executive machinery. But the purpose of that machinery will be wholly novel. The services (as well as the goodwill) of the trade-union professional staffs will be indispensable; but they must cease to be responsible for protecting the price of

labour. A new form of income-security must be provided to extinguish that purpose. Whilst the union officials must continue to be elected and remunerated by the workers in specific trades, the unions as such must play a minor although essential part in this new organisation. They must become recognised, registered bodies. Their function will be twofold: (*a*) to represent different groups of workers in the determination of individual conditions of income-security; (*b*) to elect representatives for service as "Labour Security Trustees" under the "Labour Security Board". But the existing trade-union personnel will be required for other purposes, especially for salaried service under the "Resources Utilisation Commission", an important body the functions of which are to be described later.

3. The State, through the "Labour Security Board", must enact for the individual workers in the different grades of industry and types of occupation (in unionised trades, after consultation with the unions), guaranteed "reasonable" minimum income levels. The principle adopted in determining these levels, except the very lowest, must be *established expectations* (to be carefully defined). No direct equalitarian motives must be present at this stage. Until the productive system has effectively responded, i.e. until these minimum incomes are exceeded by the earnings of the great majority of those originally in any class so defined, it will be dangerous to raise them. The frankly declared intention at the outset must simply be to give a measure of individual security at least as effective as that apparently given by trade-unions and wage-fixation in the past, whilst revolutionary reconstruction and equalitarian reforms are being carried out. The guarantees must be given to individuals according to the trades to which they happen to be attached at the inception of the scheme or in which they were engaged before the war. The reasonable minimum incomes will be most easily determinable for trades which have been subject to standard rates. In other cases it will be less easy to assess them. I shall explain the exact methods of assessment when I have outlined the scheme as a whole (see paragraphs 27–33).

4. Women must be included in the scheme to the extent to which they are prepared to conform to the same stringent conditions as men. Their minimum incomes (including the national minimum) will, however, usually be lower than those laid down for men.[1] This is because their incomes have traditionally been lower. The standard of *established expectations* must be strictly applied.

5. The funds for compensation (to implement the guarantees) must be obtained, not from taxation, but from a system of com-

[1] Their *actual earnings* may, of course, be the same for work of the same quality and quantity.

pulsory pooling. There will be no extra deduction from aggregate earnings for expenditure on State purposes, but merely a redistribution of the earnings of all. The levy can be termed " the Labour Security Levy ". It will be a uniform percentage levy imposed at the source of the earnings of labour. By this means, a " Labour Security Pool " just sufficient to meet all compensation demands and a " Labour Security Reserve " must be raised. The Levy must *not* be imposed on booming industries in order to compensate depressed ones. It must fall with equal incidence on all productive activities, so as in no way to protect declining industries at the expense of those which are progressing. I suggest that three-quarters of the Levy shall be paid into the Pool and one-quarter into the Reserve. The reasons for a separate Reserve will become clear later.

6. The Labour Security Pool must itself be subject to compensation from the " Capital Security Pool " if the aggregate earnings of labour should decline. This is because it is impossible to foresee just where the individual losses from the reforms to be introduced are likely to fall most heavily. Moreover, this arrangement will serve to reassure those who believe (for quite unsound reasons) that the increased productivity will be somehow engrossed by property owners. Similarly, if the effect is that the aggregate earnings of labour increase whilst the receipts of income from property decline, the Labour Security Pool will itself be called upon to compensate the Capital Security Pool. But as the aggregate " real income " of the community (i.e. the products and services which money income buys) must increase owing to the reforms to be described, the aggregate net earnings of labour will still show an increase in the latter case. I think it most improbable, however, that such transfers will ever be necessary.[1]

7. The minimum incomes having been enacted, wage-rates must be allowed gradually to rise or fall towards their competitive heights. This does not mean that all the controls of collective bargaining and authoritarian wage-fixation must be suddenly removed. During the introduction of the scheme such controls will be absolutely essential in the interests of gradualness and also as an aid in the prevention of serious abuses. Where minimum wage-rates have previously been enforced solely by collective bargaining, the State must enact them, prior to the

[1] The proportion between aggregate incomes from labour and property, respectively, has in practice proved extraordinarily constant, and there are no good grounds for believing that the release of productive power will greatly affect this proportion in either direction. Professor A. L. Bowley's statistical studies of distribution led to the conclusion that " the constancy of so many of the proportions and rates of movement found in the investigation seems to point to a fixed system of causation and has an appearance of inevitableness ". (*The Change in the Distribution of the National Income, 1880–1913*, p. 27.)

mitigation of the system.[1] But the minimum wage-rates laid down must then be gradually lowered until, say, nine-tenths of the workers in any grade are actually earning more than the minimum wage-rate.[2] Data derived from the inspection of wage registers will enable the compilation of statistics which will help in the determination of this point. When this stage has been reached, the minimum wage-rate must cease to apply at all, and the valuation of labour must be left as free as the valuation of commodities in a true market. The speed with which the minimum wage-rates ought to be lowered cannot be foreseen. It will depend mainly upon how quickly the lowering of wage-rates increases (or is accompanied by an increase in) the aggregate real earnings of labour. All that can be said is that, given the other objects of the policy, after a period of unpredictable length the price of labour (not the incomes of all workers) must be competitively determined.

8. Whenever the gross earnings [3] of any worker fall below the individual minimum income set for him, they must be added to by a " Labour Security Grant " obtained from the Labour Security Pool. For simplicity, consider the case of time-wages. The compression must in this case be the minimum income *minus* the gross wages paid, *minus* a percentage of the sum so determined equal to the percentage of the Levy.[4] The compensation sum must have none of the odium of the " dole ". That would be fatal to the scheme. The preservation of security in terms of prestige and status is as important as its preservation in terms of pecuniary incomes. It must be made absolutely clear that the sum transferred represents the honouring of a social contract. The working classes must be told that they, on their side, have agreed to accept revolutionary reforms, the effects of which might often be unjust in individual cases; and that the State, in return, has arranged certain guarantees. Hence the receipt of compensation must carry no more stigma than the receipt of genuine insurance benefits. The odium attaching to " the dole " arose from the fact that it was obviously *not* insurance benefit in the true sense.[5] Hence the " Labour Security Grant "

[1] These enacted minimum *wage-rates* must not be confused with the enacted minimum *incomes*.

[2] Other arrangements will ensure that all such reductions of costs due to the lowering of wage-rates are passed on to consumers.

[3] Gross earnings are earnings before the deduction of the " Security Levy."

[4] Thus, say that a worker's gross earnings are £3, his guaranteed minimum income is £4 and the rate of the Levy is 5 per cent. Then his Security Grant will be £1 − 1*s*.; and his ultimate net income will be £3 − 3*s*. (Levy deducted at source) + £1 − 1*s*. = £3 16*s*. That is, he is in the same position as if his gross income had been £4, in which case he would have had a Levy of 4*s*. deducted at the source.

[5] The spirit of the principle of " established expectations " is almost the opposite of that of the degrading principle of the " means test ".

might well be automatically credited to a Post Office savings book on receipt of certified data from the worker's employer specifying the wages paid. But the detailed methods of payment must be devised by the Labour Security Board which will be responsible for the administration of the scheme.

9. At this stage, my economist critics may be inclined to say that the scheme is nothing but a modern version of a notorious and discredited experiment known as the " Speenhamland scheme ".[1] But the resemblance is superficial. My scheme is based upon two principles which were absent in the Speenhamland system and which provide efficient safeguards against abuse. The first principle is that the benefit of all wage-cuts must be passed on to consumers and not retained for the benefit of " employers ", i.e. investors or property owners. The second principle is the taking over of the " entrepreneur function " in respect of the sale and utilisation of labour (supplied by those compensated), on behalf of those who pay the compensation. I shall deal first with the passing on of the benefits of wage-cuts.

10. Until competition has been so effectively stimulated that reduced costs are automatically expressed in the fall in the price of the product, a new method of maximum price control must be resorted to. The required method is totally different from that of typical anti-profiteering policies. The maximum prices will be fixed for the individual firms which cut wage-rates, and not for the market generally. It will work in this way. As the legal minimum wage-rate for any trade is lowered, no firm will be under any legal obligation to reduce the actual wage-rate paid. But if the firm *does* do so, and its average wage-bill falls,[2] it will be required at the same time to reduce the price of the product. Moreover, it will be allowed to increase the price of the commodity subsequently, only on the score of some rise in wage-rates or some rise in " external costs ",[3] except in rare circumstances.[4]

[1] The scheme originated in a village called Speenhamland, in Berkshire. Introduced in 1795, it was popular and soon spread over a large part of England, especially in the south. Allowances were made, to labourers whose wages were too low, according to a scale based on the price of wheat and the number of children in the family. The funds were obtained from local rates on property. We are told that the effect was that employers cut wages, and local rates on property had to be raised to an unprecedented height in order to pay the allowances. The labourers were pauperised and the incentive to work was destroyed. The thrifty were discouraged and the improvident encouraged. Many of the smaller landowners were ruined because the rates imposed exceeded the rent of the land.

[2] The system will allow the firm to reduce the wage-rate to a less efficient worker and raise it for a more efficient worker and so maintain the average. In such a case the firm would be under no *legal* obligation to cut prices.

[3] By " external costs " I mean the prices of materials, fuel, etc.

[4] These " rare circumstances " can arise only through congestion, i.e. when a firm is working its plant intensively, and wages or other costs per unit of output increase although wage-rates and " external costs " remain the same.

11. In explaining the principle, I need not burden exposition with the detail required for the consideration of the complexities of practice. The required minimum cut in the price of the product (indicating the new maximum price) will be determinable from a study of the wage statistics and sales accounts of the firms concerned. We require the percentage fall in wage-costs per unit of the product on the assumption that exactly the same amount of labour continues to be employed to produce exactly the same output. This gives only the *minimum* cut, however; for there may be some further economy achievable as a result of the lower labour cost. But all that can be expected of the kind of control that I am recommending at *this* stage is that it will determine the *minimum* price-cut to be enforced.

12. The most practical index to take in the majority of cases will probably be the proportionate fall in wage-rates multiplied by the wages-sales ratio of the immediate past. Other things remaining the same, this index of the required cut in the price of the product (in practice, frequently the required *average* cut) will leave the same absolute surplus for claims other than wages. Thus, to take the simplest type of example, if aggregate wages have been £40,000 *per annum*, aggregate sales have been £60,000 *per annum*, and wage-rates are now reduced from £4 to £3 per week, then the price of the commodity must be reduced by one-sixth $\left(\text{i.e. } \frac{1}{4} \times \frac{40{,}000}{60{,}000} = \frac{1}{6}\right)$. Aggregate wages over the same period would have been £30,000 instead of £40,000 if they had been valued at the new wage-rate. That is, assuming that the same quantity of labour is employed to produce exactly the same output (and if other things remain the same), then wage costs will be £30,000; sales (reduced in price by one-sixth) will be £50,000; and the sum left over for other claimants on the value of the product will remain the same.

13. Similarly, any fall in what I have called "external costs", i.e. any reduction in the price of a material or part, must be passed on by the producer either to consumers, or to the producer in the next stage of production. Thus, if the price of rubber falls, the price of tyres must be reduced. In this instance the minimum reduction in the price of a tyre will be equal to the fall in the rubber cost per tyre.

14. The passing on of wage-rate reductions cannot be enforced in the wholesale and retail trades by the methods which I have just discussed. But in this field wage-rate reductions are not *likely* to be stimulated by the reforms under consideration, for in Great Britain there has been very little minimum wage-fixation or trade-unionism in the wholesale and retail trades. Nevertheless, there is a *possibility* that the repercussions of other parts

of my scheme will induce a lowering of wage-rates in such occupations. Hence the problem cannot be ignored. The difficulty of adopting the same system lies in the fact that the economic product of the trader is a very complex service; and the unit of this service cannot be defined. It can be described as the assembling and keeping available of stocks of goods which consumers want from time to time. But this brief description gives no idea of the complexity of the "merchanting" service. That service is paid for by the "margin of mark-up" (i.e. the amount added to the cost price of a good stocked in order to make the selling price). Hence, as the unit of service thus remunerated cannot be defined, in the case of "merchanting" we must rely upon the stimulation of competition to ensure that there is no private engrossing of the benefits of falling wage-rates (should such a fall be stimulated) by the owners of wholesale or retail stores. How successful competitive pressure is likely to be in this respect the reader will be able to judge at a later stage. (See, in particular, Chapter XV, paragraph 8).

15. But so far as the *products* handled by traders are concerned the required price control is very simple. The minimum reduction of the price of commodities stocked must equal the absolute fall in the cost to the firm.[1] Thus, if a suit of pyjamas has been produced and sold wholesale at 10*s*., and sold for £1 retail, and the price from the factory then falls to 9*s*., the price to the consumer must fall to 19*s*. This rule permits the same absolute margin of mark-up but a larger percentage margin of mark-up. Once again, it purports to represent only the *minimum* appropriate price-cut, not the theoretically defensible price-cut.[2]

16. The reductions of price enforced by such a means are, I must emphasise, merely the *minimum* appropriate reductions. In practice, commodity prices are likely to fall more than proportionately (when wage-rates or other costs fall), partly because other reforms which will exert the same sort of pressure are to accompany those described at this stage. The object of the methods I am now describing is to make quite sure that even if the other reforms should be incompletely effective, there would be a limited power to engross the benefits of increased productivity.

[1] In the case of firms carrying on both manufacturing and trading functions, the two types of control can easily be combined.

[2] A smaller price-cut (or perhaps increase of price) could only be permitted through proof that the rate of turnover of an article stocked had subsequently fallen. The appropriate price-cut (or perhaps rise of price) in such a circumstance would be determined by comparison with rates of turnover and margins of mark-up on other goods. In the ideal, and making abstraction of some important qualifications (e.g. the use of cut lines as "price leaders" or for advertising purposes), the same rate of return on capital invested should be earned on all stocks; i.e. the lower the rate of turnover, the higher the justifiable rate of mark-up.

This part of my scheme is simply a direct and rather crude means of counteracting monopoly, and under the term monopoly must be included a common but little understood phenomenon which may be called " tacit collusive monopoly ".[1] I mean by " tacit collusive monopoly " a sort of understanding among industrialists or merchants not to indulge in price-cutting. It is an attitude which is often thought of as embodying the spirit of " live and let live ". Producers refrain from undercutting in the knowledge that they would all suffer a diminution of monopoly earnings if they did start cutting prices.

17. The administration of this part of the scheme must be carried out by organisations subordinate to a *Permanent Commission* of the greatest importance, a commission which has to play a dominating rôle. It should, I think, be called the *Resources Utilisation Commission*. (An alternative name which is more likely to appeal to Socialists is *Central Production Board*.) I shall say more about its functions later, but I envisage them as being similar, in many respects, to those of the United States Federal Trade Commission. Its main task will be that of discovering and removing all hindrances to the full utilisation of resources of all kinds, including human resources.[2] For each industry or set of connected industries, and for each type of trading, a Control Board responsible to the Resources Utilisation Commission must be set up. Such boards must have the right of access to the accounts of all industrial and commercial firms. Inspection must be by experts. This is one sphere in which the trade-union personnel comes in. The unions can, in many cases, supply the required expert staffs at the outset. They must be made responsible for the investigations. Being acquainted with conditions in the trade they will have some of the necessary qualifications. For the purpose of facilitating the review of prices, firms may be called upon to print and publish maximum-price lists, and they must notify changes from time to time. Hence the control exercised will be incomparably more effective than that of the typical anti-profiteering legislation, it will have an entirely different aim, and it will be psychologically possible because the guarantee of income security will accompany it.

18. I need hardly say that one of the main objections to my suggestion will arise from antipathy to the idea of infringing the privacy of firms. But the case against the traditional secrecy of business accounts is very strong. The financial results of trading and production are data which concern society as such. Efficient

[1] Economists sometimes use the term " oligopoly " to describe it. It is the condition of affairs which can alone explain the reduction of wage-rates under the notorious Speenhamland system.

[2] Economists who wish to know more exactly what I mean by " full utilisation " should refer to *The Theory of Idle Resources*, pp. 34–6, 48–9, 68, 163–5.

entrepreneurial co-ordination cannot be arranged unless such data are known. In short, private enterprise and business privacy are incompatible in a defensible social order.[1] And those to whom my scheme for a body of inspecting accountants and officials is repugnant should contemplate the alternative—the suppression of private enterprise and the gradual drift towards a libertyless industrial feudalism. This is not mere rhetoric. I believe that the loss of liberty is the alternative.

19. I now come to the second principle which distinguishes my scheme from the notorious Speenhamland plan, namely, the taking over of the " entrepreneur function " in respect of the sale and utilisation of labour (supplied by those compensated) on behalf of those who pay the compensation. Expressed in the most general terms, the problem is this : a worker receiving a Labour Security Grant may be inclined to be passive in the sale of his services. It may be of no consequence to him whether he is paid his full competitive wage-rate or less, as the balance will be made up to him. Indeed, he may even be bribed to accept less (in various subtle and venial ways) by his employers. It is for this reason that entrepreneurship in the sale of labour provided by workers receiving compensation must be undertaken on the advice and through the medium of representatives of those workers whose earnings are the source of the compensation paid. Although individual recipients of Grants are to have every encouragement to be enterprising in the sale of their services, they will have to be subjected to a discipline exercised by a Board through the Trustees, both in respect of employments accepted and training undergone. " Discipline ! Ah ! ", says the suspicious reader, " Fascism ! " In fact, it is just the reverse. It is the purest democracy. Under the scheme here envisaged it will not be a dictator's or a bureaucrat's arbitrary whim which is the origin of irksome changes of employment. Market demand during a period of rapid economic transformation will be the ultimate commanding force. The power of authority will simply be that of enforcing mobility, and it will be a rigidly defined authority. It will be entrusted to a permanent Board assisted and advised by Trustees *who will be representative of employees.* So far as working-class contributors are concerned, trade-union officials are almost certain to be chosen. Ultimate authority will, however, rest with the Board, in order to safeguard the interests of those compensated. For, after the first election, the right to vote for Trustees will be confined to those whose contributions to the Pool over the previous year (or other period) have exceeded their receipts from it. The worker subject to this control will

[1] For an elaboration of this point and a discussion of the difficulties, see Chapter XIV, paragraphs 5, 6, 15, 16, 17

know therefore that the authority commanding him to obey the market (and the market is but an important representation of the people's will) is partly representative of his class,—of his fellow wage-earners who are subsidising him ; and he will know also that the State is represented on the controlling Board for the purpose of protecting his rights against possible abuse by representatives of his class. The Board will simply have the task of ensuring that the guaranteed income does not destroy the motive to seek out the most productive occupations. Surely there could be no objection to that. At the same time, I am only too well aware of the dangers. It is undesirable, I agree, that the exercise of entrepreneurial powers shall be a normally exercised function of the Board. Resort to them ought, *in the long run*, to be quite exceptional. They must exist permanently in reserve. Security cannot be collectively provided without such powers. But policy must aim at the earliest and fullest restoration of automatic incentives over as wide a field as possible.

20. With the object of promoting the fullest mobility, the Trustees, under the direction of the Board (to protect those to be compensated), must collect and publish the current average piece-rates, and the current average time-wage-rates of those in each grade of a trade (such figures being based upon data obtained from the wage registers). The figures so determined must be called the " compensation standard ". Now it must be assumed that, in general, the compensated workers earn at least the " compensation standard "—that is, compensation must only be *automatically* credited to a worker on the assumption that his earnings equal the " compensation standard ". This assumption must always be made in the case of piece-wages.[1] It cannot always be made so in the case of time-wages. Hence, every case of a worker's time-wages falling below the " compensation standard " must be specifically examined if he claims full compensation. Thus, if he is earning, say, three-quarters of the " compensation standard ", the Trustees must be satisfied that the value of his labour *is* approximately three-quarters of the average. If they are not satisfied, they must find employment for him at a higher rate , or, if they cannot do this, they must recommend that his compensation be based on the " compensation standard ", and not on his actual earnings ; for the obvious implication is that they believe that he himself is not sufficiently enterprising in selling his services or that he is not working to the best of his ability. Such a procedure will not in any way prevent the employment of an individual who, for any reason, is considerably below the average in efficiency. Hence the cruellest effects of

[1] For if large differences in piece-rates existed, it would be proof of important immobilities which it would be the task of the Trustees to correct.

the trade-unionism and minimum-wage arrangements under present-day institutions generally will have been avoided. I have not incorporated these detailed provisions in the draft Bill but have given general powers (in Section 24).

21. But these safeguards will not eliminate the possibility of abuse in respect of the earnings of those who are worth more than the average.[1] Moreover, the prevention of actual collusion between employers and employed to increase the compensation payable may conceivably turn out to be a necessary function of some importance. In view of the compulsory passing on of the results of wage-cuts, I do not think that there will be much danger of this ; but we must not neglect the question of further safeguards. The Trustees must therefore undertake ultimate responsibility for the sale of the labour of all of those actually receiving guaranteed incomes. And they should be experts in the trades they inspect. The Security Grants, although wholly honourable receipts, must not be unconditionally paid. Every employee in receipt of compensation must be prepared to accept orders from the Trustees to move into a better-paid job (either locally or in a quite different district), or else to sacrifice a part of the " Security Grant " equal to the increased earnings renounced. He must, of course, always be allowed to use his own initiative. He must always be free to leave his present job for a better-paid job, i.e. a job which reduces the compensation actually payable. But he must renounce the right to accept a lower-paid job (which might be more congenial for various reasons) unless he is prepared to sacrifice a part of the Grant to which he would otherwise be entitled.

22. Now although it is desirable to plan the scheme on the assumption that incentives will be seriously weakened among workers receiving compensation, it is still desirable to do everything possible to create alternative incentives. Experience alone can show how far it will be possible to do this. Some of the incentives of the existing order may not only be retained but actually strengthened. For, given guaranteed minimum incomes, the real objection to piece-work (the well-founded fear that, in individual industries, a larger output may command lower aggregate receipts) can be overcome. Hence, in trades held to be appropriate for piece-rate payment, the incentive of the piece can be retained, together with the required security, by means of a slight modification of the scheme. Instead of the minimum incomes being individually guaranteed, the amount of guaranteed compensation for each individual must be fixed. That is, the

[1] Such workers are, of course, commonly penalised under the existing system of standard rates enforced by a trade-union, owing to the minima tending to become maxima under " joint monopoly ".

Security Grant must be independent of individual output and based upon the difference between average earnings in the trade concerned and the income which would be guaranteed if payment were by time.[1] The sum so fixed for each worker must remain (except as otherwise provided) until piece-rates are raised or lowered, when a readjustment must be made. By this device the incentive to individual efficiency is preservable. For similar reasons, it must be arranged that half the overtime earnings of a recipient of a Grant shall be retained by him. The question of incentives for juveniles will be discussed later (paragraph 28).

23. It must be arranged in all cases that (except for overtime receipts) no person who has received Security Grants during any year shall be entitled to retain more than his guaranteed annual income for that year until the Pool had been fully reimbursed. In the case of an individual first becoming eligible for the Grant, the full guaranteed average weekly income may be made up immediately. But six months after first receiving a Grant, the average income for the past year must be ascertained and a percentage deduction made from subsequent weekly payments from the fund until any sum overpaid has been reimbursed. Hence some incentive for personal thrift will survive.

24. The importance of guaranteeing annual income and not week-to-week income security is seen in the case of casual employments. Thus, the " established expectations " of a person who happens to be actually employed, on the average, for only half the days in the year, has to be based upon half his rate of earnings whilst he is actually employed. Hence he cannot be guaranteed this income for, say, each individual week. If he were, then during the weeks in which he was actually in employment he would *earn* twice this income. What has to be guaranteed by the Pool is annual income from labour, not income for any specified period. It might, of course, be desirable in casual trades to introduce a parallel scheme for equalising weekly earnings over the year. Compulsory saving of a proportion of earnings during employment could well be resorted to as a device for securing week-to-week income security ; and this would certainly eliminate the necessity for spasmodic recourse to the Pool. But it would be an additional expedient.

25. When incomes from work are supplemented from the Pool, the amount of leisure taken cannot be left free for those in receipt of Grants. Such workers cannot be allowed to choose their own hours of labour, either as individuals or in collusive association

[1] This does not mean that, in a given occupation, the rate of compensation will be the same, at any time, for each employee ; for one may have to be guaranteed a high minimum income owing to his having originally been attached to a skilled trade ; whilst his colleague may have originally been an unskilled labourer and so be entitled to a lower minimum.

with their fellows. Nor can such workers be allowed a voice in determining labour conditions. The Trustees (who will be representative of the *contributing* workers) must have some say on such matters through the Board ; and the Board must enforce (by the withholding of Grants) the hours and standards existing at any time for workers engaged in the same or similar work who are not subject to their control (i.e. who are not receiving Grants). The " normal hours " and " normal standards " so conceived of may be determined, on the request of the Board, by the Resources Utilisation Commission. During the transitional period, however, the problem of the hours of labour will have to be solved in a completely different way ; a question with which I deal in Chapter XIV, paragraph 20, and where I define " transitional period ".

26. A further condition for receipt of the guaranteed minimum income by an employee must be his willingness to undergo some form of approved training. The dissolution of the motive for restraint will create new incentives for the attainment of valuable knowledge and skills ; and this incentive must be strongly encouraged. Technical instruction will have to be organised on the largest scale and in the most practicable form—largely in co-operation with actual production, just as in time of war. This applies particularly to juveniles with whom I deal specially later on (in paragraph 28). But every worker receiving compensation must be liable to be called upon to devote his whole time to some specific training or some approved individually chosen training (whilst receiving his guaranteed income), or to devote a reasonable proportion of his leisure to the same end. The right to reduce his minimum income (not his actual income if his earnings exceed the minimum, it must be remembered) as a disciplinary measure must exist and be fearlessly and independently enforced.

27. Having dealt with the general nature of the scheme, it is possible to discuss in greater detail the determination of individual minimum incomes. During the introduction of the scheme, and especially in respect of combatants returning to civil employments, it will be desirable to take more risks in respect of the incentive factor than with future entrants to industry.[1] Hence, for those who were gainfully employed before September

[1] The incapacitated must be in part dealt with separately through the pensions organisation. It should not be difficult, however, to draw up plans under which, if they are able to take up remunerated employments, their pensions are diverted to the Pool, and a much more generous permanent income guaranteed to them under the scheme here put forward. In the new regime there will no longer be any motive to exclude the incapacitated from occupations because they are not worth the enacted trade-union or trade-board wage-rates. They must be strictly protected from enforced employment in trades which might increase their incapacity, however.

1939, the minimum incomes fixed must be generous. For those of the age of 25 years upwards, they must be roughly equivalent either: (*a*) to the annual earnings which actually ruled in the occupations in which they were engaged; or else (*b*) from a date five years after their post-war entry into or continued employment in their original occupation, or in any new occupation or occupations, to their average annual earnings during those five years in that occupation, whichever is the *higher*. In these cases, "established expectations" may be regarded as sufficiently clearly defined. The attempt must be to guarantee pre-war standards *as a minimum*; although, in view of the huge physical sacrifices of war, this *may* not be an attainable ideal for some years. The first minimum incomes fixed must be "provisional minima" subject to confirmation or amendment after the fixations as a whole have been centrally reviewed, and after the degree of success in the policy of productivity-stimulation has been ascertained. The younger entrants to industry must be given annually increasing minimum incomes, the full standard minima being reached at the age of 25 years. The standards in this case must be based upon current earnings in the trade in which they originally appeared to be likely to earn their living (a trade which they would in most cases wish to take up again), or according to the new trade which they do take up, whichever happens to be the *higher*.

28. On purely incentive grounds, it must be arranged that juveniles entering industry for the first time are less generously treated in respect of minimum incomes. They must be ineligible for full compensation when they first take up employment. They must have no guaranteed minimum income until they have reached, say, the age of 20 years.[1] From that age onwards, annually increasing minima must be fixed, the full standard minimum being reached at the age of, say, 25 years. The object is to prevent any tendency for the young worker to develop an attitude of mind which encourages him to rely unduly upon the guaranteed minimum. It must be arranged that only in a very small percentage of cases will the early guaranteed incomes exceed actual earnings; and other incentive provisions will be necessary. Before the young worker reaches the age of 25 years, he must be prepared to make the fullest use of the facilities offered for acquiring skills. The juvenile who forgoes income with a view to full-time training must in no way be penalised. His average earnings (the basis of the determination of minimum incomes) must be so calculated that training periods do not reduce them. In this way there will be every incentive to undergo technical training.

[1] Although they will have been contributing to the Pool from the age of 14 years. There will be no injustice in this, for they will have been building up a claim from the Reserve (see paragraph 38).

But a still stronger urge may be advantageous. A juvenile may have to be threatened with ineligibility for the full guaranteed minimum income on reaching the age of 20 if he does not diligently try to improve his powers. And the stimulus of the widest possible range of individual choice of occupation must be offered. The recruit or the young employee must be advised about the existing and probable future rates of wages in different occupations,[1] rates which will determine, later on, his minimum income. In this way he will be discouraged from entering an overcrowded (i.e. an underpaid) trade. If a juvenile is unemployed, there will be no unemployment benefit for him; but the Board must offer him immediately either employment or training; and, if he pursues the course of instruction offered with due diligence, he may receive (from the Pool) free board and lodging at a training centre or, alternatively, a training allowance. The object of these provisions is obviously that of providing the greatest possible inducement to the juvenile (*a*) to find the best-paid [2] occupation; (*b*) to equip himself for that occupation.

29. New entrants (including immigrants) to the labour market must be guaranteed gradually increasing incomes on a lower scale, reaching their maximum after ten years of employment when their established expectations must be regarded as equal, say, to three-quarters of those laid down for existing wage-earners. This does not mean that the *actual* incomes of future employees must be lower; it means that their *guaranteed* incomes must be assessed on a lower scale.

30. In determining "established expectations" for all classes of workers, the earnings obtained in certain types of occupations must be excluded. There are four categories here. (*a*) Service in His Majesty's Forces, (*b*) war employments, (*c*) reconstruction employments, and (*d*) impermanent employments. The Board must schedule these occupations and warn employees who adopt them of the implications. The occupations included must be those the demand for which is likely to cease and those for which the employees' capacity or suitability is likely to decline seriously with age, as, for example, in professional sport. In so far as scheduled war employments and scheduled reconstruction employments are concerned, whilst the Pool cannot be expected to bear the liability unassisted, arrangements can be made under which the Pool is reimbursed or compensated by the State for the special liability incurred for such employees.

31. As I have so far outlined the scheme, it has been concerned

[1] The collection and dissemination of comprehensive statistics indicating the price of labour in different occupations is an important part of the scheme.

[2] This use of the words "best paid" must not be taken to imply that the worker is to be discouraged from sacrificing income for congenial employment.

mainly with the procedure required for a period of transition. Its development as a normal method of providing security for wage-earners brings up issues which I need not discuss at this stage. But one point should be made clear. The minimum income accorded to any person must not be reduced (so long as he conforms to the full to the lawful requirements of the Board and the Trustees) except as provided for in the following paragraph. On the other hand, the minima fixed at the outset must be adjusted to subsequent increases in " established expectations ". The minimum must be raised following regularly increased earnings above the original minimum. It must be laid down that, say ten years after any steady and maintained increase of earnings (defined in Section 15 (iii) of the draft Bill), has been enjoyed by an employee, a sum equal to three-quarters of the rate of wages which can be regarded as having been continuously earned shall be registered as guaranteed income.[1]

32. The problem of the wage-earner's old age cannot be dealt with through the Pool. " Established expectations " have never involved the expectation that earning power will continue undiminished throughout life. We see this vividly in cases like those of chorus girls and professional sportsmen. And the special treatment in my scheme of " impermanent employments " is due to the probable decline of earning power in them. Of course, workers in impermanent employments may be diverted to others ; and earning power need not decline seriously. But the problem of declining powers in old age has to be considered. However desirable compulsory foresight may be (and this must, I think, take the form of compulsory saving for the communal provision of old-age pensions), it is a question which must be sharply distinguished from the guaranteed minimum income system which I am discussing. When a person's services lose value through economic causes it is a fortuitous misfortune for him. But declining powers are not a fortuitous misfortune ; they are certain and expected. It can be taken that, on the whole, the average earning powers of surviving individuals begin to decline from the age of 55 years. This decline is itself an established expectation. Hence from that age onwards every guaranteed minimum income must be gradually lowered. It must fall still more rapidly from the age of 60 years onwards. When the scheme is first introduced, the rate of the reduction must be on a more or less arbitrary basis, but it can be roughly graded from the first according to the occupations for which individuals happen to be specialised. Some types of employment are less suitable for the old than others. Later on, following

[1] The ten years' provision makes it virtually impossible for an individual to establish a fictitious claim to high " established expectations ".

the accumulation of experience, this system of grading can be carried much further, so as to divert the efforts of the old to kinds of work in which they can be both usefully and suitably employed. I must remind the reader that the gradual fall in guaranteed incomes does not imply that the earnings of the old must fall in every case. On the contrary, in many cases actual earnings may still increase considerably. But the Pool must not be burdened with demands on behalf of those who are unable to maintain their previous earnings. Nor is it desirable that the Trustees should have the invidious duty of frequently exercising entrepreneurship in controlling the labour of elderly persons, in demanding from them (under penalty of reduction of the Grant) the maximum output of which they are capable. In some cases the Trustees may be forced to undertake this duty. But the rapid decline of guaranteed incomes will make such cases few. It is essential, however, that a system of liberal, unconditional, compulsory and contributory old age pensions shall accompany the scheme. The *aim* should be so to fix premiums that ultimately an increasing pension is payable at a rate which exactly balances the decline in guaranteed minimum incomes. I need not elaborate this point. Whether the National Minimum (discussed in paragraph 36) should remain as a *State* guarantee of a minimum pension will depend upon how successfully productivity can be expanded.

33. Nor must the Pool be expected to cover insurance against loss of earning power due to ill-health or accident. It must be confined to mitigating the full effects of insecurity due to changes in demand, especially the demand repercussions of those drastic improvements in the productive system which must be brought about during the reconstruction period. If an employee's capacity falls through an accident, or through ill-health, his guaranteed income must be ruthlessly reduced. If his earning power falls to nil, his guaranteed income must be regarded as nil.[1] It is essential therefore that a liberal health insurance scheme and a liberal workmen's compensation scheme shall accompany the labour security plan.[2]

[1] If an individual's earnings cease because he is absent from work without authority, he must cease to receive any Grant.

[2] The present system in Great Britain is not unsatisfactory in these matters, although the repercussions of the methods of financing the "social services" may have reacted against the advantage of the working classes (see pages 160–1). Technical progress and changes in population composition have made it increasingly possible, in Great Britain, during the last two decades, "for a steady working-class man to go through life saving steadily and dipping but rarely and sparingly into those savings. His expenses for doctor's bills are nil, the costs of maternity, loss of wages in sickness, unemployment, maintenance of old people are largely met by compulsory insurance or grants from the State". (J. F. L. Bray, "Small Savings", *Economic Journal*, June–September 1940, p. 197.)

34. Whether it will be possible to maintain the minimum incomes originally laid down will depend upon various factors. The most important general consideration is that of monetary policy. Although an important question, the ideal system of money to accompany the reforms I am recommending need not be considered here. There is just one point which I must make, however. In so far as the monetary system can be designed to maintain a constant purchasing power of money in terms of wage-goods (i.e. the things upon which wages are spent), the minimum incomes will require no readjustments for monetary reasons. The increased flow of wage-goods will be expressed in the rise of average wage-rates received through employments as a whole. Hence the burden of compensation upon the aggregate earnings of labour and property will obviously diminish as productive capacity is more effectively utilised. But if the monetary system adopted permits changes in the purchasing power of money in terms of wage-goods, it will be expedient to arrange for the automatic adjustment of minimum incomes. In view of this, it must be provided that the guaranteed minima shall vary according to an authoritative cost of living index or indexes. Special provisions are necessary to ensure that persons with fixed commitments in terms of money are not prejudiced through this provision.[1]

35. But quite apart from monetary reasons, it might conceivably be imperative during the earlier stages of the policy to lighten the general burden of compensation originally fixed. If this is necessary, *all* guaranteed minimum incomes must be scaled down proportionately. If the minima are wisely fixed in the first place, however, there will be small likelihood of this being expedient. It will only become essential if aggregate earnings, after compensation from the Capital Security Pool, actually decline. With the removal of restraints on productivity this is hardly conceivable.

36. In order not to confuse exposition, I have so far refrained from mentioning, except casually, the National Minimum Income provisions. But the National Minimum must play an important part in the scheme. It must guarantee from the very first a certain lowly security even for the most unfortunate. At the inception, it will be necessary to fix the National Minimum at a rather low level; but as the rehabilitation of physical resources and the release of productive power give rise to an increased flow of wage-goods, it will be possible gradually to raise it. I think that it would be desirable to make provision for automatic in-

[1] See Section 17 (ii) of the draft Bill. The rent of buildings is excluded from that Section because it is dealt with in Section 79 of the *Resources Utilisation Protection Bill*.

creases by placing discretion with the Minister of Labour who, following a recommendation from at least three-quarters of the Trustees, should have power to enact a higher National Minimum. Only part, and probably only a very small part of the burden will fall on the Pool; for employees whose failure to earn an income as high as the minimum is due to some defect of physique or deficiency of intelligence must be otherwise provided for: they must be compensated to the full extent of the National Minimum from State funds: and the old (those of 55 years and over) must be similarly compensated—if productivity makes the burden expedient, again to the full extent of the National Minimum. Provision for society's unfortunates ought to be a charge on society as a whole, whilst the able-bodied and normally intelligent ought to be given that basic security conferred by equality of opportunity in the labour market. In the case of the latter, therefore, the burden of the guaranteed National Minimum is most properly imposed on employees as a whole; for there must be every incentive created for the employee's representatives —the Trustees—to clear away the barriers against equality of rights in employment. If the failure to earn more than the National Minimum is due to a character defect, if the phenomenon of the "work-shy" persists in the new order, the discipline exercised by the Trustees, mitigated if necessary by the superior authority of the Board, is likely to serve as an effective spur to moral regeneration.[1]

37. It is a corollary of the plan as a whole that unemployment insurance in other forms and poor relief for the able-bodied shall be brought to an end. For the unemployed worker will receive at least the National Minimum Income, provided that he observes his obligation to accept any job offered to him. Unemployment (apart from that of the unemployables) must very soon disappear, for all can be found some productive occupation, even if remuneration in that occupation happens to be much below the National Minimum.[2] In short, the scheme itself provides the most complete and far-reaching system of insurance against fortuitous loss of income that is conceivable.

[1] It should be noticed that the National Minimum which I recommend is not a family minimum, like that recommended by Mr. Seebohm Rowntree and the family endowment advocates. Both "means" and "needs" tests seem to me to involve a pernicious principle, except when a siege economy prevails, as it does of course in time of war. I do not wish to suggest that the principle of individual responsibility for dependants cannot be supplemented by collective provisions for the welfare of the unfit. Other provisions of my plan will make this clear. "Means" and "needs" tests savour of mere palliation; and they are undeniably unjust.

[2] Cases of remuneration below the National Minimum will almost certainly be rare, however. For the gradual dissolution of demarcations, the growing relaxation of restriction on entry into the better-paid trades, and the lowering by degrees of protected wage-rates will add to the profitableness of attracting workers out of the lower-paid trades.

