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LIMITS OF ECONOMIC PLANNING

By Barbara Ward

IN recent years, the battle between the planners and the anti-planners has become fairly engaged. In the decade before the recent war, the planners tended — in Britain at least — to hold the field of popular theoretical writing and of polemical literature. But since the appearance during the war of Professor Hayek's book, "The Road to Serfdom," a vigorous counterattack has been launched and a number of recent British books on economics have taken the anti-planning side. The debate is being conducted on the whole in terms of forceful dogmatism, and this is not surprising when one remembers how easy it is to be dogmatic about the theoretical basis of a case.

In theory, the planners can claim that they are in the full stream of human progress. What has created the tremendous physical advances of the last century if not man's increasing scientific control over his environment? The masterpieces of modern engineering have all started with the blueprint. Is it not reasonable to argue that the same methods — of plans and blueprints and "social engineering" — will not have equally happy results when society itself is their raw material? To apply planning to human government is simply to rescue one more vital sector — perhaps the most vital sector — of men's lives from the tyranny of the irrational.

The reply of the anti-planner is equally cogent. "Men are not sticks and stones and metals," he protests. "Among men you cannot find — and ought not to induce — the same uniformity of reaction which you find in material things. Nor can you ever be as certain of the purpose to which men ought to be devoted. The best use of a given amount of iron and steel may be to make a bridge, but who can say what is the best use to which a given number of men can be put? Is it not significant that the best examples of planning are to be found either in time of war — when the purpose of every citizen and of society as a whole is singlemindedly to fight for victory — or in totalitarian societies where the uniformity and predictability of all the citizens is the first aim of education? You can, in a word, apply social engineering only by making men resemble the raw materials of ordinary engineering — by depriving them of all liberty of choice, of all

variety, and indeed of everything that characterizes a free man.”

So long as this debate is unanchored by any reference to fact, there is no reason why it should be brought to any conclusion. And unfortunately the number of facts upon which the observer can call is still strictly limited. The concept of planning the economic life of a community is extremely new. Those who connect it with Communism will look for it in vain in Marx's works. He believed that the maladjustments of capitalist society mainly sprang from the institution of private property and the falsification which private profit introduced into the distribution of wealth. Remove that inhibition and society would function without friction. Nor does the concept of planning figure in the early writings of Socialism. In Britain, for instance, neither the Fabians nor the Guild Socialists ever talked of it at all. And even if they had done so, their talk at that time could only have been theoretical. The statistical data necessary for the drawing up of a national plan was simply not available. The careful statistics of every aspect of the national economy which are kept in certain countries today are essential conditions of any sort of plan and the extent to which the lack of them stultifies government action may be seen any day in 1948 in Paris where 16 governments of vastly varying efficiency seek to draw up four-year forecasts of their production and trade. The figures produced by some governments are so notional as to make impossible any real reliance upon their plans. Thirty years ago, there were not even notional figures. It follows that there could be no plans.

Professor Jewkes in his strong attack upon government direction and control, "Ordeal by Planning," suggests that the first plan worthy of the name was the German attempt at the total planning of their war economy after 1916, the so-called Hindenburg Plan. Its first application to civilian uses was made by Lenin. Professor Jewkes does not hazard a guess whether Lenin was or was not inspired by the German model, but certainly he found nothing in Marxism to tell him how to build a modern economy in a shattered demoralized community which, contrary to all Marx's predictions, had not yet achieved a structure of capitalist industry. Professor Jewkes cites a quotation from Lenin, used by the Webbs to illustrate Lenin's empirical approach:

!Couldn't you produce a plan (not a technical but a political scheme) which would be understood by the proletariat? For instance, in 10 years (or 5?) we shall build 20 (or 30 or 50?) power stations covering the country with a network

of such stations . . . We need such a plan at once to give the masses a shining unimpeded prospect to work for.

Thus planning entered the stage of history, like so many other revolutionary ideas, by a side door, almost unnoticed by the man who first conceived it and aimed at something — propaganda value — which was later to be at best of very secondary importance. When Stalin took up the idea in 1928, he made it the lever of Russia's gigantic plunge into industrialization. And if planning is to have a birthday, 1928 is perhaps the most appropriate year.

