CHAPTER 8

DEMOCRATIC AND TOTALITARIAN GROWTH

The chief economic aim in the modern world, both in industrialized and not-yet-industrialized countries, is rapid growth: the development of more economic resources in every country as rapidly as possible. This problem has been dramatized for the world by the Russian economic challenge to the United States: a peaceful challenge to 'competitive co-existence' in Mr Krushchev's own words. Yet that competition is between two great nations, rather two economic and political systems, both already reposing on enormous industries and disposing of much productive capital per man. Their economic *means*, their methods of production, are almost identical; but the social *ends* of all that production differ enormously.

Americans remain wedded to a time-honoured Western social philosophy of individual and corporate freedoms. It stems from John Locke through Adam Smith ('the sole end of production is consumption') to the Sherman-Clayton anti-trust laws and the New Deal legislation of the 1930s. These laws built a framework within which competitive private enterprises, free markets and consumers' choices can turn out what consumers want (or can be persuaded they want), while the individual American citizen's personal liberties are guaranteed and preserved as nowhere else West or East (save only Switzerland). The Federal Government and those of the 50 States in the American Union have, and exercise, only such powers of intervention in conditions of business and economic life as are deemed necessary to preserve law and order, to safeguard the competitive framework abovementioned, and to provide a minimum of basic economic services for all individual and corporate persons (*e.g.* defence, highways, sanitation, unemployment insurance, posts, public hygiene, standards of service in food, pharmaceutical, and other trades 'affected with the public interest', etc). All else is left to competitive private enterprise, which in turn depends for its capital on profits and on competition for any other available savings of individual and corporate persons.

The Russian system reverses this order of things. Almost all economic activity is determined *a priori* by plans into which all must fit, and only an insignificantly small sector is left free to private initiative. Jobs, new investments, production, consumption, even savings, are all decreed beforehand, and then have to work out 'according to plan'. Whether they do so work out or not is immaterial to 'the system' in one sense: namely, that if they do not, the execution of the plan is arbitrarily varied to make them do so later on, and the time for the fulfilment of the whole plan is extended, no matter how high the cost. This necessitates the extension of the hand of the State into almost every sector of human life, both individual and corporate.

A fully Socialist system is automatically, necessarily and almost exhaustively one of State controls over all aspects of individual and associational life, exercised through a hierarchy of bureaucrats, from the highest levels of responsibility and income to the lowest. Only by such comprehensive State controls, and by such arbitrary decisions, costs, and modifications can the predetermined figures of 'economic growth' in the plan be achieved. That this system works—that its achievements in terms of rapid growth in the basic capital equipment of a modern industrial State can be dramatic—only a fool would deny. But that in its (in any case heavy) costs must not only be reckoned monumental wastes but also massive personal inhumanities and unfreedoms, only Western 'fellow-travellers' deny. Official Russian literature admits them.

The rest of the nations of the world look on at this *confrontation* of two social systems, now vowed not only to peaceful coexistence but also to economic competition. Those of Asia, Africa and Latin America who have not yet decided to follow 'the American way' or the Russian, await developments. They await the outcome of the race in economic growth between the two giants, West and East. In between come, uneasily—more socialized than the Americans and more dependent for their rates of growth on competitive private enterprise than the Russians—the remaining Western democracies in Europe and other continents. They are what economists call, without international irony, 'mixed economies'. Some, like Britain, France, or Sweden, are more mixed with State economic activities than others, like Western Germany, Belgium and Japan. They all 'lie a little farther off' from 'the American way' and a little farther off from the Russian way. Their citizens' personal and corporate freedoms are more State-regulated by bureaucracy than those of Americans; less so than those of Russians. The initiative and competitiveness of their private enterprises are not as marked—because they are not as assured and safeguarded by as strict a legislative framework—as those of Americans.

