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# PRINCIPLES OF PRIVATE AND PUBLIC PLANNING



# PRINCIPLES OF PRIVATE AND PUBLIC PLANNING

A STUDY IN ECONOMIC SOCIOLOGY

WILHELM KEILHAU

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# *PREFACE*

THE idea of this book was conceived in February 1939. I referred to it in a lecture which I delivered in May that year to the students of the Business School of the Harvard University. It was my plan at the time to start writing it in the autumn. Then the war broke out. I was almost immediately called upon to work for the Norwegian Government, and from April 15, 1940 to January 1946 all my days were wholly occupied with official duties. Therefore, the first part of the book has been written at late nightly hours in London, only too often to the accompaniment of German bombs.

Why do I mention these personal facts?

For three reasons. Firstly because they explain why this treatise contains so comparatively few references to literature. I really wish to apologize if, without knowing it, I have repeated other men's ideas. Secondly because the first chapter may seem to be a little out of date; I have decided not to re-write it, as it gives a logical introduction to the more general part of my theory. Thirdly because the story about the genesis of this book is typical of our own times; it reveals the fate of a generation whose creative work has been interrupted by two global wars—and may be interrupted by a third. I really think that we deserve forbearance if our contributions to human thought are behind our intentions. But perhaps a generation which was not able to realize its personal plans, has a certain tragic right to expound the theory of planning.

I have called the book 'a study in economic sociology'. This sub-title has been chosen in order to stress that it does

not deal with any 'model world', which can be described in the fine language of exquisite mathematical symbols, but only with this changing, erratic world of erring human beings which every planner is bound to face.

*London, July* 1950 WILHELM KEILHAU

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# *BOOK ONE*

# GENERAL PRINCIPLES PRIVATE PLANNING

## *CHAPTER I*

# ECONOMIC PLANNING IN ECONOMIC THEORY

### I

'PLAN or no plan?' In this antithetic question Mrs. Barbara Wootton succeeded in finding the classical formulation of an outstanding problem in economic discussions during the years preceding the Second World War.

The success of her slogan is easy to explain. It is short and apparently to the point. Mr. Everybody is able to apprehend it at once, and he has his answer right at hand. He says 'plan, please' and lights his cigarette. What other answer could he give? No one is silly enough to prefer no plan at all in the economic field of society. Thus Mrs. Wootton made an appeal to that primitive reasoning which is at the bottom of the most complex mind, and attained just the response she called for.

To the historian the nature of her appeal is highly interesting. It reveals to him that Mrs. Wootton was a true child of her age, as one of the chief characteristics of the 1930s was the enormous success achieved in those years by quite primitive thought.

Philosophers inclined to treat each decade as a mystical entity of its own, will probably indicate this fact as a natural reaction against the differentiated and complicated thought which had been inherited from the latter part of the nineteenth century. Pessimists may argue that the shock which the so-called civilized man received through the First World War unmasked the true primitiveness of his mental structure. Marxists, on the other hand, would explain the whole phenomenon through a reference

to the big economic changes which occurred in the years after 1918, because the disturbances of the old social equilibrium pushed new groups or classes forward and altered the material basis of human thinking. Eclectics may build up a compound theory pointing to the disastrous effects of the coincidence of the factors described by other schools. The problem will most likely be discussed for centuries to come. It would, therefore, be premature to express any opinion about its solution, and for the purpose of this treatise it seems sufficient to state that Mrs. Wootton's slogan, whatever its scientific shortcomings may be, is well worth remembering as a significant historic phrase.

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Now it is quite clear that Mr. Everybody could not be blamed for his rash answer to the question about plan or no plan. His aversion against planless action is natural and justified. If the question be accepted as covering the problem, the affirmative reply is quite correct. It could not even be disputed. On the whole, the danger which awaits primitive thought does not consist in any bent towards wrong answers. It lies in its incapacity to test the foundations and formulations of the questions. From a society of everybodies, shrewd propagandists will always be able to obtain the response they desire, because they trap the innocent primitives in a web of cleverly spun questions. It was in this way political thought was captured and enslaved in so many countries during the 1930s—and, alas, after 1945 also. Only critical minds have been able to evade infiltration. But they will always be strong enough to unmask the efforts to subjugate their thinking. Freedom begins with criticism.

In this particular case the question is simply without meaning, for there does not exist and never did exist a planless economy. Every economy implies a plan. Economy consists in a totality of planned efforts to realize certain purposes. Planning is essential in every activity of economic character. The theory of economic

planning does not deal only with some special forms of human societies, but with a certain important part of every economy. It belongs to the general theory of economics.

3

Strange to say, the essentiality of economic plan has not been much stressed in earlier economics. The first author who, according to my knowledge, has included the existence of planning in his definition of economic activity, is the Norwegian theorist Mr. Kristian Schönheyder, who did so most emphatically in a small treatise published in the year of 1910. But I must confess that I have not spent three hundred hours in libraries searching for plan thoughts in the literature of earlier epochs. I have, however, a strong recollection of the want of any serious treatment of economic plans in the general theory bestowed upon posterity by the great economists from Adam Smith and onwards.

This omission seems queer when judged from the standpoint of to-day. But it may be traced to not less than five separate causes.

In the first instance should be mentioned the influence exercised by the work of Adam Smith himself. Not that the author of *Wealth of Nations* was unaware of the part played by economic plans in historical developments and practical life. On the contrary: hardly any economist has written with a more varied knowledge about the political importance of sound economic planning. But just because he perceived so fully the connections between plans and economic politics, he dealt with the problems of planning in the second and more political volume of the two gorgeous quartos he published in 1776, whilst he did not mention them in any of his basic introductory chapters, and his followers built their whole general theory upon his first volume, mostly leaving the treatment of economic systems and public finance to separate treatment by specialists. Accordingly, the plan ideas were excluded from economics proper, and when later

on the so-called 'pure theory' was elaborated, the fundamental conception of economic plan did not enter into its framework. It may seem a little curious that mere tradition should have such an influence on scientific thought, but on the whole its benevolent effects in this field should not be disputed. It is the power of tradition that has kept the great majority of scientists from going astray, and has made the evolution of science the only unbroken line in the tragic history of mankind.

The second explanation is to be found in the fact that leading economists in the time between the publication of Ricardo's Principles and the appearance of the Austrian school, showed such a marked preference for concentrating upon material things, material relations and material actions. For although a plan may be materialized in spoken words or solemn documents, it is in itself invisible and intangible. Belonging to the imponderable world of thoughts it evades any direct observation. Accordingly, it was but natural that the Ricardians did not include the economic plan in their system of description.

Now Friedrich Engels has characterized 'scientific socialism' as the heir of classic English economics, and in so far this statement is absolutely true, as Marxism has inherited from the Ricardian school its conception of economic life as something completely materialistic.

It seems, therefore, to be a little paradoxical that it is the socialists who may claim the honour for having introduced into scientific economic discussion the significance of an immaterial element like the plan. The paradox is, however, only apparent, for it was not as theorists but as politicians that the socialists forwarded the plan ideas. As theorists they still overlook the essentiality of plan as a general element in economic life, the majority of them clinging as before to the naïve belief that a non-socialist community is entirely planless.

It would have been only natural to imagine that the leading economists in the years between 1871 and 1914, being in stern opposition both to the Ricardians and the Marxists and making

psychology the very basis of their deductions, should have succeeded in expounding a theory of economic planning. But—and this is the third reason for the neglect of our topic in earlier economic theory—at the time when the pioneer works of psychological economics were created, modern psychology was in its infancy, concentrating upon simpler phenomena like sensations and emotional reactions, still leaving the major treatment of the more complicated laws of rational thinking to the somewhat scholastic science of formal logic. Consequently, psychological economics was made a theory of wants and desires with subsequent actions. The idea of measuring the satisfaction of the wants and desires through the imaginary scale of diminishing marginal utility, endowed the theory with that charming touch of systematical finality which contributed so greatly to its success, and made it so extremely difficult to enlarge its somewhat narrow scope. It should be admitted that Irving Fisher as early as in 1891 through his ingenious introductory definitions, clearly indicated that the idea of marginal utility may be applied to a theory of economic choice as well as to the current description of wants and emotional reactions. But Irving Fisher was only too anxious not to be an intruder into the field of proper psychology, and so confined himself to some basic notions on the problem. His *Mathematical Investigations* was, therefore, in the first instance of far greater importance to the development of mathematical methods in economics than to the deeper understanding of its psychological foundations, and we have to pass on to a modern thinker like Ragnar Frisch if we wish to obtain a more penetrating insight into a marginal theory emancipated from its somewhat primitive psychological origin. It is typical that the most consistent champion of the theory of marginal utility in the twentieth century, Lauritz Birck, exclusively operated with pleasure and pain or likes and dislikes, completely neglecting any correspondence between the measures of utility and our mental activities. No wonder that a theory of economic planning was not elaborated by those authors between 1871 and 1914 whom we

may bring in under the unifying heading 'The Psychological School'.

Common both to Ricardians, Marxists and Psychologists was the wish to discover and describe economic 'laws' operating independently of individual will-power. This intention reveals how deeply the economists of the nineteenth century were influenced by the philosophic determinism. But the idea of deliberate planning seems not to fit in with a system based upon a simple conception of what can most appropriately be termed 'the doctrine of monocausality'. Between 'economic plan' and 'economic law' there exists a sort of apparent contradiction. At least it would not have been easy for an orthodox determinist of the nineteenth century to expound an adequate theory of economic planning, for the plan does not belong to the well-known determined elements in the nexus of causation but to the problematic determining factors. It should be added that in the twentieth century with its more complicated and refined conception of causality it will be much easier to explain economic planning without being involved in philosophic difficulties. We have in the long-lasting influence of classic determinism the fourth reason for the poor treatment of plans within earlier economics.

The fifth reason does not need any copious exposition. It is to be found in a psychological observation. Once acquainted with the idea of economic planning, the whole thing seems so self-evident to us that our intuitive thinking straight away rejects the necessity of explaining it through any ample theory of its own. We may fancy that earlier economists who, like Adam Smith, realized the importance of economic plans, had the same intuition, and consequently found it inexpedient to evolve the problem.

But in science no statement is so self-evident that it is superfluous to elucidate it. Indeed, it is the unattainable ideal of science to constitute a human knowledge consisting of mere elucidated self-evidences. Only too often, however, a scientific research will give the result that an apparent self-evidence conceals a sum

of most intricate questions. In the case before us, a full explanation of the problem will claim a whole book. Logically, the first part of it should be dedicated to the general principles of economic planning, which, in fact, can be most thoroughly studied through an analysis of private planning.

## *CHAPTER II*

# RESOLUTION AND PLAN

4

HUMAN actions are either unconscious, subconscious, half-conscious or conscious—the word 'half-conscious' here being used in its popular sense to signify any degree of consciousness lying between 'the threshold' and clear 'day-thinking'. It should be borne in mind that the divisionary lines between these steps of awareness are by no means insurmountable. The typical example is breathing. Normally this activity is completely unconscious. But asthmatics and victims of gas poisoning know that every respiration may be painfully conscious, whilst the yogi is proud of being the supreme master of his breathing, penetrating it with his power of rhythm. In economic life, on the other hand, a great part of the labourer's training consists in making conscious manipulations half-conscious, sub-conscious or even unconscious.

If an action is conscious in such a way that the consciousness of it constitutes a causal presupposition for its execution, we should say that the action is *resolved*, and the mental apprehension of it preceding the execution we should term a *resolution*. The science of economics deals almost exclusively with such actions. Every economic action is, accordingly, preceded by and determined by an *economic resolution*. Other parts of human economic activities may often be substituted by the yield of tools and machines. The resolution never can. No one will ever be able to construct a resolving machine. The economic resolution, therefore, has to be treated as an essential and dominating part of economic activity. This ought not to be overlooked in any text-book or treatise dealing with economics.

5

The resolution is the result of a mental process, chiefly consisting in considerations. Among the technical terms used to signify this important internal activity, the word *motivation* seems to be the most appropriate. The process may be short or long, simple or complex, common or peculiar. In general it includes elements of a strictly local and personal character. Accordingly, no two motivations will be identically the same. Nevertheless, the relations between motivations and resolutions may be classified by subsuming all of them under not more than three theoretical types.

To begin with we have the cases in which the individual is under the impression that a certain resolution will be necessary. His motivation then consists in a comprehension of necessity. If there ever existed a human being who was a true determinist not only in theory but also in practice, all his motivations would have belonged to this type. How such a 'determined man' would have acted if he at a given moment were unable to perceive the necessity placed before him, no professor of philosophy could tell.

It might be supposed that a motivation of this kind generally would be most logical, the resolution appearing as a sort of deductive result. But what seems logical and necessary to one individual, may be regarded as mere nonsense by others. Very often it is seen that a person liable to find a great number of his resolutions strictly necessary, is simply more or less narrow-minded. One might think that nobody would resolve to commit suicide if this tragical ending of his life were not cruel necessity, but a critical mind like Georg Brandes dryly remarked that suicide always is due to lack of imagination. On the whole, it is often mere subjective impressions or illusions which cause a relation between motivation and resolution to come within our first category, which we may call the *monotype*.

The next type is really the predominant one. In this case the individual does not feel to be under any internal compulsion. If

the idea of an action occurs to him, he does not think that he is compelled to carry it out, but that he has freedom to reject. What is placed before him is not a necessity but a choice, which in the language of mathematics may be described as the choice between A and not –A. He has to decide, and his resolution may be negative as well as positive. Had it not been the intention of Hamlet to stress the grave importance of his choice, he might have indicated the problem simply by saying 'To act or not to act—that is the question'.

In such a case the motivation generally assumes a rather definite form. The individual will more or less consciously arrange all elements of importance for his choice in two groups, the elements in favour of the positive and the elements in favour of the negative resolution, and in order to make up his mind he will compare the totalities of the two groups with each other. We may call the elements of the two groups *motives* and *anti-motives* or simply *pros* and *cons*. By introducing the idea of values, economic thought has developed a special method of quantifying the comparisons between motives and anti-motives, thus forming a more exact basis of the final decision.

It is not easy to find an appropriate technical term for this second relation between motivation and resolution, but the expression *yes-or-no-type* will at least draw the attention to its essential characteristic. In economics, however, it is only too often overlooked that negative resolutions may be of importance. Current theories generally restrict themselves to dealing with certain totalities of actions, withholding the fact that the decision not to act may have far-reaching economic consequences. A theory of economic planning cannot make itself guilty of such omission, because planning always has a negative side.

Whilst the possibility of negative decision is the chief feature of the yes-or-no-type, our next relation is merely positive. We may call it the *type of alternatives*. In this case action has already been resolved or is held to be self-evident. What remains to be

decided, is how to act. The choice lies between a number of possibilities. We have the question A or B or C or . . . N? To a mathematical mind it might seem natural to construct this expression as a sum of yes-or-no questions: A or not –A plus B or not –B plus . . . plus N or not –N? It should also be admitted that such a symbolization will sometimes cover the reality fairly well, but it overlooks that the essential characteristic of the alternative type lies in the comparison between different possibilities. The result of this motivation is that a certain alternative is given the preference, whilst the others are not necessarily expressively rejected. A good example is the peacetime guest of a first-class hotel, reading the menu with a view to starting his table-d'hôte dinner. He discovers that the ample list offers to him the choice of five hors d'oeuvres. After some deliberation he orders Russian caviar, but if the waiter tells him that there is no more caviar, he may possibly feel very content with smoked salmon or a lobster salad.

An orthodox determinist of the old school might object to the description of the yes-or-no-type and the type of alternatives as elementary relations between motives and resolutions. His protest would not be justified. Human motivation is carried on wholly independent of the philosophic belief that all our thoughts and all our actions in some way or other are completely determined by an iron law of causation. The fact is that the individual—to use the famous phrase of Vaihinger—behaves *as if* he has the choice between yes and no or between different alternatives. Should any one behave otherwise, he would in all probability be of unsound mind, perhaps even dangerous to public safety. On the other hand, the more an individual is convinced of his liberty to act in accordance with his own views, the stronger his personality and the greater his prospects in life. If freedom is an illusion, it is a necessary and benevolent illusion, which means more to mankind than all miserable realities added together.

## 6

All resolutions may be said to contain descriptions. Classified with a view to the contents of these descriptions they are to be included under four principal groups. Number one comprises the resolutions that are formulated with the intention of giving an *objective statement* based upon observation or deduction. Correctly perceived the relation between such resolutions and their motivations should be reckoned to the monotype. The second group shows a contrast to the first. It comprehends the resolutions that shape our *personal opinions*. In all cases of this kind the motivation will embrace some elements of a purely subjective character. The third category belongs to another sphere. Resolutions of this group describe what the individual wishes, hopes or thinks he will achieve through a certain activity. We may say that they set or fix the *purpose* of it. Every resolved activity must possess a primary purpose. In complicated cases it will prove necessary to let this be followed up by a number of secondary purposes. Between the different purposes of an extensive activity the order of precedence may sometimes seem rather intricate and entangled. The fourth group of resolutions is, however, always subordinate. It consists of the decisions that have to be taken in order to obtain the realization of existing purposes. We will call them the *executive resolutions*.

A *plan* is a totality of subordinate purpose resolutions and executive resolutions, all serving the same supreme purpose and being linked together in a systematical and rational way. In all cases where the supreme purpose is of an economic character, we have to do with *economic plans*. A theory of economic planning has, therefore, two main objects: to discuss the primary or supreme economic purposes and to describe how individuals or groups of individuals plan in order to realize these purposes.

## *CHAPTER III*

# ECONOMIC IMPULSES AND THEIR PSYCHIC SOURCES

7

ECONOMIC motivation is a mental process. But it would be wrong to assert that only rational elements enter into it. On the contrary: sensations, desires and emotions play their important part when economic decisions have to be taken, and most impulses to motives as well as to anti-motives owe their origin to the imponderables of human soul and mind. It is, in fact, the more or less conscious apprehension of sensations, desires and emotions which creates the impulses and makes it possible to compare them with a view to their importance. The mind is the battlefield of our conflicting impulses.

8

Sensations give impulses to immediate action. They tell us about hunger and thirst, darkness and storms, chill and heat, touches and blows, aches and spasms. They warn us against approaching dangers. They give us also the joy of beauty and the delight of satisfaction. But they belong to the moment. About the past and the future they have nothing to say if they are not instrumental in bringing us such communications from our fellow creatures or from documentary sources. Resolutions directly motivated by sensations will, therefore, generally be taken promptly and carried out on the spot or in the near surroundings. Nevertheless, the mental process leading up to such a decision may be extremely complex. The tennis player has the

choice between a difficult half-volley smash with his backhand or a swift running back to await the bounce of the ball. He has to decide in less than a second. It looks as if he thinks with eye and arm. But the whole situation has been brought home to his mind, and he might use a whole book-page of two thousand four hundred letters if he afterwards had to explain in words why he used his backhand at once.

Nobody can ever hope to free himself from being influenced by the continuous stream of new momentary sensations. But if he is absorbed in economic planning, these sensations will only have a disturbing effect upon him, for the mind of a planner moves into the future and is often occupied with possibilities in remote places. Transitory sensations may, however, sometimes directly motivate even far-reaching purposes. Mr. Newrich catches sight of a beautiful residence at the seaside and plans immediately to buy it. A Herr Hitler hears the name of a new country and resolves at once to conquer it. The subordinate plan resolutions, on the other hand, can never be directly motivated by sensations. They have to serve the main purpose.

Whilst thus direct impulses from sensations are almost indifferent to economic planning, the memory of them is of high importance. Indeed, recollections of by-gone sensations lie at the bottom of every economic plan. It is, however, not sufficient to remember only. The recollections must be combined with the knowledge or the belief that like sensations will make themselves felt at a later time. It is through this mental process that sensations indirectly give their strong impulses to the initiation of economic plans.

The primary recollection of a sensation is concrete. It keeps alive within the mind what happened at a certain moment. If, however, the individual has experienced a great number of sensations which are so alike that it is difficult for his memory to discern them from each other, the concrete recollections will after a time sink into oblivion, leaving behind them a common trace, a diffused and abstract remembrance of a mass phenomenon.

Our wonderful powers of abstraction and generalization are, indeed, the legitimate children of our forgetfulness—of our lacking capacity to remember separately events which have a mutual resemblance. Thus every one of us has a fairly clear image in his memory of what sort of a sensation is real hunger, though in peacetime many of us will have forgotten even the last time he suffered physically from want of food. This abstract image is our conception of hunger, of hunger as an abstract and general idea, and it will have the same chief features in the memory of all men, notwithstanding where and when they felt that strange, gnawing pain. Contrary to the always changing stream of immediate sensations, such recollections remain constant; they dwell with us as parts of our semi-conscious self.

To the theory of economic planning these facts are of high importance, as our abstract recollections about past sensations every day engenders impulses to planning. Further, the similarity of the reminiscences which bygone sensations leave on different mentalities, constitutes a common basis for communication between human beings, making it possible to unite the most heterogeneous personalities in co-operation to promote a certain economic plan.

9

Desires are the strongest motivating forces of the human soul. They act as immaterial magnets. If not counteracted by efficient anti-motives, they direct our thoughts towards positive resolutions, sometimes regardless of dangerous consequences. They are outcomes of our instincts, being formed when we conceive that a future relation to a certain object, be it a person or a thing, will satisfy a fervent wish of inborn origin. Consequently, desires are extinguished when their objects are achieved, whilst the instincts that originated them continue their existence as powerful as ever, engendering impulses to new desires of the same character. This interdependence of instincts, desires and satisfactions gives

birth to those personal rhythms which sometimes influence economic life in a seemingly erratic way.

Instincts and desires are, as far as we know, propulsive forces acting within all or nearly all living beings. But variations in biological structures and perceivable environments have led to a wide dispersion of these qualities among species. Only the vital biological instincts seem to be more or less common to all living creatures. Self-preservation, sexual intercourse and self-continuation through breeding are the primary natural objects of these powerful innate forces; in addition comes paternal care for the nourishment and protection of the offspring. But otherwise the differences dominate. Thus there is not much likeness between the instincts of a falcon and a mole, a tiger and a hare, an elephant and a banana fly, a stallion and a flounder, a butterfly and a serpent. No wonder that human instincts are something of their own, covering a wider range than sheer animal instincts, for even if we wrap ourselves in false scientific modesty we have to admit that *homo sapiens* in his biological structure is a higher and more complex being than any other visible creature on this planet. Still greater are the differences in the scope of desires. Animal desires are comparatively few and easy to observe, whilst human desires, thanks to our wonderful power of imagination, are innumerable, and often difficult to reveal. Thus, the elementary biological instincts daily give birth to an enormous variety of human desires, which form the psychic basis of the most decisive private economic plans.

Now it is a conspicuous fact that a certain mastery over environment is more necessary to man than to any other creature. In the words of Genesis he has had to subdue the earth and win dominion over the fish of the sea and over the fowl of the air and over every living thing that moveth on the earth. Still more necessary for him has it been to bring under his dominance an evergrowing part of dead things and propulsive powers. His typically human instincts have, therefore, become those of a master and a utilizer. The latter ones we venture to call his

*economic instincts.* In the first instance they are directed towards *acquisition*, in the second towards *preservation* of such things as experience deems useful to his efforts. It would not be easy to deny the instinctive character of these forces, as they are not confined to human beings. On the contrary: animals such as ants, bees and nest-building birds are also in possession of them.

Just as the necessity of dominating things and animals has endowed human beings with economic instincts, the necessity of living in community has endowed them with *social instincts.* Some of these we share with certain animals. Here again bees and ants should be mentioned; also beavers. But even animals living in herds, such as elephants and lions, are distinguished by the possession of certain social instincts, and domestic animals like cats and dogs exhibit towards their human masters social instincts which are of a peculiar kind, as they express a nearly religious respect and subjugation. Maeterlinck has made some very striking remarks on that subject in one of his essays. The real domain of social instincts is, however, the human race, and it may fairly be asserted that they have multiplied and intensified during the progress of society. We may expect that they will develop still more in centuries to come. It is a matter of taste how to classify them. Some of them may be said to overlap. But in a theory of planning it seems convenient to characterize them as instincts of *social integration* and instincts of *social differentiation.* To the former group belong all those attracting internal forces which lead to comradeship, friendship, party-founding, nationalism and sectarianism—in short the instincts of attachment and sociability. In the latter group we find the instinct to please, the instinct of power and the instinctive search for leadership.

Some of the social instincts may easily be explained as extensions of self-preservation, sexual desires or paternal care. This psychological fact forms the background of the commonplace materialistic dogma that all human actions have their real source in selfishness. Logically interpreted the whole theory brings out

nothing more than a mere definition, identifying the conception of 'selfish' with the conception of 'human'. The scientific question is, whether this identification should be considered as promoting or impeding our psychological knowledge. In the theory of economic planning it is not difficult to give an unambiguous answer, because here there exists a definite need for drawing a distinction between resolutions motivated by consideration for oneself only and resolutions chiefly or partly motivated by consideration for the well-being and welfare of other people, i.e. between resolutions considered to be purely 'selfish' in the ordinary meaning of the word, and resolutions considered to be more or less 'unselfish' or 'disinterested'. The materialistic dogma aims at drawing a veil over this important distinction, thus obscuring instead of clarifying the problem of motivation. But just this scientific shortcoming of the dogma will make it immortal: it will always be useful as a smoke-screen to intellectuals who wish to ignore or neglect the interests of their fellow-creatures. Luckily, most people are quite ignorant of the materialistic theory about the forced selfishness of their actions, and so they resolve uninfluenced by it. Every day a number of their decisions may spring from a wish to make their dear ones, their friends or their pets feel happy or joyful, and almost anybody will make at least some effort to help a neighbour in danger. Indeed, the dramatic stories of heroes who gave their lives to save others, constitute some of the most glorious chapters in the history of mankind. And the actions for the succour of people in need are commonly so impulsive and apparently spontaneous that they seem to have deep sources in our very soul. We prefer to say that they spring from an *altruistic instinct*, which is a perpetual force within us. In the theory of economic planning we do well in paying attention to it when we have to explain important phenomena like organized charity and social reform.

The social instincts should never be confounded with the economic ones. They are in principle of a different character. Their foundations are our relations with fellow-beings. The

economic instincts on the other hand act within us even if we live in complete solitude. To them our surroundings are simply means for the satisfaction of our wants, and when the theory of early capitalism loved to signify labourers as 'hands', that expression of cold calculation was felt as quite natural by authors who tried to form their terminology in accordance with a narrow economic view of instinctive origin. Our social instincts adjust such one-sidedness. They put us more or less on equal footing with our fellow-citizens. But anyone who wishes to study the economic instincts in their nakedness, must start his line of thought by expounding the theory of an isolated household. The sharp criticism which has been directed against our science because so many of our text-books dwell upon the problems of one man's economy, is therefore as unjustified as it is cheap and shallow. In fact, every student of economics will derive valuable knowledge even from reading about mere fictitious figures like Daniel Defoe's Robinson Crusoe in his desolate island, Johannes V. Jensen's Dreng and Moa in their cave on the glacier, Knut Hamsun's Isak of Sellanro on his solitary soil in the stony fields of Northern Norway, and De Vere Stacpoole's young couple with their Hannah on the forgotten blue lagoon. But it should be admitted that some economists have drawn too far-reaching conclusions from their observations of isolated economies. They have, indeed, tried to transfer 'economic laws' held to be valid in the secluded sphere of a lonely self-sustaining labourer, to the complexity of modern life in the industrial areas of great nations. The 'economic man' who played such a fatal part in earlier theory and who, though unmentioned or even expressly disavowed, still makes his presence felt in modern theoretical treatises, could be defined as a fabulous being who is in supreme possession of the economic instincts which must be studied under artificially isolated conditions, but who is devoid of all social instincts. By the way, I feel sure that the Robinsons would not approve of him, for ship-wrecked sailors who seek refuge on uninhabited shores do not lose their social

instincts; they are only for a while prevented from listening to impulses of social character, and if one day they are brought back again to society, they will act socially as before.

During the greater part of the nineteenth century the lacking social equipment of the 'economic man' misled the scientists and perplexed the public. It gave, indeed, a quasi-defence for anti-social behaviour by employers and capitalists. Even well-meaning Christians of high moral standing were led to believe that all unselfish actions in production and trade, in some way or other, were against economic laws: they benefited some persons, surely, but were harmful to society as a whole. Employers who had looked through the text-books of political economy, dared not augment the wages of their labourers if they were not forced to do so; they feared that the nation would be a loser by such extravagant bounteousness. The old materialistic dogma had identified 'human' with 'selfish'. Prophets who preached the new gospel of profits, identified 'economic' with 'selfish'. The real scientists did not go so far. They did not contend that Mr. Everybody in production and trade acted or ought to act like a true economic man. But they claimed that this fictitious person should be considered as one hundred per cent typical of pure economic behaviour, thus being the real object of scientific economic description. Basing himself on this assumption Vaihinger formulated his famous definition of economic theory as a science dealing with human beings acting in a certain sphere of life *as if* they were completely selfish. This 'real fiction' was to him the proof of the true scientific character of economics.

Vaihinger gives the author of *Wealth of Nations* credit for having introduced into human thinking this artificial conception of theoretical economic selfishness. The contention is unfounded, as Adam Smith in his earlier work *The Theory of Moral Sentiments* treated any thought of prevailing selfishness in economic matters in a rather disdainful way. His favourite idea was that the dominant motive of human actions is the wish to win sympathy or admiration. If a man should lose the confidence or esteem of

his fellow-citizens, Adam Smith argues, no economic gain could ever compensate him. And he adds: 'Compared with the contempt of mankind, all other external evils are easily supported'. Indeed, if the opinion of Adam Smith should be translated into the terminology of this treatise, it might be expressed in the sentence that *because man lives in society, his social instincts dominate over his economic ones.*

Our social instincts, however, are manifold and partly diverging; they vary with geographic conditions, race, religion and historic subconsciousness. It would, consequently, be impossible to construct the 'social man' as a definite, standing scientific character like the 'economic man'. If typification is considered part of economic theory, it will be necessary to operate with a number of different 'social men', each of them characterized by a certain peculiarity. Later on in this treatise we shall have the pleasure of introducing various such theoretical types; they may contribute towards elucidating the problems of different social and economic systems of planning.

To return to Vaihinger, this great German thinker was naturally not ignorant of *The Theory of Moral Sentiments.* Only, he argued that Adam Smith in his *Wealth of Nations* consciously had abstracted from all those qualities in man which he dealt with in his earlier treatise. But Vaihinger was unable to quote a single sentence from Adam Smith himself which could prove the use of this special 'neglective' or 'abstractive' method. Moreover, he must have overlooked an expressive statement by Adam Smith in his preface to later editions of *Moral Sentiments*, in which the Scotch philosopher asked his readers to regard his two chief works as a unity, and promised to add a new treatise on the legal relations of society. If we look upon *Wealth of Nations* in the light of these remarks and modern terminology, we may, perhaps, be justified in characterizing it as the fundamental work of *economic sociology.*

Vaihinger and his followers have, however, two excuses for their misunderstanding of Adam Smith.

Firstly, judged as a sociologist Adam Smith is guilty of a serious sin of omission: he overlooked the *group*. His three human elements are individual, State and society (taken as a whole). But he did not write the economics of the family and the manifold voluntary societies, which constitute most important groups, and it is a fact that the non-selfish motives are strongest within the group economy.

Secondly, as Adam Smith's supreme purpose was didactic, he tried to expound laws for *rational economic behaviour*, and in the field of values in exchange and moving free market prices, which he made the main object of his basic investigations, divergences between results of rational and selfish motivations are seldom conspicuous.

10

The greatest differences between *homo sapiens* and other creatures belong to mind and soul. If we look for specific human instincts and desires, we have, therefore, to seek them in the mental and emotional sphere.

Mental or *intellectual instincts* are strong propulsive forces influencing the rational part of economic motivation. Dominating among them are the *research instinct* and the *instinct of logic*.[1] The former works towards the acquisition, summation and storage of knowledge, the latter directs our thoughts during their treatment of this knowledge, making it possible for us to reach conclusions from observed facts and stated principles.

The research instinct may have its original and independent source in that often ridiculed quality which Thorstein Veblen called 'idle curiosity', but since pre-historic ages it has also been used for the promotion of definite purposes, and many people have their research instinct toddling, as it were, in the lead of stronger personalities. It will always be difficult to detect what has called it into action. So it is even in the wonderful narrative of the first appearance of our research instinct given in Genesis,

for who could say whether the fatal resolution of Eve to eat the fruits from the tree of knowledge, should be chiefly attributed to the idle curiosity of a young woman, or to the purpose of obtaining the wisdom of God or simply to the psychological fact of her being a much weaker character than her beguiler, that strange monster: a speaking serpent. But whatever makes human beings seek knowledge, truth or wisdom, in the carrying out of such search they will more or less be led by an instinctive internal force. It is operating in the undeveloped brain of the two-year old boy when he is lying in his bed, trying to repeat to himself the few words he has been able to pick up. To meet it, all schools and universities of this world have been built. It is the father of science and the torchbearer of religion. This instinct it is, that has driven explorers to leave for unknown continents and arctic ice-fields. It keeps the inventor awake during restless nights in his laboratory. Daily it gives birth to fervent desires. It may grow into burning passion. And without it no economic plan would ever have been formed, for all economic plans are based upon the results of researches.

The instinct of logic is, perhaps, just as strong as the research instinct. But it is influencing our mind in a different way. The research instinct carries each individual towards what hitherto has been unknown to him. The instinct of logic forces all of us to tread the same, well-known paths from premises to conclusions. It is the strongest disciplinary and unifying power in the world. It admits no personal caprices and forgives no mistakes. It enables any one of us to reject the ingenious suggestion by Henrik Ibsen that on Jupiter two and two may be five, because it makes clear to us that when the naked quantities of two and two are added together, the result is bound to be the naked quantity of four everywhere in the universe. Primitive people who never heard a hint about the laws of logic, are just as much under their yoke as learned scientists. Mr. Everybody, brooding over his book-keeping in a dark city office, is as faithful to the claims of logic as were Newton and Leibniz when they un-

dauntedly drew the conclusions of the infinitesimal principles. In economic planning it is the instinct of logic which leads us to arrange the executive resolutions in an order serviceable to the supreme purposes of the intended activity. And it is the instinct of logic which makes other people accept a well-laid plan.

Of a mixed mental and emotional character are those internal forces which we may term the *ethic* and the *religious instincts*. Their true nature is unknown to us, but only materialistic dogmatists equipped with a complete historical ignorance could ever doubt their strength. To the theory of economic planning they are important not only as factors intercepting and restraining an unimpeded operation of the economic instincts, but as promoters of positive impulses as well. Particularly it should be stressed that experience shows the impossibility of building up a planned and economically organized society without some assistance from the ethic or the religious instincts of the inhabitants.

The purely *emotional instincts and desires* may be regarded as refined extensions partly of biological, partly of social, partly of religious instincts. They reach their strongest manifestations in those feelings which are known as hatred and love. Strange to say, these two significant words are hardly ever found in textbooks or treatises on economics. Nevertheless, even Mr. Everybody knows that hatred and love exercise profound influences on economic life. Nearly every economic plan aiming at the benefit of wives, children, friends or the poor, is inspired by love, and the great public works owe their origin not least to that special form of love which we call patriotism. But what about hatred? All economic plans have for their purpose to create, augment or promote wealth, welfare and well-being. Hatred, on the other hand, instigates plans for destroying wealth, diminishing welfare and disturbing well-being. Such plans run counter to every possible economic purpose; they are in their essence *anti-economic*. Besides, hatred may induce men to looting, plunder and robbery. Through these activities the economy of

some people may benefit at the cost of others. Aristotle even reckoned acquisition through acts of war as a sort of normal trade; 'the new order' of nazism was nothing but a modern systematization of this primeval method for gaining temporary advantages. But as the looted, plundered and robbed victims generally are more competent to use the riches of which they are deprived than the spoliators, it is only from the viewpoint of a *separate economy* that such actions may be deemed economic; in relation to *total economy* they are as anti-economic as mere destruction. Generally speaking we may therefore state that hatred and economy are incompatible, whilst economy and love are kindred phenomena.

In the light of this fact the moral character of economic plans is manifestly revealed.

Economy belongs to the creating, constructing and framing human activities. It is positive and filled with an innate tendency of progressing evolution. It is the pioneer of the future and the servant of happiness. Hatred, misdeeds and crimes are its born enemies. It is, therefore, easy to see 'the golden thread' that binds together the life-work of Adam Smith: the wealth of nations cannot be promoted without moral sentiments.

Unfortunately, his followers forgot this deep interdependence; quite a few of them even tried to transform economics into a gospel of selfishness. But their 'economic man' was never able to understand the profound meaning of his own task. He was trapped in his narrow-sighted preference for profits. He is, therefore, not typical of the activity he was supposed to symbolize. Should anyone intend to depict the economic idea in a single illustration, it might be that of an old man, humbly bowing his head while planting trees along a naked shore in order to create a protection for the corn-fields of coming generations. Under such a drawing could be written the one word 'economy'. But it might also be called 'love of life'.

# *CHAPTER IV*

# THE ECONOMIC TIME RELATIONS

## II

AS explained in a most lucid way by Professor Lionel Robbins in his stimulating *Essay on the Nature and Significance of Economic Science*, we economists do not agree on the 'definition of what Economics is about'.

Professor Robbins seems to be right in the statement that 'the definition of Economics which would probably command most adherents . . . is that which relates it to the study of the causes of material welfare'. This explanation seems to have its origin in *Wealth of Nations*. But there exists also another line of thought, which perhaps may be traced back to Ricardo's *Principles*. It connects economics in some way or other with the study of scarce means. Professor Robbins himself gives the most precise formulation of this thought, defining economics as 'the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses'.

Mr. Everybody on hearing about such differences of opinion, will disdainfully puff at his cigarette and say: 'Economists disagree on everything. Now we hear that they even disagree on their own identity. Haven't I always said so: economists are second-class people'. And then he will proceed to easier problems which he finds more difficult to solve.

But the disagreements are not as serious as Mr. Everybody imagines. They are, indeed, only serious if we forget two essential truths about knowledge. Firstly the fact that what we call 'reality' is one and continuous. Secondly the demand of epistemology that the principles of research and logical descriptions must be the same in whichever field of investigation they are used.

This being so, the divisionary lines between the different sciences may be drawn in various ways, all according to tradition, purpose, intention and taste. Thus, economics was certainly not the same to Ricardo as to Adam Smith, nor was it the same to Karl Marx as to Walras. But however great the variations between them as regards their subject-matters, all economists have dealt with such relations and events which are commonly held to be *economic*. Consequently, the basic problem does not refer to the delimitations of economics, but to the import of what we will choose to call *economicity*.

Face to face with this problem economists will not be as free as they are when they deal with the definition of their science, for the idea of 'economic' is older than written history; it lies completely within the mental horizon of Mr. Everybody; it forms, so to say, part of the common subconsciousness of the human race. A definition of such a conception cannot be arbitrary; it has to be purely descriptive. Its main purpose will really be to crystallize the essentials of those manifold and partly nebulous ideas which are commonly connected with the conception.

We have then to remember that the word 'economy' originally stands for 'household'. What comes within the household? Everything which is kept, produced or acquired for future use. Any activity aiming at such acquisition, production or preservation, is, therefore, economic even in the etymological sense of the term. But no such activity is possible if not planned. The essentials of *household economicity* are accordingly *usefulness*, *futurity* and *plan*.

The household conception is, however, too limited, as the meaning of the term 'economic' has been more and more widened through its continuous use. The conception now certainly embraces all such auxiliary activities as banking, broking, insurance, advising in economic matters and spreading of economic information. Rightly understood it includes even activities which aim at making human beings more fit for economic work or at keep-

ing up their professional ability; most teaching and learning, health service and nursing are economic in this sense. Finally, economic character is attributed to most State activities, as these purpose to secure economic life. We venture to formulate this definition: *economic are planned activities which create, promote, acquire, preserve or secure future usefulness as well as planned activities which enable human beings to do economic work or to do it better than before, and planned activities which organize, protect, support or assist other economic activities.*

Even understood in this wide sense economic activity appears as a contrast to consumption. Mr. Everybody daily has that experience. He has to ask himself: 'Shall I work to-morrow in order to earn some extra income or shall I spend the day at the races?' Mr. Well-to-do in New York is in doubt: 'Shall I invest these three thousand dollars in my business or take a vacation in Miami?' Questions of such choices lead to the crux of the problem. Judged also by the criterion of Professor Robbins a treatment of them will fall within the scope of economics, as time and money both are limited means having alternative uses. The examples also show that economics is justified in dealing with consumption although consumption and economic activity are contrasts.

But a serious objection may be raised against our definition of 'economic'. Some modern economists will probably reject the proposition that futurity is an essential element of economicity. Says Mr. Modernist: 'Services like a concert or a theatre performance cannot be kept for the future, but as they satisfy human wants, they are certainly economic'.

The argument sounds convincing. But it contains loose thought.

When we with full right regard public concerts and professional theatre performances as economic, it is not because they directly satisfy human wants, thus representing consumption in relation to the spectators, but because they simultaneously are part of the economic activities carried out by the management, the

artists, the staff, the shareholders if any, and the critics. An illustration will make the matter clear. A great singer has sung three popular songs at a concert and received a fee of, say fifty pounds. This is certainly one of his economic activities because it is by such work that he earns his livelihood. From the concert he takes a taxi to a party. After dinner he feels inspired, and sings the three songs once more. Stimulated by exquisite wine, and surrounded by his friends, he sings them even better than at the concert. But this performance is by no means an economic activity—thank God for that!

We think, on the whole, that our definition will hold good whenever it is tested by picked examples from practical life. It contains, however, two characteristics which are not commonly included in definitions of economic activity: a time relation and the statement that such activity must be planned. We will have to explain these two elements more fully. It seems convenient to start the exposition with an analysis of the economic time relations.

## 12

Everyone knows the old, traditional tripartition of time in past, present and future. We use it quite automatically without reflecting on it, and very few of us discover the paradox in placing those three magnitudes side by side. In this juxtaposition, however, the present is only an infinitesimal moment, whilst past and future are durations of enormous lengths. At every instant we know the beginning of future, but we have reason to believe that it is endless. Correspondingly, the end of the past is always well known, but as far as we can conceive, it may be termed beginningless. Whether we consider the two magnitudes in themselves as infinite, is merely a matter of definition—or taste. What interests us is the fact that as quantities they are immensely much more extensive than the present. Nevertheless, to our spontaneous feeling the present possesses a certain pre-

ponderance over past and future. Says an old proverb of India: 'Yesterday is a dream and to-morrow a hope, but to-day is Life itself'. In this adage, however, we meet what might be called the *expanded present:* in order to facilitate comparisons of time we are inclined to identify the present with larger units as 'to-day', 'this year', 'our own time' or similar conceptions. Such procedure is naturally most practical, but it assigns to the present an arbitrarily chosen additional length, and it contributes to the concealment of the essential difference between the present and the two other magnitudes of time.

This difference does not refer only to the element of length, but also to another mathematical dissimiliarity: whilst the exact present in all its shortness is a constant magnitude, past and future are varying durations. The tragedy of time is that it operates under the *law of the ever increasing past and the ever decreasing future.* When we do not use the conceptions of past and future in their general meaning but relate them to a certain living individual, thus adding a definite beginning to the past and a certain end to the future, this tragedy becomes near and understandable. A later chapter will explain its economic consequences.

The traditional tripartition of time enables us to describe any event in its relation to that passing moment which we call the present. It is, however, often necessary to give a description of other time relations. In order to fix the sequence of events we use the common expressions 'before', 'simultaneous with' and 'after'. These words correspond in fact to a more general tripartition of time for which, however, there does not yet exist any fixed terminology. It seems convenient to introduce understandable and homogeneous technical terms for the description of the basic time conceptions we deal with here. We will say that of two events the earlier one happens in *pre-time* to the later one, and the later one in *post-time* to the earlier one. For the third conception it is not easy to find a natural expression. But the *Concise Oxford Dictionary* presents us with a useful suggestion.

Here is what it explains: 'Simultaneous. Occurring or operating at the same time (with)'. We may, therefore, assume that linguistic authorities cannot make any objection to our saying about simultaneous events that they occur in *same-time*. The introduction of this expression will also meet with the advantage of bringing English terminology into conformity with the Nordic languages. Here the corresponding expression 'samtid', which seems to be of Norwegian origin, is commonly used.

In a treatise on the theory of valuation which I published in 1923 in German, I drew attention to the three more general time conceptions here explained, and proposed to designate them by the German words *Vorauszeit*, *Nachzeit* and *Gleichzeit*. Some Swedish economists found it practical to adopt this idea in one special connection, namely, to elucidate the time relations between event and description. Preferring Latin expressions, they have distinguished between 'analysis ex post' and 'analysis ex ante'. For same-time they have given no expression. It would also be difficult to find a convenient Latin translation of this term. But for my part I cannot see why economics, possessing its complete terminology in living languages, should in this special instance have recourse to Latin.