It follows that the idea of central planning as a vital instrument of economic and social policy is only 20 years old. That fact alone should encourage caution in making dogmatic estimates of its value or its dangers. Few new techniques have proved themselves in 20 years. This caution is reinforced by a number of other reasons. Most of the concrete examples to which both planners and anti-planners appeal today are drawn from quite exceptional circumstances. The planning with which the world is unfortunately most familiar is planning for war. Planning at such a time is inevitable, for no community left to its own devices will produce enough weapons and armaments to secure victory. War-making coupled with "business as usual" was a fantasy worthy of Mr. Chamberlain and the "phoney war" of 1939 and early 1940. But the planning which diverts a large proportion of the nation's resources — 60 percent in Britain — to the making of bombers and tanks has a singleness of purpose which it is hard to repeat in time of peace. This is not to say that some of the administrative techniques may not be usefully studied, but planning for war is not and cannot be an exact analogy of planning for peace.

Some nations — chief among them Britain — have, however, carried their planning over into peacetime. Here surely is the laboratory specimen from which conclusions of scientific accuracy can be drawn. Unfortunately, the conditions of postwar planning are still exceptional since a large part of the planning and control has been not the "purposive direction of the economy" but a desperate rearguard action against acute shortages. So many of the controls which have proved most oppressive to the ordinary queue-standing woman in the street have been dictated not by planning as such but by a desire to make very short supplies go as far as they can and at the same time to avoid the inflationary

pressure which free bidding for those scarce supplies would have inevitably produced. The contrast between the British economy, which is controlled but financially exceptionally stable, and the neighboring French economy, where neither the attempt at control nor the attempt at no control has checked galloping inflation, is a warning against too hasty generalizations about the evils of control when controls are being applied at a time of acute scarcity. It may be said in parenthesis that if any vital commodity — such as iron ore or petroleum — were to prove permanently scarce, there can be little doubt that countries most devoted to the ideal of free enterprise would accept governmental supervision of the scarce material.

There is another warning contained in the contrast between Britain and France. It is the difficulty of extending generalizations about planning from one national community to another. However good the theoretical case for planning, it is quite clear that some governments today cannot plan successfully. To give only three preconditions of planning — the civil service must be reasonably efficient and honest, citizens must be reasonably ready to pay their taxes and in general, the conception of respecting the regulations laid down by the government must be reasonably widespread. These conditions are present in Britain, in Holland, in Scandinavia. They are absent in France and Italy. Very few generalizations about the possible scope of planning based on the five former countries would be really applicable to the two latter.

For the same reason, it is difficult to go to Russia for a great deal of guidance on the possibilities of planning. In the first place, accurate and detailed information is exceptionally hard to secure. But even more frustrating is the total difference in political atmosphere. If a society has lost its freedom — or never enjoyed it — the experience of its government can only be applied with difficulty to free communities whose leaders are struggling to combine a measure of direction with the preservation of all essential liberties. To give two instances, planning in a free society has to find ways and means of tempting workers from redundant to expanding areas of employment. It also has to persuade businessmen to adapt themselves to a general policy for the location of industry. Both problems involve delicate questions of incentive and pressure. But what problems do they raise in Russia where the inhabitants of the whole Crimean region were transported *en bloc* to Siberia three years ago and where penal labor camps,

starred across the Arctic wastes, forever await the recalcitrant? There are differences in background so vast that the experience of the Russians in planning, interesting though it may be from the point of view of administrative technique, can only be used with the utmost discretion in discussing the problems of free society.

II

These reservations are not introduced to prove that there can be no intelligent discussion of planning. They are simply set down as a guard against excessive dogmatism. The truth is that the world does not yet know very much about the most important issue raised by economic planning — which is the question whether or no planning is a valuable addition to the techniques of a free society. To put the question at all admits something which most democrats are ready to admit — that free society is not perfect and that all the various national versions of it in the western world have a long way to go before they make the ideals embodied in them — of freedom and justice and charity and plenty — a living reality. The great claim put forward by the planners is that planning is a technique for curing the observed inadequacies of modern industrial society and possibly the clearest method of examining its claims is to take those shortcomings which are generally admitted to weaken western democracy and to examine the extent to which economic planning offers a cure.