38. In conclusion, I come to the function of the " Labour Security Reserve ". As described so far, the scheme is based upon a uniform percentage Levy. All classes are required to pay the same proportion of earnings, irrespective of the risk, in the form of Levies. This would be manifestly unfair if there were not some type of compensation. Theoretically, an extra contribution equal to the " economic risk element " in the remuneration of occupations should be demanded from each contributor.[1] But how can this be arranged ? It is quite impossible to predict the degree of risk. It is not only a question of some *occupations* involving greater economic risk than others. There is the *personal* element. The degree of risk borne by the Pool is not uniform for each employee : declines in earning power from economic causes may not, in general, be unaffected by individual character. Hence, as the scheme must aim at countervailing inevitable risk and not merely at subsidising the unsuccessful at the expense of the successful, it is both expedient and equitable to introduce something in the nature of a rectifying bonus. It is for this purpose that 25 per cent. of the receipts from the Levies are to be accumulated, at compound interest, in the " Labour Security Reserve ". 75 per cent. of the Levies only are to be paid into the Labour Security Pool, and Security Grants will be payable from the Pool only. A sum from the Reserve must be returnable (*a*) on the death of any contributor, to his heirs and successors, (*b*) when he attains the age of 65, to himself (in any form that the Board thinks most expedient in the interests of security). The appropriate sum returnable in each case must be determined according to some formula thought to be equitable. It must depend chiefly upon the proportion which a person's aggregate contributions to the Pool bear to his receipts from the Pool in the form of Security Grants. A scheme of the following kind would be appropriate and possible if the revenues of the Pool and the disbursements from it exactly balance (and ultimately the Levies will be so fixed that this balance is attained). If an employee has received no Security Grants (excluding training allowances paid from the Pool to juveniles) during his life, or up to the age of 65, he must receive from the Reserve approximately double the amount of his contributions to the Reserve accumulated at compound interest. At the other extreme, if his contributions to and receipts from the Pool (in the form of Security Grants) are exactly equal, he must have no claim on the Reserve. And if the proportion of his receipts from the Pool to his contributions to it has been 25 or

[1] It has been a principle of orthodox economic teaching since the days of Adam Smith that remuneration (" profits " in Adam Smith's language) varies " more or less with the certainty or uncertainty of the returns ".

50 or 75 per cent., his bonus must be 150 or 100 or 50 per cent., respectively, of his contributions to the Reserve plus interest. The scheme is therefore a device for compensating the better risks. The proportions fixed in the scheme I suggest are, of course, quite arbitrary. But their tendency will be recognised as just, and they clearly create the right incentives.

Summary of Chapter VIII

Labour Security

(1) *The scheme described is revolutionary and tentative.* (2) *Under it, the trade-union organisation will be retained but will function to ensure income-security, not to determine the price of labour.* (3) *Guaranteed minimum incomes based upon "established expectations" will be fixed for each individual man* (4) *and woman worker.* (5) *A "Labour Security Pool" and a "Labour Security Reserve" will be raised from a uniform percentage Levy on all earned incomes. The Pool will be the source of compensation.* (6) *It will be subject to compensation from the "Capital Security Pool" and* vice versa. (7) *After the establishment of the Pool, minimum (not actual) wage-rates, fixed by trade-unions or the State, will be gradually lowered by authority.* (8) *A "Labour Security Grant", carrying no stigma, will be paid to those whose wage-rates fall below their guaranteed incomes.* (9) *The scheme differs from the "Speenhamland" in that* (a) *employers will be required to pass on the benefits of wage-cuts; and* (b) *entrepreneurial rights will not be retained by those receiving "Grants".* (10) *If the average wage-bill of a firm falls through a wage-cut* (11) *a defined minimum cut in the price of the product,* (12) *determined from wage statistics, will be enforced.* (13) *Declines in external cost will have to be passed on also.* (14) *With merchants, competitive pressure will be relied upon to enforce the passing on of wage-cuts and reductions of external operating costs;* (15) *but reductions in the cost prices of goods stocked will have to be fully passed on.* (16) *In this way an additional (although rather crude) safeguard against tacit collusive monopoly will be provided.* (17) *The administration of this process will be under the control of the "Resources Utilisation Commission" with functions similar to those of the Federal Trade Commission of the U.S.A., but with much greater power.* (18) *The chief obstacle will be the traditions of business secrecy.* (19) *A Board and Trustees will undertake entrepreneurial responsibility for the employment of recipients of Grants.* (20) *With this end in view they will examine wage statistics.* (21) *Hence compensatory "Security Grants" will not be unconditionally paid.* (22) *Incentive will be preservable through the adaptation of the scheme to piece-rates and by permitting the recipients of "Grants" to retain one-half their overtime earnings.* (23) *The Pool will have to be reimbursed by any contributor for "Grants" received in any year to the extent to which his annual income in that year exceeds the annual income guaranteed.* (24) *This is an important provision in respect of casual employments.* (25) *Recipients of grants cannot be allowed to determine their own hours*

or conditions of labour. (26) *Recipients of grants may be required to undergo training.* (27) *Principles for determining "established expectations" for those employed before September 1939;* (28) *for juveniles;* (29) *for new entrants into occupations.* (30) *Certain scheduled employments must, by reason of their impermanence, not be regarded as establishing expectations.* (31) *Established expectations must be held to rise following regularly increased earnings.* (32) *Established expectations and guaranteed incomes must be held to decline in old age* (33) *or when an employee's capacity falls owing to ill-health or accident.* (34) *The original minimum incomes fixed may have to be automatically adjusted to cost-of-living changes;* (35) *and it may be necessary to reduce the minima for other reasons; but this is unlikely.* (36) *A National Minimum income must be enacted, originally fixed at a low level, but with machinery provided for automatic increases. The Pool must be liable only for the able-bodied and normally intelligent.* (37) *Unemployment insurance and poor relief for the able-bodied must cease.* (38) *The Labour Security Reserve must be used to compensate the better risks under the scheme.*

CHAPTER IX

PROFESSIONAL SECURITY

1. IS it possible to apply the scheme discussed in the last chapter to those engaged in salaried and professional employments? The problem of security certainly exists in these fields.[1] Some of the most heartrending cases of personal suffering have been caused through the sudden dismissal of middle-aged employees. Monopolistic amalgamation, output limitations, the ruin which follows the breakdown of restriction schemes, and genuine administrative economies have at times meant disaster for the unversatile clerk or official in private employment. Even under a competitive regime, the highly specialised clerk might inevitably be in an insecure position. Hence there is a problem. But is it a problem which is solvable by the means I have just been discussing? I believe confidently that it is. At the same time, I do not claim that the methods of application which I recommend here are necessarily the most appropriate. I have sketched the details of certain ways of applying the scheme; and in so doing I have merely shown the inherent practicability. The *ideal* arrangements may well differ in certain repects.

2. But my case does not depend upon the extension of the scheme to the occupations discussed in this chapter. If, for political reasons, it is impossible to cover clerical and professional employments by the Labour Security Fund, or some separately constituted fund (to which these classes would contribute), it will not ruin the rest of the scheme. And it will in no way *increase* insecurity for those classes if they are omitted. The whole tendency will be in the other direction. Consider clerical labour. In Great Britain there are few minimum wage-fixations in the clerical trades. Hence there will be no danger of loss to clerks through the relaxation of formerly existing controls under the reconstruction plan which I recommend. Again, compared with those engaged in labouring or artisan work, even the lower grades of counting-house and salesman employments are relatively highly paid. The "black-coated proletariat", although many of its members have suffered from the improvement and spread of elementary and secondary education, still seems to be much better off in wage and security benefits than any broad section of the artisan or labouring class. Hence, if (for political reasons) such types of employment have to be left out of the scheme,

[1] See, for instance, W. M. Kotschnig, *Unemployment in the Learned Professions*, and F. D. Klingender, *The Condition of Clerical Labour in Britain*.

there is not likely to be any great additional blow to established expectations; the classes concerned seem *relatively* well able to look after themselves; and in any case, the other provisions will greatly enhance security through the removal of the arbitrariness which is inevitable in a monopolistic society. But I believe that the advantages to be obtained from making the scheme all-embracing are so considerable that the detailed form of my proposals as a whole is based upon the assumption that these classes are fully covered.

3. The *difficulty* of bringing clerical labour into the scheme arises, firstly, from the general impossibility of defining output and efficiency. Secondly, entrepreneurship in respect of clerical labour cannot be very effectively taken over by the Labour Security Trustees, except in cases like that of shorthand-typists, whose technical skill is capable of some measurement. Thirdly, there is no practical method by which the benefits of wage-cuts can be simply secured for consumers. Fourthly, there may be no effective means of preventing employers of clerical labour from deliberately cutting the salaries of those whom they know will be compensated. The danger here is emphasised by the fact that the higher-paid clerical officials are often remunerated at scales of pay which are much above their market worth. I mean by this that such officials may be especially useful in their existing jobs owing to their accumulated experience, whilst that experience may be relatively valueless outside the firm. And on occasion they may be paid highly chiefly as a means of maintaining their loyalty to their firm. Moreover, the higher earnings of later life sometimes contain important increments of reward for loyal services in the past.

4. But in all these cases it is doubtful whether the salary earnings of a decade can be regarded as a source of " established expectations ", in the sense that commitments and standards of life are inevitably moulded by them. The well-paid middle-class employee usually knows the risks attaching to his post. Indeed, as I have already pointed out, many jobs are relatively highly paid as a recompense for their inherent and inevitable insecurity. Now we cannot eliminate the risk of loss of earning power; but we can make arrangements for spreading part of that risk. And we can do this and avoid the chief dangers if we guarantee a considerably lower standard of minimum incomes on a basis of " established expectations ". I believe, therefore, that the labour security scheme *can* be applied to employments other than artisan and labouring work in the following modified form.

5. A necessary, but relatively unimportant provision is that, for employees in clerical and executive occupations who were gainfully employed before September 1939, the guaranteed

minimum incomes must in no case exceed three-quarters of what would have been guaranteed to them if they had been artisans or labourers. Juveniles and new entrants to such occupations need not, in my present opinion, be treated differently from artisans and labourers; provided that the Board and Trustees are assiduously vigilant and thoroughly alive to the dangers. But the really important provisions relate to the higher ranges of incomes. The proportion of previous earnings guaranteed must decline rapidly, for all employees, as the higher incomes are reached. Thus, for those whose continuously earned income (see Section 15 (*g*) of the Bill) exceeds £600 per annum, the guaranteed minimum income must cover one-half of the excess over £300 only. For example, if the continuously earned incomes are £600 or £1,000 or £1,500, the guaranteed minimum income must be £450 or £650 or £900, respectively. The more highly paid employees can be expected to make their own arrangements for security; and in view of the strongly equalitarian tendency of the accompanying reforms, they should be deliberately discouraged from moulding their standards on unduly high expectations. The uniform percentage Levy will be payable by employees in this class, but a larger proportion of the Levy (the proportion borne by their guaranteed minimum income to their actual earned income) in any year must, in their case, be paid into the Reserve (as opposed to the Pool). This will serve to redress the apparent discrimination against the higher paid.

6. The definition of "salary" will give rise to difficulties in some cases. For example, earnings plus drawings, as well as the so-called "salary" of a partner or director of a firm, may include both payment for personal services and remuneration of capital; and the "profits" of a one-man business always include an important element of remuneration for personal efforts. The problems which arise are capable of fairly arbitrary but nevertheless satisfactory solution. They are most appropriately dealt with at a later stage. (See Chapter X, paragraph 7.)

7. The protection of established professional expectations I regard as among the most important accomplishments of the scheme. Although not *essential* it will be an enormous advantage. For firstly, equality of opportunity in society generally has to be guaranteed to make the idea as a whole democratically acceptable; secondly, professional organisation to-day constitutes a formidable and conspicuous barrier to equality of opportunity (quite apart from being, at the same time, a hindrance to professional efficiency and cheapness of service)[1]; and thirdly, *the protection of established income rights may alone make the reform of professional organisation a politically conceivable project.* To

[1] See Graham Wallas, *Our Social Heritage*, Chapter VI, "The Professions".

illustrate the feasibility of my plan requires some consideration of detail which will be different for one profession from what it will be for another. I shall not worry the reader with the particular problems to be encountered in applying the scheme to all professions, however. I shall deal with the general idea by detailed illustrations for the medical profession only, the field which gives rise, I believe, to the most awkward difficulties and scope for misunderstanding It seems to me that if the plan can be successfully applied to doctors, its application to those in all other occupations will be relatively easy. In order not to add to the bulk of this book, however, I have omitted the special provisions required from the draft Bill.

8. In the case of the professions generally, the reasonable incomes to be guaranteed cannot be as simply determined as they are for wage-earners and salaried workers. Whilst established expectations must be taken into account, the attempt to do so brings us to a complication. In most professions, a continuous increase of earnings until quite late in life (as professional experience is acquired and connections are built up) is an *apparently* reasonable hope.[1] Hence it seems to me that established expectations must be guaranteed in the form of increasing income increments. Careful analysis and study of the statistics of past earnings, as disclosed by income-tax records, must serve not only as the basis for the calculation of *immediate* guaranteed incomes, but as material for the construction of index numbers to determine the future course of guaranteed incomes. It will be convenient to divide medical practitioners into four classes: (i) those with more than twenty years in practice; (ii) those in practice for at least ten but less than twenty years; (iii) those in practice for less than ten years; and (iv) those entering practice subsequently, for the first time. Readers who are prepared to take details for granted may skip paragraphs 9 to 13, which explain suitable compensation formulas.

9. Those in class (i) must be generously treated. An immediate income based upon their average earnings during the ten years before the war must be guaranteed. This minimum must be modified annually according to an index number representing as a percentage the average expectations of change in earnings for each successive year of practice. Such an index can be compiled from income-tax statistics relating to the ten years prior to the war. That is, the index must represent, as a percentage of average earnings (during the ten years) of practitioners

[1] I say "*apparently* reasonable" because I do not believe that such hopes will have been realized during the coming generation. Thus, the future of medical earnings is being increasingly threatened by what I have called accumulating "participating idling" in that profession. See *Theory of Idle Resources*, pp. 120–2.

in the first year of practice, the average earnings of those in the second year of practice, those in the third year of practice, and so forth, so as to cover ultimately the relevant field, namely, the period from the twentieth year onwards. By the application of this index, a scale of guaranteed incomes for each established practitioner in class (i) will be arrived at.

10. Given the very reasonable assumption that expectations are less " established " in the early years of practice, class (ii) cannot expect quite such generous treatment. They must be prepared for the possibility of finding the profession less lucrative than their predecessors. Once again, the immediate income guaranteed must be the average earnings of ten years. But the index of increase must be less steep and throughout lower than for class (i). There must be an even gradation in the indices of guaranteed income variation over the range covered by class (ii). Thus, a practitioner with nineteen years' experience must not appear to be seriously discriminated against when compared with one of twenty years' experience. Similarly, one in class (ii) with ten years' experience should not be grossly favoured as compared with one in class (iii) with nine years' experience.

11. Those in class (iii), i.e. those with less than ten years in practice, must have a still lower order of incomes guaranteed to them. I admit that the younger doctors, and even those who have not yet qualified, can be held to have some " established expectations " ; but such expectations must clearly be much less strong. Those who have been nine years in practice must be accorded an immediate guaranteed income equal to the mean of (*a*) $\frac{39}{40}$ths of their average individual earnings over those nine years and (*b*) the average earnings of all during their ninth year of practice over those nine years. Those who have been eight years in practice must be accorded the mean of (*a*) $\frac{38}{40}$ths of their average earnings over those eight years and (*b*) the average earnings of all with eight years of practice over those eight years ; and so forth. Thus those who have been in practice for one year will have an immediate guaranteed income equal to the mean of (*a*) $\frac{31}{40}$ths of their earnings for that year and (*b*) the average of all first-year earnings. But this formula can only be regarded as a sort of guiding principle. All cases must be individually considered. Thus, the figures so determined must be modified in order to be just to those who have sacrificed early earnings for further study or the acceptance of approved, low-salaried hospital posts. Such practitioners must be started with a relatively high guaranteed minimum. I suggest that the index of increase for class (iii) shall be that applying to practitioners with exactly ten years of service.

12. Those in class (iv), i.e. those just qualifying as medical

practitioners, must, of course, also be accorded minimum guaranteed incomes, rising year after year. But in their case the scale offered must be standard for all. It must therefore be on a lower scale than that for class (iii). The average height of the *scale* of (annually increasing) incomes guaranteed to new entrants must fall in each successive year by gradual increments. The rate of fall should, I feel, be about $\frac{1}{40}$th per annum. The scale must fall until it is approximately equal to three-quarters of average yearly earnings throughout. The gradual fall is essential because the scale of incomes guaranteed to group (iii) will almost certainly be found by experience to err on the generous side. Now when the guaranteed minimum income has fallen to three-quarters of average earnings, it will no longer be necessary to make special provision for the medical profession. By that time the ordinary security arrangements will be adequate, although some sort of transitional scheme might still be expedient.

13. One further type of compensation will be required. The sale of medical practices must cease [1] and some kind of reparation will be essential. Our current treatment of a practitioner's goodwill as commercial property is an anachronistic abuse which a more just society will be quite unable to tolerate. It must go at once. The recoupment demanded by distributive justice must be paid to practitioners in class (i) on retirement (if due to ill-health or the attainment of the age of 60 years), or on death, to their heirs. The amount of the compensation payable must be determined as at the date of the reform and based upon an investigation into the average relation of earnings and the realised sale prices of practices in different districts in the past. The compensation will be withheld until death or retirement, but will *not* include interest, for *that* element is already compensated in the highly generous minimum incomes guaranteed to this class. Compensation must also be paid to those in class (ii), but at a rate which tapers to $\frac{1}{10}$th (of that payable to class (i)) for practitioners with ten years of practice. That is, ultimately no compensation will be payable for having *built up* a practice. But *all* practitioners must receive on death or *bona fide* retirement compensation at least equal to any actual sum they have paid for a practice at any time before the introduction of the scheme.

14. As I see it, the professional classes will be much more generously treated than any other classes. This is inevitable because they are the only marked section of the community which is in danger of losing income as a whole. But their losses must be made good. The price of reform in this case is likely

[1] I do not think that it will be difficult to prevent the veiled sale of medical practices. The conditions of partnerships (if still permitted) and the salaried employment of one practitioner by another will be subject to scrutiny.

to be heavy. But that price will buy long-term equality of opportunity and efficient services. For this reason I feel that it would be unfair for the whole burden, or even the chief part of the burden, of compensating professional incomes, to fall on the Labour Security Pool. A different income class should bear part of the liability. Professional incomes to-day may sometimes be most realistically thought of as remuneration of property. For instance, the President of the South African Medical Association recently complained that locums taking the place of practitioners going on active service were " profiteering ". He said : " A country town practitioner who has joined up endeavoured to obtain a locum for his practice. A prospective candidate (name given) when interviewed, stated that his terms were £100 a month, all found. This candidate qualified in 1939 and has had hospital experience since graduation but no experience of general practice. He was not taken on." Now this young " profiteer " must have known that the practice itself could well afford that sum ; and, after all, *he* was going to provide the medical services which were to be remunerated by the patients of the departing doctor. But the President clearly thought it right that any earnings over and above from 1 to 2 guineas a day ought properly to be regarded as a sort of rent, payable to the owner of the practice. The property aspect is obvious. But it is the incidence upon income classes which concerns me principally. The solution I suggest is that at least one-half of the compensation payable to classes (i) and (ii) (see paragraphs 9 and 10), including compensation for the goodwill of practices, should come from the Capital Security Pool, the Levy paid by practitioners in these classes (less the contribution to the Reserve) being equally divided between the two Pools. The Labour Security Pool must not be completely exempted, for the contributors to that fund are likely to be the chief beneficiaries from any improvement of professional organisation.

15. If we can rightly assume that the main obstacle to be overcome in the profession is fear of pecuniary loss, there are good grounds for optimism about what this plan can accomplish. But subtle questions of prestige and status will also be involved here. The very implications of the scheme as described may in themselves amount to so damning a criticism of present medical organisation that the minds of the elder and most influential practitioners are likely to be repelled by it. The typical professional man, wrote Graham Wallas, " surrenders himself as completely to his hatred of the ' faddists ' and ' bounders ' who propose change, as a dog does to the sensation of fear ".[1] And how easy it will be for mischief-makers to represent the scheme

[1] Graham Wallas, op. cit., p. 124.

as a system of " doles for doctors " ! But the Security Grants are not " doles ". They are, and they must be represented as, the honouring of a huge social contract—a collective distributive contract. The scheme must be truthfully described in terms which are likely to make it acceptable. For the explanation of the reforms, a terminology which does not reflect upon the medical profession's dignity must be tactfully devised. But any resistance from the professional classes must be faced and overcome. They must be taught the blatant fact that they will be worse off under any alternative. Professional organisation can no longer be allowed to stand in the way of equality of opportunity and efficient services. This powerful section of the community must be convinced that it has to give up methods which the working classes have also been called upon to renounce. The scheme is psychologically conceivable.

16. The Capital and Labour Security Boards, working through the Trustees of the Pools, will have to reserve the right to control the employment of practitioners who are receiving Security Grants. A joint committee of the two sets of Trustees must undertake the task for those in classes (i) and (ii), and the Labour Security Trustees alone for those in classes (iii) and (iv). But it seems *probable* that it will seldom be necessary to interfere on the grounds of professional slackness. For the general effect of the system as a whole may well be to enhance the better side of professional traditions and to lessen the more sordid aspects.

17. At this stage I must say something about the steps which are essential to secure the efficient organisation of the profession as a whole. This is a brief aside in my present discussion. It involves the problem of *utilisation* rather than the problem of *distribution* which is the immediate issue. But the implications of the guarantee of incomes cannot be grasped without some understanding of the far-reaching reforms which make necessary and justify that guarantee. All types of professional restrictionism must be gradually brought to an end. For example, several expedients for professional money-making through charges for routine services must cease. Many tasks which are usually performed by doctors will have to be performed by nurses or mechanics at suitable rates of remuneration. Purely technical jobs, like the taking of X-ray photographs, should be commercially performed. I understand on the highest scientific and medical authority that there would be few dangers of abuse in such a system ; the advantages would be many. The price of X-ray plates commercially and competitively supplied would be a few shillings, instead of several guineas as at present. The point is too obvious to need development.

18. But what about the actual government of the professions? I can hardly deal adequately with this important question in the present context. But I must refer to the fundamentals. I have discussed the problem with some of the wisest and most disinterested medical practitioners. They are all agreed that the chief defects of contemporary medical organisation arise from the fact that the governing body is mainly concerned with the pecuniary interests of its members. Hence, in the new order which I am recommending, when control of any kind is to be exercised, the boards to which authority is delegated must be " ruthlessly constituted to exclude (except as advisers) . . . those with specific commercial, trade or professional interests, loyalties and prejudices relevant to the particular board's scope; and persons likely to be influenced by their popularity with those whom their decisions can affect ".[1] The controlling body in this case, as with all control boards under my scheme, must be chosen by, mainly representative of, and subordinate to, the *Resources Utilisation Commission.* Of course, *advisory* medical panels will be essential for the scheme. And existing medical associations and councils can be retained for this purpose. But such bodies must be specifically debarred from dealing with any matters affecting the level of medical charges or medical remuneration. Nor must the advisory bodies have any power to determine demarcations of function between the medical, nursing and pharmaceutical fields. The existing differentiation of function has been fashioned mainly as the result of moves to protect incomes. The provision of an alternative income protection will make it possible for a revolutionary improvement in the arrangement of division of labour between grades, and between general practitioners and specialists. New motives will be likely to dominate both the organisation of the supply of medical services as a whole, and the system of guaranteeing and certification of the quality of those services. In brief, a more appropriate framework within which both private and State-directed practice can be carried out may be deliberately devised under the new order.

19. With independent control, it will be possible to open the entrance to the professions. And this reform is one which cannot be avoided in a just social order. Thus, the accidental availability of family income to pay for the long and costly medical training cannot be allowed to continue as a major selective factor. There must be no suspicion that the sons (and daughters) of the relatively well-to-do, or those with access to the required capital, can still monopolise this profession. The right of entrance to the course of study must be determined henceforth solely by

[1] *Economists and the Public*, p. 104.

open competitive examination.[1] Then, if the parents of those who qualify for entrance cannot afford to pay for the training, the situation must be remedied in two ways. Firstly, a liberal scholarship system is required. Secondly, a system of students' loans, sufficient to enable medical studies to be pursued by the poorest, is required. I regard this as the chief requirement. The loans must be advanced from a fund specially created for the purpose. It must be available for selected students endeavouring to enter, and showing probable capacity to qualify for, all professions which offer salaries and prospects sufficiently favourable to make the gradual repayment of the loans a reasonable expectation. Moreover, in order to prevent the impecunious potential student from being frightened off by the fear of debt, it must be made clear that those who fail to qualify as practitioners must have no responsibility for the refunding of the loans, unless their subsequent incomes, in whatever profession they do take up, begin to approach a certain level of earnings (e.g. the level in the profession studied). That is, the successful must to some extent pay for the unsuccessful. Such a system is justified in the present case because, in financing the studies of the poor, risk must be taken. Hence those assisted who happen to qualify (and so benefit financially from their studies) may be legitimately called upon to bear the whole costs of the training of those who fail. The repayments must be made in the form of a charge on future incomes (including guaranteed minimum incomes). I recommend a standard minimum repayment of interest and redemption of such a nature that all liability ceases on death or incapacity. It must be calculated actuarially in the light of the average expectation of active professional life.

20. A further important reform is the setting up of a State Medical Service. This must be managed by a body which is completely separate from the governing body of the profession, and subject to the governing body in exactly the same way as are the private practitioners. Now State competition is one of the devices that I shall recommend in a later chapter for enforcing " full employment " of all resources (i.e. of human powers as well as of capital equipment and property generally). I envisage in this connection a State medical service operating side by side with, and *competing with*, private practice. Every district must ultimately have at least one doctor established there

[1] The competitive examinations could well include an interview intended to determine the general suitability of a candidate for the profession, provided that : (*a*) the examiners for this purpose are deliberately chosen so as to exclude the possibility of snobbish or class preference ; (*b*) the social or class background of a candidate (e.g. his school, or father's occupation) is not made known to the examiners ; and (*c*) a candidate is not questioned with a view to the determination of his social or class background.

by the State. The State practitioners will be salaried. They must in part render services paid for by the State or out of health insurance funds, but the State must also undertake entrepreneurship. That is, fees must be charged for services rendered in competition with private practitioners " in the open market ", but the fees will not go to the salaried practitioners personally. The new entrants to the State service must at first be offered salary scales at least equal to the guaranteed minimum income schedule which I have just described. The State must guarantee employment at salary schedules equal to the guaranteed minimum to all doctors. Then, if it is found, after the passage of some years, that too many doctors are coming forward,[1] the average remuneration of all existing State-employed practitioners must be lowered in response to the general fall in the rate of medical earnings. Moreover, the guaranteed incomes of future entrants to the profession as a whole must then be lowered faster than the gradual fall which I have recommended, except for those who are already in training. On the other hand, if it is felt that insufficient new practitioners are likely to become qualified, the salary scales offered must be raised. The scales so determined must be high enough, therefore, to ensure that potential practitioners are attracted in adequate numbers from alternative ways of earning a livelihood. Hence there will obviously be nothing " unfair " about State competition in this case.

21. The State doctors must be available for consultation according to a schedule of fees which is neither fixed by them nor payable to them personally.[2] The appropriate *initial* level of charges for the private patients (i.e. paying patients) of State-employed doctors is that which will, on the whole, just pay for the salaries of the doctors engaged and the costs of the organisation.[3] Some time will be required to discover this level, however, and low arbitrary fees must at first be chargeable. And even when the level which just pays for the doctors' services is determined, it must serve only as a starting point. It will still be a guess. The level of charges must be adjusted in accordance with salary changes determined along the lines laid down in the previous paragraph.

22. The question of incentives under a State medical service

[1] I.e. if it is found that more doctors are coming forward than are likely to be required to guarantee that medical services of an estimated reasonable standard shall (given the aid of State subsidy and health insurance) *be within the purse of all.*

[2] Of course, a great deal of discretion in respect of fees must be delegated to the salaried practitioners because they must recommend treatment. But they themselves will not receive the fees.

[3] The level so arrived at must be used to determine also the amount which must be paid for services rendered by those private practitioners who are remunerated by State subsidy or from health insurance funds.

is one which many readers will expect to be discussed at this stage. But to deal adequately with it would require several chapters. The problem is very difficult in the medical profession because of the impossibility of simple " payment by results ". In the case of private practitioners, the right to choose between doctors according to their reputation or according to the recommendations of friends, and the right to change doctors, undoubtedly serve as important safeguards against both serious and venial abuses. Even if we admit that a host of spurious evidences of competence confuse the public's judgment, we must realise that certain real incentives and assurances are provided by the patient's right of choice and substitution. Thus, under the existing system doctors are, whatever their faults, fairly industrious. They are, on the whole, prepared to put in a moderate working day. But would *salaried* practitioners be prepared to give the secondary yet important services of courtesy and availability that are at the present command of private patients ? The answer is, I think, that under a system in which private practitioners compete with State practitioners, the dangers are more apparent than real. If, for example, we are unable to get over a tendency towards slackness on the part of salaried doctors, then the extent to which availability and courtesy are important to patients will be reflected in the demand for private practitioners as opposed to the demand for State practitioners. But if salaried doctors are less satisfactory in *this* respect they may be more satisfactory in *other* respects. As things are to-day, it is hard to tell how far private practitioners who are successful in the financial sense are the most successful in a medical sense ; and only cases of the most conspicuous incompetence can be made the basis of disciplinary action. Under a State medical service, however, there *must* be some persistent scrutiny, by a superior authority, of the results obtained. The salaried employee must inevitably be subject to inspection. The system I recommend requires the reporting as a matter of routine of all serious cases tackled by general practitioners in the State service, and the continuous availability within that service of specialist consultants. In this way a constant expert scanning and review of the ordinary practitioner's work will be possible. For this reason, although the new system will provide for more adequate control of non-State doctors, many patients may definitely prefer the State practitioners who, they will realise, will be subject to independent and expert supervision. It seems reasonable to conclude, therefore, that the two systems, competing side by side with one another, will enable the public to command the qualities and avoid the defects peculiar to each of them.

23. To understand the scheme envisaged, the reader must

visualise a triple control : (i) control of the profession, (ii) control of the State practitioners, and (iii) control of practitioners in receipt of Grants. *Firstly*, the controlling body of the *profession*, probably a completely reconstituted " Medical Council ", must be appointed by and subordinate to the Resources Utilisation Commission. This new Medical Council must have one dominating aim, namely, the organisation or reorganisation of the profession so as to give the community the cheapest and most comprehensive medical service. Exactly what form of specialisation and division of labour is needed to achieve this ideal is a technical matter. It must be carried out by some new system of certification and limitation of function which endeavours (*a*) to spread the right to perform and take responsibility for the simpler medical tasks (at the moment monopolised by " qualified " practitioners) and (*b*) to limit the right of general practitioners to take full responsibility for unusual cases when expert consultants are available. The powers and responsibilities of pharmacists, nurses, dental mechanics, radiographers and so forth must be greatly extended. This will mean a great economy. On the other hand, the powers of the rank and file of general practitioners must be curtailed. Consultants must be brought in, for defined serious cases, much more readily than is usual to-day. The codes and regulations drawn up by the Council (within the scope of special legislation) must apply without fear or favour to *all* practitioners whether private or State. How far the Council should undertake actual inspection of the work of private and State practitioners is an important matter on which wide differences of opinion are likely to exist. My own views are influenced by the fear that too close inspection and control of private practitioners will lead to stereotyped and unimaginative treatments. But this point could well be finally determined at a later date, following experience of the rest of the scheme. The Council must have no power to fix fees and must not endeavour to control fees in any way (except, in the patient's interest, in alleged cases of extortionate charging). On the contrary, to assist the market, details of the earnings of medical men must be collected by the Council and published for the information of the public and the profession. The relative profitableness of different districts and sites must be made known. " Squatting ", which is so fiercely objected to under existing professional organisation, must be actually encouraged. And mobility must be fostered by every possible means. Thus, every State-employed practitioner must be free to resign to enter private practice if he wishes.[1] For the rest, practitioners must

[1] Provided, of course, that if he is receiving a Grant, either the Security Boards approve, or he agrees to sacrifice part of his guaranteed income should his earnings fall.

be called upon to adhere to high professional standards; and I believe that higher, not lower standards will seem appropriate in the new era. *Secondly*, there will be the State Medical Board, appointed by the Minister of Health. This Board will be responsible solely for the efficiency of and technical organisation of State practitioners. It will resemble a huge medical firm. But the practitioners organised within it will be subject to all the rules laid down by the Council for the profession as a whole. *Thirdly*, there will be the Security Boards and the Trustees serving them. They must simply have the right of calling upon practitioners in receipt of Grants to move from less remunerative to more remunerative practices or types of employment, and to work diligently in their calling. Beyond this, the Security Boards and Trustees must have no rights. For it is only too likely to appear to them that any type of organisation which increases aggregate medical earnings, and so tends to reduce the burden on the Pools, is desirable in itself. This is, of course, not necessarily so. But as I imagine the scheme working, the Boards and Trustees will in practice hardly ever have to intervene.

24. One question of some difficulty is whether it will be wise to permit the continuance of what economists call " discrimination "—in this case the system under which patients are charged according to " what they can afford ". The usual assumption that this system is an effective method of enabling the relatively well-to-do to subsidise medical treatment for the poor is fallacious.[1] But there are two advantages to be gained from its temporary retention. Firstly, it will interfere least with the earnings of lucrative practices, and so ease the burden on the Pools (for the incomes of the owners of such practices are in any case to be guaranteed). Secondly, it is desirable in the interests of gradualness. It must be remembered also that the higher charges made to the better-off patients are very largely, if not mainly, for luxury services of high actual cost (even if not of specially high therapeutic effectiveness). There are no grounds for interfering with the sale of such services, but doctors in the State medical service will have no motive to supply luxury treatments; and the repercussions of their competition will gradually tend to eliminate such excrescences on the healing

[1] I mean by this that if charging were uniform for rich and poor and the well-to-do were taxed to an extent which exactly balanced the extra cost to them of medical services, the poor could be very much better served if the sum so raised were used as a subsidy. (See " Discriminating Monopoly and the Consumer ", *Economic Journal*, March 1936.) It is true that to some extent the rich tax themselves by preferring to consult fashionable practitioners and to undergo fashionable and expensive treatments. But it is very doubtful whether " conspicuous expenditure ", as Veblen called it, of this sort cheapens medical services for the poorer classes.

art.[1] The State's medical charges should be non-discriminatory.

25. It is pertinent to consider briefly at this stage the relation between this scheme and the legitimate field for health and accident *insurance*. Some of the difficulties encountered in this sort of insurance will remain in the new regime, and they will therefore continue to limit the extent to which resort can be had to the insurance principle. The existence of salaried, State-employed doctors will greatly reduce certain of the chief dangers, however, especially those of overcharging and the deliberate encouragement of the malingerer or the *malade imaginaire*; and this will tend to widen the safe field for health and accident insurance. Nevertheless, it will remain extraordinarily difficult even for the shrewdest and most experienced independent medical man to detect the malingerer. Humanity requires that the benefit of the doubt should be constantly given when actual symptoms are far from convincing; and even the completely disinterested practitioner will remain liable to serious error. A remarkable illustration of the truth of this statement is contained in a recent report of the Controller and Auditor-General in the Union of South Africa. It was discovered, not long ago, that many recipients of invalidity grants, who had been medically certified as wholly or three-quarters incapacitated, and whose condition had been medically certified to be incapable of improvement, had been subsequently accepted as fit for military service! The certificates in this case had been given by independent officials—District Surgeons, and not by doctors with any vested interest. Less startling errors of judgment must surely be widespread. Consider a complaint like neurosis. It has been pointed out that

> there is a high incidence of neurosis in pensionable callings with liberal disability benefits and where full wages are paid for long periods of sickness. The degree of neurosis in school teachers is traditional. It may seem unduly cynical, but one cannot fail to note the accelerated improvement in many of these cases when full wages are reduced to half-pay.[2]

Hence, quite apart from the scope given to the deliberate malingerer under any humane system, the possible extent of venial or even unconscious abuse in the aggregate, suggests that medical insurance can only usefully and justly cover actual accidents and specific maladies whose diagnosis is beyond doubt.

[1] The gradual growth of general equality of incomes will work in the same direction.

[2] A. Guirdham, "Social and Economic Factors in Disease", *Time and Tide*, 14th December 1940.

26. Abuse will be least and the poor best served when medical services are as far as possible paid for by the poor themselves and brought within their reach by the cheapening of the cost. If such a procedure fails to create a tolerable situation, it must be rectified by direct subsidy in the form of full or part payment of medical fees at the standard level. But whilst medical men are often incapable of detecting the malingerer, this does not always apply to individuals in close and constant contact with him. It follows that local mutual health insurance schemes might be arranged to cover the cost of most forms of illness. Endeavours of this kind could well be encouraged and official help given in the way of advice and supervision. Small groups, in which each of the members is known personally to the others, will not only be able to discover the persistent malingerer, but are likely to be as vigilant as a private patient in seeing that unnecessary treatments and overcharging are avoided.

27. The claim cannot be made that the scheme which I have put forward will solve all the problems of medical organisation. But it will raise the discussion of such problems to a higher plane. It is based upon two assumptions: firstly, that every individual has a right to medical attention without pauperisation—that is, that medical services must be brought within reach of his pocket; secondly, that equality of opportunity in respect of the right to serve the community in the medical profession (as in all professions) must be arranged. The two ends support one another. The appropriate field for the *collective* purchase of the conditions of health (what is usually called "public health") and the field for educative efforts in health promotion will be infinitely more rationally determinable when the medical vested interests have been brought out. Diseases like tuberculosis and syphilis will probably be regarded as falling under public health; deficiency diseases and most industrial diseases as problems to be tackled by education and "educative restraints".[1] There is almost certainly scope for remarkable progress in general health arising from improvements in medical organisation, especially through the cheapening of services rendered. But the new order itself will produce a psychological atmosphere conducive to general health in two ways. Firstly, it will eliminate the worries and insecurities caused by the rigidities and instabilities of a regime of restrained competition. Secondly, it will cause the worker's daily tasks to gain in interest when he is no longer inhibited from endeavouring to increase the value of his efforts (by means of improved quality or greater output), and when he himself is likely to reap the results of such increases. Hence, whatever unpredictable problems may be met with in applying the system

[1] See *Economists and the Public*, Chapter XVII.

of medical reorganisation which I recommend, the social situation as a whole is likely to be favourable. The grounds for optimism are strong.