Investment for Growth

The chief problem in securing economic growth—and one becoming more acute as growth is needed more rapidly—is to secure the savings, the foregone consumption of immediately available resources, which must be invested in new productive capital equipment. Clearly a totalitarian system can secure such savings, and therefore such growth, more rapidly than a democratic system—*provided* its State compulsion and ubiquitous unfreedom do not prove too costly in unproductive bureaucracy, policing powers, and economic errors due to the rigidities and inflexibilities of 'planning' (to say nothing of social crises, 'going slow' by disappointed and cowed worker-consumers, and possibly civil strife). That is because such a totalitarian State can now hold down standards of consumption, compel saving, decree hours of work and leisure, freeze jobs, etc, in an all-embracing manner utterly impossible in the ancient world. So what was impossible to Diocletian is possible to Mr Krushchev.

But clearly also a democratic system—for instance that of the United States since 1917 and despite two World Wars and a world slump—can record rates of economic growth, standards of production and consumption, and amounts of investment in new capital per worker, and in *all* manufacturing, agricultural, and service industries, such as Russia has still very far to go to equal.

'Mixed economies' run the risk of getting the worst, not the best, of both the giant economic systems, East and West. For these two giant systems are 'pure'. They run on unitary, consistent, articulated lines. And one disturbing pointer is worth noting. The Russian and other totalitarian States have avoided inflation while securing rapid economic growth by the simple method of forcibly slashing consumption to secure the necessary savings. They have done this in many ways—not allowing production of a whole range of consumers' goods familiar to every Western home, or producing them only for export, or arbitrarily altering wages, or equally arbitrarily altering the domestic purchasing power of their money (the price-level) and by a host of other and simultaneous measures.

In other words the totalitarians have played the game of rapid economic growth strictly according to the rules of the classical economists down to Lord Keynes: no matter how much new investment in productive capital was decreed within a given period, the *real savings* for it (*i.e.* the exactly equal amount of currently available resources) were withdrawn from immediate consumption, and inflation was thereby, at least for most of the time, strikingly avoided. That it was so avoided by force, unfreedoms and personal illiberties does not invalidate the economic principle which they respected: namely, that if you try to invest in new capital equipment within a given period *more* resources than your people are prepared voluntarily, or can be compelled by the State, to save from their current production, all prices will get out of gear and inflation will result. The totalitarians have signally avoided it, while securing rapid growth in their basic, primary, productive capital.

On the other hand the not-quite-so 'pure' American economic system (it is itself more 'mixed' than the totalitarian) functions efficiently in securing rapid economic growth. But not without inflationary, and sometimes deflationary, 'hiccups' now and then. These must be set against the personal and associational freedoms guaranteed by 'the American way'; just as the rigid consistency, articulation, and therefore 'purity' (almost Puritanicalness) of the totalitarian system, *without* inflation, must be set against the high personal and associational cost of illiberties and unfreedoms.

The 'Mixed Economy' Lags

Why, and how, is it, then, that the West European and other (*e.g.* Australian) industrialized democracies have contrived certainly since 1917, and even since 1945, both to lag in economic growth compared with America and Russia, and to secure such growth as they have achieved with far greater degrees of inflation and of inflationary social troubles? There is one obvious answer. Their economies are more 'mixed', less 'pure' and consistent, than the Russian and American systems. Their State activities in the economic field hamper, constrain, and circumscribe their private enterprises, and compete with them for available savings. State and private business seldom pull together, and often pull apart, in the 'mixed economies' ' effort for economic growth. There is no rigid Russian planned system in them; neither is there a fully flexible, competitive, free enterprise system—not as much as the American system can still show.

The disadvantages of both the giant Eastern and Western systems—the State rigidities, and the erratic economic ups-and-downs due to a 'pull Devil, pull baker' between State activities and private enterprises—combine in the West European and other democratic 'mixed economies' to hold back economic growth. Limits to such growth are built into these democratic 'mixed economies' by the perpetual clash between State activities and the needs of private enterprise. Then the State, by the political action of governments, seeks the easier but temporary solution of creating money and credit to 'buy time' as well as to buy-off the opposition of threatened vested interests (those of workers in trade unions as well as those of employers, users of State services, pensioners, etc, etc). It prefers this to the harder but durable solution of attracting and ensuring enough savings of all kinds, by persons and companies, to match the new investment needed for a given rate of economic growth. Inflation, again, is seen as the outcome of lazy, timid, yet democratic government. And as long as such inflationary 'solutions' to the tug-of-war between State activities and private enterprises persist—as they are bound to persist, being only temporary—inflation becomes built-in and progressive.