There is, however, one clarification to be made before this examination can be undertaken. The extent to which Socialists have adopted the idea of central planning has led many people to believe that planning, nationalization, workers' share in management and other planks of the Socialist platform are indistinguishable and that to say one is to say them all. This present article, at least, is concerned only with planning; and the questions of state ownership and control will be considered only in so far as they have some direct connection with the practice of planning.

The two concepts — of planning and nationalization — are essentially distinct. Hitler was a great planner, but he left the actual structure and ownership of industry virtually untouched. Or, to give a more topical example of the distinction, the British Government today has on the whole given more attention to nationalization than to planning. The various sessions of parliament have devoted more time to altering the ownership of the

coal mines, the Bank of England, land transport and the public utilities than to any other activity. The administration also inherited from the war and has maintained a number of controls, most of them designed to deal with the problems raised by shortage. But any general economic planning, any genuine "purposive direction" of the economy has been almost entirely confined to the efforts of Sir Stafford Cripps. At the Board of Trade, he was first responsible for the dedication of a large part of British industry to the export drive — which this year has achieved a 50 per cent increase on the volume of 1938 — and when he became Chancellor of the Exchequer, he was able in one year to check inflation and introduce strong elements of deflation into the British economy.

There is only one direct connection between planning and nationalization, and so far it is only a theory. Some Socialists argue that it will be impossible for a government to plan effectively such matters as capital expansion or the control of the trade cycle unless public ownership of an important sector of industry — say, coal mining, transport and iron and steel — gives the planners the last word in determining the investment policy of these industries. This theory assumes that no government could secure the collaboration of industry without taking it over — which is certainly far from being proved in Britain, where, for instance, the steel industry has coöperated fully with the Government even when under the threat of nationalization. In Italy, an even more paradoxical case exists for, although by means of the *Instituto di Ricostruzione Industriale* (IRI), Mussolini's great holding company, a very large sector of heavy industry and transport *is* owned by the Government, the Government has no views on evolving a policy of planned capital development and no intention apparently of using its "public sector" as part of a general policy of planning.

The connection between planning and public ownership can therefore be regarded — for the time being at least — as being to a considerable extent accidental. And it is planning that concerns us here.

III

It is impossible to examine all the shortcomings of modern industrial society which the practice of general economic planning is supposed to counter. There are, however, one or two main dif-

facilities which *laissez faire* economics apparently do not solve automatically, and it is primarily in relation to these that the case for and against planning can best be examined.

The first is at once an economic and social problem. It is that the unfettered workings of the free enterprise system create wealth but create it very unevenly. The accumulation at the top is far greater than the accumulation at the bottom. This phenomenon creates the economic problem of insufficient demand. The machines pour out the products in greater abundance than the markets can absorb them and the resulting gluts help to produce the alternations of expansion and contraction known as the trade cycle. Nor is it simply a question of lack of demand within the national economy. On a world-wide scale, the failure of demand has produced such imbecilities as textile mills closing in Lancashire and New England while the productivity of Chinese labor suffers for lack of cheap cotton garments. The social problem is even more obvious — the growth of unrest, the resentment of the masses, the spread of Communism.

It is in this field that the most widespread use of “purposive direction” has been made. Almost every government in the western world uses taxation — one of the most flexible instruments of central planning — to redistribute income and to provide out of state funds services and amenities for the mass of the people which were once the preserve of a small minority. The delicacy of all instruments of planning is illustrated by the problem of determining at which point the use of taxation to redistribute wealth in society becomes an obstacle to the accumulation of wealth by society. Taxed beyond a certain point, neither businessman nor worker will create and produce with the necessary zest. Taxation also has unfortunate consequences in relation to the trade cycle which will be discussed later. But in spite of these limitations, taxation as an instrument for regulating the scale of incomes and thus the flow of purchasing power in a community is the most widely accepted method of central planning by the state, and those who extend their dislike of planning even to a frontal attack upon taxation may observe in France today the disastrous economic and social consequences of the existence in a nation of a middle class that refuses to be taxed.