28. I must remind the reader why this discussion of medical organisation has been necessary. I have had to include it in order to illustrate why elaborate compensation arrangements are desirable in the professions. It would unduly prolong my exposition if I tried to show the sort of changes which are required in other professions, and the appropriate security arrangements in each case. My task in this book is not to plan every division and fragment of the institutional structure of the new order. My aim is to demonstrate the soundness of the basic framework and the manner in which particular functions may be planned in detail within that framework. The professions like law, accounting, engineering and architecture, also require radical reform, both for efficiency of service and to permit equality of opportunity within them in serving the community. In each of these professions the chief obstacle will be the immediate distributive injustices of changes which, in themselves, are undoubtedly conducive to ultimate social justice. And I believe the solution which I recommend is practically capable of dissolving all the hindrances.

Summary of Chapter IX

Professional Security

(1) *The scheme already outlined is fully applicable to salaried and professional employments,* (2) *but even if this is held to be politically impracticable, the security of such occupations will be improved by the reforms as a whole.* (3) *In spite of admitted difficulties* (4) *arrangements can be made for spreading part of the risk of loss of earning power.* (5) *Established expectations of more than £300 per annum must, however, determine relatively small guaranteed incomes.* (6) *The salary element of income can be adequately separated from the capital remuneration element.* (7) *It will be a great advantage if the scheme can also guarantee professional incomes. For purposes of illustration, consider the medical profession.* (8) *Established expectations include that of continuous increase of earnings.* (9) *Practitioners who have been more than twenty years in practice must be guaranteed incomes based on their average earnings before the war, modified by an index of average increase;* (10) *those who have been in practice for between ten and twenty years must benefit from a less favourable index of increase;* (11) *those with less than ten years of practice must be guaranteed a still lower scale;* (12) *and those just qualified must be accorded standard minimum scales of guaranteed income which must fall year by year, for those qualifying in each subsequent year, by* $\frac{1}{40}$*th per annum until the commencing minimum equals three-quarters of the average of first-year earnings.* (13) *Com-*

pensation must be paid also for the value of medical practices, the sale of which must cease. (*14*) *The weight of compensation must fall partly on the Capital Security Pool.* (*15*) *Although full compensation for pecuniary loss can be guaranteed, tact and firmness may be required to overcome professional opposition to the scheme.* (*16*) *The right of the Labour and Capital Security Boards to control the employment of practitioners receiving compensation must be reserved; but it will probably be unnecessary to exercise that right.* (*17*) *Existing expedients for professional money-making must cease.* (*18*) *The government of the professions must exclude professional interests, existing professional bodies being retained solely in an advisory capacity.* (*19*) *Entrance to the professions must in future be by competitive examination only and made possible for the poorer classes by scholarships and loans.* (*20*) *A State medical service, with initial salaries equal to the minimum income schedules, must be established to compete with doctors in private practice,* (*21*) *the initial level of fees being just sufficient to cover salaries and costs.* (*22*) *Competition between the State and private practitioners will cause the incentives to competence and industry to be preserved and fostered.* (*23*) *A newly constituted Medical Council must plan the cheapest and most comprehensive medical service; a State Medical Board must supervise the State practitioners; and the Security Boards and Trustees must control recipients of Grants.* (*24*) *The practice of charging patients "according to what they can afford" should not be forbidden; but it is likely gradually to cease.* (*25*) *Health and accident insurance will probably be safely extensible under the scheme which I recommend,* (*26*) *local mutual health insurance schemes, in particular, being likely to be successful.* (*27*) *Improvements in general health are to be expected for additional reasons.* (*28*) *The application of similar schemes to other professions appears to be practicable.*

CHAPTER X

CAPITAL SECURITY

1. IT may at first be thought that the problem of providing security for the recipients of incomes from property (receivers of rents, interest dividends, profits) must present greater, even insuperable difficulties. But once again the chief hindrance will be the mere novelty of the plan. The other hurdles to be surmounted are less formidable because in this case there is a temporary problem, not a permanent one, as with Labour Security. The Capital Security arrangements are required simply whilst the full utilisation of productive power is gradually permitted or enforced. We are concerned with a period of transition only. I do not suggest that the *productive* problem is essentially a temporary one, but that the *distributive* problem, in so far as it bears on owners of property, will (as I explain below) ultimately solve itself. At first, however, the distributive problem is likely to be very real. Quite apart from other reforms, the abandonment of restrictive trade-unionism and wage-fixation, under the safeguards which I have described, will itself destroy the strongest pillars of inequalitarian capitalism. I must regretfully refer readers who do not understand this point to my previous discussions of it.[1] The sudden dissolution of "joint monopoly" (between organised workers and organised "employers"), which in my own judgment has long been the chief defence of profit-making scarcity, will create an irresistible motive for further recourse to *other* methods of restraint unless incomes are protected. If the trade-unions cease protecting the monopoly profits in which they have traditionally shared, then other means of restraint on utilisation (to defend such profits) will be furiously fought for—unless pooled income can be used to compensate. Now the scheme I recommend forbids *all* such methods. How, then, may individual insecurity of income be eliminated among property owners? If the "good employers" (I always use this term with some irony) lose the protection of trade-unions and the law, if all price-rings are at the same time drastically dissolved,

[1] "The idea of capital and labour having opposite interests in respect of restriction of output is completely wrong. It is to the advantage of all producers co-operating in any industry (workers or owners of equipment) that output shall not be greater than a certain level, and if they can act in collusion to secure this result, they will. . . . Those in an industry may, it is true, have wrong ideas as to where their advantage lies; but there is no *clash of interest* in this matter if consumers' interests are ignored." *Economica*, November 1935, p. 473). See also *Theory of Collective Bargaining*, pp. 98–104; *Economists and the Public*, pp. 348 *et seq.*

if all valuable resources are released for production, irrespective of the effect upon the profit-making power and capital values of particular sets of productive operations, how can cases of ruin be avoided in the investing classes?

2. It is partly this question of the incidence of the sacrifices with which policy must be concerned. The resistance to full productivity (from the classes directing industry) will arise largely from a vague fear of wholesale financial despair. But in part antagonism will be due to the cruel equalitarian force of competitive capitalism. And to obtain the goodwill of the propertied classes (still the most powerful classes in Great Britain and likely to retain their power), society must be able to guarantee that their *ways of living* are in no danger of extermination. This does *not* mean the continued tolerance of ostentation. The new regime must *appear* just as well as *be* just in conception; and the favoured classes will expect and be prepared to accept heavy sacrifices. But they will fight violently against institutional changes which seem likely to destroy completely the modes of living to which their outlook and habits have become adjusted and for the return of which they have been longing during the war. The compensation of property owners must therefore take the form of the prevention of ruin, using the term "ruin" in a very broad sense. It must strive to ensure a just incidence of any sacrifices to be incurred and, for a generation, to protect an inequalitarian income structure from the assault of competitive capitalism. The protection of the investment income of small investors will be a parallel achievement.

3. In the long run, as I have already suggested, the security aspect of the distributive problem can be much more simply solved when dealing with incomes from property than when dealing with wage and salary incomes. For if any person's investments are sufficiently widely spread, there is no reason why the full employment of all productive capacity should cause him to be faced with ruin.[1] Ultimately, therefore, the security of income from capital must be achieved, not by any system of pooling, but by the spreading of investments. Investors who refrain from spreading must bear the consequences. In the case of the small investors, the fixed trusts seem to some extent to supply the solution, provided that schemes for stringent auditing and publicity are instituted. When I speak of "solution" I mean that, after a transitional period has elasped, the small investor who does not make use of such institutions will obviously

[1] In the short run, the spread of investments, even as organised through "fixed trusts", might not give adequate security to investors, in the event of the adoption of the other reforms here recommended. Thus, some of the fixed trusts cover industries in which the capital values as a whole may have been enhanced by restriction.

be deliberately risk-taking with his savings. To make this clear to him is definitely part of the State's educative functions. And the State itself should compete in the task of arranging investment trusts without, of course, guaranteeing the capital involved. In general, the community must be taught that spreading spells security. And if this lesson can be learned, one of the most persistent economic illusions will vanish. The belief that unrestrained competition (i.e. unrestrained utilisation) can mean ruin for *all* is an extraordinary hallucination. The unchecked utilisation of physical productive power cannot cause a fall in the return to capital resources as a whole. On the contrary, it can only bring about an enormous increase in that return. It is *particular* capital resources which may lose value seriously; and it is the fear of individual losses which normally constitutes the chief obstacle. The whole system seems to be threatened with an instability that only restrained utilisation or restraint of competing development can rectify. Thus, the British railways, if forced into fuller utilisation through being subjected to the unrestrained competition of road motor transport,[1] *might* be involved in a heavy shrinkage of earnings.[2] But such losses would not be a burden on investors as a whole. On the contrary, what the investing classes lost in receipts from railway shares would be more than counterbalanced by additional receipts from all industries in which railway charges were an important item in costs. Nevertheless, to the small investor, a large part of whose capital happened to be in railway shares, the situation might be disastrous.

4. Even if the attempt to exploit productive power without hindrance had been made in normal times, and with the most judicious gradualness, the distributive consequences upon incomes from property would have demanded novel solution. Still more will this be so, therefore, when the purpose of production takes a new direction, as when war gives way to peace; or when, later on, a period of replacement or renovation of capital resources gives way to a period in which those resources are utilised. The restoration of productive power requires that both unrestrained

[1] The appropriate fuller utilisation of the railways might mean that depreciation would not be fully earned. In that case, full utilisation would mean capital consumption, more than balanced (from the community's standpoint) by capital expansion in road transport. See *Theory of Idle Resources*, pp 46 *et seq.*

[2] If transport were the only sphere in which productive power was released, this shrinkage of revenues would certainly follow. But if the release of productive power were general, railway revenues would probably increase under competition. Moreover, in so far as the railway wages of certain groups had previously been parasitic on the monopoly revenues, that burden on the earnings of property would, under the scheme I have recommended, have been removed at the same time.

competition and direct authoritarian command shall work in complete harmony to force resources into productive utilisation. Concern about the mere solvency of firms and concern about mere loss of profits will be an intolerable obstacle in this aim. Values reflecting demand, and not financial commitments, must determine the disposal and utilisation of resources. When insolvencies and loss of dividends are grievous or unjust, they must be separately redressed. Production [1] alone must be the dominating aim. The separate solution of the problem of redress will make it a conceivable and sociologically defensible aim.

5. Whatever reconstruction solution is actually adopted, a vast capital compensation scheme will be necessary to adjust, on an equitable basis, the burden of privately borne war damage. Unfortunately, I cannot start from the assumption that this problem will have been solved when the advent of peace suddenly sets plans for economic transition into operation. Hence I cannot assume that there will be determinate incomes from capital, ready to be brought under the security arrangements. The quite separate Capital Security scheme which I am advocating must apply at the outset, however, to whatever incomes from capital happen to exist after the war. And if these incomes are subsequently added to through compensation for war damage, or if they are subsequently reduced owing to capital taxation to pay for war damage, adjustments must be made, so that the newly determined incomes continue as the basis for Capital Security arrangements.

6. But in the provision of Capital Security there can be no guaranteed minimum income based upon determinate " established expectations ", as in the case of incomes from labour. For whilst the risk element in labour remuneration can be sufficiently allowed for through the device of the Labour Security Reserve, differential risk is the principal factor in differential return from investments. Society cannot impose a levy on the relatively low-rated dividends from safe investments in order to guarantee the relatively highly-rated dividends from less safe investments. This is very obvious. But I want to make clear that I do not expect the Capital Security scheme to work miracles. All it can ensure is compensation for losses due to *certain specified reforms*. It can ease the *new* distributive frictions which will arise, *after* the losses due to war damage have been shared, owing to the revolutionary productive policies which I am recommending.

7. A " Capital Security Levy " upon the earnings of property must provide the " Capital Security Pool ". In this case, the

[1] " Production " does *not* mean, of course, mere physical output. It means *demanded* output. Demand is the criterion of productivity.

whole of the Levy will be paid into the Pool. It must fall as a uniform percentage on all revenues which are not subject to the Labour Security Levy and should be assessed and paid together with income tax. I pointed out earlier (Chapter IX, paragraph 6) that the distinction between the return from property and remuneration for personal efforts must give rise to difficulties in some cases ; that earnings plus drawings, as well as the so-called " salary " of a partner or director of a firm, may include both payment for personal services and remuneration of capital ; and that the " profits " of a one-man business always include an important element of remuneration for personal efforts. In such cases the determination of how much is remuneration of services and how much capital remuneration can never be very accurate. Once again, however, accumulated experience is likely to aid judgment. Guidance can be obtained from a comparison of the earnings plus drawings of such or similar businesses, with the capital values at which such or similar businesses have been sold at different times in the past. An income equal to the interest on the capital sum so determined may be taken as the basis for calculating the Capital Security Levy ; the rest of earnings and drawings being the basis for calculating the Labour Security Levy. It might be thought that, when the Capital Security scheme has ceased to apply, it will be to the advantage of a person to have the largest possible proportion of his income reckoned as remuneration for personal services. But this is not so, for as we have seen (Chapter IX, paragraph 5), the higher incomes from personal effort will bear onerous obligations which will not attach to income from property. The uniform percentage Levy and the rapidly declining proportion of guaranteed minimum income to established expectations as the higher income ranges are reached, will make it fairly safe to accept a person's own estimate of the salary portion of his income, although I do not suggest that this estimate *should* always be accepted. As a matter of fact, the Labour Security Pool will probably benefit by having a larger proportion of such earnings treated as salaries. And in the case of smaller partnerships and one-man businesses, there will be no harm (on the contrary, many advantages) in treating the whole of the profit plus earnings as remuneration of labour, provided that the Labour Security Board has the right to be consulted before any assets are realised by the recipient of a Labour Security Grant.

8. The administration of the Pool must be entrusted to the " Capital Security Board ", which will be advised and assisted by Trustees representing net contributors to the Pool during the previous election period. The payment of compensation must be according to a different standard from that adopted for wage-

and salary-workers. The standard cannot be the simple one of dividends. The earnings of *firms* certainly cannot be compensated in accordance with the "established expectations" of shareholders or directorates. It may be desirable, for instance, that many firms should be wound up.[1] The "Capital Security Grants" must therefore differ from Labour Security Grants by being awarded to those persons who are observed, through income-tax returns, to have suffered serious losses in income from defined assets, when such losses were caused (in the opinion of the Board), directly or indirectly, *by the enforcement of the "Resources Utilisation Protection Act"* (which will aim at the release or enforcement of full productivity), *or other "Scheduled Reconstruction Legislation"*. The Grants must be awarded *for these causes only*. And the amount of the compensation must be determined, not according to the loss of value in particular shares, but according to the decline in a person's aggregate income from a complex of all the assets owned and registered at the date of the inception of the scheme. The complex of assets can be termed "Compensation Capital" and the guaranteed income from it "Compensation Income". In the case of a dwelling-house included in the "Compensation Capital" and owned by the occupier, a sum equal to an estimated fair rent must be added to "Compensation Income". Similarly, if he occupies a house included in Compensation Capital a deduction for rent must be made. The extent to which any decline in "Compensation Income" has been due to the Resources Utilisation Protection Act (or other "Scheduled Reconstruction Legislation"), and hence the amount of the Capital Security Grant in each case, must be determined by the Capital Security Board. For the constitution of this Board and details of the scheme, I refer the reader to the draft *Capital Security Bill*. It will hamper exposition to deal with the details here. For the same reason I do not here deal with the lightening of the burden in accordance with cost-of-living indexes and the safeguards necessary owing to contractual commitments in terms of money (see Section 24.)

9. We must keep in mind the specific aim. Certain *individual* incomes from property are to be honourably supplemented, with a view to preserving the prestige and social status of those investors

[1] Some readers may feel that a policy which tolerates insolvencies is likely to be inacceptable because the dissolution of long-established firms will wound the pride and prestige of their owners and influential staffs. There are good grounds for this fear. But (*a*) actual insolvencies will be rare if the policy here suggested is carried out with gradualness and thoroughness; and (*b*) even in the case of actual insolvencies, it will often be profitable to keep the plant and staff in full operation, however heavy the pecuniary loss of capital. It need hardly be stressed that there can be no protection of established expectations in respect of entrepreneurship!

(and they will constitute a minority) who happen to lose *relatively* heavily.[1] The Grants must be regarded and described as the fulfilment of a social contract. They must be compared to the compensation paid in expropriation cases. But as I have explained, in this case the compensations must be looked upon as a *temporary necessity*, and hence as unlike the Labour Security provisions introduced for the protection of wage-earners and professional workers. In so far as incomes from property are concerned, it must be *living individuals* who are compensated. Children must not be brought up in future with expectations which cannot be justified in the light of ultimate social justice. The compensations must be self-dissolving and I have provided for this. In the extreme cases, the Grants must cease on the death of the heirs of the original beneficiaries; but in most cases they must be dissolved before that.

10. The eventual dissolution of the Grants may appear to be unjust in discriminating arbitrarily against certain heirs. But the generosity of the scheme is deliberately biased in favour of those who have enjoyed benefits from restrained productivity in the past. Because it has been impossible to separate the innocent and the sinister among the recipients of monopoly earnings, it has been essential to compensate all. But a certain strain upon the entrepreneurial mechanism has thereby been imposed; and until private ownership, untrammelled by the overriding rights of the Capital Security Board, has been fully restored, that strain must remain. Hence it is important to create among those compensated the strongest incentive to wise investment and thrift. And finally it will be a great advantage in winning support for the scheme if there can be a definite assurance that the burden will be gradually wiped out in the course of a generation.

11. The Grants must, of course, not be given unconditionally. Any subsequent increase in a person's receipts from his Compensation Capital must be responded to by a reduction of the Grant; and if the Compensation Income of a former beneficiary is exceeded in any year, the excess must go to refund any Grants paid over the previous five years. The limited period of liability for refunds is suggested with a view to encouraging wise investment. And a system of "Compensation Bonuses", payable to those whose Grants are apparently reduced permanently, must also assist in preserving this incentive. The limitation of guaranteed income to the original earning power of a fixed complex of assets means that there will be no penalisation of thrift or encouragement of prodigality; and under the scheme

[1] The reader cannot be too frequently reminded that the earnings of property as a whole and labour as a whole will be greatly enhanced through the achievement of full utilisation.

I suggest, both the Pool and the individual will benefit from thrift and wise investment. If a person's income falls through his realisation of assets forming part of his Compensation Capital, his Grant is reduced, not increased to compensate. On the other hand, his Grant is increased whenever he suffers a further loss of receipts from such assets, due (in the opinion of the Board) to the Resources Utilisation Protection Act or other " Scheduled Reconstruction Legislation ".

12. It is essential that the Capital Security Board shall undertake certain entrepreneurial functions in respect of Compensation Capital. The Board's approval for dealing in shares or assets which form this complex must normally be required; and in every case a complete record of all dealings in such shares and property must be submitted. Moreover, the Board must have the right to demand proxies for the exercise of shareholders' powers. But I do not contemplate these rights being actively exercised. The rights must exist simply to prevent abuse. It will seldom be necessary to have recourse to them. The Pool cannot be expected to compensate for loss of income due to deliberate capital consumption in any form.

13. During the transitional period, one of the principal tasks of the Board will be the protection of the investment income of the poor, pensioners, widows, etc. These incomes must, in particular, be fully restored in so far as distributive changes due to the new productive policies cause them to fall. A simpler procedure may well be adopted for the small incomes from property. And it may be preferable in such cases not to issue Grants in the usual way but to exchange depreciated shares for annuities, or for " security bonds " returning a fixed income at an equitable rate of interest on the original capital sum. The draft Bill does not provide for this, however.

14. There is one important field of capital security with which my scheme deliberately refrains from dealing separately and specifically, namely, that of long-run capital security for farmers. Agriculture will have its own long-run problems, not the least being those arising from the fact that, under the present form of land ownership, the basic source of security, namely, the spreading of investments, is not possible.[1] A solution must be found to this problem. The solution does not lie, I think, along the lines of a State monopoly of land. The most satisfactory reform is possibly that of bringing land and farming operations under the joint stock form of ownership. But many have feared that a move of this kind would mean the sacrifice of the peculiar virtues

[1] Other long-run difficulties will arise from a gradual but ultimately formidable increase in the price of labour, and a gradual but ultimately revolutionary fall in the price of foodstuffs.

of the farming life. Such purely sentimental objections cannot be ignored. Nevertheless, other forms of risk combination which conflict less seriously with farming traditions are devisable. These are, however, problems which will arise later, and their solution can well be postponed until concrete experience of the new regime has been obtained. In the meantime, the Capital and Labour Security schemes must be applied to farming operations, but with certain essential safeguards. Unless a farm is owned as a joint stock company, the proportion of the farmer's income to be guaranteed (i.e. his " Compensation Income ") must not exceed: (i) interest at the current rate on two things—(*a*) the true site value at the time when the scheme is introduced, and (*b*) the replacement value of the farm buildings and equipment at that time, ((i) being the amount on which the Capital Security Levy must be paid); plus (ii) an amount which may be regarded as " earned ", which must be determined by the Labour Security Board after consideration (during the temporary application of a provisional scheme) of the earnings of different kinds of farming employees and farm managers, ((ii) being the amount on which the Labour Security Levy must be paid). (The methods of determining " true site value " and " replacement value " are described in Chapter XIII, paragraphs 14 and 15).[1] The security of that part of his capital which is invested in liquid resources must be sought by some other form of risk-spreading. That part of his capital must be excluded from " Compensation Capital ". The two schemes being jointly concerned, the compensation for a decline of aggregate income below the Compensation Income must be shared according to some equitable formula between the Capital Security and the Labour Security Pools. The determination of the income of farmers will, however, give rise to other difficulties. Again I have thought it best not to burden exposition with details. But the essence of the scheme is that the proportion of total income to be guaranteed through the Pools will be smaller in the case of farmers, their contributions to the Pools being proportionately smaller.

15. In conclusion, I ask the reader, in weighing up the practicability of the scheme put forward in this chapter, to remember the enormous increase in the flow of demanded goods and services (and these constitute the real earnings of capital resources) which will be promoted by the release of productive power. The security schemes are the essential concomitant of the reforms to

[1] It will be noticed that under this scheme no account is taken of the farmers' indebtedness. He will have to settle his debts out of his guaranteed income. The scheme could well give the Boards power to insist upon the regular paying off of loans (subject to the penalty of a reduced guaranteed income).

be introduced through the Resources Utilisation Protection Bill. The Capital Security Bill and the Labour Security Bill are designed to overcome the distributive barrier to these deeper reforms. And that barrier has, I maintain, been the most formidable obstacle to economic progress throughout history.

Summary of Chapter X

Capital Security

(1) *Capital security arrangements will be essential for the success of the plan during a transitional period, in order to ensure a just incidence of the sacrifices,* (2) *and in order to assure the propertied classes that they will not be violently dispossessed.* (3) *But such arrangements are a temporary requirement, for in the long run, the risks of investment must be avoided by spreading.* (4) *During the transitional period, the insecurities to be overcome will be enhanced through the shift from war to peace production.* (5) *The capital security arrangements, which must apply to incomes from property after redistribution in settlement of war damage claims,* (6) *will ease the new distributive frictions which will be caused by full utilisation.* (7) *The Capital Security Pool must be obtained by a uniform percentage Levy on all incomes from property.* (8) *Individual incomes (from assets owned at the inception of the scheme) which fall owing to the enforcement of full productivity must be fully compensated by Grants from the Pool.* (9) *The Grants, which must be regarded as the fulfilment of a social contract, must be self-dissolving,* (10) *with a view to the early return of free investment discretion.* (11) *The scheme may be so devised as not to penalise thrift or encourage prodigality.* (12) *Entrepreneurial rights over the capital secured must be vested in the Capital Security Board but seldom actually used.* (13) *A simpler procedure may be adopted for smaller incomes.* (14) *Special safeguards will be required in the case of farmers' incomes.* (15) *Conclusion.*

CHAPTER XI

THE INSTITUTION OF PROPERTY

1. SO far, in concentrating on the achievement of security (i.e. on " distributive " issues), I have assumed that the cancerous restrictionism which devitalised the pre-war economy and throttled the early war effort can be permanently eradicated from the economic system. I have been justified in this assumption because distributive factors have always formed the chief complication which has confounded and deterred the surgeon. If the expedients I have been discussing really can resolve the apparent conflict between security and incentive, they must be regarded as removing the objections to a major social operation. Reforms of a type which would otherwise be quite inconceivable become perfectly feasible objects when the possibility of individual ruin has been eliminated.

2. Although I have not yet sketched the form to be taken by productive arrangements in the new order, the broad nature of those arrangements will have been guessed by the critical reader. Obviously, a *regime* of economic freedom is envisaged. But what do we mean by economic freedom ? As frequently employed, the term is presumed to have a self-evident meaning. But that is not so. The term is used in many senses. When *I* think of economic freedom, I think of a productive system commanded by " consumers' sovereignty ". This is a notion which, I hope, *does* sufficiently explain itself.[1] It indicates that ultimate power to determine the use of resources which are " scarce " (i.e. not so plentiful that they are without economic value, like the air) shall be vested in the people. It implies that the goodness or success of productive effort can be judged only in the light of consumers' preferences. It does not imply State passivity. The arrangements required to make the ideal of consumers' sovereignty realisable exclude any idea of an acquiescent State. Hence economic freedom as I understand it does not mean *laissez-faire* in the *popular* sense. It simply means the end of " pressure-group planning "; and the beginning of " institutional planning "; and when I talk of " institutional planning " I am thinking of the fashioning of a framework within which free co-operation is possible. Under the institutions which I recommend, controls in the private interest through

[1] The notion is capable of leading to serious misconceptions, however. For a reply to some such misconceptions, see " The Concept of Consumers' Sovereignty ", *Economic Journal*, March 1940. See also *Economists and the Public*, Chapter XVI, where the notion itself is developed.

bureaucrats and trade associations will be abolished. In their place conscious foresight and co-ordinated decision-making in the social interest will be given a chance to become effective. An intimately synchronised and sensitively directed economic organism has always been the ideal of the apologists for *laissez-faire*. But the actual form which ought to be taken by the new productive institutions cannot be determined according to any doctrinaire *laissez-faire* principles; and it certainly will not conform to the shape suggested by *popular* ideas on *laissez-faire*. Indeed, if the ability to frustrate "consumers' sovereignty" through restraints on the use of valuable resources can be better prevented under State ownership than under private ownership, then economic freedom and the *ideal* of *laissez-faire* can be best served by the "nationalisation of the means of production". In other words, if institutions conforming to the conventional idea of the "socialist system" are better capable than any form of private enterprise of stimulating the ruthless utilisation of all resources in the production of wanted things, then socialism is the solution. Unfortunately, however, these productive virtues are the source of the very distributive vices which *most* contemporary socialist critics allege against private enterprise with unrestrained competition. I feel, therefore, that if my scheme can actually succeed in avoiding the distributive consequences of the transition to full productivity, and if it can really offer security by means other than the restraint of production, the socialist objections to a competitive regime are likely to disappear.

3. I have for some time thought that there has been a serious gap in the orthodox economists' contribution as institution-makers. They have been dispassionate critics rather than social architects. They have been students of institutions rather than inventors of institutions.[1] Whilst their teachings have, by implication, condemned all the manifestations of scarcity creation by which the world was ravaged in times of peace, whilst they have revealed the origins of poverty, insecurity and unemployment, and whilst they have exposed the countless misguided reformist efforts which have aggravated these evils, they have not themselves been disposed to compete in the production and sale of Utopias.[2]

[1] This point must not be exaggerated. Thus, many of Adam Smith's suggestions were actually put into practical effect.

[2] There was an attempt in 1800, by one of the fathers of economic science, J. B. Say, to sketch a Utopia. He called it *Olbie, ou Essai sur les moyens de réformer les mœurs d'une nation*. He argued that a good treatise on political economy would have to supply the basic philosophy. His own famous *Traité d'Économie Politique*, which he published four years later, may be regarded as an endeavour to fulfil this promise. But his seeds fell on stony soil. He himself lost a large part of his personal influence in France immediately his *Traité* was published. Napoleon disliked the book and dismissed him from his post of Tribune.

Their efforts and criticism have been intended more to point the direction of defensible reform than to describe in detail the destination. One reason why they have neglected to draw up a " positive programme " is, I feel, because the distributive issue has beaten them. Another is that, through causes which I have tried to explain at length elsewhere,[1] they were, until ten years ago at any rate, handicapped by one downright error. They clung to the politically comfortable but quite untenable doctrine that collective bargaining could be an ameliorative and redistributive agency. Yet another reason is that they have been too conscious of the ideological morass which they have to negotiate in order to get a hearing.[2] The possibility of crossing this morass I deal with in Chapter XVII. But this book is an attempt to cross it.

4. The economist is, in fact, the best equipped for the task of institution-making. For firstly, the real practical function of economics is to supply the logical (or mathematical) basis of social engineering, not to enable prophecy, as many of its critics have thought.[3] And secondly, the economist is best equipped by reason of the habitual realism of his approach to his material. His attitude is conditioned by a sensitive recognition of the individual's preferences as the ultimate motivation of a dynamic society. That being so, he is not prone, like his typical critics, to regard men as mechanical puppets reacting to political and propagandist stimuli, as experience has supposedly shown that they will respond. Although concerned with means, not ends, the economist conceives of men as ends and not as means. He visualises them as persistently choosing, selecting, and not as political demonstrators, voting counters or cannon fodder. Hence the economist is more appropriately equipped than his detractors from the field of politics for the task of envisaging how men will accept, in their working lives, a new order based on the maximisation of freedom and the spreading of power. He is able to identify himself with the manager at his desk, the worker at his bench, the ploughman at his plough, much better than the politician whose main preoccupation is with how the individual will vote, or how he can be encouraged to reinforce the sheep-like cries and conduct of a mob. But the economist has not yet tackled sufficiently directly the problem of the appropriate content for the most important institution of all in a society based on freedom, namely, the obligations and rights which we call " private property ".

[1] *Economists and the Public*, Chapter XXI.
[2] Ibid., passim.
[3] " I hope we can become ' social engineers ' . . . : I don't believe we are much good as prophets." J. Marschak, *Journal of Political Economy*, June 1941, p. 448.

5. Mr. H. D. Dickinson has recently challenged the orthodox economists in the clearest terms.

> Can they suggest [he says] any workable set of institutions in the realm of property, inheritance, contract, money, and business organisation which will be compatible with private property and the free market and which will at the same time guarantee the ordinary man a reasonable security of livelihood and prevent the accumulation of wealth (and, what is still more important, the concentration of power over wealth) in the hands of a minority of the community ? [1]

I have tried to face this challenge. The security provisions in my plan have been described above. The more important concern is, however, the means of overcoming the concentration of power, and it is to that that the Chapters which follow are chiefly devoted. The method attempted is that of a redefinition of property.

6. An equally direct and equally just challenge is contained in Mr. K. B. S. Smellie's *Reason in Politics.*

> The economist [he says] found himself appealing for a subtle order wherein the decentralisation of decisions is such that the continuous plebiscite of the consumer prevails, and yet having to lament that the actual system is so riddled with restrictions and privilege that such economic liberalism continuously recedes. [2]

Have the economists realised the implications of that assumption ?

> In so far as the private ownership of the means of production other than labour geared the economic machine to the search for profit, and in so far as technical progress would lead to an attempt to secure political power to protect the profit-making value of old investments—so that agriculture was protected against the geneticist, coal against oil, railways against motors—there was bound to be posed afresh in a new and terrible form the old political dilemma between the force of law and freedom to persuade in social organisation.[3] . . . To body forth in human life the myriad adaptations of capacities and properties that the economic analysis envisaged, required a subtlety of legal and political institutions which has never existed.[4] . . . In fact the principle of division of labour required so many political virtues that it never took place.[5] . . . Is it really true that moderate efficiency in the means of livelihood of

[1] H. D. Dickinson, in review article of F. A. v. Hayek's " Freedom and the Economic System ", *Economica*, November 1940, p. 437. Hayek admits that the " task of creating a rational framework of law has by no means been carried through consistently by the early liberals. After vindicating on utilitarian grounds the general principles of private property and liberty of contract, they have stopped short of applying the same criterion of social expediency to the specific historic forms of the law of property and of contract. . . . Unfortunately, however, many of the nineteenth-century liberals . . . were on the whole content to accept the law in its existing formulation. . . ."

[2] K. B. S. Smellie, *Reason in Politics*, p. 199.

[3] Ibid., p. 200. [4] Ibid., p. 201. [5] Ibid., p. 202.

> the human race depends upon a method of trial and error conducted by the owners of property? Does the vital problem of adjusting means to ends in the material conditions of life, where failure means famine, pestilence and death, depend upon a series of decentralised decisions of which the pattern has been determined by historical accidents? *For the system of property has never been systematically revised in the light of this vital function that it is said that it must perform.*[1]

In these passages Mr. Smellie is expressing doubts which have troubled hundreds of disinterested students of society.

7. Well, this chapter and the chapters which follow might be regarded as an attempt at a systematic revision of the system of property. I have tried to define the "subtle legal institutions" for which Mr. Smellie has asked. The bed-rock principle of my revision is that private property has no modern function except as a system of custodianship. Ownership is expedient by reason of the incentives it creates; and unless it is so defined as to induce motives to serve defensible social ends, there is no case for it. I envisage the "owner" of "property" as still having the widest discretion in the disposal of his property. But that discretion has to be bounded by rules designed to ensure that the social interest is served. And neither the rules themselves nor their active execution can be properly regarded as "State interference". The rules and the derived State functions do not *interfere with*, they are *part of the institutions of property*. But as I have shaped them, these institutions are new. They will clash at many points with the established and often cherished traditions of the existing property system. At the same time they will disturb actual technical and administrative procedures much less seriously than any attempts to "nationalise the means of production, distribution and exchange". They preserve rather than scrap the age-old institutions to which men's habits and customs have been adjusted. The reforms put forward may be revolutionary in one sense, but they make use of methods of social co-operation which are already understood by the decision-makers in society. Property becomes a new thing, but it works in much the same way as before.

Summary of Chapter XI

The Institution of Property

(1) *Once distributive security has been secured,* (2) *"pressure-group planning" may be replaced by "institutional planning" with a view to "economic freedom".* (3) *Institutional planning has been neglected by*

[1] K. B. S. Smellie, *Reason in Politics*, p. 204. (My italics.)

the orthodox economists, who have been critics of society rather than framers of institutions, (4) *although they have been well equipped for institution-making.* (5) and (6) *They have been challenged to describe in detail a system of private property which can guarantee security without restriction.* (7) *An answer to the challenge follows, in the form of revised institutions, under which property is seen as custodianship.*

CHAPTER XII

THE RESOURCES UTILISATION COMMISSION

1. THE new institutions of property are defined in the draft Bill to which I have given the title *Resources Utilisation Protection Bill.* I have chosen that curious title because these simple words are likely to convey most vividly to the community the purpose of the reform. It might be thought that so fundamental a Bill should have been given some more general name, such as *Institutions of Property (Definition) Bill.* But that title (like similar titles of which one can think) is too cryptic for the period during which the Bill is under discussion inside and outside of Parliament. Whilst its ultimate title may appropriately be more dignified, its immediate name must be chosen for its pregnant allusiveness. To the ordinary man it must stress the object of allowing productive power to be used.

2. In addition to the provisions which define the limits of individual discretion conferred by property, the draft Bill lays down the framework of a system of administration. At the apex is to be a most powerful permanent body to be known as the *Resources Utilisation Commission.* Again, I think that this is the best title to use during the period of advocacy of the scheme. I shall refer to it subsequently simply as the Commission. Its principal function will be the execution of the *Resources Utilisation Protection Act.* Other State agencies will be required, both permanently and for the arrangement of the transition; but the Commission must be given powers in its own field which transcend them all. Thus, the Ministry of Reconstruction will have major tasks in the production field itself. And the "State Trading Board" is to be permanently entrusted with important entrepreneurial duties. But the Commission must have exactly the same powers of controlling the productive and trading activities of these authorities as it has over the operations of private enterprises.

3. The Commission is in part based upon the Federal Trade Commission of the United States; and the most significant elements in the property system, as revised in the Bill, are indebted to and superficially resemble the Anti-Trust Laws of the United States.[1] But I envisage the American system being carried ever so much further. Indeed, it is through the Commission

[1] Few British people know much about these laws; and what they have been taught through occasional and almost always hostile references in the Press, is mostly quite misleading.

that the State will have its chief active rôle (apart from its all-embracing duty of planning and administering institutions consistent with distributive justice, and its continuous collective function of arranging distributive security). Whether the Socialist doctrinaire will be satisfied with this, I do not know. The bureaucratic machine represented by the Commission alone will certainly be large; the subordinacy of the entrepreneur to the State and society (through the Commission) will certainly be emphasised; and authoritarian initiative in co-ordination, synchronisation and standardisation (exercised by the Commission and other agencies) will not be absent. Moreover, during the transitional period, actual authoritarian command must continue to play a crucial part, simply because the supplementary agencies necessary for a regime of economic freedom will take time to develop.

4. The Commission is to be a quasi-judicial, quasi-administrative body. It is to consist of nine members, namely, three judges, three " economists " and three persons " chosen for their practical knowledge of the institutions of production, trade and finance ". It is to form the Supreme Court in matters of economic interpretation and the determination of facts under the Bill. Subsidiary Courts, namely, the Central Board of Review and Regional Boards of Review, are also to be accorded the status and powers of Courts of Law. All members of the Commission are to have the status and privileges of judges in the course of their duties. They are to have permanency of tenure, but may be called upon to retire on reaching a defined age limit; they are to be rigidly excluded from party politics; and a carefully drafted clause endeavours to ensure that, on accepting membership of the Commission, they divest themselves of any financial connections which might, directly or indirectly, influence their judgment.

5. At this stage it is necessary to make a brief excursus to consider the reason for the inclusion of " economists ". This constitutes the biggest breach with tradition; but it is inescapable, and a huge step forward. The history of Great Britain during the nineteenth century records the gradual weeding out, not only through legislation but through administrative and judicial process, of many of the strands of economic freedom which the law and the custom of the previous ages had woven into the economic system. In spite of the parallel existence of a Statute Law which expressly permitted combination, and a Common Law which forbade restraint of trade, the more obvious and dangerous forms of monopoly could still have been frustrated by the Courts. The judges realised that monopoly could be pernicious. But they were completely unable to conceive of any

economic principle which could guide them. Had the indisputable traditions established by earlier interpretations of the Common Law been honoured by the Courts, the course of economic history would have been distinctly different. Both in respect of tort, criminal liability for conspiracy, and the unenforceability of contracts in restraint of trade, the judges had fairly effective weapons at their command in the basic judgments of several centuries. But they did not know how to use those weapons. After the repeal in 1772 of the laws against forestalling, engrossing and regrating, they had but vague and wavering recourse to the old principles. Judgments became increasingly contradictory, and " the influence of the prevailing political philosophy in different stages of the law's evolution is not difficult to discern ".[1] Such an influence was inevitable in the circumstances. Even the conception of " public policy " was undefined ; and in their occasional endeavours to apply it, the judges were forced, when confronted with new circumstances, not so much to interpret the law as to act as social philosophers, political scientists and economists. For every novel situation the Courts had to all intents and purposes to become legislative bodies. Not that truly novel situations often presented themselves.[2] The nature of restrictive activities was certainly changing, but only in the sense that those activities took on disguised and more complex forms, and were expressed in a more complex environment. It was *supposedly* new problems which led to alterations in judicial interpretation. But the Courts believed vaguely that the new age demanded policies based on new principles. Hence, changes in the law of restraint of trade which have been brought about in Britain since the middle of last century have depended for their wisdom upon the competence of judges, not as lawyers but as social scientists.