One special objection to our theory of time may be anticipated. Superficial readers of Einstein's charming little treatise on the special and the general theories of relativity, have understood him to the effect that two events can never be simultaneous. Same-time should then be a mere phantom. The statement of Einstein is, however, far more modest. He simply points out that as every physical observation requires time and as every 'body of reference' during ever so short an interval will have moved both in relation to any other 'body of reference' and in relation to the body observed, it will be impossible to give an exact physical description of simultaneity. Einstein has thus revealed a limitation to our power of symbolizing the essence of events. About the events themselves his statement says nothing at all.

It should be added that the conception of same-time may, for

a number of practical purposes, be extended in the same way as the conception of the present. The extended same-time is identical with *contemporaneity.*

13

A fairy-tale by Hans Christian Andersen tells the story of a pair of galoshes which looked quite ordinary, but were in possession of mysterious qualities. Thus, if anyone who by chance put them on, should feel a wish to be transplanted into a certain period of the past, he was immediately carried back to the time he was longing for.

Anything like these galoshes will naturally never be invented. Our bodies are life-long slaves of the present. Our minds are not. In three ways our thoughts revolt against the dictatorship of the present. Firstly, they are able to dwell upon any known moment of the past. Secondly, they can approach any unknown moment of the future. Thirdly, they have constructed a time of their own, which is characterized by its length, and its length only, thus possessing no relation whatsoever to the formidable present. We will call it *abstract time.*

Our thinking about the past is partly personal, partly historical. It may simply have for its purpose to revive bygone moments or periods, thus creating a *recollected present* or a *historical present.* But we may also make use of our post-time wisdom, judging the expediency of personal or historical resolutions of the past from their later consequences. The results of this thinking are known to us as 'experience'. In economic life it is, perhaps, of still greater importance than in any other field of human activities. The business man models the bulk of his plans to fit in with his experiences, and in public economic administration the insipid imitation of precedent resolutions tends to reduce the daily work to a sort of half-automatic routine. Economics were also in pre-time to Ricardo mainly based upon common experience, and may regain this character in post-time

to its present period. Even the economics of to-day, giving pure theory such a domineering preponderance, have to bow humbly to experience in all matters concerning currency, credit, business cycles and social reform. From a logical point of view it is somewhat curious that so many representatives of the so-called 'practical life' are in opposition to just these chapters of theory, being apparently quite unaware that their own experiences, which they always refer to, are nothing but the conclusions of their personal theoretical thinking.

The past may be defined as an ever-growing sum of 'given facts'. Looking back upon our lives, we are, all of us, inclined to arrange some such facts so as to glorify or palliate our own conduct. Ruthless propagandists and prejudiced historians regard it as a political duty to falsify bygone events, and poets love to remodel them in detail. But in itself the past remains unchanged and unchangeable, and our typical thinking in post-time will, therefore, be guided by a will to realize that conformity with given facts which we describe by the technical term of 'truth'. Now, as everything which happened, happened only once, and as each event has its definite place in an endless chain of occurrences, we find it natural to look back upon the past with the eyes of a determinist.

Turning towards the future we are in a more difficult position. Before us lies a vast continent of unrealized possibilities. Our thoughts have the choice between many roads, and on each road we find a countless number of bifurcations. Most of them have no fork, and should we see a guide-post, the inscription on it will be difficult to read and almost impossible to decipher. Our first impression will invariably be emotional. The future is the field of fear-thinkers and wish-thinkers. A rational mind, on the other hand, has to take several future possibilities into account, calamities as well as happiness, failures as well as successes. Approaching the future, the determinist is either infantile or one-eyed. All rational thinking in pre-time is thinking in alternatives.

But are we not generally justified in expecting one particular

event? In two ways we seek an answer to this question. On the one hand we measure the strength of the different relevant factors, on the other we try to base our expectations upon experience, presupposing that in the future as in the past similar causes will have similar effects, and that similar situations will motivate different persons to take similar resolutions. If our experiences are based upon statistical data, we can even apply the logical apparatus of mathematical probability calculus upon our thinking in pre-time,—I hope, by the way, that this formulation will fit in with the opinions expressed by Lord Keynes in his profound treatise on the subject.

It is, however, not the whole of the future which we judge in this way. We are not forced to look upon all coming events as mere spectators. Seen from the view-point of a thinker in pre-time, the future falls into two parts of a quite different nature. In the first instance we have all those happenings which are going to take place completely independent of our own will. We choose to refer to this immense totality as the *conjunctural future*, attributing to the term 'conjunctures' its original economic meaning which in our century was restated by Philippovich. But secondly we have before us a limited number of events which must or may be influenced by our personal resolutions. We will call it the *affectible future*. The former represents the sphere of prediction and prognosis. The latter represents the sphere of planning. Says the prophet to the future: 'You are unknown to the public, but I have guessed some of your well-kept secrets'. Says the planner to the future: 'Be my servant and bring me what I want'. We see, consequently, that planning makes up one of the two main forms of economic thinking in pre-time.

Whilst our thinking about the past and the future emancipated our mind from the dictatorship of the present, it did not free us from all relations to that limitless sum of the past, present and future which in Oswald Spengler's terminology is called 'chronological time'. Only through the introduction of 'abstract time' our thoughts were set definitely free.

A comparison between these two time notions will display some marked differences. Chronological time has its existence in the universe as it is. Abstract time may relate to remodelled or invented conditions as well. Chronological time is always moving; even the prayer of a Joshua will be unable to stop it. Abstract time may be brought to a standstill at any moment, simply by making it equal to zero, thus transforming the dynamics of the real world into the statics of a thoughtful observer. In chronological time everything moves simultaneously. In abstract time it is possible to alter one single factor while all other things remain equal. Chronological time has one direction: from the past, *via* the present, into the future. Abstract time is in principle reversible. Man is the slave of chronological time. He is the master of abstract time.

The formulations which we call 'scientific laws', relate to abstract time. In economics, however, it is often overlooked that they belong to two different types. One group presupposes fictitious conditions. Laws of this kind may claim absolute validity. But they are only instruments of our thoughts. They appear as exclusive *theoretical laws*. The other group refers to reality. Laws of that type simply give condensed descriptions of what was normal in the past and, consequently, is probable in the future. We denote them *standard laws*. This latter group is of particular importance in the theory of economic planning.

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Spontaneous sensations may tell us when the time for satisfying our primary and primitive personal wants is ripe or overdue. They are also able to warn us if a satisfaction has been insufficient. Thus hunger makes known to us that eating cannot be postponed any longer without displeasure or even pain, and on a chilly morning in the autumn a sudden shiver may bring home to the business man who is hastening to his office that his thin grey overcoat does not give an adequate protection against

the humid wind. But no sensations can ever tell us when the production must be commenced which is needed in order to provide us with the instruments for satisfying our wants at the time when they have become actual. In one way and in one way only are we able to learn something about that important hour: through thinking in pre-time. It is this thinking which constitutes the initial part of economic labour.

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Our economic thinking in pre-time is not a primitive process. It includes several steps or stages, and at every one of them difficult problems may arise.

Logically, and therefore normally, our pre-time thoughts will aim at the following sequence of eight objects: Firstly, the nature of the future want which we wish to satisfy. Secondly, the time when the want will have to be satisfied. Thirdly, the material goods and personal services required to satisfy the want. Fourthly, an appropriate method for producing, acquiring or securing the required goods and services. Fifthly, the probable sacrifices for the achievement of the intended results. Sixthly, the calculated balance, according to a personal or social standard, between the intended results and the probable sacrifice. Seventhly, the resolution to carry out the activities under consideration, or to give them up. Eighthly and finally, if the resolution is positive, an appropriate plan for its execution.

We will refer to this description of the eight stages as the *sequence law of economic thinking in pre-time* or simply as *the sequence law*. It is a standard law of high importance in the theory of economic planning. We may sum it up in the sentence that pre-time economic thinking comprises a logical sequence of a want factor, a time-table factor, a goods and service factor, a method factor, a sacrifice factor, a comparison factor, a resolution factor and, in case, the plan itself.

The four first stages constitute a preparatory plan-thinking.

## *CHAPTER V*

# THE PREPARATORY PLAN-THINKING

### 16

HUMAN wants in their relation to time may be divided into three groups: they are either *periodic*, *sporadic* or *continuous*. As typical examples we may give the wants for sleep, for music and for air containing a sufficient percentage of oxygen.

We have no evidence whatsoever about the pre-historic origins of economic thinking, but an analysis of the elementary organization of our daily life leads to the assumption that periodic wants have played a dominant part at the outset. Regularly recurrent events are the easiest to predict, and like all other living beings man must always have tried to let his own life-rhythm fit in with the all-governing cosmic cycles. We should, therefore, be fairly justified in considering the sun as our senior teacher in the science of planning. Both the daily and the yearly cycles of that celestial body have given us basic lessons.

Brain-work may be done at any time. Thoughts are not afraid of darkness. To a thinker sleepless nights often give ideal hours of labour. If he wishes, he can also use a light of his own: closing his eyes he looks into the limitless horizon of visions; he may even see rays and colours unknown in the so-called 'nature' and inexplicable to professors of physics. Manual labour is not in such a privileged position. It is more or less dependent on sources of light belonging to the outward world, and neither the moon, nor the stars nor the flickering flames of a fire will be sufficient to a careful craftsman. Economic planners have, therefore, tried to place manual labour as much as possible in the sunlit hours.

But as a regulator of human work the sun is not at all an ideal. During winter he rises late and leaves us early. In the polar regions he pours out a strange light every hour of the summer whilst in the depth of winter he does not even peep over the horizon. An exact regulation of the working hours did not become possible until that day when an ingenious inventor constructed a technical instrument for the measurement of time. The watch became our junior teacher in the science of planning. His influence has been steadily growing. Indeed, in the history of human labour we can distinguish between two great periods: the epoch of exclusive sun-planning and the epoch of preponderant watch-planning. Candles, torches, paraffin lamps, gas light and electricity have been the chief assistants of the watch. In our own time even manual labour, at least indoors, has been emancipated from the strict rule of the sun.

But this marvellous liberation has not abolished the principal periodicity of our recurrent primary wants. On the contrary, the watch and the artificial light have made the periodicity still stricter, and we may now plan with the knowledge that the majority of mankind normally has a fixed division of time between hours reserved for meals, for labour, for leisure and for sleep. The effect of this regularity is that recurrent human wants, which in themselves are more or less sporadic, appear as if they were completely periodic. Even sensations fall in with the common trend of the day. The hunger of a natural stomach makes itself felt at irregular intervals; a trained civilized stomach sends its signals at breakfast-time, luncheon-time and dinner-time; it seems to possess a clock of its own. Still more outspoken is the periodicity of those wants which are connected with our normal work. They are confined to the fixed labour hours. In this way our planned time has adopted a *cyclical* character. It is governed by the *daily cycles of consumption* and the *economic cycle of daily labour.*

A similar importance should be attributed to the *seasonal cycles of consumption* and the *economic cycle of seasonal production.* But the sun has not the same power over summer and winter as over

day and night. Seasonal planning is, therefore, far more difficult than day-planning. Authors who have studied the archaeological aspects of history even doubt that it has always been necessary. Thus, the visionary Danish poet Johannes V. Jensen has identified the lost paradise of the white races with an everlasting summer of the pre-glacial period. In his marvellous novel *The Glacier* he tells us how the climate suddenly changed. Cold polar winds blew snow into the faces of the surprised and unprepared innocents. Men and animals fled towards south. One man only would not join the rout. Dreng turned to the north. He went against the snowy, icy wind. His intention was to kill the monster that threatened the lives of all. He did not find him. But he remained in the snow; he would not stop the fight against his unknown, invisible and merciless enemy. With his woman and his dog he adapted himself to glacial conditions. He learnt the new periodicity of winter and summer; he learnt to plan for the whole year. His was the first economy of a seasonal character. Whatever truth there may be behind this modern legend, it is certain that the seasonal cycles of economy and consumption are most marked and most important in those countries where the winter every year brings back to us some experiences of the glacial period. Particularly in isolated agricultural economies of such countries, spring and autumn may be called the *seasons of planning*: in the spring the peasants plan the production of the summer, in the autumn the storage and successive use of the harvest. As the equatorial countries have other seasonal fluctuations, neither the story of Dreng nor the Northern method of yearly planning may be directly applied to them, but their economy also is governed by a yearly cycle. Its most decisive moment is described in the famous title of Louis Bromfield's master novel: *The Rains Came.*

If human beings in a greater or smaller number have ever lived in a sort of an earthly paradise, they will have experienced a state of affairs which, in the language of economics, we may describe by saying that all their constant wants were satisfied by

nature. However, only isolated populations enjoying a most favourable climate ever had a chance to remain under such conditions for any considerable time. In fact, man has forced his way to the dominance of the globe through a nearly continuous fight against wild beasts and climatic hardships. From the very outset he has, therefore, needed a protected place where he could shelter women and children, store provisions and weapons, have his food prepared and sleep more or less undisturbed. That is to say: he has needed a *home*. The greater part of his constant wants has always been connected with this centre of his life. As nearly all these wants have to be satisfied by durable goods of different lifetime, such as dwelling-houses, furniture and kitchen utensils, they do not induce the individuals to undertake periodic activities. We may be justified in formulating the following standard law of contrasting time relations: *whilst the cosmic cycles create periodicities in individual consumption and labour, the constant home wants instigate a tendency to continuous individual enjoyment and sporadic production.* If there are demonstrated recurrent periodicities in the production of dwelling-houses and home equipment, we can assume that such cycles will not have their origin in cosmic causes affecting all individuals, but must be traced back to biological or social factors. Consequently the essential difference between the time relations of our periodic and our constant wants is of importance not only to the theory of economic planning but also to the theory of business cycles.

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Some of our wants demand to be satisfied at a more or less exact hour; they have a marginal moment. Others may more easily be postponed; they have a marginal period. Most of our periodic wants belong to the former group, whilst our constant needs in general belong to the latter. Common to both groups seems to be the fact that a desired or planned satisfaction of a want will have an *optimum time*, be it a moment or an interval.

If the satisfaction is dependent on several factors, all of them being necessary, it will have to be postponed until all are available. Correspondingly: production and other economic activities are dependent on all necessary factors being available for combined use, and will be retarded if any one of them is failing. We denote this statement the *law of the latest delivery*. It has a parallel in the naval law that a squadron sails with the speed of its slowest ship.

The fixation in pre-time of the marginal time of satisfaction will be decisive for the planning of the period of production. However, as a planned economic activity nearly always comprises efforts which could not be called 'production', we find it convenient to speak also of the *period of enterprise*, being the time interval between the resolution to start a certain economic activity, and its completion. It is, in fact, the duration of the period of enterprise which we have in mind when we distinguish between a short-term and a long-term plan.

'Long-term' must naturally not be confused with the so-called 'long run'. Economists generally use the latter expression to indicate the period in which an economic law of tendency is able to make itself felt. Should the law in question succeed in giving a happy description of a certain totality of events, the 'long run' may be very short. On the other hand, if the claimed law be of a more dubious character, the 'long run' is simply an accepted diplomatic expression for 'never'.

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According to the sequence law the third stage in pre-time economic thinking will have for its objects the goods and services required to satisfy the want in question. Normally the want itself will include some reference to the means of satisfaction. It is only the dreamer who dwells upon desires for which no remedy has been discovered. Some authors maintain that a 'want' even pre-

supposes the existence of goods or services to satisfy it.[1] If we adopt this view, we might describe the primary economic rôle of inventors by saying that their great contribution to mankind consists in giving us new wants. In any case, our growing knowledge about goods and services will retroact upon the wants for them, making the wants themselves ever more concrete and specialized. We will refer to this statement as *the law of the causal interdependence between goods and services on one hand, and human wants on the other.* It should be borne in mind in order to avoid a too literal understanding of the sequence law.

Now goods and services are in demand because of their utility. But their utility does not become manifest until they are used. Consequently, utility can be measured and ascertained in same-time and post-time only. In pre-time it can only be estimated. On the basis of such estimation the planner attaches a *utility power* to the goods and services he contemplates producing or otherwise acquiring; to money he attaches a *paying power*, which if estimated in relation to commodities and investment goods is commonly called *purchasing power.*

The time problems of utility power are chiefly connected with the presumable length of the use to be made of the goods. Economic theory distinguishes between 'perishable' and 'durable' goods. For most purposes this bipartition will be quite sufficient. In the special theory of economic planning, however, a somewhat more detailed classification seems preferable. Here as in so many similar cases a tripartition will elucidate the nature of the problems. In the first group we will include all the goods that can be used once and once only. The main types are foodstuffs, drinkables, auxiliary liquids like petrol and lubricating oils, coals and fire-logs. We will call them *one-use-goods.* The second group consists of goods that can be used a number of times but within a shorter or longer limitation. Such goods have a calculable 'life-time' or 'working-time'. The most important examples are

[1] In this statement lawyers may find a parallel to the thought expressed by the famous sentence of Roman Law: *Ubi remedium, ibi jus.*

clothes, textiles, furniture, tools, machinery, domestic animals and ships. For want of a better expression we will allude to them as *term-goods*. The third group comprises things which are of such enduring and permanent character that it would be futile to attach any probable life-time to them. Here should in the first instance be mentioned 'natural goods' like arable land, self-renovating woods and water-falls, and secondly most well-constructed buildings, moles and other stone-walls, roads, streets, tunnels and incorporated land-ameliorations. The simple expression of *lasting goods* seems to be a suitable designation of this third group. Common to both the latter groups are the problems of repair, but the term-goods also raise the problem of periodic replacement. We thus see that a clear partitioning line between term-goods and lasting goods is of importance not only to the theory of economic planning but also to the theory of economic cycles.

In the last decades we have witnessed a strong tendency to overlook the importance of the time factor. Statistics have greatly contributed to this primitivizing of economic thinking. A theoretical example will illustrate the tendency. Say that an industrial concern in 1913 produced two million pairs of shoes, and in 1923, four millions. According to mere statistics the production had been doubled. But if the average life-time of the 1913-shoe was three years whilst the 1923-shoe had an average life-time of one year, the contribution to wealth of the 1923-production amounted to only two-thirds of the 1913-production. Had we introduced the standard of a *shoe-year*, this would have been obvious, as the concern in 1913 produced six million shoe-years against not more than four million shoe-years in 1923. It is only in a few cases that a simple verification like this can be applied. But anyone who tries to compare capitalistic economy after 1914 with capitalistic economy up to 1914, will do well in remembering the reality behind the idea of a shoe-year. He will then be in possession of a useful corrective against the exaggerated commonplaces about the enormous economic progress of the 1920s and the 1930s.

In fact, our shoe-productions of 1913 and 1923 represent two different economic principles. They may be used against each other. To make this clear we will give another example, chosen from the military field. We will suppose that there is a war on between two countries which we for obvious reasons will call Quantany and Great Qualitain. At the outbreak of hostilities Quantany possessed 10,000 aircraft of the first line, whilst Great Qualitain could not mobilize more than 2,000, and thus apparently was fighting against overwhelming odds. But the aeroplanes of Great Qualitain were built with an average working time of six war months, whilst those of Quantany did not last on an average for more than three months. This meant that the aircraft of Great Qualitain represented 12,000 *fighting months* against 30,000. Still serious, but by no means hopeless! Now we assume that both parties stick to their old principles, the experts of Quantany believing in numbers, the experts of Great Qualitain in solidity. After half a year the initial air fleets are no good any longer: everything depends on running production. Quantany is able to produce 3,000 planes of her type each month, whilst the monthly production of Great Qualitain only amounts to 2,000. At a future juncture the result will be that the oldest team of planes built in Great Qualitain will possess an average remaining working-time of half a month, the youngest team of five and a half. In Quantany also, the oldest team has an average remaining life-time of half a month, the newest team, on the other hand, of two and a half months! But Great Qualitain will possess 12,000 first-line aircraft, Quantany only 9,000. Solidity has outnumbered numbers!

Both our examples are extreme—as theoretical examples should be, because their purpose is not to describe realities, but to elucidate tendencies. We have used them in order to confront the time relations of two economic principles, between which every planner sometimes will have to choose: the principle of quantity, and the principle of solidity.

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The three initial stages of economic thinking in pre-time constitute a totality of their own. Added together, their results give a description of a want, the appropriate time for its satisfaction and the instruments to be used. Such a description may serve as a purpose for later activities. Indeed, the three stages fix a *possible supreme economic purpose*, and the labour leading up to it can be referred to as *purpose thinking*.

Say the resolution to be taken will be negative,—is the purpose labour then to be considered as lost? It all depends. In many cases no benefit will ever be drawn from it. But sometimes such labour will make it easier to find out how to act on later occasions. It will then have been of preparatory importance.

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The fourth stage of the preparatory economic plan-thinking deals with the methods to be used for producing, acquiring or securing the required goods and services.

As a matter of fact this part of planning generally involves intricate problems. But they cannot be dealt with in a treatise of purely economic and sociological character, as they are all more or less technical. Consequently, their proper treatment has to be referred to the technical or techno-economical sciences.

In this treatise we may restrict ourselves to the observation that all methods for acquiring goods and securing services in so far as they form part of an economic activity, are based upon two main elements of human civilization: knowledge about laws of nature and obedience to the rules of organization. Going deeper into the matter we find one and the same governing principle underlying both elements: respect for laws—for laws given to us by God or 'nature', and for laws set up by human will.

But economy has its competitors. In order to acquire goods or services other methods may be used. We have, unfortunately, theft, robbery, forgery, fraud, mendicancy, blackmail,

pressure, undue influence, trickery, corruption and terrorism. In time of war and revolution plunder, looting and unlawful confiscations must be added to this abominable list. Here again the moral character of economy is revealed: we are fully justified in defining economic activities as the means to acquire or secure desired goods and services without having recourse to depraved, unlawful or even criminal methods.

# *CHAPTER VI*

# SACRIFICE AND COMPENSATION

## 21

THE sacrifices with which the planner has to reckon during his pre-time considerations about a possible economic activity, will all come under one of the following five headings: spending of time, loss of personal energy, exhaustion or decrease of utility power, running of risks and suffering of personal pain or displeasure.

The time-sacrifice originates from the oneness of personality and the shortness of life.

Thanks to the oneness of personality we can never simultaneously work at two places, and only seldom accomplish two tasks at the same time. These trivial facts have as their consequence that whosoever undertakes to devote a certain time to a certain labour, must renounce every other use of that time. This renunciation constitutes the substance of his time-sacrifice. Had the labourer been able to make an important or pleasant use of the hours he gives up to his work, his real sacrifice has been great. Had he nothing else to do, it was, on the other hand, near to nil. People with beggarly imagination who do not know what to do with their time, have nothing to renounce; they are the only real poor. The time-sacrifice reaches its peak when the labourer has conflicting duties to perform. A lamentable example is that of the married woman who has to hurry for her factory work in the morning, leaving her children at home without anyone to look after them.

If human life had been eternal, a real economic time-sacrifice would have been evident only in cases where another work or

pleasure was so urgent that it admitted no delay. But we live under harder conditions. To man time is not only useful, it is also scarce. None of us can reckon with more than a very restricted number of remaining days. The law of the ever-decreasing future continually reduces our possibilities in a merciless way. Thus, the shortness of life acts as a multiplier to the time-sacrifice. When death seems to be approaching, this multiplier increases accordingly. With full right, the Norwegian economist Aschehoug, while at an age of eighty striving to accomplish his voluminous exposition of our science, made the personal remark that time is not so precious to anyone as to the old man who still has work to perform. During war every hour may be costly.

Loss of personal energy emerges from exertion of brain centres, nerves and muscles. The full extent of this loss cannot be fairly estimated, as we have not yet been able to determine the compound nature of our personal energy. As man is capable of doing mechanical work, it is clear that one of its component parts may be identified with that accumulation of physical power which in the terminology of Lord Kelvin is called 'available energy'. But what distinguishes a labourer from a machine, is just his capacity to do work which no mechanical instrument can ever be able to perform. This capacity must, consequently, be something of its own; there must exist a *specific human energy*, known to us only through its effects. It follows that loss of personal energy will be of a dual character. But both sorts of losses will have to be replaced, and this fact accounts for the necessity of reckoning them as sacrifices.

As has always been known, our mechanical energy is to a great extent restored through the digestion of food. For the renewal of the specific human energy we are, perhaps, to a still greater degree thrown upon the involuntary and automatic processes to which we are subject during the mystical and nearly unexplored state of body and mind called 'sleep'. Current Eastern theories assert that wise respiration and meditation may have

much the same effect, and this teaching is based upon such material of experience that it would be futile for any Westerner to deny it. From the economic point of view it is of importance to recognize the elementary fact that not only the procuring of food but also the creating of suitable conditions for sleep and rest, generally necessitates economic action. If the planner has a longer period of enterprise in view, he must always pay careful attention to the possibility of having these auxiliary activities carried out in a serviceable and effective way.

The utility power exhausted or decreased during labour, is that of instrumental goods. This utility power is intended to be spent. A quantity of utility power never spent, was useless and worth nothing. Exhaustion or decrease of utility power should, nevertheless, be considered as a sacrifice, and this for two reasons. Firstly, a unit of instrumental utility power which has been used for one purpose, cannot be used for the realization of other purposes. Secondly, if the planned activity does not consist in a single effort but goes on, the loss in utility power has to be replaced just as much as the loss of personal energy.

It is a purpose of economic activities to create, augment or preserve utility power—either of consumable or instrumental goods. Consequently, it might be considered plausible to assume that spent utility power of instrumental goods was simply transferred into a new utility power of another kind, so that we might formulate a law of the conservation of utility power parallel to the law of the conservation of mechanical energy. Any such theory would, however, be completely fallacious. Utility power implies a relation to specified human wants or purposes. It is a special capacity in each separate instance. It is untransferable and untransformable. Should the products of a fabrication be useless, no equivalent could be found to the spent utility power of the instrumental goods. There does not exist anything like 'diffuse' utility power. The spent utility power of instrumental goods cannot be directly compared with the utility power of the goods

produced. This impossibility confronts the economic planner with one of his greatest difficulties.

Exhaustion of utility power takes place in the case of one-use-goods, decrease of utility power in the cases of term-goods and lasting goods. In this connection it should always be borne in mind that from the viewpoint of the planner, money and other mediums of circulation are all one-use-goods, notwithstanding that some of them are term-goods to society.

Running of risks may be regarded as a specific sacrifice of the planner. A risk is a phenomenon in pre-time to activity. It is of a provisional character. If we had full knowledge of a future which from our viewpoint was completely determined, risk would be non-existent. In that case thinking in pre-time would consist in unmasking, deducting or computing only. As it is, all our thinking in pre-time must be a thinking in alternatives. Viewed in relation to the intended result of an activity, the planner will have to distinguish between two main and opposite alternatives: the result may be obtained or not obtained, he may have success or failure. The probability of success is his chance, the probability of failure his risk. Recognition of the chance is a motive for a positive, recognition of the risk for a negative resolution. Risk is the logical projection of the uncertainty of future on the mind of the planner. It is an immaterial reality, and if the activity judged in post-time has been a complete success, it seems to have been an error. Viewed in relation to results in similar cases, on the other hand, it was justifiable to recognize it. Justifiable in pre-time. Justifiable for the planner who planned with knowledge of the standard laws derived from previous experiences, or even, to a certain extent, was able to apply the theoretical laws of pure probability.

The risks occurring in economic life may be classified according to different criteria. Three of them are of special interest to the theory of economic planning.

Firstly, we have to distinguish between risks which have their

origin within the economic sphere itself, and risks that are due to influences from non-economic factors, such as climatic conditions, political changes and war. In order to characterize the distinction it may be expedient to adopt a terminology introduced in the theory of business cycles during the 1920s—as far as I remember by Professor William Röpke—and speak about *endogenous* and *exogenous economic risks*.

Secondly, we have to distinguish between risks which the contemplated economic activity will involve to man, and risks which it will involve to wealth. We will speak about *labourer's risks* and *property risks*. Current theory has been inclined to treat only property risks as economic, whilst the risks of labourers have been regarded as constituting a social problem only. Narrowminded capitalistic views may be held responsible for this illogical conception of economic risks.

Thirdly, it will be expedient to distinguish between *total risks* and *partial risks*. Total risks generally place the planner before an either or. Partial risks, on the other hand, often call for special measures to have them more or less eliminated.

Every economic risk can be classified according to all three criteria. Thus we have, for example, endogenous total labourer's risks and exogenous partial property risks.

Why should the running of economic risks be regarded as involving a sacrifice? Some men love to take risks. To them a life without risks would be unbearably dull. In addition, risks have a pedagogic mission. Who will learn from experience, has to run the risks of his profession. A person who dares not run an economic risk, will as a planner always remain an 'outsider', even if he is a most learned author of treatises on economic subjects. On the whole, the running of risks does not always represent a subjective sacrifice. Theorists who regard pain and displeasure as the only real sacrifices of economic life, will not be able to explain the relation between sacrifice and risks. The fact is that economic risks mean a sacrifice of an objective character. A risk represents a possible loss. Who takes a risk, gives up himself or

part of his property to the conjunctural future. He sacrifices security for uncertain gain. If he is running a considerable number of similar risks at the same time, he will even feel sure that some losses must occur. His sacrifice in pre-time will then invariably be revealed in post-time.

Personal pain and displeasure constitute the purely subjective part of economic sacrifice. Hearing about this sacrifice most people only think about the weariness and fatigue we may suffer during the hours of continued labour. Mr. Everybody will quote the famous saying in the third chapter of Genesis, that thou shall eat bread in the sweat of thy face—and then he will heave a deep sigh. Economic theory has generally followed the traditional trend of thought. Thus, it is often overlooked that pain and displeasure connected with economic activity in principle comprise at least four separate phenomena, two of them being more or less specific to the planner.

To begin with, we have the pain of responsibility. In its purest and sincerest form it is felt by parents who are planning for their children. But every serious planner who is starting or conducting an economic enterprise of importance to others, will sometimes feel it like stings or prickles in the soul. It is the typical pre-time pain of the planner.

In the second instance the circumspect planner has to anticipate the pain he will suffer through the more or less justified criticism which will be directed against him if he should fail to obtain the desired results. A great number of planners seem to fear such criticism with an innate timidity which proves that they are in possession of more modesty than superficial observers are able to realize. It is probable that this anxiety accounts for more negative plan resolutions than all calculations of measurable sacrifices. The explanation is to be found in our deep social instincts. Here again we should remember Adam Smith's statement that man can endure anything but the contempt of his surroundings. It is not only the leaders who fear criticism in pre-time, and suffer through

it in same-time and post-time. Employees, functionaries and labourers work under the same stress. If a leader has to submit his plans to the approval of a board or another deciding body, he will meet the criticism at an early stage in his economic activity. This fact tends to make him still more cautious.

The third kind of economic displeasure also belongs to the sphere of anxiety pains. It consists in the feeling of uneasiness and uncertainty attached to so many economic enterprises. The employer hazards his fortune. What is he to do if he should lose it? The labourer has accepted a short-term job. Can he procure daily bread for his family when he again is left without employment? The peasant has sowed his fields. Can he keep his animals if the crop should be destroyed by a hail-storm, scorched by a merciless sun or eaten by locusts? Throughout the ages this economic uncertainty may have accounted for a greater number of sleepless nights than bodily disease. But it should not be necessary. It is not involved in economy as such. On the contrary, economy has as its aim to make the future secure. The misery of economic insecurity may be successively eliminated through better organization and better distribution of casual losses.

In the fourth and last place, we have the pain and displeasure suffered during the actual labour hours. As a rule it is due to exhaustion of personal energy, overstrain of certain muscles or the invincibility of natural drowsiness and sleepiness. Some economists have advocated the opinion that this professional displeasure should be subject to a natural law, determining its development in time. According to their theory the displeasure is great at the very start of labour; then it diminishes rapidly to a minimum, from which point the subsequent increase commences rather slowly, whilst the pain in the later hours of a long day grows on a progressive scale. The description is easily illustrated by an elementary theoretical curve. At first sight this theory seems plausible, and it should not be denied that it reveals a psycho-physical tendency. But experiments following up the

initial pioneer-work by Ernst Abbe, Frederic Winslow Taylor and the founders of psycho-technics have made it evident that professional pain in general and industrial fatigue in particular are not mainly functions of the labour hours. Other factors seem to be of still greater importance. Insertion of small intervals of rest, evasion of hurtful or superfluous movements and other exertions, equipment of the labourer with tools especially chosen to meet his personal wants, and introduction of hygienic conditions in workshops, laboratories and offices, will tend to reduce the displeasure of labour. Under 'scientific management' the curve of professional pain will be much smoother than the supposed law curve. But no management will ever be able to remove the special displeasure which the labourer is bound to feel if his work is loathsome, monotonous, tedious, dangerous or hurtful. If he has to serve under hard and strenuous weather conditions or in mines, nature itself imposes upon him discomforts from which he will not be able to escape. On the whole, the planner will have to anticipate widely varying degrees of professional pain during labour hours, and he must feel sure that some displeasure will always occur. Even if he foresees that the performing of a certain work will create joy and delight, he has to take that displeasure into consideration, for it is an important psychological fact that pleasure and pain which are caused through labour are not interrelated like the terms of a mathematical series. They do not neutralize each other. They coexist.

22

At the beginning of the twentieth century some economists launched the idea that it is the sacrifice which confers the economic character on an activity, or—to use the terminology of this treatise—that the sacrifice constitutes the economicity. Their argument may be summarized thus: 'We distinguish between free goods and economic goods. The acquisition of free goods does not require sacrifice, whilst the acquisition of economic

goods will always involve some sacrifice. Accordingly, the essential characteristic of an economic activity must consist in the sacrifice'. It will be worth while, before we advance further, to examine this theory.

If we are to be quite honest, we must admit that the only medium which always and under any circumstance seems to be obtainable without sacrifice, is atmospheric air. It is 'all over the place'. But at the same time it would be futile to imagine anything like sacrifice in connection with air. The fact is that breathing is an automatic process, and automatism excludes sacrifice. We can only speak about a sacrifice in the case of a resolution. A sacrifice is an evil you accept if and because it is instrumental in realizing your purpose. The preceding considerations must have belonged either to the yes-or-no-type or to the type of alternatives. But to breathing there is no 'no' and no alternative. On the whole, the air renders its services to men without claiming any sacrifice from us, and it is, therefore, quite correct to call it 'free'. But are we justified in describing it as a 'good'? According to common opinion a good is a concrete, limited thing, which is useful to a human purpose and may be brought under human control. The air, however, has no visible limit and can never be brought under human control.

In fact, all other mediums which text-books mention as typical 'free goods'—e.g. oceans, big rivers and unappropriated land—are in these respects more or less like the air. If we include them in the conception of goods, we say farewell to any proper definition of that most important technical term.

This discussion seems to be solely of academic interest. But underlying it, we will find differing views on a most important economic reality. It relates to the appropriation of virgin land. Generally this action is underestimated by theorists. The tendency dates back to Rousseau. He cursed the first man who put up a fence round a piece of land and said: 'This enclosure belongs to me'. Rousseau was the grand apostle of primitive romanticism, and his curse had certainly a deep emotional basis in his sub-

conscious self. But realists and planners cannot be moved by it. In the theory of economic planning the verdict on that first appropriator of land must be the reverse: 'Blessed be the first man who put up a fence round a piece of land to protect it against wild beasts and thoughtless vagabonds, thus making it possible to cultivate the soil and grow food on it to the benefit not only of himself, but also of his family and such fellow-creatures as wished to get the fruits of tilled earth in exchange for their own products'. This unknown man was in reality one of the great benefactors of mankind. However, a great number of learned men have admiringly repeated the energetic exclamation of Rousseau, without giving it a second thought. They seem to have been under the illusion that the first appropriator got his enclosure for nothing. This psychological explanation reveals in reality only one fact: none of those learned men can for an hour have worked on the erecting or repairing of a fence or a stone-wall. Had they done so, they would have known that this labour of appropriation is most strenuous.

The picking of wild berries, on the other hand, is an easy task. Nevertheless, even in this case it would be an exaggeration to speak of 'free goods'. The gathering of berries requires both time and energy. To keep them for later consumption may be a difficult task. Usually it will also be necessary to walk some distance or even to undertake a journey in order to reach a spot where wild fruits are to be found.

In reality, no natural agent can be made useful for human purposes without toil and trouble. The idea of 'free goods' is a romantic illusion, fostered among people who were unaccustomed to manual labour. It should be dropped altogether. We have to admit that all goods are of an economic character, and that no good can be acquired without labour and sacrifice.

Moreover, this is true not only about acquisition and production, but about every other human activity as well. Nothing can be achieved in this world without spending of time and energy. Sacrifice is the attribute of all resolved actions. The

theory about sacrifice as the constituting element of economicity will, therefore, correctly interpreted contain the assertion that every human activity has an economic side. Some authors have accepted this deduction. They must have overlooked that in the light of their theory bombing of factories and burning of warehouses would be raised to the rank of economic activities. Thus they have, all unaware, passed the dangerous borderline between sound and insane logic.

Our conclusion is that the theory which has tried to define economicity through sacrifice is diametrically opposed to the correct explanation of these conceptions. It has described all sacrifices as having an economic character and some goods as being deprived of that criterion, whilst in reality the predicate of 'economic' should be given to all goods, but not to all sacrifices.

Which sacrifices are then in possession of economicity? It is here not the character of the sacrifice, but the purpose of the activity which is decisive. We should deem a sacrifice to be economic if it is rendered for the sake of an economic purpose. But is, as a consequence, the character of the sacrifice without any importance to our problem? It is not. Some sacrifices are of such a kind that they can only occur in connection with economic activities. We can call them *specific economic sacrifices*. Looking back on our previous paragraph we will find that they make up four:

Exhaustion of or decrease in the utility power of instrumental goods.

Running of endogenous economic risks.

Anxiety caused through economic insecurity.

Professional pain or displeasure.

## 23

Leibniz, in his famous *Nouveaux essais sur l'entendement humain*, devised the 'law of sufficient reason'. This formula may fairly well be considered as a basic principle in the general theory

of science. With the American *Dictionary of Psychology* we may sum it up in the sentence that 'given sufficient knowledge, one might discover why any specific occurence is such as it is, and not otherwise'. If the occurence in question is a human activity, this principle will imply the statement that the undertaker of that activity meant to have sufficient motives for his positive resolution. That is to say: in economics the principle of Leibniz will appear as the *law of sufficient motives.* Being of a basic character it can be looked upon as embodying both a theoretical and a standard law. It conveys to us the clue to important economic phenomena. More or less consciously it is always in the mind of the planner. If he wishes to obtain noteworthy results, he has to secure the support of a greater or smaller number of his fellow-creatures. How shall he induce them to give their promises in pre-time and render their services when their assistance will be needed? He must see to it that they get sufficient motives to act.

In order to elucidate the relations between the planner and his eventual assistants or co-operators, it may be expedient to adopt a terminology which I in 1923 introduced in my *Theory of Valuation.* Anyone trying to influence another person I called a *motivator* (Nordic and German "motivent"), whilst I described the person he intended to influence, by the term *motivee* (Nordic and German "motivat'). This mode of expression renders it possible to give a short and unambiguous definition of one of the dominant social conceptions: We will say that if a motivator succeeds in imposing his will upon a motivee, he exercises *power* over him. Thus, power is a relation between motivator and motivee, according to which resolutions of the motivee are subordinate to those of the motivator.

The planner, trying to secure and obtain the services of his motivees, is faced with the difficulty that the assistance he desires, implies sacrifices, and the sacrifices of the motivees will have to be rendered in the interest of the planner, or—if I may be allowed once more to use my terminology from 1923—with the planner

as *interessee* (Nordic and German 'interessat'). Consequently, the planner will have to influence his motivees to such an extent that they promise to help him and later on really render their services in spite of the sacrifices they have to suffer. In other words, he must convey to them sufficient motives to outweigh the anti-motives which will arise from anticipating their sacrifices to come. His initial problem will be to find the right ways and means for this purpose. He has the choice of five different methods.

In the first instance he may appeal to the love, friendship, comradeship, charity or altruistic instinct of his motivees. Amongst near relatives or co-operators the best results will generally be achieved in this way. But not all motivators are themselves in possession of the lofty feelings to which they make their appeal. Some of them are selfish sons or brothers, 'gold-digging' wives, unscrupulous partners, professional beggars or economic sadists of the vampire type. As nothing is so easy to exploit as charity and love, such egoists may profit heavily at the expense of their motivees, and as most of them exercise their powers within the more private or hidden spheres of economic life, they will generally be able to evade social or public punishment.

Secondly, an appeal may be made to the sense of duty or the ethical instinct of the motivees. But this method is not applicable in all cases. It presupposes relations which give the motivees sufficient reason to acknowledge a bond towards the motivator or the institution or person he is acting for. Such a bond may either be combined with or exist as a substitute for love, friendship, family feeling or comradeship. Business men and other executors of professions with economic purposes generally find that they act under a certain moral obligation towards old customers, clients or colleagues. The honest debtor will always try to meet the creditor's appeal to his honour, provided that he is able to act up to his engagements and that the appeal is made in a proper form and at the right moment. But the most whole-

hearted response from the sense of duty and the ethical instinct will be obtained from patriots when the appeal is made to them on behalf of their country and in a time of national need.

This may be the reason for the rather curious fact that the economic importance of an appeal to duty has been nearly overlooked in economics, the explanation being that most theorists since the time of Ricardo have confined themselves to an analysis of private economy of profit and gain under peaceful conditions. But during the Second World War the narrowness and inexpediency of this mode of thinking were put before the public of Great Britain by one of her leading economists. This is what Sir William Beveridge wrote in his famous article in *The Times* of March 17, 1942: 'To say . . . that service rather than gain should be the main motive for all men's acts in war is not to say that exceptional effort should never receive exceptional reward; exceptional effort—to put it no higher—needs exceptional sustenance and freedom from economic care. But to treat private gain as the dominant motive for war effort is to slander our people; British workpeople are not by nature profiteers, and can be made to act as profiteers in war only by mismanagement or misleading. If it is true that output of our factories improved suddenly when Russia came into the war, this does not mean that the workers are stupid in preferring Russia to their own country; it means that in war the most effective spur to heroic effort is an idea, not the hope of personal gain'.

In the third place the planning motivators may appeal to fear and anxiety, faint-heartedness and cowardice, inferiority complexes and mental weakness, submissiveness and lack of willpower. The nazi government in Germany used this method with devilish cleverness. But communist governments have proved that they, also, master it only too well. On the whole, it seems to be the favourite appeal of dictatorships. If it is carried to the extreme, we signify it by the technical term of 'terror'.

Fourthly, the motivators may appeal to the interests of their motivees. These interests are of various kinds. Social position

and economic gain will be the strongest. It is this appeal which has been treated in detail by economic theory, only too often as if motivators did not know any other means by which to influence their motivees.

Fifthly, the motivators may appeal to the reason of their motivees. Reason is in itself something supra-personal, something really objective. An appeal to reason is an appeal to pure thought; it takes the form of a logical, argumentative persuasion. It may induce people to act against their interests. If it especially refers to the rational difference between right and wrong, it may be followed up and strengthened by an appeal to the sense of duty.

For the sake of brevity we will refer to our description of the motivator's methods for influencing his motivees, as *the law of the five appeals*, and speak about the *love appeal*, the *duty appeal*, the *fear appeal*, the *interest appeal*, and the *reason appeal*.

## 24

If a planner finds it necessary or preferable to use the interest appeal, and there does not exist any previous relation between him and his motivees which would make it profitable to them to support him for their own sake, he has to offer them a compensation for the sacrifices which their participation will bring upon them. We will call this general law the *compensation principle of economic collaboration* and refer to it as the *compensation principle*. The motivees have to decide what compensation they find sufficient for giving their promise to collaborate. We will refer to the description of this fact as the *law of sufficient compensation*. Taken together the two laws give a full explanation of the phenomena known as wages, salaries, honorariums and pay; rent of land, houses or ground (the word 'rent' here used in its ordinary sense); freights and other hires; fees and other charges; provisions, gratifications, and Interest on money loans. Under monetary economy these remunerations are rendered in money,

and their quantitative expressions may, therefore, be construed as prices. But it would be superficial to assume that money remunerations make up the whole compensation. All remunerations rendered in accordance with the law of sufficient compensation are based upon contracts, and the compensation will never be less than the totality of those stipulated liabilities which the planner has undertaken to fulfil; sometimes it comprises in addition a number of imponderable elements which are not specified or even mentioned in the formal contracts.

As every student of economics will know, the phenomena in question are generally explained through more special and much more ingenious or even subtle theories. Ordinarily, workmen's wages, rent and Interest are singled out and treated, together with profit, as the typical or even the only allotments of 'the whole produce of the earth'; and 'to determine the laws which regulate this distribution' was, according to Ricardo, 'the principal problem in Political Economy'. In this statement Ricardo formulated his 'principal problem' as a problem in post-time: 'the whole produce of the earth' had already come into existence and been alloted to the 'classes of the community'; what remained to science was to find out 'the natural course' of the different allotments. As a result of this formulation, economic theory generally explained each category of allotments from causes of its own; rent and Interest were described through theories of the most diverging character, and the efforts to co-ordinate 'the laws of distribution' which were made, intellectually in a splendid way, by prominent authors like Wicksteed and John Bates Clark, added in reality a new diverging theory to the great number of previous ones.