During the war, various experiments were made, particularly in relation to food, to deal with the problem of poverty by other means than those of taxation — although the money pro-

vided by taxation has been the basis of the extra services. Free milk, fruit juice and vitamin schemes for mothers and children, school meals for children, subsidies for certain basic foods are all methods used in Britain to plan the diet of the people. Only the last of these — food subsidies — is controversial and it has become the target of all those who believe that taxation is now so high as to check initiative. The figure of some £480,000,000 spent on food subsidies in the last year has become one of the biggest items in the Budget; and since these subsidies assist rich and poor alike and reduce costs in the Ritz equally with the workmen's canteen, their incidence appears somewhat irrational. In Belgium, food subsidies in general were removed while the more poorly paid workers continued to receive special privileges. Experience suggests that, in the long run, the direct intervention of the state as a buyer and provider of foodstuffs is more cumbrous than financial measures, such as children's allowances, rent rebates and tax exemption which leave food prices unaffected but ensure an adequate income to the poorer workers.

The question of food prices brings us to the second field in which government planning and intervention is already a widespread practice. The yields of the world's harvests are so uncertain that unchecked they introduce a dangerous element of instability into economic life. This at least has been recognized for some 30 years and attempts were made after the First World War to regulate supply and in this way to keep some stability of price. Rubber schemes, tea schemes, coffee schemes, organized by the producers, were all tried and in general failed. The great depression of the early 1930's brought the primary producers of the world to their lowest ebb. In Britain it was a time when docks and thistles grew in some of the finest pasture land. In America, the ruin was accentuated by the horrors of drought. The cocoa growers of Nigeria were as hard hit as the rice growers of Siam.

Out of that experience, two policies have grown. The first is support for the farmer at home. One of the biggest American excursions into direct planning is probably its system of price support for agricultural products. This removes a large sector — one of the largest — of the American economy from the free play of supply and demand. It seems certain that, whatever the fall in world demand, wheat at 75 cents the bushel will never appear again in the United States. Similarly in Great Britain, the Government is now pledged to a £100,000,000 development pro-

gram in agriculture, underpinned at every point by guaranteed prices. In both countries, there are critics who will say that this intervention by the state is false planning, since it has been undertaken without relating the expense of agricultural subsidies to the national income as a whole and without demanding in return any guarantee of increased efficiency and productivity. But if planning be defined as purposive intervention by the state to achieve certain economic ends, the governments of the western world are definitely planners in the agricultural field.

This policy of planning in agriculture has been extended to foreign trade by means of guaranteed import prices and government bulk purchase. Remembering the slump of the thirties, few governments are ready to embark on plans of agricultural expansion unless they receive some guarantee of a continued market. One of the crucial economic discussions at the recent Commonwealth Conference in London concerned the length of time over which the British Government would be prepared to guarantee markets for Australian and New Zealand produce. Both governments were being urged to extend their areas of cultivation. Both in return demanded guarantees which only a government ready to "plan" its agricultural imports could give. The same anxiety for guaranteed markets has appeared at Geneva in the negotiations on trade between Eastern and Western Europe. Poland and Rumania demand guarantees if they are to devote a large part of their agriculture to the grain and fodder and dairy products demanded by the industrialized nations of Western Europe. Finally, with the coming into operation of the Food and Agricultural Organization and its central organ, the World Food Council, the planning of food supplies has now entered the international field.

It is possible to argue that the methods of rigidly guaranteed prices and of bulk purchase are too costly to the importing government to become lasting instruments of economic planning, but it is difficult to contend that planning can be done away with altogether in this field. The very insecurity of production had already led the producers to begin some embryonic planning on their own behalf — and, of all types of planning, planning done by producers for producers tends to be economically the most costly to the consumer. If stability and abundance are to be secured, control must be vested in a governmental agency, at the national or international level, and although the techniques of planning in this vital sector will doubtless improve, there can be

little doubt that governmental planning will never be abandoned.

It was the Great Depression that turned so many governments of such very different political complexions to the idea not only of agricultural planning but of planning as such; and it is still true that the greatest single field in which central planning is most generally advocated is in the control of the trade cycle. Such agreement would hardly be possible if there were not now a general agreement on the nature and causes of the trade cycle — an agreement which did not exist 25 years ago, when every kind of explanation still had currency, from Jevons's sun spots to Marx's labor theory of surplus value. Thanks to Lord Keynes's pioneering work, there is now fairly general agreement that trade cycles are caused by fluctuations in the investment of capital and that general prosperity can be secured only by "a high and stable level of capital investment."