6. In this rôle the judges were far from expert. What is worse, they were often quite unaware of their shortcomings. The layman always assumes that he has a fairly shrewd insight into the social forces with whose manifestation he is familiar. But the British judges were faced with an economic order of lessening intelligibility and one, moreover, in which public opinion (the influence of which must have borne strongly upon them) was played upon, in the interests of restrictionism, with increasing success. Since the 'seventies of last century the public mind has been subject to a propaganda which has reiterated what has been called the social error of the " outworn dogma " of *laissez-*

[1] R. Y. Hedges, *Law Relating to Restraint of Trade*, p. 2.

[2] On this point I differ from W. P. M. Kennedy and J. Finkelman who hold (*The Right to Trade*, p. 3) that " the present obscurities of the law are in some measure due to the failure of our Courts to recognise the changes produced by the industrial society of the present day ".

faire. The stupidity or wickedness of unrestricted competition has been continuously stressed and the virtues of " co-operation " to replace the " anarchy " of individualism persistently extolled. The result is that to uphold the competitive principle to-day,

> is to bring down on one's self the charge of being a hopeless reactionary. Yet a review of the common restrictions upon the pursuit of wealth reveals, not that the competitive principle in itself is wrong, but that the industrial interests have become too great. Economic freedom has burst its mediaeval shell, and the entrepreneur is allowed to prey on his fellow-man.[1]

And when it is argued that in recent years the English courts " have shown a perception of the fact that free competition . . . may be accompanied or followed by serious disadvantages ",[2] we know that the only legitimate inference is that the British judiciary have been echoing contemporary confused opinion about the general beneficence or the reverse of " unrestrained competition ".

7. " The Courts have been mainly, though not avowedly, guided ", wrote Sir John Macdonell in the *Report of the Committee on Trusts*, " by the economic theories prevalent from time to time, perhaps, to be more accurate, by the political economy of the past age, for it will be found that the Courts are rarely abreast of the latest economic teaching." [3] This is putting it very mildly. The truth is that for a judge to be conversant with economic theory in these days, appears to be so rare as to be in the nature of an exception.[4] I have no knowledge of any exception. Modern judges know as much about economics as they do of modern physics after reading Eddington and Jeans. It is doubtful whether one can obtain the " economic outlook " by sitting in an armchair and reading a few textbooks, still less from reading " intelligent men's guides ". And the essential economic technique, although by no means as difficult as some of the textbooks make it appear, cannot be acquired without some disciplined study. At an earlier age the judges probably knew something of the writings of the Classical economists, and not unnaturally they accepted Classical teachings, for those expositions were hardly questioned by responsible middle- or upper-class opinion. But for many years now, the *disinterested* economists have been un-

[1] C. J. Foreman, *Efficiency and Scarcity Profits*, p. 4.

[2] Clemens Lammers, in *Review of Legislation on Cartels and Trusts*. Quoted by R. E. Curtis, *Trusts and Economic Control*, p. 292.

[3] Cd. 9236.

[4] Lawyers are seldom even interested in economic questions (although it must be admitted that there have been some distinguished exceptions in the United States). In the list of Fellows of the Royal Economic Society, I find the names of no jurists of distinction.

popular and virtually ignored.[1] The chaos which has resulted is illustrated in the various legal works which have endeavoured to discover basic consistencies behind judge-made law on the subject of restraint of trade. Their failure to do so is patent.

8. The judges found themselves in constant dilemmas. As Sir Leslie Stephen pointed out, " Gain on one side implies loss on the other; and to say that it is lawful to combine to protect your own interests, but unlawful to combine to injure another, is taking away with one hand a right given with the other." [2] But the recognition of the paradox ought to have led to the realisation that the Courts have had no real standards whatsoever at their service in so far as they have tried to consider in isolation the rights of parties to a dispute. The judges have throughout had urgent need of some social principle to guide them concerning the nature of the alleged tort or crime; but although this principle is implicit, if not plainly discernible, in the Common Law of an earlier age, their access to it seems by now to have been barred in most directions by the judicial decisions of a century. The individual's right to protection in the exercise of his calling, as it developed during the course of history, was in fact bound up with some appreciation of the fact that the calling performed a service for the public. But neither in respect of criminal responsibility nor liability in tort has it been possible, during many decades, to give any recognition to this truth.

9. The result has been the destruction of every vestige of principle. Only when the judges have been bold enough to ignore the chaos of contradictory decisions and make use of the relative intelligibility of the Common Law of earlier centuries has there been any evidence of recourse to genuine rule. But in general, when they have felt themselves to be thoroughly confused, the judges have preferred to refer disparagingly to what they have called " the conflicting theories of political economy ",[3] rather than seek the advice of economic experts concerning the specific effects of combination. Whether due to casuistry or the absence of accepted principle, the conceptual anarchy which has resulted is appalling. In 1921 Lord Scrutton remarked on the mass of authorities and the contradictory dicta with which the judges were confronted. He referred to the large number of decisions of the House of Lords and the Court of Appeal, " and a number of able and conscientious attempts by judges of first instance to state the results of decisions. . . ." He added, " I have read these cases, some of them several times, and find it

[1] For the reasons, see *Economists and the Public*, especially Chapter XIV, " Sanctions for the Economists' Authority ".

[2] Quoted in A. L. Haslam, *The Law Relating to Trade Combinations*, p. 90.

[3] Lord Finlay, quoted ibid., p. 43.

impossible to harmonise them." [1] A careful treatise dealing with decisions respecting the right to trade is forced to refer to " the dangers of dialectic, and the subtleties of legal refinements, which have made the obscure more obscure and which, indeed, might have been avoided had the ground been cleared originally by a thoroughly philosophical approach ".[2] The expert guidance of economists, although it would not immediately have solved these problems, would at least have supplied the required method of approach.

10. In the United States there has been a similar story to tell. Even with the Anti-Trust laws to guide them, the Courts have gone seriously astray. In 1912, a Federal judge complained: " There is such a chaos of decisions in reference to the Sherman Anti-Trust Act, and such a chaos of understanding or misunderstanding with reference thereto, . . . that any conclusions a single judge may reach may prove of little importance." [3] In the most famous and most critical case in American Anti-Trust history, " the Steel Case ", both prosecuting counsel and the judges were, in the words of Professor F. A. Fetter, " . . . in respect to the economic issues groping their way in a labyrinth without any guiding thread of principle. . . . The prosecution and the Court were both off on the wrong trail. Needless to say, the defendant, so far from setting them right, led them off further into the jungle of confusion. It was in respect to the prosecuting counsel a case of the blind leading the blind; in respect to defendant's counsel, a case of hoodwinking the Supreme Court—helping to darken its blindness ".[4] And a former Attorney-General of Missouri has pointed out the truth. To-day's problems, he says, " are those of economics primarily and of law secondarily, yet we are trying to solve them through legislators rather than our economists. . . . Public opinion may some day require of our legislators and our judges that they be trained in the science of economics as well as in law ".[5] As things are, the American Courts have, on occasion, excluded the testimony of economic experts by ruling, in the most doubtful cases, that the issues were purely legal. But at other times they have admitted the economists' evidence, and in at least one case, the Maple Flooring case of 1925, the findings actually referred " to volume and page of the works of standard writers on economics, just as legal authorities are ordinarily cited ".[6]

[1] Lord Scrutton, quoted ibid., p. 20.
[2] Kennedy and Finkelman, op. cit., p. 3.
[3] Quoted in F. A. Fetter, *Masquerade of Monopoly*, p. 362.
[4] Ibid., pp. 85, 87.
[5] J. W. Barrett, " The True and Limited Function of Anti-Trust Statutes ", *The Annals of the American Academy*, Vol. CXLVII, p. 30.
[6] Ibid., p. 30.

But the mere admission of expert evidence is hardly an adequate safeguard unless the judges themselves have some measure of expertness. For it has not been difficult for the American " trusts " to find " economists " who are prepared to give evidence in their defence !

11. I do not think that I need say more in defence of the inclusion of economists. In the determination of the relevant facts and in matters of economic interpretation the assistance of expert economists actually sitting with the judges is a *sine qua non*. The main difficulty is how to define " economists ". My draft Bill deliberately refrains from venturing a definition. But when I think of " economists ", I think of those who thoroughly understand the nature and significance of economic science and have had some training in its technique. The economist commissioners chosen at the outset must be men of recognised academic eminence who are sufficiently young and adaptable to be able to resolve rapidly the many unpredictable problems with which they will certainly be confronted. They must be men who are not associated in the public mind with party politics and, if possible, men who have conspicuously refused to ally themselves directly or indirectly with the party system.

12. The selection of the three other members of the Commission, " chosen for their practical knowledge of the institutions of production, trade and finance ", will be the most important choice of all. They must be administrators of the highest calibre, trained to the handling of large organisations. Until his untimely death, I had thought of Lord Stamp as an obvious choice. In all probability, the right men will have been servants of the great vested interests which it will be the purpose of the Commission to dissolve. It might be particularly expedient at the outset to appoint one commissioner likely to be trusted by organised Labour, such as Mr. Herbert Morrison, and one likely to be trusted by organised Capital, such as Mr. Oliver Lyttelton. The third could well be an eminent civil servant from the Board of Trade. But it would be unpermissible to appoint men who were not earnestly convinced that the scheme as a whole is based upon indisputably solid principles.

13. To administer the scheme, " Control Boards " are to be established, specialised according to localities, or types of production, or both. They are to be appointed by the Commission and are to be subordinate bodies. They are to consist of three members, and the Commission is instructed to appoint, as far as practicable, one lawyer, one economist, and one person with expert knowledge of the locality or type of production controlled. These " Control Boards " are to have an adequate

staff of economists, statisticians, accountants and inspectors at their disposal.

14. It is laid down that the " Control Boards " *may* be assisted by nominated " Advisory Panels ". But the intention is that the Panels shall play a very important part in the scheme. Where possible the executives of trade associations and trade-unions should form the Panels. It has not seemed desirable to attempt to lay this down in the draft Bill, but I think that co-operation with such existing industrial and commercial organisations will be an enormous advantage. They must be taught to understand the scheme and encouraged to bring their knowledge, contacts and organisation into communication with the system as a whole. Novel policy must make use of existing instruments unless they are quite inappropriate. The aim is no less than that of bringing social apparatus, originally devised in pre-war days actually to enforce and maintain scarcities, into the task of dissolving scarcities. As means of government and administration, the trade associations and trade-union organisations will be invaluable —I do not say indispensable—it may be necessary to fight them. But they have, in fact, inevitably been used during the war, having (as far as restrictionist mentality has permitted) reversed their former peace-time objects in respect of productivity. They can help because they alone (or their personnel) already have some of the most necessary contacts. They alone have original access to and familiarity with essential data. But the machinery they provide will be crude for the new purposes, they must be given advisory status only, and if they show hostility or obstructive tendencies they must be dispensed with unhesitatingly. In any case, as soon as possible, completely new organisations (preferably bearing the same names) must tactfully supplant them, and become permanent subsidiary agencies. Ultimately they might be granted executive functions. But the original scheme cannot provide for that possibility. Some will probably be left with only minor functions. Their redundant personnel will easily be absorbed in the major controls. There will be ample demand for the services of their staffs during the period of transition.

15. The Commission must act through the Boards and their officials. In practice it will have to allow a great deal of discretion to them. Acting through them, it will be the Commission's duty to call upon any party in writing to " cease and desist " from stated practices which are unlawful under this Bill. The " cease and desist order " device is borrowed from the procedure of the Federal Trade Commission of the United States. The person or firm concerned must then, within twenty-eight days, either give notice of appeal, together with security for

costs, or bring to an end the practice to which objection is taken.

16. As the membership of the Commission includes three judges, I feel that it will be possible to give the Commission itself certain limited judicial as well as administrative functions. There is to be a single authority and responsibility, but the judicial and administrative functions are to be kept separate. Appeals from " cease and desist orders ", and prosecutions initiated by private persons or firms for violations of the Bill, and cases referred to the Commission by the Courts, must be heard first by Regional Boards of Review. From the Regional Boards of Review, appeal may be made to the Central Board of Review. The Central Board is to consist of three members of the Commission, one of whom is to be a judge and at least one of whom is to be an economist. The Regional Boards of Review are to consist of members of Control Boards other than those through whom the decisions or orders to be reviewed have been made. They must include at least one lawyer and at least one economist. The findings of the Central Board of Review are to be submitted to the full Commission for approval before promulgation. Procedure before these Boards will resemble that before Courts of Law except that " the law's delays " must be avoided. Both applicants and interested parties may be represented by counsel, but the arguments of counsel must be put with due brevity or (on the command of the Board of Review) *in writing* in order to expedite matters. I need not deal with the provisions bearing on the relations of the Commission to the Courts. The Courts may refer any commercial cases brought before them to the Commission. Private proceedings against firms which are alleged to be indulging in practices which are unlawful under the Bill are normally to be instituted in the first place through the Regional Boards of Review. It *may* be necessary, for a few years after the scheme is first introduced, to transfer certain cases under the Bill to the ordinary Courts which must sit for this purpose with an economist (nominated by the Commission) as assessor. The draft Bill does not actually provide for this because I do not expect a flood of litigation, which is the only reason why external judicial assistance may be required. There will seldom be any hope of successfully resisting the orders of the Commission.

17. It may be felt that in this type of control all the dangers of administrative jurisdiction will be present. But that is not so. In all appeals from orders of the Commission, the established rules of British justice are to be observed. The elimination of the law's delays will strengthen rather than detract from the fairness of the system. Lawyers reassure me on this point. But the final Court (i.e. the Commission itself when confirming the

findings of the Central Board of Review) will be, it is true, a single body which might appear in the rôle of both prosecutor and judge. This is illusory, however, for in practice the real prosecutor will be an official from a Control Board, a definitely subordinate body; and the Commission being constituted on a judicial basis will surely be a wholly trustworthy Court. If the Commission exceeds its wide but strictly defined powers, the ordinary Courts of the land will, of course, have full authority. How different the position will in fact be from that which existed under the pre-war type of Control Board! The rules of justice were, it is alleged, completely ignored by bodies like the Milk Board. A producer who was brought before such a Board and charged, say, with the crime of having sold milk too cheaply, was actually tried by representatives of the monopolists whose interests he was alleged to have injured. Hearsay evidence was admitted, the normal rules of evidence were ignored, and there was no right of appeal to the Courts. Hence, if this sort of procedure, which represents "a retreat of three hundred years in our legal procedure",[1] can be tolerated, there can hardly be any serious objections to the carefully designed system of judicial process which I recommend.

Summary of Chapter XII

The Resources Utilisation Commission

(1) The Resources Utilisation Protection Bill embodies a fundamental revision of the institution of property (2) which will be administered by the Resources Utilisation Commission, (3) a quasi-judicial quasi-administrative body through which the State will exercise its chief active rôle in the economic sphere. (4) The Commission is to consist of three judges, three "economists" and three persons chosen for their "practical knowledge" of affairs. (5) That the inclusion of economists is essential is proved by the contradictory judgments (in restraint of trade cases) of British judges inexpert in economics. (6) Although faced with increasingly complex problems, the judges have been unaware of their failings and easily influenced by a propaganda-created popular opinion. (7) They have not studied economics seriously (8) and have therefore been confronted with insoluble dilemmas and paradoxes. (9) Conceptual anarchy has resulted. (10) United States experience has been similar, even with the Anti-Trust Laws to guide the Courts. (11) Hence "economists" must serve as Commissioners to assist in the interpretation of facts. (12) The three Commissioners chosen for their practical knowledge should be first-class administrators and men likely to be trusted by organised Labour and Capital. (13) Subordinate to the Commission, "Control Boards" are to be established with an adequate expert staff. (14) Nominated Advisory

[1] A correspondent in *Time and Tide*, 5th July 1941, from which the charges made in this paragraph have been taken.

Panels, usually consisting of existing organisations, may assist them. (*15*) *The Commission must operate through the Boards and restrain practices which are unlawful under the Bill by " cease and desist orders ".* (*16*) *Appeals from such orders, and other proceedings under the Bill, are to be heard by Regional and Central Boards of Review, the Commission itself taking final responsibility for the promulgation of the Central Board's findings.* (*17*) *The dangers of administrative jurisdiction will be avoided under this procedure.*

CHAPTER XIII

STATE OWNERSHIP

1. HAVING dealt with the constitution of the dominating agency, the Commission, I can discuss the actual application of the scheme during the transitional reconstruction period. This brings us to the consideration of a subsidiary, but important State rôle, namely, active operation under the limitations of the new property system. The purpose will become clear as the exposition develops. For some period after the conclusion of peace, the continued direction of industry by bureaucrats will be inescapable. But their operations must harmonise with, and be guided by, the Commission's basic policy of bringing full productive capacity into utilisation. The war controls must remain as subordinate organisations the machinery of which is *temporarily* useful for a new purpose. There must be this one overriding aim behind all planning—the ultimate removal of hindrances to productivity. The philosophy behind planning with this motive is very different from that which has been skilfully disseminated, under the name of " planning ", of recent years. The aim of policy must not include the defence of the returns of particular enterprises, i.e. the defence of " profits " or privileged wages. It must impose no limitations on output ; it must impose no minimum prices (apart from the use of wage-fixation to ensure gradualness at the inception of the scheme). Let us consider, for instance, the functions of the *Ministry of Reconstruction.* The policy of this Ministry must be so fashioned as to harmonise with, and be subordinate to, the whole scope of the institutional plan which I have drafted. It must be concerned solely with the transitional period. It must have the duty of devising, *within the limits of the ground-plan which I have provided*, the achievement of specific reconstruction objectives. But there must be no clash with the policy of the Commission, which must be recognised from the first as the custodian of the basic production policy embodied in the institutional plan. The Commission will have no power to determine reconstruction or other objectives. But it must have sole responsibility for interpreting and securing the right of unrestrained productive recourse to *valuable* resources in the response to all objectives—whether individually or collectively expressed.

2. With the advent of peace all the powers possessed by the production executive established during the war should pass to the Ministry of Reconstruction. I am not concerned with the

detailed work of the Ministry. Its broad function will be to arrange in many fields the most economic utilisation, for peace purposes, of assets and materials largely specialised for war purposes and man power turning from war pursuits. The Ministry must be in a position to undertake this function without any concern about distributive repercussions. It must endeavour to direct all idle resources and all stocks of apparently redundant materials into some type of physical production to the full extent to which co-operant resources are available (e.g. labour, plant and supplementary materials). Capital equipment (or other resources) which it suspects of being wastefully idle, or wastefully employed, must be reported to the Commission (or to the President of the Board of Trade until the Commission has been appointed). The Commission (or the President of the Board of Trade) may then, after *rapid* investigation, authorise the *immediate* expropriation, commandeering, or compulsory renting of the equipment (or other resources) at an appropriate value or rent to be determined by a simple, automatic (although admittedly largely arbitrary) [1] process to be discussed later. I insist upon a separate body to take responsibility for expropriations, commandeerings and so forth. Administrative principle demands a distinct authority. The Minister of Reconstruction cannot be judge in his own cause. Resources actually expropriated may be used in State enterprises or sold or leased by the Ministry to private enterprise.

3. The Ministry must also approach the problem from the opposite angle. It must survey the peace-time consumption requirements of the community and itself take the initiative in supplying any market demands which private enterprise refuses (in the Ministry's opinion, wrongly) to supply. It must ensure also that no collectively determined social objectives which require the employment of productive resources are overlooked. Productive objectives so determined, i.e. the Ministry's view of what it regards as the community's requirements, must first be stated in the most specific terms, and private enterprise invited to undertake the risk of fulfilling the demands which it anticipates. If the demand is that of the State itself, it must proclaim the price offered. The Ministry must itself take on the task (and appoint State-owned corporations) only if there is no response from private enterprise. The active operation of the scheme may be delegated to any appropriate subordinate bodies. The best procedure will probably be to set up a number of State-owned corporations, *with limited liability*, which must be supplied with the capital necessary in the form of State-owned ordinary shares. Any capital not provided in this form must be obtained

[1] The existence of the Capital Security scheme makes such action feasible.

by the corporations from the market, at current rates. These corporations must have no privileges. They must outbid private enterprise for *all* essential co-operant resources, including borrowed capital. Their creditors will have to face all the risks which are inherent in credit under limited liability. In carrying out this policy, the Ministry must so arrange things that responsibility and control is eventually passed to a very important permanent body for which I suggest the name " State Trading Board ".

4. The enterprises started by the State must be expected ultimately to earn (in the aggregate) the current average return on the community's capital invested through the Ministry.[1] That will be the measure of their success. The cardinal condition is that they shall enjoy no privileges. If it is thought desirable to *subsidise* any undertaking (the rebuilding of cities, for example), for any reason whatsoever, the subsidy must be available for private enterprise on identical terms. Moreover, the Ministry must have no powers of coercion over private enterprise. As I have explained, the Ministry, like the State Trading Board which is to take over permanently this function of the Ministry, will have the right only to *bid* for any resources which it believes to be wastefully or wrongly employed. If it has grounds for thinking that any such resources represent " withheld capacity " or wasted capacity it can appeal to the Commission (or, at the outset, to the President of the Board of Trade). It will be the Commission's function to cause such capacity to be released and in extreme cases that will mean expropriation or commandeering. But the Commission must act, in such matters, on behalf of *all* interests, whether State or private, which might be able to employ (and are therefore prepared to bid for) monopolistically withheld or otherwise wasted resources. In all cases private enterprise must be outbid.

5. One immediate problem which will face the Ministry of Reconstruction will be that " priorities " established in wartime will become meaningless in peace. Things which were previously scarce will be threatened with glut. But in so far as it is thought that some authority should continue to determine priorities in respect of those things which are abnormally scarce, no discrimination in favour of the enterprises sponsored by the Ministry must be permitted. That is, if a priority is allocated to a State undertaking in respect of a particular vital material, that material must be priced at an estimate of what would have

[1] I use the term " current average return " deliberately. The sole purpose is an obviously fair basis of comparison with private enterprise. For this purpose a sample investigation must be made from year to year (by an independent statistical authority) of the returns from the new investments of private enterprise.

been offered for it by private enterprise under free bidding. The danger of special favours will otherwise be too great. But the aim must be to wind up all forms of rationing, whether by priorities or quotas, at the earliest opportunity.

6. If the Ministry of Reconstruction is wiser than private enterprise in forecasting the community's wants, it will be in a position not only to ensure that such wants are satisfied, but to *prove* the superiority of its judgment. The whole purpose of the arrangements I suggest is to secure conditions for a fair comparison. The Commission must be, so to speak, in the position of an umpire. The contest must be just. It may be said that the pecuniary test is necessarily misleading, that there are some or many things which the community *ought* to have but which it does not demand, or for which it is not prepared to pay sufficient, or which certain classes cannot afford. That may be so.[1] But if it *is* so, a subsidy on educative or redistributive grounds is called for; and, as I have already said, such a subsidy should be available on equal terms for private enterprise.

7. Unfortunately, the conditions necessary for a fair comparison will be very difficult to secure if a State-owned enterprise is allowed to dominate any type of activity. For this reason, if private enterprise shows itself to be as successful, on the whole, as State enterprise, it must be arranged that, sooner or later, any State-owned corporations which own more than one-fifth of the capital in any industry or any line of production (the Commission must estimate this), shall be denationalised. They must be broken up and floated as independent companies, the capital being offered for subscription to the public. Not more than one-fifth of the capital in any industry should be allowed to remain in an enterprise or enterprises under State management.

8. Under my plan, State competition will be required not merely during the organisation of the transition. It is an important constituent of what I regard as normal anti-restraint policy.[2] The administration must be undertaken, when the Ministry of Reconstruction is dissolved, by the State Trading Board. The ideal constitution of this Board (as I have thought of it) is given in the draft Bill (Sections 11 to 14). I envisage this Board as an immensely important body. It must have the right to do more than merely set up *new* State enterprises. It must have the right to take over the assets (as a going concern) of existing undertakings, if the Commission offers to expropriate them, at a figure determined by the Commission. These assets

[1] For the case for this view, see *Economists and the Public*, Chapters XVII and XX.

[2] For a comparison of the advantages of State competition as against State ownership and control, see "Economic Institutions and the New Socialism", *Economica*, November 1940, especially pp. 428–34.

must be operated through " State corporations " (as the State-owned corporations will be known) which will serve the purpose of enabling continuous comparison with private enterprise. The direction by the Board must aim, not at making the maximum profits, but at showing (for the purpose of such comparison) what results can be obtained when resources are applied to production with disinterested motives. Now the Board, with unchecked powers, could not be entrusted with this function. Feeling that its success would inevitably be judged by crude profit-making results, it might be inclined to fall in with the monopolistic leadership set up in the private enterprise sector of an industry.

9. To meet this point, I advocate a wholly novel kind of minimum output control. The control is to be exercised by the Commission. The Board will have to decide the amount of investment, and the managements of the State corporations will have the task of organising to get costs down and to meet changes in consumers' requirements and supply conditions. But the investment having been made, the minimum output must be independently dictated. I now have to take the reader on another excursion in order to elucidate a very difficult point. I have to explain a principle under which, if other things do not upset the assumptions, " the right output " can be roughly determined. My principle defines, I feel, the nearest practically determinable approximation to " the right output " ; and when a new investment is contemplated, the same principle determines also the nearest practically determinable approximation to the right investment (from the point of view of the community) When the principle can be applied, in so far as the anticipations of decision-makers are correct, the resources which are drawn into a particular employment cannot be more productively utilised in any other way. If the reader is willing to take on trust my faith that a practical principle conducive to such a result can be established, he can cut out the excursus and skip the complexities of paragraphs 10 to 22. The reader who is not familiar with economic analysis may, on first reading, leave this section to the experts and continue reading at paragraph 23. He can come back to the point, if he thinks it worth while, when he has finished the rest of the book. But to aid the persevering, I have tried hard to deal with the problem in the clearest possible way, with many deliberate repetitions, and some undue simplifications.

10. Control of output is to begin to apply only when there are " profits ", i.e. when the aggregate receipts of the corporation exceed " aggregate avoidable cost " plus " aggregate fixed cost ". I shall explain these last two terms a little later (the latter having

to be very meticulously defined). For the moment, it must be pointed out that " aggregate avoidable cost " and " aggregate fixed cost " together make up aggregate cost. When aggregate receipts exceed aggregate costs the control applies. In popular terms, control applies when " profits " are being made. The Commission must then call for the production of *at least* that output in each type of production at which the addition to expenditure required to produce any additional unit of output is calculated to exceed the price obtainable for that unit of output. In the jargon of the economists, an attempt must be made to discover and produce such an output of each commodity or service that the price obtainable for it, when it is sold competitively in the market, is equal to " marginal cost ". This is the rule that the Commission has to apply to the State corporations to ensure that they do not tacitly acquiesce in a monopolistic situation.[1]

11. Before explaining the terms, it is useful to show why this rule seems appropriate. Let us make a comparison. Under what economists call " perfect " competitive conditions (i.e. when the price of the commodity is determined by factors which are hardly influenced by an individual producer's policy), anticipated output (and hence the amount of investment) is determined by the point at which marginal cost (the additional expenditure required for an additional unit of output) is expected to equal the price of the product. That may sound complicated, but it is a truism. The profitableness of the venture will obviously be greater the more successfully the entrepreneur estimates this point. If he plans for an unduly small or an unduly large output (through wrongly forecasting price and cost factors) his investment will be less profitable. As perfect knowledge and foresight are out of the question, the entrepreneur must take risks. It follows that (given normal efficiency in operating the business), his return may be above, equal to, or below the current average return obtainable from investments in general, according to his skill or luck in correctly determining the amount to invest (which largely becomes irrevocably embodied in specialised plant and equipment). This is the position under what economists regard as " perfect " competitive conditions—and this means, I repeat, under conditions in which the price of the commodity is determined by factors which are hardly influenced by an individual producer's policy.

12. Now in these circumstances (i.e. when marginal cost is equal to price), entrepreneurs expect the difference between aggregate receipts and aggregate cost to bring a sufficient return to make any investment in fixed resources profitable. Hence it

[1] Again to use the economists' jargon, the aim is to prevent them from conforming to an " oligopolistic " situation.

might be thought that the right form of control of State corporations would be to call upon them to produce an output of each commodity or service determined by marginal cost and price. That is not so, however, because in practice the approximation to " perfect " competitive conditions is not always sufficiently close. If the output of any State corporation formed so small a proportion of the total output of the industry that its effect upon price was negligible, no control would be necessary. So we do not have to worry about this kind of case. Our problem begins when conditions are such that the output to be supplied by a projected State corporation is expected to cause the price to fall, i.e. when (in the economists' language) competitive conditions are not " perfect ". In those circumstances, to attempt to force an entrepreneur (whether a private entrepreneur or a State corporation) to produce an output equal to that at which marginal cost is equal to price might mean that it would not pay him to make any investment. To take an extreme case, an investment may sometimes lead to the product being given freely by nature in such a volume that the price of the whole output sold in the market is nil. The case can be best illustrated if we assume that there are no costs other than the fixed costs, i.e. the costs of providing the capital resources. Imagine, for instance, a well bored at considerable capital cost in a village. It may supply a hundred times more water than the village requires. It may bring great material benefits, but the product may be so plentiful that it will have no more economic value than the air. Of course, if the well is provided collectively by the village, there is no problem. The community pays for the well through local rates, either in the form of interest or in the form of capital, and the community reaps the material (but now economically valueless) benefit. And (a quite separate but important point) in causing the venture to be undertaken, the community also takes the risk. If a water supply is *not* struck, the gamble has failed, and the community bears the loss. If the supply *is* struck, the community reaps the benefit.

13. There are two points here. Firstly, even if it is *known* that there is water to be tapped, it may not pay to bore a well if the whole of the resultant supply has to be sold and it is anticipated that the returns will not pay interest on the expenses of boring. Secondly, there is the risk factor: the presence of the water may be uncertain. Let us at this stage assume the absence of risk. Obviously, it is necessary, under private entrepreneurship, to allow output to be restricted to a point which enables the earning of interest on the cost of boring, i.e. to the point at which average fixed cost is equal to price. If this is always permitted, the enforcement (when aggregate receipts

exceed aggregate costs) of an output at which marginal cost is equal to price puts an investor into a similar position to that of an entrepreneur operating under perfect competitive conditions. The aim is, therefore, to place the *State corporation*, as closely as policy can secure, into the position of an entrepreneur operating under " perfect " competitive conditions (i.e. an entrepreneur whose most profitable output is dictated by marginal cost and prices which his output does not appreciably influence). The difference is that, as soon as profits are earned, one determinant is enforced by the Commission instead of by the market.

14. The term " fixed cost " must now be more carefully defined. It is to have a very special meaning for this purpose. It does *not* mean the contractual commitments of the corporation (which is what the accountant thinks of in this connection). It means a sum equal to interest (at the current rate) on the value at the time of (i) fixed plant and equipment plus (ii) the site. I need not go into the interesting but solvable question of the rate of interest to be taken for the determination of " fixed cost " in any year. But the determination of the capital value from year to year must be explained. Let us consider first the case of plant and equipment. The sum required is the replacement value of the capacity by the most up-to-date and efficient plant or equipment of equal durability.[1] The original cost of the plant is irrelevant. The sole question to be determined is this : allowance made for durability, what is the least capital expenditure necessary to set up new equipment of equivalent capacity and efficiency ? Unless appropriate sums are spent on actual replacements or renovations, the amount of depreciation which is not made good must be deducted from year to year ; but the mere maintenance of physical intactness does not justify the assumption that the original capital value has been maintained. As far as possible the fixed resources must be independently valued, therefore.

15. The calculation of current site values will be even less easy. But for the economist-statistician it will be a rather fascinating task. It will have to be attempted, not only for the purpose of controlling State corporations (which is our present interest) but for the determination of public utility charges. The problem must be approached without any concern about " fair value ", which is always the difficulty in expropriation cases. The distributive aspect is to be separately settled. If compensation is called for, it must be determined in an entirely different way. The whole aim must be to cut through a host of superimposed complexities determining recorded values in

[1] It is capacity and not output which has to be valued ; for owing to " indivisibilities ", capacity greater than is required to supply the market may have to be provided. See *Theory of Idle Resources*, pp. 163–5.

order to discover the natural scarcity value [1] of areas at different sites. To capitalise (at the current rate of interest) the current site rents being paid is bound to give a quite wrong figure in nearly every case. For firstly, the lease may have been concluded a long time ago, whilst rents and the value of the site may have changed enormously in the meantime. Secondly, the rents being paid may include a material element of " exploitation ". I mean by this that a flourishing concern which is irrevocably rooted to its original site is liable to be seriously mulcted by the landlords when its lease expires. These difficulties can be surmounted by means of a survey of all rents and site transactions at different times, over an adequate period, and covering the relevant districts. The data so obtained will give the economist-statistician all he wants for a sufficiently accurate estimation. The key values, which will be more trustworthy (although not necessarily individually accurate) than other values, will be those registered when changes of site ownership or lease have been followed by actual demolition of the physical property on the site, or when an actually vacant site has changed hands. With the aid of all the material, a current rent map and a *true site values map* should be constructed for each district in which this problem has to be solved. The map of true site values should show a certain consistency. Near-by sites obviously stand in a competing relationship ; and if adjacent areas are very differently valued there is clear presumptive evidence that the values are false. At the same time, many peculiarities are to be expected in those parts of towns in which shopping and theatrical centres are found. But in districts in which industrial plants are situated, a very high measure of consistency may normally be expected, and it is with industrial districts that the control will be chiefly concerned. The completed map is likely, in almost every case, to give results of surprising trustworthiness. And still greater accuracy of approximation will be achievable after comparisons have been made between the typical relations of situation and site value in different towns and districts. At the inception of the scheme a major effort at large-scale economic research by statistical means will be called for.

16. But what about " avoidable cost " (which, together with " fixed cost ", makes up " total cost ")? Cannot the whole purpose of my scheme be neutralised by the deliberate disguising of profits as " costs " ? Is not this part of my scheme psychologically defective ? The State Trading Board, although disinterested from the pecuniary standpoint, will feel that its success

[1] I hope the term " natural scarcity value " explains itself sufficiently. The concept is discussed rigorously in " Natural and Contrived Scarcities ", *South African Journal of Economics*, September 1935.

is being judged by the return which it obtains from its aggregate investments. It will be tempted, therefore, to neutralise the Commission's determination of minimum output by so arranging the costing that avoidable cost and marginal cost appear to be higher. An adequate safeguard is, however, provided in the system of remuneration for managements. The directors and managers of the State corporations *must* be paid partly by a rate of commission on profits which increases as the price of the product falls *and* as the amount of output increases.[1] Under this type of remuneration, the managers will have every motive to cut the prices as low as possible. At the same time it will pay them to endeavour to make profits. But the Commission's inspection and comparison of costs as between different establishments must be an additional safeguard against abuse. Exemption from control will, of course, be contingent upon no dividend being paid.

17. It will not be easy to discover " marginal cost ",[2] but it is a task which is not beyond the powers of cost accountants versed in modern economic theory. The Commission's accountants will in no case have the impossible task of trying to allocate " fixed cost " among different kinds of output.[3] The scheme can be applied to corporations producing diversified output as well as to those producing homogeneous output. It can be applied also, without undue difficulty, to corporations practising differential charging [4] (discussed later, see Chapter XV, paragraph 20); and those permitted to practise discrimination (discussed later, see Chapter XV, paragraphs 15 to 19) will be exempt. Hence I feel that this scheme overcomes the objections to other attempts to enforce " full utilisation " or an output determined by forces corresponding to those operative under competitive conditions.[5]

[1] Where there is a diverse output, this means that appropriate index numbers of the prices of the flow of commodities and of the magnitude of the flow must be compiled.

[2] " Marginal cost ' defined ' is not marginal cost ' ascertained '." (D. F. Pegrum, " Economic Planning and the Science of Economics ", *American Economic Review*, June 1941, p. 299.)

[3] Although that is what cost accountants are continuously trying to do under the present system !

[4] In such cases it is " marginal *joint* cost " and joint receipts which have to be taken into account. Thus, in the case of differential freights for forward and return journeys between A and B, the cost involved is that of bringing wagons from A to B and back from B to A. The price is the charge for both journeys. The Commission's cost accountants (who must be versed in the practical economic theory of costs) will be quite competent to determine cases of *bona fide* joint costs.

[5] Professor D. F. Pegrum (op. cit., p. 304) sums up the case against attempts to simulate competitive price along lines which allocate fixed costs under conditions of joint supply, or non-homogeneous output, or differential charging due to peak and off-peak load, in these words : " If it is urged that the ideal is the perfectly competitive price or the one which simulates it, the reply is that the simulation is impossible because the necessary conditions do not exist."

18. One point remains to be explained. When aggregate receipts are tending to be greater than aggregate cost under non-homogeneous production, the Commission will, in the absence of obvious aggression (see Chapter XV, paragraph 10), usually be unconcerned with what specific prices are cut or what specific outputs are raised in order to wipe out the balance. The *ideal* result would be that which brought price and marginal cost together in each case. But the extent of the abuse is likely to be so small in such circumstances that the Commission would seldom intervene in practice. Whenever profits are being made, however, each separate line of production must come under scrutiny. The Commission's cost accountants, bearing in mind the fact that in practice they will sometimes be concerned with "marginal joint cost" rather than "marginal simple cost", must determine the output of every line of production. The management's function will therefore simply be that of deciding technical arrangements and securing every possible economy (for which there will be every motive). But the management will be as much at the mercy of the imposed outputs or prices as the private entrepreneur is normally at the mercy of the market. The separation of powers between those who determine output and those who seek economies in producing that output will be complete. Now the guidance given to the Commission on the point of output-fixation has been deliberately expressed in terms of economic principle in the draft Bill. The legislation proposed does no more than state the object of equalising marginal cost and price, and authorises recourse to the economic text-books for the interpretation of that broad instruction. This is one of the points at which I have felt it desirable to leave details to later planning. The sub-planning must await the accumulation of expert experience. (See Chapter XVII, paragraph 12.) The determination of marginal cost is a technical question of what may be called "rational costing". But at the inception of the scheme there may be a serious shortage of accountants qualified to undertake this kind of work. Few professional accountants, including "cost accountants", appear to have been interested in these problems. The basic notions are, however, not difficult to learn and the pioneers of "rational costing" who have been contributing marginal cost studies of recent years, have provided the required accounting concepts.[1]

19. So far, it has been convenient for exposition to ignore the

[1] I am thinking in particular of the contributions made by Messrs. R. S. Edwards, R. H. Coase, R. F. Fowler and C. L. Paine. (R. S. Edwards, "The Rationale of Cost Accounting", in *Some Modern Business Problems*, Ed. A. Plant, 1937; R. H. Coase, articles in *The Accountant*, 1938; R. F. Fowler, *The Depreciation of Capital*, 1934; and C. L. Paine, *Accounting Research Association Publications*, No. 2).

risk factor. To consider it, let us come back to the example of the village well. We have seen that if the well is provided collectively the community takes the risk, bearing both losses or benefits in the event of failure or success. But if the well has to be provided commercially, i.e. as a private entrepreneurial speculation, there is a problem. The investor in the well runs the risk of losing all his capital if water is not struck. He has to make a costly experiment. When the risk is thought to be considerable, we can imagine him setting to work on the project only if there is the *prospect* of a return of several hundreds per cent. He may then regard it as legitimate *gambling*. He will count on being able to recoup himself, in case of success, by selling that proportion of the output which he judges will maximise receipts. The rest, he will allow to run to waste. The output he sells is likely to be priced at just below the price of obtaining water from the nearest alternative supply.