The theory of economic planning has to treat the problems of distribution in pre-time. Meeting them at this early stage, we will not be confronted with any supposed 'laws of nature'. We see the planner as motivator face to face with his eventual collaborators as motivees. Under this aspect of time economic distribution appears as a problem of interhuman relations only,

deprived of all fascinating causal mysticism. But instead of the current diverging and disunited special theories of wages, Interest, rent and profit, we are able to deduce all the remunerations in dispute from the same principles of economic collaboration, which again may be regarded as deductions from the general law of sufficient reason.

Turning from the problems of origin to those of the actual height of the remunerations, the theory of economic planning will again deviate from current theories, but now in the opposite direction. The planner must always adapt himself to the social conditions and political laws of the society in which he has to conclude his contracts. Accordingly, describing the phenomena from his viewpoint, the theory of economic planning, in contrast to the teachings of ordinary economics, has to refrain from any general explanation of the height of wages, rent and Interest, leaving all such explanations to 'the treatment of the various economic systems.

## *CHAPTER VII*

# THE CALCULATION PROBLEMS OF THE PLANNER

### 25

WHEN the planner has arrived at his provisional conclusions concerning the goods and services which will probably be produced, acquired or secured through the contemplated enterprise, he is faced with his crucial problem: Will the results obtained repay the sacrifices involved? Is it worth while to go ahead? Before him lies a decisive choice of the yes-or-no-type.

Sometimes, however, the question is more fateful than difficult. It may be imperative for him to obtain the desired goods and services. His whole welfare perhaps depends upon them, or higher interests require them. In such cases the planner will have to take the positive resolution, quite irrespective of the risks he must bear and the losses to which he will be subject. Expressed in French terminology he has to act 'à tout prix'. Particularly during wartime such situations may occur quite often.

But normally the planner's choice is less fateful yet more difficult. Indeed, he will have no inducement to act if he is not fairly sure that his own economic conditions, or those of his interessees, will be better after and because of the execution of the plan, than they were before. In order to reach a conclusion as to this future state, he has to compare the probable results of the considered activity with its necessary sacrifices, including the risks. But as results and sacrifices constitute most heterogenous elements, this pre-time comparison will, in most cases, be of a compound and complicated character.

To overcome these difficulties experience has elaborated a

number of efficient methods, to whose totality we will refer as *standard thinking*. Their common essential is the use of a well-defined 'something', a 'standard', with which the object in question is compared in order to describe it in terms of the standard. In fact, all clear ideas are such standards.

For most purposes it will be sufficient to compare the object in question directly with a standard, or, in case of doubt, with a certain number of standards; that is to say, it is sufficient to undertake *one or more bilateral comparisons*. Take an example. These lines are written on a day when the papers tell the public that an American woman has been sentenced to five years imprisonment for manslaughter. The verdict built upon two relevant comparisons of the yes-or-no-type: the description of the fatal act was compared with the standards of murder and manslaughter. To the economic planner, however, such bilateral comparisons are hardly ever sufficient. In particular, the heterogenous character of results and sacrifices makes it impossible to undertake a direct, bilateral comparison between these two totalities. Here indirect or multilateral comparisons are needed. Such methods presuppose the existence of a *common standard* by which a number of objects can be compared bilaterally, in order later to compare them with each other by comparing their respective relations to their common standard. The expediency of such procedure is dependent on the factual condition that the result of the comparison between these relations will be sufficiently elucidating, so that all other relations between the objects in question may be deemed irrelevant for the purpose.

In reality, this description of standard thinking embraces a general definition of the constantly contested conception of *value*, as we are allowed to say that *value is a description of the relation between an object and a chosen standard, expressed in terms of the standard.*

If the compared object in itself is sufficiently defined, it may be used as standard for its standard. But for the purpose of most comparisons, *conventional standards* have to be used. Thus, in

economic matters *monetary standards* are prevalent. It would, however, be an extreme exaggeration to argue that they dominate all economic thinking. On the contrary, as a rule economists have supported the efforts to penetrate 'the monetary veil'. Generally, they have done so in a threefold way. First, they have tried to interpret monetary values in terms of other standards. Second, they have revealed the use of non-monetary standards in a number of situations. Third, they have supplemented the economic standards applied in actual economic life, by a number of purely *fictitious economic standards* arguing either that living persons behave as if they used such standards, or that a theory describing the use of such standards in a model world will be helpful to the solution of economic problems. In the theory of economic planning in particular it is of importance to distinguish between such fictitious standards and conventional standards.

Both groups have been classified according to a number of theoretical principles. We believe, however, that these classifications have not paid sufficient attention to the position of economic planners. Therefore, we venture to lay down a classification of economic standards elaborated with special reference to planning problems.

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It is of outstanding consequence to distinguish between *qualitative* and *quantitative standards*. A quantitative standard is a manifest unit, allowing the relation between the compared object and the standard to be described by numbers expressing multiples or fractions of the standard unit; such quantitative relations are generally written in the form of equations. All other standards may be termed qualitative.

Monetary standards are quantitative, as money is characterized by a nominal unit. The use of such standards implies a quantification of economic relations. In this we see the justification of their predominance. Certainly money does not represent the 'ultimate standard of (economic) value'. But it has provided us

with the only conventional quantitative standards applicable to economic relations, and it is the want of other conventional quantitative standards that represents the chief embarrassment of any serious effort to 'penetrate the monetary veil'.

It was as a contribution to this effort that Karl Marx, who was just as much a dreamer as an economist and philosopher, launched his well-known theory that the 'ultimate standard' of economic values is to be found in labour, its unit being one hour's simple labour by an unqualified labourer of average ability. But this unit is inexactly defined and most unpractical. No wonder it has been unable to win any bridgehead in the battlefield of realities. Indeed, history does not seem to know more than one effort to realize the dream. This was made during the first enthusiastic years of the Soviet system. The initiative was taken in January 1920 in a proposal for 'theses concerning the financing of industry' placed before the third congress of economic councils. One of those theses contained the following 'statement': 'In order to counteract the great fluctuations in the monetary unit, it is necessary to introduce a constant unit of account, and as its basis a unit for the application of labour is to be used'. The immediate result of the proposal was the appointment of a committee which was given the mandate to study the problem of introducing as unit of economic value a 'trudovaja edinicia' (shortened to 'tred'), a 'labour unit', defined as 'the simple labour of a normal day with normal exertion within a given trade'. In his interesting treatise on the monetary problems of Soviet Russia, Mr. Jurowski remarks: 'We will not in this connection raise the question of the solubility of the problem which the economic policy faced through the formulation of this mandate, as we have to restrict ourselves to the observation that the efforts made for the purpose did not lead to any positive results, either in theory or in practice. The new economic policy (the Nep) dropped the problem, and the theorists renounced any further discussions on the subject, although they had not come to any conclusion'. This modesty was certainly very wise.

If it had been possible to use a labour unit as a quantitative economic standard, the idea would obviously have been realized in practice some centuries or perhaps millenniums before Karl Marx wrote the famous introductory chapter to his big work on Capital.

Whilst the Marxists have been more or less inclined to look upon labour as the ultimate standard of economic value, the Austrian school tried to build the fundamental part of value theory on the conception of utility. But is it possible to use a utility unit as a quantitative standard?

'Marginal utility' is, as far as I am aware, the only utility unit which ever won a foothold in economics. But in none of the volumes that elucidate economic problems by the help of this ingenious theoretical notion, have I found any statement to the effect that any man ever used it as a quantitative standard unit in real life. This is most natural. 'Marginal utility' has been defined in different ways, but in none of them does the conception appear as a manifest unit of objective or conventional character. Let us as an example take the definition given by Alfred Marshall in his *Principles*, perhaps the most ingenious introductory text-book on economics ever published. Marshall writes—in section 1 of the third chapter of his third book: 'That part of the thing which a person is only just induced to purchase may be called his *marginal purchase*, because he is on the margin of doubt whether it is worth his while to incur the outlay required to obtain it. And the utility of his marginal purchase may be called the *marginal utility* of the thing to him. Or, if instead of buying it, he makes the thing himself, then its marginal utility is the utility of that part which he thinks it only just worth his while to make'. It follows directly from this definition that, at the same time, there will be a special marginal utility for each thing every person purchases or makes, and these numerous marginal utilities will, as a rule, vary with each new purchase and each addition to the production of the thing. Consequently, in a big city like London billions of new marginal utilities will be fixed every day. The

very idea of the conception is, indeed, to explain in a pedagogic way the enormous variability of economic values. But the ideal standard unit will have to possess the greatest possible unchangeability. Among known units the metre and marginal utility represent the poles. We may conclude that whatever part utility plays as an inducement to action, it seems impossible to use a utility unit as a common quantitative standard unit.

Technocrats propagated, in the early 1930's, the idea of using a unit of energy as a quantitative economic standard unit. But, as far as I could see, they were not able to construct more than one connecting link between such a unit and economic reality, their final claim being that a country's magnitude of energy units should serve as its legal basis for the issue of bank notes. Such procedure, however, would not mean replacing the conventional monetary units by new abstract energy units. It would simply create a new and strange monetary unit in addition to the old ones, together with the introduction of most disputable rules for coverage of paper money.

All in all, if a planner desires to express the results of his comparisons in exact quantitative values, he seems forced to have recourse to some monetary standard. But will this sad fact prevent him from reaching a rational solution of his calculation problems if he is prevented from using a monetary standard, or if some objects of his necessary comparisons are void of sensible relationship to money? By no means: the method of multilateral comparisons will enable him to find a rational basis for his decisions, even if he is thrown upon exclusive use of qualitative standards. He compares in order to weigh motives against anti-motives. If, as the result of two bilateral comparisons, he has described a motive and an anti-motive in terms of a common qualitative standard, thus stating their respective qualitative values in the like relations, he is able to compare these two values directly with the purpose of making out which of them will mean most for his resolution. As a rule, his conclusion will appear as a statement that one of the compared

values is greater than the other one (value of a in terms of s > value of b in terms of s). We may, perhaps, introduce the notion *semi-quantitative* to signify comparisons between values expressed in terms of a qualitative standard when they result in a statement expressing a difference in magnitude. Such comparisons may be used not only when a quantitative standard is unavailable, but also when it is thought unnecessary to express the difference of value in exact terms. In the description of the planner's calculation problems it is of importance to keep distinct his use of monetary standards and his use of semi-quantitative comparisons.

27

The Austrian school laid great stress upon the difference between *objective* and *subjective values*. In the theory of economic planning it is also expedient to make use of this distinction, which, in our system of description, we will try to explain as the outcome of two different groups of comparisons. The first of these groups is characterized by the fact that they always give the same results, quite irrespective of the person who makes them—*the comparer*—, provided only that he observes with sufficient accuracy and reasons in conformity with the laws of logic. As the values describing these results are thus independent of the comparer's sentiments, emotions, opinions and power of judgment, they may really be deemed *objective values*. The second group, on the other hand, comprises such comparisons as are influenced by subjective qualities of the comparer. It is, therefore, fair to regard them as *subjective values*. Comparisons resulting in objective values we will denote *value determinations;* comparisons resulting in subjective values are generally called *valuations*. The term *computation* should correctly be understood as referring to the fixation of quantitative values, be it by value determination or valuation.

By definition, statements of objective values are either right or wrong. In relation to correctness, subjective values pertain

to two different classes. Valuations aiming at surmising objective values—*guess values* as we will call them—may be termed right or wrong if their purpose is to assert exact results. All other valuations, including computations of approximate objective values, can only be deemed expedient or inexpedient, happy or unhappy, reasonable or unreasonable, wise or silly—that is to say: they can only be judged by other valuations.

Leading to resolutions stating value determinations are motivations of the monotype; valuations on the other hand, pertain to the type of alternatives.

28

Values that directly express the outcome of observations or valuations should be called *primary values*, whilst values that are derived from other values rank as *secondary*. All secondary values are objective in relation to their primary values, but if their primary values are subjective, they are, themselves, subjective in all other relations. The real character of secondary values are, therefore, never known unless the character of their primary values can be ascertained. However, it is a common trick of economic propagandists and swindlers to conceal the subjectiveness of unreliable primary values behind a smoke-screen of secondary values, in the hope that people will be satisfied when they have stated the correctness of the secondary values in relation to their primary values, not burdening themselves with the additional work of testing the character of those primary values. Most book-keeping bluffs are made in this way. Planners, therefore, have to be careful when they are invited to calculate on the basis of secondary values.

29

A distinction not used in economics but most elucidating in the theory of planning, is that between contractual and unilateral values.

*Contractual values*, being agreed upon between two or more parties, express mutual economic interests, provided that none of the parties has been in the position to press his motivees to accept values favourable to the motivator only. In free societies the greater part of prices, wages and other economic compensations represents contractual values.

*Unilateral values* comprise three different classes. The first group consists of such values as are fixed during motivations as parts of the motives. In some cases they may be published in post-time, but in principle they are only instruments used in pre-time to resolutions. *Auxiliary values* will, therefore, be a proper technical term for their denotation. The second group consists of such values as represent offers or suggestions for contractual values. What are called 'subjective prices' belong to this group. Such *proposal values* describe the composition of capitalistic demand and supply. The third group consists of values fixed by some authority, ordering subjects to adopt them for the regulation of their business. Such *authoritative values* dominate prices, wages and other economic compensations in totalitarian societies, and become more and more important in countries of centralized planning.

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Unlike the values of pure mathematics, which belong to abstract time, economic values pertain to chronological time, either to periods or simply to moments. Consequently, they will not be sufficiently characterized without statements of their time relations. The time aspect thus adds to economic values a special variability which lies outside the sphere of pure mathematics. We may apply a new version of the famous Roman proverb, saying: times change—and economic values in them.

Viewed in post-time, economic values appear as 'given data', and have to be ascertained by historical and statistical methods. But to state economic values in post-time does not mean to

acknowledge their correctness or expediency. On the contrary, in practical life the purpose of a post-time examination of economic values is generally to detect their faults or shortcomings. According to the old adage, not even the gods can alter the past. It is the job of the chartered accountant to revise it. After having been critically examined in post-time, economic values will, therefore, appear as *confirmed*, *corrected* or *contested*. New *revised values*, taking the place of the corrected ones, are characterized by two time relations: that of the original fixation as well as that of the revision. If nothing but formal and logical errors have been revealed by the audit, the revised values may be termed secondary and objective in relation to the original ones; on the other hand, if new principles of valuation have been used for the purpose of verification, the revised values will appear as primary and subjective.

Restatements or revisions in post-time of values originally fixed at some moment in the past, are of high importance to the planner in all cases in which it is desirable or even necessary for him to base his judgments on quantitative formulations of economic experiences. But he is only interested in such post-time values as are indicative of future conditions or developments that may influence his planning. Unlike the historian and the statistician he makes a most personal and most restricted selection of values from the past. We will refer to those post-time (and same-time) values that are useful to his planning, as *diagnostic values*. Unilaterally chosen by him, they make up the bulk of his auxiliary values. His special purpose may induce him to revise the original values in a way which does not implicate any criticism of their previous fixation, but only an adaptation to a new use.

What the planner aims at, is a pre-time fixation of future values. As the future is always uncertain, every such fixation will be dependent on the prevision, foreknowledge and pre-judgment of the planner. Consequently, all pre-time values are primary and subjective.

Pre-time values like revised post-time values, are characterized by two time relations. In the first instance we have the moment of the valuation in pre-time, corresponding to the moment of revision in post-time. Secondly, we have the future moment or period in which the pre-time values are supposed to materialize in economic reality. This second time relation, however, cannot be completely parallelized with the corresponding relation of revised post-time values. The fact is that the chronological moment of the original fixation of a value in the past is known or may, at least in theory, always be revealed. On the other hand, pre-time values can refer to future moments or periods characterized not by their chronology but by their dependence on expected would-be events. A planner may, for instance, calculate future values which he thinks or hopes will be realized if a tariff is revised, a new railway constructed or a monopoly position achieved. Consequently, it will not be easy to symbolize such time relations by elementary mathematical indices.

Corresponding to the difference between conjectural and planned future, we have the difference between *conjectural* and *planned future values*. Conjectural values fixed in pre-time we denote *prognostic values;* they are typical guess values. Planned values fixed in pre-time we denote *draft values*.

Only for special purposes are values fixed in post-time or pre-time. Indeed, pre-time values are generally of small importance outside the sphere of planning, in which they play a predominant part. It is, therefore, quite natural that the term of 'value' in general economics is used mostly to signify what we will call *same-time values*, that is values describing relations to an economic standard at the time of the description. *Prices* may be defined as quantitative same-time values, stating what is paid for defined goods or services.[1] This definition makes it clear that those economists who, suffering from intellectual complexes

[1] In almost all cases 'to pay' can be explained as rendering some monetary compensation, and prices are nearly always fixed in money, but it seems preferable not to restrict the definition by including this characteristic as an essential.

against the word 'value', completely delete it, by this apparently radical procedure have not succeeded in evading all value problems. They have only confined themselves to the treatment of a certain class of values. The method is thus most restrictive. Nevertheless, Gustav Cassel has proved that a text-book on economics can be written in a brilliant way even if it only deals with such values as we call prices. But it would be impossible to write even a poor theory of economic planning on that narrow basis, and as planning will have to play a growing part in the economics of to-morrow, the typical price theorists of the 1920s and the 1930s were, as a matter of fact, less modern than the old-fashioned value theorists of earlier decades.

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## EXCURSUS ON BÖHM-BAWERK'S THEORIES

*(Of interest to professional economists only)*

Does there exist any law-determined relation between pre-time values and the later corresponding same-time values? This question is of high importance to the planner. But, as known to every student of economics, it was originally raised under quite other aspects: Böhm-Bawerk made it the crucial point in his theory of Interest. Transferred to the terminology of this treatise, his result may be expressed in the following sentences: Other things being equal, the pre-time value of goods which will not be available until some future date—'future goods'—suffer a deduction, a 'disagio', in relation to the same-time value of corresponding goods immediately available—'present goods'. But as time proceeds, this difference between the two values will successively decrease and finally disappear; the former 'future goods' will ripen until they become 'present goods', and the former disagio will in post-time appear as an addition to their pre-time value, an agio, constituting Interest. In Böhm-Bawerk's view, Interest originates, accordingly, as a discount,

and is 'earned' in post-time to its fixation. Apart from the idea of Interest as a child of time, Böhm-Bawerk's theory involves a principle of planning, which may be read as follows: Other things being equal, the planner has to fix the pre-time values of future goods as equal to the same-time values of present corresponding goods minus a disagio which will have to bear some relation to the time he deems it probable that he must wait before the future goods become available. We will denote this deduction in value the *disagio of calculated waiting*.

The principle here described may be characterized as a theoretical law of rational valuation. But in practical life, 'other things' are seldom equal, and the disagio law of calculated waiting will have to be supplemented by some standard principles. In order to elucidate the problem here before us, it may be expedient to consider the relations between same-time values of present goods and pre-time values of corresponding future goods as they appear in some typical situations.

A resort hotel has a summer season from June 16th to September 15th. During this period its catering department needs 500 pints of milk daily—that is all in all 46,000 pints. Suppose that such a quantity of milk, as a present good, was available on June 15th; what would on that date be the relation between the same-time value of the 46,000 pints delivered immediately and the pre-time value of the same quantity delivered in equal portions each of the subsequent 92 days? Assumed that the hotel had no possibility of resale, it could, at most, use 2,000 pints of the 46,000 delivered on June 15th. The pre-time value of the successive daily deliveries would, accordingly, be 23 times as high as the same-time value of total delivery at the beginning of the season. Corresponding observations will have to be made in all cases referring to quantities of perishable one-use-goods. In general, we can say that quantities of such goods attain their maximum value if delivered successively as the wants become actual.

In the relation here discussed, personal services should be

classified with perishable one-use-goods. It may happen, however, that a certain service, for some personal or technical reason, can be rendered just once or a very few times. Such service will attain its highest value at the hour when it is most needed, quite irrespective of the time factor. The relation between its value if it is going to be rendered immediately and its pre-time value if it is secured for the calculated time of greatest need, will be settled in consequence, the latter value being the greater one.

Our next typical instance refers to such one-use-goods as are capable of being stored for a shorter or longer period. Let us return to our resort hotel. Say that this seasonal enterprise needs 5 gallons of petrol daily during the 92 summer days it is open. Would the valuation preference be in favour of having delivered 460 gallons on June 15th or would the manager find it more expedient to contract for some sort of periodical deliveries? From the utility point of view the position of the hotel will be the same in both cases. Other factors must decide. To begin with, the manager has to consider the possibility of secure and convenient storage in the outhouses of the hotel. Secondly, the cost factor cannot be overlooked: the cheapest purchase will, as always, represent an inducement of its own. Thirdly, the risk factor will carry weight: delivery on June 15th means on one hand that the responsibility for storage during the whole season will rest with the hotel; on the other hand the hotel would be independent of possible transport strikes and other factors which might impede or delay later periodical deliveries. In some form or another, the same motives and anti-motives will appear in the considerations of any planner who has the choice between early total delivery or subsequent periodical deliveries of one-use-goods which can be kept without deterioration, and no general principle will determine the value relation between the same-time value of bulk delivery and the pre-time value of later periodical deliveries.

The fourth type to be considered, is the term-good. As every waiting involves a sacrifice, as the life-time of the good can

seldom be forecast with any degree of certainty, and as economic conditions when the good has to be dispensed with will generally be unpredictable at the time of planning, it seems fairly justifiable to lay down the following standard principle: a term good attains its maximum pre-time value if it is going to be delivered at the earliest moment when the want for it has materialized. In my opinion, it must have been a somewhat unclear and distorted apprehension of this principle which led Böhm-Bawerk to the assumption that 'present goods possess a technical superiority over future goods'. Economists like John Bates Clark, Knut Wicksell and Lauritz Birck have sufficiently proved that this so-called 'Böhm-Bawerk's third argument' lies outside the scope of his main theory. In this treatise we have only to stress that the 'earliest moment' when the want becomes actual, does not in principle coincide with the present. On the contrary, it may even be rather remote. As term-goods like tools and machines are generally complementary goods, the planner will, in particular, have to pay full attention to the law of the latest delivery.

Lasting goods, representing our fifth type, will be valued by the planner in pre-time in accordance with the same principle as term-goods, provided he can only make use of them in his own enterprise. The reasons for this are obvious. Even if the planner knows that his want for the good in question will be growing as time proceeds, he is interested in acquiring it as soon as his want for it becomes actual, because once acquired, it may be kept for any later use. If, on the other hand, the good is acquired before it can be used, he will have to look after it in a sort of advent time, and the supervision may cost labour and trouble as well as direct outlay. But in a society of a more or less capitalistic type real estate can be let. If the acquired lasting good is in demand, capitalistic planners will, therefore, through the receipt of rent be compensated or even more than compensated for their waiting. Where rent is an established category of income, lasting goods will, consequently, be of higher value when they appear as present goods than when available as future goods

only, their maximum agio value being approximately equal to the attainable rent for the calculated time differences. When rent can be regarded as a 'given quantity', the theoretical law of Böhm-Bawerk will thus hold good even as a standard law.

If the acquisition of rent is the purpose of purchasing real estate, such lasting goods will also belong to our sixth typical category: *investment goods*. Besides real estate this class comprises shares, bonds and other securities which vary in price from day to day. If a planner has the choice between buying such a security to-day or waiting, say a year, his preference will depend on his valuation of the future quotations. But if he should find it reasonable to set aside any such consideration, he will value acquisition to-day higher than later acquisition, the maximum difference being his calculated income from investment in the period between the two moments of reference. Consequently, the standard law of valuation will in such cases coincide with the theoretical law of Böhm-Bawerk.

Our seventh and last typical category comprises money. Here we have to face a rather complicated problem, as money represents not only the chief means of payment in any society but also the chief means of investment in capitalistic countries. Money, therefore, may be used for a far greater number of purposes than any other object, and the situation placed before the planner when he is going to compare the pre-time value of future money with the same-time value of immediately available money, will vary accordingly. We have, therefore, to abstain from any effort aiming at establishing a common standard law for all such valuations. But it may be useful to describe some special situations in which problems of planning are involved.

To begin with, let us consider the position of the planner in a non-capitalistic society or, what in this relation will create the same conditions, a society in which cash, for some reason or other, for the moment is not in demand. The planner is aware that at a certain time, say after one year's preparations, he will need a sum of money for buying material and paying out wages.

He has the choice between drawing the money at once or after a year. What will be his decision? Decidedly to wait a year. He would display what we can call *liquidity dispreference*. But if he has to pay some premium for the permission to wait, his choice would seem doubtful. If he is quite certain that he could keep the money, safe and unimpaired, in his own custody without any extra outlay for its protection and without any aggravating anxiety for its preservance, he would not possess sufficient reason for paying the premium. Besides, if money sums are kept by the owner, they possess a reserve value as a means for meeting unforeseen demands. In all probability, he would, therefore, in such a case show 'liquidity preference'. But if his keeping the money himself would involve him in any particular risk or cause him considerable headache, his decision would probably be reversed. The greater his possible loss, the greater his liquidity dispreference, the greater his willingness to pay a premium. Consequently, under non-capitalistic conditions, present money will either be of less value to the planner than money available at the moment of planned future use, or possess just the same value. But during early capitalism also, the ensuing disagio tendency of present money was firm enough to render possible the foundation of deposit banks like those in Hamburg and Amsterdam, institutions which derived their whole income from premiums paid by customers wishing to see their money safely kept. The well-known fact that these banks intensified their service by allowing their depositors to draw on them at any time both for personal use and for payments by transfer to other accounts, reduced the motives of contemporary planners for keeping money at home. Even in the most developed capitalistic countries of the twentieth century, however, the fact that central banks, and in times of monetary abundance other banks too, do not pay Interest on call money, proves sufficiently that the natural principle of the planner to value future money as at least equal to present money, if it will be at his disposal when his want for it materializes, constitutes a strong economic tendency.

Next, we turn to the 'common man', who derives all his income, or the paramount part of it, from compensation paid for his work. Let him have the choice between receiving one year's pay in advance, say on January 1st, and receiving it in monthly or weekly instalments as his services are rendered. If he were an 'economic man' of bygone theory, he would certainly prefer the big payment in advance, as the immediate receipt of such a sum, quite apart from Interest to be acquired under capitalistic conditions, would enable him to plan purchases better and to profit by price reductions rendered by sale of greater quantities. But being a rational man he makes the opposite decision, as a rational man is one who knows and understands the irrationality of human behaviour, and Mr. Everybody has to foresee that if the whole year's pay were available to him on January 1st, he would probably be reduced to a beggar's state before September 1st. We live in a world of temptations, not in the emotional vacuum of econometrics. Consequently, the wage-earner and his equals attribute the agio value not to present money but to an evenly distributed influx of future money. The planners base all the world's wage systems on their knowledge of that valuation.

Our third typical situation gives us the picture of the true capitalistic planner. To him present money means more than future money, because he will always find means to invest his cash in such a way that he can extricate it again when needed for the execution of his enterprise plans, enjoying profit, rent or Interest in the meantime. Generally the market rate of Interest for loans of suitable length will represent the maximum agio he is willing to attribute to present money.

As we see: three different situations—three different principles of valuations.

To conclude: Böhm-Bawerk's theoretical law is valid provided all other things are equal, but gives downright misleading indications of the planner's comparisons between same-time values of present goods and pre-time values of corresponding future goods. The various standard laws describing rational

valuations of such kind in practical life, have as their common basis the experience that goods reach their maximum same-time value to the planner at the time when need for them is greatest. Same-time values of present goods can, therefore, only obtain an agio as against pre-time values of corresponding future goods, when the present goods in question can be preserved for the planned moment or period of future use while another use of them in the meantime is favourable. If such other use of the goods lies outside the scope of the plan, an agio can only be attributed to present goods in a society which acknowledges rent, profit and/or Interest. Consequently, Böhm-Bawerk's use of his theoretical valuation law to explain the origin and existence of Interest as a primary economic category must be totally rejected. In particular it should be brought against him that the capitalistic planner's preference for present money is an effect of an economic system which includes Interest and, therefore, cannot be termed the cause of a major part of that system. Interest as a category cannot be explained from any principle of a general 'liquidity preference' either, as the planner in several situations displays what we have termed 'liquidity dispreference'. In the theory of economic planning we have, on the whole, to abstain from any effort of formulating a general principle for comparisons between same-time values of present goods and pre-time values of corresponding future goods, as an analysis of typical situations proves that changing situations will induce the planner to apply different principles of rational valuations.

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After having described and discussed in the foregoing sections the apparatus of valuations used by a rational planner as instruments for his calculations, we now turn to the calculation problems themselves, as they appear when he has to decide whether the contemplated enterprise shall be started.

Here again we must beware of generalities. Situations vary,

and each decision will have motives of its own. What we can do, is only to classify the economically most important types of calculation problems with a view to rational solutions.

To start with, a bipartition of the problems seems suitable. We will distinguish between planning for new enterprises and planning for changes in old ones. In the first instance we have to deal with *total planning*, in the second with *partial planning*. The former group of problems aims at calling into action new forces of economic activity, and may be described as referring to *creative planning*, the latter group will be concerned mostly with adjustments to altered conditions, and appear, accordingly, as problems of *adaptation planning*.

Within creative planning a further bipartition will be elucidating. We should distinguish between such enterprises which will give birth to new organisations, firms or other economic units, and such enterprises which are planned on behalf of units already in existence. It may be appropriate to speak of *primary and secondary creative planning*. Say an inventor in a capitalistic society has constructed a new type of engine and wishes to bring it into production. He can choose one of two procedures. Either he may influence his business friends to start a new company for the purpose. Or he may sell his rights to an already existing firm in the branch, on the condition that the new engine is really produced and equipped in accordance with his design. In both cases the planning involved should be termed creative. But if a new firm has to be founded, planning will, to use a somewhat paradoxical expression, be still more total than if the invention is simply sold, as it has to comprise not only the total technical plan for production, but also the total economic plan for the establishment of a new commercial unit. Thus, a new firm will have to provide especially for all required factors of production, whilst an existing firm, even if it is going to erect a new plant for the purpose, will be able to include the use of factors already at disposal. It seems, therefore, perfectly justifiable to distinguish between primary and secondary creative planning.

A bipartition will be expedient also within the sphere of adaptation planning. Here a distinction must be made between adaptation by *increase* and by *decrease* of economic activity. Planning for one of these opposite purposes will often adopt the character of marginal thinking. No wonder that the problems involved have been treated by authors belonging to the schools of marginal utility and econometrics. Pure theory has here achieved remarkable results, particularly in its treatment of the so-called 'laws of productivity', which in reality apply to partial planning; in the exposition by my colleague Professor Ragnar Frisch, these have even reached a state of perfection. But it should be borne in mind that they are theoretical laws only. Thus, the aesthetic preference for harmony so often displayed by mathematical thinkers, is revealed here once more, as the formulations in principle deal with land, labour and technical instruments under just the same aspects, notwithstanding the essential differences between their economic characters. Applications of these theoretical laws in practical life will, also, often be impeded by the planner's lack of information, as marginal thinking is no good at all if not based on detailed knowledge.

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Discussing total planning, it seems expedient to choose a unit comprising all persons for whose benefit the planning takes place. In our terminology this unit may be described as the totality of the planner's interessees. Sociologically such a unit is characterized as a *group*, and the people belonging to it as its *members*.

As known to anyone acquainted with modern sociology, the conception of the 'group' is nearly indispensable to any satisfactory description of the fundamental sociological relations; in a work like Theodor Geiger's sagacious treatise in Danish, it plays a predominant part. Economics, on the other hand, still neglects the group. The explanation for this omission seems to

be that most economists, following the example set by Adam Smith, in principle have dealt either with micro-economic problems treated in a rather atomistic way, or with macro-economic problems referred to nations or States. Consequently, the 'group' idea has fallen between two stools. In the theory of economic planning, on the other hand, it seems expedient to use the sociological group conception as a fundamental notion.

For the group consisting of all the planner's interessees there does not seem to exist any acknowledged technical term either in sociology or economics, and no artificial word for this unit lies near at hand. We may, therefore, be allowed to denote it by the abbreviation *P.I. group*. It may be of any size or social organization. Some such groups are in principle biological, e.g. the family, social, e.g. a club, or administrative, e.g. the inhabitants of a municipality, whilst other units even in their origin and main purpose belong to the purely economic sphere, e.g. the shareholders of a joint stock company. Extremes are the micro-economic 'one-man group' of a Robinson Crusoe, and the citizens of a big empire. A bipartition of the various P.I. groups seems, however, to be theoretically elucidating. Firstly, we have groups for which the deciding plan solely purposes to render possible consumption of their whole produce by their own members. In this case we have to deal with *isolated P.I. groups*, and any policy purposing to create, maintain or extol such a state of affairs should be characterized as *economic isolationism*. Secondly, we have groups for which the purpose of the deciding plan is to satisfy the wants of members partly by their own produce and partly by means of exchange; *commercial P.I. groups* may be a fitting term for such units. They may be more or less sovereign, more or less subordinate.

Irrespective of the enormous quantitative and qualitative differences between the various P.I. groups, a rational planner will in all cases have to be motivated by one and the same economic principle, provided he is trying to promote the welfare of his interessees: he must plan and calculate with a view to

having produced or acquired what is necessary to satisfy the reasonable needs of all persons within his care for the period covered by the plan. We will denote this motivating idea the *principle of sufficiency*. It is of paramount importance. If there existed any such thing as the economic philosopher's stone, this principle should be the inscription on it.

It follows directly from the principle of sufficiency that a planner for a P.I. group cannot operate with marginal calculations as an instrument for total planning. The purpose of measuring marginal utility, marginal productivity and corresponding marginal quantities is, indeed, to find the most minute limit for that work or outlay which pays. But the P.I. group planner has to reckon with a rather big *security margin* to meet demands resulting from unforeseen events. This security margin will have to be determined by estimate, and in making such estimates the planner cannot be motivated by any calculations of probable effects on later marginal utility, but by his judgment of dangers ahead. Say he succeeds in having produced or acquired an appropriate security margin, then his interessees will live in a reasonable economic security even if the worst comes to the worst. If, on the other hand, results surpass fears, the planner and his interessees will, at the end of the period covered by the plan, find themselves in possession of a *surplus in products*.

This expression may be translated into French by the phrase 'produit net'. When referred to a 'class' in the society, it covers also just that phenomenon in real economy which was denoted by the favourite physiocratic term, as this was described and explained by Turgot in his famous treatise on the distribution of wealth.

If such a surplus in products has come into existence, a new problem is revealed to the planner: what to do with it? This problem may be most serious, because the surplus is not won gratuitously, but has cost sacrifices which demand compensation.

We thus see that the planner is up against two sets of problems, which are interconnected but opposite. Following the principle

of sufficiency, he has to solve the problems of scarcity; planning and generally realizing a surplus in products, he has to solve the problems of plenty. Failing to reach sufficiency he is threatened by a *crisis of scarcity*, failing to find satisfactory use for a surplus in products he is threatened by a *crisis of plenty*. Economy bears the faces of a Janus. It is necessary to perceive this two-fold character of economic difficulties in order to understand that an economic crisis is not always and solely a result of cyclic tendencies, but may be threatening at any time, whether economic activity runs along rhythmic lines or not.

The two opposite kinds of economic crisis have, naturally, most different characteristics. Their more remote consequences also, belong to unlike categories. The crisis of scarcity is by far the worst. Starvation, disease and pestilence may be its followers. Where natural and social conditions are bad, it may assume a chronic character. The crisis of plenty, on the other hand, will always be more or less acute. It is the tendency of plenty to disappear, and when the loss is suffered, it belongs to history. The subsequent adjustment may take time, but it means, in principle, a transition to better days. In spite of these obvious facts, the traditional theories of business cycles have displayed a tendency to describe the crisis of plenty as *the* economic crisis, apparently because this type of crisis shows a more marked periodicity. The distress in the bombed German cities in 1945 and 1946, being the worst economic crisis in that country since the Thirty Years War, falls outside the scheme of such theories. Even brilliant economists have attributed *the* crisis to over-production, and the competing theory of 'under-consumption' has polluted the discussion. The theory of economic planning, however, is simply forced to speak of *under-production* as the criterion of the crisis of scarcity, whilst an *over-production, revealed in post-time to the positive resolutions to produce*, will be the primary cause of the crisis of plenty.

To the planner, however, the crisis of plenty raises far more complicated problems than the crisis of scarcity. When goods

are scarce, his incentive assumes the shape of a commandment: 'Increase production—if possible!' Face to face with a surplus in products, on the other hand, various alternatives will present themselves.

The isolated P.I. group offers the narrowest range of possibilities. Durable goods may be stored as a reserve, and for some products substitute uses may be found; the remainder will simply represent a *waste surplus*. If we symbolize the value of the useful products by P, and the value of stored products by R, the value of goods given a substitute use by S and total cost by C, the group will be a loser if the expression

$$P + R + S \gtrsim C$$

does not hold good. Whatever standard he uses, these values can only be stated in post-time to the activity. If we symbolize the planner's corresponding subjective pre-time values, computed during his motivation, by p, r, s, and c, the least favourable calculation which can induce him to a positive resolution, will be

$$p + r + s = c.$$

But if he is very cautious and fears the uncertainty of the values r and s, he will only be motivated to start production if

$$p > c.$$

The 'resolution point' of most planners will lie between these limits.

If the planner, giving preference to a rather big security margin, has to reckon with the production of a non-negligible waste surplus, his pre-time estimation of marginal value will be equal to zero, a statement which illustrates the theoretical fact that the valuation laws of the Austrian school do not apply to the planner's pre-time computations.

Planners for commercial P.I. groups are in a more favourable position than planners for isolated groups, as their choice will be wider and the possibilities to counteract a crisis of plenty as well as a crisis of scarcity, consequently more numerous.

The difference between the two kinds of groups lies, as stated

by definition, in their differing standpoints to trade. Whilst the isolated P.I. group only produces and consumes, the commercial group also exchanges goods and services with other groups. A smaller or greater part of its surplus in products can then be used for acquiring goods or services of other groups. Consequently, the commercial group can produce a much bigger surplus without fearing over-production.

If we introduce the symbols E and e to signify the values of those products which a commercial group uses for exchange purposes, the post-time expression for its not being a loser by a production will be

$$P + E + R + S \geq C,$$

and his area of pre-time doubt will lie between

$$p + e + r + s = c \text{ and } p + e > c.$$

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An isolated P.I. group may be run without the help of money, as production and distribution can be organized patriarchally, whilst consumption goes on along communistic lines. The planner of such a group with non-monetary economy is forced to base his judgment on semi-quantitative valuations and prevente from making use of any real book-keeping. He will have to make his resolutions more or less haphazard, and even in post-time he may find great difficulty in ascertaining whether achieved results were worth sacrifices involved. Maybe he has an inborn rational instinct which, nevertheless, will guide him towards happy decisions. But wanting the corrective of stern numbers, he may easily become a victim of personal preferences and sympathies. He, as well as his interessees, will be inclined to look upon economic realities from purely emotional angles. It is, also, a remarkable sociological fact that economic isolationism as a rule is accompanied by emotional planning and widespread animosity against money.

Rational planning, however, demands calculations on a strictly quantitative basis, and as a greater number of comparisons can only be made by the help of conventional monetary standards, this quantification is only possible within a monetary economy. Here the planner will, during the sixth phase of his thinking in pre-time, try to *monetize* his calculations to the degree which is possible. At this stage his planning has to adopt the form of thinking in terms of money, whether he is planning for a group, a firm or for his own separate economy only.

Prices will be his principal guides. On one hand they inform him of the sums he will have to pay for instrumental goods and other factors of production, on the other they indicate what he can expect to gain by sale of the planned produce. Where market prices exist, he can build upon them. Normal rates of Interest, wages and rent can also, in general, be included in the calculation. If some special services are required, the remuneration for them should preferably be fixed as contractual values. On individualized goods, like sites, he must try to obtain option at fixed contractual prices.

By this procedure the planner will bind his calculations to that monetary standard which is conventional or, maybe, even prescribed in the community to which he belongs. If he fears that this standard lacks stability, he will have to make some special calculations in order to arrive at a judgment on the probable effects of inflation or deflation. A closer analysis of these calculations must be referred to our chapter on monetary planning.

But no planner will be able to monetize all factors which are of importance for his decision. Some imponderables will always escape quantification. In accordance with their influence respectively in favour of positive or negative resolution, we will characterize them as *plusvalues* or *minusvalues*. If the result of his comparison between calculated monetary gain and sacrifice leaves a small margin, the economic planner is in much the same position as the rational bridge player who, after having counted

his honour tricks, is in doubt about his bidding: the plusvalues and minusvalues will decide.

The introduction of monetary calculations means a great relief to a rational group planner. In a non-monetary economy he is under an obligation to provide means of subsistence for all his interessees. He must study their needs, and he will have to arrange for the distribution of all goods and even services required for the timely satisfaction of all various wants within the whole group, provided that he does not find them unreasonable. In a monetary economy, on the other hand, he can compensate all partakers in the activity by paying them in money, thus leaving it to the various individual money-receivers to arrange, themselves, for the acquisition of those goods and services which they desire. Thus the distribution of goods and services will be effectuated by a semi-automatic process directed by individual demand and made technically possible through the circulation of money. When the development in this direction is completed, the group planner will be able to look upon the group economy as the economy of a unit of its own, simultaneously comprising the welfare of the group and separated from the special economy of each group member. This is the form of organization which has made possible the modern free national society, in which the all-embracing group, the State, leaves most of production and the rendering of services as well as distribution to smaller groups and individuals.

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The planner cannot always calculate the results of an economic activity in money. In particular, such activities as have for their purpose to run institutions working for the common and unpaid benefit of would-be interessees, the *welfare activities*, fall outside the scope of pure monetary economy. The planner will nevertheless calculate his foreseen sacrifices in money, as only adherence to the principles of money calculations will make it

possible for him to keep his outlay within reasonable limits. His final yes-or-no resolution will then be taken after a comparison between total outlay in money, as calculated in pre-time, and hoped-for benefit.

In all other cases, the planner in a monetary economy will calculate results as well as sacrifices in terms of money, generally aiming at winning a *surplus in money*, a 'profit', when the activity is accomplished or while it is going on. This 'profit economy' raises two main calculation problems to the planner. The first problem may be formulated in the following question: what is needed to ascertain that the profit represents a net gain? The second problem is of a related character: does there exist any objective criterion which can be used in order to measure the calculated magnitude of the profit, in pre-time as well as in post-time, with a view to its sufficiency? As an instrument for the solution of these two problems, practical planning has invented the idea of *capital*.

The reasoning leading up to this conception, may be summarized in the following way: If the profit is to represent a net gain, the economic status of the planner or the unit on whose behalf he is planning, must, as far as it is related to the plan, be increased in monetary value at the accomplishment of the planned activity, or at the end of a chosen period of that activity, and increased by so much as the profit in question. The most conspicuous example of this determination of net profit, we see in the money loan. Here the profit consists in the paid contractual Interest. But the contract imposes upon the borrower not only the duty to pay Interest, but also the duty to repay the borrowed sum, which duty, as a matter of fact, constitutes the main part of the borrower's liability ('pars capitalis debiti'), and only if this greater liability is discharged, is the lender logically allowed to regard the received Interest as net profit. Originally the technical term 'capital' was invented to denote the sum lent, the 'principal', as distinguished from the Interest. But practice observed that a sum of money could be used for obtaining a

return, not only by letting it out at Interest, but also by using it as a means of acquiring instruments of production—by 'investing' it. Accordingly, any sum invested for the realization of an economic plan, and in particular a plan aiming at profit, was called a 'capital'. This was the first extension of the term. But investment need not be done in cash. Other instruments of economic activity also, are investible. Consequently, the term 'capital' was even used to characterize the monetary value of any instruments invested—or reserved—for the realization of an economic plan purposing the creation of profit. This was the second extension. Thus the meaning of the word became, so to say, dematerialized. 'True capital' (to use the phrase by John Bates Clark) appeared as something intangible, something imminent in the working out of an economic plan, something belonging not to concrete reality, but to the world of economic thinking. In the theory of economic planning the definition may be given thus: *By capital we understand the money value of a totality of non-human factors or agents of production or other economic activity, invested in or set aside for the realization of an economic plan aiming at engendering profit.*

It will be seen that the magnitude of a capital, in so far as it does not consist in cash or banking accounts, can be fixed by valuations only. Although quantitative in appearance, capital is thus in a way ambiguous in principle, as the valuations of its magnitude may give varying results, all according to the purpose of the valuation and the personal opinions of the actual valuers. Nevertheless, this changing and somewhat doubtful quantity gives the basis for the valuation of profit, as the profit—on the model of Interest—may be reckoned in percentages of the capital, and its sufficiency then be measured by comparison with conventional rates of Interest. To avoid muddle the capital used for this purpose will generally be given an official money value by some common resolution of the interessees.