There are two ways in which generally unplanned economies can become a prey to instability and stagnation. The case of stagnation may be treated first, since it does not appear to be general. No one, for instance, would criticize American capitalism for being "stagnant." But two older capitalist societies, Britain and France, showed signs of this loss of vitality between the wars. At a time when neither government ventured to plan, when taxation was small, when trade unionism was weak — in a word at a time when the bugbears usually blamed by businessmen were absent, the British and the French economies ceased to expand and, in the case of France, positively diminished.

The reason in both cases appears to have been the same. In any industrial society, it is estimated that economic health can be maintained only if between 10 and 15 percent of the national income is being invested in fresh capital development. In Britain between the wars, the average level was no more than 3 percent. In France between 1929 and 1938 it must have been a minus quantity, since France in 1939 was less highly capitalized than in 1928 and those who remember the "hot money" which was continually escaping from the franc to the safety of the dollar between 1935 and 1939 will not be surprised to learn that the French entrepreneur class indulged in considerable "dis-saving" during that period.

Clearly if those whose function it is to save and invest do not do so, the government must intervene. Significantly, the first aim of the Monnet Plan published in France in 1946 was to bring

back the level of France's capital equipment to that of 1929. It may be repeated in passing that the determination of a government to ensure a high level of investment in its economy may or may not be combined with nationalization and state control. Such is not the intention of the Monnet Plan, and in October 1948 Sir Stafford Cripps repeated his government's desire to secure the necessary 10 to 15 percent of annual investment by voluntary means. On the other hand, the stupendous expansion of the Russian planned economy has undoubtedly been due more than anything else to the decision to devote perhaps 30 percent of the annual wealth created by industrialization to fresh capital investment. But, although Russian experience thus confirms the necessity of a high level of capital investment, the economic backwardness and political tyranny of Russian society unfortunately make it difficult to draw detailed conclusions from the Soviet experiment useful to western society. It shows that under a certain set of social and economic conditions, total central economic planning does not break down. Nor — for 300 years — did the elaborate system of slaves and janissaries worked out by the Turks. But not to break down is hardly a proof *per se* of desirability.

The question of the stability and regularity of capitalist society is more important than that of buoyancy, since the phenomenon of the trade cycle was born almost with the capitalist system itself and has dogged all communities, progressive or not. It is in this sphere that there is most general agreement on the possibility and necessity of central economic planning by the state — the testimony varying from business colossi such as Lever Brothers and convinced anti-planners such as Professor Hayek and Professor Jewkes to the warmest supporters of the Labor Party. The theory is fairly straightforward. It is that capital goods need to be replaced only after a number of years, and that since confidence is one of the principal factors in business planning, the new orders for capital goods tend to be made all together when times are good and to fall off together when demand begins to slacken. The rise and fall in the capital goods sector sets the tone for all the rest, and the slump beginning in the nineteenth century mainly in the textile industry (which then represented the highest concentration of capital), and in the twentieth century in iron and steel, spreads to consumers industries and involves the whole economy in its downward spiral.

Hitherto the practices of the state have served to encourage this phenomenon. We have seen how taxation is now one of its settled instruments of planning, but traditional methods of taxation accentuate the trade cycle. When times are good and the call on the government for such services as unemployment pay are small, taxes flood in from booming industry and the drain on the exchequer is small. The government therefore tends to remit taxation and may begin public works on its own account. Thus it sends the rising boom up another couple of spirals in the process. The boom breaks, business falls off, receipts from taxation drop, unemployment rises, the drain on the exchequer mounts. The government therefore increases taxation and cuts its own expenditure — thus deepening the deflation that is beginning to blight the economy. In other words, government methods of taxation in the past have been exactly calculated to make booms more busting and slumps more profound.

From this situation, many statesmen, economists and publicists have drawn the conclusion that the government can play a vital part in creating general stability in the community if it will use its twin instruments of taxation and public expenditure to counteract the normal workings of the trade cycle. When times are good, taxation should be held steady and perhaps increased, a budget surplus should be secured and reserves laid aside for a carefully drawn out scheme of state expenditure to be undertaken when demand shows sign of slackening. When these deflationary signs appear, the government should remit taxation, particularly all taxation on money devoted to capital expansion — thus guiding industry to phase its development programs and not huddle them all in the upward sweep of the cycle. During this deflationary period, an unbalanced budget might be permissible and budgeting might make the five or ten year period rather than the one year its basis of calculation. Another possibility might lie in the presentation of two budgets, one for the annual income and commitments of the state, the other for its capital expenditure.