20. Ventures of this nature may not be of a type which should be undertaken by private enterprise. But suppose they *are* undertaken. Should the entrepreneur be allowed to maximise (or at least endeavour to maximise) his profits for all time? If this *is* the permitted tradition, entrepreneurs will have the greatest incentive to make such investments; and *ceteris paribus* there will be the greatest incentive on the part of interlopers to break into their markets. But the community may still pay unduly highly for those enterprises. Although, taking the whole range of investments of this sort, only the current average return is likely to be earned, there are no grounds for assuming that such a system leads to the best use of the community's resources. The fact is that the amount which society should pay for the function of "risk-bearing through experiment" can only be arbitrarily determined.

21. We have an exactly parallel case in research. Those who invest with a view to adding to the supply of knowledge may, if their research is fruitful, produce something of immense importance to mankind, but something which is of no economic value unless it can be kept secret. Again, however beneficial, the product (knowledge) will be as cheap as the air. For this reason, it has been judged desirable to introduce the patent system. (The copyright system has a similar *raison d'être*.) The right to withhold the use of the knowledge is conferred on the successful experimenter, just as a private investor in a well is permitted to withhold from sale part of the water obtained. Such rights, conferred on inventors through patents, are limited, however. No one would think of granting a monopoly to inventors for all time. But the period of protection actually granted is quite arbitrary. Thus, it differs considerably between country and

country, and no one can say that any particular country is right. At the same time, it is widely understood that research can be collectively paid for by State grants and endowments, any results becoming communal property, not private property.

22. Outside the fields of patents and copyrights, the ideal practical solution of this aspect of the problem of risk-taking seems to me to be similar. In place of patent rights, we must allow the entrepreneurs, including State corporations, to produce and sell outputs at which prices exceed marginal costs.[1] In the case of a State corporation, the extent of the excess must be defined and fixed independently, however. The sole reason, as we have seen, is that the corporation might otherwise be tempted to follow the price leadership of monopolistic private enterprise. I suggest the following scheme. The State Trading Board may, prior to the establishment of a State corporation (or a State corporation itself, prior to any specific development which it contemplates), petition the Commission for exemption from minimum output control for a limited period. I see no good reason why the period should ever be longer than that given to inventors of patents. Now the amount of socially desirable risk-taking which *should* be purchased in any way whatever is as arbitrary as that which is purchased through patents. As with all other collective decisions, there are no completely satisfying ways of determining the community's preferences in the matter. (Compare, for instance, decisions on the question of how much should be spent on fire-fighting services in peace-time.) Decision-making must be delegated to elected and trusted representatives. Whatever rule is adopted, in many cases the payment for risk-taking may be too large. In other cases, it may be insufficient. Where it is insufficient, private enterprise will be the safeguard. Where it would otherwise be too large, the fact that the State corporations will be subject to the other provisions, especially the anti-discrimination clauses (see Chapter XV), of the draft Bill will limit the possibility of abuse.

23. We see, then, that whilst State corporations will not have the same type of efficiency motive as that which actuates private business, they will be without the same inducement to restrain production, either collusively or by reason of some natural monopoly [2] advantage possessed by them. And the Commission's task of determining the minimum output will seemingly provide a powerful assurance that the competitive plane will be genuinely sought. Hence the margin of State competition and the general body of " commercially run " activities will be able

[1] In so far as market forces permit. They are to be given no protection.

[2] By natural monopoly is meant the power to withhold or destroy productive power without collusion with competitors.

to stimulate and check one another and ultimately provide a highly trustworthy check. The data so obtained will be of the greatest value to the Commission as well as most enlightening from the standpoint of the community as a whole.

24. In the case of public utilities, such as electricity and gas undertakings, the State corporations will have a more limited function. Their sole purpose here will be that of showing the different results obtainable under private enterprise, municipal ownership, and State ownership through the State Trading Board under the Commission's special control. They must endeavour to make clear to us just how well or badly the " profit motive " works in this field. Certain old-established and certain newly-set-up plants must be taken over for this purpose. Their expropriation value must be determined by the Commission's estimate of their cost of reproduction (see paragraph 14) or a capitalisation of the Commission's estimate of their present and future earning power under the condition at which the marginal cost of each type of output is equal to its price, whichever value is the lower. If the lower value is nil, there must be expropriation without any compensation other than that provided under the Capital Security scheme. The plants set up or expropriated must be chosen so that useful comparisons can be made between private and State operation, except when the intervention is meant to prevent immediate abuses. But a State corporation which takes over the electricity supply of an area will not be in a position to induce competition in *other* districts, except at the margin of its own district. As a means of stimulating competition, disinterested ownership can achieve very little with " natural monopolies ". The data obtainable will be very interesting, however. A study of the costs and charges of such an enterprise will throw a great deal of light upon the relative efficiency of different types of ownership and direction. And here, also, the results will be of the utmost usefulness for the Commission. If the State corporations are relatively successful they will have provided the Commission with the clearest guidance for attempts at maximum price and minimum output control of privately or municipally owned public utilities.

25. I have explained that the aim of State-owned enterprises must be to earn the current average return on their investments as a whole. At the outset, however, the current average return should not be expected. For if the *other* provisions of the Bill do not rapidly enforce full utilisation, the Ministry of Reconstruction or the State Trading Board may have to intervene in industries which are burdened with monopolistic over-investment.[1] In such cases the achievements of State corporations

[1] See *Theory of Idle Resources*, Chapter VII, " Participating Idleness ".

in securing price reductions (or increased output for the industry) must be weighed against any sacrifice of earnings on capital. Even if a quite small average return is all that they earn, they will have performed a most beneficial service, especially if their capital is maintained physically intact. For they will have introduced a powerful incentive to efficient methods over the whole range of private enterprise. Only in the long run will it be possible to make a perfectly fair comparison between the private and the State-owned sectors of economic effort.

26. The reader must not get the impression that in this scheme for minimum-output-fixation there is an effective rule for anti-monopoly control in general. The device is fashioned merely (*a*) for ensuring that State corporations will not be tempted to follow any monopolistic price leadership established by private enterprise, and (*b*) for controlling the charges of public utilities when they have a considerable measure of " natural monopoly " power. It is *not* proposed that private undertakings (apart from monopolistic public utilities) shall be called upon to produce outputs determined by marginal cost and price. That might not be practically workable. But it can, and should be, applied to the policy of State corporations.

Summary of Chapter XIII

State Ownership

(1) The Ministry of Reconstruction must plan for the achievement of reconstruction objectives within the framework of the institutional plan as a whole, whilst its productive activities must be under the control of the Commission. (2) In endeavouring to find employment for war assets and workers turning from war pursuits, the Ministry may seek the aid of the Commission to expropriate wasted resources. (3) To ensure that no peace-time requirements are overlooked, the Ministry may float State-owned corporations, which must be quite unprivileged and, (4) whilst expected to earn the current rate of return on capital, be strictly subject to control by the Commission (5) and beneficiaries from no priorities. (6) The Commission must be in the position of an umpire as between the State-owned and privately-owned sectors. (7) To secure a fair contrast no State-owned corporation must be allowed to dominate any industry. (8) State competition through " State corporations " (under the direction of the State Trading Board) is, however, to be a permanent part of the scheme. (9) To prevent the State corporations from tacitly following private monopolistic price leadership, they must be controlled by the Commission, (10) which must require the outputs of corporations earning " profits " (aggregate receipts minus [" fixed cost " plus " avoidable cost "]) to be at least those at which the marginal cost of each commodity is equal to price. (11) The exemption of corporations not earning profits seems to be the correct principle because, whilst under " perfect " com-

petitive conditions output is determined by marginal cost and price, (*12*) *under "imperfect" competitive conditions, the anticipated output so determined might sometimes induce no investment, the anticipated fall of price permitting no return on the capital invested.* (*13*) *Hence output may legitimately be restricted to a point which enables interest on the "fixed cost" to be earned.* (*14*) *"Fixed cost" means interest at the current rate on* (*a*) *the present replacement value of the plant, plus* (*15*) (*b*) *the current site value, the latter being estimated by the Commission with the aid of a "true site values map".* (*16*) *The disguising of profits as "avoidable costs" will be preventable by the method of remunerating management.* (*17*) *The scheme does not involve the allocation of "fixed costs" over non-homogeneous output,* (*18*) *but when "profits" are being earned the Commission's cost accountants must determine output in accordance with the principle of marginal cost equalling price.* (*19*) *But where risk is involved, the profits so permitted may be inadequate. Indeed, in extreme cases the chance of a return of several hundreds per cent. might be required to induce investment.* (*20*) *An inducement is offered if the investor is allowed to maximise his profits, but the function of risk-bearing may then be too highly remunerated* (*21*) *just as the period of patent protection granted to an inventor may offer extravagant remuneration for successful research.* (*22*) *Hence, State corporations may petition for exemption from minimum output control for a limited but necessarily arbitrary period.* (*23*) *It is the intention of the scheme that private and State enterprise will induce competition and check one another;* (*24*) *and although with public utilities it will be impossible to induce competition effectively, experience of operation under State corporations will afford valuable data.* (*25*) *But as monopolistic over-investment may have to be overcome, the State corporations must be judged at the outset by their effects upon prices and output rather than by their profit-earning results.* (*26*) *The attempt to enforce outputs at which marginal cost is equal to price is* not *recommended as a general principle of control.*

CHAPTER XIV

CO-ORDINATION AND STATE PLANNING

1. I KNOW that I have not yet satisfied those of my critics who believe in the desirability of centralised planning in time of peace as well as in time of war. They will feel that the type of State initiative which I have sketched will be inadequate because it covers individual industries only. According to this school, what is required in the planning of economic society is the conscious and centralised co-ordination, synchronisation and standardisation of productive capacity as a whole. The organisation of that vast co-operative process—that complex division of labour—which makes up the economic system must, they feel, be directed from a detached vantage-point where the interrelations of the parts and the whole can be sufficiently perceived. It seems to me that there is much more in this point of view than its advocates have been able to make clear. The persistent dogmatic assertion of the proposition on doctrinaire grounds, or on behalf of powerful interests in scarcity, has hidden a certain reasonableness in it. But we must be very clear indeed about what is valid and what is not. In time of war, as we have seen, one unified strategy rightly dominates all decision-making. The formulation and direction of the strategy must therefore emanate from one source. When war ceases, however, the aims of men become diverse and multifarious. There are, of course, critics of economic freedom who deplore the results of the free expression of human preference. I am not concerned with them.[1] At the same time, I do wish to face the convictions of those who hold that human preferences, freely expressed, diverse and multifarious as they must inevitably be, can be best satisfied under some centralised direction. If their case is expressed in the following terms, I believe that its truth cannot be denied : *There are certain collective functions, connected with the co-ordination, synchronisation and standardisation of entrepreneurial effort, which can only be arranged on a scale wider than that of individual "firms"*. Now the exercise of these functions does not necessarily require State direction. Indeed, the necessary arrangements *are* often made by mutual discussions between firms, the agreement reached being stabilised by means of contracts. I have already shown tentatively (Chapter IV, paragraphs 25 to 29)

[1] This does not mean that I am blind to questions of taste. I have discussed these questions elsewhere. See *Economists and the Public*, Chapter XVIII, " Taste and Tolerance ".

how competitive pressure tends to force such co-operation. But even unrestrained competition might not always result in ideal co-ordination and economy, in the absence of certain *collective aids* to the competitive process. The purely technical requirements of the co-ordination function may admit of an incomplete solution if unaided dealings between firm and firm are the sole procedure relied upon. The scale of possible co-operation may be too small.

2. In a sense, all the truly collective functions of the State may be regarded as concerned with the co-ordinating function. Defence, police and justice are obviously essential for free co-operation. And only the collective decision of society can determine how much shall be spent on them. We can take these functions for granted, however. The essential " collective aids " for which provision is made in the scheme which I put forward are as follows : (*a*) the suppression of monopolistic arbitrariness ; (*b*) the collection and dissemination of relevant data ; (*c*) the devising and imposition of plans for co-ordinated activity ; (*d*) the certification of quality ; (*e*) the collective purchase of " risk-bearing through experiment " ; (*f*) the extension of the principle of the patent ; (*g*) the prevention of the arbitrary use of copyrights and patents ; (*h*) the enactment of the hours of labour and the determination of the circumstances under which the hours of labour may be determined by the free exercise of leisure-preference ; (*i*) the enactment of the " conditions of labour " and the determination of the circumstances under which the conditions of labour may be determined by free preference ; (*j*) the imposition (when necessary) of compulsory saving ; (*k*) the enforcement of " conservation ". ((*f*) is really a special case of (*e*) ; it is best dealt with in a different way.) I regard all these functions (even compulsory saving) as concerned with the *co-ordination* of economic effort as a whole. Unless they are so viewed, their real purpose will not be understood. There are some things which individual initiative and contract cannot alone determine because the social implications of individual decisions cannot be envisaged by the individual decision-makers. If they *could* see the implications, and the means of voluntary co-operation existed, their decisions would be different. That being so, the problem is how to create an order in which rational foresight can be exercised by private entrepreneurs, as well as by State entrepreneurs, as links in the co-ordination of production on an adequate scale.

3. The chief principle adopted in my proposals is that the obstacles to " competitive pressure " must be removed. That is the *immediate* purpose of the " collective aids " which are under discussion. " Competitive pressure " is simply the incentive to

substitute the cheaper method for the more expensive method of achieving a *given result*. The " pressure " arises from the force of the motive to attain an end (whether it is individually or collectively determined) with the utmost economy. Clearly, then, it is a " pressure " which must constantly urge the arrangement of the most economic co-ordination. If, for some reason, the co-operative arrangement of the cheapest method is not achieved, there must be some obstacles. Now it seems to me that in almost every case the biggest obstacle—which completely outweighs all others in importance—is the resistance due to the distributive causes, and this resistance my Capital and Labour Security reforms try to eradicate. At this stage, I need not again emphasise the point.

4. Apart from the distributive obstacle, I feel that insecurity in various forms is the chief problem. Of course, " insecurity " is a relative term. The highly complex social co-operation which already exists is based upon contract ; and I need not stress the importance of contract as the prime source of the required security (although we can go wrong through taking the obvious for granted). But there are some things which contract alone cannot easily provide for. It cannot, for instance, protect us against that arbitrary power which we call " monopoly ". Hence the control of monopoly can itself be viewed as a co-ordinating function in that the control must be the source of certainty. Some of the positive functions of the State required in this connection have already been discussed in the two previous chapters. Various limitations on individual autonomy (imposed through the medium of State competition, and control by the Commission) have been considered ; and these limitations partially constitute the new property system under which arbitrary economic power can be brought to heel. But my proposals go much further. They endeavour to protect the consumers' right of substitution, and the consumers' right to arrangements under which all valuable and unutilised or wasted resources shall be adequately employed. These rights define, therefore, the limits of individual autonomy under the new property system. The administration of the laws in which they are embodied becomes a major State function ; and I shall show that with the performance of this function (through the Commission), an environment is created in which that diffused and independent decision-making which we call " private enterprise " can operate under conditions of relative certainty. The right of substitution is itself the origin of the most potent force which can compel the fullest utilisation of valuable resources ; and the rendering effective of this right through " cease and desist orders " in respect of defined unlawful practices, I regard as a more far-reaching reform than any other

which I put forward. It eradicates the most wayward elements of arbitrariness in the economic system, especially in its elimination of price discrimination (to be discussed at length in the next chapter). The enforcement of this right is essentially a State function because, although monopolistic practices are contrary to the interests of all (in the sense that all may gain and none need lose through their eradication), the technical limitations of individually motivated co-operation make it impossible for the necessary co-operative arrangements to be fixed up, except through the medium of legislative provision and the all-embracing direction of the Commission. To this question, and the method of securing full utilisation of resources by direct means, I devote the next chapter.

5. The second most important collective aid is, in my opinion, the collection and dissemination of knowledge of the data of production and trade. I have long believed that

> the existence of privacy which has the effect of holding back knowledge relevant to economic co-operation, is inconsistent with . . . the existence of competitive institutions. . . . The pooling of knowledge, the adoption of common standards, and like attempts to maximise orderliness in the relations of productive activities . . . appear to be hindered by the actual or supposed private advantages of privacy. . . .[1] *Prima facie*, there is no case for permitting the concealment of any knowledge which any individual may possess about the effects or the results of the pricing system. . . . I have been unable to conceive of any arguments for the tolerance of business privacy that are not equally valid in defence of monopoly. . . . The most efficient *conceivable* working of society, from the purely administrative point of view, is one in which the privacy or secrecy which surrounds the affairs of " firms " has been overcome. . . . Conventional business secrecy certainly appears to be inimical to the most effective functioning of contemporary institutions. . . . All will admit that the activities and degree of success of entrepreneurs are a matter of social concern. Why, then, should knowledge of their activities and their successes or failures be withheld by those who possess it ?[2]

I am not alone in holding this sort of opinion. Thus, Mr. J. M. Keynes has recognised that the cure of many of the ills of modern society is to be partly sought " in the collection and dissemination on a great scale of data relating to the business situation, including the full publicity, by law if necessary, of all business facts which it is useful to know ".[3] Professor S. H. Frankel,

[1] " Co-ordination and the Size of Firm ", *South African Journal of Economics*, 1934, pp. 397–8.

[2] " Privacy and Private Enterprise ", *South African Journal of Economics*, 1939, pp. 377–80. Cf. also " The Sanctions for Privacy under Private Enterprise ", *Economica*, August 1942, pp. 237–44.

[3] J. M. Keynes, *The End of Laissez-Faire*, p. 48.

commenting on the Liberal Industrial Report, agrees that "secrecy in both private and public business is one of the greatest factors of inefficiency, and that the Government should take the most drastic and uncompromising measures against it".[1] Professor A. G. B. Fisher, in a most important study of contemporary institutions, says:

> The economist must confess that he has great difficulty in picking out specific industries and saying confidently, "These are the industries where more capital should be invested". This is not, however, his fault, but the fault rather of those people who imagine it to be to their interest to conceal the facts in the absence of which a satisfactory comparison of profits is impossible. The most important difficulty in the way of obeying the fundamental rule of a capitalist economy is therefore in part a statistical difficulty. All the facts about profits are presumably available somewhere, but at present we have no satisfactory means of getting at them.[2]

And Mr. H. D. Dickinson points out that "the chief cause of the instability found under competitive conditions [*sic*] is the mutual ignorance in which competing firms work; each plans for the market or introduces new methods without regard to the similar activities of all the others".[3] But resistance to the idea of making public the internally acquired data of business is simply a particular form of *resistance* to competitive conditions. Mr. Dickinson stresses the wrong point.

> However unconscious, *the masking of profitableness* appears to be the very motive for business privacy in most cases. Certainly the opposition to reforms attempting to mitigate conventional secrecy would be motivated mainly by fear of the competition which would be precipitated. . . . If the argument for greater and more independent publicity is based on the necessity for protecting investors, one may expect considerable support. But if the same reform is advocated on the grounds that it would enable the better utilisation and co-ordination of productive activities, it is less likely to be sympathetically considered. "Ruinous competition" will seem to be threatened as soon as the general aim of any reform is contemplated.[4]

6. Under my scheme, the Commission is given the widest powers of gathering, compiling and publishing information. It is to have the right of access to all the facts which the pricing system can disclose. All books and accounts are to be open to it and all persons engaged in business may be called upon to make such periodical or occasional returns as the Commission requires.

[1] S. H. Frankel, "A National Economic Policy", in *Coming of Age* (Ed., J. H. Hofmeyr), p. 188.
[2] A. G. B. Fisher, *The Clash of Progress and Security*, p. 182.
[3] H. D. Dickinson, *Institutional Revenue*, p. 130.
[4] "Privacy and Private Enterprise", op. cit., pp. 380–1.

I envisage a huge statistical and publicity service, under the ægis of the Commission. The statisticians are to analyse and present the data collected. It is easy to anticipate the objections to this proposal. It will be felt that the scheme is going to mean the burdening of all enterprise with the irksome task of continuous form-filling. But the data demanded need in no cases be of a kind that would not already be in the possession of every efficiently run concern; and the usefulness to private enterprise of the analysed material is bound to be immense. It must be remembered that the main object is to *expose profitableness*, and so to make public the crucial knowledge required for purposeful planning and co-ordination. The statistical authority must fashion its service in the light of this object. But apart from its statistical service, the Commission is to have its own band of auditors, accountants, economists, inspectors and technical investigators. They will ensure the general correctness of the data contributed by individual firms. It may well be that, under the new regime, the private appointment of auditors will become anomalous. A new conception of private enterprise is likely to develop. I think that before long it will appear just and reasonable to auditors themselves that they should become public servants. This is, however, a reform which could be best introduced separately; and we should wait until its appropriateness has become clear. Hence my scheme simply provides for the issue of strict instructions to privately appointed auditors on matters like the valuation of assets, the determination of profits, and the compilation of data which the Commission may demand.

7. Even at this stage, I shall not have satisfied potential critics on the planning issue. Admittedly, they will say, the overcoming of privacy will have facilitated co-ordination, synchronisation and standardisation. But the mere availability of knowledge is surely not enough. The collection and dissemination of technical and price data would not, in itself, have stimulated the voluntary arrangement of the economies achieved by the Electricity Grid in Great Britain.[1] Or again, the complete publication of all the relevant data would not provide an effective urge for town planning. Suppose it were possible to make known all the pertinent facts to entrepreneurs. It would still be absurd to talk of "competitive pressure" forcing the adoption of such schemes. At first, this case seems unanswerable. But it involves an unconscious although very common confusion. For instance, the plan of a "town-plan" is, in part, a collectively determined *end* or ideal. It is an end of a kind which can only

[1] I am not convinced that the urge to achieve economies co-operatively would not be as strong as the urge to exploit consumers collusively if the power to exploit were removed. But I cannot base my case on such an assumption.

be determined collectively. It is partly an objective demanded on aesthetic grounds for which alternatives are sacrificed—that is, it is consciously sought at a *cost*. Obviously, "competitive pressure" cannot determine or force any ideal or end, either individual or collective. Now in this discussion, when I use the word "plan" I am thinking of the plan as a *means*. A town-plan is only partly a means. But it can only be discussed in the present context in so far as it *is* a means, that is, when it is a purposive conception of co-ordinated arrangements and functions. For example, the town-plan may be under discussion with a view to facilitating the transport of factory workers to and from their residences, after general agreement about the town as a complex of amenities has been reached. In that case planning in my sense is an issue. Hence the plan I am concerned with assumes that we are agreed about "ends".

8. Among the other obstacles is one which I can best explain by quoting from an article which I wrote seven years ago:

> It is an undoubted fact that the benefits of any standardisation effected co-operatively between firms will be unequally shared by the associated entrepreneurs. Those whose equipment happens to conform will gain; those whose plant has to be scrapped, or whose management scheme has to be re-cast, may lose. But given reasonableness, an acceptable division of the benefits can be arranged on a contractual basis . . . social pressure is the coercive agent causing effective co-operation. It is when the actions of a few stupid, pig-headed or capricious entrepreneurs can, actually working against the interests of those whose property they control, do considerable damage to the co-ordination scheme, that centralised planning becomes desirable. . . . Where "natural monopoly" exists in a marked form, where way-leave rights have been granted, where the possibility of interlopers operating is particularly small, a good defence can be put up for some centrally planned or imposed co-ordination.[1]

Well, the draft Bill provides for this. It gives the Commission power to assume the initiative when, in its opinion, a scheme for standardisation, co-ordination or synchronisation is likely to bring material economies. The test which the Commission must apply is this: Is the scheme likely (in the words of the draft Bill)

> to cheapen products or services, or add to the diversity of products or services, or add to the availability of products or services at times at which they might reasonably be demanded . . . without any withdrawal of supplies or any increase of price of any cheap grades or qualities already obtainable when, in the opinion of the Commission, such would be materially disadvantageous to the poorer classes of consumers.[2]

[1] "Co-ordination and the Size of Firm", op. cit.

[2] See draft of *Resources Utilisation Protection Bill*, [illegible]

This cuts out many types of " pseudo co-ordination ", by which I mean schemes (often termed " rationalisation ") which are really aimed at the collusive exploitation of consumers, or the withholding from consumers of any economies which might be achieved by concentration or co-ordination.

9. The Commission must proceed by presenting a project of co-ordination to the parties concerned. The scheme to be imposed must be clearly set out, and the nature of the economies anticipated carefully specified. The specific objectives must be announced and the exact measures of standardisation, co-ordination or synchronisation contemplated must be mentioned. If the parties to whom it is presented voluntarily adopt it, the Commission's task will be at an end. But (*a*) if the project is frustrated by the unreasonable unwillingness to agree, or through the demand for extortionate terms by any party or parties, while (*b*) the owners of at least two-thirds of the capital invested (at current values, as estimated by the Commission) voluntarily accept any such scheme put forward, resort must be had to compulsion. Only then must the recalcitrant firms be *forced* to co-operate, however. The point can be best exemplified by consideration of a railway system in which different sections are on different gauges, and each section is under separate private ownership. It is realised that there are very large economies and improvements of service to be gained from a large capital expenditure spent upon adapting the system as a whole to one gauge. (For example, it will enable rolling-stock to be jointly used and through journeys to be arranged.) Obviously, it would be inequitable for the owners of each section to be called upon to bear the specific costs of the change of gauge on their section. Hence some co-operative agreement about the sharing of costs and benefits is essential. But the conclusion of such an agreement demands " reasonableness ". Although the required standardisation may be to the advantage of the owners as a whole, an exact division or balancing of individual gains and losses is not simply arrangeable, or enforceable. The owner of one small crucial section may, by reason of the natural monopoly conferred by a key position, be in a position to blackmail the rest. He may demand exorbitant compensation.

10. The function of compulsory co-ordination or standardisation in such cases is not a new one. In a very elementary form the powers under discussion have been used by the State in all cases in which " way-leave " rights have been granted. For every owner of land possesses a natural monopoly of the site. And from time immemorial it has been recognised that such monopoly cannot be tolerated when it conflicts with co-operation in society. The evolution of private property in land was accompanied by

the idea of rights of way; and as industrialisation emerged, the notion of compulsory purchase (which had been a recognised right of the State for public purposes since ancient times) became a widely employed expedient. This right, which became known in the United States as the "right of eminent domain", was absolutely essential for progress in public utilities and transport during the industrial age. Under it, the State asserted its power of expropriating property which took the form of natural monopoly of site. My plan has recourse to the same principle, but goes much further. Power is conferred on the Commission to deal with natural monopoly in *all* its manifestations when it obstructs co-ordination.

11. But powers of this kind will still not satisfy enthusiasts for centralised planning, and rightly so, for I have so far assumed that the standardisation, co-ordination or synchronisation imposed will be to the advantage, on the whole, of the producing interests covered by it. Unfortunately, this assumption may not always be valid. If the economies have to be passed on to consumers (and other provisions in the draft Bill try to make it impossible to withhold the benefits), there may often be no general incentive to achieve such economies. The aggregate earnings of an industry which adopts a scheme for greatly improved co-ordination may decline and not rise in consequence. The Electricity Grid, for example, needed the exercise of powers of compulsion partly for the reasons mentioned in paragraph 8; but that scheme would never have been possible if it had not also included arrangements whereby the benefits were almost completely withheld from consumers of electricity. Had it been necessary to pass on the economies, powerful opposition would have killed the scheme. The drastic capital-economising nature of technical developments in electricity supply would, on the whole, have caused severe losses to investors in the industry. And so consumers were robbed of the blessings of technical progress. It was still profitable, of course, for the electricity interests to seek the fruits of technical progress so long as those fruits could be engrossed as compensation for shareholders. As it was, investors in the electrical industry, whose representatives were powerful, successfully pressed for a State scheme to restrain the consequences of progress.

12. Under my plan, the distributive motive for such restraints on technical advances will be dissolved. The fear of *ruin* will no longer be present. But I do not contend that the voluntary co-operation of directorates can *ipso facto* be secured. For as these schemes may tend to wipe out the profits of the firms which they control, directors of firms are still likely to resist. Their prestige will be threatened; and the new rules of the

game will confuse them. They will be liable, quite subconsciously, to play according to the old rules. Moreover, the Capital Security scheme (unlike the Labour Security scheme) must be gradually dissolved. Hence it will be necessary to ensure that in *future* generations the benefits of technical progress shall not once again be held back. The problem will certainly be easier in the distant future than in the immediate future because entrepreneurial psychology will, in the long run, have become adjusted to the continuous and effective pressure of consumers' interests. Nevertheless, the type of co-ordination function which I am now discussing will, I think, be required permanently. Hence my draft Bill provides that when, in the opinion of the Commission, a scheme for co-ordination is calculated to cause the earnings of the productive operations covered to decline, the Commission may compulsorily impose that scheme on such operations, *whether or not there is any demand for the scheme from within.* But powers of this kind must not be lightly used. For that reason, the draft Bill which I submit provides that the scheme must be presented by the Commission, with a detailed report, to the President of the Board of Trade. The President must take action only if he feels that the Commission has made out an adequate case. And there is to be only one criterion by which the scheme must be judged in each case : Has the Commission been able to give good and sufficient reasons for believing that by reason of economising labour or capital, or for other reasons, the scheme will cheapen, or increase the saleable output, or provide greater diversity, or provide greater reasonable availability of products or services ?

13. It may be desirable in the distant future, when the Capital Security scheme no longer applies, to introduce some method of compensation for industries in this position. My present proposals make no such recommendations, however, because I do not wish to complicate unduly the simple principle of the Capital Security objective. But if it is thought expedient to compensate for imposed capital-saving co-ordination, it must be recognised that the losses to be met are simply a particular example of falling capital values due to technical improvements. The development of invention and the accumulation of administrative experience are constantly rendering equipment obsolescent and existing productive methods out of date. Fortunately, this problem will not have to be solved during the reconstruction period, that is for a period of at least ten years following the war. There will be no necessity for any special compensation scheme because the Capital Security arrangements will provide all that is required.

14. Another field in which contract alone cannot be relied upon

to provide the certainty necessary for effective co-ordination is that of quality certification in goods and services. It is because contract is inadequate in this connection that the doctrine of *caveat emptor* has been developed within the law. But is *caveat emptor* sufficient? Some of my readers may have thought that I have been overlooking this question because of my insistence upon the achievement of "cheapness" as the standard of the Commission's success (paragraph 12). But the phrase "cheapen products or services" is defined in the draft Bill as:

> (*a*) to cause products or services of the same grades or qualities to be cheaper, or (*b*) to cause products or services of superior grade or quality to be obtainable for a given price, without any withdrawal of supplies or any increase of price of any cheap grades or qualities already obtainable when, in the opinion of the Commission, such would be materially disadvantageous to the poorer classes of consumers, or (*c*) to cause greater diversity of products or services for the same range of prices.

Far from overlooking the question of quality, my plan endeavours to introduce all-comprehensive machinery for the independent certification of quality. Indeed, I regard the certification of quality as one of the principal planning functions of the State. It enables the creation of an element of certainty which is essential if rational foresight is to be exercised by a host of independent decision-makers. In the performance of this function, all existing independent scientific institutions can be made use of. Bodies like the National Physical Laboratory at Teddington are already at the State's disposal, but other institutions must be used or new institutions created to ensure the complete absence of fraudulent quality reductions. The Commission must assume chief responsibility. It must arrange for the systematic and continuous independent analysis of materials and the testing of quality or standards of performance in other ways. It must also have the necessary powers to compel industrialists and dealers to quote the results of analyses and tests either on the products themselves, or on printed descriptions, or on containers and wrappings. The very wide discretion conferred upon the Commission will make possible a revolution in consumer protection. The one requirement is absolute disinterestedness on the part of the certifying bodies appointed by it. And if disinterestedness is made the conscious aim, it can be achieved. If the qualities of human beings as examinees can be fearlessly certified by Civil Service Commissioners and universities, it is surely possible to establish independent grading authorities for physical products.

15. The fact that my proposals aim generally at creating the strongest pressure towards full utilisation makes especially

important an expansion of the usually conceived rôle of the State. This brings me to what is possibly the most surprising of my recommendations, namely, a proposal to extend to a wider sphere the application of the principle which is held to justify patents and copyrights. *I judge this to be desirable, I must repeat, because of the very effectiveness of the rest of the plan.* I touched on the difficulties (in Chapter XIII, paragraph 22) during my discussion of the remuneration of risk-taking in connection with the principles of control of State corporations and public utilities. I showed that risk-bearing through experiment had to be remunerated and that the amount of the remuneration had to be arbitrarily determined in practice. I showed how, in the case of patents and copyrights, some return can be ensured (whether the period of protection granted be unduly generous, or too small). And I showed how, in the case of other forms of enterprise, the compensation for risk-bearing is automatically but arbitrarily provided for because competitive conditions are not " perfect ". But the whole purpose of the draft Bill under discussion is to establish conditions which approximate, as closely as possible, to the competitive position. How, then, is the risk-taking function to be adequately paid for in a regime planned under free private enterprise ? In a recent article dealing with the dissolution of privacy (in the interests of the fullest utilisation of existing resources, including knowledge) I expressed the problem in the following terms :

> What may well be regarded as the most live force in a dynamic industrial and trading regime—the exercise of originality and an important type of enterprise—appears to have been traditionally remunerated as a result of arbitrary conditions arising from the advantages of site and size (natural monopoly) of sets of productive operations, inertia in the attainment of equilibrium, collusion in price and output policy, and finally the exercise of business secrecy. The remuneration of experimental investment has been inextricably bound up with the creation and maintenance of scarcities in a given state of knowledge. That these scarcities have brought a private return much greater than the rate of payment necessary, is a conclusion to which I believe all disinterested students of the existing world must be forced. The imagination, research, enterprise and venturesomeness in planning, and the pioneer and prospecting services which have been at the world's disposal, have certainly been too dearly bought.
>
> If *enterprise* could be held to be less essential to-day than it was in earlier times, the task of reform would be relatively easy. But in these days of more static conditions of supply, it seems that the service of originating and prospecting is more than ever able to serve the interests of mankind. And in so far as economic inertia in which business secrecy plays a part, acts as the medium through

which the incentive that brings forth the supply of intelligent initiative is exercised, policies which aim rashly at the promotion of equilibrium under natural scarcities might do much harm. The invention of competitive institutions to serve consumers' sovereignty must build on a recognition of the curious fact that inertias and secrecies enable some return to be reaped by pioneers, prospectors and innovators. That the existing system works depends, apparently, largely upon the fact of its slowness. Risk-bearers through experiment, do obtain rewards which arise through their being pioneers. For a while, partly owing to inertia, and partly because they *can* conceal initial profitableness, they obtain remuneration sufficient to compensate for failure, as well as to pay for success.

This conclusion constitutes the biggest difficulty which I myself have encountered in endeavours to conceive of competitive institutions. But it is merely a difficulty, and certainly not a final obstacle. Neither monopoly nor business privacy are essential features of a free economy. But the reformers who work for the attainment of the ideal of consumers' sovereignty must recognize that the elimination of contrived scarcities and secrecy may have to be accompanied by some wider means than we have at present of creating property in the results of enterprise and innovation.[1]

16. In part the difficulty has already been solved, for the provisions discussed in Chapters XIII and XV have avoided creating it. Only State corporations and public utilities are to be subjected to minimum output or maximum price control; and the measure of autonomy left to other undertakings probably leaves a more than adequate source of compensation for risk-bearing. Moreover, public utilities and State corporations are to be permitted, in exceptional cases, by a prior contract with the community (through the Commission) the temporary right of maximising profits. I assume that arrangements of this kind represent a rational collective decision about the rate of remuneration to be offered by society for risk-bearing through experiment. I assume that this offer by society is right simply because it is technically convenient, because I cannot imagine any better basis, and because I know of no other suggestion. Over a wide field, therefore, I feel that there will be no problem in practice. But one possibly important case does give rise to a real issue. Additions to knowledge of what consumers are prepared to demand may bring fruits so cheap that all pecuniary incentives to important types of experimental demand-testing may be completely swamped. Consider

the introduction of an entirely new type of commodity into a market. It is impossible to know in advance whether it will appeal to consumers or not. A considerable capital expenditure may be required to produce it and much advertising expense may be necessary to

[1] "Privacy and Private Enterprise", op. cit., December 1939, pp. 387–8.

> inform consumers of its existence and to persuade them to be enterprising in trying it. But once their demand for it has been established, interlopers may be able to add to the supply, not without all the other initial expenses, but without the *risk* which the pioneers undertook.[1]

Now the abolition of business privacy under my plan might greatly aggravate this problem. Accordingly I propose to solve it in the following manner.

17. A firm about to introduce a novelty which cannot be protected under the Patent or Copyright Acts may apply to the Commission for protection. An appropriate fee for investigation must, of course, be payable; but it can probably be very small in the majority of cases. I suggest £10 as the usual figure. The fullest specifications must be submitted. Then the Commission may, if it regards the application as apparently reasonable, register the applicant as the "Registered Innovator" and grant provisional protection from the competition of *imitations* in any form, for a period not exceeding ten years. In fixing the term of protection, the Commission must bear in mind an instruction in the Bill to take into account the likelihood of the novelty being introduced, sooner or later, by others, if the Registered Innovator does not introduce it himself. The protection so granted must be quite provisional. If any party can show that he was in fact producing or selling a similar commodity or service to the alleged novelty before the Registered Innovator asked for protection, the Commission will have no powers of restraint. But any producer of a protected article or service can be called upon to abandon its production or, alternatively, to pay a royalty fixed by the Registered Innovator (which, in accordance with the provisions of the next chapter, must be subsequently payable, on non-discriminatory terms, for the right to produce, by all and sundry). To prevent undue restraint, the draft Bill provides that protection under these sections is not to be granted in any district in which the Registered Innovator is not in a position to supply the novelty owing to the costs of transport, unless, within a reasonable time, he begins to produce it in that district. The main condition which the reader must bear in mind is that the Commission is to have no power to restrain the sale of any article which it can be proved was being previously sold. The innovations to be protected may often cover quite small things. For this reason, complaints by the Registered Innovator to the Commission which allege breach of these provisions must always be accompanied by the deposit of ample costs to defray the expenses of investigation.

18. The collective aid rendered by the Commission in

[1] "Privacy and Private Enterprise", op. cit., December 1939, p. 386.

preventing the arbitrary use of copyrights and patents must be briefly mentioned at this stage. In a truly ordered society the discretion granted to authors and inventors must be subject to scrutiny and control. The function is, I think, of considerable importance for the rational co-ordination of productive development as a whole. But it is best discussed in connection with the problem of price discrimination (see Chapter XV, paragraph 35), for the abuses of the copyright and patent system are largely bound up with that practice.