Business will find no difficulty in accepting the definition of capital given here. In macroeconomic analysis, however, econo-

mists of older schools made fervent efforts to define capital in a more 'real' way. The result, well known to every student of economics, was bitter dogmatic fights between the adherents of opposite definitions. As late as in 1937, at the International Congress for the Economic and Social Sciences held in Paris, when we discussed a plan for an international dictionary of definitions, we agreed that 'capital', besides 'value', was the most contested conception in economics. These theoretical differences may, however, more or less disappear if it is generally acknowledged that 'capital', in the sense explained here, is a necessary and fundamental conception in the theory of economic planning. The more so, as this acknowledgment will not involve any objection to the use in macroeconomic analysis of the technical term 'real capital' as denotation for the totality of produced instrumental goods. Only, it must always be borne in mind that the conceptions of 'capital' in the theory of planning and 'real capital' in traditional macroeconomics do not correspond to each other, as 'capital' in the theory of planning also comprises the value of such agents of production as were not created by human hands. A more harmonious terminology would, therefore, be created by the acceptance of the suggestion by Ragnar Frisch, to define 'real capital' as the physical counterpart to 'true capital' in John Bates Clark's terminology.

## *CHAPTER VIII*

# CAPITALISM AS AN INSTRUMENT FOR ECONOMIC PLANNING

### 36

IF someone who has or believes he will have sufficient capital at his disposal plans an economic activity aiming at realizing a profit by using the capital, this will be *capitalistic planning*. The making of profit needs not be his sole purpose. On the contrary, he may be motivated by various other intentions and wishes also. He may be genuinely interested in the work to be done, he may nourish a hope of achieving results important to his nation, he may regard the planned process of production as a tempting technical experiment, he may keep at the back of his mind the hidden thought that just this enterprise will be a path to political influence. The only necessary criteria for the capitalistic character of the plan are that capital will be used, that making of profit is one of the motives for the positive resolutions, and that strict monetary calculations are made in order to assist planning and ascertain results.

The existence within a society of profit possibilities will, as a matter of fact, represent an imminent and constant interest appeal to persons of initiative. When the laws of a country acknowledge private profit planning, it is just because this general interest appeal through the later centuries has proved to be the strongest incentive to economic progress. But capitalistic planning may be undertaken by the State also, as well as by other public bodies. *Capitalism* exists in every country in which enterprises are planned with a view to the relation between capital and profit; modern socialist societies are, in principle, just as

capitalistic as any liberal democracy. In its essence, capitalism is a principle of quantifying calculations, aiming at clarifying motivations in pre-time and ascertaining economic results in post-time.

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Capitalistic enterprises need book-keeping in money. Only monetary quantities are entered into their business records. Their whole activity is described in income and outlay. This system enables the capitalistic planner to view all economic relations of the enterprise from purely monetary angles. He may thus judge the importance of each factor of production simply on the basis of its computed contribution to the result. For this purpose he can apply econometric calculations.

That part of economics which deals with these purely monetary aspects of planning, should really be called *capitalistics*. It will apply to State capitalism as well as to private capitalism. But as practically no enterprise is conducted in a purely capitalistic way, the laws of capitalistics are theoretical only. They apply to a model world. Economic sociology, which deals with real life, has to underline the fact that the exclusive money thinking of pure capitalism, although being predominant in many instances, practically never is able to quell those non-monetary motives which make human beings something more than profit-producing animals.

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Ever since Karl Marx in 1867 published the first volume of his famous treatise on the capital, socialist writers have slandered and defamed everything connected with capitalism to such a degree that few people knowing these denunciations, will be able to form an unbiased and unemotional opinion on the problems of capitalistic planning. In particular, 'capitalists' have been victims of socialist fury. In marxistic light they appear as exploiters and

robbers, as parasites and sycophants. Greed and avarice, hardness and callousness are the common characteristics attributed to them. In American economics, on the other hand, leading capitalists appear as 'great captains of industry', and capitalists have often been described as ideal managers of all economic life.

But what is the meaning of the term 'capitalist'? And which economic function do capitalists perform?

Definitions and explanations vary. In the theory of economic planning it may, perhaps, be expedient *to characterize a capitalist as a person who has invested capital in an economic enterprise.* According to this definition a mere money-hoarder is no capitalist at all, however rich he may be, whilst a person who is only going to invest, preferably should be called simply an *investor*. Capitalists are thus through their investments economically tied to one or several enterprises. They are interessees of these enterprises, but need not be planners for them. Their economic function is to provide the enterprises with capital, and for this service they demand compensation until their capital is withdrawn or transferred to others, who then, in their turn, perform the function of keeping required capital invested.

( Capitalistic investment has three well-known forms. Firstly, the capitalist may have invested directly and alone, being himself planner and leader of the whole business. Secondly, he may have invested directly but as member of a group. Thirdly, he may have invested indirectly through the rendering of a loan, acting as sole lender or as member of a lending group. In the second instance he will be able to influence planning by exercising his member rights within the group, in the third instance he is, in principle, unconnected with enterprise planning.)

A modern terminology, which apparently was introduced by the Danish economist Lauritz Birck, characterizes capitalists who have invested directly as *active*, and capitalists who invested through lending as *passive*. Legally, these two groups are essentially different in character, the passive capitalists being creditors, the active capitalists joint owners of the enterprise unit. It is a

result of this difference that the passive capitalists receive their profit contractually fixed in pre-time, the active capitalists theirs residually in post-time.

From this rather elementary description of the mutual relations between the two groups of capitalists, we may deduce the following theory: *Capitalistic Interest has to be defined as the profit of passive capitalists. It is normally paid out of enterprise profit which is divided between active and passive capitalists, but if no such profit should materialize, it means simply a transfer of capital from the active to the passive group. Interest may thus represent capital consumption as well as capital output.*

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Capitalistic Interest has its basis in three conditional circumstances.

First, the existence of money loans as a legal category. Historically, money loans seem to have preceded all forms of capitalism, but only capitalistic societies have used them for profit purposes. It is, however, right to stress that the pre-capitalistic forms of money loans survive even in the most capitalistic societies. Everywhere money loans are still given as support to individuals, groups or States in need, sometimes as a polite form of charity; and loans raised for war purposes and other non-economic ends play in our times as before a great part in the circulation of wealth. It is my personal impression that not all authors who deal with distribution problems, pay sufficient attention to the difference in principle between capitalistic and non-capitalistic money loans.

The second condition is the non-existence of prohibition of Interest. It seems to be a current opinion that such a prohibition, whenever and wherever in force, should be regarded as incompatible with capitalism as a system. But such belief has no foundation in sound theory. On the contrary, it is easy to fancy an extremely capitalistic society without any payment of Interest.

In such a community all capitalists would have to be active, and the investors could only choose between various alternative active investments. Probably a greater number of persons would appear as mere money-hoarders, and the line of division between saving and investment would not represent any difficulty to theory. Banks would be either deposit and clearing institutions or investments trusts, credit meaning nothing more than a benevolent permission to defer payment. But all other capitalistic relations would, in principle, possess the same character as they have assumed in modern capitalistic societies. The big theoretical struggle of the nineteenth century about the righteousness of Interest referred, consequently, not to the capitalistic system as a whole, but only to passive capitalism, and the marxists are right in their ironic argument that the zeal of Böhm-Bawerk was a natural effect of the rentier surroundings of his imperial and royal Vienna.

Third of the conditions is the existence of two different types of capitalists, which we, leaning to the conventional terminology of groups, will denote as the *passive* and the *active type*: the passive type preferring contractually secured money income, the active type giving preference to a more risky economy, partly in hope of higher profits, partly for the sake of thrill. The existence of these two types throws a sharp light on the peculiarity of the poor 'economic man': if he should perform his functions, he would have not only to acquire a double personality like Dr. Jekyll and Mr. Hyde, but to treat the same contract questions simultaneously in both incarnations. It is quite another thing that Mr. Cautious, if we may be allowed to introduce this type at the side of Mr. Everybody, at least in periods with marked instability in monetary values, will choose to be passive capitalist in some relations and active in others.

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The *enterprise capital* is equal to the sum of active and passive capital invested. This total capital will be at the disposal of the

business leader, and the planner has to calculate on the factual basis that passive and active capital can be used on an equal footing for the realization of the same economic purposes. Consequently, no part of the profit later realized, can be specially attributed to the passive capital, nor can any part of it be considered as the produce of active capital only. Thus, the bipartition of profit between the two groups of capitalists has no foundation in the character of economic activity; it belongs to distribution only, and is determined by causes of its own.

If profit is to be measured in order to ascertain the efficiency of invested capital, the right method to adopt will, therefore, be to calculate total profit as a percentage of total capital. But the private planner has seldom, if ever, any incentive to make such a calculation. In pre-time he knows the percentage of Interest which the enterprise will have to pay on its passive capital, whilst he has to be satisfied with a rather rough estimate of the profit which will fall to the active capitalists. In post-time he has booked paid Interest as outlay, and of the remaining profit he will only calculate paid dividend as a percentage of the active capital. To an investor this procedure may give sufficient information. From the view point of total economy, on the other hand, it does not tell enough about profitableness. Let us use a theoretical example. Two enterprises, A and B, with a total capital of £1,500,000 each, both pay four per cent to their passive and ten per cent to their active capitalists, but A has an active capital of £1,000,000, B of £500,000. This means that A with a total distributed profit of £120,000 has yielded eight per cent in profit of the total capital, B with £90,000 only six per cent.

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Capitalists demand their profit on the basis of their investment of money in economic activities. In itself their money capital is not a 'factor' or 'agent of production' but only a means for

acquiring such factors or agents. The process of this acquisition can be described as 'real' or 'technical' investment.

Through this process the capital is invested in all sorts of factors or agents of production or acquisition: in labour, real estate, goodwill and rights to derive income as well as in tools, machines and raw materials.

Mr. Everybody may question the possibility of investing in something so perishable and transient as labour services, and he may point to the fact that current text-books on economics deal with technical investment in goods only. Also Karl Marx, in his famous formula for the capital circuit 'Money-Commodities-Money (M-C-M)' presupposes that 'commodities' ('Waren') comprise tangible things only. But such an idea is, in fact, ridiculously materialistic and remote from realities. Let us have a look at a new undertaking, e.g. a company founded with the purpose of exploiting an original technical idea of invention. Maybe the whole active capital will be spent in salaries for labour services required for preparatory experiments. Knowledge and insight will be the balance of the money spent. Or let us fancy a new hotel. Big sums of money are paid out of the capital to provide for the necessary publicity. The hoped-for demand for rooms or apartments cannot be characterized as a 'commodity'. A bought 'goodwill' of an old firm is not a 'commodity' either, but the purchase of such a goodwill is a technical investment in the most real sense.

((On the whole: every capitalistic plan will comprise technical investment in all sorts of productive factors or agents, with the purpose of realizing a profit through the co-ordinated use of them. Consequently, profit as a category of income does not refer to any special 'factor' or 'agent of production' like instrumental goods, but to the planned and effected co-ordination of those factors or agents in an organized economic activity. There is, accordingly, no causal connection between the specification of productive factors common in economic theory, and the origin of capitalistic profit.))

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An enterprise is planned. What would be the most advantageous size of it? This initial problem calls for solution before any detailed calculation can be made. It is, accordingly, of primary importance to any planner. But to the capitalistic planner, who has to weigh costs against later income, it assumes, also, a most serious aspect. In order to reach a favourable solution he has to take into consideration a number of concrete facts and prospects. Sometimes his whole power of imagination and business ability will be in demand. No treatise can tabulate and classify all the various considerations which lead up to a rational resolution. All the same, the planner will always be governed by one important standard law, which he more or less consciously has to obey. First revealed by Justus Liebig in its bearing on agricultural chemistry and by him named the 'minimum law', it has later been generalized by various authors. Applied to the theory of economic planning, it may be formulated thus: *If the execution of an economic plan requires contributions from a number of factors, and these factors can be combined in a suitable way, the result will, quantitatively expressed, be dependent on that factor whose contributions are comparatively most restricted.*

Accordingly, the rational planner will have to take his decision regarding the size of the enterprise on the basis of his *minimum factor policy*. He will meet one of three typical situations.

In the first instance, the most restricted factor can, wholly or partially, be *technically replaced* by another factor. E.g. steel by aluminium, coal by petrol, olive oil by whale-oil or herring-oil, silk by nylon, machinery by labour. In such a case we will speak of a *semi-minimum factor*. The policy of the planner must then be based upon considerations and calculations of techno-economic character. Accordingly, in a purely economic treatise no general principle can be laid down for the planner's rational treatment of a semi-minimum factor.

The second situation appears when the most restricted factor cannot be technically replaced and is already utilized to its full

extent. It will then affect the activity as an *absolute minimum factor*. Only two alternatives are then open to the planner. He must either, regardless of cost, try to acquire a new quantity of the minimum factor, or, in a rigid way, limit the size of the planned activity so as to fit in with the quantity of the minimum factor which is at his disposal.

His position is easier in the third typical situation. Here the minimum factor has reached the optimum of its utilization, but the use of it can still be intensified, although with the well-known diminishing return. In relation to the theoretically best combination of factors, such procedure may be described as *economic substitution* of the most restricted factor, which appears as a *relative minimum factor* only. Then the planner has to decide if it will pay to intensify the utilization of the minimum factor, or if he will prefer to adapt the size of activity to its optimal use. In a capitalistic society his resolution will be dependent on the market; he will only intensify if an increase in the price of his produce gives him a sufficient incentive.

We thus see that whilst the decision of the planner in the two first instances primarily will be motivated by considerations within the scope of 'real economy', a capitalistic planner facing the third situation will be determined by motives belonging to monetary economy.

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Ricardo's theory of rent may be regarded as an application of the minimum law in its economic projection to agricultural production as a whole, exemplified in detail through an analysis of wheat cultivation in a society with growing population. This becomes evident when the theory is expounded in the following way: In any country the extension of soil suitable for a special economic purpose, e.g. cultivation of wheat, will be limited. Moreover, such soil can in relation to its suitability for the purpose in question be divided into several classes, ranking from first-class soil down to land able to give scanty return only.

Each class of land will represent a potential relative minimum factor. If the expansion of cultivation made necessary through growing population is rationally planned, it will commence with an optimal utilization of the first-class soil, and then, step by step, descend to the inferior classes, simultaneously with a more intensive cultivation of the better land, yielding, however, diminishing return. In a capitalistic society the long run static price, if any such phenomenon should come into existence, must be high enough to compensate for the costs of producing the most expensive unit—the 'marginal unit'—needed for full supply of the market, be it produced on the most inferior land or by the most intensive tillage of better soil. Capitalistic farmers cultivating land of superior classes will, consequently, realize an extra-surplus in money on every unit of their production, e.g. wheat, which they produce and bring to the market with smaller costs than are needed for the 'marginal unit'. This surplus will enable land-owners who are letting their farms, to demand a rent even for its favourable position in relation to the market or for 'the original and indestructable powers of the soil'.

In his essay on rent as well as in his *Principles*, Ricardo referred his theory to an economic system in which land is let. If, however, the landowner prefers to farm his arables himself, the extra surplus which must be deemed 'rent' in ricardian sense, will simply enter into his income as part of the price he obtains by the sale of his products. He will not regard it as anything apart from the rest of his profit. From a capitalistic point of view he is perfectly right in this. Described in capitalistic terms rent is nothing but profit. This holds true even if land is let. The capital which a landlord has invested in real estate, obtains its profit precisely through the compensation his tenants pay him for the use of his landed property. In both cases, rent can be identified only through a scientific analysis in post-time. Ricardo's theory of rent, therefore, notwithstanding its grand contribution to a deeper understanding of macroeconomic distribution, is only of minor importance to the theory of capitalistic planning.

His theory may even lead to a theoretical misunderstanding of the rational principles which a farmer should apply when his land, wholly or partially, has become a relative minimum factor. This is due to the fact that Ricardo described the extension of cultivation in terms of real economy, using monetary values only as numerical expressions for quantities of required labour, produced wheat and real wages, thus evading the problems connected with prices as motivating factors. According to him, increasing wants necessitate recourse to land of second class, and as soon as such land has been brought under cultivation, rent commences on the first-class soil. But in capitalistic societies want can only motivate an increase of production through the instrumentality of price mechanism: increasing prices and increasing prices only can motivate farmers to use inferior soil or intensify cultivation in spite of diminishing return. Consequently, high price of cereals resulting in ricardian rent is preceding and not succeeding diminishing return, but diminishing return—and here Ricardo is right—keeps the price on the new high level, thus adding stability to rent.

This double price phenomenon lays the basis for rational capitalistic planning in agriculture when land has become a relative minimum factor. If prices on his produce do not rise, e.g. because they are artificially kept down through a price control dominated by static thought, the farmer has no motive to increase cultivation. But if prices rise sufficiently, he should respond by adopting an expansive policy. However, only if he has reason to believe that the higher prices will be of duration, can he find sufficient reason for increasing his produce by means of technical investment of such character that it will pay in the long run only. That is to say: the new high price must have assumed a static character before it can motivate the farmer to an increase in cultivation which will necessitate comparatively great investments resulting in structural changes of the enterprise.

## 44 LABOUR AND WAGES

Labour, regarded as a factor or an agent of economic activity, presents striking resemblances to land. This is by no means strange. Man belongs to nature, just as much as those powers of the soil which Ricardo termed 'original and indestructible'; only, human capacities are but too easily destroyed.

The first economically relevant likeness consists in the fact that population cannot be arbitrarily increased. At a given time the size of population is given, just as the surface of land. If labour becomes a minimum factor, the influx of new working power in that part of the future which is relevant to planners, has been determined by the birth-rate in the two previous decades and other biological facts in that period. If the want of labour is limited to certain countries only, migration may solve the problem, as man, unlike land, is a movable factor. But import of labour requires a definite national policy, and private planners will generally have to confine themselves to calculations based on the existing number of labourers within their native country.

Secondly, labour is like land in so far as labour suitable for a special economic purpose is restricted, and persons able to do the work have to be divided into several classes, ranking from first-class experts to clumsy botchers, from energetic toilers to lazy loafers, from irreproachable characters to unreliable cheats or even open saboteurs. If at a certain time all persons suited for performing a planned task, are already employed, the resolution of the planner will be dependent on the kind of labour required. In some cases the planned labour can be replaced by work of another kind or increased use of machinery: it is only a semi-minimum factor. But in other cases it is essential for the result. Only two alternatives are then open to the planner. Either he must try, by an appeal within his power, to tempt some of the persons employed in other enterprises to leave their jobs in order to join his enterprise. Or he will simply have to abandon or revise the plan itself. If only the latter alternative is open, the required labour is revealed as an absolute minimum factor.

Thirdly, in order to increase output, labour already employed may be utilized more intensively, just like land already cultivated. But if labourers have to continue working after the optimum point of efficiency has been reached, we encounter a *standard law of diminishing labour return* parallel to the theoretical law of diminishing land return. The knowledge of this tendency—a knowledge which, as a matter of fact, was not common among employers a hundred years ago—gives the planner a motive against excessive intensification of the labour power at his disposal. Another motive against such procedure is to be found in the modern wage systems with their high extra pay for overtime work. For these two reasons it is not probable that the labour shortage we can foresee in the decades just ahead of us, will lead to any serious misuse of labour in countries where private capitalism still prevails. Thus, if labour becomes the dominating economic minimum factor in such countries, this state of affairs will probably be more detrimental to expansion planning than to labour conditions. All in all: as a relative minimum factor labour will represent a more restricting tendency than land.

This important fact is also due to effects of the main difference between land and labour as agents of production: land is a passive, labour an active factor. The utilization problems of land are, as a rule, exhausted in the questions: can it be used, in which way ought it to be used and which will be the calculable results of its use? Free labour, on the other hand, places the planner before a fourth question: does it wish to be used? Therefore, in a free society it may happen at any time, even during a period of extensive unemployment, that a special kind of labour becomes a minimum factor because it is shunned by the labourers. Thus, in the period commencing about the year 1945, labour in coal mines and other underground work became embarrassing minimum factors to capitalistic planners as well as to national economies.

Whilst the classical economists in Ricardo's theory of rent dealt with land as a minimum factor, they hardly detected the problems connected with labour as a minimum factor. Two main reasons may be given for this omission.

In the first instance they were inclined to look upon labourers as a homogeneous atomistic mass, a number of 'hands' only, easily transferable from one job to another, thus responding to changing wants. Authors holding this view, were in principle precluded from observing situations in which special kinds of labour became minimum factors, as such situations can only occur because labourers are not a homogeneous atomistic mass, not 'hands' only and not easily transferable.

Secondly, the classical economists were always, consciously or subconsciously, reasoning under the influence of the 'principle of population' as forwarded by Malthus, and the acceptance of his theory seemed prima facie to exclude any belief in the possibility of labour becoming a general minimum factor. For if there exists a constant dynamic tendency to over-population, an influx of new labour will always be available, apparently removing any threatening shortage of 'hands'. Plausible as this deduction appears, it contains, nevertheless, a short-circuit of thought. The fact is that Malthus, in the theoretical chapters of his famous treatise, compares the relative movements of two magnitudes only, namely the grand total of population and their entire means of subsistence. This juxta-position may serve as basis for a first approximation to the 'principle of population', when this is referred to a closed community or to the world as a whole. But it does not elucidate the rôle played by labour in the process. In order to do this we have to insert in the reasoning the distinction between *supporters* and *dependents*; the economic difference between these two groups would, by the way, be still more adequately expressed by using the terms *supporters* and *supportees*. It is sufficient to mention this distinction to make it clear that labour will be a general minimum factor if, under the

existing conditions of production, the number of supporters is too small in relation to the number of dependents, and such a disproportionate relation between the two groups may very well come into existence when population is growing in accordance with the scheme of Malthus, or even more quickly than he supposed when he talked about a doubling in twenty-five years. Let us illustrate this fact by a theoretical example. Suppose we have to do with a big farm equipped with sufficient instrumental goods and inhabited by an isolated family consisting of father, mother, nine children under twelve years of age and their old grandparents. In this household labour will certainly be the minimum factor. On the whole, the most important datum to judge the sufficiency of labour will be the percentage of the population which is able to perform regular work. The percentage of people between seventeen and sixty-five years may be taken as a fairly good indicator. Modern treatments of the problem generally build on observations of this kind.

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If all required agents of production are available to the capitalistic planner, he may apply the principle of their economic equiponderance without reserve. But if he has to adapt his plans to conditions imposed by the minimum law, he must face the fact that this law operates in another way when the minimum factor is inorganic than it does when scarcity of land or labour restricts his activities. This difference in the field of 'real economy will necessarily influence his capitalistic valuations.

Both land and labour can be absolute minimum factors and will often be so. Instrumental goods, raw materials and auxiliary stuffs, however, are reproduceable. As a result of this quality, a produced factor of production can only in two cases become an absolute minimum factor to the planner. Firstly, if the want of a natural agent or of qualified labour impedes reproduction; but if this should happen, it is, in reality, scarcity in land or labour

which represents the absolute. Secondly, if the planner by national law or administrative decree is impeded from acquiring the missing factor. In all other cases he can, through his demand, call forth the wanted reproduction. All will be a matter of cost and price, not of possibility. But it may take considerable time before the want can be satisfied. Scarce instrumental goods, raw materials and auxiliary stuffs will, to use the favourite expression of Lord Keynes, act as 'bottlenecks' to production and other economic activities. Such bottlenecks will call the law of the latest delivery into operation. We may perhaps sum up the result of our analysis in the statement that produced agents of production can only indirectly or temporarily be absolute minimum factors.

Turning to the problem of semi-minimum factors, it may suffice to state the well-known fact that it is easier to replace instrumental goods, raw materials and auxiliary stuffs than land or labour.

A third difference is one of principle. We defined a relative minimum factor as an agent of production which by a certain degree of utilization has an optimal efficiency but which can be used more intensively, although with diminishing return in relation to sacrifice or cost. Not so with machinery, means of transport, electricity, raw materials and auxiliary stuffs.

Each machinery is devised for using its full capacity. If rationally constructed, its optimum use is identical with its maximum use. Consequently, industrial plants are interested in using their full capacity; if they cannot be fully employed, production becomes more expensive and may even result in loss. There does not exist any law of diminishing machinery return corresponding to the law of diminishing agricultural return. It may be that a machine, if used continually, will have a shorter life-time measured in hours than could be obtained for it by more discontinuous work. But the planner must always bear in mind that a machine may become obsolete, and that a continued use of it after it has become old, may involve increasing cost. In general a machine

has a shorter *economic* than *technical life-time*. For this reason also, the planner is interested in using its full capacity as long as it is modern, even if he thereby should shorten its technical life-time. The facts here referred to, constitute some of the reasons for the rather rough statement by classical theory that manufacture works 'under the law of decreasing cost'.

In transport the economic importance of full capacity production is, perhaps, even more conspicuous than in manufacture. Ballasted ships and empty railway trucks forming parts of running trains, reveal even to the eye the extra cost of unused capacity.

Electric power plants are in a similar position. If there is not demand all day and night for their whole power production, they are running with a surplus of waste energy which represents a loss in money to themselves and a loss in utility to society.

As for raw materials and auxiliary stuffs, they will in general represent constant contributions to production, the question of more or less intensive use thus not coming into the picture. A special case represents the relation between speed of transport engines and fuel consumption; but it would not even here be adequate to speak about diminishing return of spent petrol or coal.

On the whole, the phenomenon of a relative minimum factor which by over-optimal use gives diminishing return, does not appear in relation to mechanical agents or produced materials. Here the planner has to do with semi-minimum and temporary minimum factors only. His attention will have to focus on the problems of technical substitution or adaptation to the latest delivery.

But these problems may assume a grave character. If production of basic raw materials or auxiliary stuffs do not keep pace with the requirements of other industries depending on them, a special crisis may develop and spread through increasing areas of economic life. Thus, during the austere years of 1946 and 1947 the whole British population suffered through the insufficient

production of coal. Never has the importance of a single minimum factor been stressed in more emphatic words than in the 'Economic Survey for 1947' presented by the Prime Minister to the British Parliament in February 1947. Here paragraph 83 reads as follows: 'The present crisis underlines the basic importance of coal, and of power derived from coal. Exports, industrial re-equipment, housing, the supply of consumer goods, transport and distribution, all depend upon coal. The 1947 industrial problem is fundamentally a problem of coal'.

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The classical economists based their theory of production on their tripartition of the instrumental factors in 'land, labour and capital'. Current modern theory, on the other hand, seems to give preference to a homogeneous econometric treatment of an adlibitive number of various factors, which may be determined and defined to suit any special purpose of examination. Our foregoing analysis may have shown that none of these principles of systematization does justice to the special requirements of a theory of economic planning.

Against the modern conception may be brought the criticism that it is too general, too abstract, too academic and too much bound to fictitious assumptions. The mathematical laws of productivity built upon it—ingenious and even perfect as they are in themselves—can claim validity for a model world only, and they do not give real guidance to planners, who always have to cope with realities. Besides, even from the viewpoint of pure theory it seems dubious if deeper knowledge can be won by treating heterogeneous factors as if they were of like character. The modern treatment of the problem seems to be of high value for provisional orientation as well as for insight into the exclusively capitalistic principles of valuation. But it should be supplemented by an analysis of the difference between the various factors and the economic effects of these differences.

To this end the classical tripartition gives a useful approach. But the unhappy choice of the word 'capital' to signify the 'third factor of production' has brought about much confusion, as it has veiled the difference between real and nominal economy. Thus, it has tempted even writers of distinction to seek the origin of capitalistic profit in the specific contribution of the third factor. Apart from this terminological objection we may query the general expediency of drawing the decisive borderlines just between land, labour and a lump totality of all other factors. To the theory of economic planning it seems in any case more advantageous to classify the factors with a view to the different ways in which the important minimum law is operating.

If we choose this procedure, we must base our reasoning on an observation of the fact that only organic agents or factors of production can appear as relative minimum factors, instigating diminishing return by over-optimal use. Thus, if land is used for other purposes than organic production, it falls economically within the same class as machines, transport means and electric power: it will yield its optimum when its capacity is fully used. So it will, whether it serves simply as substratum or—through the use of its inherent powers—as a source of energy.

This knowledge leads us to bisect the agents of economic activity in *organic* and *inorganic factors* (*of production*). The organic factors will comprise labour, animals, forests and agricultural land, the inorganic factors all other agents.

As the foregoing discussions will have shown, the essential difference between just these two groups of factors is most obviously revealed when prices induce the capitalistic planner to increase a production which has already reached the optimum combination of the agents at his disposal. If he has to do with an organic minimum factor, he can within the limits of its maximum capacity intensify its use as far as prices will permit, but with diminishing return; if the organic factor in question is labour in a free society, he will, naturally, have to procure contractual consent. If, on the other hand, his minimum factor is inorganic,

its full capacity will be utilized by optimum use, and expansion of this factor can only take place by addition of new units. Consequently, inorganic expansion assumes, by its nature, a more discontinuous character than organic. This may be the fundamental reason for the fact that price-governed business-cycles are much more dominating in industrial than in agricultural countries.

The bipartition of the factors here advocated does obviously not exclude sub-classifications. On the contrary, it is easy to elaborate a system of suitable subpartitions within each of the two principal groups. But the distinction between organic and inorganic factors may suffice to elucidate the two main differing principles which a planning of economic expansion may adopt.

Another merit also, can be claimed for this bipartition. The classification in land, labour and capital is a specific idea of economics. It does not correspond to the ideas of systematization prevailing in those other descriptive sciences on which any deep-going analysis within the economic theory of production has to base itself. Consequently, economists have always found it difficult to make their laws of productivity tune in with physics or biology. The distinction between organic and inorganic factors, on the other hand, is fundamental in natural sciences. If it is adopted by economics also, a contribution will be given towards the uniformity of sciences. And we have to say—with a phrase Danton would have approved of: Knowledge is one, although divisible.

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In a foregoing chapter we have shown that there does not exist any economic law about the conservation of utility power corresponding to the physical law stating the conservation of energy. But every capitalistic planner has to pay attention to the *principle of conservation of capital.* This fundamental principle can be deduced from the profit-making purpose of capitalism, as no real profit materializes if the capital in itself is not kept up. Consequently, whenever the planner wishes to know whether

his enterprise has made a profit during a certain period of past activity, he has first to ascertain the monetary value of the whole enterprise capital at the end of that period. As the greater part of the enterprise capital normally is invested in real capital, including rights, good-will, other priority positions and pending labour results, this monetary value can (as already stated in paragraph 35) be fixed by valuations only. *Here the planner is up against the unavoidable paradox of capitalistic calculation: whilst the figure giving the aggregate enterprise capital at the outset is an objective value, the corresponding value at the end of a certain business period is wholly subjective, affected in every way by the judgment of the leadership. Nevertheless, the principles of book-keeping which exclude insertion of approximative values, require exact fixations of the subjective values in question.*

Which valuation principles should a rational planner adopt in order to deliver an expedient statement of the capital of a 'going concern'?

Here opens a wide field of dissentient opinions. The poor 'economic man' once more faces the fate of Dr. Jekyll and Mr. Hyde, if not a still more embarrassing split of personality. Polar types of valuers will be Mr. Cautious and Mr. Optimist. Mr. Cautious, feeling the burden of his responsibility, is always inclined to cut down every estimate as much as he can possibly support by acceptable arguments, whilst Mr. Optimist, directed by an inherent desire to persuade himself as well as others to believe that his enterprise is successful in every respect, favours the highest possible computation of values. A third type, whom we, for want of a better name, will baptize Mr. Photographer, is eager to make all capital values identical with or fitting in with the latest market quotations, even if his better self is convinced that the quotations of to-morrow will reveal a new trend in prices. Mr. Prognosticator, being a fourth type, follows blindly his own intuitive power of prophesying, staking everything on the pre-visualized future values of his fertile imagination. Should it happen that various types are represented within the deciding

body, the last word is generally spoken by Mr. Compromiser, the result being that the values finally fixed will express no principles at all.

Experience shows, however, that conventional thought tends to dominate some of the valuations. Thus, it is commonly regarded as right to book real estate at its acquisition value, and only to alter this for coercive reasons. On the other hand, goodwill, regarded as a perishable privilege, is generally written down to a minimum value as soon as possible. Most valuers, perhaps, adopt the same attitude in regard to office equipment and minor tools, because the renewal of such items will come under daily cost. Stocks of articles for sale, finally, should be valued at their planned or conjectural selling prices. But plans will often be changed, and future prices are difficult to foresee. In practice, therefore, the planner will meet with complicated difficulties of a purely objective character when he comes to value his stocks. However, from the doctrine of conservation of capital can be deduced one of the few coercive principles of valuation: *stocks must never be estimated at prices which do not cover their replacement costs.* If such lower prices enter the estimates, they signify a devaluation of capital, as they fix the nominal capital of the enterprise at a value which does not equalize the same real capital as before. The small capitalists in Germany did not understand this when they were overtaken by the inflation in the early 1920s. They believed their capital to be untouched or even increased when they sold with nominal profit, being for a long time unaware of the depreciation in investment value of their monetary holdings. This oversight led to their ruin. During periods of rising prices in times of so-called 'prosperity' a corresponding ignorance has undermined thousands of enterprises which in themselves were sound and solid. In spite of all such experiences price controlling authorities in countries with State-directed economy are only too often blind to the economic necessity of keeping values of stocks-in-trade at least as high as replacement cost.

Special problems are connected with the estimation of instru-

mental term-goods like ships and machines, which are gradually depreciated in utility power by wear and tear until they, at last, have to be replaced when their technical or economic life-time is at an end. If the capital is to be preserved, it is necessary to save up sufficient purchasing power for this future replacement. The principle of conservation of capital demands, therefore, that the enterprise surplus remaining after the payment of all expenses shall suffer a deduction, representing a smaller or greater equivalent of the decrease in capital caused by the aging of instrumental term goods. This 'depreciation cost' is added to the running expenses as an integral and real part of aggregate cost. This 'principle of amortization' is universally accepted, but the theoretical import of it is sometimes overlooked by economists. The implication lies in the fact that depreciation cost, as referring to the future replacement values of aging instrumental goods, can be fixed by valuation only, thus conferring upon aggregate cost the quality of being a subjective value; and as the profit of active capitalists consists in the residual surplus of the enterprise after deducting aggregate cost, this profit also assumes a subjective character. It is an estimated, not a determined amount. All those theories which aim at describing the determination of profit by some sort of economic law, are therefore, in principle, false and misleading.

When the question of depreciation cost has to be settled, all the emotionally influenced differences in choice of principles, may arise once more. Mr. Cautious, Mr. Optimist, Mr. Photographer, Mr. Prognosticator and Mr. Compromiser will all be on the spot. In modern societies the final decision seems, however, generally to rest with the taxation authorities, who are bound to bring into their motivation a number of circumstances which are disconnected with the concrete cases in hand: the needs of the State or the municipality, the principles of taxation expressed by the laws in force, precedents regarded as more or less binding, due attention to parallel cases, political influences, and even more remote factors. Result: the subjective character of

the depreciation cost in question becomes most complex and entangled.

One or two questions regarding depreciation cost involve, however, specific problems relating to the theory of planning, and will, therefore, be touched upon here by some general remarks.

Shall amortization refer to the technical or the economic life-time of term goods? Mr. Cautious will answer: 'Certainly to the economic life-time. Depreciation cost is an economic, not a technical category'. 'Well', Mr. Photographer will retort. 'But the problem consists in finding a workable principle for fixation of those costs, and we have, therefore, to base our decisions on a probable number of years. What then? The economic life-time of a term-good can never be calculated in pre-time. It depends wholly on unknown factors, which will only be revealed as time proceeds. The technical life-time, on the other hand, can be estimated at the time of acquisition. And a cautious man, like you, should prefer a solid basis for computation to mere guess-work'. Mr. Cautious is not persuaded by any such arguments. 'When the time comes', he says, 'we have to replace if the economic life-time is out. If we have put aside money for the purpose with a view to the longer technical life-time only, we shall be a loser. That is what I will prevent'. Now Mr. Optimist joins the discussion. 'It is not certain that we shall suffer any loss in such a case', he asserts. 'For if the good is still in working order when we lose faith in its profitableness for us, we may sell it. In any case it will have a scrap value. If we are good sellers, the sum we receive for it may even exceed the wanting amortization instalments. Big profits have been made that way. Particularly in ships'. Now it is time for Mr. Compromiser to open his mouth. 'It seems to me', he says, 'that Mr. Photographer is right in stressing the necessity of an exact basis for our computations. Only the technical life-time can provide us with such a firm fundament. But as we must reckon with the possibility of an earlier replacement and know little about the selling price of the good at that time, we have to add a discretionary yearly sum to

the technically correct depreciation cost. Such an addition will put us on the safe side'. Even if the parties should agree, at last, on such a middle course, the numerical question is still open to debate. For this discretionary addendum to the technically computed depreciation cost,—how great shall it be? Once again the arena is open for a tournament of opinions.

The problem of depreciation cost in relation to the variability of prices, is in many respects parallel to the life-time problem and can be discussed from the same angles. On this question Mr. Photographer is likely to be the first to speak: 'We have to base ourselves on existing prices', he will argue. 'They are known to us. Leaning on them we can reach an accurate computation of depreciation cost. I admit that prices may move. But we don't know how much. Aye, we do not even know in which direction. It will, therefore, be difficult to defend any other procedure. And, after all, we don't want to challenge any opinion which may be based on better knowledge and better judgment than our own. A computation based on existing prices will not be open to criticism. Is not that sufficient reason for accepting my view?' The opposition, if any, will be forwarded by Mr. Prognosticator. His argument runs along another line. 'Why do we calculate depreciation cost?' he asks. 'Surely, it is in order to possess sufficient purchasing power at the foreseen day of required replacement, and we will have to pay the prices which are demanded at that future time. The prices of to-day will then be of historical interest only. What we have to do therefore, is to base ourselves on those prices which according to our own best judgment are the most probable at the planned or calculated time of replacement. This is, in any case, the only scientific approach to our problem'. If the discussion takes place in a country where prices are controlled, Mr. Prognosticator will find difficulties in making proselytes. In a free society, on the other hand, he stands better chances, at least if prices have an upwards trend. Mr. Cautious will then feel a strong inducement to join him. 'We must prepare for the worst', this gentleman says. 'You

have heard it before, but truth is an eternal repetition'. The alliance between Mr. Prognosticator and Mr. Cautious is often strong enough to win the day. Not so propitious is the position of Mr. Prognosticator if, during a period of falling prices, he secures the assistance of Mr. Optimist, as Mr. Cautious in this case will be a dangerous adversary. 'If prices fall', this gentleman says, 'I agree with Mr. Photographer. Nothing strengthens the credit more than invisible reserves'.

So much to explain the differences of opinion which are likely to arise when depreciation cost for a certain instrumental good is going to be fixed for the first time. The problem may, however, reappear in a new shape during the amortization period. Say that depreciation cost has been fixed in accordance with Mr. Photographer's suggestion, so that the instalments, inclusive of possible accruing Interest, will just meet replacement requirements if prices remain stable, whilst prices in reality have constantly increased. In such a case depreciation costs should be adjusted. The principles of adjustment may be most clearly explained by referring them to a concrete example. Say a ship was built at the cost of £200,000 for delivery on January 1, 1939. The leadership agreed that 6 per cent would be the right yearly depreciation instalment for it. As long as building cost remained constant, the 6 per cent had to be referred to the capital value of £200,000. But on the 1st of January, 1942, building cost of a ship having the same specifications, was calculated to be, say, £270,000. If thinking logically, the leadership would then have to refer the next instalment to the new aggregate building cost. But this adjustment would not suffice, as the previous instalments obviously had been too small. In order to put things right, the leadership could now make a choice between two adjustment methods: either one additional instalment covering the whole arisen deficit, or an increase in the yearly percentage aiming at meeting the deficit by yearly additions to the newly computed instalment. A corresponding procedure of decreasing adjustments would have to be adopted in periods of falling prices, presupposed that the

leadership did not give preference to the 'invisible reserves' recommended by Mr. Cautious.

Business history seems to indicate that the principles of adjustments here advocated, are only seldom systematically adopted in practice. If they were, they might exercise an equalizing influence on business cycles. As it has been down to the last crisis of overproduction, dividends and other profits of active capitalists have generally been too high in times of prosperity and too low during the slump. It was an observation of this fact which induced Lauritz Birck to enjoy himself by giving the following paradoxical definition: 'Prosperity is a period in which capitalists transfer sums from capital account to income account, depression a period in which they transfer sums from income account to capital account'.

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Capitalism is an instrument of economic planning, and the only technical instrument which enables the planner to give a quantitative description of his results sufficiently reliable to serve as a reasonable basis for a post-time judgment on the outcome of the enterprise and a fair distribution of the surplus. But although capital values appear in exact forms, generally expressed even in shillings and pence, every capitalistic balance sheet as well as every account of gain and loss comprise subjective values, dependent on human decisions, sometimes embodying strangely erroneous thought. The planner may, therefore, read with intellectual delight those ingenious theories current in economics, which explain distribution as determined by infallible laws, but when it comes down to practice, he pays no attention to them. He is up against problems of another character.

Economic life would, also, be dull and unattractive if iron laws of so-called factor combinations ruled the whole process of circulating wealth and its distribution. What adds the flavour of thrill and romanticism to economic activities is just the fact that results are entirely dependent on human decisions—and human efforts to visualize coming events.

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The necessity of capitalistic computation results in the fact that all modern societies apply some form of capitalism. Societies are not capitalistic or non-capitalistic. They are either State capitalistic, private capitalistic, national capitalistic or representing some mixture of various capitalistic forms. Conceivable also, is a labour capitalism. The political structure of the State and the form of planning used by this super-organization determine its special form of capitalism.

*BOOK TWO*

# PRINCIPLES AND SYSTEMS OF PUBLIC PLANNING

## *CHAPTER IX*

# PUBLIC PLANNING DETERMINED BY OPPOSITE TENDENCIES AND IDEOLOGIES

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IN a way this half-civilized world of ours is getting old. We have written evidence about events in some thousand years, and archaeology has opened up still further perspectives into forgotten past. In our own times an ever-increasing number of brains occupy themselves with the history of ideas, trawling bygone decades or centuries in the hope of finding overlooked embryos of modern theories. Everyone who has discovered something new in the realm of thought, nowadays runs a risk of seeing his originality disputed by some studious research worker in dead men's literary remains. Modern thinkers, therefore, have every reason to regard themselves as special addressees of Mephisto's remark: 'Woe's thee, that thou a grandchild art'. Realizing more or less clearly this deplorable fate, ambitious and vain authors and politicians in our own century suffer from a mental weakness which we, leaning to that gay devil of Goethe, may term 'grandchild complexes'. It manifests itself through a tendency to trumpet and herald their own ideas and programmes as something new and grand.

This little digression into the domain of social psycho-analysis has been necessary to explain and make an excuse for the constantly repeated claim of some modern economists and politicians that they and their school alone are creators of planned State economy, although every State from pre-historic ages down to the present post-war period has been governed in accordance with some sort of economic plans. It is another thing that these

plans have been extremely varying because the functions of the State again and again were adapted to new conditions and new ideas. Any effort to write a general theory of economic State planning would, therefore, be wholly futile.

It may, however, be admissible in a theoretical treatise to observe that two opposite tendencies have always influenced the scope and range of State functions.

The primeval and probably the stronger of them is the *tendency to political power concentration.* Ambitious men's sensual lust for power and belief in their own great gifts as rulers have been the initial forces which created and directed this tendency. It can claim the honour of having established realms and conquered empires, but it has also to carry the responsibility of conflicts and wars, upheavals and revolutions, oppression and sufferings. When this tendency prevailed, economic State planning was generally subordinate to political aims, having the derived purpose to provide ways and means for the realization of certain power policies.

Determined by the collective wants of the population, the opposite tendency is, in its origin, of economic character; when it prevails, economic aims motivate the most important political decisions. We will term it *the tendency to division of economic leadership.* It is somewhat strange that it was not included in the classical theory about the division of labour, as leadership work is the initial economic labour. The fact is, also, that the law of increased productivity through division of labour applies just as much to division of economic leadership as to division of subordinate economic work. To one man, however great his capacities, it will be impossible to acquire sufficient knowledge of all important economic conditions within his country. If he tries to cover the whole field, he is bound to share the fate of that typical politician of whom the slogan says that he will know less and less about more and more until he ends by knowing nothing about everything. *A division of leadership is the essential condition for expert direction of economic activities.* Besides, as

every motivation demands time, one man or one body can in one day only form a limited number of resolutions. Concentrated economic leadership means, therefore, an inadmissible burden on the supreme leading organ. In order to free the time of the supreme leaders for sufficient motivation of their supreme resolutions, it is, therefore, necessary to divide the subordinate leadership between a greater number of persons. In his stimulating essay on poverty as a social evil, Professor Ewald Bosse compares this transfer with the transition of various organic functions from our consciousness to the more automatically acting nerve centres, deeming it as an essential progress, motivated by sound ratio.

The State has through two principal processes tried to promote the division of economic leadership. Firstly by transferring an important part of public economic administration to local bodies. Secondly by leaving the direction of a number of economic activities to other P.I.-groups. It is, in particular, the liberalistic movements which consciously have demanded and partly effectuated this dispersion of power, and divided economic leadership is a central feature of liberalism as a system.

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Looking back upon history, we cannot fail to observe that the two tendencies we have just described, have been alternately predominant, although no 'historical law' seems to rule their alternation. In later centuries, however, two new features have been added to the factors which determine the economy of the State and the tendencies of its policy.