These expedients have not yet been tried out, but Sweden during the depression made a limited and successful experiment in the planning of public works and Britain's housing program in the thirties was another instance of state-guided expansion. And it is also true that the industrial upswing of most countries after the Great Depression took the form of that most tragic of all forms of public works — a rearmament program. But these

were not part of a coherent policy. No government yet has made a fully consistent and stable attempt to control the trade cycle. Indeed, the postwar trade depression is still only lurking in the wings of history. The stage is still held by wartime dislocation, inflation, full employment and continued shortages. It may be, too, that the Russian menace presages another period of economic activity in part sustained by rearmament. But if the free world secures the chance of peace, sooner or later the problem of the trade cycle will return, and this time the free governments will at least meet its challenge with weapons in their hands.

IV

This very brief survey covers only three of the possible fields of government action — admittedly important ones, but still only three — and no absolute conclusions should be advanced on such relatively scanty evidence. Yet they do at least suggest that not only has some measure of central economic planning come to stay but that this fact offers no inevitable threat to free society. On the contrary, such are the dangers of political shipwreck attendant upon the onslaught of economic depression that control of the trade cycle may well be the condition of preserving free society in this century.

But the admission that some economic planning may be necessary does not throw much light on a secondary but vitally important question — how should this planning be accomplished and by whom? By the government, certainly, for only the central authority can possess the relevant data upon which to base its decisions. But which organ of the government? Ministers? Civil servants? Independent planning boards? And, again, by what means? Should planning be confined to general measures, largely financial in character or should intervention be much more direct and detailed and diffuse?

Some people may feel that in this field at least the experience of different nations in waging war and, in particular, the experience of Great Britain both during and after the war can give valuable examples of what technically is the best (or worst) way to plan. Something certainly can be learnt, but, once again, complete certainty is impossible owing to the very specialized circumstances in which wartime planning was carried out — in particular by the men who have in this first age of planning been called upon to plan. The instances quoted here are drawn from British

experience, for it is in Britain that the most determined effort has been made to carry on the experiment of planning into the peace and British experience with the personnel of planning should be particularly relevant.

It is surely not to be thought that if a measure of central planning is adopted as part of the permanent structure of democratic society no change will be made in the type of men called upon to do the planning or in the type of training they receive. The British permanent civil servants upon whom the great burden of planning has fallen were trained on the whole for quite other tasks. Their traditional work was that of administering known regulations with the utmost impartiality and equity, and a large part of their time was spent in seeing that things which went beyond the regulations did not happen. Onto this body of men was thrust the quite opposite task of initiating, directing and guiding the economic life of the country in a positive sense. It is a tremendous tribute to their adaptability that the results have not been more unsatisfactory than has in fact been the case. Yet such training lends itself inevitably to a restrictive attitude. The various officials controlling raw materials, for instance, are far better trained to refuse an application than to stimulate a proper use. They are, moreover, bound by every fiber of their tradition to the principle of equity. To give a concrete instance, they would rather see ten manufacturers receive one windowpane each than that one manufacturer should "secure the advantage" of a single ten-paned window. Yet from the point of view of imparting vigor, energy and encouragement to the men of initiative in the business world, there is no doubt that one window is an incentive, and one windowpane is not.

There is a further problem. The civil service commands financial rewards so totally out of line with those offered by industry that it cannot attract throughout its structure men of the type necessary to make economic planning effective. The "big executive" gravitates naturally to business, not to the civil service. One of the reasons for the relative effectiveness of planning in wartime is the number of able business people who go into the public service. They have all, almost without exception, returned by now to their accustomed work.

It follows that in judging the experience of planning in Britain in the last nine years, and especially in the last three, one must remember that the planners themselves are on the whole not the

men a democratic society is likely to put in charge of planning once planning is finally established as a technique of government. Different scales of pay and totally different methods of training will undoubtedly be evolved. What we are judging today is essentially a makeshift.