19. To consider the Commission's functions in respect of the determination of the hours of labour we must bear in mind certain functions which have been dealt with already in the discussion of Labour Security. In Chapter VIII a scheme for freeing the labour market and ensuring that reductions of labour costs (as well as reductions in other costs) are immediately passed on to consumers was described. Under that scheme, the Labour Security Board is to have certain powers of determining the minimum hours of labour to be worked by those receiving Labour Security Grants. But quite apart from this class, the hours of labour cannot (during the reconstruction transition) be left to individual discretion, or group discretion (as under trade-union bargaining). There is nothing illiberal about this authoritarian limitation of leisure. The motive does *not* resemble that which led to mediæval enactments against " idleness ".[1] The State will have to act in this case for two reasons: because the social consequences of individual leisure-preference may not be foreseen; and because the withholding of labour capacity may be practised under the guise of demand for leisure.

20. I shall deal first with the unrecognisable social consequences of individual leisure-preference. Whilst the Labour Security scheme will remove a principal complication of the past (namely, the chief motive for the protection of incomes by output restriction), it will probably be necessary, during the period over which war damage and disorganisation are under repair, to retain in suspense the ideal of the 8-hour (or shorter) working day. Until the physical ravages of war have been repaired—indeed, until a tolerable standard of living has been secured for the poor, the hours of labour must be determined by authority (even for those—who will probably be the vast majority—who are not receiving Labour Security Grants). If the rapid eradication of poverty is to be the collectively determined objective of society, all persons may be called upon, during this transitional period, to sacrifice leisure in order that the required flow of " wage goods " shall ultimately be achieved. The policy must be

[1] The Elizabethan Statute of Artificers and previous enactments contained minimum hours clauses.

announced side by side with an obviously sincere and unequivocal declaration in favour of ample leisure for all as an ultimate ideal. Then, once the elementary achievements of the new regime are sufficiently assured, once a plentiful material subsistence for all seems to have been achieved, the demand for leisure, individually or collectively expressed, must be left as a determinant of the hours of labour for those whose incomes exceed the guaranteed minima.

21. The second reason for the State having to act is that leisure-preference may be the cloak for a policy of withholding capacity. When the period of State determination of hours (through the Commission) has come to an end, therefore, a problem will remain. It can be solved in the following way. Collusive action among the employees of competing enterprises to determine hours of labour must, as far as possible, be prevented. It will be allowed, under my scheme, only when arrangements for co-ordination or synchronisation among competing undertakings make this desirable; and the Commission must have the sole power of determining whether that is so. But in the case of each separate employer, the hours of work will have to be collectively determined in some manner through the free vote of the employees.

22. The chief ultimate safeguard against the monopolistic withholding of labour is quite separate. Again, I am afraid that my scheme will appear fantastic. So I assure the reader that I do not regard it as practicable under the present traditions. At the best, it will be several years before it will be safe to attempt its application. Only when the immense material benefits of economic freedom in other respects have been reaped do I expect the suggestions of this paragraph to be understood by those who will have to make the decisions called for by them. But by that time the implications of free preference will have been widely appreciated. My scheme tries to make ultimately possible the rational and free choice of hours of labour. It does so, curiously enough, by the authoritarian enforcement of a condition based on an *assumption* about the nature of leisure-preference. Although the idea is novel, so far as practical policy is concerned, the underlying logic will be familiar to students of economics. The Commission must have the right to insist that in each case the workers' demand for leisure shall be expressed in a schedule specifying the *proportion* of earnings which they offer to sacrifice for each hour of work given up per day or per week and the *proportion* of additional earnings which they demand to be paid for each additional hour worked per day or per week. This schedule must be drawn up by the Commission in consultation with the employees concerned and with the intention of genuinely

representing their preferences. It must be regarded as one condition of the employees' offer. The actual hours of work must then be chosen by the employer. His choice will, of course, be influenced by the price of labour; and he may still bargain about *that*. But the *proportions* specified in the schedule, once declared, must be taken as binding. The schedule must be based on the following principle. Each successive hour of work performed (per day or per week) must entail a more than proportionate addition to remuneration, and each reduction of hours worked (per day or per week) must entail a more than proportionate sacrifice of remuneration. There are some very simple formulæ which would satisfy this principle. The important point is that there must be consistency in any schedule adopted; and it must conform to reasonable assumptions about the nature of leisure-preference. That is all that the control is to impose. But it is a very significant condition. If heavy overtime rates are demanded, then a heavy sacrifice of remuneration must be borne if shorter hours are decided upon. The simple assumption is that each successive hour of leisure sacrificed is more highly valued than the previous hour sacrificed. For an example of such a schedule, let us assume that the hourly earnings of a group of workers, on the basis of an eight-hour day, are 2*s*. 3*d*., and that the overtime rate for the first hour is 3*s*. Then reasonable overtime rates for the second, third and fourth additional hours, respectively, could well be 3*s*. 2*d*., 3*s*. 4*d*., and 3*s*. 6*d*. And applying the simple formula used in this case, the amount which must be sacrificed for the first hour given up in any day is 2*s*. 10*d*., for the second hour given up, 2*s*. 8*d*., for the third 2*s*. 6*d*., and so forth.

23. I must make it quite plain that schedules of this kind are largely arbitrary. They are based on an *assumption* about the workers' leisure-preferences. But the solution to the hours of labour contract by such means will be much less arbitrary than it is under the traditional system. The reason for this can be understood if we consider the justification for the common payment to *time-rate* workers of very much higher rates of wages for overtime worked. The *piece-rate* worker is usually paid the same amount for each unit of output. There have been some experiments with increasing piece-rates, and there have been many cases of payment by disguised decreasing piece-rates (through different kinds of "bonus systems"). But it has usually seemed obviously just that all units of labour purchased should be equally valued. As the payment of wages is simply a method of buying the product of labour, and as each unit of the product is equally valued in a competitive market, it is easy to jump to the conclusion that the demand for higher rates for overtime is extortionate.

Even when the notion of leisure being valued has been explained, I have heard it argued that if, say, the hourly wage-rates are 2*s.* 3*d.*, overtime rates of 2*s.* 6*d.* for the first hour are reasonable. Although it is easy to understand that some additional payment should be made for leisure forgone, it is still thought that a small addition to hourly earnings will constitute fair and adequate remuneration for the first hour of overtime. But this is not so if we base our ideas of " fairness " on the sort of result to which free choice would lead.

24. The simple interpretation of experience on which the scheme here suggested is based is not likely to be questioned. It is a virtually axiomatic assumption. The income derived from successive hours of work done must be decreasingly preferred by the workers as against the leisure sacrificed in order to get it. Some writers have thought that this is emphasised by the increasing irksomeness of work. It is probably more satisfactory to assume that most productive effort is in itself pleasurable, but that the preference for pleasure of that kind, plus the indirect benefits to be obtained from the income earned, declines, relatively to the pleasure to be derived from leisure, as more time is devoted to productive work. Hence the hourly earnings for the normal working day must be regarded as an *average*. Assuming an eight-hour day and an average wage-rate of 2*s.* 3*d.* per hour, the value of the eighth hour's work might well be 2*s.* 10*d.* Hence an appropriate overtime rate for the first additional hour is 3*s.* We see, then, that although the market value of any hour's work done must be equal to that of another hour's work performed at a different time, the factors which lead to the workers' free choice between leisure and income must be assumed to result in an increasing price being asked for each successive hour worked. Economists call this assumption " increasing supply-price ".

25. Now my scheme insists upon the workers who are engaged in bargaining collectively with individual employers about the hours of work, offering a supply schedule in this form. This prevents them from trying to " have it both ways ". If they are to insist upon heavy overtime rates, they must expect to make comparable sacrifices of income in deciding to ask for shorter working hours. Bargaining in this form may be expected to have remarkable effects. For instance, there are grounds for believing (although some have violently denied the suggestion) that the traditional hours of labour in Great Britain, as in most countries, have been determined mainly by reason of successive attempts to increase the value of labour by supplying less of it.[1] Although the leisure incidentally obtained has almost certainly had far-reaching and beneficial effects upon the taste for leisure,

[1] See *Economists and the Public*, pp. 175–7, 192–4, 277–81.

it has undoubtedly entailed a large cost in material poverty. Now the compulsory declaration of the labour supply schedule as a whole will be a highly effective (although not necessarily completely effective) means of dissolving the motive to withhold labour capacity. The results are quite unpredictable. It is by no means out of the question that under such a regime the demand for income (as against leisure) will be so increased that State limitation of the hours of labour will become imperative on educative grounds.[1] The demand for leisure may not be deeply rooted, and in some occupations long hours of work may be deleterious to health. Hence there may be grounds for restraining the workers' demand for income.[2]

26. Closely allied to the question of hours of labour is that of trade-union agreements and industrial legislation bearing on the "conditions of labour". Such agreements and legislation represent in part the genuine purchase of amenities by the workers, or the State purchase of amenities on their behalf. Like leisure, these amenities are purchased through the sacrifice of the workers' income, unless (*a*) they themselves happen to be the conditions necessary for industrial efficiency, or (*b*) their true purpose and effect is to restrain production in order to enhance private earnings. Owing to the last motive having obscured the demand for good working conditions, including health and safety provisions, the judicious interpretation of industrial experience is difficult. In the new regime, an attempt must be made to eradicate all the merely restrictive conditions. Again, the provision of income security will make this a feasible aim. It can be practically sought only through the initiative being taken in the first place by the Commission itself. The Commission must be entrusted with power to suspend, for an experimental period, any industrial legislation requirements which, in its opinion, are unjustifiably adding to the cost of production. The period of suspension must be for a limited term. I suggest two years. In the meantime, it will be the Commission's duty to investigate the results and to make recommendations to the Minister of Labour for the repeal or amendment of any section of industrial

[1] See *Economists and the Public*, Chapter XVII.

[2] The demand for leisure is, I recognise, not so simple a thing as might be suggested by the foregoing discussion. Thus, the question of *when* leisure is available may sometimes be as important as the question of how much leisure is available. For instance, groups of workers in the industrial districts of Britain might often be only too willing to work an extra hour on four successive days, without overtime pay, in order to obtain an afternoon holiday to enable them to attend a mid-week cup-tie. But the problem of the distribution of leisure, the problem of "holidays with pay", and like issues, I am leaving, in this treatment. An attempt to explain in detail the working of the wages-hours contract would need more space than is here appropriate. My purpose is to make just one point clear, namely, that rational and free choice may ultimately be made the principal demand-determinant of the workers' leisure.

legislation (or any regulations under that legislation) which it may have suspended; and if the Minister proposes to move the repeal or any amendment, he must have power to suspend the sections or regulations concerned for a further year. An exactly similar power must exist in respect of any trade-union agreements relating to conditions of employment. The Commission must be able to suspend them, and the Minister of Labour himself must be able to declare permanently void any restrictive clauses under such an agreement.

27. To stimulate the fruitful exercise of these powers, the public must be invited to submit reports on those sections of, regulations under, or the Factory Acts (and other industrial legislation), or clauses of industrial agreements, which appear to be seriously adding to the cost of production. These reports must be earnestly investigated and, where real sources of economy are disclosed, the Commission must be able to act immediately. It should be remembered that this function will not be undertaken in the interests of the profits of capitalists. The sole object is to be the attainment of a larger flow of those goods and services which constitute the physical product of industry. The benefits are to be passed on to consumers. The success of the provisions will obviously depend upon the disinterestedness of the Commission and the integrity of the Minister of Labour. But the danger of control in the interests of party politics will be mitigated because the Commission alone will have the right to take the original initiative; and it will not be easy for any Minister to reject an impartial and expert report.

28. A further field in which the social consequences of individual preference may not be perceived and in which, therefore, State direction may be desirable, covers the exercise of what economists call "time-preference", i.e. the amount of saving. The question has some relation to the choice between leisure and money income, but it is closely related also to the choice of employment for both physical and human services during working hours. How far should resources be devoted to the production of goods for consumption as opposed to the construction of capital goods (which will bring about a relatively large flow of consumers' goods in the future)? To leave this fundamental preference decision to individual choice during the reconstruction period might be to leave it to those who are blind to the collective significance of their choice. Whilst there may be no good reasons for mistrusting individual time-preference in a regime which is fairly widely understood, in times of revolutionary change the sphere of defensible educative restraints [1] on individual

[1] See *Economists and the Public*, Chapter XVII, "Educative Restraints on Freedom of Choice".

discretion may be greatly widened. I feel that nearly all will agree that, for the years following the peace, the best interests of society will require that a relatively large part of the total effort shall be devoted to the construction of capital goods ; and if the rate of interest appears to be an inadequate stimulus, compulsory saving to facilitate capital development will be desirable. Moreover, if responsible statesmen have the dominant voice, it will be politically acceptable. This is, however, not a matter which could come under the Commission's control, and the draft Bill does not venture to deal with the question.[1] I have mentioned it here because it may possibly have to be tackled.

29. The final function to be discussed in connection with the State's co-ordination functions concerns the conservation of resources. On the question " How much conservation ? ", it will be seen that there can be but one decision, and that that decision must be collectively determined. We have, in other words, a special case of the extreme standardisation which is necessary in all collective decisions. As there can be but one decision in respect of expenditure on, say, defence, or the amount to be offered for experimental effort through the patent system, so there can be only one decision about the amount of conservation to be enforced. The problem arises chiefly in connection with the " extractive industries ", of which mining is the chief example. But in the draft *Resources Utilisation Protection Bill* I have excluded references to mining. This is mainly because certain complexities in mining make a separate Bill, involving complicated detail, necessary ; and I have not wished to burden the present book with a mass of further detail. But no new *principle* is involved. It has not seemed appropriate to include a general conservation clause in the draft Bill. However, as private restraint is illegal under the Bill, conservation legislation is required. In a parallel Bill, it must be laid down that when, in the opinion of the President of the Board of Trade, the conservation of any sources of valuable commodities or services is held to be desirable, a special conservation tax shall be levied upon such commodities or services. The object of the tax is to discourage consumption now in order to make available a larger supply for future consumption. Now a *bona fide* conservation decision is clearly a collective time-preference decision ; that is, society as a whole must decide that the present generation shall make a sacrifice for the benefit of future generations. It is a decision which is uninfluenced by any exchange phenomenon. There is no bargain between this generation and posterity. We, living to-day, simply agree that our successors have certain rights to the exhaustible resources of well-being which we are enjoying.

[1] It is a matter for Cabinet decision, on the advice of the Treasury.

We can reach this agreement only through our representatives in Parliament, who must take the responsibility of determining, on our behalf, how much we must sacrifice. But under the private property system there is no reason why any incidental increases in the value of conserved resources should be enjoyed by the owners of those resources. For the restraint of present production has exactly the same value-consequences as a monopolistic restraint. Conservation means a collective sacrifice by the present members of society, and the incidental benefits of that sacrifice (ultimately the power to buy the product of the co-operant resources which are diverted from making the product of the conserved resources) should be collectively enjoyed. That is why the correct principle is a tax on the commodity or services the source of which has to be conserved. But in the case of mining resources, this simple solution of the conservation problem does not suffice. A joint requirement is that of equality of access to the minerals. If it were possible to place mining property in the position of farm land, under which every acre is competing with every other acre, there would be a simple solution. Technically, however, this solution is often out of the question in mining, and so the power to engross the incidental benefits of conservation restraints is not simply preventable by a conservation tax. The problem met with is, in fact, partly that which is encountered in the case of the " public utility ". " Natural monopoly " has to be overcome. The solution involves therefore a combination of the conservation principle dealt with in this paragraph and the system of control of public utilities dealt with in Chapter XV, paragraph 34. I omit the detailed working-out of the combination.

30. At this stage I can claim that I have discussed virtually the whole legitimate scope for the centralised direction of production —the legitimate scope, that is, under conditions of economic freedom. Certain most important functions have still to be considered in detail in the next chapter, but the complete range has been broadly presented. One relevant topic only have I omitted, namely, the monetary functions of the State. The omission is deliberate. I believe, rightly or wrongly, that the current monetary controversies (there is a whole pack of them) are of a lower order of importance than the topics to which I have referred. So I have not burdened exposition with discussion of the ideal monetary system for my scheme. I claim also that my recommendations are superior to those so far put forward in any scheme for Socialist planning. I claim this because, in each case in which the State undertakes entrepreneurship, and in each case in which, within the scope of the new property system, the State imposes co-operative or co-ordination

arrangements on private entrepreneurs, *the results can be measured against specific declared anticipations.* The efficiency of all State entrepreneurship, and all State co-ordination of private entrepreneurship, must be measured in terms of *prices, output, diversity or availability of products.* The immediate objectives of the Commission (and the State Trading Board) are to be stated in each case, and actual achievement can be weighed against them. In this way, I have endeavoured to achieve, and I think that I have succeeded in achieving, what some writers have felt to be impossible, namely, full accountability on the part of the planning authority.

Summary of Chapter XIV

Co-ordination and State Planning

(1) When the function of co-ordination (including synchronisation and standardisation) requires a scale wider than that of individual firms, it can be co-operatively arranged ; but certain " collective aids " (2) covering matters which individual initiative and contract cannot alone provide for, may be an essential supplement. (3) The aids are designed to release " competitive pressure ", which constantly urges the arrangement of the most economic co-ordination. (4) The elimination of monopolistic arbitrariness is the most fundamental of such collective aids undertaken by the Commission. (5) The collection and dissemination of data is another such aid, (6) which is to be undertaken with the object of exposing profitableness. (7) A further collective aid is the actual preparation and imposition of plans by the Commission, to discuss which, the plan as a means, *i.e. as a purposive conception of co-ordinated arrangements and functions, must be distinguished from the plan as an* end. *(8) The most effective co-ordination plan may be obstructed by the difficulty of arranging an acceptable division of the benefits. This obstacle can be overcome through a plan prepared by the Commission (9) and, if certain parties refuse unreasonably to conform, whilst the owners of two-thirds of the capital invested agree, enforced by the Commission. (10) Similar functions have for long been performed by the State in connection with " way-leave " rights. (11) But improved efficiency may be contrary to the interests of the parties as a whole if the benefits cannot be withheld from consumers. (12) Hence it may be necessary to impose a plan for co-ordination whether or not there is any demand for the plan from the parties affected, if there are good reasons to suppose that labour or capital will be economised and the product cheapened. (13) The Capital Security arrangements will eliminate any incidental injustice, but ultimately arrangements for special compensation may be expedient. (14) Independent certification of quality, entrusted to the Commission, is also a function essential for truly co-ordinated productive arrangements. (15) The extension of the principle of the patent is desirable because individually planned contractual arrangements may be unable to provide adequate remuneration for the important function of risk-bearing through experiment ; (16) and although the*

provisions of the draft Bill partly avoid creating the difficulty, in other ways they enhance it. (17) *Hence the Commission must grant provisional protection from imitations, for a limited period, to "Registered Innovators".* (18) *The arbitrary use of copyrights and patents is incompatible with an ordered society and must be restrained by the Commission.* (19) *It must be the Commission's duty to fix the hours of labour,* (20) *because the social consequences of leisure-preference may not be understood* (21) *and because leisure-preference may be a cloak for the withholding of labour capacity.* (22) *But ultimately free bargaining about the hours of labour may be permitted, provided the workers' leisure-demand is presented in the form of a self-consistent and reasonable schedule of the supply-price of labour.* (23) *Such a schedule must necessarily be based upon a reasonable assumption* (24) *about the supply-price of labour, as influenced by leisure-preference.* (25) *The insistence upon bargaining in this form may conceivably weaken the demand for leisure to such an extent that State limitation of the hours of labour will be required on educative grounds.* (26) *The Commission must also have power to suspend, for an experimental period, legislation or trade-union agreements bearing on the "conditions of labour" when their intention or effect appears to be to restrain production;* (27) *and the public must be invited to draw the attention of the Commission to legislation and agreements which seriously add to the cost of production.* (28) *The imposition of compulsory saving may be desirable to facilitate capital development.* (29) *Conservation must be collectively secured by the State, and not by private restraint.* (30) *This discussion has covered the complete rôle of the State in production; and in respect of both State entrepreneurship and co-ordination of private entrepreneurship, full accountability on the part of the planning authority is obtainable.*

CHAPTER XV

COLLUSION AND PRICE DISCRIMINATION

1. THE last three chapters have been concerned with certain of the limitations of individual discretion which constitute the revised system of property. The State Trading Board has been given the right to compete with private enterprise; and the Commission has been given the right to expropriate property, to collect and disseminate data, to impose schemes for co-ordination, synchronisation and standardisation upon groups of independent firms, to protect the ideas of innovators, to control patents, to determine (in certain circumstances) the hours and conditions of labour, to certify quality, and to call upon parties alleged to be following certain forbidden practices to "cease and desist". I have left to the end the enunciation and explanation of the practices which are to be made unlawful and subject to the Commission's "cease and desist orders". The aim is to secure the fullest utilisation of resources: firstly, by the protection of the consumers' right of substitution; and secondly, by direct control.

2. The sections of the Bill which provide for this incorporate the chief clauses already found in the anti-monopoly laws of different countries. Naturally I have borrowed in some detail from the Sherman Act, the Clayton Act and the Federal Trade Commission Act of the United States. But there has been no blind borrowing. However defective my scheme may be, the clauses which I am about to discuss have been drawn up after long consideration of the actual results of the application of anti-monopoly laws. I have for years been trying to weigh up all the criticisms which have been made from time to time. The apparent weaknesses of interpretation and the apparent faults in administration which are recorded in the not inconsiderable literature of the subject, have all influenced the ideal legislation which I have tried to distil from published experience. The result of my studies is the conviction that wherever the anti-trust laws have failed in their supposed aims, the reasons are perfectly clear. Either the actual text of the legislation has been unsatisfactory, or the system of execution has been inappropriate, or the Courts have had inexpert guidance on matters of economics. I have already dealt with the question of expert economic guidance: the Commission is to include economists. And I have partly outlined the required administrative system. Now I have to deal with the most important point of all. I believe that

the worst weaknesses can be remedied in the definition of unlawful practices.

3. The Bill must, without any vagueness or equivocation, make void immediately, and illegal in the future, every contract to restrain utilisation, fix prices or wage-rates collusively, limit output, restrain trade or exchange, or restrain the acquisition or employment of skill or knowledge (except through patents and copyrights, and as elsewhere provided). Moreover, to form or conspire to form, or to engage in, any collusive monopoly of any kind or of any specified kind, must be a misdemeanour. Through such general clauses the principles upon which the Bill is based can be made clear to the Courts. Labour and agriculture must be specifically *included* and not excluded, as they were, with disastrous consequences, in the United States. Interests injured by activities in contravention of this provision must have the right to sue and recover damages,[1] although there are very good reasons why the initiative of injured parties cannot be *relied upon.*

4. The prevention of conspiracy and collusion need in no way restrain the co-operative arrangement of synchronisation, co-ordination and standardisation along the lines discussed in the previous chapter. *Bona fide* negotiations of this nature with competitors, of which the Commission is notified, are to be encouraged, not discouraged, under my scheme. But the Commission must receive notices of meetings and copies of correspondence. Moreover, agreements or contracts concluded as the result of such negotiations must be authorised by the Commission. Authority will be given if their *bona fide* object appears to be to achieve economies intended to cheapen or add to the diversity or availability of products. In this way, whilst monopolistic collusion can be frustrated, there is no reason to fear any sacrifice of the benefits of concerted organisation.

5. The prohibition of the coercive devices of strikes and lock-outs is implied by the clauses forbidding conspiracy and collusion; but it is expedient that the law shall be explicit on the point. Hence the draft Bill defines and specifically forbids these devices. I have already touched on the position of trade-unionism in the new regime, and other aspects of the political problem raised are touched on in the final chapter. But it is obvious that the intention is to ask the working classes to renounce the hallowed "right to strike". To reassure the reader at this stage I need only point out two things. Firstly, there are powerful precedents under the "Industrial Conciliation" laws of various countries. When income security and conditions of labour and leisure are

[1] The United States legislation gives the right to three times the damages sustained. But my scheme suggests ordinary damages at the outset, twice the damages after five years, and three times the damages after ten years subsequent to the introduction of the scheme.

guaranteed by other methods, experience proves that it is not difficult to get labour to renounce the right to strike. Secondly, during the introduction of the whole scheme, we must strive to get rid of the archaic notion of " masters and men ". In the liberal society here envisaged there is ultimately only one master —the community, the people. Legislators, officials, judges and " employers " are as much the community's servants as are the " workers ". And the reality of this relationship must be propagated by the State. The people must understand the aims of the institutions through which their creativeness and freedom are to find expression. I am not suggesting any sort of endoctrination. On the contrary, I want the *ideals* of the new arrangements to be simply taught so that the people can be critically vigilant of efforts to achieve them.

6. The categorical legal condemnation of monopoly along the lines contained in paragraph 3 is not, in itself, a sufficient remedy for restrictionism. But I believe that the wording which I have adopted in the draft Bill (which, with its subordinate sections, has been in a state of perpetual contemplation and revision in draft during the past ten years) will prove to be much more effective than the general clauses in the Sherman and Clayton Acts. At the same time, practical enforcement must be aided by the actual legislative prohibition of certain accurately definable artifices and practices. This brings me to a point the importance of which cannot be magnified. There are grounds for believing that if price discrimination (i.e. the charging of different prices to different customers) is also condemned, in all its forms, the general provisions which I have discussed in the previous paragraph will be immensely strengthened. " In practical life ", says that courageous and indefatigable opponent of monopolies, Professor F. A. Fetter, " . . . monopoly and discrimination appear like Siamese twins. No doubt in many cases neither could live without the other. Cut either away and the other must die ".[1] Given that the clauses in the draft Bill can effectively forbid discrimination in price, then the most serious artifices for enhancing private profit by means of scarcity creation will have been simply countered. I believe that Professor Fetter's case on this point is irrefutable. It is confirmed by my own studies during more than a decade of thinking about the technique of evasion of anti-monopoly laws. I have gradually reached the conviction that nearly all the subterfuges, nearly all the ingenious " masquerades " of monopolists which have been resorted to, can be overcome by the mere enforcement of uniform charging. Monopoly has been described as " a commercial hydra which sprouts a new head each time society cuts off its existing

[1] F. A. Fetter, *The Masquerade of Monopoly*, p. 417.

disguise ".[1] Nevertheless, I hold to the opinion, which I first expressed in 1935, that the " simple and effective proscription of price discrimination, either in its obvious or hidden forms, would have prevented . . . the greater part of the monopolistic abuses which have so curbed the colossal natural and technological resources of the United States ".[2] I must make it quite clear that my case is not that monopoly under enforced uniform charging is less serious than monopoly under price discrimination. The reverse may well be true. My case is that if we kill discrimination we kill the most serious forms of monopoly. The enforcement of uniform charging will have a catalytic effect, greatly enhancing the effectiveness of other measures to be taken with a view to eliminating restrictionism.

7. I define price-discrimination in the draft Bill as being practised " when the price or charge demanded at any one time for the resources, products or services at the place of actual production, manufacture or origin, or at any place of sale, is different as between different purchasers. . . ." But asking different prices " on account of differences of the grade or quality " is not discrimination under my definition, nor are differential charges which " make only due allowance for differences in costs of selling or transport ". This quotation from the draft Bill unduly simplifies the very carefully considered wording by means of which I have tried to cover every conceivable case.[3] I must refer the critical reader to the actual text (Sections 27 to 29).

8. But there is one point to which I must now draw the reader's attention as it throws light upon the frankly revolutionary character of my proposals. I specifically insist that differential charging is illegal discrimination if it takes the form of asking different prices as " between purchasers on account of differences of quantities purchased or on account of the status of the purchaser or on account of the purchaser being a consumer or a retailer or a wholesaler, or on account of the customs of the trade, or on account of the purposes to which the resources, products or services purchased, are to be put . . ." (unless costs of selling or transport are lower by reason of the particular quantities purchased). The practical trader will, I know, be horrified at the prospect of such time-honoured and respectable practices becoming unlawful. The scheme is fantastic, he will say. Well, I admit that I am demanding what seems to be a catastrophic demolition of almost unquestioned trading conventions. But let me once again remind any shocked reader that, during this

[1] V. A. Mund, *Monopoly*, p. 95.
[2] " The Nature of Aggressive Selling ", *Economica*, 1935, p. 319.
[3] Secret discrimination is rendered difficult by the Commission's power to call upon those engaged in trade to affix a price, in some appropriate form, on every commodity offered for sale.

redefinition of property, income security is to be guaranteed. If this is constantly borne in mind, there is some chance of my case being understood. I have been unable to conceive of any grounds of justice (given distributive security) or expediency which warrant the continuance of discrimination according to status (e.g. wholesaler, retailer or consumer). I hold this opinion after many years of teaching of what I believe to be the principles and technique of wholesale and retail trading. But I do not put forward this part of my scheme with a view to forcing the institutions of marketing into .a shape conformable to the abstract theories of an arm-chair student and lecturer. I insist on this section because I believe that some of the worst monopolistic evils have been allowed to persist in the trading traditions of the United States because the law has been insufficiently explicit on this aspect of discrimination. It is important for my plan that all forms of parasitism in wholesale and retail trade shall be eliminated; and whilst it is my present opinion that restrictionist organisation among merchants is very much less serious than it is in farming, industry and transport, the aim is to make the methods of selling so responsive that there is an immediate effect upon the prices paid by consumers as soon as there is any fall in farm or factory prices. Other sections of the Bill will endeavour, by more direct means, to force the rapid and full passing on of any reductions in the cost price of goods in the course of trade. But if the consumers' power of substitution is facilitated by the prohibition of discrimination—even of those kinds of discrimination which we have grown by habit to regard as good trade customs—the objectives which I am seeking will be much easier to accomplish.

9. The extreme case of discrimination, and a very serious one, is that of the boycott. Yet, in the form that it currently takes, it is hardly recognised by most people as a problem at all. However gently exercised, the right to refuse to sell is one of the most powerful coercive weapons which existing property institutions have placed in private hands. If its consequences were understood, its continuance would not be tolerated. In a truly free regime, those engaged in business must neither boycott nor threaten to boycott, either individually or collusively. That is, they must be prepared to sell goods held for sale or services provided for sale to all who are prepared to pay for them in cash. If supplies are not available, or, in the case of services, if productive capacity is fully utilised, orders must be registered and fulfilled in strict priority. Once again, I feel that this suggestion will outrage the feelings of readers who have grown to regard the existing property system as sacred. "What!", they will cry, "cannot I do as I like with my own property? Cannot I

choose my own customers?" The answer is that the right to choose one's own customers, specifically authorised in the Clayton Act (of the United States), has probably been the biggest single weakness in that Act. In practice, it has meant the right to boycott.[1]

10. Although the simple prohibition of price-discrimination will be a powerful solvent of monopoly directly, through causing it to be relatively unprofitable, the prohibition may have an even more important effect through preventing what I think is best called "aggressive selling". I mean by this, the practice of selling cheaply with a view to forcing competitors to close down or sell out. The practice is one which enables the aggressor first to establish a monopoly and then to raise the price. It is sometimes referred to as "cut-throat competition"; but that term is applied also to many other kinds of practices, the nature of which may be completely different. The consequences of the right to sell aggressively are difficult to estimate judiciously. The interpretation of experience is far from easy. But there are grounds for believing that the tolerance of the practice seriously deranges productive development. Actual aggressive selling may, in fact, seldom be seen. It is the known *power* to use it which is the real evil. By reason of his mere right to cut prices in any district in which competition arises the monopolist knows that no interloper will dare to intervene (so as to mitigate any local exploitation of consumers). No empirical study could establish the seriousness of this problem. The power with which we are concerned is formidable; for the large monopolist may practise it *in detail*, i.e. he may cut prices in particular districts only, because a non-conforming competitor is there, or because an interloper has ventured in, or because competition is just beginning to show itself. In other districts, therefore, he can retain his normal revenues. The profitableness of the aggression is immensely increased when he does not have to cut prices in all districts. Like Hitler, he can choose his victims one by one. But the enforcement of uniform charging means the provision of collective security for all those potential producers who will find it profitable to add to supply if the exploitation of consumers is attempted. For the monopolist will be forced to fight all competitors at once. That is why the prohibition of discrimination will be so effective.

11. Now although the forbidding of discrimination will, in my opinion, prevent at least nine-tenths of the aggressive selling which is actually practised in the modern world, there *can* be

[1] There is no necessity, of course, to compel the provision of credit facilities to all purchasers. It may, perhaps, prove practicable to prevent discrimination in respect of credit. But that is not essential for the success of my scheme.

aggression under uniform charging. It is much less likely but still possible. The monopolist can cut prices aggressively throughout the whole of the market or in all of the markets in which he can sell; and he may succeed in forcing all of his competitors either to sell out to him, or join a " price-ring ", or conform to the " price leadership " which he establishes. My scheme aims at preventing this possibility also, but it does not do so by a direct attempt to prohibit general price-cutting. Discrimination " over time " (as well as discrimination " in place ") *is* recognised in my draft Bill but for another purpose. Thus, it is laid down that discrimination is practised when a different price is demanded at different times, not by reason of any changes in costs or other competitive circumstances, but " so as to place at a disadvantage or place at an advantage any purchasers who happen to purchase at such times ". This clause is not specifically intended to prevent aggressive selling, however. Its object is to get rid of a quite separate deleterious aspect of discrimination, namely, the coercion of purchasers (not competitors) who refuse to conform to policies designed in the monopolists' interests. Aggressive selling under uniform charging must be prevented in a quite different way.

12. It might be provable by investigation that a corporation had obtained a monopolistic position by selling at a price below the marginal cost of the output (I have already defined this) for some period in the past, thereby causing its competitors to sell out. That would be strong evidence (not proof) of aggressive selling. But there is no administratively practicable method of proceeding along those lines. Besides, it is possible for aggressive selling to exist even when the cut price does not fall below marginal cost. For instance, the interlopers (to be driven out) may be " high cost producers ". That is, their contribution to production may be in the interests of consumers only because it mitigates the very serious exploitation practised by the monopolists. Hence there is only one effective way to prevent the possibility of aggressive selling under uniform charging, namely, to destroy the motive for it by preventing the *absorption* of competing undertakings. (The measures to prevent *collusion* between competing undertakings have already been discussed.) My draft Bill provides for this as part of a general scheme for diffusing entrepreneurial authority—a question to which I shall return.

13. A further reason for prohibiting discrimination is that it frustrates the policies of inducing investment in productive developments which are peculiarly exploitable. Discrimination (over place or over time) may be employed to lure capital into certain fields with a view to the price of some essential product or service being raised as soon as the investment has been

irrevocably made. Thus, low passenger fares may be charged on a particular route in order to stimulate the rise of a new township. Then, once a settled residential area has grown up, fares will be increased so as to exploit the residents in and investors in that district. A similar exploitable development might be encouraged by the charging of a low temporary electricity tariff. Now these examples illustrate the nature of the problem, but they do not give any idea of the extent to which the fear of exploitation of this origin is the cause of uneconomic capital development.

> Where the risk (of exploitation) . . . is believed to be considerable, it . . . will act as a deterrent to the investment. . . . A great deal of private development of a socially desirable kind in enterprises requiring much fixed capital may be effectually checked. . . . For the most part investors succeed in avoiding exploitation. The real social harm is a product of the diversion of development entailed by the avoidance of exploitation.[1]

The forbidding of discrimination will put an end to the greater part of the uncertainty, and the misdirection of investment so caused will cease. And it will remove the motive for a great deal of " vertical " combination (i.e. the amalgamation of firms in different stages of production, as, for example, a tannery with a boot and shoe factory).

14. A form of discrimination with which I have not yet dealt is that which involves no actual discrimination in price, but the provision of goods or services of special quality, or with some additional services, to consumers in certain markets only.[2] Some types of discrimination of this sort which we find to-day can be left to the consumers' right of substitution and the certification of quality to eliminate in the new regime (e.g. where slight differences of quality involve large differences of price). But other practices which fall under this heading may obviously be used aggressively, and they must then be tackled.[3] The most outrageous examples are seen in the use of fighting ships by the big shipping conferences, and the use of fighting buses by local

[1] " The Price Mechanism and Economic Immobility ", *South African Journal of Economics*, September 1936, pp. 326–7.

[2] The draft Bill provides that discrimination " is practised when any onerous or *beneficial* surcharge, rebate, gift, condition or practice whatsoever, not applicable to all purchasers, is applied to the sale or exchange of resources ". But this clause can only partially cover the abuses with which this paragraph deals.

[3] Aggressive advertising is in a very similar position, although most apparently wasteful advertising which *seems* to fall into this class is not so much aggressive as due to the fact that competition in price has been brought to an end (through some monopolistic agreement) but, quotas not being practicable, each producer in the ring still tries to attract to himself the largest possible proportion of such sales as can be made.

transport monopolies (in those towns in which the local exploitation of the travelling public has not been finally planned by law, and in which monopolistic manœuvres to kill competition are still permitted). The employment of fighting ships is quite simple. It is arranged that they shall sail from a certain port at the exact date, or just before, or just after the vessel of an interloper firm which it is intended to drive out. Similarly, fighting buses have always deliberately shadowed the rival bus (" pirate ", they usually call it), leaving it with a relatively light load. The established shipping and omnibus companies have been quite prepared to run these services at a loss, in the belief that the opposition could not afford to do so. I am not sure whether aggression of that sort could be *directly* prevented. The co-ordinating powers of the Commission could certainly be used to fix time-tables in local transport and sailing dates in ocean transport. That might provide the required security for interlopers. The draft Bill confers the necessary power. Nevertheless, I do not think that direct control is the principal remedy. I believe that the provisions of the Bill as a whole are likely to destroy the profitableness of this type of aggression.

15. In the above exposition, I have assumed that there is nothing to be said in defence of discrimination at all. There is, however, an important objection to any policy which forbids it, namely, the possibility that certain commodities or services which society wants—and is prepared to pay for—will not be provided at all unless discrimination is permitted. A rather extreme but conveniently brief statement of this view is given in the *Economic Journal* for September 1935 by Mrs. Joan Robinson.[1] I endeavoured to refute Mrs. Robinson's case in the *Economic Journal* for March 1936. But my refutation was intended to be only partial. It was intended to show the unimportance in practice of theoretical considerations which are in themselves unquestionable. The practice of discrimination, as I explained, is justified when it is " the fulfilment of an expected condition essential for the specific investment to take place ". But I tried to show that this condition existed only " in rare and clearly recognisable circumstances ".[2]

16. The essence of the case for discrimination, greatly simplified, is either: (*a*) that a certain class (or classes) of consumers (let us call them the " primary consumers ") are prepared to pay highly for certain goods or services, whilst the demand of that class is insufficient to make the supply profitable; but if a second

[1] Joan Robinson, " A Fundamental Objection to Laissez-faire ", *Economic Journal*, September 1935.

[2] " Discriminating Monopoly and the Consumer ", *Economic Journal*, March 1936, p. 79.

class of potential consumers (let us call them the " secondary consumers ") can also be persuaded to demand such goods or services by being charged lower prices for them, then the project will become profitable and the primary consumers will obtain their supplies and be better off, precisely because of arrangements made possible by the discrimination against them; or (*b*): that although the primary consumers can be supplied with the goods and services under uniform charging, the greater demand which will result if secondary consumers are also supplied (at lower prices) will permit economies of production, and so cause the price to the primary consumers to be reduced also.