The democratic State with a mixed economy is forced to control and regulate private persons and businesses progressively. It is forced, having unleashed inflation, to cover up its effects. It tries to remove the symptoms by new State controls, new regulations, and new laws about the *minutiae* of personal and corporate life, rather than to remove the disease. And thus democracy undoes itself by creating an increasingly compulsive, restrictive bureaucracy, upon which everyone and everything increasingly come to depend for permits, nods, and so-called initiatives. In the end democratic Parliaments see their own freedom vanish with the value of the currency, and a centralized bureaucracy reigns. A centralized State socialism comes about *malgré* governments, oppositions, and citizenry—*malgré* even the Socialists, for they would prefer to bring about their ideal economy by a safer road.

The fallacy that you can control inflation in a democracy through bureaucratic controls over prices, production and trade persists among us today. But only symptoms are removed; the lady has her double-chin removed by surgery, only to discover it at the back of her neck. The State—today or in history—merely removes one symptom and replaces it with another; favours a new class of person by inflation, while penalizing another; or, in attempting to regulate social and economic life while persisting with inflation, runs the machinery of democratic government, the currency itself, and the entirety of social law and order headlong into catastrophe.

Such a situation occurred twice in our lifetime in Germany (after both world wars). It proceeded far in France. And in Britain the pound sterling lost *nearly one-half of its purchasing-power in the 14 post-war years alone.* It is idle for democratic governments to imagine that such an inflationary situation—and all its social consequences—can ever be cured by letting inflation continue while suppressing its manifestations.

Inflation and Social Dynamics

There is, moreover, an interesting and important relationship between persistent inflation and what we may call social growth or dynamics. It does not appear from the classic inflations that inflation and economic dynamics go together. It does not appear that to get rapid economic expansion you *must* inflate. It does not appear that to get 'full employment' you have to put up with inflation. On the contrary, the classic inflations in history have redistributed whatever capital or wealth had already been accumulated. Thus they gave a big boost to consumption—for instance, in early Imperial Rome, in Europe between 1525 and 1650, and between 1945 and 1958 in Britain. Such inflations seem, therefore, to spell prosperity at least to many consumers, at the cost of a minority of former capital owners. They even transform the nature of capital itself. For instance, they made land and farms more valuable than town houses after the flight from the cities 'back to the land' in the later Roman Empire, just as they have recently made farms, real estate, works of art, and equity shares relatively more valuable, more worthwhile to hold, than money, bank deposits, or Government bonds.

These inflations more often seem to have spelled a secular decline; or to have spelled social and economic statics rather than dynamics. They certainly made some rapid social changes, but not in the direction of a general, durable, material betterment for the entire society. Rather the reverse: they ran society down, tore it apart. Even in Britain and West Germany after World War II the striking rise in standards of consumption for the mass of people only came about by redistributive taxation, or else *after* inflation was deliberately checked by their Governments. It did not come about by the rapid growth of productivity *during an inflation.*

The converse of this is that if you look for technical and material progress, a period of real social and economic dynamics, you will more often find it—as economists would expect—when more and more *new* capital is created, when interest rates are high, when big investment opportunities exist, when money seems to enjoy enough stability and reliability of purchasing-power in the present and future to enable risks to be assessed and incurred for calculable prices, and when possessors of money incomes can measure the comparative attractions of spending on immediate consumption or investing for an equally reliable future yield. Such lasting periods of material progress and dynamic advance were found pre-eminently in the eighteenth and nineteenth centuries; and (more recently) in West Germany and France after their post-war currency reforms, and in Britain after the Government's eventually severe monetary measures in 1957. As a corollary, the economic dynamics of American society were at their peak when the dollar's purchasing-power was more stable than that of other nations' currencies.

The Inflationary Trilemma

The more productive capital a democratic society needs, the more inflation will drive that society on to a three-horned trilemma. It will have to abandon freedom and secure savings forcibly, so long as inflation persists; or it will have to abandon inflation to get the savings voluntarily in a democratic society; or it will have to slow down or abandon economic progress and the necessary rate of formation of capital, if it remains democratic but inflates.