Having said so much, what should the judgment be? There are certain tentative conclusions which British experience seems to suggest. The first is that the more ruling decisions have to be sent to a single central authority, the more the vigor and speed of the economic machine will be impaired. Ask any businessman what has been the cruellest cross he has had to bear under the present system of control, and he will reply "Delay." Control today can still be excused by the continuance of extreme shortages (of which the most extreme is the dollar shortage). But whatever the excuse, control from the center hampers initiative, and decentralization of decision is essential.

A second point is that physical controls are the hardest and most cumbersome to manage. When a ministry has actual control of the supply of a raw material and it can be obtained only on its allocation, the second greatest time waster becomes inevitable — the filling in of forms and the keeping of records. Moreover, violations of the regulations laid down covering the use of the raw material need to be followed up and prosecuted, and this, in turn, entails supervision at every level of use. Complete supervision is of course impossible, but it nevertheless keeps a great many men controlling and supervising other men, instead of working to produce themselves. The British Civil Service is now larger than at any time in its history. By common agreement, it is much too large.

A point worth mentioning in this context of supervision is that, once acute shortages have been overcome, direct control of prices by the central authority tends to rigidity on the one hand and excessive policing on the other. Control during the period of real shortage is naturally essential, and surely few economic boasts have been so little fulfilled as the claim of American business that to sweep away price controls would bring about a fall in prices. But in normal times the working of the market (within the limits set by supported prices in agriculture, fixed transport charges and the like) is the least cumbersome basis for the calculating of prices. To accept the market rate naturally lays on the government the duty of seeing that no man's income is so small as to

exclude him from a share in the market; but the regulation of incomes is a more reliable instrument of planning than the control of prices.

One other conclusion is worth mentioning. No amount of detailed control will be effective if the tide of economic life has set against the controls. In Russia, the government may be able to turn the tide by removing unwilling peasants to Siberia by the million. Such methods are unavailable to free governments, which to a great extent must carry public opinion with them. If, for instance, the financial policy of a government is inflationary and surplus money is constantly tempting manufacturers to the production of high-cost luxuries or amusement parks, no regimentation of controls, however draconic, will prevent precious raw materials from drifting away to nefarious uses. The best method of ending the abuse is, to quote *The Economist*, to control the weather and not to ration the raindrops. Sir Stafford Cripps, by putting an end to Dr. Dalton's senseless inflationary policy, by achieving a genuine budget surplus and by persuading both sides of industry to limit dividends and wage increases, was able between the autumn of 1947 and the summer of 1948 to change the whole economic climate in Britain. And once the climate had changed, the "rationing of the raindrops" began to matter infinitely less.

Now if there is some validity in these conclusions, they suggest that central economic planning will be most effective when it uses financial rather than physical controls. This would seem to be true whatever the structure of society, whatever the system of property, whatever the pattern of classes. Given total public ownership, the various public corporations would still be better managed if they had not to refer everything to centralized ministries. Coöperative undertakings would be in the same case. And the point is obvious in the mixed society of public and private ownership which seems to be the likely democratic pattern for many years to come.

But to say that the state should avoid detailed physical supervision is not to condemn it to ineffectiveness. On the contrary, the budget, taxation, supervision of capital expenditure and the judicious use of allowances and subsidies provide the whole apparatus necessary for ensuring the general well-being of society, provided the politicians who set the course and the public servants who execute policy are fully aware of the aims and methods

they ought to pursue. Nor does the confining of general economic planning to the field of finance mean that all kinds of experiments may not be made in the structure and ownership of industry and above all in the ways of associating work people more closely and rationally with the industries in which they work.

And if at the last one step into dogmatism may be permitted, it is to assert that the confining of government to certain essential purposes is more in keeping with the traditions of western political theory than the thoughtless, feckless passion for the state as such which has obscured so much that is generous and sound in the minds of modern reformers. Distrust of government is probably the soundest instinct of western society, doubly sound in a century which has within 40 years produced a Hitler, a Mussolini and a Stalin. No one can doubt the state's duty to secure the welfare of all its citizens. Equally no one can doubt its tendency to eat its citizens up in the process. A theory of economic stability and social progress which nevertheless keeps within reasonable bounds the direct control of government is the only safe theory for free society.