17. I have tried hard to conjure up a truly convincing and realistic illustration of this point, but I have failed to visualise a satisfactory one. The text-book discussions find it easy to illustrate how and why discrimination is profitable to the *monopolist*, but their attempts to show how it can be to the advantage of *consumers* are either entirely abstract or illustrated by examples which are, in my opinion, completely questionable if regarded as simple illustrations.[1] But the *claim* of consumers' benefit is common enough. Railway authorities almost universally seem to be claiming that if they could not charge higher freights for carrying expensive goods, like silk, than for carrying cheap goods, like hemp, the provision of rail transport would be an uneconomic proposition. Indeed, " charging what the traffic will bear " (as they call the practice) has virtually become a practical maxim of railway rate policy. But on the face of it, the suggestion that the practice is essential for the provision of any service is absurd. It hardly seems probable that if all commodities transported were delivered to the railways in sealed crates or packages, and no right existed to inquire into the contents, all the railways would have to close down, or that under such a system no rail transport would have been provided in the first place. After all, the service rendered is that of carrying a given weight or a given volume a certain distance. It may be that discrimination permits a better service, if the service is judged from all angles. But this is by no means certain; and empirical tests cannot supply any certainty.

[1] For instance, the classic example is that of a toll-bridge. Different tolls are charged at different times of the day, and, by tapping different income-classes (which, by reason of social habits, wish to use the bridge at different times), the system of differential charges makes the provision of the bridge profitable. Now there may be *varying charges over time* for the services of fixed resources without any *discrimination over time* being practised. But if, say, between 7.0 a.m. and 8.0 a.m. the same number of passengers would use the bridge as between 8.0 a.m. and 9.0 a.m. under uniform charging, but a higher toll is in fact charged for the latter period, there is a clear case of discrimination which *could* be beneficial (given other, by no means unquestionable, assumptions). (See " Discriminating Monopoly and the Consumer ", op. cit., p. 75.)

Many economists believe with Professor F. H. Knight that " the ' wise social policy ' would be to require railways to make all charges on a ton-mile basis, over the best route, with allowance for special handling costs and any special service such as extra speed or the like. Of course this does not mean that they should be required to change quickly to such a basis from the present system." [1] I confess, therefore, that I have no simple illustration of the beneficence of discrimination, and no practical case from actual experience which I can quote. But the *possible* beneficence of the practice is unquestionable.

18. Fortunately, it is not essential to illustrate how the condition *may* happen in order to show how anti-discrimination policy may provide for it. The draft Bill specifically provides that the Commission *may* permit discrimination by a firm during any period in which total cost (" fixed cost " as specially defined, plus " avoidable cost ") exceeds total receipts (i.e. during any period in which " profits " in the popular sense are not being earned). Before permitting this, however, the Commission will have to be sure that avoidable cost is not being inflated as a means of hiding profits. Hence, it is laid down that the Commission may insist, in such cases, that the remuneration of the management shall increase as the price of the product falls and as the output expands and *vice versa*. (See Chapter XIII, paragraph 16.) Finally, in the case of public utilities, the Bill permits discrimination against any class of purchasers which petitions for such discrimination, provided that the petitioners are held by the Commission to be sufficiently representative of their class, and the petition is received prior to an investment (in fixed resources) which is contingent upon permission to discriminate. This is the general principle which I have applied. But the exact manner of its application cannot be briefly indicated, and readers are referred to the text. (Sections 31 and 32.) So far as existing investment is concerned, the problem is easy. The capital resources having already been provided, and *Capital Security covering all previous investments having been provided for*, there is one reason only why discrimination should be permitted, namely, that continuity should not be upset. Thus, if it is essential to encourage future investment in capital developments or in new enterprises which can only be profitable under discrimination, it may be expedient to allow the practice to continue for a period during which it would not otherwise be defensible. For this reason, my scheme provides that transport undertakings and public utilities may be exempted, for a period of two years from the inception of the scheme, from the necessity of uniform

[1] *Ethics of Competition*, p. 209.

charging.[1] During those two years the Commission must consider claims (if any) on the part of the owners of such enterprises that discrimination is to the consumers' long-run benefit (this must be the *only* issue) and submit those claims for comment to representatives of the classes of consumers or purchasers who are to be discriminated against. If, then, the Commision reaches the conclusion that defined discriminations are in the long-run interest of the consumers ultimately served by any such class, the discriminations may be authorised for a limited period. Otherwise the Commission may authorise discrimination only after receipt of a petition from the parties to be called upon to pay higher schedules of prices or charges (for a limited or defined period).

19. The period during which discrimination shall be permitted must be defined, directly or indirectly, in the petition. It will be a kind of contract (supervised by the Commission) entered into between primary consumers (on their own behalf and on behalf of potential and future primary consumers) and entrepreneurs. The principle to be applied can be explained in this way. Let us suppose that uniform charging were enforced. It would then be profitable for the primary consumers themselves to club together and invest in the capital resources required. In that case, the specific capital investment would not be profitable as an isolated venture. I mean by that, that if the primary consumers charged themselves the same price for its services or products as they charged secondary consumers, the anticipated profits of the venture itself, if any, would be lower than the anticipated returns obtainable from some other investment. But they (the primary consumers) would expect to benefit *indirectly*, through having any such services or products at all. That benefit would be expected to countervail the sacrifices incurred. Now, under permissible discrimination, the primary consumers can be regarded as reimbursing entrepreneurs for any sacrifices of that kind. The higher charges which the primary consumers agree to pay are the contributions for that purpose. If these sacrifices are thought of as capitalised, the essential principle becomes clear. The cumulative difference between aggregate receipts and the value of the aggregate output valued at the lowest price at which any of it is sold, must be regarded as essentially a contribution towards reimbursement of the capitalised sacrifices. Hence the initial petition could well mention a capital sum which (together with interest on the unredeemed portion)

[1] I confine this provision to transport and public utilities because the profitableness of investment in such undertakings is less unlikely to be influenced by what economists call the " decreasing average costs " condition. And this condition is theoretically a prerequisite for the existence of those circumstances in which discrimination might conceivably be to consumers' advantage.

has to be reimbursed.[1] After that reimbursement was complete the discrimination would have to cease. It is the additional capital needed which represents the limit of capitalised sacrifices. Thus, if the output which it is anticipated that the primary and secondary consumers together will purchase is 1,000 units *per annum*, and it is anticipated that the primary consumers will take only 700 units *per annum*, the capital to be reimbursed will be not more than three-tenths of the investment in the fixed capital. For if it had been possible to obtain the same production economies from an investment in a plant of seven-tenths the size, there would have been no case for the discrimination. The theoretical beneficence of discrimination arises solely owing to the indivisibility of the efficient unit of supply of certain kinds of resources.[2] I have not provided rules for the application of this principle in the draft Bill as I think at present that it would be best to allow the very widest discretion to the Commission. Rigid rules in this case might well have defects outweighing their qualities. But the fundamental notion would be clear enough to the economist members of the Commission.

20. One further complication will confront the Commission in its task of preventing discrimination. Some forms of differential charging are not discrimination at all, although in practice they may often be combined with it. Thus "differential mileage charges for transport on different routes or on the same route in opposite directions", and differential charges over a day, week, year, and so forth, for things like transport, electricity services, and *non-storable* products generally, are specifically excluded from necessary classification as discriminatory. For in these cases, if the full capacity of the plant is available, and bidding is free, differential prices are still likely to result. The demand may be greater at certain times than at others, or the demand for transport in opposite directions may be different. Thus, there is nothing discriminatory in local omnibus companies offering lower midday fares to encourage the use of their capital resources during periods in which they would be otherwise scantily employed. Similarly, it is not discriminatory for a transport company to charge lower freights from A to B than

[1] I think it should be made quite clear that there is to be no *protection* of any venture authorised to discriminate in order to permit the "reimbursement" of this sum.

[2] "Defensible discrimination . . . is really nothing more than a means of enabling those classes of consumers for whom certain goods or services satisfy relatively urgent wants to induce entrepreneurs to invest the necessary capital. Discrimination enables the entrepreneur to recoup himself for such capital expenditure from the consumers who pay the higher price. After a while, that capital must be regarded as paid off, however; and then . . . continued discrimination *must* entail real withholding of capacity and diversion of resources." *The Theory of Idle Resources*, p. 165.

from B to A. For in the absence of differential charging, there might be under-employment of the wagons which have to be returned from A to B, after having brought heavy traffic from B to A. This does not mean that there *may* not be serious discrimination in fact in such cases. The distinction is made because it is important to be quite explicit in the draft Bill itself. Differential charging is *not necessarily discriminatory* in these clearly definable cases. Certain types of differential charging (e.g. theatrical charges ; first-, second- and third-class travel ; and so forth) are not dealt with separately in the draft Bill because they are clearly examples of differential site values, which have never been regarded as discriminatory in origin.

21. As the power of discrimination and boycott will have been removed, the principal means by which the channels of trade were restrained under the pre-war organisation of marketing, in the interests of monopolists, will no longer exist. It remains to prevent resort to certain other forms of tying contracts. The draft Bill lays it down that no sales (or agreements to rent or hire) may be made with the condition attached that the purchaser (or lessee) shall not deal with other firms or purchase competing goods. Nor (according to the Bill) may rebates, discounts, or credit facilities be offered on similar terms. These provisions of the Bill will have revolutionary consequences in some trades. Remarkable consumer benefits may be expected, especially in the diversity of products which will be made available. The " tied house " will be completely eliminated.[1]

22. Even more important is a provision of the draft Bill forbidding the widely adopted contemporary practice known as " resale price maintenance ". It is laid down that commodities may not be sold with any proviso that they shall not be resold except at, or above, a certain price. The practice of fixing the minimum retail price has been one of the most fruitful methods of monopolising the channels of trade. The higher margin of mark-up which this process guarantees has become a perfectly respectable artifice for bribing retail and other merchants to stock or push a particular producer's goods in preference to those of others. My use of the word " bribe " suggests that I believe a certain impartiality can be realistically expected from the merchant. Well, I do think that it is a reasonable ideal if the rules of trading are appropriately devised. Provided the retailer is

[1] The most spectacular reform which this provision is likely to bring about is the abolition of the " deferred rebate " employed by the shipping conferences. The rebate has for long been the chief monopolistic stratagem through which British foreign trade has been exploited. Special pleading has always emphasised the " regularity " which the rebate has made possible. But there are no grounds for believing that its abolition will mean the sacrifice of any regularity at all.

not bribed by a guaranteed margin of mark-up for any commodity stocked, he has every motive so to distribute his capital available for the acquisition of stock-in-trade that (allowance made for different rates of turnover) his anticipated rate of return from all types of stock acquired is equal. He will have no incentive to push one line in preference to another. As servants of the community, all merchants must be placed in this position, as far as the rules of trade can ensure it.

23. Although specific trade practices which encourage monopolistic restraint have been explicitly forbidden, there is some danger of cunning forms of disguise being adopted and new forms of restraint being subtly developed. Accordingly, it is laid down that the Commission shall have power to investigate and demand any information which it may require about trade and business practices, the relations between firms, and like matters. If it is thought expedient, the Commission may *subpœna* witnesses and administer oaths. It may even advertise in the Press and other suitable media for evidence from persons who may have knowledge of trade and business practices, and so forth, which are calculated to restrain the utilisation of resources or the sale and purchase of products. The Commission will, of course, have full and automatic access to all books, documents and records. Moreover, general duties will fall on the public. Persons with knowledge of restrictive practices and alleged offences are called upon, under the Bill, to inform the Commission. Steps are to be taken to keep secret the sources of information which reach the Commission by such means, and communications thereby made in good faith are to be regarded as privileged. Drastic provisions to prevent victimisation are necessarily included. From the information so gathered, the Commission may be able to take action under the headings which I have already discussed ; but in so far as methods of purchase and sale are concerned, it will have power to forbid any practices which come to light if, in its opinion, they are calculated to prevent, immediately or ultimately, the full utilisation of valuable resources, or to restrain the sale, purchase or exchange of products, or to mislead purchasers. In other cases, the need may be felt for more explicit legislation, and the draft Bill instructs the Commission to prepare and recommend legislation which, in its opinion, will enable it to carry out its functions more effectively.

24. It will be noticed that the Commission is not instructed to prevent " unfair competition ". Nor is it part of its task to protect " legitimate competition ". Nothing effective can be accomplished along such lines. The great weakness of the Federal Trade Commission Act of the United States has been that it has given to an undefined idea, " unfair competition ",

a most important rôle. "Unfair competition" has been the ground for intervention; hence the aim seems to have been the prevention of *certain kinds* of competition or *certain degrees* of it. No wonder the Courts have been puzzled. They have been confronted with a body charged with the task of enforcing competition whilst at the same time having the duty of preventing it from being too successful! The fact is that the idea of competition being good in small quantities and bad in large quantities, or good in some forms and bad in others, is utter nonsense. What the authors of the Act were really aiming at was what I have called "aggressive selling", a practice which cannot be tackled except by the prohibition of discrimination. Congress, the Federal Trade Commission itself and the Courts have hopelessly confused aggressive selling with other practices, equally pernicious, and perhaps of similar consequences, but of different origin, like the use of threats and intimidation. Threats and intimidation were among the practices termed "unfair competition". But neither violence nor fraud nor theft can be usefully classed as "competition"; and special legislation ought not to be necessary to deal with them. It is clear, then, that the term "unfair competition" is seriously defective in its implications. It has turned attention to the protection of the competitor instead of to the interests of consumers which should have been the paramount criterion in every case. If competitors are to be protected it should be for the consumers' benefit and only incidentally for their own.[1] Preoccupation with the rights of producers has, throughout the whole course of anti-monopoly legislation and administration, been a stumbling-block. My own proposals have been designed therefore to avoid this error. Quite apart from the whole emphasis being placed upon *utilisation*, Section 3 of the draft Bill lays it down that in cases of doubt in the interpretation of the Bill, "the standard of the advantage of the ultimate consumers shall, as far as possible, be applied".

25. I now have to deal with that kind of monopoly which is arranged, not by mere collusion among firms, but by actual amalgamation of firms; or which exists owing to the large size of the field dominated by any one firm. In tackling this problem I am likely to conflict more sharply with settled ideas than in any other part of my exposition. But the problem must be faced. Perhaps the greatest single weakness in the United States Anti-

[1] The Federal Trade Commission itself has often tended to take the right line but has been restrained by the Courts. Thus, a judgment of 1931 actually opposed a Commission order on the ground that "injury to the lawful dealer" was the "primarily vital fact" whereas the Commission had wrongly presumed that "injury to the final user" was the "vital fact". The court held, in other words, that the consumer's injury was only evidence relevant to the dealer's alleged injury. (Raladam Co. *v.* F.T.C., quoted, T. C. Blaisdell, *The Federal Trade Commission*, p. 26.)

Trust Legislation has been that both the Sherman and the Clayton Acts have classed corporations and associations as persons. This has simply been the coding of the general tendency of the courts to treat corporations as though they were single individuals. But at the beginning of the century Professor J. B. Clark pointed out, in unmistakable terms, how unjustifiable this was.[1] He showed how the law, as it was administered, was more severe on the looser types of association than on actual consolidation, and how in these circumstances the suppression of certain types of combination had " called into being others which are far more monopolistic and dangerous ".[2] And he showed how exactly the same principles of control should apply to them as to associations between firms with separate legal identities. " All the props of monopoly should be taken away," he said, " and not one merely." [3] In fact, the Sherman and the Clayton Acts seemed to be telling the monopolists that there was one form of disguise which would never be questioned, namely, " corporations and associations ". The majority judgment in the famous " Steel Case ", which was concluded in 1920, implied, among other things, that what would have been an illegal policy for a large number of legally independent companies became absolutely legal once they had merged into a consolidation. " Such ", remarks Professor Fetter, " to the legalistic mind is the mystic power of legal incorporation to transform into a single ' person ', incapable of conspiracy with himself, scores of separate corporations which in turn control hundreds of separate plants and comprise thousands of individual owners and a billion of capital ".[4]

26. Accordingly, my draft Bill endeavours in the most unequivocal language to prevent amalgamations, mergers, holding companies, and the direct or indirect acquisition by a corporation of any of the share capital or debentures of other corporations. It forbids also the purchase, as a going concern, of the *assets* of competitors. This eliminates what economists call both " horizontal " and " vertical " amalgamation or acquisition of control. (" Horizontal " has reference to competing enterprises; " vertical " to complementary enterprises, i.e. those in another " stage of production ", as, for instance, a tannery in relation to a boot and shoe factory.) Moreover, directors and large shareholders (i.e. shareholders owning more than 5 per cent. of the called-up capital) are to be personally ineligible to acquire shares in *competing* corporations. And in other ways the private concentration of directing power is to be restrained. After ten years (the delay seems desirable in the interests of gradualness)

[1] J. B. Clark, *Essentials of Economic Theory*, p. 376. [2] Ibid., p. 392.
[3] Ibid., p. 395. [4] F. A. Fetter, op. cit., pp. 77–8.

no person will be permitted to be a director of more than one corporation in the same or similar type of production or business. And after five years, no shareholder owning more than 5 per cent. of the capital of any corporation will be allowed to retain any shares in a competing corporation, unless voting rights in the shares of all but one corporation are ceded to the Commission. Again, after ten years, no person will be permitted to be a director of more than one corporation which has capital, surplus and undivided profits of more than £500,000. The highly expert *administrator* will be permitted, without restraint, to serve any number of corporations as consultant or manager, *in a salaried capacity, but not as director.* Indeed, a director or a large shareholder (i.e. a shareholder owning more than 5 per cent. of the capital of any corporation) will not be permitted to serve in a salaried capacity for any competing corporation or for any corporation with which his firm has dealings, either as seller or buyer. (This last provision is intended to prevent a subtle form of " vertical " control.)

27. The Commission's powers in the enforcement of these provisions must be both efficient and complete. The scheme must be planned so as to enable every attempt at evasion to be anticipated and frustrated. For this reason, the draft Bill provides that if the Commission suspects that these provisions are being defeated because a nominee of a large shareholder or a nominee of a director is acting as a shareholder or a director in another corporation, the Commission may call upon any such person to declare under oath whether he is in fact so dependent or a nominee. In cases of that kind the Commission will have power to call upon the supposed nominee to transfer his shares, in the open market or otherwise, to any independent (" independent " is very carefully defined) purchaser, or alternatively to cede the voting rights to the Commission. And the Commission's powers must go even further than this. They must include the right to call upon any director or shareholder holding even less than 5 per cent. of the shares in two or more competing corporations to transfer his shares in all but one such corporation, to independent purchasers (or alternatively to cede the voting rights). This last power would, of course, be resorted to only in cases of clear abuse.

28. In addition to these provisions, the Commission must have the power *to recommend* the actual breaking up of existing corporations into smaller units under certain circumstances. I do not think that it will be necessary to have frequent recourse to this procedure. It is more important to prevent amalgamation as a means of evasion of provisions aimed at collusion than actually to " unscramble " existing " industrial omelettes " in corporation

form. Even if those corporations were originally the result of amalgamation with monopolistic intention their authoritarian dissolution will not be easy. Nevertheless, the Commission must have the power to recommend to the President of the Board of Trade : (*a*) that specific sets of assets owned by a corporation shall be taken over by completely independent corporations ; and (*b*) that named subsidiary concerns shall be floated as completely independent corporations. In making recommendations of this kind, the Commission must give reasons for its belief that the existing form of ownership is, by reason of the concentration of entrepreneurial power, likely to cause the withholding of capacity or the restraint of productive development. Ministerial authority should, I feel, be given for so drastic a step. But the step may, conceivably, be necessary.

29. In all probability action will seldom be taken under this general provision. Much more important will be the particular provisions under which the Commission will have the right to act directly. Thus, whenever the Commission believes that certain capital resources are not being utilised by reason of a large proportion of their supply being owned by one corporation, it is instructed to take immediate steps to rectify the position. Thus, if the Commission believes that such idle resources can be profitably used in production, or if, in the opinion of the Commission, they are being wastefully utilised, the Commission may insist upon their being offered, in whole or in part, for lease or sale to an independent purchaser ; i.e. so that they are owned by a quite separate firm. Similarly, if the Commission believes that a corporation is, so to speak, discriminating in its own favour and against its competitors by reason of its ownership of a large proportion of the supply of essential capital resources, it may call upon the corporation concerned to realise the whole or part of those resources so that they will ultimately be owned independently by a separate firm against which the anti-discrimination provisions can be effectively applied. In short, if there is any unutilised plant or equipment which the Commission believes could be profitably used, it must have power to direct that such plant or equipment shall be offered for sale, or for short-period or long-period leasing, to an independent party.[1] A supple-

[1] The conditions under which the Commission is to exercise this kind of direction are very carefully laid down. To use a technical term which I myself have recommended, it is explicitly instructed not to try to force the utilisation of resources which are in " pseudo-idleness " (see *Theory of Idle Resources*, Chapter III), although this term is not used in the draft Bill. The term " pseudo-idleness " refers to resources the idleness of which is really performing some productive service. E.g. the employment of certain kinds of idle equipment might destroy their availability, at some certain or uncertain time, for productive services of higher value. This is one of the cases in which the Commission is instructed not to act.

mentary provision empowers the Commission to prevent the destruction or scrapping, except through ordinary wear and tear and *bona fide* utilisation, of any productive plant, equipment or like resources for which a bid greater than the net scrap value is obtainable. The only exception which is allowed is when the resources concerned are irremovable except by scrapping, and orders have been given for their full replacement on the same site within a reasonable period. I expect very rare resort to the powers discussed in this paragraph. But in general there is no justification for any plant remaining idle or being scrapped if an independent entrepreneur can use it profitably, however low the contribution he offers for its use.[1] And the possibility of abuse must be anticipated and provided against.

30. To make it absolutely clear that corporations must not be regarded for this purpose as " artificial persons ", I consistently refer (in the draft Bill) to the relations of " persons, partnerships and corporations " (including under the heading " corporations " not only public and private companies, but State corporations, municipally owned undertakings, and co-operative societies in all forms). But persons and partnerships may both benefit from the possession of monopoly power, and my scheme for spreading the lines of entrepreneurial authority covers them also. For simplicity of explanation I have not referred to this in the sketch contained in the previous paragraphs.

31. Let us now consider the effect of such reforms upon the efficiency of economic direction. How will they affect the functions of co-ordination and synchronisation which were discussed in the previous chapter ? The answer is that they will facilitate, not hamper, rational direction and effective co-ordination. The diffusion of entrepreneurship, the breaking up of the lines of authority and responsibility, will in no way discourage administrative arrangements conducive to the maximum efficiency. Ultimate responsibility to shareholders will be much clearer and more certain than under the pre-war order. And the spreading of power, far from frustrating the achievement of any economies of large-scale operation, will remove some of the main obstacles to economic concentration.

32. But certain apparent exceptions are required in order that the disseverance of concentrated entrepreneurial power shall not unduly limit the range of productive initiative. Thus, a number of competing corporations may promote and take shares in a new corporation to supply resources or products for their mutual purposes. (Express permission is given in the draft Bill ; and negotiations with this end in view are not regarded as " collusion ".) But if any corporation, or any of its directors or share-

[1] See *Theory of Idle Resources*, Chapter II.

holders, which undertakes this kind of initiative takes up more than 5 per cent. of the shares in the new corporation, that fact must be reported to the Commission; and the excess over 5 per cent. must be realised within two years, or the voting rights must be ceded to the Commission. And other provisions which authorise the acquisition or lease of competing assets, under safeguards, are also given in the draft Bill. Moreover, stock-in-trade, materials and tools (other than fixed plant), can be freely purchased from competitors at any time.

33. Finally, there are provisions giving a corporation power to submit a petition asking for express permission to acquire the share capital of a competing corporation or competing corporations. The Commission will have power to grant this request if, in its opinion: (*a*) the *bona fide* object is to introduce economies calculated to cheapen, or add to the diversity or availability of products; (*b*) not more than one-fifth of the supply in any market is to be provided by the corporation (including its subsidiaries); (*c*) the development is not calculated to lead to the restraint of production or trade. There is a further exception. The Commission may, in certain conditions, expressly allow a corporation to establish a subsidiary in any locality which supplies more than one-fifth of the local market. The conditions are that in a sufficient number of areas—sufficient, that is, to provide adequate experience to serve as a guide—the same corporation is supplying less than one-fifth of the same or a similar type of commodity or service. Then, allowance having been made for differences in cost, any differential charging as between areas in which the corporation has control of more than one-fifth of the estimated supply, and areas in which it has control of one-fifth or less of the estimated supply, shall be regarded as discriminatory, and prohibited. This will prevent (i) the exploitation of consumers by high prices in districts in which the corporation (with its subsidiary) is dominant or has a monopoly, and (ii) the practice of aggressive selling by temporarily low prices in districts in which competition is encountered. In this manner, the growth of chain enterprises by share purchase of subsidiaries will be permitted.

34. The control of public utilities involves an entirely different sort of problem. This is because they are " natural monopolies ". That is, in their case, the power to withhold productive capacity exists independently of collusion or amalgamation. A public utility *must* be under unified ownership. Hence the consumers' right of substitution cannot be sufficiently relied upon. I have already referred to certain aspects of the policy required, especially the course to be followed in respect of discrimination. But even under uniform charging monopoly may still be exploited and special provisions are therefore required. The principle which

must be applied in these cases is, I suggest, that when total receipts exceed total costs (in the special sense which I have explained), the minimum output shall be determined by the point at which marginal cost is equal to price. Now it will not be possible to apply this principle at the outset. Indeed, it will probably take some time before the required organisation of cost accountants can be established by the Commission. The draft Bill tentatively suggests a delay of five years. In the meantime, however, the Commission must fix maximum prices, after carefully investigating the positions of a number of representative utilities and applying the principle in their case. That is, sample inquiries will have to be made to determine the minimum output in selected undertakings, and the prices so determined must be assumed to be roughly correct for all public utilities which appear to be more or less similarly placed. The procedure is admittedly crude. A great deal depends upon how truly representative the utilities chosen happen to be. But as distributive injustices will have been overcome, the gravest objections will have been avoided. It is imperative for the general success of the scheme as a whole that any exploitative powers which public utilities and transport companies may possess shall be curbed from the beginning. That is why immediate control is advocated.

35. The question of patents and copyrights has been casually referred to already. The patent sections of the draft Bill are very important; but I have not tried to tackle the copyright question as a whole. It seems to me that the amount of abuse connected with copyrights is *relatively* small. If it *is* thought desirable, reform of the copyright system in the spirit of my general plan can, of course, be introduced also. Discrimination in respect of royalties, and the sale of exclusive rights might well be forbidden. But in one field only have I made concrete suggestions bearing on copyrights, namely, the film industry. I have thought it worth while to deal with the question in this case because it is fundamentally bound up with the problem of preventing discrimination. Without special legislation which takes cognisance of the copyright issue, it will be difficult to apply to the film trade the general anti-discrimination principles laid down in the main draft Bill. Accordingly, in Appendix II to this Chapter, I have sketched the chief sections of a separate draft Bill, the *Film Trading Bill*, which applies the principles of the *Resources Utilisation Protection Bill* to the film industry. I do not propose to discuss the content of this subsidiary Bill. In the light of the foregoing discussion the reader will be able to weigh up its effectiveness after a study of its text, without further explanation. It is based on the rule of non-discrimination in the royalty element in film hire. The enforcement of this rule along the lines I

suggest seems likely to break down all the monopolistic devices which are currently employed in this important branch of the entertainment world. If it works in practice as I have imagined it to work, an immense increase in the diversity of filmed subjects will become available. The small producing company—even amateur societies—will, under the scheme I have designed, be in a position to add commercially to supply. And minority taste will no longer be cold-shouldered. Potential playwrights will cease to be discouraged by standardised demand dictated through the self-perpetuating mediocrity of mass preferences. The scope of the cinema will be enormously widened. From opera and Shakespeare to the work of minor and amateur dramatists, all will be accorded a chance of competing for popular favour. Monopolistic marketing corporations and rings will lose the power which they have wielded through various types of tying contracts, to bar the way to the gradual cultivation of a superior public taste. The emergence and ultimate dominance of more refined standards can be assured if discrimination is banned.

36. Whatever may be hoped for from schemes of this kind, the patent sections of the Resources Utilisation Protection Bill are of much greater importance. Under the existing system, patent ownership has been used (to an extent which is difficult to judge) to hold back the results of technical progress. In the new era, the shackles must be thrown off. Physical reconstruction alone demands the fullest recourse to economising inventions. The Capital Security provisions of my scheme make it possible to act with unhesitating boldness. The draft Bill declares void all patents except those which have been continuously owned by the person being the first and original inventor.[1] Those already owned by corporations will cease to have any value. In the future, corporations will be allowed to own, as patents, those inventions which are the work of their employees, but only when the control of those inventions is vested in the Commission, which must act as trustee. Moreover, the original inventor of a patent must not be allowed to control its utilisation himself if he is an employee of, or remunerated (except by a non-discriminatory patent royalty) by, any firm which is using the invention or is interested in the process to which it relates. In this case also, the Commission must act as trustee. In its rôle of trustee, the Commission may consult the inventor but must retain sole final discretion.[2] The draft Bill explicitly instructs

[1] Foreign owners of patents must, of course, be permitted to retain any rights which have been conferred by reason of international conventions.

[2] It may be felt that there is certain to be continuous discontent with the decisions of the Commission in such cases. But the Commission is to be a quasi-judicial body, and the determination of patent royalties is not likely to arouse any more resentment than the assessment of damages by the Courts in civil cases.

the Commission to fix non-discriminatory royalties and to have due regard to the possibility of a high royalty preventing the desirable utilisation of an invention. I believe that these simple sections will eliminate all the abuses of the patent system with which modern students have been concerned (given the other sections of the Bill). The stimulus to invention will be increased whilst at the same time inventions will be available for potential users on non-discriminatory terms. There will obviously be the greatest encouragement to the practical utilisation of new devices discovered.

Summary of Chapter XV

Collusion and Price Discrimination

(1) *With a view to securing the fullest utilisation of resources, the Commission is authorised to issue "cease and desist orders" against certain practices declared unlawful.* (2) *In drafting legislation for this purpose, account has been taken of American Anti-Trust experience.* (3) *Every contract or conspiracy* (a) *to restrain output, trade or exchange,* (b) *to form or take part in a collusive monopoly, is declared unlawful;* (4) *but co-operative co-ordination arrangements will not be hindered.* (5) *Strikes and lock-outs are forbidden.* (6) *The prohibition of price discrimination is likely to cause some of the worst manifestations of monopoly to disappear.* (7) *The definition of price discrimination excludes differences due to quality, grade or costs,* (8) *but differential charging based on the status of the purchaser, or on considerations other than cost, is declared discriminatory.* (9) *"Choosing one's own customers", i.e. the boycott, is an extreme form of discrimination and is therefore forbidden.* (10) *The prohibition of "discrimination over place" will eliminate the most serious types of derangement of productive development caused by the practice and threat of "aggressive selling".* (11) *"Discrimination over time" is also prohibited, but with a view to the prevention of the coercion of purchasers rather than the prevention of aggressive selling* (12) *which is* possible *under uniform charging, but which cannot be prevented by direct control.* (13) *The prohibition of discrimination will also prevent the deliberate encouragement of exploitable development.* (14) *Discrimination in the form of special services or quality provided for certain purchasers only, may not always be directly preventable, but is likely to be eliminated through the repercussions of the scheme as a whole.* (15) *A complication arises because discrimination may sometimes be a necessary condition for a desirable investment,* (16) *the parties discriminated against being better off by reason of the discrimination.* (17) *No simple and convincing illustration of beneficent discrimination is possible,* (18) *but the* possibility *of the condition being practically important may be covered by allowing parties who are sufficiently representative of a group to petition for discrimination against that group prior to an investment in fixed resources.* (19) *The permitted discrimination must be for a temporary period, defined according to a given formula.*

(20) Certain types of differential charging can be distinguished and classed as non-discriminatory. (21) Tying contracts and (22) resale price maintenance are to be made unlawful. (23) And the Commission is to have effective investigatory powers and the right to forbid any practices which are calculated to restrain the full utilisation or free exchange of products. (24) The object of the prohibition of discrimination and the other practices discussed is consumers' advantage, the rights of producers being regarded as only incidental. (25) One of the chief weaknesses of the United States Anti-Trust Acts has been their treatment of corporations and associations as persons. (26) But the present scheme restrains both horizontal and vertical expansion and the centralisation of control of competing undertakings through shareholding and directorates. (27) Evasion through nominees is to be prevented and shareholders and directors may be called upon to cede voting rights or transfer shares in certain corporations. (28) With Ministerial authority, corporations may be called upon to break up into smaller, independent corporations, (29) but the Commission is empowered to act directly if essential assets are not fully utilised, by causing those assets to be sold or leased to an independent firm. Wasteful scrapping is to be forbidden. (30) Partnerships and persons are to be subject to a similar control. (31) The control will facilitate rather than hamper effective co-ordination, and it will strengthen responsibility; (32) but special provisions permit the promotion of co-operant or competing enterprises, (33) and corporations may petition for the right (under stringent safeguards) to acquire the capital of competing corporations, or to establish subsidiaries. (34) Public utilities are to be called upon to produce an output determined by the point at which marginal cost is equal to price unless "profits" are not being earned; but for a period of five years they are to be subjected to a system of maximum-price control based upon rough estimates in the light of the principle. (35) The abuse of the copyright system appears to be small, but discrimination in respect of royalties might well be forbidden, and in the case of the film industry, for instance, far-reaching benefits would result. (36) The patent system has, however, seriously restrained technical progress and must be reformed. In general, patents must be controlled only by the original inventor (who may be remunerated by non-discriminatory royalty), or by the Commission as trustee.

APPENDIX I TO CHAPTER XV

TARIFF REDUCTION

THIS discussion has been confined to internal problems. The relation of the plan to external commerce has been ignored. But the customs tariff question is so closely affected by the plan as described that this brief Appendix must refer to it. Just as the Labour and Capital Security schemes can alone make practicable the eradication of restraints within a country, so they can alone make practicable the removal of the monstrous tariff obstacles to the socially lucrative exchange of products between nations. Towering protective tariffs, preferences, discriminations, import quotas, bilateral trade and payments agreements, against which there appears to have been a remarkable revulsion of feeling during 1941, these have all been the consequence of pressure-groups. It is pressure-groups which, in every country, block the way to international economic freedom. They are barring the door not only to the substitution of plenty for penury but, what is perhaps even more important, to the achievement of conditions which are likely to be regarded as internationally just. The establishment of equality of access to materials and markets is no longer an impracticable ideal for this generation. If Britain gives the lead, large-scale tariff removal can become practical world politics. And Britain can give the lead if the distributive problem is solved.

Questions of tactics—the technique of tariff bargaining—will be of some importance. Everything should be done to exert legitimate pressure upon other countries to follow suit. But the internal success of tariff removal under *distributive security* in the country giving the lead will constitute the great encouragement. The wise speed of tariff removal cannot be predicted. Gradualness will in general be essential. But given the aim of distributive security, it may become expedient, in the case of certain products, to abandon the principle of gradualness. This is because of the huge advantage which will accrue to the British if they can make their home market the attractive dumping-ground for the surplus products of the world in the post-war era. An abundance of the cheapest goods will immediately ease the material difficulties of the aftermath. It may be that the exporting countries will later accuse the British of having exploited them by allowing them to dump! But it is much more likely that they will thereby be taught the lesson that dumping is to the advantage of the countries which import the dumped goods. The technique of attracting dumped goods is an interesting problem which cannot be discussed here.

It should be possible, as the accompaniment of tariff removal, to encourage a lavish post-war output of the world's raw materials. Judging from previous wars, there are real hopes of exceptional plenty in this respect. Hence there will be every opportunity for policy to work for a fabulous fall of material prices, which may well throw the records of depressions into the shade. With this basis, the administration of the new order could be contemplated with the most complete confidence.

APPENDIX II TO CHAPTER XV

FILM TRADING BILL

Bill to provide for the control of the sale and hire of films.

Section 1. From and after the date of the passage of this Act no corporation, partnership or person engaged in the production or manufacture of cinematograph filmed subjects, of whatever nature, or owning the copyright of such filmed subjects, or engaged in the sale or loan for hire of such filmed subjects, shall acquire shares in any theatre, or any public place for the display of filmed subjects at which charges are made for admission ; nor shall any such corporation, partnership or person purchase, rent, lease or hire, or provide and retain ownership of any such theatre or public place for the display of filmed subjects ; and if any corporation, partnership or person engaged in the production or manufacture, or in the sale or loan for hire, or owning the copyright of cinematograph filmed subjects ; or if any director of any such corporation, or any shareholder owning more than 5 per cent. of the called-up capital of such corporation, or any partner in such a partnership, at the date of the passage of this Act, owns shares, or possesses controlling rights, in any theatre, or place for the display of films, at which charges are made for admission, the said corporation, partnership or person shall, within one year from the date of the passage of this Act, dispose of such shares by sale or transfer to an independent person, partnership or corporation, or alternatively shall cede any controlling rights or any voting rights conferred by such shares to the Resources Utilisation Commission.

Section 2. No filmed subject hired, leased or rented for display at theatres or public places at which charges are made for admission, shall be charged for by the owner of the film and the copyright of the filmed subject, except on the basis of a royalty equal to a percentage of gross takings from admission charges at the performances at which the filmed subject is displayed ; except that such royalty may be subject :

(*a*) to a guaranteed minimum absolute payment for a given period of hire (in accordance with the provisions of Section 3) ;

(*b*) (except as provided for in Section 3) to a minimum average sum demanded per person admitted during each period for which such percentage is fixed, plus fair compensation for the failure to display the filmed subject on any day during the period for which it is retained, no compensation being payable for non-display if it is displayed on the average at least once per day, excluding Sundays, Christmas Day and Good Friday, at a time customary in the district in which it is displayed, the fair compensation in no case exceeding ..... per cent. of the average daily amount paid by the lessee as royalty for the hire of the filmed subject ;

(*c*) to an additional sum which fairly covers wear and tear and

other physical depreciation of the film plus the full costs of transport and insurance from the nearest place at which a copy of the filmed subject is available and unutilised, unless independent arrangements for transport and insurance from such place are made.

Section 3. The royalty terms demanded for the display of filmed subjects may be varied as follows: The percentage of gross takings demanded, any average minimum sum demanded per person admitted at any display or periods of display at which admission charges are made, and any guaranteed absolute minimum payment for a given period of time fixed by the owner of the film and/or the copyright of the filmed subject, may be decreased separately or together at any time, but never increased; but for any week, any percentage of gross takings demanded and any average sum demanded per person admitted must be non-discriminatory as between different lessees of any filmed subject. Admission charges at displays for charitable purposes or at displays given free or at low charges for the sick, poor or needy, or displays with like objects shall not be regarded as affecting the royalty terms demanded under this Section, provided that exemption from any entertainment tax is obtained.

Section 4. No filmed subject shall be withheld by the owner of the film and the copyright from being hired, leased or rented by any corporation, partnership or person offering to pay in cash at least the sums specified in the previous Section.

Section 5. All orders received for the hire, lease or renting of filmed subjects by the owner of the film and the copyright thereof shall be registered according to date, and shall record the percentage of gross takings offered as royalty, any guarantee that such percentage of gross takings shall not fall below a specified absolute sum for a given period, and any minimum average sum guaranteed per person admitted to the display. Filmed subjects shall be hired, leased or rented to those offering any guaranteed absolute minimum payment demanded for a given period, strictly in the following order: those offering the highest minimum average sum per head shall be entitled to be first supplied; and of those offering the highest minimum average per head, those offering the highest percentage of gross takings shall be entitled to be first supplied; and of those offering the same terms in both respects, those guaranteeing the highest absolute sum for a given period shall be entitled to be first supplied; and of those offering the same terms in all three respects, those whose orders were first registered shall be entitled to be first supplied.