In history we do not witness such a trilemma until modern times, when productive capital per head becomes great. But it is interesting to note the decline of standards, as inflation persisted, in ancient and modern inflations alike. The supply of slaves—the ancient equivalent of our modern machines and other capital—ran out. Capital consumption was hectic and general. Mobile assets disappeared—particularly the slaves, and even a great number of the free citizens. In more modern times, because inflation benefits all debtors and penalizes creditors, progressive inflation—inflation as a policy—militates against the very process of capital-formation on which material progress, social dynamics and technological advances in a democracy depend.

The inflating modern democratic State faces this trilemma, which bears repetition. It must abandon individual and social freedoms if it is both to form new capital fast enough and to inflate. It must abandon inflation if it is both to conserve freedoms and to form capital fast enough. Or it must abandon hopes of rapid material progress (new capital formation) if it is both to inflate and to conserve individual freedoms. I need say no more about the ways this trilemma presents itself to us in the world today—as between Russia and the West, as between democratic governments and their citizens, as between (say) the United States and Britain inflating at different rates, as between developed and under-developed countries, as between debtors and creditors both national and international, as between saving or investment on the one hand and spending or consumption on the other, as between all who still work and can raise their earnings and those who have retired on fixed money incomes and cannot. We have experience of all these things.

Never have the nations of the world been so short of capital simultaneously. Never have they tried to progress materially so fast in all quarters. Never have there been so many simultaneous inflations, but at differing rates, putting such high premiums on consumption and such penalties on savings. The rule we discerned in the inflations of history is clearly observable at work today. The more inflation is persisted in (or allowed to persist) as a policy, the more do democratic governments undo with their left hand what they strive to do with their right. Inflation is thus the parent of paradox.

Inflation and Politics

Not the least of paradoxes today—in politics and in economics—is that great masses of people in the democracies, in America, Germany, France or Britain, begin to understand what inflation means. They act on the assumption that it must be reckoned with, hedged against, evaded. They begin to treat it as a weapon aimed at them, whether directly by the State or by the sellers of goods and services. So Governments—like the French two or three years ago—can only borrow 'long' by pegging their bonds to gold; or employers and employed make bargains in the light of an already-discounted rate of future depreciation of the money.

When this awareness of inflation as a built-in social institution becomes general, the advantages of inflation to the State, the bureaucracy, the trade unions, and the State-centralizing political party (or parties) begin to fade away. The end is in sight. Something like this accounts for the extraordinary apathy and absenteeism during recent British elections. In Britain recently, in the wake of inflation, big blocks of normally faithful Socialist voters did not go out and vote, partly because the Labour Party's promises and its record seemed to prove it unwilling to halt a twenty-year-old inflation. Such an attitude is dangerous for democracy, but symptomatic. It is a strange reaction to the Labour Party's official denigration of, and contempt for, 'sound money', profits, 'the bankers', and 'the City'.

Here are social effects of inflation a-plenty. Again a paradox emerges. Modern society depends more and more on the increase of productive capital per head. Yet, in the name of welfare for all, many of the leading industrial nations of the world have moved steadily away from sound money and voluntary savings and democratic freedoms, towards more and more force and compulsion, exercised through an oligarchy of bureaucrats. At the same time, Conservatives and Socialists protest that they are both anti-Communist, anti-totalitarian. Surely if we can only progress materially by compulsion of a monolithic State apparatus—if all the mobility of capital and labour, of saving and spending, that we can enjoy is what the State will allow us, and if all of this apparatus is clamped down on us because of the attempts of the inflating State to cover up symptoms rather than to cure a disease—we ought to look far more closely at the disease. We ought to begin by asking the old question *Cui bono?* Whom does inflation benefit? As of old, the answer will come back: the State itself, the bureaucracy, the Government, the political set-up—not even those who work as against those who do not. Inflation comes from, and by, lazy, timid government. That is why it is such a threat to a free society.