Firstly, the rise of organized political parties, each parading a programme of its own. To an ever-increasing degree these programmes comprise economic plans. Consequently, party governments try to realize party ideas when they handle economic administration, and in judging the planning of State economy, we have always to bear in mind that politicians decide, and that party interests and power aspirations influence every motivation.

Secondly, the planning of State economy is influenced, partly directly and partly through the medium of political parties, by the grand political ideologies. The theory of public economic planning is to-day an arena in which Mr. Communist, Mr. Socialist, Mr. Anarchist, Mr. Fascist and Mr. Liberalist break their lances, although not always under observance of the rules of knighthood.

The controversies between political parties and between grand ideologies is daily carried on in nearly all newspapers of the world. Only people of confined interests have a chance to remain uninfluenced. In our own time no one can give a wholly objective treatment of the theory of public planning. The author of this treatise will not pretend that he is able to do so. He will, at this early state of the discussion, introduce himself as Mr. Heretic, adding that he is a great lover of liberty.

## *CHAPTER X*

# SOCIALISM AND COMMUNISM

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WE are now so accustomed to the incessant feuds between the grand ideologies that we can hardly imagine a world without them. Nevertheless, the present struggle, which was initiated by the challenge of some socialist and communist thinkers of high intellectual rank, has only gone on for about a hundred years. True, ideas of communistic or socialistic character are very old. They can be traced back to antiquity. But every student of those early authors whom the text-books tabulate as communists or socialists, must be struck by their lack of programmatic precision and their dreamy attitude towards serious economic problems. This impression must be singularly deepened by the reading of Dr. Harry Laidler's remarkable book on *Socialist Thought*. Here is presented a great number of wisely chosen quotations and extracts from nearly every author who may be regarded as a forerunner of Marx and Engels, and this compilation reveals most divergent opinions on liberty as well as on the economic structure of that future country of justice and superfluity which should replace the old, bad society in which we live.

Another striking feature of these early expositions is the fact that their programmatic statements, being very vague and ambiguous, can nearly always apply to communism as well as to socialism. Consciously or unconsciously a veil is drawn over the difference in principle between these two systems. As a matter of fact, even later and more scientific authors of socialist or communist creed find it opportune to treat the two systems as a sort of intellectual twins, born through the same processes of pregnancy and birth, living under the same conditions and

hardly to be distinguished from each other. To a systematic theory of planning this doubleness is inadmissible, and if we use the nitric acid of logic, the two systems can be separated from each other by definitions expressed in quite simple words.

*Socialism is a system demanding that land and all other real capital used in production for sale, shall be property of the State or other public institutions authorized by the State.*

Consequently, the socialist State will possess a potential omnipotence in all economic matters. As the State is a national institution, socialism means the utmost concentration of political nationalism, thus being an ideal instrument for external power policies, an economy organized for warlike purposes, and imperialism in its most undisguised and aggressive forms. These essential characteristics of socialism were generally overlooked in earlier days, because socialist politicians being in opposition, often were true pacifists. But they have to be mentioned as theoretical appendants to socialism, undesired as they may be by members of some socialist parties in democratic societies.

The socialist State has to carry on most complicated processes of production and trade. Without a strict book-keeping it would utterly fail in any effort to compare achieved with planned results. But every effective book-keeping in economic matters has to use capitalism as an instrument. That is to say that *socialism can successfully materialize as State capitalism only. The socialist State is the greatest capitalist that ever was.* If the socialist authors of earlier days are right in their theories, every capitalist is an exploiter and a profiteer. The socialist State can hardly avoid being a victim of these verdicts. In any case, it will have to bear the stigma of all authors who demanded the whole produce of every economic activity for those partakers in it which are generally in an exclusive way termed 'labourers'.

To which class of capitalists does the socialist State belong? Undoubtedly to the class of *monopolists*. It is beyond competition. The authorities on which it confers the power of fixing the

various prices, are in the position to decide just as they like. If they go in for the greatest possible profit, even at the expense of all consumers, no one can impede them. Thus, the socialist State has the power not only to exploit the labourers when it is acting as employer, but also to exploit consumers when it is acting as seller. It is, in fact, more powerful in both respects than any other monopolistic capitalist in history. This statement does not imply any accusation against any special government. But it would be wrong not to map out the possibilities inherent in the system. It is even more necessary to give a full account of them, as history proves that great power, when vested in a single person or institution for a longer period, nearly always has been abused—sooner or later.

Active capitalists are the primary interessees of all capitalistic planning. In a socialist community the State will, consequently, appear as the primary interessee of all economic planning. This does not mean that no plans in a socialist State will have for their object to further other interests. But it seems to imply the negative statement that in a socialist community no planning will be allowed which runs contrary to the interests of the State. Two important conclusions lie near at hand. Firstly, that no one can expect a socialist State to plan the publication of books, pamphlets or papers which have for their purpose to change the system in force; it is, therefore, guileless to look for liberty of expression and political propaganda within socialist territories. Secondly, that the concentration of real capital in the hands of the socialist State will make it natural, although not absolutely necessary, for such a State to concentrate planning also. *Socialism seems to involve a State monopoly of supreme economic planning.*

At the time when the socialist theories were elaborated by marxist authors, no socialist community had yet come into existence. Socialism was then an academic theory and a political platform. Since the foundation of the Union of Socialist Soviet Republics (the U.S.S.R.), possibilities exist for comparisons between socialism as academic theory and as political reality.

But any such comparison would lie outside the scope of this treatise which is written from theoretical angles only.

A corresponding restraint is not possible towards communism, if that system is to be sufficiently elucidated. The reason is that communism, unlike socialism, has existed in various forms long before the formulation of its most ancient dogmas, and that practically all communistic theories have their origin in generalizations from principles adopted and partly practised by special bodies.

The definition may be given as follows: *Communism is a system demanding that all goods belonging to a certain group can be freely used by its members, as far as common use is technically possible.*

From the definition itself, no general principles of group planning or group leadership are to be deduced. So far communism is an amoebaean system. It may be used as an idea of propaganda under most varying social and political conditions.

Of all existing organizations, *the family* seems to have been the first to practise a form of communism. From time immemorial dwelling-places, buildings and furniture of the household have been in common family use. But the communistic principle was never applied to all goods kept within the household. Clothes and food once allocated to specific members have always been regarded as objects of special rights, and they are generally watched by that strong feeling of jealousy which flourishes within more or less communistic societies. Besides, family communism has always been and is in most countries to-day still more than ever, a wholly internal system. In relation to the State as well as to all legal surroundings, family goods have been regarded as the personal property of the householder, in so far as they are not the special belongings of any other family member. Family communism is thus a factual order, not a legal institution.

In communistic writings reference is commonly made to the '*communistic practices of early Christianity*'. It seems also to be certain that some small Christian groups, in the days of persecu-

tion, lived together like families. We may use the expression that religious families took the place of biological ones. This was only natural. The early Christians lived under unwritten laws which imposed upon them a supremacy of religion. Besides, a great number of them firmly believed that the days of secular systems were approaching their end, as Christ would reappear in the immediate future in order to establish a heavenly realm on earth. People living in great common fear are also inclined to share with each other goods as well as dangers. But the early Christian communities did not develop any special economic system, and they do not seem to have practised any common economic planning. Interesting as their customs must appear to the history of religion as well as to sociology, they give but small contributions to the theory of communism as an economic system.

Communist authors also love to refer to the *'natural communism' of some aborigines* who have survived down to the present day in remote corners of the world. At one time Melanesia was heralded as the classical area of communism. However, these references were built upon superficial observations made by more or less casual visitors. The penetrating analysis made by modern trained researchers have revealed that these primitive societies possess a network of property rules which are anything but communistic. One typical instance may be mentioned. According to earlier writers the Melanesian natives in the Tobriand Archipelago practised common ownership of the canoes, which are most important instruments of production to them, as fisheries in the lagoons constitute one of their chief economic activities. But the famous sociologist Branislaw Malinowski discovered that the canoes were by no means common property of any Melanesian community. In his interesting treatise of 1926, *Crime and Custom in Savage Societies*, he concentrates the results of his investigations in these words: 'Thus, within each canoe it would be found that there is one man who is its rightful owner, while the rest acts as a crew'. Between the

owner and the crew there exists a number of mutual obligations, but Malinowski found that the rules governing these relations do not embody any socialist or communist ideas. He writes: 'There is a strict distinction and definition in the rights of everyone, and this makes ownership anything but communistic. We have in Melanesia a compound and complex system of holding property, which in no way partakes of the nature of "socialism" or "communism". A modern joint stock company may just as well be called a "communistic enterprise" '.

More real communism existed in some of the *monasteries*, Buddhist as well as Christian. Here again we have to do with the 'religious family' taking the place of the biological one. In a way, this expression is still more adequate when referred to orders of monks and nuns, as each convent had a household of its own, whilst the early Christians generally lived scattered in very small groups so as not to arouse suspicion. In many monasteries serious economic activities were carried out, but it should be remembered that the purpose of the order in all cases was religious, and that the communistic practices were forced upon the monks and nuns in the name of God. The monasteries, therefore, give us an example of compulsory communism.

Another character had communism in *some small communities established in the nineteenth century* in order to prove the advantages of the system. The fundamental ideas inspiring the partakers in these experiments were not religious, but philosophical. None of the communities called into existence to test the superiority of communism proved a success in the long run. But it may be a matter of dispute whether the failing was due to weaknesses in the system itself or to the difficulties of running small communistic enclaves in the middle of a world adhering to the principles of private capitalism.

Whilst these communities were mere ephemerons, some sort of communism in *land cultivation* was practised from ancient times in a number of countries, and some last manifestations of that old system still survive. Nearly everywhere this agricultural

communism appeared in connection with the existence of *village communities*.

Sir Paul Vinogradoff, the grand modern specialist in the study of these organizations, stresses that primitive stages of civilization disclosed a strong tendency towards mutual support in economic matters as well as for the sake of defence. The village became the centre of economic co-operation in agriculture. All its grown-up inhabitants, in most cases originally belonging to the same biological group, took part in the cultivation of the common fields. The ownership of the 'folk-land' rested with the village community, and the common labour was governed by a network of traditional and customary rules. Also the apportionment of the produce took place in accordance with these rules, and there was no common use of the distributed goods. Thus, the village communities, unlike families and monasteries, practised communism in production but not in consumption.

In England the village communities lost their land ownership through the Norman invasion and the ensuing introduction of the feudal system. But the communistic system of tillage persisted. The 'villani' continued to be free men and cultivated the common fields in obedience to the traditional rules; only, they had in addition to perform a number of special services to the lord who was owner of the estate. Thus, old custom proved to be stronger than new ownership.

Nearly everywhere in Northern Europe the principles of communistic tillage were technically uniform. They are known as the 'three-course system'; one part was allocated to winter-sown corn—wheat or rye, and one part to spring-sown crops—barley, oats, beans or peas, whilst the third part lay fallow; only small patches of ground were reserved to other crops. The system proved to be utterly conservative in the bad sense of the word. Progress in the art of cultivation was unknown in the common fields, and communism as a system for organized production is undoubtedly responsible for the backward and stationary character of medieval agriculture. Not until the greater

part of the land through enclosures had been transferred to private, individual ownership and management, did evolution in technique reach that main economic activity which produces the principal foodstuffs for the whole population.

However, not all farm-land can be used for arables or meadows. Sufficient areas should be left as outfields, since woods and pastures are needed also. But the principles of rational farming do not demand separate ownership of all outfields. If the woods in a district are sufficient for the household requirements of a village or a group of farms but not big enough for any industrial utilization, it may be advantageous to keep them for common use by the peasants living in the same village or group of farms. It is, therefore, only natural that some woods and pastures still belong to commons even in Great Britain, where the Enclosure Acts pursued a definite policy of converting common land into private property by statute. In some urban districts such commons have reached a new technical state by being made available as public parks.

The special rôle which woods and pastures play within national farming, have resulted in the existence of outfield commons even in a country like Norway, in which the village system was never introduced but where all agricultural land since time immemorial has been divided between scattered farms. It should be observed, however, that rigid local laws were laid down for the use of these commons. The right to a certain use of a common was not a common right. It belonged to a group of peasants, sometimes wider, sometimes more restricted. We could perhaps characterize such a system as a qualified and modified communism.

In the same class as the commons we can tabulate public roads, streets and parks, as well as a number of other public utilities and also some libraries. But in all cases in which some public institution demands a fee for the use of the utility, it falls outside the scope of communism.

Most authors who deal with that system in practice, have

mentioned all or nearly all the instances here given. But besides these there exists an important form of communism which is generally overlooked by theory: the communism of war and war preparations. The fact is that every operational military or naval unit practises a sort of communism in catering as well as in the use of arms: but a communism under observance of military discipline.

This short summary may suffice as a basis for some general observations:

Firstly, communism is an ancient system, surely older than written history, but it has always been used within some special group, it has never embraced the entire life of any population, and was always, positively or negatively, restricted to specified goods.

Secondly, the traditional definition of communism, that the goods in common use shall be common property also, is in contradiction with the factual state which existed and still exists in communistic practice, as the ownership of those goods nearly always has been vested in some special institution or even an individual of which the common users have been interessees.

Thirdly, communism seems to obtain efficient results only when one of two conditions are fulfilled: either the practising group must be small and intimately bound together by common interests or feelings, like the biological and the religious families, or the communistic practice must be planned and governed by a powerful leadership like the convent authorities or the naval and military commanders.

Fourthly, communism is easier to practise in consumption than in production. The only happy results obtained so far by communism in production seem to be those won in the outfield commons. But here nature herself performs the main task, with no or only slight human assistance: she lets trees, bushes, herbs, grass and wild berries grow; she is the great planner, by the grace of God.

Fifthly, even in consumption the practice of a communistic

system seems to presuppose at least a certain degree of superfluity. The great communistic prophets have realized this condition. But they boast that introduction of general communism will increase production to such an extent that nobody needs to fear: there will be enough for everyone. In Utopia all produce of labour is carried to the warehouses, and everyone can take out just what he likes. Thomas More writes: 'For why should anything be denied unto him? Seeing that there is abundance of all things, and that it is not to be feared, less any man will ask more than he needeth'. How unimaginative and dull in their modesty must these inhabitants of Utopia be!

When comparing communism with socialism, we find that the two systems, if judged by their ideas, belong to different spheres. Socialism is a combined system of economic production and political power concentration, communism a system of common partaking in economic or consuming activities. Socialism is a system of State ownership and centralized State planning; communism has always been practised by groups outside of or within the State. Perfect socialism means all production for sale, that is to say all production of a social character, nationalized and managed by a State bureaucracy; perfect communism would reign in a dreamland of abundance and good-will, in which everyone did his duty on his private initiative and enjoyed just what he personally liked and preferred, every form of bureaucracy in economic matters thus being superfluous and, consequently, non-existent. We have to conclude that in principle, socialism and communism are contrasting rather than kindred systems.

How can it then be that they even to-day are so often confounded?

The reason for this apparent paradox lies in the strange theory of evolution, forwarded by that humble believer in Hegel's dogmatics, Karl Marx. He regarded socialism as a special transient stage of human society, succeeding the 'moribund capitalism' of the 'bourgeois' world and simultaneously paving way for communism. In his dialectics private capitalism and socialism repre-

sented 'thesis and antithesis', communism 'the higher unity' of both. Karl Marx desired a complete socialism under the 'dictatorship of the proletariat', but maintained that the manifestation of that system, the socialist State, would disappear when it had fulfilled its mission: to subjugate the capitalist class of the bourgeois society.

But how should socialism develop into communism?

The most definite description of this supposed future change is given by Friedrich Engels, who found a fine but purely poetical and periphrastic expression for it. These are his very words: 'The interference of the State power in social relations becomes superfluous in one sphere after another, and then ceases of itself. The government of person is replaced by the administration of things and the direction of the process of production. The State is not abolished, *it withers away*'. Engels himself underlined the last, famous phrase.

Judged logically the best defence for the statement may be found in Peer Gynt's sarcastic remark:

> Discern between lies
> and prophetic replies!

For indeed, the reply Engels gives to the question of the transition, is sheer nonsense in prophetic garments.

Nothing better can be said about this other 'pre-vision' by Engels: 'The society that organizes production anew on the basis of free and equal association of the producers will put the whole State machinery where it will then belong: in the museum of antiquities side by side with the spinning wheel and the bronze axe'. I should like to see that museum!

But to Lenin such words were a true godsend. In his treatise on *State and Revolution*, which he wrote in August 1917, on the eve of the Bolshevik uproar, he quoted them with the admiration of a most faithful disciple, adding his own interpretation: 'The substitution of the proletarian State for the bourgeois State is

impossible without a violent revolution. The abolition of the proletarian State, i.e. of the State in general, is impossible except through the process of "withering away".' Concerning the time for this botanic process Lenin writes that it will take place when 'people have become accustomed to observe the fundamental principles of social life, and the labour is so productive that they will voluntarily work according to their abilities. . . . There will then be no need for any exact calculation by Society of the quantity of products to be distributed to each of its members, each will take freely according to his needs'.

As we see, Lenin too had a clear understanding of the connection between communism and conditional superfluity. About the leninist juxtaposition of the principles for labour and for distribution, which dates back to St. Simon, Harold Laski says with full right in his treatise on communism: 'For the purposes of rhetoric that is doubtless an admirable cannon; but it is worth pointing out that it is incapable of precise meaning'.

In his speech to the eighteenth congress of C.P.S.U., held—as far as I remember—in 1938, Stalin raised the question: was Engels correct in his prediction about the 'withering away' of the State? He answered with a definite yes. But he explained that this yes could be given 'only on one of two conditions' The first alternative condition was a fictitious one: the statement would be true if we abstracted 'in advance from the international factor, isolating, for the convenience of investigation, the country and the State from the international situation'. In formulating the second alternative condition, Stalin reveals himself as a master of policy, giving Engels right 'if we assume that socialism is already victorious in all countries, or in the majority of countries, that a socialist encirclement exists instead of a capitalist encirclement, that there is no more danger of foreign attack, and that there is no more need to strengthen the army of the State'. By this statement Stalin excuses himself and his government for making no effort to introduce any sort of communism. The ideal society, of which utopists and idealists have been dreaming for

centuries, is just pushed into a future so remote that it is of no interest to present generations.

However, a defender of Stalin might argue that as his words were spoken at a time when Hitler still was the uncontested master of Germany, they could be excused by references to the precarious international situation. But after the end of the Hitlerite war, nothing could contribute more to peace and international good-will than the beginning of the transition from ironclad Russian socialism to unaggressive Russian communism. But such a transition does not fall within the plans of the Soviets. They wish socialism first to be victorious in all countries. Until then the socialist Soviet State shall be strengthened.

Strange to say, communist parties all over the world have humbly accepted this opportunism. They do not fight for a communistic society which should further the happiness of individuals. On the contrary, they try to instigate revolutions which will transfer supreme power from democratic institutions to a handful of ruthless men who wish to organize society for the benefit of a militant State, governed by themselves. The communist parties still maintain that their final aim is communism, but their actual policy is anti-communistic. They only work for a State of the Soviet character.

In this connection it is worth while to examine the general ideas of a State, held by the creator of the Soviet system. In his programme speech at the Sverdlov University on July 11, 1919, Lenin described the 'patriarchal family' or the 'clan family', continuing thus: 'And in those times there was no State, no special apparatus for the systematic application of force and the subjugation of people by force. Such an apparatus is called the State. . . . We shall find that the State really does amount to such an apparatus of rule separated out from human society. When there appears such a special group of men who are occupied with ruling and nothing else, and who, in order to rule, need a special apparatus of coercion and of subjugating the will of others by force—prisons, special detachments of men, armies, etc.—there

appears the State. . . . The State is a machine for maintaining the rule of one class over another'. In *State and Revolution* the same thought is expressed in a slightly different form: 'The State is the product and the manifestation of the *irreconcilability* of class antagonisms. The State arises when, where and to the extent that class antagonisms *cannot* be objectively reconciled'.

Psychologically these quotations prove how entirely Lenin's perception of realities was dominated by his experiences from the Czarist régime. All the time he generalizes from that special type of State which had persecuted him and his political friends. No Westerner and no historian being in good faith, could ever have spoken or written such sentences.

A number of passages in Lenin's writings also disclose his lack of understanding of democratic institutions. We find thus in *State and Revolution* the following assertion, in which the superficiality of his observation is camouflaged by gross irony: 'In the parliamentary system the actual work of the State is done behind the scenes, and is carried out by the departments, the chancelleries and the staffs; Parliament itself is given up to talk for the special purpose of fooling "the common people".'

But should the new 'proletarian State' also be simply an apparatus of oppression? Stalin deals with this question in his famous booklet *Foundations of Leninism*. These may be his most revealing statements: 'The dictatorship of the proletariat is a most determined and most ruthless war waged by the new class against a more powerful enemy, the bourgeoisie. . . . The State is a machine in the hands of the ruling for suppressing the resistance of its class enemies. *In this respect* the dictatorship of the proletariat does not differ essentially from the dictatorship of any other class, for the proletarian State is a machine for the suppression of the bourgeoisie'. Stalin, therefore, is bound to admit that 'the dictatorship of the proletariat cannot be a complete democracy, democracy for all'.

In the light of Lenin's and Stalin's unequivocal statements it becomes clear that the bolshevik revolution of 1917, unlike most

previous revolutions, could not result in any liberation or emancipation, simply because it was not meant to. It only substituted one tyranny for another. Its slogan could be: 'Oppression is dead. Long live oppression!'

Aye, new oppressors went in. 'A new class', in Stalin's words. Who were those new oppressors? Surely not the proletariat as such. An unorganized mass cannot establish any dictatorship, and the Russian masses were unorganized. The men who stepped in, were the leaders of that party which still called itself 'communistic', although for all practical purposes it had discarded its communistic ideas. They exercised the dictatorship, and while this is being written they still do. The Russian bourgeoisie, which never was numerous or powerful, suffered the hard fate of being 'liquidated'. It simply disappeared. If the dictatorship only had for its purpose to 'subjugate' the bourgeois class, its work was soon accomplished. But as the State, according to Lenin and Stalin, is and must be an apparatus for oppression, the Soviet State must have oppressed another class than the extinct bourgeoisie ever since the beginning of the 1920s. Who can that oppressed class be? The answer can be deduced from the well-known social structure of the Soviet society. This society knows only two classes: the communist party and the rest. Who is that rest? The big unorganized mass of the Russian people, that is to say: the proletariat. It is not the dictatorship of the proletariat that has been realized, only a new dictatorship over the proletariat. And this dictatorship is far more formidable than was the dictatorship of the Czar, as it comprises all economic power also.

We now arrive at the final question: is it possible to regard this dictatorship of the communist party as a transient stage on the way to communism? Can it ever 'wither away'—after the interminable waiting time indicated by Stalin? Apparently not. Only botanic growths do wither away. Men in power, on the other hand, are succeeded by men in power. And—as Bertrand Russell puts it—'power is sweet, and few people surrender it

voluntarily'. History even teaches us that old power positions generally are more stubbornly defended than new ones. We have to conclude: there is no probability of any transition from the Russian socialist State with its State capitalism to communism.

What is then, after the accomplishment of the Russian revolution, the moral position of the communist parties in other countries? Only two possibilities remain open. Either they are utterly misled and misguided, having been persuaded by empty phrases to work against their own ideas. Or they have betrayed their own cause in the hope of winning dictatorial powers—sooner or later, with or without Russian assistance. If so, historians in coming ages may be tempted to call them the 'quislings of communism'.

Had that opposition against any form of oppression, which was so strong and alert about the middle of the nineteenth century, been allowed to fight its way without interference from marxism, leninism and stalinism, we would probably have seen more developments in a communistic direction. Russian anarchism as well as French syndicalism and English guild socialism advocated strongly a policy towards restricting State power and strengthening organizations working, economically as well as socially, on a voluntary basis for the common benefit of their members. As late as in 1904 Prince Kropotkin could ask the question: 'Will they follow the dominant tendency of the century, towards decentralization, home rule and free agreement; or will they march contrary to this tendency and strive to reconstitute demolished authority?' Alas, parties and groups which at that time appeared to be leftish, later on bowed to the authority of the powerful Russian State. And after the revolution Kropotkin who even then was acknowledged as the spiritual leader of anarchist communism, judged the Soviet system in hard words. In a 'letter to the Workers of Western Europe' dated Dmitrov, Russia, April 28, 1919, he still used the term 'communism' about Socialist capitalism, but his opinion about this new system was summed up in bitter words: 'I owe it to you to say frankly that,

according to my view, this effort to build a communist republic on the basis of a strongly centralized State communism under the iron law of party dictatorship, is bound to end in failure. We are learning to know in Russia how *not* to introduce communism. . . . As long as the country is governed by a party dictatorship, the worker's and peasant's councils evidently lose their entire significance. . . . It (the Soviet Government) develops a bureaucracy so formidable that the French bureaucracy, which requires the help of forty officials to sell a tree broken down by a storm on the national highway, is a mere bagatelle in comparison'.

It is easy to perceive the pathetic undertone of personal grief in this letter. To Prince Kropotkin the policy of the communist party in Russia, must have come as a break-down of a life's illusions. For he belonged to that time, so remote now, when all radicals were united in a common feeling of fervent opposition against bureaucracy. After the Russian revolution he realized that free movements aiming at reforming the world under the banner of liberty, would stand smaller chances than ever before.

Indeed, so much has the Soviet policy altered former trends and present outlooks that to-day it seems unnecessary when dealing with systems of economic State planning, to include any treatment of movements like anarchism, syndicalism or guild socialism.

## *CHAPTER XI*

# FASCISM AND NAZISM

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AS the foregoing analysis will have shown, leninism and stalinism take up a paradoxical standpoint in regard to the State: in theory every hope is put on its future 'withering away', whilst in practice everything is done for its flourishing. Therefore, to everyone who has not been captivated by Hegel's unscientific, unhistoric and unpsychological theory of dialectic evolution through contrasts, leninism and stalinism contain an element of dishonesty.

In this respect, the competing ideology called fascism, is more frank and square. Wrote Mussolini on the 'fundamental idea' of fascism in 1935—the English is the version of Rome: 'The fascist conception of the State is all-embracing; outside of it no human or spiritual values can exist, much less have value (!). Thus understood, fascism is totalitarian, and the fascist State—a synthesis and a unit inclusive of all values—interprets, develops and potentiates the whole life of a people'. This is a silly piece of philosophy, but no one could dispute the brutal honesty with which the clumsily formulated sentences reveal the dictator's will to power.

Concerning the fascist conception of the individual, Mussolini spoke with the same frankness: 'Anti-individualistic, the fascist conception of life stresses the importance of the State and accepts the individual only in so far as his interests coincide with those of the State, which stands for the conscience and the universal will of man as historic entity'.

Again, on another essential point fascist ideology has been proclaimed with greater openness than that displayed by the Soviets. In the leninistic literature imperialism is constantly

denounced as a last and evil phase in the development of the bourgeois State, whilst the imperialistic tendencies of the Soviet State are concealed behind a smoke-screen of old revolutionary phrases. Mussolini, on the other hand, wrote quite candidly: 'The fascist State expresses the will to exercise power and command. . . . Fascism sees in the imperialistic spirit—i.e. the tendency of nations to expand—a manifestation of their vitality'.

If we can regard the sentences by Mussolini here quoted, as an authoritative statement of the political essentialities of *fascism*, this system may be described as a totalitarian, anti-individualistic and imperialistic doctrine of the State. But in these respects the characterization is applicable to the Soviet system also. In so far Mr. Bullitt is justified in naming the Moscow policy 'red fascism'.

However, in the organization of economic activity the two systems differ essentially from each other. Strange to say, fascism with its theory of the 'all-embracing' State, leaves more initiative and independence to the individual than does the soviet system which in its ideology pays so much more attention to the happiness of the people. In the 'corporative system' of fascism also, supreme planning rests with the highest State authorities, but private ownership of instruments of production is formally left untouched, and subordinate planning is conferred to the leadership of those big syndicates of coercively organized enterprises which represent the contribution of fascism to the solution of economic planning problems.

The existence of these syndicates enables the leaders of the fascist State to organize most of the economic planning through channels of institutions possessing a certain independence. But as all syndicates have centralized supreme leadership themselves, the system does not allow any decentralization in the geographic sense. Fascism means just as much as does State socialism, a preponderance of the metropolis over the rest of the country in all economic matters.

Fascism adopts its most consequent form when the syndicate appears not only as the corporate super-organization, but also as

the economic unit which is the interessee for the capitalistic activities of all its members. If this system is adopted, bad enterprises may be kept up, as the profit of their more clever or more fortunate competitors is used to cover their losses. From a capitalistic point of view this policy is, naturally, the worst conceivable, but something may be said in favour of it when a policy of full employment is adopted during a slump. If followed for a longer time, however, this special form of pooling will discourage initiative and skill, thus impeding progress and evolution.

On the whole, fascism with its tendency to copy important features of medieval economic structure, comprehends an inclination towards a stationary economy, which does not fit in with the 'dynamic' political ideology of the system. A special outcome of static thought in fascist economy is to be found in Article 1 of Mussolini's law of January 12, 1933, reading thus: 'In view of adapting industrial organization to the economic conditions of the country, the Government of the King has been empowered to take necessary measures in order that the establishment of new industrial plants or the extension of existing plants, be first submitted to their approval'.

Could the fascist system be termed capitalistic? Certainly. It uses capitalism as an instrument of economic planning just as much as any other modern system. It is, also, a system of centralized planning, resulting in a 'managed national economy'. But could the system be regarded as socialistic? No, leaving ownership of real capital in private hands, fascism deviates from socialism on an essential point. If fascism is to be classified under a more extensive heading, it seems, then, to be fair to regard it as a special form of the system we will call national capitalism. We shall, in a later chapter, come back to this classification.

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Viewed from a sociological angle, soviet socialism with its nearly complete State capitalism, is primarily a power system.

The idea of all-embracing State power was the main thesis of fascism, although the corporative system, as brought into existence in Mussolini's Italy, acknowledged a division of economic leadership. Nazism, as it was propagated and afterwards practised in Hitler's Germany, was nothing but a power system. One 'Führer', omnipotent and infallible, was the whole content of the Nazi creed. Thus, the development of totalitarian ideologies from the bolshevik revolution in 1917 until the overthrow of the Hitler band in 1945, made supreme economic planning more and more consciously a simple instrument of power policies, conducted by a single man or a single clique. The economic man and all his social relatives were killed. On the dictator's non-royal throne was sitting the commandeering man.

Of all authors dealing with nazi Germany, perhaps no one has disclosed this kernel of the system in a more penetrating way than Douglas Miller. In his revealing little essay from 1941, 'You can't do business with Hitler', he writes:

'What does Nazi Germany stand for? First, for the principle of force instead of law. The Nazis have so little respect for written law that they have not even bothered to abolish the previous Weimar Constitution. . . . What has changed is the fact that the individual has no basic civil rights now. German courts are instructed to decide cases not purely upon written law, but according to "healthy public opinion". Since such opinion is not recorded anywhere, this means in practice the judge's opinion at the time, and the judge is a Nazi functionary. No firm or individual has any rights which the government is bound to respect. . . .

. . . There is no point in discussing whether Germany is socialistic, because all capital is at the immediate disposal of the government. Hitler rightly believes that he has restored the "primacy of politics". When a man's life is a forfeit at the whim of government officials, it makes no difference whether he has title to his property or not. . . . The government does not need to confiscate the property of large industrial firms. An official

needs only to suggest that a gift of a certain sum would be in order, and the hint does not need to be made twice'.

As Nazism thus broke down the whole system of law built up through unceasing efforts by all nations possessing some sort of civilization, Rauschning is perfectly right in describing the nazi coup as the 'revolution of nihilism'. But it is not worth while to discuss in any detail this system of negations in a treatise dealing with something as positive as economic planning. It is, however, elucidating to draw attention to the fact that the nazi State preferably used methods which we (in paragraph 10) found it necessary to characterize as 'anti-economic': looting, plunder, robbery and war spoliations. In German occupied countries during the Second World War, the nazi administration practised simply a sort of spider system, aiming at sucking out the economic life-blood of the subjugated populations. The principles of these exploitations will have to be left to authors dealing with the theory of anti-economic planning.

Was the nazi system socialistic? According to its own ideology—yes. Hitler's faithful followers surely had a firm belief in 'national socialism' as the only perfect socialist system. But as Hitler did not nationalize real capital, his Germany, like Mussolini's Italy, fell outside any orthodox definition of a socialist State. On the other hand, as no private real or nominal capital was protected against the nazi State, it would be just as wrong to classify nazism under private capitalism or any system built upon public recognition of individual rights. Perhaps we may be allowed to introduce the expression *potential socialism* as the nearest technical term to cover the realities of nazism as an economic system.

If we turn to the problems of planning, nazism, like fascism, reserved all supreme planning for the State. Subordinate planning, on the other hand, was not really systematized. State authorities, nazi party leaders and managers of existing enterprises surviving from previous private capitalism, seem to have competed in the sphere of planning. Some imitations of corporative fascism could be discerned, but not to such an extent

that nazism in economic matters appeared as 'brown fascism only.

The final question we have to raise about nazism, refers to its relations to capitalism. Was it a capitalistic system? The answer is, in a way, most unsatisfactory, at least to the theoretical mind. It may be given thus: Nazism, as a system of ideology, did not care for capitalism. Every real nazi despised monetary thinking. A non-monetary economy was a reiterant nazi dream. This was but natural: to thieves, plunderers and spoliators exact accounts are hateful and even dangerous. Besides, nazi leaders feared all figures which could gossip of economic failures. What was ordered by the Führer and his gauleiters had to be carried out, whatever the costs. Why then tabulate these costs? Unnecessary, troublesome and therefore 'senseless'. But when the nazis left private enterprises untouched or at least allowed them to carry on, and when they found it expedient to establish new concerns along the old business lines, capitalism survived. Nazi Germany therefore presented to a surprised world a strange mixture of non-capitalistic and capitalistic elements. Perhaps the somewhat rude expression *half-capitalism* would give an apt characteristic of the muddle.

## *CHAPTER XII*

# SECTOR SYSTEMS VERSUS TOTALITARIANISM

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COMMON to State socialism, fascism, and nazism, is their anti-individualistic character. Anyone living under one of these systems is subordinated to the State not only as a citizen, but also as an economic personality. He is simply the economic servant or slave of the State. It seems, therefore, not unjust to adopt the current terminology and denote all such systems as *totalitarian.* According to Professor Welk the expression was coined by the Italian jurist Alfredo Rocco, who in his programme speech on January 3, 1925, spoke of the fascist State as 'integral and totalitarian' (*integrale et totalitario*). It seems, however, to be even more adequate in relation to nazism and State socialism.

All other systems of public planning and national economy can be denoted as more or less *individualistic.* They draw a definite line between public and private economic spheres. This line is neither static nor conservative. On the contrary, it is the most dynamic, most changing line in society. Every year it is amended, corrected, altered or moved. But at every moment it is clearly discernible. It is drawn by law and custom; it is protected by vested interests as well as by the practice of courts and other judicial institutions. In constitutional countries every violation of it is regarded as a crime against the people. Democracies demand that it shall not be touched without mandate from or consent by the electorate.

In these systems the State is not powerless, and democrats do not hope that it one day shall 'wither away'. On the contrary,

the State is regarded as the ever-lasting institution in society; it is endowed with the function of protecting individual liberty and human rights; the decisions of State organs are constantly called for by its citizens; the State is not made the instrument for subjugation of one class by another; and at least in the legal sense and according to its idea the State is just as much above classes as it is above individuals. The power is divided between the State, its citizens and their voluntary organizations. But the supreme power rests with the State.

In later decades this division of power is often described by a geometrical illustration. Modern economists love to speak of various 'sectors' in society. Let us, as an instance, refer to the *Cambridge Handbook on Public Finance* by Ursula Hicks, first published in 1947. In her opening chapter she writes: 'In a democracy, as usually understood, the State (which term is a convenient shorthand covering both major and minor governing bodies) is a particular part of the nation's organization. In its economic and financial aspect it may conveniently be referred to as the "Public Sector" of the economy, a term which is then contrasted with "Private Sector" comprising the social and economic activities of the community in pursuit of their individual private aims'.

It is just this separation between a Public Sector and a Private Sector or, to express it more exactly, between Public Sectors and Private Sectors, which essentially distinguishes an individualistic from a socialist community. We will, therefore, use the expression *the Sector Theory of Society* to denote in a positive way what is common in all non-socialist doctrines, and regard any non-socialist organization of a State as a *Sector Society*. Since capitalism is a necessary attribute of a modern socialist State, it is futile to speak of capitalism as the contradictory system of socialism. *Sectorism* would be the correct term to use. This word is void of emotional associations and will, consequently, be ineffective in the field of party politics. But just this disadvantage makes it more applicable in a theoretical exposition.

Miss Hicks refers to democracy in connection with the distinction between the public and the private sectors. In a way this is quite correct. Democracy is impossible in a totalitarian community. Consequently, every democracy will, in its economic structural organization, appear as a sector society. But not every sector society is a democracy. On the contrary, apart from the few totalitarian communities, all State organizations we know of, have represented some form of sector society. Neither imperial Rome nor czarist Russia presented history with exceptions to the general rule. In fact, until totalitarianism was born, the struggle has only concerned the dividing line. Where should it be drawn? Ought it to be insurmountable, or could the State tolerate what we will call a 'sector of indifference' between the two?

No economist with historical knowledge would dream of giving a definite answer to such questions. He is bound to know that varying wants and changing interests have made varying solutions of the problem appear natural and expedient. We could even venture the paradox that the changeability of the dividing line is the main merit of the sector society.

As a matter of fact, the two sectors have seldom, if ever, been separated in accordance with fixed theories. The 'isms' we now are inclined to discover in organizations of the past, were generally invented in post-time and have served pedagogism better than research.

A typical example is the idea of the 'mercantile system'. It was, as is generally known, launched by Adam Smith. Since his time economists have taught their students that this system was an entity of its own, characterized by some strange erroneous ideas, especially in the fields of monetary theory and foreign trade, ideas which had inspired and governed the policies of princes and statesmen. But Eli Heckscher's penetrating analysis has revealed that mercantilism was nothing but a trend in a long and oscillating development with various diverging phases, and

that, in particular, the sizes of the two contrasting sectors of society were most varying in the mercantilistic epoch.

If we turn to the physiocrats, who appear to be the first group of men whose economic ideas in same-time were regarded as a 'system', their common creed was, true enough, the doctrine that economic life is subjected to natural laws in which governments should interfere as little as possible. But nevertheless their ideas about the dividing line between the public and the private sectors differed from each other, the extremes probably being Quesnay with his enthusiasm for the hierarchic order of old China, and Gournay who gave momentum to the already existing slogan 'laissez faire'.

Liberalism may in many ways be paralleled with mercantilism. Explained historically it will have to be regarded as a trend which never reached any planned or final goal. Opinions about the relation between the public and the private sector have been in constant change among liberalists all through the development of the movement. In the various phases of the liberal epoch we find diverging ideas about the principles which ought to determine the mutual connections between State and individuals. Even in this respect there is a likeness between liberalism and mercantilism: they were both named at a late stage in their history. As a matter of fact, the word 'liberalism' was created by the Spanish opposition shortly before 1812 and introduced into English party politics by a number of writers in the 1820s and 1830s—among them Macaulay—until it was given official sanction by Lord John Russell towards the end of the 1830s—that is to say more than half a century after the exposition of economic liberalism by Adam Smith and the simultaneously proclaimed American Declarations of Human Rights which fundamentally stated the principles of political liberalism.

But the likeness between the two systems should not be exaggerated, as liberalism differs from mercantilism in its very essence. Mercantilism was a system of opportunism. There never existed, nor could exist, anything like ideal or complete mercan-

tilism. Any form of mercantilism may be regarded as representing the system just as fully as any other form. Liberalism, on the other hand, tries to materialize a number of interconnected fundamental ideas. In its historic manifestations these ideas have penetrated institutions, laws and customs to a greater or smaller extent. There have existed, and still exist, more and less liberalistic societies. Besides, we can construct a model world of liberalism. Mercantilism has only a history; liberalism is, in principle, a theory.

For three reasons we have to devote special attention to liberalistic ideologies and systems. Firstly because liberalism, while being in favour of efficient State planning within the public sector, tries to interfere as little as possible with economic planning in the private sector, and thus, viewed from the theoretical angle, helps to elucidate the natural tendencies and principles both of private and public planning. Secondly because liberalism provides us with the theoretical contrast to totalitarian planning. Thirdly because revived and revised liberalism is the day-dream of modern opposition, and, therefore, a possible system in the post-socialist world.

## *CHAPTER XIII*

# LIBERALISTIC IDEOLOGIES AND SYSTEMS

### 58

*We venture to define liberalism as that system which, within the framework of a fully organized State, tries to secure the greatest possible freedom for the greatest number of individuals and groups.*

This definition has adopted the famous reference to the 'greatest number' which was coined by the Italian criminologist Beccaria in the 1770s, and made universally known by Jeremy Bentham. But it uses the phrase in another sense, as Beccaria and Bentham demanded a State policy aiming at 'the greatest happiness of the greatest number'. Later authors have described this slogan as a formulation of the final liberalistic programme. In a way such a statement is true. Liberalists have generally accepted the doctrine of Beccaria and Bentham. But it would be all wrong to vindicate it for liberalism only. The real communists and anarchists of earlier epochs dreamt of the same maximum of social happiness, working in their own way to achieve it. Socialists also may nourish the hope that their system can create the ideal foreseen by Beccaria and Bentham; to them even happiness must be directed and controlled. As a matter of fact every system which is not totalitarian in the fascist or hitleric sense, may claim to purpose the greatest happiness for the greatest number. What is characteristic of liberalism, is the creed that real happiness cannot exist without freedom. The liberalist believes that man is born with an instinct for freedom, and cannot feel happy if subdued and subjected. To him liberty is the essential basis for happiness. He laughs when he hears socialists talk as if the State was a

happiness-producing machine. In his inmost soul he is convinced that every man and every woman has to seek his or her own happiness through wise use of the liberty he or she enjoys under the protection of law and organization.

Liberalism therefore, is in its very idea not a specific economic system, and it is rooted in a non-materialistic conception of human nature. That is why it represents the exact contrast to marxist socialism. And the decay of liberalism in the twentieth century, has surely its deepest cause in the growth of materialism.

To economists it is worth while to meditate on this essential difference between liberalism and socialism, as the whole of classic economics is based upon the supposed existence of some sort of liberal systems. This is particularly conspicuous in that part of our science which refers to planning. In order to understand liberalistic planning therefore, we will have to premise an effort to analyse the general ideas of liberalism.

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The fundamental idea of liberalism is that of freedom or liberty. But liberty has a multifarious character. It is most difficult to define, and literature provides us with a great number of diverging definitions. Most of them show a tendency to fix the attention on one or a very few manifestations of liberty. But some authors have tried to grasp the general idea. Among them Rousseau seems to have given the most penetrating analysis. Accepting his general view, *we may define liberty as the faculty and possibility of making a choice.*

Our definition aims at describing the essential doubleness which liberty involves. It is individual as well as social. The faculty to choose is a personal quality, inborn and innate, although more or less developed. But the possibility to exercise choice, is dependent on environment; it is a social function.

Personal freedom dwells in the human mind. It is the faculty to decide when motivation belongs to the yes-or-no type or the

type of alternatives (compare paragraph 5). In a mysterious way it is connected with that rather indefinable something which is called will-power: strong will-power, great faculty to choose. But just as important to personal liberty is imagination: you can only resolve to undertake actions which are anticipated in your thoughts, and can only choose between alternatives you have already discovered, fancied or contrived. The greater your power to discern possibilities, the greater your freedom. Thus, liberty is born in our dreams.

The conviction of this inner freedom is the very foundation of that imponderable entity which we call human character, for only he who is in possession of such conviction, is able to feel responsibility for himself as well as for others. We cannot regard it as a genuine exception from this general rule that some famous figures of history looked upon themselves as mere tools of God, for the minds of these men showed marked deviations from normalcy. To normal human beings the thought of having liberty to decide is a fundamental necessity, and consequently axiomatic. It is the primary postulate of their motivation, and may, therefore, be regarded as true in the subjective sense. No one can tell whether it is true also in the objective sense or, as held by determinism, only a delusion produced by some strange interaction of unknown forces. Here we are up against the seventh and last 'world enigma' of du Bois-Reymond—an enigma which he deemed 'transcendent' and, therefore, impossible to solve. But for all earthly purposes we can say: who believes himself to be free, is free. Thus, belief in choice is the primary and essential component of the faculty to choose.

But no one is master of his own opportunities. Most people face a very limited scope of possibilities. The range of their choices is narrow and restricted. However, restrictions may be more or less embarrassing, more or less surmountable. It is the idea of liberalism to create a society in which the restrictions limiting the freedom of individuals are as little embarrassing as possible, and in which no artificial obstacles shall impede the

career of individuals of high skill and character. At the same time the positive social programme of liberalism aims at opening the greatest possible opportunities for the greatest number. The popular modern slogan 'equality of opportunity' makes an effort to express this principle in a more absolute, but certainly less exact language.