Section 6. Notwithstanding the provisions of other Sections of this Act, any corporation, partnership or person shall have the right to purchase, or any group of corporations, partnerships or persons may contract to purchase in common, at any time, after reasonable notice, from the owner of the copyright, a good copy of any filmed subject at a price not greater than the actual cost of manufacturing such copy plus 5 per cent., together with an agreement to pay to the owner of the copyright a royalty equal to the lowest percentage of gross takings from admission charges at which the filmed subject has previously been or is being hired, leased or rented by others, at the

time of the actual display, or, at the discretion of the owner of the copyright, the lowest average sum per head of those paying admission charges which has previously been paid, or is being paid for its hire, lease or rent at the time of its actual display. Any such filmed subject may be sold, or lent for hire by the purchaser thereof on any non-discriminatory terms, but its public display shall be subject to the condition that the royalty heretofore specified in this Section shall be paid to the owner of the copyright.

Section 7. No film of any subject shall be withheld by the owner thereof from being hired, leased or rented unless it is being currently displayed by such owner, if an offer is made to pay in cash the least non-discriminatory terms at which it has previously been hired, leased or rented, subject to the payment of the royalty specified in Sections 2 and 3 to the owner of the copyright.

Section 8. No owner of one or more copies of a filmed subject shall purposely damage or destroy any copy thereof until two years after the last date at which any copy thereof was hired, leased or rented from such owner.

Section 9. No filmed subject shall be rented, leased or hired on the condition that certain other filmed subjects shall be rented, leased or hired, or on the condition that a filmed subject or subjects made or supplied by another corporation, partnership or person shall not be rented, leased or hired. Notwithstanding this provision, a filmed subject may be rented, leased or hired on the condition that, for *bona fide* artistic reasons, no other filmed subjects at all or no specified filmed subjects shall be displayed at the same session.

Section 10. Notwithstanding any provisions contained in Sections 1 to 5, contracts may be made for the hire, lease or rent of filmed subjects for display at a future period, on terms not higher in any respect than those currently demanded, provided (*a*) that the same or lower terms for the same future period, or the same or lower terms for later periods are offered and made known to the trade in any manner considered by the Commission to be reasonable, during the succeeding week, and (*b*) that registered orders on such terms receive priority according to the date of registration.

CHAPTER XVI

COST OF THE PLAN

1. BY this time, the reader may have gathered the impression that the creation of a vast new and expensive bureaucracy is being advocated. Well, the nature of the objects would make it worth while incurring a huge cost. We must not overlook the weight of the credit side. For instance, to take one factor only, the absence of unemployment of labour will mean that (as opposed to the pre-war decade) the moral and physical cost of two million unemployed will be avoided. It follows that even if an enormous administrative cost had to be incurred, the plan could still be beneficial on balance. But one of the virtues which I claim for my scheme is that it is likely to result, in the long run, in considerable administrative economies, that is—if the community as a whole is taken into account. Of course, all social machinery must involve some cost, and the functions accorded to the State under my plan *do* demand a large personnel—especially during the reconstruction transition. But if we exclude the employees of the " State corporations ", who will be neither bureaucrats nor civil servants in the usual sense, the bureaucracy as a whole can be expected ultimately to contract rather than expand. For it is a corollary of the reforms put forward that the scattered administration of the social services through many other State departments (e.g. the Ministry of Labour, the Ministry of Health, the Home Office, the Ministry of Pensions and other departments) will become redundant. At the outset, it is true, a large new recruitment of economists, statisticians, accountants and lawyers will be necessary. Apart from these, however, the *existing* personnel of the Civil Service and the various control boards must be employed for the administration of the Security schemes or the Resources Utilisation scheme. For example, as the unemployment insurance scheme is brought to an end, a large staff will be at the disposal of the Labour and Capital Security Boards. For a while, the work will be heavy ; but ultimately the number of persons in receipt of Labour Security Grants will be small. Moreover, in the long run, the Capital Security scheme will be wound up completely, and there will be an increasing rate of decline in obligations under it (and consequently in the administrative cost) as time goes on. The collection of the Security Levies should not be more costly and irksome than the existing arrangements for the collection of unemployment insurance contributions and income-tax. The labour exchange functions

are likely to develop, but if they do it will imply a huge social product; and it might well be possible to charge for their services and make them self-supporting. To some extent, the plan will actually release the services of employees in the trade-union, employers' association and price-ring organisations. Many private officials will become public officials. But there is no reason why the machinery for facilitating social co-operation should be more costly to the community (privately and publicly) than the machinery for restraint. On the contrary, the new machinery should permit an inconspicuous but very real immediate saving. For the paltry sop in the form of unemployment benefit, health benefit, public assistance and old age pensions with which the authorities have fobbed off the victims of "collective bargaining" [1] must have been administered at a cost quite disproportionate to the sums handled. The arrangements for full distributive justice should permit a much smaller proportionate burden.

2. Further, the greater part (but not all) of other types of poor relief and ameliorative activities will soon become superfluous.[2] As poverty declines (through the redistributive provisions of the plan) the palliatives will no longer be demanded. The personnel which has been administering the palliatives will therefore be gradually released for services of a different kind. At the outset, some of the rehabilitative tasks connected with poor relief are to be taken over by the Labour Security Board. Others will remain with the existing agencies; for the National Minimum is to apply only to the physically and mentally normal, and other arrangements will therefore be necessary for the humane

[1] "To an impartial and dispassionate observer it seems, on the face of it, that displaced workers get (from their union or the State) a mere sop. They appear to consent because they do not understand . . . it is nothing but their ignorance which prevents them from insisting upon an *equal* sharing of the spoils in return for their agreement to refrain from 'black-legging' . . . Surely the acquiescence of the unemployed is based on an illusion which survives only because it is to no one's interest to dispel it. During the protests against 'the means test' in Great Britain, this fundamental issue remained hidden. . . . If the leaders of organised labour really believe that 'withheld capacity' generally practised (taking the form of trade-union or State wage-fixation in the actual world, of course) can increase the earnings of the working classes as a whole, surely it is up to them to arrange an equitable system of sharing the benefits with those whom they force out of employment or persuade to withhold their labour. It is no answer to blame 'the capitalist system'. This sort of injustice is obviously rectifiable in the present. . . . There would be a different story to tell if the members of a union regarded that body as shareholders do a firm. Displaced workers would then insist upon work-sharing or *full* compensation. . . . But the assertion of their rights by displaced unionists would also be likely to expose to the unprivileged classes the nature of the parasitism which condemns them to relative poverty." (*Theory of Idle Resources*, pp. 131–4).

[2] One of the welcome difficulties which may be encountered is that of determining the use to be made of the funds of charitable endowments.

treatment of the sub-normal classes. But the Board itself will still have every motive to improve the quality of the human capital in the sub-normal classes in so far as they are employable; and the gradual improvement of earnings year by year will eventually cause this part of the work to become of minor absolute importance, or else so transform it that an entirely new function will have emerged.

3. It may happen that in the new regime which will be slowly built up, various quite new collective functions of an ameliorative or educative nature will be undertaken. If so, that will be a consequence of the plan only in the sense that the enhanced resources available for the community will make this choice of benefits possible or desirable. On the other hand, it may equally well happen that society will feel the range of genuine collective functions to be narrower than is commonly felt to-day. Certainly, the frittering away of funds on politically conspicuous projects which some of the more honest or more realistic socialists have admitted the British social services to involve,[1] is likely to be cut out by the people when they recognise that it is they themselves who really make the sacrifices. And in the new regime, that will be abundantly clear to them. Hence no one can forecast how society will wish to make use of its expanding capacities. It may demand relatively more collectively produced amenities or it may demand relatively more privately produced amenities. We cannot tell.

4. The collection and dissemination of data by the State will not impose an unduly heavy burden of form-filling upon the community; for the information demanded will in all cases be knowledge which is essential for the good internal management of firms. The Commission may, of course, impose certain standard *methods* for the gathering and presentation of the required data. But although the irksomeness of a compulsory change in clerical methods is a factor which has to be faced, this is a relatively small point. What *is* important, however, is that the data-collection function shall be devised and carried out in a manner which imposes the minimum clerical and accounting burden upon firms. The different authorities requiring information should, as far as possible, seek to obtain it through the medium of a centralised statistical office. An enormous amount depends upon the efficiency with which the statistical services of the scheme are planned; and this is a question of the right choice of personnel.

5. Finally, although new obligations are to be imposed upon decision-makers, they will be gradually freed from a vast restrictive network embodied in masses of legal enactments and regulations.

[1] See Chapter VII, paragraph 25.

The suspension and ultimate repeal of the multifarious pettifogging restraints which to-day hinder the service of the community may be expected to promote quite startling economies. And the new obligations will be essentially simple ; for they will be directly derived in every case from the new principles which are to form the foundations of the revised institution of property. How different the regulations of the new era will be from the disorderly agglomeration of anomalous complexities which has accumulated in the past ! How much more simple will they be than the rules piled up in the course of continuous attempts at the piecemeal patching up of leak after leak in the system of restraints !

Summary of Chapter XVI

Cost of the Plan

(1) *The cost of the plan will be less than may be supposed, for the personnel required will be mainly recruited from civil servants and private officials at present engaged in activities which will be superseded.* (2) *In particular, the existing ameliorative functions of the State are likely to become largely superfluous,* (3) *although the range of collective activities freely chosen by society may conceivably expand in the future.* (4) *In the collection of data, efficiency of the centralised statistical services is all-important.* (5) *Whilst decision-makers will have new obligations they will be relieved from irksome restraints.*

CHAPTER XVII

CONCLUSION

1. THE sketch of the plan for which I claim so much is now completed. It is the product of an effort at institutional invention. In thinking it out I have tried to work unhampered by the intellectual shams and fictions of current political controversy. The reader must judge whether I have succeeded. But if I have succeeded, *for that very reason* I am afraid that my plan may appear a strange contraption.[1] Yet, however novel it may be in form, it has been designed in the light of the materials to which it has to be applied. In an endeavour to achieve realism, I have asked at every stage and in every detail of my speculations, How will this particular artifice which I recommend be affected by what we know of men and their aspirations, their habits, their loyalties, their educability? As I pointed out earlier (in Chapter XI, paragraph 4), that sort of approach is one for which the "orthodox" economist is prepared by habit. I believe with confidence, therefore, that my scheme is psychologically sound in the sense that, *if attempted*, it will be acceptable and workable. But I have still to deal with the question of whether it *could* be attempted—whether it could be made politically acceptable. That is a quite separate problem about which I must say something, but about which I write with less confidence.

2. Nevertheless, I think I can anticipate most of the objections on the grounds of political practicability which will have occurred to readers as they have persevered with my exposition. The most serious objection is that the carefully reasoned analysis on which my case is based is incapable of comprehension by the actual rulers (or by the people whose consent is required under democracy). I admit that there is a case to answer. Economists are, I agree, seldom very influential. More than that, they have an extraordinarily difficult task in getting a hearing at all, and they are seldom good expositors. When they are heard, they hardly ever get a fair hearing. In one of my earlier books, I tried to show why it was that the teachings of economists are uninfluential. I explained my conviction that, on fundamental practical questions,

[1] At the same time, my approach may be a source of strength. For it will be obvious that I am not trying to persuade the reader, directly or indirectly, to give his allegiance to any particular party, or any set of politically influential ideologies. Indeed, I have for long felt that wisdom, enlightenment, and sincerity, and ignorance, cynicism and casuistry have been fairly evenly spread among the politicians of the different British parties. I see an equal chance of influencing those with allegiance to all parties.

" no matter how valid my argument might be, there would be virtually no chance of its acceptance by a sufficient number of persons of influence to permit of its bearing in any practical way upon contemporary affairs ".[1] Why, then, have I bothered to write this book ? Well, I feel that the task of throwing effective light on policy (and so influencing action) may no longer be quite so hopeless. For it seems to me that the chances of being heard to-day are greater than they were a few years ago. The disturbances of more than two and a half years of war have done something to sweep away the cruder slogans and catch-phrases with which the field of politics (and hence the field of popular thinking) has been littered. And the worst hindrance to the acceptance of the policies which I now am putting forward is likely to be the subconscious effect of slogans and catch-phrases. For instance, terms like " Socialism " and " Capitalism " have done a great deal to prevent the spread of enlightenment, through the strong emotional response which they evoke. But probably fewer people are blindly moved by those terms to-day. People are surely seeing that, in the present momentous times, they must think more of the aims and effects of policies than of the names which the politicians cleverly attach to them. That is why I think that I am likely to be listened to with more sympathy to-day than a few years ago.

3. The blatant errors which my first chapters tried to expose, the appalling sacrifices caused by the restrictionist mentality of governments and their influential critics have been too conspicuous to be ignored. Restrictionism stands exposed as a horrible monstrosity born of the mating of unlike ideologies. Both socialism and the vested interests in moneyed power have applauded restraint as the means of income enhancement ; both have enthusiastically propagated the slogans which have helped to hold back plenty, security and equality. But the realities of war may have allowed the lessons to be learned. As Mr. Clarence Streit has recently felt of international affairs, so I feel to-day of the internal relation of society, " for a fleeting moment we have an opportunity to make an epoch—to open a Golden Age for all mankind, to do in the nick of time, against terrifying odds, one of the great things that men have always longed and failed to do ".[2] At the same time the argument of my previous contributions (which have defined the political and ideological obstacles) remains relevant. I can here do no more than briefly allude to *some* of these obstacles.

4. All contributions on reconstruction are certain to be subject to competition. Others, besides myself, will have been fruitfully

[1] *Economists and the Public*, p. 8.
[2] C. K. Streit, *Union Now with Britain*, p. 71.

studying both the ephemeral problems of transition and the deeper problems of the social and economic order towards which post-war policy seems likely to aim. Many other books and pamphlets visualising " new orders " will claim the attention of those who are destined to influence policy. And such people can usually spare little time for reading. The danger of any individual suggestions being swamped by the sheer volume of earnest and competent contributions is therefore large, and inevitable. The economics of transition, and the economics of the sort of social order which a post-war democracy might accept, require the widest study. All that any author can ask is that his ideas shall have a chance of competing fairly with and supplementing the suggestions of others.

5.[1] In the framing of the scheme that I have put forward, I have felt it to be imperative that the winning of consent shall be made the *subordinate* problem, however important it may be. In the past, the necessity for an easy electoral justification for policies has dominated all State planning. Perhaps that is why the planning has always failed in its ultimate social purpose. This does not mean that the political problem of finding the shape of reforms which will make their purpose obvious and hence democratically acceptable is one which can be ignored. On the contrary, a great deal of thought must be given to this question. We must make crystal clear just what we are aiming at and how we are setting about it. If my plan is adopted, those whose job it will be to put it into effect will have to approach the task with a realistic understanding of what we know from bitter experience about electors' psychology. But in endeavouring to win consent for our reforms, the means must never be allowed to supplant the end. The ideal must be conceived of in terms which are completely uninfluenced by electoral plausibility. Part of the objective may be temporarily sacrificed in order that a more important part may be gained. But such a sacrifice is defensible only as an educative or tactical device which brings the ultimate end nearer to attainment. In the past, the continuous compromise demanded by practical politics has led to the bewildered abandonment of ideals. I do not believe that, in the explanation of the scheme which I am putting forward, such a sacrifice will be necessary.

6. It seems to be the failure to recognise that compromise in this sense need not mean abandonment of ideals which leads to that contempt for electorates which is so common among those who pride themselves on being " practical politicians ". Those who are preoccupied with the task of getting themselves or others

[1] This, and the following two paragraphs, are adapted from " Economic Institutions and the New Socialism ", *Economica*, November 1940).

elected, can very easily develop a fatalistic, almost defeatist attitude towards the educative possibilities of mankind. They are possibly misled through their concentration upon and experience of an unduly narrow field of social psychology. I feel, for instance, that the typical limitations of the politician can be excellently illustrated by the point of view expressed in E. F. M. Durbin's *The Politics of Democratic Socialism*. Now Mr. Durbin himself obviously regards his position as eminently reasonable. He does not say that " changes in the temper of a democratic electorate can never be induced by persuasion and reason ".[1] He simply belittles the power of ideas. He regards admittedly irrational forces as of much greater potency. " Intellectuals, and particularly economists ", he says, exaggerate the importance of rational argument " in the causation of political events ".[2] The present economic system, he says, " is, in a very special sense, *inevitable*. It is inevitable in the sense that it could only be other than it was, if the emotional character and structure of values of common men and women had been different from what they were. The growth of rigidity, the growth of restriction, the decline of saving . . . could only have been prevented if the general reactions to insecurity, inequality and growing wealth had been different. . . . Mere legislative changes and mere intellectual discoveries would not have been enough to change the course of economic history ".[3] This fatalism, this dogmatic pessimism, contrasts sharply with the hopefulness of one of the wisest political realists of the last generation, Graham Wallas. To Wallas (who at one time regarded himself as a Socialist, like Mr. Durbin), an essential of Socialism was " the belief, based on the growing authority of scientific method, that social arrangements can be transformed by means of conscious and deliberate contrivance ".[4] And that is the faith with which I have approached the task I have set myself.

7. But when Mr. Durbin was writing, he could not have anticipated the remarkable disturbance to apparently stable ideologies which the war has caused. " The Labour Party ", wrote a Labour politician in February 1941,[5] " is dying. All over the country its death-throes are apparent." National service, the black-out and the political truce have killed it.

> Political activity is the breath of life to the Labour party and its membership. . . . We have been educated in it and have educated our comrades to it: constant, on-the-toes political action. It has been axiomatic with us that our swords are best sharpened on the

[1] E. F. M. Durbin, *Politics of Democratic Socialism*, p. 89.
[2] Ibid., p. 360. [3] Ibid., pp. 88–9.
[4] Graham Wallas, *Human Nature in Politics*, p. 92.
[5] G. Allingham, in *The New Statesman*, 1st February 1941.

> whetstone of political warfare: they rust in inactivity. . . . The inescapable truth is that the "political truce" has knocked the breath of life out of the Labour Party in many places.

But are not the other party organisations in Britain equally moribund? And surely we should welcome the discarding of political shibboleths. Surely we should be thankful for the decline of organised class bitterness. In June 1941 Mr. Herbert Morrison urged Socialists and non-Socialists alike to think of the problems of reconstruction without too many preconceived ideas and with no respect for vested interests. There may well be a willing response to his plea. "Crisis", says Professor Laski, "always breaks the cake of custom."

8. The true practical issue of post-war politics was excellently phrased, in April 1941, by *The Economist*:

> Before the war the cleavage between the parties had become unreal. Ostensibly it was Conservatism *v.* Socialism. Actually this was never an issue. The Labour Party had no real wish to be Socialist in more than voice. . . . Like the Conservatives, its personnel was in fact split across by the deep crosscut of the division between the narrow sectionalism of the trade unions—which was akin and parallel to the sectionalism of the Tory business men . . . —and the broader aspirations of the few among its progressive members who preferred the interests of the community at large to the interests of a section or the "ideology" of a sect.

The Economist went on to refer to the "gulf between the 'Particularism' of business men, industrialists, farmers and trade unionists", . . . and the more independent members on all benches, whose "sturdy preference for the community and the consumers, against the separate interests and privileges of producers, distributors and cliques . . . bridges the best elements of all parties".[1] Is there not a good chance that appreciation of the lessons of the war will draw these elements into ascendency? If the lessons can be taught, surely a new political reasonableness may be expected. That is the hope on which my optimism is based.

9. The hope of political reasonableness is further reinforced by the conviction that the scheme itself will eliminate at least some of the sources of traditional party bitterness. I have suggested that the plan could be made the subject of a party truce, that political discussion and criticism of the administration should be curbed by agreement, provided that certain measurable objectives of the plan are attained. I cannot believe that such a hope is naïve idealism to-day. However that may be, the eradication of class-hatred and the worst manifestations of acquisitiveness

[1] *The Economist*, 5th April 1941.

through politics will be a chief appeal of the plan. And, the plan accepted, this ideal is unlikely to be disappointed; for the substitution of institutional planning for pressure-group planning is bound to have far-reaching consequences on social harmony. The greater part of electoral bribery by means of economic protections which has become customary will be brought to an end. Indeed it is possible that the major controlling agencies —the Commission and the Security Boards—will be attacked no more than the Courts of Law are attacked by politicians to-day. It may be necessary to give them special protection from derogatory, scurrilous or calumnious attack. This could be done quite simply, I believe, by insisting that criticisms in the Press or elsewhere shall be published only side by side with a reply on their behalf, if they feel that a reply is called for. The draft legislation does not provide for this, yet it seems to be a reasonable policy. In the United States the Federal Trade Commission has long been hated, and " big business " has constantly intrigued with the object of strangling it. But surely the hatred of the Federal Trade Commission has arisen because it has seemed to threaten distributive security. My scheme removes that threat. And with the promise of security and an ordered transition to equality we can expect the violently acquisitive aspect of working-class politics to be distinctly softened. When " the capitalist " can no longer be convincingly represented as the engrosser of communal rights against whom the righteous anger of the people has to be aroused, the State will cease to be regarded as a weapon of spoliation which the people must strive to seize.

10. Is there any chance, then, of the scheme described in this book receiving some support from the very powerful body of " Left " opinion in Great Britain? In spite of the shock which preconceived ideas have received during the war, it may seem absurd to expect Socialists to welcome, or even to give fair consideration to, a scheme for eradicating the formally socialistic elements in modern society. How can I hope for Socialists, of all people, to support a proposal for a competitive system? My hopes rest upon the possibility of effectively stressing ends rather than means. I claim that my plan can bring about the achievement of every ideal of which the democratic Socialists have dreamed, i.e. those Socialists who do not despise freedom and *genuine* equality. Of course, it robs the militant of the satisfaction of a bloody revolution; and admittedly it involves the writing off (in so far as the war has not already liquidated it) of the fund of political capital, in the shape of class hostility and bitterness, which has been so assiduously cultivated and accumulated over the course of years. I admit also that acceptance of the scheme demands the forsaking of beloved ideologies.

11. But on the other side of the account it offers something real—an immediately practical means of tackling reconstruction with a view to the achievement of equality and freedom. For whilst freedom and equality are *not* incompatible, collectivism and freedom *are* incompatible. I cannot adequately summarise the telling arguments of Mr. Walter Lippmann in *The Good Society*, or those of Professor F. A. Hayek in his *Freedom and the Economic System*. To these works I refer the sceptics. But Professor Hayek has shown that the " ruthless use of all possible instruments of propaganda, and the suppression of every expression of dissent, are not accidental accompaniments of a centrally directed system ; they are essential parts of it ".[1] The dictator finds himself forced,

> even against his wishes, to assume dictatorship over the whole of the political and cultural life of the people. . . . He must also, if he wishes to act at all, make the people believe that the particular detailed code of values which he proposes is the right one. He is forced to create that singleness of purpose which—apart from international crises like war—is absent in a free society.[2]

Many Socialists seem calmly to admit the truth of Professor Hayek's charge. Thus, the Webbs say approvingly of Soviet Russia : " Any public expression of doubt, or even of fear, that the plan will not be successful, is an act of disloyalty and even of treachery." [3] But if freedom and social justice are compatible ends under the scheme which I have described, why should not the *democratic* Socialists give it their support ? If they think that it will be of political advantage to call the scheme " Socialism ", by all means let them do so, provided that they do not forget that it does *not* involve the concentration of power. I feel myself, however, that the associations of the term will be more of an obstacle than a help.

12. I feel further that Socialist readers who have persevered to this point will recognise that I have produced an economically workable scheme. Since the crude conceptions of Socialist planning were fruitfully challenged two decades ago in a now famous contribution from Professor L. von Mises,[4] there has been evidence of serious misgivings in certain Socialist quarters. The force of Mises' criticisms gradually had an effect, mainly through the influence of intermediary economists.[5] The consequence

[1] F. A. Hayek, *Freedom and the Economic System*, p. 32.
[2] Ibid., p. 29. [3] Quoted ibid., p. 32.
[4] First published in English in 1936, as *Socialism : an Economic and Sociological Analysis*.
[5] The most important of the " intermediary " contributions are F. A. Hayek (Editor), *Collectivist Economic Planning*, L. Robbins, *Economic Planning and International Order*, and *The Economic Basis of Class Conflict*.

has been that of recent years various attempts have been made by writers calling themselves " Socialists " to outline an economic order which, although Socialist in form, would be both equalitarian in result and efficient. But the " competitive Socialisms ", as the theoretical systems imagined by these writers have been pertinently described, have also been subjected to the most severe criticism.[1] Now I venture to suggest that the criticisms applied to their schemes do not apply to mine, although in some respects my suggestions do resemble theirs. I have always been conscious of a similarity of ultimate aim; and ever since writers who like to call themselves " Socialists " have had recourse to economic logic, I have been hopeful that their contributions would solve some of the central problems which politically neutral students have encountered in endeavouring to replan the institutions of property. My indebtedness to the contributions of Mr. H. D. Dickinson, Professor O. Lange and Mr. A. P. Lerner will be clear to many readers. But I, unlike them, have produced a *workable and detailed scheme*. Indeed, in so far as detail is concerned, I have been limited mainly by the requirements of tolerably brief exposition. And if I appear to have been vague at any stage, if there are any apparent gaps, it has probably been due (*a*) to the necessity for brevity, or (*b*) to the belief that details would be best worked out by those in immediate contact with some local problem, or (*c*) to the judgment that changing and unpredictable conditions must inevitably make the minor details of the plan a matter for subsequent determination within the framework provided.

13. There is one final point to be made in this connection. Whilst even the " competitive Socialisms " threaten catastrophic change, my own plan (although revolutionary in conception) involves gradualness and the utilisation of existing social machinery. In spite of the novel controls to be imposed, decision-makers in the community's productive system will be making the same kind of decisions as they have been making in the past. And the " security " provisions of my plan will hold back the fierceness of the trend to equality (which would otherwise be enforced by the " Resources Utilisation " provisions). The ideal of equality has to be achieved slowly. Society has to be given a chance of grasping the full sociological implications of the classless order which will be visibly emergent, and adjusting ideas and aspirations to that order. But Socialists like Professor Lange, no less than the old Socialists, see clearly enough that nothing but drastic revolution can bring about the order which *they* envisage. They admit that

[1] Especially by F. A. Hayek, *Economica*, May 1940; and D. F. Pegrum, *American Economic Review*, June 1941.

> a Socialist Government really intent upon Socialism has to decide to carry out its socialization program at one stroke, or to give it up altogether. . . . Any hesitation, any vacillation and indecision would provoke the inevitable economic catastrophe.[1]

As Professor Pegrum has graphically put it, planning of the kind suggested by Socialists of the Lange type

> conforms closely to the physical theory and pre-Darwinian concepts of science. It eschews gradualness, experiment and development; it eschews working with existing materials and data, modifying concepts and ideas as new problems and new sets of conditions emerge. It is a philosophy of despair in that it concedes, implicitly or explicitly, that revolution is necessary in order to fit facts and realities into a preconceived ideal, the attainment and maintenance of which require a static structure in the face of cumulatively changing conditions.[2]

Now I admit that the Socialist order produced by revolution might, if the holders of ultimate power adhered to the obvious ideals of Socialists like Lange and Dickinson, succeed in groping back to order and liberty (especially if they started with a constitutional entrenchment of the " Rights of Man ") [3]. But the fact remains (as I have tried to show) that there is not the slightest chance of a Socialist revolution in Great Britain after this war, whilst there is every chance, given the dire necessity for physical rehabilitation, of concerted action to win the advantages of full productivity and the ultimate attainment of the classless social order. For provided that capital and labour security can be guaranteed, a new reasonableness can be hoped for.

14. I admit, however, that with the growth of this new hope for reasonableness, new forms of power—or interest-concentration—have developed, through the system of war controls and the tactful yielding to pressure groups under the stress of war emergencies. And I admit that these developments seem likely to create their own obstacles to enlightened reconstruction. As we have seen, the personnel of war-time production-control is weighted by powerful industrialists and trade-union leaders—that is, by those who have been responsible for the peace-time policies which my plan seeks rather drastically to reform. These people are only too likely to dominate post-war politics, and

[1] O. Lange, in *Review of Economic Studies*, Vol. IV, Nos. 1 and 2, pp. 134–5, quoted by Pegrum, op. cit., p. 304.

[2] Pegrum, op. cit., p. 305.

[3] Mr. Dickinson has actually suggested this, in advocating a sort of economic " Bill of Rights ". If a formally Socialist regime were based on (*a*) the right to change governments by democratic ballot, (*b*) the right of criticism, and discussion of schemes adopted, without fear of victimisation, direct or indirect, and (*c*) the suppression of delegated legislation, there would be much less to fear from the Socialist form of government. But would any set of conventional Socialist politicians feel that they could work within so liberal and democratic a framework ?

not as rivals but as allies. They are, I believe, the inheritors of the order of the ideas which has held back productivity. Even so, I am still very hopeful of my policy being not unfavourably considered in these circles, provided it is given a fair chance of becoming known. For Labour and Capital Security being guaranteed, both the personnel of the trade-unions and that of the industrial combinations can be invited to become the agents of reform. Indeed, their co-operation will be essential for the administration and general execution of the comprehensive plan of reform which I have put forward. If they are invited to take part, the practicability and desirability of the scheme can, I feel, be made reasonably clear.

15. But although I think that I have succeeded in making my message comprehensible I am still concerned with the technique of getting heard in influential circles. Even men with the popularity and skill of Mr. H. G. Wells have been nonplussed by the difficulties of forcing the fruitful contemplation of their ideas. How much more formidable, then, is my task. Indeed, I have never been more conscious of the chance elements which determine the effectiveness of a contribution of this kind. If it just happens to be read by and to convince one person who has a highly skilful pen, its message may be widely spread. The chance of a sympathetic review in the right publication also means a great deal. But I know from experience that these chances are too remote to be relied upon. Only if I succeed in winning the active missionary co-operation of readers will this book be fruitful.

16. Unfortunately, whilst wars are being conducted, the very human men who form Governments have little if any time for thoughtful and leisurely concentration upon the problems of the aftermath. In days like these, what opportunities do they have for patient reading? They are informed and guided by verbal communications, brief memoranda, the newspapers and periodicals. They seldom read books in war-time. Their continuous intimate contacts are with officials and executives who are for the most part similarly burdened with day-to-day decision-making. For these reasons it is doubtful whether those who have been successful in winning wars ought not to be regarded as actually disqualified for the task of reconstruction which is to follow. But democracy as we know it has not produced electorates sufficiently wise to realise this. Governments will realise that they will, later on, feel the need for guidance. Cabinet Ministers and officials have, of course, already been deputed to prepare plans. But the ultimate decision will be made by politicians who have been immersed in the anxieties of war. "Many people who would follow Churchill to the death",

wrote *The Economist* recently, " would not unreservedly trust Churchill *cum* Attlee, Greenwood, the F.B.I. and the T.U.C. to lead them to a freer and fairer life in peace." Yes, there will be " many people " in this position ; but there will not be enough of them unless they make mighty efforts to become influential. The most that can be hoped for is that the post-war Cabinet will be well advised. Accordingly, this contribution of mine has been written, from a distance of 6,000 miles, in the hope that it will claim the attention of those who, directly or indirectly, are to be the advisers of the Cabinet. Will those whose wisdom the British Government will be compelled to trust take the trouble to examine the clue to the reconstruction labyrinth which I am offering them ? The mere writing of this book will not be enough. Its message must be somehow forced to their notice.

17. The people of Great Britain cannot rest quietly content in the hope that their statesmen and bureaucracies are approaching the problems of peace with more wisdom and insight than they originally approached the problems of war. We now think of their pre-war record in terms of the deepest dismay. And their war record, down to the disasters of July 1940, stands out, says Captain Liddell Hart, " like an Everest of folly ". Indeed, even since then, according to Captain Hart (writing after a year of war), there had been " little sign that understanding has caught up with events. Statesmen, soldiers and publicists vie with one another in talking martial platitudes—grasping at the obvious and missing the reality ".[1] Such an indictment, coming from one of the most eminent and far-seeing military critics of this generation, points to a serious moral. But I am concerned with just one aspect of this arraignment—the frozen imagination of statesmen and officialdom. For years, those who had stressed the importance of mechanised warfare and its implied strategy were regarded as heretics. Later on, says Captain Hart, they were regarded " as unpractical visionaries . . . without proper respect for the established position of horse and foot ".[2]

18. Now I, and the many other economists who think as I do, have for long been regarded as " unpractical visionaries ". For we maintain that the present economic arrangements and the ideas on which they are based are antiquated and obsolete, causing inequality, a *substratum* of poverty, and insecurity. We regard contemporary economic society as an inheritance from Mediævalism, an inheritance which was developed during the seventeenth and eighteenth centuries under the name of " Mercantilism " and partially but conspicuously relaxed during the nineteenth century. Economists of the school to which I belong

[1] B. H. Liddell Hart, *Dynamic Defence*, p. 15.
[2] Ibid., p. 30.

hold that to-day, under the cloak of a spurious, superficial orderliness (due to imposed uniformity and rigidity), our productive arrangements have become increasingly chaotic and uncoordinated. Productive power has been withheld or exterminated in the interests of the private incomes of sets of capitalists and workers. And politicians, officials, company directors, and trade-union leaders have thought that it was all for the best, largely because these schemes were called by pleasant names like " rationalisation " or " planning " ! Technical developments alone have made this process possible without the drastic destruction of standards of living. But nearly all the influential thinkers of all the political parties, and nearly all the representatives of all the " pressure groups " believe that technical developments which cause capital values to fall are a threat to prosperity. And the trusted leaders of the workers similarly believe that labour-saving developments are, in normal times, a like menace to the artisan and labouring classes.

19. Well, we " unpractical visionaries " hold that this view is utterly false. We hold that it is a dangerous view, not only for war but for peace. Hence, if my case for this opinion has been convincing to my readers, they must not let the matter rest. They must press for the creation of a new social order from which the right to restrict production has been banished. And they will be able to do this effectively if they can convince the people and the politicians that this will mean order, not muddle ; prosperity, not depression ; security, not insecurity.

20. The plan I have devised envisages, then, a consciously planned system enabling the direction under continuously tested foresight of all the resources in the community. This means, given our democratic ideals, an organised transition away from the authoritarian and monopolistic influences which have been frustrating the forces of order and co-operation—forces of order and co-operation which are expressed through innumerable decision-makers, whose individual discretions are bounded by diffused, checking, controls—constitutional, legal and (above all) market. The plan entails the reservation for the State only of those basic functions with which the very human and fallible men who form governments can be entrusted. For the State must be either pressure-group-dominated or neutral. No other power synthesis is conceivable. And the neutral State is the liberal State. Also it is the most powerful and humanly significant State. For it is the agency through which unity and meaning can be conferred on civilisation, the agency through which society can become conscious of itself and the individual can become conscious of society. Only in a liberal regime is man's spiritual independence securable. Only in such a regime

is the integration of man's social life as a whole securable under safeguards of liberty. Economy, technology, science, philosophy, religion and education are so interdependent in the modern world that the freeing of the forces of integration is the condition of man's progress—perhaps the condition for the survival of civilisation itself. My contribution has tried to describe the institutional requirements for State neutrality within the field of economic relations—within the field, that is, of all problems of human conflict arising from the phenomenon of scarcity, i.e. of all problems other than those which are solvable only by the principle of tolerance. In concentrating on economic issues, I have *assumed* that there is a solution to the deeper problem of securing acceptance for the principle of tolerance. Nevertheless, I believe that the practical clue to the fostering of tolerance is diffusion of power—a diffusion which the neutral State alone can achieve.

21. But the appeal which I think will be fruitful is a material rather than an ethical appeal. Surely the British people cannot allow a return to the productive chaos of the pre-war anti-utilisation era. Surely the paramount reconstruction principle must be the shaping of arrangements under which economic efficiency is subject to continuous test and pressure; arrangements under which, in other words, the incomplete utilisation of resources is constantly threatened by potential interlopers. Once the distributive risks caused by the elimination of restraints (i.e. the economic ruin which the dissolution of scarcities can produce) have been overcome, there is no case against any restraint of an interloper. No principle of co-ordination or planning can justify such restraints. And once the cruelly equalitarian repercussions of full production have been braked, there is no case for permitting the withholding of valuable demanded capacity in order that "reasonable" profits shall be earned, or in order that previously expected contributions towards overheads shall be paid, or in order that an accustomed price of labour shall be maintained. The planless political *laissez-faire* which has placed irresponsible power in the hands of ministers and bureaucrats; the blind *laissez-faire* which has given arbitrary power to trade-unions and trusts; the muddled *laissez-faire* which, through fear of cheapness, has forbidden the right to work and employ and so permitted the weakening of the essence of all economic security; this stupid *laissez-faire* must be replaced by the *laissez-faire* of the economists' vision, a system under which the State operates through consciously planned institutions to protect the right of every man to produce, and to co-operate to produce, any demanded (i.e. saleable) thing. And the "*laissez-faire* of the economists' vision" is better termed *laissez-travailler*, *laissez-créer*. Let the people work. Let the people create. Let them

use their powers, their enterprise, and the resources which are at their disposal. And if we achieve this, we shall soon perceive the hope which is offered to mankind in effective consumers' control. Establish consumers' sovereignty, remove the obstacles, and consumers will demand and be able to command good food and ample nutrition; good housing, communal amenities and beautiful cities; clothing that will deal the class system a shattering blow; leisure on a scale that so far has been merely a dream; and, at the outset, rapid repair of the appalling destruction wrought by years of war.

Summary of Chapter XVII

Conclusion

(1) If introduced, the plan is likely to be acceptable and workable; (2) and although it may be objected that its economic basis will not be comprehensible to the rulers or to the people, the chances of the economists being understood to-day appear to be specially favourable, (3) by reason of the bitter lessons of the war, (4) and in spite of a probable flood of reconstruction literature. (5) The problem of winning consent must be tackled without the sacrifice of ideals. (6) The failure to understand that ideals need not conflict with realism has led to a false belittlement of the power of argument to overcome fixed ideas. (7) Fortunately, the war has weakened supposedly stable ideologies; (8) it has taught economic lessons which promise a new political reasonableness, (9) and the plan itself will at once eliminate sources of bitterness. (10) Indeed, there is a good chance of support even from "the Left", if ends rather than means are stressed, (11) if the compatibility of equality and freedom under the plan put forward is recognised, (12) if the workable and detailed nature of the plan is grasped, (13) and if the non-catastrophic consequences of the plan are understood. (14) Moreover, the former vested interests may be made the agency of reform. (15) But for the suggestions here put forward to win fruitful consideration, readers must co-operate in bringing them to the notice of (16) the influential advisers of statesmen in office; (17) for the imagination of pre-occupied statesmen (18) is unlikely to see the plan here presented as more than the dream of an unpractical visionary. (19) Convinced readers must press for the banishment of the right to restrict (20) and the planning of an order in which man's spiritual independence is secure (21) and in which the elimination of traditional productive chaos gives hope for the material rehabilitation of mankind.

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