Viewed dispassionately and superficially, the modern world in any case does not seem to have much time or much room for democracy, representative government or a free society. They have not taken root, or if they once did they have soon been uprooted, over most of the earth; and even in the British Commonwealth they seem on the defensive. Much of this is due to widespread misconceptions about economic issues, and in particular about 'full employment' and inflation.

In the remaining democracies run by representative governments, 'full employment', the goal of social action after 1945, has come to be identified with 'every worker's job guaranteed to him'. More, the phrase has come to mean to the worker 'my job should last as long as I want it to, without any changes unless I want them, and I need never move to another job in another place unless I want to'. It also came to mean easy paper profits for unenterprising employers. Thus, in another paradox, 'full employment', which in wartime had been conceived as a stimulus to peacetime progress and a dynamic society, turned out to be a potent factor making society static, conserving out-of-date industries and methods, protecting inefficiencies, and positively putting a premium upon inflexibility. Instead of resourceful suppleness, enterprise, and adaptability, democratic society in the 'mixed economies' got a kind of economic rheumatoid arthritis. Instead of high mobility from old to new, from declining to advancing industries, it got rigidity and ossification in the old and declining industries but no healthy bankruptcies of the inefficient. Loud economic and political demands were made upon democratic governments to shield, buffer and protect every conceivable economic interest vested in those naturally declining industries. Few governments withstood them.

Far and away the worst example was agriculture throughout the highly industrialized West. And the worst case of all was North American agriculture. In the USA and Canada, both highly industrialized States with politically powerful *blocs* of farmers, the agriculture of last century was protected in the middle of this century, and even stimulated to produce further surpluses, by guaranteed prices to the farmers. The prospering townsfolk paid in taxes and the retail prices of food to keep far too many farmers not only at standards of life comparable to those set by manufacturing in the towns and cities, but also to preserve every farmer and every farm in work. Surpluses piled up until special prefabricated containers had to be bought to house them, although they were being given away to needy nations. They were 'dumped' overseas, upsetting normal markets and trading, much of it the trade of the same under-developed nations to whom the North American surpluses were later to be given. The problem has never been solved. It abides with us now. And what was so blatantly uneconomic in North America was just as uneconomic in Germany, France, Britain, Belgium, etc (though neither so blatant nor so obvious) where it continues unsolved.

Instead of the free world's trade being expanded by the regular growth of international 'give and take' in product after product—the under-developed countries raising their export earnings by selling more agricultural and primary products to the developed West, and the West in turn exporting more capital goods to develop the under-developed countries—this natural flow of world trade has been impeded. It still is impeded, largely in and by the Western industrial countries themselves where 'full employment', industrial and agrarian protectionism, and inflation have alike been so pronounced and so continuous since 1945.

Even the recent moves by groups of mainly industrial nations in Europe to free industrial trade *among themselves*—by the Six Powers of the European Economic Community and the Seven of the European Free Trade Area—exempt their domestic, protected agriculture from the schemes; make no provision to *generalize* their mutual and reciprocal concessions for the good of countries outside Europe; and bid fair to stimulate still more the considerable trade in manufactures among themselves alone (already industrialized countries) behind substantial tariffs.

Such settings for *national* 'full employment' of everybody and everything in industrial democracies (at no matter what cost) are not at all what the wartime framers of the United Nations and the International Bank and Monetary Fund had in mind. Lord Keynes and his colleagues—Americans, British and all others—were at any rate of one mind upon these things: that the post-war world would prove unitary in its economic destinies; that its rapid economic progress could only be assured by relative stability of the purchasing-power of all moneys and by dependable relationships between currencies; and that individual nations—at least those already developed and industrialized—would have to secure 'full employment' for their peoples by *international* economic co-operation rather than by reversion to the economic nationalism of 1919-1939.

That earlier inter-war epoch abounded in runaway national inflations, followed by equally runaway national deflations and the consequent world slump and anarchy of 1928-33, all for lack of such international economic co-operation. It was not to occur again.