Whilst individual liberty consists in the faculty to use opportunities, social liberty consists in the existence of opportunities. Every sphere of social, political, religious, cultural or economic life in which individuals are in possession of opportunities to choose, is a *sphere of freedom*. Liberalism aims at making all important parts of social relationships such spheres of freedom. But within an organized society this can only be done by delimiting the different spheres towards each other. One freedom must not be allowed to subjugate other freedoms. Consequently, liberalism will have to regulate the exercise of liberty. Liberalistic freedom is not freedom in the anarchic sense. It is law-directed freedom.

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Philosophers of the eighteenth century loved to assert that all men were born free, whilst slavery, oppression and subjugation should be looked upon as mischievous results of imperious men's lust of power. The propaganda value of the assertion proved to be enormous. But is it true?—are all men really born free?

In the inner sense, yes. The power to choose is a faculty man has inherited from unknown forefathers. It may be more or less developed, but as long as his mind remains sound, no coercion can deprive him of it. Even if his life is threatened, his choice will be unimpaired: he may choose death—as heroes have done from time immemorial down to the dark epoch of political concentration camps.

But in the social sense no man was ever born free. The child is helpless at its birth. It is wholly dependent on its parents or other caretakers. Whether a baby will ever reach a state of social

freedom, is contingent on surroundings, society and events. In every community we perceive a network of social bindings, and recent research work seems to indicate that people living under primitive and uncivilized conditions are less free than others, as they have to observe complicated rules of behaviour, partly dictated by harsh religious precepts and strange superstitions. The idea of a lost primitive freedom in a pre-historic paradise of anarchism is nothing but a day-dream of sentimental thinkers. Only a Robinson Crusoe, thrown ashore on a desolate island, is free from all social bonds. But his freedom is purely individual, as he is kept apart from all social relations. Only within an organized society will it be possible to find that wide range of possibilities which constitutes social freedom.

This knowledge forms the theoretical basis of liberalism. True liberals know that social freedom is not a remnant of a former anarchic state in society, but a sum of special liberties, of particular possibilities to choose, which may be continuously widened as technical, cultural and economic knowlege expands. The natural trend of events is not one towards restrictions of an originally unlimited social freedom, but an unceasing discovery and creation of new spheres of human liberty. Whenever new social restrictions are introduced, narrowing the scope of freedom, liberalism regards such happenings as anti-evolutionary, as set-backs in the progressive development of humanity.

Some theoretical examples from individual planning may be given to illustrate this theory of a natural tendency to expanding social freedom. They will be taken from the economic development.

Before any division of trade was known, a young man had no choice of profession. He was bound to take up the work of his forefathers. What they had done, he had to do. Every life was, in the economic sense, a repetition as well as a continuation of lives passed. With the divisions of trade new possibilities of choice were opened, and a young man of our own times is free to choose between some hundreds of most specialized professions.

If he is aware of his own faculties, he will be able to make a most personal choice; perhaps he can enter a career which will call upon his creative powers and incite him to be a pioneer.

Correspondingly, a medieval peasant belonging to a village community faithful to the three course system of tillage, had no choice when planning the use of his fields. The introduction of scientific agriculture, on the other hand, has placed before the well-informed free farmer of to-day a choice between various growths and different methods of cultivation.

Again, if the owner of a house in the middle ages wished to heat it, he had to erect a fire-place for burning some sort of wood. His modern successor can choose between wood, coal, coke, cinders, anthracite, electricity, gas and oil.

Thus, evolution leads humanity towards an ever increasing field of possibilities and, consequently, towards a wider range of choice, a greater social freedom. Counter-tendencies of restrictive character are truly anti-evolutionary—that is: reactionary. In spite of such halting forces, we may firmly believe that unless atomic wars destroy our civilization, the paradise of freedom is not behind us but ahead of us. Consequently, liberalism is akin to the dominating force of progressive development.

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Basing their arguments on the fallacious conception of primitive man as a free being who, through the gradual organizing of society, has been forced to concede an ever increasing number of his liberties, some authors have launched the theory that there exists an inherent incompatibility between freedom and laws. They regard every law as restrictive. In our terminology their main thesis can be formulated in the sentence that every law necessarily narrows the spheres of freedom.

Now it would be futile to deny that many laws are *liberty-restricting*. But in a number of cases their restrictive character is grossly exaggerated. When we judge them, two important

considerations have to be borne in mind. Firstly, laws like the criminal codes generally forbids actions only, which the great majority of people would never commit. Thus, with few exceptions civilized persons abstain from crimes like murder, theft or fraud, simply because they will not violate the unwritten laws they have laid down for themselves; such actions do not lie within their sphere of freedom, and this sphere is, consequently, not affected by corresponding prohibitions in an official criminal code. Secondly, the purpose as well as the effect of such laws is to protect the freedom of those individuals who might be victims of the actions in question if these were not forbidden by the State; such laws are, therefore, simultaneously liberty-restricting and *liberty-protecting*. Let us illustrate this doubleness by an example taken from the economic field. A law like a Homestead Exemption Act surely narrows the creditor's sphere of liberty, but through this restriction it widens that of the debtor. Many laws regarded as most restrictive by some persons, are in reality adding to the freedom of others. We can regard them as *liberty-regulating*. Whether such laws destroy more liberty than they protect or create, is impossible to ascertain, as human beings are not in possession of standards by which various liberties can be effectively compared. Laws of this kind, therefore, have often given rise to serious dissensions and conflicts, in which both parties were able to put forward well-founded arguments.

Some laws, however, are indubitably *liberty-promoting*, as they open up new spheres of freedom. Typical examples are democratic constitutions and election laws which confer suffrage upon groups formerly not entitled to vote.

To conclude: The relations between law and liberty are complicated and cannot be described by any simple formula. Indeed, concrete examination of the problem is needed in every special case, and liberalistic planning, aiming at securing the greatest possible freedom for the greatest possible number, will constantly meet difficulties in its legislative policy. On this crucial question opinions among liberals have always varied.

But since the middle of the nineteenth century the trend of thought has been towards a deeper understanding of the sociological fact that legislation, if handled wisely, may be a fit instrument for promoting liberty.

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The supreme freedom is freedom of thought. On this essential point all liberals agree. They regard free thought as the driving progressive force in society. Every attempt to cripple it, is in their opinion vile, evil and retrograde. The fundamental and decisive difference between totalitarianism and liberalism is to be found in the diverging opinions of the two systems concerning the mental activities of citizens. Liberalism loves free thought, totalitarianism fears and hates it.

However, free thought can only be secured if its expressions are protected against censorious and punishing interference from State authorities. Thus, freedom of thought includes freedom of worship, freedom of speech, freedom of association, freedom of public meetings, freedom of printing, freedom of artistic representations and exhibitions, freedom of the press and freedom of communications between individuals, be it by letters, telegrams or telephone calls. This enumeration confirms the expanding tendency of social freedom, as freedom of printing, freedom of the press and freedom of communication by technical means have been added only during recent centuries to the original liberties of expression. We can perhaps embrace all of them by using the term 'free spreading of thought'.

But spreading of thought involves cost. Someone will have to pay. In a society based on free enterprise, however, it is practically always possible to find capitalists who are willing, at their own risk or at the risk of the authors, to spread new, unorthodox and oppositional thought. Competition between publishers, editors, impressarios, publicity agents and chairmen of debating societies will give a fairly good guarantee against any suppression of

useful or deep thought as well as of talented art and poetry. Not so in socialist societies. Where the State holds all economic power, the bureaucratic authorities are able to impede any publication and stop every communication between its subjects as well as between their own nationals and foreigners. Freedom of thought is then utterly endangered. Liberalists are of opinion that for this reason private capitalism forms a necessary part of a free and progressive society. Economic freedom is, at least in our own times, a necessary basis for spiritual freedom.

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Economic liberty, like freedom of thought, has several aspects. In the happy years preceding the outbreak of the First World War, people generally regarded economic freedom as having two main elements only: *freedom of enterprise* and *freedom of trade.* During the years of restrictions and control which followed, we Europeans learnt through heavy and painful losses that the economic freedom we had enjoyed without reflecting on it, comprised other important components also. These are *freedom of price stipulations* and *price movements*, *freedom of purchase*, *freedom of investment*, *freedom of payments*, *freedom of borrowing* and *lending*, *freedom of acquiring foreign currency* and *freedom of travel.* In several ways most of these liberties are interconnected, and some of them may, by definition, be regarded as special ramifications of the two traditional economic freedoms: those of enterprise and trade. But as each of them has a function of its own, and as all of them constitute integral and necessary parts of a liberalistic system, it is theoretically justifiable to treat them as separate items. The traditional notion 'free competition' embraces elements from various freedoms.

Naturally, within an organized society none of these liberties is absolute. They are all more or less regulated by law. But a liberalistic State recognizes them in principle, protects them against exogenous violations and even encourages people to

make use of them. If any of them would have to be suspended during an emergency, the liberalistic State feels bound to restore them as soon as the suspension is no longer urgently needed.

*Freedom of enterprise*, in the strict sense of the term, is the liberty to start economic activities, and found firms, societies or institutions to conduct them. This freedom constitutes the basis for free economic planning. It is, also, a necessary element of free competition, for if existing enterprises need not fear new competitors, the way is paved for all sorts of silent and implied agreements and understandings between them, if not open co-operation.

Taken in a somewhat wider sense 'freedom of enterprise' also comprises liberty to change, reform or modernize going concerns.

*Freedom of trade* is the liberty to exchange goods and services, including freedom of transport necessary to conduct such operations. In public discussions there has been a tendency to interpret this freedom as comprising all such liberties as must exist if trade shall be able to go on unrestricted, undisturbed and satisfactorily. This form of expression holds good as long as these other liberties are connected with freedom of trade. But in our own times their independent existence or non-existence has been pretty clearly revealed. In fact, liberalism alone demands their recognition.

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As a political system liberalism tries to win power through the duty appeal. It proclaims liberty as the highest individual good, but presupposes that freedom obliges; a true liberal must be willing to sacrifice fortune and life in the fight for winning or defending political or spiritual liberty. As an economic system, on the other hand, liberalism makes predominant use of the reason appeal and the interest appeal.

The interest appeal of liberalistic economic policy is effected through use of that system which is commonly called 'price mechanism'. Its well-known idea is that prices of commodities

and labour services (but not on services rendered in public administrative work) shall vary, directed and determined by supply and demand, thus indicating to enterprisers and capitalists what the future market needs.

In the model world of liberalistic economics price movements work on production and trade in the way that rising prices call forth increasing production and trade, as enterprisers and capitalists will reckon to profit by the growing demand, whilst falling prices induce them to decrease their activity for fear of losing through the weakening of demand. The result is thus supposed to be that free prices, dominated by an oscillating tendency, will secure a right and sufficient supply of the market. This is the function of free prices, and if profits made by enterprisers and capitalists exceed reasonable remunerations for individual services, the excess may, from the viewpoint of total economy, be seen as cost paid for the stability of the market.

We will refer to this description as the *theoretical law of price mechanism*. It reveals the function of free prices in any society adopting a more or less liberalistic system. But can it be regarded as a standard law also?

If we try to answer this question, we will have to take into consideration three factors from which the theoretical law abstracts.

Firstly we have to face the psychological fact that price movements can only influence production and trade through their effect on the motivations of enterprisers and capitalists, and the knowledge of price movements (which, by the way, is often imperfect) is but one of the elements in those motivations. Consequently, the knowledge of price movements may not lead to the theoretically expected results because knowledge of other facts counterbalances it or because the significance of the movements in question is estimated in an unforeseen way by a majority of business men.

Secondly, the economic time factor is bound to cause all sorts of disturbances in the functioning of price mechanism. The fact

is that only in few cases are enterprisers and capitalists able to give an immediate response to the call of a price movement. Decisions must be prepared, planning takes time, and the existence of running contracts retards even minor changes. Say that prices are rising. If production is to be increased, the planners must acquire new factors of production and conclude new contracts; perhaps new buildings have to be erected, new machines designed and constructed, new means of transport procured. Say prices are sinking. A number of business leaders may then postpone decisions, being inclined to 'wait and see'. Even after mature consideration some of them will perhaps prefer sales at reduced prices to closing down or reducing on a heavy scale, and vested interests will always stand up against changes which threaten their economic or social position.

Because of all these factors, which we may bring under the aggregate term *inertia of running production and trade*, the response of enterprisers and capitalists to price movements are generally slowed down. Consequently, if a rise or fall in demand are due to causes of some strength and duration, the ensuing price movements will acquire a tendency to go on, and instead of oscillating prices keeping up a market stability, we experience cyclical movements of prices, disrupting equilibrium and leading to alternating periods of expansion and contraction. The paradox of liberalistic price policy is, therefore, that it breeds two opposite tendencies, one tendency to market stability and one to price cycles. Which tendency will dominate in practice is dependent on two factors: the strength and duration of the *impulse phenomenon* causing the price movement on one hand, the strength and duration of *economic inertia* on the other. We see thus that if we attach sufficient importance to the inertia element, we are able to conciliate the two current theories of price movements in liberalistic societies: the theoretical law of price mechanism and the standard law of business cycles.

Thirdly, the proper working of price mechanism in a liberalistic society is conditional on the monetary unit being kept stable,

for only if prices refer to an unaltered standard of value can they unambiguously register scarcity or superfluity of goods and services.

Economists of liberal schools as well as skilful liberal statesmen and politicians have generally been aware of this essential interconnection between monetary stability and price variability, and have demanded free prices but fixed monetary units.

For two reasons it is worth while to underline this feature of liberal economic policy. In the first instance it serves to elucidate the theoretical knowledge that liberalistic freedom is never absolute, but always adjusted to the framework of the liberal society. Secondly it explains why politicians so often have renounced the use of price mechanism after a breakdown of their monetary system.

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Interconnected with freedom of price stipulations and price movements is *freedom of purchase*, for only if anyone is free to buy what he likes, are prices able to register the whole range of human desires and all variations in them. Nevertheless the freedom of purchase is a liberty of its own, as prices may vary freely even if purchases are restricted and controlled.

But every such restriction means a breach of the basic liberalistic principles. Freedom of purchase is, indeed, the very cornerstone of economic liberalism. It is through the use of this liberty that the people direct production and trade. Every effective demand is an order, and every single individual may issue such an order if he only possesses the money required. Free purchase means the liberty of everyone to acquire the means for the satisfaction of his wants to the extent his economy permits.

It is, therefore, no paradox but plain truth that freedom of purchase is more democratic than democracy itself. This for two main reasons. Firstly, the electorate always is and must be restricted by selective rules, whilst even small children can throw in their preference by buying. Secondly, general elections can

only take part at intervals, whilst the economic choices of the people are daily expressed through the purchases made.

How immensely more democratic than democratic government this freedom of purchase is, becomes conspicuous in relation to women. Not until the twentieth century was political woman suffrage introduced in any sovereign State, whilst women all over the world since time immemorial have exercised the freedom of purchase. In fact the women perform the greater part of the function of buying consumable goods, and have done so in most societies. As buyers women rule a large section of production and trade. It is, therefore, downright ridiculous that sexless economic theory in its minute analysis of demand always visualized the economic man acting as buyer, forgetting his better half, the *economic woman.*

The classic description of the part which freedom of purchase plays in a liberalistic society, is given by William Trufant Foster and Waddill Catchings in their eloquent treatise on *Profits*, published in 1925. Perhaps their most striking arguments are included in this comparison between the buyer's exercising of his freedom and the working of political democracy: 'Consumers control production by their money votes. This is a democratic means of determining what is to be produced. In the domain of commerce, every human being has a vote every time he makes a purchase. No one is disfranchised on account of age, sex, race, religion, education, length of residence, or failure to register. Every day is election day. The buyer casts his vote wherever he goes. The votes are counted at once and with few errors; the cash register is more dependable than the ballot box. Those in charge of the polls are dependable, too, for since they are seeking profits, it pays them to have prompt and accurate records. Moreover, minorities count. In fact, the price and profit system very nearly attains for economics the ideal that is sought for politics by the advocates of proportional representation. Minorities that are so small as to be insignificant in national and even in local elections, direct production according to their wishes. Technical

books, works of art, surgical instruments, and other items that literally fill many volumes of trade manuals, are regularly produced in response to the money votes of fewer than one-tenth of one per cent of the voters'.[1]

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*Freedom of investment* may be classified as part of the freedom of purchase. Thus, all statements in the foregoing paragraph refer to freedom of investment as well as to freedom of purchasing ordinary goods and services. It may even be said that the buyer's mastery over production and trade is incomplete if he is not free in his purchases of capital.

But two reasons may be given for a special mention of freedom of investment in an enumeration of economic liberties. Firstly, in non-liberalistic societies special arguments are forwarded in favour of restrictions on investment, which are not applicable to corresponding restrictions on purchases of commodities and services. Secondly, in the technical sense, freedom of investment may be classified with the freedoms of payments, of borrowing and lending and of acquiring foreign currency, as constituting a special group: the *monetary liberties*. Their acknowledgment is indispensable for a free monetary circulation. If they are restricted, money can only perform part of its economic and social functions.

Of the monetary liberties that of *free borrowing and lending* has been most disputed. In all societies ruled or influenced by socialists it is, to-day again, in the vulnerable zone. And even leading liberalists have not been in complete accordance when the question was raised about the extent of this liberty. One liberal school demands full freedom on the loan market, irrespective of rates stipulated. Another is in favour of legislation against

[1] In this quotation I have, in order to internationalize the meaning, ventured to insert the expressions 'money-votes' instead of 'dollar-votes' and 'local elections' instead of 'State elections'. I hope that this 'licentia' will be forgiven.

usury. But what is usury? Here again a division of thought is to be recorded. Some liberals side with the traditional opinion of earlier jurisprudence that any exorbitant rate of Interest should be deemed usurious. Other liberals agree with more modern jurisprudence in the theory that the term usury shall be reserved for cases in which the debtor was motivated to accept the exorbitant rate through undue influence. On two points, however, liberal opinion is not divided. Firstly, all liberals agree with radical and socialist theory in condemning excessive rates of Interest. Secondly, they think that the most effective remedy against any form of usury is not to be found in prohibitions, as an official maximum of Interest often gives birth to black market transactions, but in promoting a free and easy loan market through a highly developed and differentiated system of banks, investment trust and insurance companies as well as through a far-seeing monetary policy. Besides, liberalism is in favour of a directed loan market. It wishes the market for short loans to be led by the official discount rates quoted by the bank of issue, and the market for long loans to be influenced by the rates of Interest fixed by negotiating of new public loans and Stock Exchange quotations on bonds. That is to say: liberalism prefers Interest rates more or less automatically regulated by economic standards to Interest rates more or less fixed by legislative measures; it prefers signals to orders.

Whilst freedom of borrowing and lending, in practice as in theory, has been a recurrent object of conflicts, *freedom of payment* is the least disputed monetary liberty. Even in a non-liberalistic country this freedom has enjoyed acknowledgment. But in our own time no economic liberty is allowed to remain unimpaired. Thus, also the freedom of payments has been the victim of governmental restrictions, in so far as exchange regulations of several countries prevent a great number of honest debtors from fulfilling monetary obligations abroad. Such a policy runs completely contrary to the principles of liberalism.

On the whole, liberalism demands that every national citizen

shall enjoy certain *international economic liberties*. These are freedom to acquire foreign currency, freedom to use foreign currency as he pleases, and freedom to travel abroad. In liberalistic light every man and every woman are national citizens only in a political sense; economically they are citizens of the world.

It is no paradox to say that this programme is in conformity with the very character of trade, for the paths of trade run from producer to consumer across all political frontiers and barriers; the highways of trade are the big oceans. Every true business man, therefore, is internationally minded. And through his foreign contacts and travels abroad he contributes to the realization of that mutual progress which is described by the old proverb 'exchange of commodities means exchange of ideas'.

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When liberalism as a system accepts and even promotes all the individual freedoms we have described, it is not only because liberalistic thought for ideological reasons favours extensive personal liberty. Still more perhaps it is because liberal theory has come to the conclusion that these freedoms are necessary elements of efficient private planning, and liberalism wishes to leave the greater part of economic activities to the private sector.

Adherents to totalitarianism will never be able to understand this attitude. They judge every economic activity from the angle of State policy. *Liberalists*, on the other hand, *view aims and ends in the light of total economy*. What liberalists seek, is the compound welfare of the whole society—individuals, groups, organizations and institutions, including the State. Their policy has for its object to find the optimum combination of a high standard of living for the population, a high degree of efficiency for important economic and social units, a high standard of culture, and sufficient security for the State as institutional embodiment of the nation. Liberalists doubt that this combination can be realized through governmental action, as govern-

ments always primarily will try to promote pure State interests; they believe that the various group interests will have to approach their great common ends through the working out of compromises, and such solutions will only be found when there exists division of leadership—and division of planning.

It is worth while to stress that this belief is more modest than the assertions of totalitarians. Liberalists hold that most men are able to plan for themselves and their dear ones, that some men possess capacity for economic planning on behalf of firms and enterprises, that a selection of few even are clever enough to be good planners for the whole public sector in a democratic society, but that none has been endowed with so much divine wisdom and foresight that he in a satisfactory way can lead the supreme planning, economic and social as well as political, of a big and complex modern community.

Division of leadership means division of power. In a true liberalistic society sharp separating lines are drawn between the various spheres of power, making it easy to ascertain who is responsible in each special case. Thus, liberalism wishes not only an efficient separation between public and private sectors, but also between public subsectors. Liberalistic theory demands that whilst Governments and publicly elected Parliaments shall act as constitutional powers, dealing with all questions of external and internal security, legislation and budgets, the State shall vest the administering of its enterprise activities, welfare work and judicial proceedings in special independent institutions. Besides, even within the political sphere of State activities a division of power and leadership is regarded as urgent, and all liberalistic States have conferred local administration to local bodies. Underlying the whole theory is the firm belief that within the sphere of human resolutions and responsibility division of leadership is as essential to efficiency as division of labour in a mechanized industrial production.

Now it is a truism that every public activity involves cost. How shall the State be able to pay all these expenses? As a reply

to this simple question liberalistic theory has expounded that whole science which was called 'Public Finance'. In our terminology it may be defined as comprising *rational principles for public economic planning*. Every chapter in every text-book written on that complexity of problems, refutes the contention of modern labour politicians that a planned State economy is something new and sensational.

It would be futile in this treatise to re-state the liberalistic principles of public economic planning. They are only too well known. Besides, in a later chapter we will have to return to budget planning as viewed from modern angles. In this chapter, however, it may be convenient with some few words to touch upon the liberalistic ideas about the principles which ought to be adopted when the line of partition is to be drawn between public and private economic enterprises.

Happily, most liberals agree on the general conditions which must exist within a trade if a rational mind would endorse its transfer to public ownership and management. Some of these conditions are positive, others negative. We may sum them up as follows.

Firstly, the aim of the activity must be to procure means for future satisfaction of collective wants. The business should be run by an institution representing the P.I. group interested in the matter.

Secondly, the articles produced or the services rendered as results of the activities, must be in constant demand by a great multitude of people. Luxuries aiming at satisfaction of sporadic wants should be excluded.

Thirdly, the activity must allow the management to a great extent to pursue a policy of stable prices.

Fourthly, activities involving great risks and swift action should be excluded.

Fifthly, the enterprise must be well suited for centralized management. Activities needing decisive resolutions by local bodies should be excluded.

Sixthly, the enterprise must not involve a great number of selective resolutions which might tempt the management to use the weapons of political discriminations or other corrupt practices. Consequently, activities like commercial banking should be left to private enterprise.

Seventhly, the business should be wholly national. All activities which might lead the State into international difficulties or conflicts, have to be avoided.

Eighthly, no activity must be nationalized if the result would be the erecting of new artificial monopolies, detrimental to sound competition or free thought.

Ninthly, no activity should be nationalized if the social results of its management under private ownership had proved to be satisfactory.

Tenthly, no nationalization must take place if it may lead to open enmity between the State and the trade unions.

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The last of these ten commandments of economic liberalism is rooted in profound principles. Liberalism does not wish the State to enter as a party any conflict between 'capital and labour'. The liberalists regard the State as the supreme institution which has to stand above economic conflicts. In their view this integrity of the State is to be preferred by all groups in society, but particularly by labour, as to give way is much more difficult for a State than for any organization of private employers, however strong.

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It is a leading principle of liberalism that private economic planning shall be given the greatest possible freedom, provided that it does not endanger high national interests. But how can this programme be realized without a *bellum omnium contra omnes* or at least an economic anarchy? If the early socialists had been

right, such a state would have occurred more than a century ago. As, on the contrary, the liberalistic countries have been more internally peaceful and enjoyed a more harmonious satisfaction of human wants than the later dictatorships, liberalism need not give any theoretical explanation, but can restrict itself to a quotation of the old scholastic sentence: 'ab esse ad posse esse consequentia valet'.

Nevertheless, it seems appropriate to discuss the problem.

The main reason for the fact that extensive private economic planning does not lead to constant internal conflicts, lies in that ethic and moral character of economic activities which we expounded in our paragraph 10. Because economy in its essence is non-aggressive, the pursuance of innumerable private plans need not necessarily lead to clashes. Most economic plans run in the same direction; they are not crossing but parallel. Besides, as we stressed in paragraph 59, liberalistic freedom is not anarchic but law-directed, and the liberalistic State even protects all decent contracts, thus daily adding private provisos to the legislative regulations of conduct. We have also to remember that liberalistic States always will have some form of democratic government, and democracy gives a guarantee for peaceful solutions of conflicts. On the whole, liberalistic economy is only possible within States whose legislative and political structure prevent any detrimental kind of economic warfare and check any development towards economic anarchy.

But also the economic structure of the liberalistic State gives guarantees against ruinous conflicts and senseless anarchy. A liberalistic society is built upon the widest possible exchange of goods and services, combined with a widespread division of labour and leadership. Now it is the very idea of exchange that both parties gain by it, whilst division of labour and leadership leads to greater production, to the benefit of the whole society. Thus the liberalistic structure directly promotes the mutual interests of the inhabitants, while it more indirectly also furthers their common interests. The interconnection between these two

sets of interests is only too seldom realized in political discussions. But it ought to be obvious that the equilibrium of a market, brought about by agreements between purchasers and sellers realizing their mutual interests, gives an objective solution of distribution problems, and maybe even the best obtainable on the basis of existing income, taxation and economic knowledge. By 'the best obtainable' we simply mean that distribution which —under the given circumstances—is able to satisfy the highest sums of personal wants as measured by purely subjective standards, and we admit that most people perhaps use unwise standards. But liberalism as a system abstains from reforming human wants through a compulsory economic policy.

How far did the liberalists go in such abstention?

On this point opinions differed. During the first decades of the nineteenth century a number of liberal politicians and journalists adopted the physiocratic slogan *laissez faire*, wrongly interpreting it as a principle of non-intervention by the State in the whole economic sphere. But leading liberalists always understood that the slogan was directed only against artificial restrictions on production and trade; they were not afraid of propagating social reform by the State. As typical of true liberal thought can be quoted a sentence expressed by Norway's foremost liberalistic author and statesman, Professor Anton Martin Schweigaard, early in the 1840s. He wrote that the doctrine of non-intervention never had been nor could be adopted by any civilized country.

All liberalists, however, demand that production and trade shall be influenced only through such methods as can be summed up under the term 'persuasion'. They believe in the effects of monetary policy, legislation, budget measures and starting of public works. Liberalists not being in favour of unrestricted international free trade, attach great importance also to tariff policy. Even mere advices to the public may be used as means for promoting specific aims within the framework of a more or less liberalistic society. Liberalists believe that such a policy may reach

efficiency because a great number of persons will react rationally to the signals.

A comparison between the totality of all liberalistic measures for influencing motivees, and the organization in countries whose leaders preferably use the fear appeal, can be given by a simple illustration. In a big city, like London or New York, street traffic may be regulated in two ways—either by policemen or by the use of green, amber and red lights. Provided that the public reacts rationally and loyally, the signal system is far more law-determined and less anarchic than the police system; it simply represents a higher form of organization. Besides, at any rate when the installation outlay has been written off, the signal system, being labour-saving to an almost perfect degree, is undoubtedly the more economical. Liberalistic policy established an economic signal system. In countries where it was abolished, thousands of policemen stepped in.

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Most authors who in principle are against liberalism, base part of their arguments on the undeniable fact that free competition in the early decades of liberalistic policy, in some industrial countries led to disgusting social consequences.

But does free competition really represent an essential part of liberalism as a system?

When the question is formulated in this precise way, it has to be answered in the negative. Freedom of trade and freedom to conclude contracts in conformity with promulgated and customary law, are necessary liberalistic liberties. But if these freedoms are used to restrain competition, as done by cartels and trade unions, liberalism as a system cannot lodge its protest. Forced free competition is a contradiction in terms.

The right construction of the relation between liberalism and free competition, may be given in the following way: If and when capitalists, enterprisers or labourers choose to compete,

they are allowed to do so in any liberalistic society, provided that they do not violate regulations laid down against unfair competition or other written or customary laws. In such case free competition will come into existence within a liberalistic society, as a consequence of a special use of freedoms granted by that society. But if and when capitalists, enterprisers or labourers use the freedoms of a liberalistic society to restrain competition, they are allowed to do this also, again provided that they do not violate the legal system. One thing, however, a liberalistic society will always have to look after: there must be *free opportunity of competition.* Existing cartels and trade unions may be allowed to do their best to influence and persuade people not to compete with them, but no liberalistic society can permit them to impede competition.

On the whole, it is more than strange that the discussions about advantages and disadvantages of a competitive society to such a great extent have been focused on the slogan 'free competition'. It is as if only free competition was real competition. No mistake could be greater. Where competition reveals its very character in its most manifest and intensive forms, as at big contests in sport, most detailed rules are laid down, purposing to secure for all competitors an opportunity to win. In economic life it is likewise: ideal competition is fair competition.

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Every society must possess some form of economic stability. All economic factors cannot be allowed to move freely. Liberalism, also, seeks to keep some factors stable. The parity relation in the monetary system is the most typical example. But every economic legislation introduces some bindings. In the history of liberalism the tendency has moved in the direction of a constantly increasing number of fixed factors. Social legislation is responsible for a good many of them, placing equal, proportionate or graded burdens on all enterprises of certain characters, thus restricting

the freedom of mutual competition, as all enterprises will have to fulfil corresponding obligations towards their labourers and employees as well as towards society.

If such an evolution is carried far, the question may be raised: will not legislation, in the 'long run', swallow up the liberal system, leaving only an empty name and recollections of a glorious past?

It would be futile to deny such a possibility. Liberalism is able to commit slow suicide. History has recorded several instances of suicidal liberal parties. The system in itself seems to possess some self-destroying elements. This has not been revealed in the way prophesied by Karl Marx, and the decay of European liberalism in the twentieth century is certainly more due to exogenous than endogenous causes. Nevertheless, every liberalist has to be aware of the danger.

But in relation to the fixed factors, every liberalistic society will pursue one and the same economic policy: it allows the other factors to adapt themselves in a free way. This policy will stamp any liberalistic evolution. So much so that we may characterize *economic liberalism as the system of free economic adaptation.*

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Liberalism as a movement has always been fighting, but against changing adversaries. In the history of economic liberalism we can discern three epochs, each of them characterized by the systems and policies against which the liberals turned their weapons.

To begin with we have the *anti-mercantilistic epoch.* Its decisive years were in the latter half of the eighteenth century. In close alliance with political liberalism, champions of more free economic conditions attacked all privileges and vested interests, demanding free production and free trade. Adam Smith was the undisputed Grand Master of this epoch; his *Wealth of Nations* served as the chief arsenal of the movement.

The next period covers the greater part of liberalistic history. We can denote it the *anti-conservative epoch*. The front had been widened: the whole society should now be liberalized, and the fight was everywhere directed against old prejudices and power positions. As liberalism in leading countries became victorious in the most contested economic matters, the reform claims were shifted to the more social field of society; the idea was that only more secured economic conditions would make it possible for the great masses of the population to enjoy economic liberties. But while liberal economic policy advanced, liberal economic theory lagged behind. The nineteenth century saw no Adam Smith. One man seemed to possess all qualifications for acquiring such a central position in liberal thought: John Stuart Mill. Philosopher and economist, lover of liberty and champion of social reform, deep in thought and brilliant in exposition, did he appear as the chosen knight. In his book on the subjection of women he also succeeded in enlarging the platform of liberalism as a totality, whilst his treatise on liberty contained a penetrating analysis of fundamental liberal ideas. But in his big systematic work on economic theory, John Stuart Mill was not able to emancipate himself from Ricardo; he became a follower instead of a renewer. To economic liberalism this failure was a misfortune, the more so because Stuart Mill's contemporary Karl Marx in his queer way understood how to awake the emotions of the masses.

In its fight against conservatism, social liberalism of the twentieth century enjoyed valuable assistance from labour politicians belonging to socialist parties. The result was that liberal leaders and newspapers felt tempted to underline the differences in view between liberals and conservatives, whilst they often forgot to explain the cleavage between liberalism and socialism. Younger liberals, sometimes impatient when social progress was slow, found it, therefore, only natural to join one of the labour parties, not realizing that they, in so doing, renounced their former leading idea of liberty.

But the third, *anti-socialist epoch* in the history of economic

liberalism, is still in its infancy. It belongs mainly to the years after 1945. Its philosophy is in formation, its main campaigns will be fought in years to come. However, if no new global war should cripple it before it has grown, it seems to have a glorious future ahead of it, as opposition against socialism naturally must have recourse to the arsenals of liberalism. The 1949 elections in Canada, New Zealand and Australia seem to give us the prelude to a new liberal age. In particular because these British dominions undoubtedly are countries of the future. Nevertheless most people may find it unlikely that the new liberalism in the old world will ever be victorious under the banner of any party calling itself liberal by name. That does not matter: what counts are not parties but ideas.

## *CHAPTER XIV*

# NATIONAL CAPITALISM

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BETWEEN the second and the third epoch in its history political liberalism suffered that well-known decay which weakened its position nearly everywhere, and which in some countries led to its more or less total destruction.

To-day Mr. Everybody is inclined to regard a victorious advance of socialist thought as the main cause of this liberal disaster. 'That's plain enough,' he says. 'Look at the marxist régime in Russia, and the socialist governments in the north-western European democracies. It's obvious!'

But Mr. Everybody is wrong. Socialist thought did not replace the liberal ideas after a fight with spiritual weapons. The peoples did not turn away from liberalism being persuaded by arguments that socialism was the better system. It was the First World War and its sequence of economic disturbances which brought down liberalism as a system, and in the devastated countries the Second World War barred any re-introduction of liberal principles. Besides, only in Russia, where liberalism never had been victorious, were pre-war conditions followed by pure socialism. All other countries hit by the wars, only witnessed a gradual breaking down of liberalistic legislation and practice. What took its place was, in the first instance, an *unsystematic militaristic economy*.

In theoretical sequence the transformations which led to the collapse of liberalism, may be given as follows:

Firstly, the stability of monetary units was relinquished. In most belligerent countries, and even in some neutrals, this

fateful surrender of established principles took place as early as in the first days of August 1914. As a result price movements from then onwards not only served as registers of supply and demand, but also, and generally to a much greater extent, as measurements of monetary inflation or deflation.

Secondly, maximum prices and price control further deprived price movements of their former significance. In several countries these new regulations remained, in some form or another, even after the re-introduction of fixed parities in the 1920s, and a new strict price legislation came into force during the Second World War, if not earlier.

Thirdly, the introduction of rationing deprived money of its function as the sole instrument and bearer of purchasing power, thus impairing freedom of purchase.

Fourthly, the blockade system of the First World War broke down the freedom of international trade. It was, to a great extent, restored during the 1920s. But after 1931 it had to find a new narrowed shape within the strait-jacket of bilateral trade agreements between nations, and the Second World War strengthened the restriction policy of the depression years.

Fifthly, exchange restrictions and all sorts of exchange control introduced in the 1930s and reinforced during the Second World War, deprived national currencies of their general world-wide purchasing power, impeded free investment abroad, and destroyed private capitalism as a free system of international character.

Sixthly, such restrictions even impeded the free movements of individuals.

Seventhly, conscription, being formerly used only for raising armies and navies, was in some countries made part of the economic system also, thus robbing the labourer of his freedom to choose his own work, or remain unemployed.

Nearly all these destructions of liberalistic freedoms were, in the first instance, due to military purposes. But in countries which afterwards came under rule of socialist governments, they were

more or less openly approved as progressive. Thus, the intimate relationship between militarism and socialism was revealed to every keen observer. No one should be surprised at this discovery, as militarism and socialism both are hierarchic systems, demanding absolute obedience to the plans made by the supreme leadership.

The negative proof of this close relationship between the two systems, is to be found in America. Happily free from militaristic economic dominance during the two world wars, she has, also, been happily free from socialist experiments in the post-war periods, thus being able to retain her more important liberalistic freedoms. On the eastern side of the Atlantic, however, most countries have glided into a brand new system, the theory of which is being written more by events than by thinkers: *national capitalism.*

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My excellent colleague Professor Ragnar Frisch of Oslo University, once formulated his political creed in these words: 'We must learn to look upon our country as the enterprise Norway'. The very idea of national capitalism is revealed in a sentence like this. Adherents to the system think about countries in terms of private enterprises. In this way modern economists, more or less consciously, hope in their proposals for national policy to be able to make use of laws and principles developed in microeconomic theory.

Referred to a country like Norway, the idea does not, in itself, seem monstrous. After all, Norway is not populous, and citizens of small powers are sometimes inclined to accept the thought which the Danish economist Lauritz Birck described by this sad admonition to his students: 'You know, boys, Denmark is really a smaller concern than Standard Oil'. It is far more difficult to envisage the British Commonwealth of Nations or the United States of America as something like joint stock companies.

But even when the effort is made to adapt the policies of small countries to the enterprise idea, simplifying methods must be used. Thus the supreme plans will have to be worked out on the basis of constructed models containing a restricted number of chosen factors. For Norway such 'decision models' have been constructed during the year 1949 by Professor Frisch and his pupils. Their usefulness remains to be seen.

However, champions of national capitalism can point to one historical line leading up to some of their ideas. Mercantilism discovered the existence of that relation which Thomas Mun called the country's 'balance of trade', and which later theory more correctly terms its 'balance of payments'. By definition this conception gives a comparison between two national totalities: the aggregate money receipts of all citizens from foreign countries and their aggregate money discharges to foreign countries during a certain period, e.g. a year. The national economy is interessee of this relation, and ever since mercantilistic time the apprehension of an 'adverse balance of payments' has given birth to State policies. It is, also, in countries suffering from unfavourable monetary relations with other countries that national capitalism has scored decisive successes. Under pressure of widening gaps between outlay and income in foreign money, politicians of such countries have doubted the effectiveness of appeals to free citizens, and wished to obtain control over the whole economy of their countries. It is the system created through this policy which in the years after 1945 is generally spoken of as 'planned economy'—in happy ignorance of the essential fact that all economy is planned. The right expression to use is *centralized planning*.

The application of this special form of planning links national capitalism to socialism, whilst it on the other hand acknowledges a smaller or greater private sector of economy. On the whole, national capitalism covers the field between the socialist systems on one side and the more or less liberalistic ones on the other, having features in common with both of them; as mentioned in

paragraph 54 even totalitarian fascism may be regarded as a form of national capitalism. It is, therefore, not easy to give an adequate characteristic of such a cocktail system. However, it seems expedient to treat separately the various political aims which governments have tried to further when using national capitalism as an instrument.

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The original as well as the most conspicuous aim of national capitalism is to adjust an adverse balance of payments or to better a positive one. Arguing in favour of this end the champions of the system constantly make use of ideas and theories launched by mercantilists of the seventeenth and eighteenth centuries. It will, therefore, be expedient to say that national capitalism in this field of action is pursuing its *mercantilistic aim*.

Now it would be a misunderstanding to believe that any economic system ever regarded an adverse balance of payments as something desirable in itself. But liberalism judges it in another way than mercantilism and national capitalism, and uses other means to adjust it, if this is deemed necessary.

Firstly, liberalism holds that the balance of payments shall be looked upon as subordinate to the balance between national production and consumption. If an adverse balance of payments furthers that internal balance, it is regarded as adding to the wealth of the nation and, consequently, as advantageous. This was the teaching of Adam Smith, accepted by liberalism in theory as well as in practice.

But as the balance of payments consists in a grand total of values in exchange, both sides of its ledger must at any time show identical sums. To put it otherwise: whilst the real balance of payments for any given period may reveal a deficit or a surplus, the formal balance of payments is, by definition, always in complete equilibrium. Consequently, a real deficit in the balance of payments has always to be covered immediately, either by transfer of capital or by raising of foreign loans. The liberalistic

policy in the field of foreign transactions is, therefore, conditional upon the possibility of international capital transfers and/or the existence of an international credit market. If neither of these two factual prerequisites exist, even liberalistic policy has to adopt the mercantilistic aim.

Secondly, however, liberalism will, even in such a case, use those measures only which lie within the scope of its own half-automatic system, trusting that free adaptation to acknowledged adverse conditions will be able to put things right again. So completely has this subsidiary liberalistic balance-of-payments policy been camouflaged by the half-automatism of the system that only few writers on economics have been induced to explain it. Thus, the ordinary text-books written by liberalistic authors, generally treat the balance of payments as a dominating factor in the determination of flexible rates of exchange, thereby indicating that liberalistic systems primarily use the balance of payments as an instrument for maintaining stability in the exchange rates. If, on the other hand, we look upon liberalism as a planned system, it becomes manifest that the primary relation is the reverse: liberalism uses the variations in the rates of exchange, as they display themselves within the limits of the gold standard, for the purpose of equalizing the real balance of payments through their motivating influence on importers, exporters, discounters and other business men. Should this influence not be sufficient, a continued rise in the rates of foreign exchange will call upon the leaders of the central bank. In order to protect their gold reserves, they will have to deflate the existing purchasing power through their discount policy and loan manipulations, the result being that the adverse balance sooner or later will be adjusted. The efficiency of the system requires the existence of wise coverage rules, establishing an automatic relation between the currency used in internal circulation and the gold which serves as an international means of payment. This connection being established, the high rates of foreign exchange will induce the central bank leaders to switch

the determining motives of their monetary policy from the internal to the external sphere, giving preponderance to measures aiming at adjusting the balance of payments. Thus liberalism leaves also this process of adjustment to the price mechanism, here operating in the foreign exchange market, and the free adaptation of the mobile factors.

National capitalism has thrown overboard this whole system of half-automatic regulation, although it had been worked out on the basis of long practical experience, and represented the finest mechanism of economic policy ever elaborated. Firstly, national capitalism does not allow foreign exchanges to vary within the space determined by the gold points, but keep them unalterable at stabilization points, thus depriving them of their functions as signals. Secondly, national capitalism does not allow business men any free adaptation to changes in the conditions of foreign trade and international payments. Thirdly, in most countries national capitalism disregards the acknowledged principles of currency coverage, thus breaking the established connection between national money and international means of payment. Fourthly, national capitalism has brought the leaders of the central bank under the dominance of the Treasury, thereby preventing them from free action through discount policy and manipulations with the volume of credit. The whole economic theory of those measures which Knapp called the 'exodromic policy' of central banks—the efforts to bring about equilibrium in the economic relations with the totality of foreign countries through use of monetary methods—do now belong to the history of a passed golden age. The governments of national capitalism have to use other ways and means, adapted to their own pessimistic view of human nature.

The fact is that all typical politicians practising national capitalism suffer from inveterate distrust and disbelief in the effects of any appeal to the interests or ratio of business men. Consequently, they prefer to deal with matters directly. To this end they persuade Parliaments to confer upon them powers to

control the whole apparatus of the market in foreign exchange to such an extent, that no one is allowed to make transactions in any foreign currency without permission from some institution which has to apply restrictive rules laid down by bureaucrats. In this way the country is closed to free international business. The doors to the outside world are locked, and the keys kept in governmental antichambers. Whoever wishes to obtain permission to buy foreign goods or transfer capital to foreign countries, will have to formulate a polite application, to answer indiscreet questions, to fill in a number of forms and schedules, to explain difficult technical matters to officials without qualifications to understand him—and wait until the bureaucrats find time to decide. Business which in more modern times could be transacted in three minutes over the telephone, may be held up for months. The characteristic feature is that the system transfers the final resolutions from the business men who made the calculations, to officials who decide on another basis. To economic theory the effect is most disastrous, as our science rests on the assumption that each person decides for himself or the firm, institution or group of which he is in charge. It is, consequently, not possible to describe the process by the help of economics. Neither theoretical laws nor standard laws can be laid down for the arbitrary results of complete exchange control.

It is, however, easy to characterize the main difference between the structural situations in a country living under complete exchange control and in a liberalistic country. If the exchange market is essentially free, the balance of payments will be the outcome of thousands or millions of individual resolutions, each adapted to economic calculations made on the basis of the exchange quotations and other relevant facts. Consequently, the balance of payments will give a true picture of the country's economic status versus the outside world. Under a system of full exchange control, on the other hand, the balance of payments is the result of a more or less successful governmental policy, and the various governmental resolutions will, each in

its own way, affect the thousands or millions of plans laid by private planners for their enterprises.

Naturally, in countries with comparatively small foreign trade, these changes in the economic processes will not be of a fundamental character. But in countries like Great Britain and Norway which are wholly dependent on their economic relations to other nations, full exchange control may unintentionally alter the entire economic structure. It is, on the whole, the misfortune of centralized economic planning that this system, owing to the impossibility of the central planners to foresee the more remote effects of their decisions, may lead to unplanned and unexpected results.

Full exchange control aims primarily at impeding capital export, curtailing imports of commodities, and requisitioning foreign exchange earned by exporters and shipowners, thus making such exchange available for immediate use as means of payment abroad. In the second instance, the control may be used to discriminate in favour of the export trade if the government or its empowered institutions do not find it expedient to allow import of raw materials to cover the wants of all industries or if such materials cannot be bought in sufficient quantities.

Certain specific dangers are connected with each of these measures. Firstly, prohibition or hampering of capital export may prevent investments abroad which after a while could improve the balance of payments even to a considerable extent. If governmental offices are empowered to license some foreign investments, the choice will be exceedingly difficult to them, as they generally lack the special knowledge required. They will, consequently, run the risk of being victims of unsound propaganda or camouflaged pressure. Secondly, requisitioning of foreign exchange earned by exporters and shipowners prevents the business leaders from using their own income for their own purposes; they may thereby be checked in their activity and severely discouraged. In the long run such requisitioning will certainly have a curtailing effect both on export and shipping, thus counteracting precisely the purpose of the measure. Thirdly,

the limitations on imports may lower the nation's standard of living and delay modernizing of its factories, thereby impairing its productive power which is the main source of a favourable balance of payments. Fourthly, national import restrictions may call forth corresponding counter-measures in countries adversely affected. If negotiations follow, leading to bilateral trade agreements, it will often become necessary to pay for the maintenance of the restrictions through concessions which make the calculated gain more or less illusory. On the whole, national capitalism does not lead to a good neighbour policy, and if the system is adopted by a greater number of States, the result will invariably be international difficulties and enmities, retroacting unfavourably on all countries involved. Indeed, never before in the history of mankind has there been a time in which politicians have spoken so much in favour of internationalism and done more to check it.

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Total planning of a country's whole imports is a difficult task. It involves painful choices. If decisions are taken as soon as applications reach the governmental offices, the bureaucrats have to decide without possessing sufficient knowledge to judge the comparative importance of various import items, and the whole system becomes dangerously arbitrary. If, on the other hand, they wait until they have acquired a comprehensive view of the matter, urgent imports may be unduly delayed and important opportunities lost. Thus, the bureaucrat's dilemma seems to be more or less insoluble.

In practice neither of these two competing methods seems to have been accepted in principle. Usually, some applications are dealt with immediately, others have to pile up. To sound business such discriminations are most inconvenient. If prices vary considerably while a great number of applications are waiting in the official files, results may become disastrous. National capitalists are, therefore, in principle, in favour of stabilized prices.

The historical developments have presented them also with monetary arguments for maintaining a fixed level of prices, as the inflations of the Second World War nearly everywhere created a surplus of purchasing power which, if let loose, could endanger even the normal economic structure of society. Norway furnishes us with an extreme example of this precarious state. On April 8, 1940, the day before the German invasion, the note circulation was Kr.592 millions; on May 7, 1945, the day of the German collapse, it amounted to Kr.3,039 millions. Still more alarming was the inflation of deposits on current account with the bank of issue, which rose from only Kr.113 millions on April 8, 1940, to Kr.5,627 millions on May 7, 1945. Under these circumstances a maintenance of the price control introduced during the war, seemed inevitable, and was also advocated by parties, politicians and economists not sharing the creed of national capitalism. In countries suffering under the pressure of such an inflationary state it is, consequently, not easy to ascertain whether the *stabilization aim* of national capitalism is essential to the system or only forms an accidental part of it. But to pursue it is undoubtedly dear to most of the national capitalists, as they disbelieve in the effectiveness of price mechanism.

Stabilized prices, however, must necessarily be based on past conditions. To stabilize prices simply means to prevent them from any adaptation to changes in cost or profit. As all economy aims at meeting future demands, and all economic thinking, therefore, is thinking in pre-time, the very idea of price stabilization runs against the essence of economic principles. It is only possible to effectuate it in a passing emergency situation or in a stationary society, in which the future can be calculated to be more or less economically identical with the past.

Besides, stabilized prices belong systematically to a closed economy. If a country trades with the external world, prices of imported commodities will have to vary with the price-determining factors of those foreign countries in which purchases are made. The import represents a constant threat to any price

stabilization on the home market, and the greater the import, the greater the threat. There is, therefore, something paradoxical in the fact that national capitalism has won its strongest grip on economic policies in countries which have to import a high percentage both of their raw materials and their foodstuffs.

What can national capitalism do in order to defend a system of stabilized home prices against the influence of price movements abroad?

One general and one special measure will present themselves.

The general measure consists of a change in the value of the monetary unit, which may be lowered in order to counterbalance sinking or increased in order to counterbalance rising prices abroad. In the 1930s such policies were extremely popular, and exchange depreciations as commercial weapons played their fatal part in the history of foreign trade during those years. As late as in July 1946 the national capitalists of Sweden brought about a sudden and unexpected appreciation of that country's currency. Theoretically, varying monetary parities as means of maintaining internal price stability could be defended by arguments derived from writings by John Maynard Keynes and, also, authors belonging to the so-called 'Stockholm School'. However, when a country changes its monetary parity, this measure will have adverse effects on the countries she is trading with. Such a policy is, therefore, one of economic war. If it is used by a greater number of States, the result will invariably be a breakdown of all long-term international trade relations, followed by ever-growing animosities between nations. When we, in 1944, in Bretton Woods tried to lay down a basis for an international system of payments which could promote mutual trade between countries and foster good neighbour relations, we agreed in condemning the whole policy. Article I in the Agreement of the International Monetary Fund states that one of the main purposes of the Fund is 'to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation'. It should be stressed that no one more

heartily agreed in this statement of purpose than the president of the British delegation, Lord Keynes. Nobody should, therefore, any longer refer to his authority when they try to defend the combination of stabilized internal prices and varying monetary parities.

The special measure consists in a defence against a rising price movement through a policy of subsidizing internal prices. This system is, viewed from the point of total economy, which should be of special importance to national capitalism, wholly illusory. What takes place is simply that Mr. Everybody pays part of the price not as purchaser, but as taxpayer. The measure is, therefore, primarily of a purely distributive character; some purchasers are favoured at the expense of all taxpayers. In fact, the price is split into two: one visible and one invisible part. We will denote the total price which is paid to the seller, the *national price*, whilst we call the price paid in the market the *purchaser's price*. Correspondingly, we have in such countries a *national price level* which is higher than the publicly proclaimed *purchaser's price level*. Generally, only prices of necessary consumable goods are subsidized. This fact reveals the true character of the policy. Its import is, in reality, not price stabilization, but equalizing of purchasing power. In relation to foreign countries the effect will be to favour those nations which export necessities. Whether this preference policy in the long run will benefit the country conducting it, nobody can tell, as it will depend on the use which would have been made of that purchasing power which through the subsidies is transferred from the taxpayers to the purchasers of necessary consumable goods. It might have been spent in buying imported luxuries. But it is not out of the question that the chief part of it would have been used for important purposes of production.

In order to be effective the stabilization policy must embrace not only prices of commodities, but wages as well. But in non-totalitarian societies wages are contractually fixed. How can one overcome this difficulty? Here national capitalism has used two

different methods. In the first instance the State authorities have tried to influence the big organizations of employers and employees through an appeal to their national duty and loyalty. If such appeal has not proved sufficiently effective, legal measures have been taken to prevent an 'inflationary' rise in wages. Any legislation of such kind marks a stepping stone on the road to a totalitarian society.

The stabilization of wages have, in general, been made acceptable to labour by introducing clauses in the agreements between the national organizations, prescribing a per centum increase or decrease in the rates of wages if a chosen cost of living index deviates more than a certain percentage from its height at the conclusion of the agreement in question. Now it has to be borne in mind that such indices are not perfect. On the contrary, they seem all to be more or less arbitrary. If a subsidies policy is adopted, they may be manipulated. In fact, between cost of living indices and subsidies there exist in countries practising national capitalism, connections which may give rise to unfair discriminations or violent conflicts of interest.

On the whole, if national capitalism fully adopts the stabilization policy, the system will sooner or later run into political difficulties which cannot be solved without either returning to more liberalistic principles or definitely moving towards totalitarianism.

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As national capitalism is a system which originated in practice, not in theory, its final aim has not been clearly stated. But there is no doubt that its champions and adherents firmly believe in its power to increase national wealth. If we can judge from a number of their utterances, they regard the so-called 'national income' as a fair measure of national wealth, regarding variations in national income not only as symptoms of corresponding variations in national wealth, but as precise manifestations of such variations. We feel entitled, therefore, to describe increasing

national income as one of the chief aims of national capitalism, and will—for reasons which will become clear at a later stage of our analysis—denote it the *capitalistic aim* of the system.

Income is a conception which has been developed partly in business book-keeping, partly in taxation laws. It belongs to nominal economy, expressing in terms of money the totality of the earnings, profit, gifts and windfall gains received by a person, a firm or an institution during a certain period, e.g. a year. It is commonly recognized that the conception is of a dual character, as we have to distinguish between gross income, comprising the whole influx, and net income, which, in fact, is a calculated amount, expressing gross income minus adequate outlay for its acquisition. Net income is generally regarded as a measure of a person's standard of living or the economic result of those activities which have been carried out by firms or institutions during the period in question. That is a complete misunderstanding. Persons as well as firms and institutions act in economic life for a great part merely as agents—or shall we say slaves?—of State and municipality. Only when all direct taxes have been paid, will they have left an income of their own. We will denote this residual respectively *personal income*, *enterprise income* and *institutional income*. Different from all these income conceptions is 'taxable income', being that part of a taxpaying subject's income which, according to a taxation law, is made the basis of his income tax. We have here to do with a legal and financial category.

The nation is neither a person, nor a firm, nor an institution, but a P.I.-group, comprising all persons living under allegiance to a certain State, whilst the word 'national' in its economic sense also refers to the economies of all groups, firms and institutions which they have formed. If, therefore, the income conception is referred to the nation or to the totality of national economies, we have to do with analogous thinking, a fact which calls for utmost circumspection.

In a modern State taxing practically the whole population, we may, on the basis of evidence given by taxation authorities, try

to form an aggregate of all net incomes within the community and present this grand total as 'the national income'. But even if the basic evidence was correct—we know that it is not—the summation would not give us the result we were eager to obtain, and this for two well-known reasons. In the first instance, a good many incomes for separate subjects are nothing but transfers from the capital of other subjects or simply disbursements of sums placed at public disposal by the taxpayers. Secondly, a surprisingly great number of incomes are derived from activities which have no bearing on national wealth. War economy brings this fact into the limelight. We need not read Sir Norman Angell to realize that war is a great destroyer of national wealth, even if it ends in brilliant victory. Experience has taught us this lesson in a cruel and indisputable way. But nevertheless, 'national income' as measured by the summation method, generally reaches a peak when the nation is at war, and does so even if it is deflated to pre-war monetary values. What we are out for, is to find an expression for the compound result of all economic activities within the community as viewed from the angle of total economy. But this expression can never be found through adding results of separate economies, because the income of separate economies bear no relation to any standard of national wealth.

Acknowledging the theoretical shortcomings of the summation method, statisticians have worked out other methods for determining 'national income', building their calculation upon available data describing the results of the various productions and trades. But any such method involves so many valuations of a most subjective character that the final grand total will be nothing but an unreliable guess value.

All in all, 'national income', in whatever way it is calculated, does not seem to give a fair measurement of those variations in national wealth which could reveal to us the results of a national economy conducted in accordance with the principles of national capitalism. If a country is going to be managed as an enterprise of its own, its economic leaders must plan, calculate and assert

results in the same or a similar way as this is done in other enterprises. To put it plainly: they will have to aim at realizing a *national profit.*

What does that mean, and what is the difference between national income' and 'national profit'?

Here we have to remember that profit is the positive balance between a capital at the end of a certain period and the same capital at the beginning of that period, as measured by a monetary standard. In order to ascertain the existence of a profit, one must make sure that sufficient attention is given to the principle of conservation of capital (Compare Paragraphs 35 and 48). Profit is thus a category which refers to a certain capital, whilst income, in so far as it does not include elements of profit, has no necessary or essential relation to capital, and may be defined without reference to any capitalistic conception. Profit can only exist in societies using capital as an instrument for calculation, whilst income plays the same leading rôle in non-capitalistic as in capitalistic societies. The bearing of this comparison on our problem is evident: only if national capital is preserved, will any part of national income represent a gain, justifying the policy conducted. If, therefore, the aim of national capitalism is to further the welfare of the people, it is not sufficient for its defenders to prove that national income during a certain period has increased. They will, in addition, have to prove that a national profit was realized, and that this national profit thanks to their system was greater than it probably would have been under any competing system.

If, therefore, national capitalism is to judge its own results, it will have to establish an extensive system of national book-keeping. Norwegian economists like Ragnar Frisch and Johan Vogt advocated the introduction of such book-keeping already in the 1930s—thus even before the slow transition to that system of State policy which we denoted 'national capitalism'. Just before the outbreak of World War II the so-called 'Structural Survey of Norway', an unofficial institute run by the professors

of economics at the Oslo University, began to elaborate the principles and forms of such book-keeping, Professor Frisch leading the work. In the post-war period the Norwegian 'national budget' emerged as a political outcome of the theoretical work accomplished in the laboratories of our economists. The first complete budget was published in 1947, being a big book-like document of 264 columns with a number of annexes. It appeared as the result of close co-operation between young economists and leading members of our labour-party government. Shorter documents embodied the national budgets for 1948, 1949 and 1950. They were all debated by our National Assembly (the 'Storting') without occasioning any resolution concerning realities. The parties in opposition did not in any way condemn the ideas of a national budget, and in all probability this new feature of Norwegian constitutional life will be maintained even if the country after the next general elections should turn away from the present form of national capitalism. Other countries also have introduced some sort of economic forecast for the whole nation, but the Norwegian national budget may, perhaps, be regarded as the most typical and elaborated specimen of the kind. As it embodies serious efforts to overcome the difficulties described in the earlier passages of this paragraph, it will be worth while to state some of its leading principles.

The basic idea of the budget is to operate with magnitudes of real economy, using monetary expressions only in a purely descriptive sense. Thus, national income is not defined as an aggregate of separate incomes but as a grand total equal to private and public consumption plus private and public 'real investment' plus export of commodities and services minus import of commodities and services as well as net payments to foreign countries. In this way the conception 'national income' becomes theoretically correct as viewed from the angle of book-keeping, but simultaneously its grand total comprises a number of mere guess values. The figure signifying 'private consumption' will, in particular, always be most uncertain, although it naturally is

easier to guess at a time of rationing than under more normal circumstances. In the publications of 1948, 1949 or 1950, some estimates of the country's real capital are included, and attempts are made to calculate its movement since 1939. But these calculations also seem rather uncertain, and no effort is made to use them as a basis for estimating what we have called 'national profit'.

In the 1947 publication the authors remarked that a national budget can be planned either as a prognosis or as a programme. They stress that their own budgets contain a programme. To a Government believing in national capitalism, it is natural to choose this alternative. It should, however, be stressed that no national budget can be wholly prognostic or nothing but a programme. This is because the future, in relation to any planner, consists of one conjunctural and one affectible component part (see paragraph 13). The auxiliary values of a national budget will, therefore, partly be prognostic values, partly draft values (see paragraph 30). An exact statement would, accordingly, be to the effect that a Government adhering to the principles of extensive centralized planning will present the public with a national budget comprising a comparatively great number of draft values and a correspondingly small number of prognostic values, whilst a more liberalistic Government would restrict the number of draft values, thereby increasing the number of prognostic values.

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As a pronounced aim of that system which we call 'national capitalism', 'full employment' is mentioned perhaps more often than any other purpose. It is, also, quite true that governments practising the system, are most anxious to secure full employment. But even a more liberalistic government may adopt a policy aiming at procuring employment for everyone capable of doing work and willing to accept the conditions laid down for labourers at the time being. It is even a question if national

capitalism will give a better guarantee for full employment than more free systems. The fact is that the stationary tendencies hidden in the stabilization programme of national capitalism necessarily must act as a check to new developments in the economic sphere, whilst a more or less liberalistic freedom involves a tendency to open up new possibilities. At a time when labour is short, the best employment results may be reached if the dynamic forces of private capitalism are allowed to act on the labour market, whilst unemployment insurance prevents possible temporary interruptions of employment from leading to social disaster, and a positive policy of public works is added as a safeguarding measure. But in theory little can be said about the problem. Practice will have to decide which system is the more suitable.

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National capitalism looks upon each country as an enterprise of its own. Basing themselves on this idea of analogy it is tempting to the champions of the system to use a corresponding view when the various productions and trades are dealt with. To the national capitalist shipping is one unit, agriculture another, catering a third, and so on. What he looks for, and tabulates in his national budgets, is the joint results of all enterprises within such a compound professional or technical unit. The real economic units, the enterprises, do not really interest him. To him it is, therefore, only natural to decree that the gain of one company shall be used to cover the loss of another company within the same branch. Maybe the losing company was very unfortunate, so that the national capitalist is administering a sort of heavenly justice. But it is just as likely that the loss was due to old-fashioned equipment which ought to have been renewed, or wrong judgment by the leadership, or even pure mismanagement. All that does not alarm the national capitalist. He is too high above the clouds to be disturbed by mere details as the welfare of individual firms. In a country like post-war Norway a most

contested Act of Parliament has left it to a powerful bureaucrat, the so-called Director of Prices, to fix what is termed 'equalizing imposts'. Thus, no firm can be sure of its own profit.

It is easy to see that through such measures post-war national capitalism is approaching the fascist system of Mussolini, which was built upon the idea of the 'corporative State'. There is no reason to wonder at this, since fascism in itself may be regarded as a special form of national capitalism, a systematic fact which we mentioned more than once. It would, therefore, perhaps not be unjustified to describe those forms of post-war national capitalism which use macro-economic pooling systems, as neo-fascist.

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National capitalism with its centralized planning raises a grave scientific problem. It may be formulated in a question which I ventured to use as the title of a lecture delivered at the Nordic Economic Congress at Stockholm in June 1949: 'To what extent is it possible to apply laws formulated in the theory of economics, to a society working under centralized planning?'[1]

My conclusions were not encouraging.

To begin with I compared the exchange control of national capitalism with the theory of foreign exchanges as developed in economics. Here the answer is manifest: the old theory is not applicable. In paragraph 75 we have anticipated this conclusion.

Then I passed on to that central part of economics which is known as the theory of prices. Here I ventured to use my own country as typical. I explained that in principle no Norwegian prices are free any longer, as the Director of Prices is empowered to control all prices and change every one which he deems unreasonable. All more important prices are even directly fixed by the Director. Some of them are subsidized, some not. Besides

[1] The Norwegian text which does not permit any direct translation, ran as follows: 'Hvorvidt kan lovmessigheter oppstilt i den teoretiske ökonomikk anvendes pa et sentraldirigert samfunnshushold'.

there exists, naturally, a black market with its own psychological price determination. All in all: supply and demand are done away with as price-determining factors. Instead of the higgling of the market we have the decisions of one man. But one man's behaviour cannot be described in pre-time by any law. The very essence of economic laws is their character of describing mass phenomena. If the purpose be to predict one man's decisions we have to base ourselves on Freud and Adler instead of Adam Smith and Ricardo. Or: if we are convinced that the price-determining man is motivated by a strong wish to be just, we will have to go back to medieval economic theory which centred round the idea of the right price—'justum pretium'.

But if we have to delete the whole theory of price determination, very little will be left of modern economics as it appeared before the Second World War.

Now, national capitalism does not need to adopt a price policy like that of modern Norwegian legislation. But it moves in the direction of fixed, unilateral prices. Modern economists have, therefore, to realize that they face a special risk: one day the greater part of their elaborate theories will have to be regarded as nothing more than an ingenious, though over-detailed contribution to economic history.

# *CHAPTER XV*

## LABOUR CAPITALISM

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IN a foregoing paragraph we mentioned *labour capitalism* as a possible economic system. What does that term signify?

It simply means a system in which every difference in principle between labourers and capitalists is removed because every labourer has become a capitalist, and every capitalist is a labourer as well.

In practice such a system could be built up on the basis of the joint stock company. Say that the total number of shares is divided into two classes: voting shares and participating shares. The rule is laid down that voting shares can be held only by directors, employees and labourers of the company. The power to decide would then be in the hands of those men and women whose earning economy was tied to the company, and who, consequently, would represent not only the capitalistic interest, but the labour interest also. Speculation in shares could then not be used as means of winning power, and shareholders dissociated from the daily life of the enterprise would be impeded from exercising any influence on its leadership.

But how could such a system be introduced without violating existing rights?

Within the framework of a more or less liberalistic society the transition might take time. But it should be borne in mind that labour capitalism is not an exclusive system. It may grow inside any other form of private capitalism. Even to-day some sort of labour capitalism has come into existence. Business leaders would hardly oppose it, and to many share-holders their voting rights

seem to be of surprisingly little interest, as they are hardly ever used. Such capitalists would probably not refuse to renounce their voting rights against a small compensation. Legislation could easily make labour capitalism the normal form of new enterprises. If the voting capital is not fixed too high, labourers in our days should not be economically prevented from making the required investments. In two ways they might be encouraged by the State. Firstly, income used for acquisition of labourer's shares might be exempt from direct taxation. Secondly, labourers and other employees wishing to buy or subscribe shares in their enterprises, might obtain loans from public banks, repayable on reasonable terms.

The great chance of labour capitalism, however, is connected with a possible future development which to-day may seem fantastic, but which would mean a rational reaction to the more or less emotionally motivated nationalizations of recent years. Experience seems to show that such nationalizations prove to be a failure. Their surplus vanishes, their tax-yielding capacity decreases or becomes extinct, their output falls far below expectations, and their labourers strike just as much as employees of private enterprises. If rational thinking does not completely die down, the problem of *denationalization* will sooner or later arise. The British Conservative Party has already raised it in relation to the Steel Act. But it is not feasible that a State which has been ruled by more or less socialistic governments, would simply sell the nationalized enterprises in the open market. Wise politicians are likely to prefer a transition to a system which would safeguard those interests of the labourers whom the nationalization aimed at furthering or protecting. Labour capitalism will then present itself as an expedient solution of the problem.

Until now the most powerful impediment to labour capitalism has been the inferiority complexes of the labourers. They are genuinely afraid of appearing as capitalists. Marxism has taught them the propaganda legend that class conflicts are necessary as long as the 'bourgeois society' is in existence. A labourer who

has learnt this lesson, would regard himself as a class traitor if he suddenly found himself in possession of a number of shares with capitalistic voting rights. But if labour capitalism was realized as a stage in a development which had used nationalization as an intermediary link, the situation would alter. His inferiority complexes might be transformed into pride. He might learn to look upon his enterprise with the same sort of deep interest which in the nineteenth century was displayed by those Norwegian skippers and sailors who were part-owners in their ships. Knowing that his comrades had the same rights, he would be able to combine his new capitalistic outlook with that strong feeling of solidarity which is the life-blood of all labour movements.

An evolution in such direction might lead to the solution of grave social problems. It would certainly tune in with the tendencies of the future. What we now are waiting for is, either atomic disaster—or the post-socialist world.

## *CHAPTER XVI*

# PROPERTY AND ECONOMIC PLANNING

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ECONOMIC planning is dependent on property. An owner of instrumental goods is able to plan their economic use. Accordingly, the border-line between private and public planning follows the border-line between private and public property. In the socialist State with public ownership to all instrumental goods used in the production for sale, public planning is wholly domineering, whilst in all sector societies private planning plays a more or less predominant part.

It seems appropriate, therefore, in a treatise on private and public planning to make an effort to analyse the property conception with a view to its economic implications. But strange to say, this conception has generally been given more crucial treatment by jurists than by economists, and since the days of Benjamin Constant the tendency of jurisprudence has been to emancipate the legal idea of ownership from any connection with the economic purpose and importance of property, explaining ownership as nothing but 'a sum of special rights conferred by the law on those who acquire things corporeal or incorporeal in one of various ways prescribed by law', as the brilliant Danish jurist Professor Ross has defined it.

Now it should not be denied that ownership, from the angle of pure jurisprudence, may be described as a mere synthesis of various positive rights. But historically ownership has not come into being by some integration of special rights created by the State, but as a recognition by the State of a factual sociological

condition which existed thousands of years before anything like a State was built up. Ownership as a right protected by the State emerged just as a legal expression of something which was so long-established and so expedient that it was thought natural. In this most realistic and logical sense ownership is surely a 'natural right'.

Why is it so?

Because ownership, as every lawyer always has known, purposes to protect well-acquired possession. As Williams remarks in his famous text-book on Real Property: 'The right to maintain or recover possession of a thing against all others may, we think, be said to be the essential part of his ownership'.

But in explaining possession, jurisprudence generally seeks the essential characteristics of this state in the possessor's power to keep squatters away. As typical we may quote a definition given in Wharton's *Law Lexicon*: 'Possession, in its primary sense, is the condition by virtue of which a man has such a mastery over a corporeal thing as to deal with it at his pleasure, and to exclude other persons from meddling with it'. In this definition nothing is told about the social function of possession. Why this exclusive mastery has been protected by nearly every legislation in this world, remains a mystery to the reader. For this reason pure jurisprudence will find difficulty in understanding why liberalism regards ownership as a natural right.

The sociological definition of possession must necessarily regard as essential other characteristics than those which are made the basis of current explanations in jurisprudence. It may be formed in the following simple way: *A thing is in someone's possession when he can make use of it for some purpose of his own.* It is by no means necessary that he can exclude other people from making use of it also. A thing may be in the common possession—the *co-possession* as we will term it—of a group of persons. The typical example is a home. It is in the co-possession of all family-members, and—with certain restrictions—also of the servants, if any. Throughout the community we find spheres

of co-possessions, and it is the unattainable ideal of true communism to make these spheres all-embracing. But not all things can be used by several persons. We will talk about *separate possession* when a thing in same-time can be used by one person only. Is such a thing a one-use good, one possessor will exhaust all its utility power. A glass of wine may be mentioned as a typical example.

We distinguish between *consummative use* and *economic use.* By definition every use will be one or the other, and as only comparatively few goods are able to serve both purposes alternately, we are, in most cases, allowed to speak of either *consummative* or *economic possession.*

Most consummative possession must, by the very nature of things, be separate. This is so even when the enjoyment of a service may be common to a multitude. Take a theatre performance. It is simultaneously enjoyed by hundreds of spectators, but every ticket-holder has his own seat. If such separate possession was not arranged for the whole public, everything would become a muddle, and no one would feel enjoyment at all.

Economic use will, also, in a number of cases need separate possession. But complicated work requires simultaneous use of instrumental goods by several labourers. A form of co-possession is then created; we may term it *team possession.*

As thus various forms of possession are required for proper use of all goods within a community, it will be a common interest of all citizens to see it regulated by fixed rules. Out of this want for economic order all provisos about legal possession and ownership were born. The purpose of these laws has not primarily been to support power but to protect use. A secondary purpose is to extend use. Here the law has done infinitely much: it is the protection ensured by the State, which enables citizens to make use of goods which are far away from their own detention.

If all use was separate, there would be no need for distinguishing between mere legal possession and what is called ownership. Possessor and owner would then, not only usually

but in principle, be one and the same. But co-possession, in particular team possession, raises a serious question: who shall be primarily responsible for the thing? This question involves a want for planned organization. Everywhere in the world the answer has been the same: one possessor is singled out as supreme, and it is this possessor whom we call *owner*. The other possessors are responsible to him. As a consequence of his supreme position, a number of uses are reserved for him.

Apparently such a supreme 'strategic position' of one possessor in relation to his co-possessors as well as in relation to any third party, is of customary origin and older than the State, but it is quite true that the exact extent of his competence in all societies was fixed by the law, and, further, that social legislation, particularly in our own times has sporadically restricted his liberty to use what is called his property, and through many provisos has increased his duties towards society. On the whole, it should be borne in mind that ownership is not only a privilege and a sum of rights, but also a burden. This fact has recently been stressed by some laws of taxation, which impose tax even on property not yielding income.

Through ownership a special relation is created between the owner and his things. They are in his care; he will have to look after them and protect them, keep them nice and in order. These duties call upon the parental instincts of the owner. He will feel a sort of tenderness for them because they are in his custody. If they have served him well, gratitude also enters the picture. When he looks at them, recollections come back to him: the past talks to us through things. Besides, he may be in possession of beautiful objects of art or handicraft, which make a special appeal to his affections. Perhaps he is happy enough to be the owner of gifts received from famous celebrities—or from one dearly beloved. Such things are symbols to us. Even if they, in themselves, are tiny little pieces, we love them and would never part with them as long as life lasts. Goethe's poem about the king in Thule to whom his dying mistress had given a golden goblet,

reveals to us some of the deepest emotions in our illogical soul.

When Professor Ross, on an afternoon in the spring of 1947, expounded his theory to colleagues and students of Oslo University, he illustrated it by an anecdote from his own experience. He had one day solemnly given his little son some beds of flowers in his garden, but on condition that the boy promised not to pick or destroy them. He remarked that in reality he had cheated his boy, as this guileless little fellow thus renounced the use of all property rights, and he laughed, although in a good-humoured way, at the joy his son had displayed at the bargain. But how infinitely much wiser was the boy than the professor: For the boy understood that the responsibility for the beautiful flowers had now passed to him; he should look after them, water them in drought and perhaps cover them on icy autumn evenings. He knew that the flowers would repay him and give him a feeling of happiness every time he looked at them and every time he showed them to his small friends, proudly explaining: 'These are mine'.

Such ownership feelings are of the highest importance to society. They are the bottom of all exertions we take for sustenance and repair of our buildings, our furniture and our other long-term or lasting belongings. Without them our standard of living would soon sink to a stage of barbarism.

But ownership feelings are, also, attached to those articles which we produce by our own work. This is most conspicuous in such cases in which the products are separate, individualized things. To some degree, however, the feelings are of universal character. And they act as strong motivating forces, inducing owners to produce—and produce skilfully, with a view to quality, expediency and beauty.

In relation to land the ownership feelings reach their peak. The typical land-owner regards himself as having a special contact with growing life; the poorest and most primitive peasant is in his heart filled by that same apprehension of pantheism which has inspired great poets like Victor Hugo. If he enjoys full ownership of a farm which has been the property of

his family for centuries or at least for several decades, he is also the bearer of economic traditions, and he is generally willing to work hard and make great sacrifices in order to keep that farm intact as the sacred inheritance of his family.

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Socialist planners disregard ownership feelings. They look upon them with that sort of cheap contempt which is so common in narrow-minded doctrinaires. Their planning systems exclude those propulsive forces in the human mind which have their origin in the existence of private ownership. They believe that written or printed orders from superiors and floating feelings of duty towards public welfare are stronger motivating forces than the owner's love of his own things. This dusty superstition lies at the bottom of socialist planning.

All sector societies, on the other hand, acknowledge the strength of ownership feelings and allow owners to plan for themselves—naturally within the constitutional and legislative framework of the State. From the viewpoint of total economy that is sound reasoning. It is rational to call upon the dynamic forces inherent in man.

# *CHAPTER XVII*

# PRINCIPLES OF SOCIAL PLANNING

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IT is common knowledge that the word 'social', which to such a strange degree dominates modern thought, is derived from the Latin *socius*. In English the corresponding word is 'fellow', which comes down from the Old Norse *felagi*. Etymologically interpreted 'social' consequently refers to anything connected with fellowship and companionship, as existing within a group or between members of a group, and although the word now is often used simply in the sense of 'inter-human', it still carries a stamp of its original meaning; it is worth while remembering that in principle it pertains to the sociologically important sphere of group conceptions.

Whilst the tendency has been to enlarge the meaning of the word 'social', in our own time the technical term 'social policy' is often defined in a most restrictive sense. Modern text-books describe it as measures taken by the State in order to promote the welfare of those classes within society which economically are called 'lower'. Such definitions fit in with the ideology of socialist thought. However, they are not justified, as they suffer from historical as well as theoretical shortcomings.

Historically it has to be stressed that it is only in recent times we see an effective social policy carried out by the State and other public institutions. In earlier centuries the greater part of social policy was left to private bodies, and even to-day society would be in a half-barbarian condition if there did not exist private social policy. Theoretically it is, therefore, necessary to give a definition which embraces both private and public

activities. Besides, even State social policy comprises measures which are taken not only for the benefit of the so-called 'lower classes'. If social policy purposed to help them alone, the conception would probably be a historical category only, as economic progress gradually seems to lift the lower classes above the line of need. But nevertheless there will always be a need of social policy.

There is another qualification which has to be added to the conception: it needs a delimitation against economic policy. It seems fair to deal with this problem in a treatise on planning, as the essential differences apparently lie in the diverging supreme purposes of the two policies and the heterogeneous character of the planned measures to realize them.

In a previous chapter we described economic activities as totalities of planned pre-time efforts, carried out with the supreme purpose of contributing, directly or indirectly, to future human consumption (see paragraph 11). Leaning on this basic description we may define *economic policy* as a totality of planned pre-time efforts, carried out with the supreme purpose by the use of political power to influence economic activities. *Social policy*, on the other hand, may be defined as a totality of pre-time or post-time efforts, carried out with the supreme purpose through distributive measures to improve or secure the standard of living of a certain group or specified members of it, characterized by objective criteria.

We see that the characteristics of the two policies do not, in principle, exlude each other. Some activities may be regarded as at the same time belonging both to economic and social policies. But then they have a compound supreme purpose; in general, economic and social policies belong to different spheres and may even compete with each other. Economic activity, more or less influenced by economic policy, builds up the basis for welfare, whilst social policy tries to influence the distribution of wealth in a way regarded as desirable by the supreme individual planner or planning body. Social policy is, therefore, wholly dependent

on the result of the economic activities within a society. We will refer to this statement as the *principle of the primacy of economy in relation to social policy* or in short the *primacy principle.* It is of fundamental importance. An ideal social policy will be sure of failure if it is based on insufficient economic activities misled by a mistaken or erroneous economic policy.

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Social policy is in its origin motivated by the knowledge of human wants engendered by four sets of economic conditions:

Firstly, the position of those who through infancy, illness, infirmity, mental incapacity, or other causes of physiological or psychic character, need support. These wants motivate *welfare policy.*

Secondly, the fact that when natural catastrophies or misfortunes have occurred, they destroy or endanger the standard of living of groups or individuals. Then a *catastrophe policy* is needed.

Thirdly, the existence of foreseeable endogenous or exogenous dangers may threaten positive resolutions to start, expand or maintain economic activities, important for the standard of living. To counteract such fears *insurance policy* has been invented.

Fourthly, a condition on the labour market which prevents competent and willing workmen from obtaining such contracts as would secure them and their families economically. To counteract the bad social effects of such a state a positive *employment policy* is the most effective means.

Mere knowledge of any of the wants is never sufficient to call forth a social policy. Something more is needed: influential planners must be willing to adopt such a policy and act accordingly.

Among these planners we find two polar types.

The first type is motivated by a strong *fellow-feeling*, having its basis in those biological, social, religious, ethical and/or

altruistic instincts which we described and discussed in our third chapter. In itself this fellow-feeling appears as a want: the want of assisting, helping or supporting other human beings. This want will probably never become extinct in the human race. On the contrary, with growing civilization it is bound to increase in strength. This is one of the reasons for our statement that there will always be a social policy.

The second type is that of the *social politician*, whose ambition it is to achieve results in the social field, hoping thereby to win popularity and power. Particularly in a democratic country with universal suffrage, an active man of this type may gain wide influence.

In our days of powerful social organizations, a third type of social planners has emerged: the *professional social bureaucrat.*

A fourth type is the *far-seeing businessman* who plans and conducts social policy on behalf of and within his enterprise, partly because he feels social responsibility towards his interes-sees, partly because he regards it to be economically advantageous.

Other types might also be mentioned, but these four seem to be the most important ones.

We thus see that social policy has a manifold origin and is planned by various types, motivated by heterogeneous instincts, feelings and ideas.

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The most ancient social policy aimed at assisting the sick and the poor. Down to the nineteenth century it has principally been left to private initiative to plan and carry out this policy of support, the State and other public bodies having kept themselves in the background.

It may be said that any person who supports the sick, disabled or infirm carries out a sort of welfare policy. Is it possible to formulate any principles for the planning of such activities? From economic standpoint certainly not, and hardly based on sociological considerations either. But ethical and religious prin-

ciples may be laid down. Christ demanded that we shall help our neighbour. This principle contains a categorical imperative as well as a wise limitation of the duty. Christ regarded all acts to help others as motivated by love or charity, and he realized that love is always individualized and concrete; there does not exist anything like diffuse love. The most valuable characteristic of that social policy which individuals carry out, is also its personal touch.

The greater part of private social policy seems, however, always to have been conducted by groups, sometimes only loosely bound together, sometimes even highly organized. In so far as the interessees of the policy are members of the group, its basis has generally been an acknowledgement by the group of economic responsibility for the welfare of its members. The planners of the policy will in such cases have to be motivated by the principle of sufficiency, which we developed in paragraph 33. But often the acting group is an association of supporters, such as the Red Cross, formed with the special purpose of helping a certain circle of sufferers. Its leaders will then simply plan in accordance with the so-called 'economic principle', aiming at achieving the best possible result with the smallest possible outlay.

Of all organizations in the world of our civilization the Roman Catholic Church has certainly done most to relieve pain and help in disaster. But its welfare policy is often conducted with the side-motive to make propaganda for the Catholic faith. The principles of its social plans have then a mixed character, and their esoteric bearing is never revealed to the uninitiated. Other religious bodies are dominated by a corresponding doubleness of aims.

Common to all private welfare policy is the economic condition that the net cost will have to be paid out of the free income of the supporters. Its efficiency is dependent on the existence of some wealthy individuals or charity organizations. In an over-taxed country private welfare policy will consequently be checked, and see its importance reduced. The responsibility of the State

is then correspondingly increased. To a certain extent an active public social policy instigates a vicious circle: the public outlay to social expenses necessitates higher taxes, higher taxes reduce free income and eventually private charity, State and municipality will have to increase their social expenditure and so on.

The transfer of social policy from the private to the public sectors means to a growing extent that its cost is no longer paid by voluntary, but by compulsory contributions. Any personal relation between supporters and supportees is broken off. The sacrifice is made by the taxpayer, the benefit received from the hands of functionaries of some impersonal public institution. Social policy loses its romanticism. Not to lose its idealism too, its conduct has to be transferred from the plane of charity to the plane of human rights. This is also the tendency of social policy at least since the 1870s. In the modern welfare State the sufferers have rights to draw the benefits of social policy. Psychologically they are thus released from the burden of gratitude, which notwithstanding its ethical character may engender unpleasant complexes.

Private welfare policy will always have to be selective, public welfare policy to be general. Besides, rights to gratuitous contributions from bureaucratic institutions are easier to misuse thar private charity. For these reasons the transfer of welfare policy from the private to the public sectors will mean an increased burden on a country's total economy. Only countries which have reached a state of considerable wealth will possess sufficient economic strength to make the transfer extensive. How far it can go at a given moment, will always be a matter of estimate and dispute.

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That natural catastrophes call for help to the sufferers, is obvious to all human thinking. No one seems ever to have disputed that they ought to call forth social policy—private as well as public. Natural catastrophes belong, however, happily to the

sporadic events; they vary extremely in character, and the help must be given immediately with all available resources. Each catastrophe will have to be met with a policy of its own.

But every human being ought to realize that to economic life war is as much a natural catastrophe as earthquakes, vulcanic eruptions and inundations—only more anti-economic in its character and infinitely more destructive in its effects. That part of human social activity which we denoted catastrophe policy, applies therefore also to the organized efforts to humanize war and alleviate the sufferings of its victims.

War is a State activity. No wonder that military authorities created the first social policy of war. But the activities of the medical services of the fighting forces must always be restricted through the rules of military security and discipline. Social policy as such was introduced into war-life by private initiative. That great Swiss humanist Henri Dunant gave the impulse to the Red Cross as well as the Geneva Conventions and all the social work which since the 1860s has been done to secure spheres of peace in the midst of battles. Even in the World Wars of the twentieth century with its centralized planning the divided leadership of private organizations proved its superiority in the social field. For in disasters of war even more than in those of peace the personal touch has the softer hand.

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The second oldest idea of social policy seems to be that of insurance. It apparently originated in the *collegia tenuiorum* of ancient Rome, and played a certain part within the medieval and mercantilistic guilds. But its marvellous development since the later decades of the eighteenth century must be registered as a glorious achievement of private capitalism.

All insurance embodies social policy. Its supreme purpose is through voluntary contracts or authoritative resolutions in pre-time to secure that the victims of anti-economic events the risks

of which could be calculated, in post-time receive an indemnity paid out of contributions from a group of individuals or institutions having run the same risks, or in certain cases other persons or institutions. The indemnities will, according to their sufficiency, protect the standard of living of the victims. This definition of insurance as social policy covers also life insurance, as the death of a supporter is an anti-economic event in relation to his supportees. In the case of a so-called compound life-insurance, in which the insured himself receives the contractual sum if he is still alive at a fixed date, the social policy of the insurance is combined with an alternative investment.

It is easy to see that life insurance fulfils an economic mission and bears the stamp of economicity. But all other forms of insurance also, imply economic activities. Insurance of things or animals means that the victims of the accidents receive means for re-purchase, thus having secured to them economic goods in an alternative situation. Besides, a number of risky economic plans would never have been executed if insurance had not secured a solid basis for the enterprise. Insurance thus represents a combination of economicity and social policy. But even more: although insurance results in a post-time transfer of economic means within a group, its very idea is that the pre-time transaction means approximate equivalence between payment and undertaken liability. If the cost of administration is not excessive, insurance may, therefore, in the economic sense be regarded as self-supporting.

We may be allowed to draw the conclusion that insurance, wherever it is applicable, is the ideal form of social policy. It creates *spheres of security* within a world of risks, it equalizes without bereaving, and it pays its own cost.

No wonder that the social policy of the State since the 1870s has used insurance as one of its chief instruments. Disregarding the fact that all insurance embodies social policy, this public insurance has generally been called 'social insurance' in order to distinguish it from 'private insurance'.

Thanks to its legislative power the State has, however, means to make public insurance more effective than private insurance. Firstly, the State can make a certain insurance compulsory. Secondly, it can add to the social effect of labour insurance by imposing on the employers the duty to pay the premiums, or part of them. Thirdly, it can cover possible deficits through taxation. Judging the import of the last point we have, however, to bear in mind that private insurance generally is secured by large capitals and funds.

How far it is possible to achieve the objects of sound social policy through public insurance, was not made clear until the publication of the first Beveridge Report in November 1942. But here a practical theory was expounded, based on statistically verified facts, a deep understanding of the problem and a sound view on the effects of proposed reforms. The author of this treatise is in full agreement with Lord Beveridge on the main principles of social insurance, and does not find it necessary to enter deeper into the matter in this chapter.

But even if one wholly endorses an extensive policy of public insurance with social purpose, one has to admit that in one important social field the State ought to abstain from using insurance as an instrument. We refer to old age pensions as well as pensions of widows and orphans. At first sight this categorical statement may seem too strict. It is a fact that private enterprise has achieved marvellous results just in the various forms of life insurance, and it seems to be a plausible thought that the principles of these insurance forms could be applied to a compulsory system for the whole people. In Norway a plan for such a system was worked out in the years between 1907 and 1915 by our foremost actuaries and economists of the time. But this plan, as all plans of the like character, was built upon a long time saving in money by the insured, and calculated equivalence between the post-time value of the premiums and the same-time value of the pensions. Such a system presupposes monetary stability. Monetary depreciation would make it unpopular, big inflations

would break it down. The trend to decrease in monetary values which is so marked in our time, is in itself harmful to life insurance. But if people nevertheless wish to save in nominal values through a form of life insurance, it is up to themselves. If, on the other hand, the State which has the power to inflate money, should make this form of saving compulsory for the whole population, such a measure would come dangerously near to an immoral tax in the disguise of social policy. It may be otherwise in the future—if some form of long term monetary stability should be established anew.

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The trade unions were certainly the first organizations to realize the evil social effects of unemployment. They tried to counteract them through organizing a mutual unemployment insurance of their members. In some countries State and municipalities gave contributions to their funds, as it was understood that the dole might relieve them from increased outlay to the paupers. Thus we see even in this field that the social policy originally was initiated by private initiative and carried out by private means, whilst public support was added at a later date.

To-day opinions have changed. It is commonly recognized that a compulsory public insurance against unemployment should be included in every efficient system of social policy, and that employers or taxpayers ought to carry the greater part of its burden. In this way a new sphere of security is created.

But, as we have already stressed in a previous paragraph, insurance can only lessen the economic difficulties caused by unemployment but is no cure against its evil social effects. 'Full employment' has therefore become the slogan of our time. In his treatise *Full Employment in a Free Society* Lord Beveridge explains in which way the expression has to be interpreted in order to give practical directions for social policy.