Yet so hard is international economic co-operation to achieve, and so easy is it to allow national economic affairs to take their own course, that the leading industrial nations of the West since 1945 have, as the war receded, increasingly tended to revert in economic affairs to purely national methods and measures. (Even 'the Six' pursue narrow group interests.) It is scarcely surprising that, in those which remain democracies, inflation persists as a kind of perpetual spectre at the feast.

The True Conditions of Growth

The chief economic problem in modern democratic societies therefore boils down to this: how can such a society secure a rapid and steady rate of economic growth and simultaneously stability of purchasing power in its currency? Clearly the democracies with the most rapidly growing economic systems have as strikingly failed to find a solution as those which are not growing so rapidly: the United States as compared with Britain, Western Germany with Sweden, France with Australia, Italy with Greece, Brazil with Switzerland. This comprehensive failure to reconcile economic growth with reliable money led 'Lombard', the perceptive columnist of the London *Financial Times*, to treat the matter on January 11, 1960, with levity rather than, like other economists, with sorrow. Awarding his own imaginary committee's 'Oscars' for financial performances in the year 1959 he cited:

'*The biggest disappointment of the year.* The complete failure of the Radcliffe Committee to come forward after a two-year probe of the functioning of the UK's financial system with an attempt at an answer to the major monetary issue of the day—how to devise a monetary policy and back it with other economic controls that would make it possible to combine currency stability with a reasonable and steady rate of progress....

'*Best disinflation policy.* No award—the committee were unable to find a performance outstanding enough to warrant it.'

His realism, be it noted, came after a year in which most democracies were emerging from two or three years of mild stagnation and had not even yet been caught in another bout of inflationary expansion. Seldom has the democracies' need of *international* co-operation to control national inflationary performances been so clearly manifested.

National programmes for economic growth differ in aims and methods, and there is no necessary harmony or consilience between them. Accordingly, if they depend on or result in persistent inflation, there is no necessary harmony between countries' price levels. But if their currencies are related to each other by fixed exchange rates—\$2.80 to £1 to 14 French francs, for example—it is obvious that persistent differences in economic development programmes *and in price-levels* between countries must either force new exchange rates upon governments, or else control over inflation, or else alterations of the development programmes, and possibly all three at once. Hence the devaluation of France, and the devaluations and recurrent crises in the balance of payments of Britain and other democracies, since 1945. That kind of national progress and growth—convulsive, unco-ordinated, disorderly, lopsided and limping—makes hay of any reliable international system of trade and finance. Such an international system becomes more necessary as national industrial systems become more complex and developed.

Hence the Russians' decision after Stalin's death to abandon the 'socialism in one country' principles decreed by him—principles which were used to develop the same socialized industries in Poland, Czechoslovakia, Hungary, etc—in favour of the capitalist 'principles of complementarity', of international specialization, co-operation and reciprocal trading. The international 'conning tower' or economic control office of *Comecon* sees that the plans for economic growth and the financing thereof, the values of moneys, and the foreign trading of the various Socialist States beyond the Iron Curtain keep in step. They do this not only to attain the most rapid common rate of economic growth, but also to preserve the dependability of the various Socialist moneys; for in these all prices, loans, repayments and other economic calculations in transactions (simultaneously or over long periods) are made. In that way, too, they show a more perceptive, cannier, classical economist's respect for the basic principles of capital creation, economic growth, saving and investment: namely, an overriding concern to preserve the value of the currency as a reliable measuring-rod for transactions, and thereby to ensure social justice over long periods of time for savers, borrowers and spenders on capital account.

As in a Socialist State virtually all borrowing, spending and investing on capital account must be in State activities, this Governmental determination to abide by the principles of classical economics is worth pondering by the disarrayed democracies and their citizens. That an absolutely Socialist State exercises its powers and economic controls *by force* over its individual and corporate citizens is beside the point in a discussion of inflation and economic growth. The telling point is that the political controllers of such a Socialist State realize what is vital to the success of their growth programmes, and do not flinch from doing it by force. The true response by the politicians of the democracies is not to say 'It can only be done by force, and we prefer chaos and injustice to force,' but to say 'It can be done by consent, and we will show how social order *and* economic growth can be secured without the social injustices of inflation.' But that takes comprehension, convictions, and the courage of them.