In a totalitarian society the application of the principle will

not meet with any difficulty at all. The labourers of such a society are in the economic sense nothing but slaves, and slaves always enjoy the benefit of full employment. *It is otherwise in sector societies. Here a policy of full employment means to create opportunities of full employment.* It must never be forgotten that in a free society a man has the right to remain unemployed if he so prefers. Full employment in a free society does not mean compulsory employment.

Employment policy in a sector society must, therefore, have for its first purpose to encourage economic activity to such an extent that private enterprises always will be willing to demand labour. Secondly, State and municipalities must be prepared to employ those labourers who nevertheless are left without employment. For these labourers work of importance to public benefit will have to be procured. To offer a man useless work is an offence.

If, however, through these combined measures full employment is secured, a new danger may arise: how shall it then be possible to start new enterprises? This question will particularly become urgent in a society with stationary or even decreasing population. The only possible solution seems to be the adoption of a certain austerity principle, keeping the wages for the subsidiary public work below the market rate, thus making the labourers employed in this way a sort of a 'labour reserve', on which new enterprises can draw by offering higher wages.

On the whole: employment policy will aways have to be carried out with a view to the primacy principle.

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If the State extends its social policy, a number of semi-private relations between the State and a great multitude of its citizens will come into existence. In all such relations the citizen will be the weaker party. If his request is refused or his demand reduced by the administrative authorities, he is more or less lost, as an

appeal to higher administrative authorities seldom will meet with success.

Planners of social policy will have to pay careful attention to the difficult situation in which many people will find themselves if their applications have been rejected thanks to formal shortcomings or high-handed administrative decisions. They must remember the old principle: 'Where there is a right, there must be a remedy'.

In some countries it may be sufficient to make it easy for the applicants to bring their complaints before the ordinary courts, in others special judicial bodies ought to be established. But the existence of the problem must never be overlooked.

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In later years two important items have been added to the programme of public social policy: house-building, and food distribution to populations in need. They both aim at procuring means for satisfaction of primary human wants. If any activities ever consisted in an inseparable unity of social and economic policy, these efforts do.

Governmental and municipal house-building has a sinister background. The leading private capitalists of the nineteenth century did not realize that they had a duty to build adequate homes for the labourers who worked for them. They generally left house-building to entrepreneurs of low business moral. The results were those hideous rows of houses which to our generations are monuments of the darkest chapter in the history of the nineteenth century. Private capitalism has paid dearly for this sin of omission. The ugly houses built for the families of the labourers have been and still are the true breeding-places of ideas directed against the system of private capitalism. As long as private capitalists do not pay sufficient attention to house-building, public plans for erecting new homes should be met

with general approval, in so far as they lie within the financial powers of State or municipalities.

The food policy aiming at supporting whole populations through international action is perhaps the most encouraging feature of planning in later years. Apparently the first effort to carry out such a policy was made by my great compatriot Fridtjof Nansen, who started the campaign for helping the victims of the great famine in Soviet Russia in 1921. After the Second World War U.N.N.R.A. and its successor F.A.O. have achieved marvellous results in their succour work. The Marshall Aid belongs to some extent to the same class of social policy. And a certain basis is laid for the hope that relief work of this kind will not be registered as a typical post-war phenomenon only, but will become an integral part of a continuous social policy carried out by powerful international organizations.

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Private social planning in the future will probably be centred round the industrial enterprise. Even in our own time some far-seeing industrialists have transferred their factories into small palaces for well organized work. The same policy should be adopted by all industrial firms. In the future factories and workshops ought to be surrounded by gardens; the buildings should be constructed as compound masterpieces of architecture and engineering; lounges and dining rooms equipped with original paintings or reproductions of great art ought to have their natural places at the side of the machinery halls. And the overheated machine-halls themselves will, if they are supplied with air conditioning, be transformed into cool, clean and pleasant working places.

Legislation can favour a development in this direction by exempting profit used for such improvements from direct taxation. But planning and execution must be left to private initiative, for here, if ever, success will depend on the personal touch.

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The short survey given in this chapter may be sufficient to show to which degree modern economic planning, private as well as public, comprises social policy. But as each economic planning represents a claim for one definite use of scarce means, the resources available for this policy will always be restricted.

Public social planning will in particular be influenced, and ordinarily in negative direction, by monetary and financial considerations. It seems therefore appropriate at this stage to pass some remarks on financial and monetary planning.

## *CHAPTER XVIII*

# REMARKS ON FINANCIAL AND MONETARY PLANNING

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THE purpose of this treatise is to state and discuss the principles of private and public economic planning. It would, therefore, lie outside its scope to enter into any detail concerning financial or monetary planning. Such subjects will have to be left to monographs or included in more extensive treatments of public finance and monetary theory. It may, however, be expedient to pass some remarks on the relations between the principles we have tried to lay down, and some of the special planning problems connected with State finances and monetary matters.

We chose to treat these problems in the same chapter. Only ten years ago such a procedure might have appeared unnatural. At that time the monetary sphere was still something of its own, kept apart from party politics and dominated by the central banks. To-day the politicians are masters of monetary policy, and the divisionary line between financial and monetary considerations is fading.

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The management of public finance is an economic activity and has, consequently, always been planned. But in earlier centuries such planning was rather arbitrary, exposed to frequent changes through impulses and whims of the sovereign. It is the merit of democracy to have introduced *standard planning* into public finance. In particular the English democracy should be given every honour for having set up the model system for such

financial planning: the budget. In practically all non-totalitarian countries this systematic framework has formed the main financial problems, kept the discussion on them within rational limits and been the chief instrument in establishing popular planning control. Without the budget the orderly financial development in modern societies would have been impossible.

It is worth while emphasizing that the budget, this essence of public economic planning, did not owe its origin to any consideration of purely economic character. Nay, it emerged as the final result of a political and ideological conflict. Its primary purpose was not to organize public finance, but to secure popular power and parliamentary control. In the history of budgetary evolution we find thus the very refutation of the marxian dogma that economic motives are primary in every great political development and change, the ideological conflicts being only of a secondary and determined character.

The budget is the keystone of public finance in the sector society. Through the constitutional necessity of including in the budget all State planning of economic significance, the State sector has been kept apart from the private sector, and the legal necessity of including all important municipal planning in local budgets has done the corresponding service to the minor public communities. Economically it might be said—with a slight alteration of an old Latin phrase in juridical terminology: what is not in the budget, is not in the public world.

This principle has created two parallel set of arguments, leading to a restriction of State activities.

Firstly, the more or less liberalistic societies have all adopted the thesis that the budget shall be the outcome of sound, solid planning. Not all theorists and politicians of liberal shade accept, without reservation, the dogma of necessary budgetary equilbrium, and many of them disagree with Lord Northcott's statement that the Lord Chancellor of the Exchequer shall be 'a surplus-producing animal'. But hardly any of them would deny the desirability of the greatest possible harmony and conformity

between public budgets and accounts. That is to say: they will, in time of peace, keep out of the budget the unpredictable and unforseeable, leaving enterprises whose outcome is wholly uncertain, to possible private initiative.

Secondly, the wish of maintaining the State as the rock to build upon, leads to a fear of including in the budget allowances for undertakings involving great hazards.

The necessity of systematizing the budget leads further to division of planning and responsibility, that is to division of leadership. In particular, the divisionary lines between the different parts of the budget, separate from each other the activities of the State as a power organization, a totality of social welfare institutions and a totality of public capitalistic enterprises. This division of leadership tends to make the State efficient within the limits prescribed for the public sector.

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In its final form the budget contains two main sets of values: authoritative values, which appear as orders to the executive bodies, and prognostic values, which all are of a provisional character, as the subsequent income or outlay will be influenced by conjunctural factors. The resolutions of the parliamentary assembly voting the budget, will decide in which group a certain value should be classified: authoritative budgetary values are fixed by resolutions being in themselves constitutive, prognostic budgetary values by estimates which are added to constitutive resolutions. If, for instance, a parliamentary resolution is to the effect that a senior official in a certain public service shall receive a yearly salary of (say) £2,000, this is a constitutive resolution fixing an authoritative value; the senior officials coming under the head specified in the budget will be paid just £2,000, not more, nor less. Has, on the other hand, a parliament decided to build a destroyer of a certain displacement with required specifications, this will be a constitutive resolution, whilst the added

allowance of (say) £400,000 is an annexed estimate, fixing a prognostic value; if prices change, the ship in question may become cheaper or more expensive, all according. The form of the resolution may be obscure or even ambiguous. In such cases the true meaning of it will have to be found by interpretation. If a great excess is threatening, it may be a wise gesture of the executive authorities to refer back to Parliament. Parliamentary rules and constitutional customs will in each case decide what to do.

Nearly everywhere the budget is a one-year phenomenon. Thereby it tunes in with private accounts and statistical data. But just as the very existence of the budget has its origin in ideological and political spheres, so the one-year form is a result not of economic considerations but of democratic demands. The purpose of referring the budget to such a short period is to force the executive authorities to a yearly discussion with Parliament concerning all questions involving taxation.

Communists have criticized the shortness of this democratic budget period. They argue that it excludes planning for long-term State enterprises. Their ideal is the five-year plan. The expansion period in Soviet Russia which followed the abandonment of the Nep-policy, was accordingly inaugurated by the first five-year plan, an imposing scheme which aimed at nothing less than an alteration of the whole economic structure of that immense country.

But the communists exaggerate grossly the effects of the short budget period on democratic State planning. The fact is that any long-term plan may be introduced into the budgetary framework. When it has been accepted, it represents a ratio appeal to all later parliamentary sessions, and this ratio appeal is invariably sufficient to secure its accomplishment if no unforeseen events in the meantime should have endangered its success. If, however, the members of the national assembly are rational in their thought, it is a real advantage that the yearly budget induces them to recurrent discussions on the long-term economic plans of the

State. Through this procedure they will get opportunities to revise the original plans in order to adapt them to changed conditions. If they come to the conclusion that the plans shall not be altered, nothing is lost apart from the time used for considerations. It should further be remembered that the 'yearliness of the budget' does not prevent the State from entering into contracts which necessitates outlay in later periods. The yearly parliamentary treatment of such legal obligations to pay, is purely formal. We may be allowed to call budgetary values expressing such repetitions, *registered values*.

Simultaneously it is an important fact, which few politicians realize, that yearly budgets by no means exclude introduction of long-term national plans for State economy. Just as a yearly national budget may exist side by side with the yearly State budget, a five-year plan may do so. It is even probable that a society practising some form of national capitalism, may find it convenient to introduce long-term total plans also. Only, if such a system should be adapted to conditions in a democratic country, the plan would have to coincide with the normal electoral period. It is not difficult to fancy general elections at which each party presents to the electorate its own programme for a total plan comprising the years of the parliament to be. In the international field we see, even to-day, the long-term Marshall Plan brought forward by a congress completely true to the system of yearly budgets.

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The budget may be looked upon as an official embodiment of our main thesis that economic thinking is thinking in pre-time. Governments have to plan and parliaments to vote the budget for a yearly period before that period begins. This demand is absolute. It is laid down in written constitutions as well as in political practice. Here we see once more that an important economic principle is derived from constitutional ideas.

How strictly the budgetary time principle is observed, may

be illustrated by an incident in Norwegian constitutional history. It happened in one of the years just preceding the first World War that the chairman of the financial committee of the Parliament forgot to put before the assembly the proposal to repeat without alteration the rates for the death duty; the document containing the proposal had simply by accident slipped out of his document case. Some days later the omission was discovered, the document procured and the resolution passed. But in the meantime the new budgetary year had commenced. A very rich man died on one of the fatal days. The Supreme Court decided that no death duty had to be paid in this case, although the law prescribed that no inheritance above a small minimum should be exempt from the duty.

But in one important relation the budgetary pre-time principle has not been observed, at least not sufficiently. We refer to the rules generally laid down for the levy of income and property tax. The modern principle for its imposition is given in the much heralded sentence that every taxpayer shall contribute according to his economic capacity. In most countries this capacity is measured by his income in the previous year and the total value of his property at the end of that year. These figures may be made more or less available to the authorities, and used as basis of progressive taxation. Mathematical thinkers like Pierson have expounded subtle theories to prove that special forms of progression will give exact measurements of comparative capacities to pay, thereby using arguments derived from applications of marginal values. But it is a question whether it is worth while to spend ingenious brainwork on elaborating systems of mathematical justice for payment of direct taxes when even Mr. Everybody has to know that the economic conditions of the taxpayers ordinarily will change before the day of payment. This may occur even if the income and property tax is based on the British principle of paying for the current year, because the calculation of progression necessarily will have to be based on some evidence from the past. The fact is that in a changing

world like ours, justice to the past means injustice to the present. Or—to put it more cautiously: perfect justice to the past is bound to involve some injustice to the present. And, maybe, serious injustice to the future.

Indeed, just taxation is a day-dream of mathematicians and professional reformers. To-day I think that an ever-growing number of people are fraught with questions like these: Has not the idol of just taxation been worshipped too fervently? Are not too important national interests being sacrificed on its altar? Does not the Roman proverb *summum jus, summa injuria* apply to taxation as to administration of justice? Do not other and perhaps more important taxation principles exist?

In the last years even text-books on public finance have tackled these questions. And whilst the problems connected with the effects of various taxes or duties in earlier treatises chiefly were considered in the chapters on incidence of taxation, they now threaten to occupy a central place in financial science.

No one raising these questions can be blind to the fact that hard progressive taxation discourages initiative and takes away incentives to work. Why should anyone take upon himself the burden of difficult or even dangerous extra work, if State and municipality are going to reap its economic fruits? Why should a father trouble with saving for his family, if the death duty reduces their inheritance to something insignificant? As a matter of fact high progressive taxation counteracts all efforts to create an efficient total economy. But is that just?

We must learn to adopt a new paramount principle of taxation: the *principle of efficiency*. Taxation shall make it possible for the public bodies to perform their duties, but at the same time it must never impede individuals and firms from realizing their useful economic plans in an efficient way.

The first prerequisite of such a policy will be to understand that principles of taxation shall always be laid down through thinking in pre-time.

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Budgets are plans expressed in terms of money, and taxes are paid in money. The State is, therefore, for its own sake interested in a sound monetary policy. Besides, every statesman of insight will be aware of the State's duty to provide its inhabitants with good money.

But what is 'good money'? What sort of monetary planning is needed?

Good money shall—to express it in a shorthand statement—be sufficient and stable. But these two demands may be conflicting. Such conflicts are at the bottom of nearly all monetary disturbances and tragedies.

In earlier days, before the invention of paper money and the establishment of commercial banks, the more difficult of the two demands was that for sufficient money. This should be realized by everyone wishing to form an unbiassed opinion on mercantilistic monetary policy. To-day any government in power can order the printing press to provide it with all the millions it should desire. In our own times the difficult problem consists in avoiding an over-sufficiency which might endanger monetary stability.

But what does 'stable money' really mean?

Mr. Everybody will not be in doubt. 'Stable money', he says, puffing his cigarette, 'that is money possessing stable value'.

True enough. But without knowing it, Mr. Everybody has given an answer of many meanings. The fact is that there does not exist one monetary value, but a number of monetary values. Money is used in many relations, and to each such relation we find a corresponding specific monetary value. Let us make a daring attempt to enumerate them!

Firstly should be mentioned the *nominal value of money* or its *face value* to use the more colloquial expression. It is stamped or printed on every piece of currency. Knapp remarks that it has *proclamatory validity*. In our terminology we can express the same characteristic by classifying it as an authoritative value.

Secondly comes the value relation to that standard in which the monetary unit is denominated. We choose to call it the *standard value of money*. The ordinary examples have been silver values and gold values. Besides, modern dreamers fancy 'index values'. If the nominal value of money equals its standard value, its relation to the standard is called its *parity* or *par value*. But currency may be depreciated or appreciated in relation to parity. In such case it is, in Knapp's terminology, characterized through its name and its 'recurrent connection' with its original monetary unit.

Thirdly we have what I would like to call the *inter-monetary value*, that is the value of a currency in relation to other currencies within the same State. If such other currencies are stabilized in relation to the same monetary unit, their inter-monetary values are parities; we can call them *change values*. But this is by no means necessary. In earlier days gold coins and silver coins issued by the same State varied in value relations to each other. So did, e.g., the pound and the guinea until 1718. Between the rouble and the czervonetz in the Soviet Union of the 1920s there existed a similar relation. During the discussions in Atlantic City in June 1944, preceding the Bretton Woods Conference, the Russian expert Professor Smirnow suggested that the Soviets might wish to use two independent monetary units, one in relation to the Fund and one for home transactions only. At his request there was introduced as Section 5 (*e*) of Article IV the following proviso: 'A member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund'.

Fourthly shall be mentioned the values of home money in relation to foreign currencies, i.e. what is generally termed the *exchange values* (in Nordic and German languages the *inter-valutarian values*). Among currencies stabilized in terms of the same standard, these values have parities. As all values of home goods abroad directly or indirectly will be affected by the quotations on the mutual market for foreign exchanges, the

exchange value of a currency will always rank as one of its most important values.

Fifthly come the various *commodity values of money*. To speak exactly, these values, being inverse prices, vary with every price variation. They can be measured on the basis of wholesale or retail purchases. If we try to calculate an average of a currency's commodity values, we arrive at that estimated magnitude which is commonly called the *purchasing power of money*. Should Mr. Everybody ever try to define what he means by 'the value of money', it is probable that he, in some way or other, would attempt to describe this purchasing power.

Sixthly we must not overlook the *labour value of money* as a special category. As commodity values are inversed prices, so labour values of money are inversed wages. It was, indeed, in these values that Adam Smith tried to find that 'ultimate standard of value' which, in principle, never can be found, as value is nothing more than a description of a special relation between two objects.

Seventhly, *investment values of money* appear as a separate set. We have, within this group, to distinguish between the currency relation to bonds, shares and real estate. Some authors, among them Irving Fisher, include investment values in their conception of purchasing power. But as investment values are determined by other factors than commodity values and may vary inversely, there is sufficient reason for treating them as something of their own.

Eighthly, Interest may be conceived as a *price value of money*. This is, however, a special construction, which may be contested by theorists who do not regard Interest rates as prices of money loans.

Ninethly, we have to remember that Mr. Hawtrey defined money as a specific means for settling debts, a definition which Keynes approved in his big treatise on the subject. Basing ourselves on the important truth expressed in this definition, we wish to regard the value of money in this relation as a special

category. Referring to remarks by Knapp we propose to call it the *lytric value of money*, a term derived from the Greek word *lytron* which stood for 'means of payment'. In most cases the lytric value will coincide with the nominal value of money. But not necessarily. The lytric value may be determined by special clauses, and monetary reforms sometimes prescribe special lytric values for new currency. Such rules were, e.g., laid down in the laws about the Danish–Norwegian reform of January 1813, and the Russian of December 1947.

Tenthly, money may have an *intrinsic value*, being the stuff value or scrap value of the currency pieces. All coins have such a value, which represents the minimum of their estimation. In earlier days the intrinsic value of gold coins and silver coins was of the highest importance. It represented the final check to monetary inflation and monetary nationalism, as the intrinsic value was indestructible and international. Unhappily, the intrinsic value of paper money is nil. Holders of modern currency are, therefore, at the mercy of their governments.

Anyone wishing to lay down principles of monetary planning, ought to be aware of this variety of monetary values, because they hardly ever vary in perfect harmony with each other. Not any mysterious and hidden quality of money nor intrigues by a non-existing conspiracy of the 'haute finance' make monetary planning so difficult and bad monetary planning so disastrous. No, the explanation is much simpler but more serious. The fact is that to each monetary value are attached vested interests, which will have to suffer if this special value should be depreciated in relation to other monetary values.

It is further obvious that all monetary values cannot be stabilized by the same means. Who will conduct a stabilization policy in relation to money, must make a choice.

The easiest stabilization seems to be that of inter-monetary values. Nevertheless, no stabilization has given birth to more lasting complications. Originally gold and silver varied freely; under this system every payment had to be stipulated either in

gold or in silver. The great monetary theorist of the fourteenth century, Nicole Oresme, proposed to regard the silver unit as the standard, but to fix the value of gold coins in silver by legal stipulations. This system succeeded the 'parallelism' of earlier times. Oresme desired that the authoritative values of the gold coins should be altered from time to time in accordance with the relation between gold and silver in the open market. Countries which did not adopt this flexible stabilization, had to face all the embarrassments of a 'bimetallism'. They realized the danger of a stabilization against the economic forces. It is worth while to-day to remind of this closed chapter of stabilization history, as it teaches us a most elementary truth.

It is a commonplace knowledge of economics that the difficulties and final breakdown of bimetallism originated in foreign trade. If the authoritative value of gold was higher than its market value in silver abroad, the silver disappeared from internal circulation and vice versa. In an isolated community bimetallism might have survived. It is worth while remembering that in a commercial country like Britain did the bimetallistic effort of 1717–18 fail within a few months, whilst French and American bimetallism stood its ground for decades, although with varying success. These well-known facts should be borne in mind by the champions of stabilizing the purchasing power of money. They will add to the arguments against price level stabilization which we have already tried to explain in paragraph 76. The analogy is not complete—analogies never are—but it may be regarded as sufficient to sound a warning from the past.

On the whole, experience seems to show that a monetary stabilization can have but little chance to succeed if it does not use a standard metal as an instrument. When experts from forty-four countries in 1944 met at Bretton Woods, we were all convinced of this fact. No one proposed any other instrument of stabilization than gold. The outcome of our deliberations was, also, the proposal of introducing an international gold standard.

It was formulated in a short and unambiguous way by Article IV Section 1 (*a*), which reads: 'The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944'. This basic proviso was supported by the rules in Section 2, prescribing that gold transactions by members shall be based on par values, and 3, fixing a maximum deviation of rates for exchange transactions between member nations at one per cent. The States which accepted the Bretton Woods Convention have, accordingly, thereby joined a system of an international gold standard. When this came into existence, it made national gold standards superfluous. Politicians who had earlier denounced national gold standards, were thus enabled to support the Bretton Woods Convention without losing face.

After the inauguration of the International Monetary Fund, monetary stabilization in member countries will thus mean gold stabilization, and if in any such country other values of money are stabilized through special policies, we have not to do with specific monetary planning.

But if a currency is 'free' and a gold stabilization is planned, at which rates should it be attempted?

For this planning the following principles may be laid down:

Firstly, the nominal value of the currency must be fixed to its standard at such a point that the State, running its debt service in accordance with the existing rules regarding lytric values, can fulfil its duties and keep up what we may call the *public standard of the people*, without impairing or endangering its power to establish or re-establish, over a reasonable length of time, its budgetary equilibrium. Experience shows that any disregard of this primary principle will prove disastrous. Thus, the intimate connection between financial and monetary planning is revealed in a conspicuous way.

Secondly, the new standard parity must be so chosen as to enable the active capitalists to pay the profit of the passive capital-

ists without having to reduce required amortizations or to let their own profits sink to such a minimum that initiative is discouraged. If this principle is disregarded, depression will soon be looming. We may, also, formulate the doctrine in a more general way by saying that the new parity must be adapted to the existing relations between internal nominal and real economy.

Thirdly, the new standard parity should create such relations to the parities of those countries with which the most important trade relations are maintained, that its introduction does not result in an artificially adverse nor an artificially favourable balance of payments, but allows exports as well as imports to fulfil their missions within the national economy. This principle may, also, be formulated as a demand for establishing a natural equiponderance between external nominal and real economy. In order to find rates suitable for the solution of this problem, the planner may derive useful guidance from Cassel's exchange theory. This favourite doctrine of the early 1920s dealt with the market relations between free currencies, claiming that such currencies would stabilize themselves automatically in accordance with their mutual purchasing power parities. The theory failed in practice. Whoever speculated in foreign exchange on the basis of Cassel's teachings, became a heavy loser. The fact is that the theory, closely analysed, did not lay down a standard law, but a theoretical law, which can hold good in a fictitious or hypothetical world only, as it presupposes that only transactions in commodities take place between country and country. Nevertheless, if a currency is going to be stablized in relation to gold, it is worth while for the planner to ascertain its purchasing power parities, as it will strengthen the stabilization if this can be effected at rates which secure the same purchasing power abroad as at home.

Fourthly, it will be of importance to choose a parity which does not lead to great or increasing unemployment. In doubtful cases this consideration induces to prefer a lower value of the home currency.

Fifthly, experience shows that it may be dangerous to choose a new parity which would lead to serious deviations from the rates quoted at the time when the new system shall come into operation.

In a given situation it will, naturally, not always be possible to take all these five principles into consideration. Sometimes is placed before the planner a painful choice. But it happens that all or nearly all principles point in the same direction. In such cases the planner has only to be careful in his examination of existing conditions, whilst his choice, in itself, will come near to a deduction. Nevertheless, it has happened more than once that planning governments have made a disastrous choice just in such a case, because the non-economic idea of 'national prestige' has obscured their sound judgment, inducing them to over-estimate the strength of their own currency. Such over-estimations in 1945 and 1946 had to be adjusted, if not over-adjusted, in the autumn of 1949.

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If a currency has been successfully stabilized in relation to gold, the next question will be how to plan the maintenance of the chosen parity. The problems here involved are partly related to external, partly to internal economic policy.

The measures to be used in relation to foreign countries, are those which Knapp denoted 'exodromic'. We have already in foregoing paragraphs (75 and 76) stressed that whilst liberalistic governments left the conduct of this policy to central banks, which used interest appeals to exporters, importers, brokers, bank directors and other private business men, thus bringing into operation a complicated and refined half-automatic system for the purpose, national capitalistic as well as totalitarian governments prefer direct interference with the exchange transactions going on. Renouncing indirect means to limit demand, they will, in principle, be forced to introduce exchange rationing and restrictions. This means that they have to take upon themselves the

burden of deciding all those priorities in foreign trade which liberalistic governments left to price mechanism. They have, so to say, to act as their own servants. It is not possible to give any general description of their exodromic activities.

As for the internal policy required to maintain the stability of a gold standard currency, it may be described by one adjective of most modern origin: 'disinflationary'. We have, therefore, to discuss the relations between inflation and monetary planning.

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'Inflation' as an economic term is originally a slang word, used in the business world. Very correctly Cecil Wyld's *Universal Dictionary* states that to 'inflate' in this colloquial commercial sense means to raise prices 'artificially, otherwise than as a natural result of supply and demand'. An artificial increase of a special price, e.g. the price of coffee or sugar, may be brought about by speculation, propaganda, undue influence and other such means, but an artificial increase of the whole price level can only occur as the result of monetary measures or unnatural credit expansion. If the concept should be simply transferred from the microeconomic field of special prices to the macroeconomic field of price levels, 'inflation' would, consequently, have to be defined as a planned increase in general prices, caused by monetary policy. But it is a fact that very few governments plan to raise prices. When a monetary policy results in a rise of prices, this rise is very seldom planned. To bring it about was only in few cases the purpose of the policy; generally it occurred as an undesired but unavoidable effect of measures chosen. If, therefore, the inflation conception shall be of any use in the description of general price movements, the ideas of purpose and plan must be completely deleted.

It is a well-known fact that an artificial rise of the price level is always due to an increase in the quantity of money. Now, the verb 'inflate' in its popular sense means to blow up or to cause

to swell out. Accordingly we see the expressions 'monetary inflation' and 'credit inflation' often used simply about huge increases in the quantity of currency or 'circulating credit'. But if the word 'inflation' nowadays is used alone, people do not refer it to every big increase in money or credit, but to such increases only as result in monetary depreciations. In a free economy such depreciations will be identical with remarkable increases in the level of prices; in a country with controlled or fixed prices, depreciation will assume other, less visible forms. Will it be possible to give an exact definition of 'inflation', understood in the sense here described? Some years ago the question was discussed by American economists. Many of them answered in the negative. But is it right to attempt an exact definition of an idea which, in itself, embraces elements of estimates? We do not think so. A definition of 'inflation' should, in our opinion, include some expression of indefinite character. Maybe the following definition will be able to express the popular notion: *By inflation we understand an excessive increase in the quantity of money if the public realizes that it has caused depreciation of monetary values.* Thus, the term 'inflation' refers to a process. It signifies a dynamic conception. But when such a process has gone on for some time, the nominal economy of the country will be in an *inflationary state*, even if no further increase takes place.

The planner who will defend a given gold parity or any other currency stabilization may, therefore, have to face one of two different but interconnected inflationary problems: either the problems attached to the inflation as a process or the problems connected with an excessive quantity of money as a 'given datum'.

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Ever since the later decades of the eighteenth century the relation between currency and free prices has been commonly described by the quantity theory of money. It is not our purpose

here to enter into any detailed discussion of the merits and shortcomings of this doctrine. We find it sufficient to remind of the fact that the quantity theory appears in two different formulations: in one modest form which simply states that any increase in the quantity of money will tend to raise free prices correspondingly, and in one strict form which claims that any change in monetary quantity will result in a proportionate change of the price level. We will refer to the first form as the *theory of inflation*, as it really only states what is meant by an inflationary tendency, whilst we reserve the usual expression 'the quantity theory of money' for the latter formulation.

The current mathematical exposition of the theory operates with very few magnitudes; e.g. the quantity of currency (M in Irving Fisher's 'equation of exchange'), its velocity of circulation (Fisher's V), the grand total of deposits on current account, subject to drawing by cheque (Fisher's M'), the circulation velocity of these deposits (Fisher's V') and an aggregate of all business transactions (the so-called 'volume of trade', Fisher's T). The reasoning, which may be highly contested, is to the effect that out of these magnitudes the quantity of money alone will be able to influence the price level. Fisher, therefore, feels entitled to write his 'equation of exchange' in the final form of

$$P = \frac{MV + M'V'}{T}$$

Lord Keynes used other symbols, but did not differ in substance, apart from his statement that real inflation could not begin until after full employment had been reached.

These theories and formulations are generally discussed as if they belonged to that class of statements which we denote standard laws, and a number of authors compare them with the actual developments in the real world. But they can, in fact, only claim validity for isolated communities, as only prices in isolated communities can be determined by internal currency circulation alone. In a commercial country there will always

exist two price levels: one for home-produced goods and one for imported commodities. The latter price level is determined by two factors which neither Fisher nor Keynes has included in the equation: the level of world prices and the rates of foreign exchange. This being so, it is clear that the former price-level, that of home goods, cannot be exclusively determined by the quantity of internal currency either, as part of this currency is used for transactions in the imported commodities. The price level of commercial countries is, therefore, of compound magnitude.

If we should symbolize the determination of the price level in a commercial country, our basic equations would, consequently, have to assume a shape differing totally from the formulas of Fisher and Keynes. We could, e.g., symbolize the price level of home goods by $P_h$ and the price level of imported goods by $P_i$, writing

$$P = f(P_h) \text{ and } f(P_i)$$

This formula would then further have to be analysed through introduction of the factors determining $P_i$. We have here juxtaposed the elements by the connective 'and'. This symbolization is not common in economics. But it may be defended by reference to the introductory chapters of Whitehead's *Principia Mathematica.*

Only by introducing the factors of the two co-existing price levels will we be able to bring the theoretical deductions to tune in with the historical sequences of events.

Firstly, the conceptions of $P_h$ and $P_i$ are necessary to describe the great inflations of modern history. They had, nearly always, the following nexus of causation: Money increased, prices on home products and foreign exchange rose simultaneously, prices on imported goods rose, money increased again, foreign exchange rose further, parity was abandoned if this had not happened at an earlier stage, and a race began between exchange rates and home prices, exchange rates generally leading (one of the reasons for the failure of Cassel's theory).

Secondly, only by the help of $P_h$ and $P_i$ will theory be able to elucidate what is meant by 'deflation'. We may, provisionally, define deflation as the opposite process of inflation. But the sequence of events during deflation is not the inverse of the inflation sequence. Thus, none of the great deflations started by contractions of monetary circulation. Decrease in the quantity of money was not the impulse phenomenon. Nay, the common instrument of deflation was to lower the rates of exchange, a process which continued during most of the period. It was followed by fall in the prices of imported goods, and then—through the pressure of competition—by fall in the prices of home-produced commodities. This nexus of causation repeated itself time and again, whilst the quantity of money only began to shrink after a considerable time, and never sank to its former level. Thus, the proportion between the quantity of money and the level of prices is not the same during deflation as during inflation. In fact, as lower prices demand smaller quantities of money, the inflationary state aggravates during deflation. Far from doing away with the evil effects of inflation, deflation will generally add a cumulative factor to the evils. Deflation is, accordingly, not a reverse process of inflation, although it has the opposite direction. A final definition of it will bear a closer counter-relation to the original definition of inflation than to the final one. It may be formulated thus: *Deflation in a free economy is a process by which prices are brought artificially down, be it by plan or as a result of other events.* Any reference to the quantity of money does not enter into the definition. It is a necessary conclusion that the quantity theory of money will have to be rejected as a general explanation of the relation between currency and purchasing power.

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Changes in special prices have their mission in total economy, as they regulate supply and demand. Changes in general prices

have no such mission. On the contrary, inflation and deflation are factors which make it difficult for special prices to give their signals, as such signals will be more or less overlooked when the whole price level is moving. Indeed, in periods of inflation and deflation the attention and planning thoughts of purchasers and producers are led away from their normal activities which they understand, and focused on the monetary development which they do not understand. Inflation and deflation are the two great killers of private plans.

But have they no mission of their own?

Inflation certainly has. It is a financial measure. If a State, e.g. at the outbreak of war, has to mobilize means of production within a short time, inflation is the very instrument to use. The newly created purchasing power enters the market with the purpose of altering the stream of consumable goods and switching production from its normal trend to the manufacture of guns, tanks, planes and other necessities of war. Inflation is the quickest possible means of raising money, and therefore most useful in a sudden financial urgency.

But inflation consumes its own power. From a very early point production of money works under the law of progressively decreasing return. And a planning government is wise if it stops inflation at its optimal efficiency.

Which policy should then be adopted?

Here we meet the stabilization problem in its most urgent form.

In a way the most tempting measure seems price stop through legislation or decree, supported by provisos in the penal code. But if such stabilization is chosen, the excessive fabrication of currency may go on. Inflation is then not stopped, but disguised. Depreciation will continue. It becomes manifest in two ways. Firstly it is revealed in the black market. Secondly, when simultaneously rationing and scarcity prevent the purchasing power from emptying stocks, useless money will pile up in banks. Even if the purchasing power of each piece of currency is not

depreciated, purchasing power of any income or fortune will sink. And finally, unused money reserves represent a potential inflation, an 'inflationary pressure', which will make a return to normalcy utterly difficult.

Much more advisable is a gold stabilization. But this measure can only be effective in connection with a devaluation of the monetary unit. Such devaluation should be undertaken before there evolves a serious gap between the actual rates of exchange and the purchasing power parities as based on stabilized prices.

But if the State suddenly stops inflation without simultaneously being able to reduce its urgent want of money, how shall then the financial leadership behave? At this moment, for once, it may benefit from the later effects of inflation. The over-liquidity of the commercial banks may be used. They will only be glad to get rid of big amounts of money for which private initiative has no use. When at a later stage, in a post-urgency period, the banks will wish to increase their liquidity again, these bank loans may be convered into bonds subscribed by the public.

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Gold stabilization combined with legal devaluation of the monetary unit, is the typical measure of disinflation. But if a gold stabilization has been enforced without sufficient devaluation, or without any devaluation at all, while accordingly an inflationary state is still prevailing in the monetary system, the planning problems assume another and more sinister aspect. Many countries were found in this situation after their acceptance of the Bretton Woods obligations.

How to tackle difficulties of such kind?

To tell the truth, the theory of economic planning has no panacea to offer. But some few principles may be laid down.

Firstly, such a country must for a certain period retain price control. This does not mean that price stabilization should continue unaltered, but that price movements must be kept within

reasonable limits. If not, the inflation pressure may become irresistible.

Secondly, the country ought to encourage private initiative as much as possible, as it is of the highest importance for its total economy to absorb the greatest possible quantity of purchasing power for productive purposes.

Thirdly, the State should over-balance its budgets, using the surplus to reduce the currency circulation or the deposits on current account with the bank of issue. It will be a matter of judgment how far the country can increase its taxation in order to obtain an appreciable surplus. But it is a *sine qua non* that the State, without endangering its military security, reduces its expenditure.

# CHAPTER XIX

## FINAL REMARKS

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'PLAN or no plan?'

Barbara Wootton's question of the 1930s has in the years after the Second World War assumed a new significance. It is no longer of a purely academic character. To-day it has become an ideological weapon, used and abused by politicians all over the world.

Now as before Mr. Everybody answers 'Plan, please', lighting his cigarette anew—he is, by the way, a more passionate smoker than ever before. But in his subconsciousness two counter-questions have begun an embryonic life: 'Which plan? Whose plan?' A third question is bound to follow: 'What about my plan?'

Maybe Mr. Everybody after a while will say to himself—or to a friend: 'How strange it is: in my youth no one ever talked about planning. Nevertheless, everything was better in those remote days. But someone must have been planning even then'.

If Mr. Everybody should happen to meet a historian, he might get a reply in an apparently paradoxical form: 'Ay, in the nineteenth century and even in your youth, economic events were determined by men who loved to plan for themselves. Nowadays economic events are determined by men who love to plan for others'.

Mr. Everybody's reply might be a question: 'But is it not more selfish to plan for oneself than to plan for others?'

Now it is for the economist to talk—the economist of the old school. He would have much to say: 'Firstly, it is definitely

more difficult to plan for others than to plan for oneself. Indeed, only visionaries should be allowed to plan for others. But you will seldom find visionaries among our most excellent civil servants. Secondly, whoever plans for himself, plans at his own risk. Whoever plans for others, plans at their risk. Thirdly, whoever plans his own success, may at the same time be planning for other people's benefit. Fourthly, if all planners have made up their plans on their own assumptions, they will meet in the economic field, and when they are going to co-operate or deal with each other they will have to detect each other's common or mutual interests, which can only be done through a rational process of sound thinking. Fifthly, whoever uncalled plans for another, deprives him of something most personal. For planning is the individual's meeting with his future. He has a right to that meeting. Personal planning is a human right'.

Such a speech may make Mr. Everybody somewhat uncertain. But he has a high trump in his hand. He may say: 'Admitted. But you cannot exclude planning for others. You have the State, the municipalities, the big organizations—you have even the joint stock companies!'

The economist had, in fact, expected these objections. He tries to meet them. This is what he says: 'Every human being has a double personality. He is individual as well as citizen. Individual planning should be left to himself. His planning as citizen he has to confer upon others. Individual planning and democracy are interconnected, and the aim of democratic legislation must be at any time to find that division between private and public planning which renders unto the individual the things which be the individual's, and unto the citizen the things which be the citizen's'.

Mr. Everybody heaves a deep sigh. 'That will be difficult', he says.

The economist agrees. 'But why should it be easy?' he remarks. 'To find the right division is the art of the highest statesmanship'.

We have tried in this book to show that every economic activity is planned. We have made an attempt to state the general principles of such planning. We have come to the conclusion that the same standard laws apply to private as well as to public economic planning, and that the same mental instruments will have to be used in both cases. But whilst private economic planning is only determined by individual thinking in pre-time, public economic planning is, also, influenced by the great ideologies, which are more stamped by power ideas than by economic considerations. In order to elucidate the joint effects of economic forces and political ideologies, we have been compelled to enter into discussions which in earlier days were regarded as falling outside the scope of economics. Dealing with ideologies we have found it right to judge them in the light of strong personal convictions, renouncing any mask of so-called non-political objectivity. A servant of truth has to know when he is subjective, and it is his duty not to conceal it.

We are, however, fully aware that the movement towards a more centralized planning during the last decade has been inevitable. But this movement was not initiated by any factor inherent in the economic structure of Western Powers, nor was it the outcome of deliberate choices made after discussions of ideological character. All causes were exogenous. Military economy was dominant during the war years, and left the democratic countries east of the Atlantic in a state which more or less prevented a speedy return to a more liberalistic system with decentralized planning. The new dangers from Russian imperialism and revolutionary 'communist parties' will again necessitate centralizing of supreme economic planning, simply because preparation for national defence is a State business which in our age of misery and decay demands first priority.

In our introductory chapter on public planning we stressed that two opposite tendencies influence the scope and range of State functions: the tendency to political power concentration

and the tendency to division of economic leadership. During years of war and preparations for possible wars the former tendency will always dominate, and centralizing of supreme economic planning is bound to follow.

As we now again enter a period of military preparations it might seem an inappropriate moment to give any contribution to the theoretical discussion. But it is not so. Just in times when principles have to be modified or even provisionally abandoned, it is of importance to keep the altar candles of ideas burning—lest we forget.

Besides, a number of young economists who have never seen a freer economy functioning, seem to disbelieve in its possibility, arguing that centralized planning is necessary to create and maintain orderly economic conditions. Face to face with such contentions we who in earlier days experienced the blessings of a freer economy, have a moral and intellectual duty to make our case clear.

We have also to remind the champions of planning centralization that the economy of the post-war years, in spite of all centralized planning, has been less orderly than the pre-war economy. In most countries this deplorable fact is due partly to the aftermath of the monetary war disturbances, partly to the failure of building up anew a rational and unhampered international trade. We should not wonder at this: monetary stability and international orientation of trade are prerequisites of an economy moving in liberalistic direction. This fact should not keep anyone back from advocating liberalistic ideas: at least the whole of the Western world longs for full monetary stability and wider international trade.

On one point we may be misunderstood. When we strongly maintain that in peacetime freedom of individual planning will be benevolent to total economy, this belief does not involve the negative statement that we object to every form of centralized planning. In this treatise we have thus given full support to that form of centralized public social policy which was initiated by

the Beveridge Plan. We wish also to stress that big common efforts, like the working of the European Recovery Programme and the Payments Union, even require international centralized planning. But there is, in principle and in consequences, an enormous difference between centralized planning of some special activities having a definite and properly defined aim, and centralized planning of the whole economic life of an entire population.

Champions of so-called 'planned economy' fear, however, that if the greater part of economic planning is left to free enterprise, everyone will try to expand his own business, with the result that rising prices and bright prospects may lead to that dangerous state of affairs which we will call 'over-planning'. It has to be admitted that such a danger exists—some dangers are attached to every system. But for two reasons this fear does not justify a planned system like full-scale national capitalism.

In the first instance, there is no reason to believe that all business men will react in the same way. Among private economic leaders there is always a great number belonging to the types of Mr. Cautious and Mr. Compromiser; besides, Mr. Prognosticator is often in a pessimistic mood. Hence, the division of leadership gives a guarantee against too one-sided decisions. A system of centralized State planning on the other hand, does not furnish society with a corresponding safeguard. If Mr. Optimist should be in power, society would suffer from over-planning in principle. And Mr. Optimist has always great chances in political life, as he, in good faith, can promise the electorate more than any of his competitors or opponents. In fact, every country having enjoyed the doubtful benefits of 'planned economy', has experienced some sort of official over-planning. To mention examples would be superfluous.

Secondly, the Government may use less drastic means to avert private over-planning than the introduction of State monopoly on supreme economic planning.

Thus it may do everything in its wide power to procure

business leaders with all attainable economic information, and it is most probable that the State authorities will be in a better position to do this job in a more liberalistic society than under 'planned economy' because a disinterested government will never feel an irresistible temptation to conceal or colour facts, whilst a government running national capitalism may regard figures as a suitable means to support its prestige. Information is a help. The irregularity of business cycles in our own times may be due to better knowledge. For all we know, future economists may look upon the business cycles of earlier days more as cycles of ignorance than as cycles of recurrent unavoidable crises.

Besides, the Government may not only inform but also advise. In 1924 Sir William Beveridge proposed the setting up of an 'Economic General Staff' with the purpose of assisting business in an advisory capacity and of being instrumental in co-ordinating policies. The existence of such an institution will be in full accordance with liberalistic principles and will at the same time help to realize some of those aims which inspire public planners. In a special field the British institutions for town-planning do a service of like kind.

Further, if and when monetary stability is fully restored, the old monetary measures of discount policy, open market operations and State loan transactions will regain their former significance as useful means for influencing resolutions in the business world.

Finally, in our age of over-taxation every politician will know that taxation policy may be used as means for realizing social and economic purposes.

All in all, the modern State machinery is in possession of so many instruments for influencing the trend of economic developments that those politicians and economists who regard centralizing of all supreme planning as the necessary means for checking private over-planning and similar phenomena, may be accused of a strange lack of imagination.

In those countries where centralized planning has been most

widely accepted, there is, indeed, a growing feeling not only of the evils connected with it, but also of its superfluity. Whoever is listening to the weak voices of newly born ideas, will know that just in these years the turning of the tide is prepared. If the very foundations of our economic civilization should not be broken down by the disasters of a third world war, our children and grandchildren will probably live in a world moving again towards greater individual freedom and wider range of personal economic initiative. The grand ideologies will fade, and the authors of post-socialist times will look upon them with that same mixture of curiosity and forgiveness which dominates our mind when we look upon bygone religions.

But the freer world of the future will not signify a revival of the nineteenth century. In the sorrows and sufferings of the great wars a new comradeship has been born. The individual freedom of the future will be combined with an ever-growing social solidarity.