

by the same Author

**OVERHEAD COSTS :
SOME ESSAYS IN ECONOMIC ANALYSIS
ECONOMIC SURVEY 1919-1939**

W. ARTHUR LEWIS

THE PRINCIPLES OF
ECONOMIC PLANNING

*A study prepared for the
Fabian Society*

NEW EDITION
WITH A NEW INTRODUCTION

London

DENNIS DOBSON LTD - GEORGE ALLEN & UNWIN LTD

FIRST PUBLISHED IN GREAT BRITAIN IN 1949
BY DENNIS DOBSON LTD., ST. JAMES'S, LONDON S.W.1
AND GEORGE ALLEN AND UNWIN LTD., MUSEUM STREET
LONDON, W.C.1

Second Impression 1950
Second Edition, Third Impression 1952
Fourth Impression 1954

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PRINTED IN GREAT BRITAIN BY
HENDERSON & SPALDING
LONDON, W.

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Preface to the Third Impression

THIS book was originally published without a Preface. The reason for this is that it was never meant to be a book. The Fabian Society asked for a pamphlet on the economic perplexities of the moment, and this was what I set out to write. Unfortunately the perplexities were so numerous that the pamphlet turned up at 120 pages, instead of their usual thirty. So it was put between hard covers.

I set out these facts not merely to explain the absence of a Preface, but also to account for some of the book's more curious features. It is not, as its title might suggest, an academic study of theoretical principles, but is rather a political statement. Neither does it cover the whole field of planning, but concentrates rather on some topics which happened to be of special interest in Great Britain in the summer of 1948, when it was written. Perhaps it was wrongly named. It should have been called a 'Brief Statement on some Current Topics in Planning'; but it is too late now to change its name.

The book was well received, partly because it did prove to be very relevant to the problems of the day. But it gave pain to all my friends. The 'planners' amongst them complained that I had written an 'anti-planning' book, while the 'anti-planners' complained of an excessive fondness for government intervention. Since the book was neither for planning nor against it, this showed that I had failed to make its purpose clear. Accordingly I gladly seize the opportunity of this reprinting to say another word on this subject.

(The word 'planning' is used in many different senses in current literature. At least six different meanings can be distinguished.

First, there is an enormous literature in which it refers only to the geographical zoning of factories, residential buildings, cinemas and the like. Sometimes this is called 'town and country planning', and sometimes just 'planning'.

Secondly, a very large number of countries have published documents setting out programmes of public expenditure extending over two or four or five or even ten years. In this literature, 'planning' means only deciding what the government will spend money on in the future, if it has the money to spend.

Thirdly, in a small, highly specialised part of the literature of economic theory, a 'planned economy' is one in which each production unit (or firm) uses only the resources of men, materials and equipment allocated to it by quota, and disposes of its product exclusively to persons or firms indicated to it by central order. The manager thus has little or no choice in buying or in selling, because he must work according to a plan sent to him from the central government. And such an economy does not, in its most rigorous form, need to use money.

Fourthly, at the other extreme, "planning" sometimes means any setting of production targets by the government, whether for private or for public enterprise. Most governments practise this type of planning if only sporadically, and if only for one or two industries or services to which

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they attach special importance. If they begin to set targets for a wide range of industries, the problem of consistency very soon arises, and they are driven to analyse the whole economy, and to consider the repercussions throughout the economy of any further interventions they may wish to make.

The fifth type of planning then arises. Here targets are set for the economy as a whole, purporting to allocate all the country's labour, foreign exchange, raw materials and other resources between the various branches of the economy. The result, on paper, is a series of interlocking statistical tables.

And, finally, the word 'planning' is sometimes used to describe the means which the government uses to try to enforce upon private enterprise the targets which have been previously determined.

Clearly, any person who uses a word with such different meanings, and who does not indicate right at the outset in which senses he is using the word, is asking for trouble.)

This book is wholly unconcerned with the laudable practices which are described in the first two categories enumerated above.

The third kind of planning is a totalitarian nightmare, which is not in fact practised even in the most totalitarian countries. It is briefly referred to in Chapter I, and dismissed.

(This book is about the three other kinds of planning, but it is not about them all in equal measure. Its prime concern is the sixth: assuming that the government knows what economic results it wishes to achieve, how should it set about persuading or forcing private enterprise to fall into line?)

The assumption is enormous. (The last chapter of the book discusses briefly the fifth subject to which the title 'planning' is given, namely how the government can try to get some order and consistency into its own setting of targets, by a process of interlocking budgets. But this still leaves the large question: how does the government know what economic results it should be trying deliberately to bring about? This question is discussed briefly in the first chapter and again through all the other chapters, in terms largely of what goes wrong if the economic system is left to run itself. There are many people convinced that government attempts to better the results of the economic system can only make good bad, or even make bad worse. That the question does not receive in this book the attention they think it merits is due mainly to the fact that, since most British politicians agree that the government should try to remedy defects in the working of the economy, and since most British economists agree what these defects are, it did not seem necessary in a brief pamphlet, for British readers, in the summer of 1948 to discuss these matters in greater elaboration.

The main issue in that summer, and the main topic to which the book is addressed was, assuming that the government knows what its targets are, how should it set about bringing private enterprise into line?

The planners, in this context, are those who wish to proceed mainly by surrounding people with licences, quotas, and other orders specifying where they may work, what they may make, where and what they may buy, and to whom they may sell. The anti-planners are those who prefer to induce the co-operation of private individuals and firms by making it more remunerative for them to do the things the government wishes to see done, rather than to do anything else.

PREFACE TO THE THIRD EDITION

The book takes more or less a neutral position. It begins by establishing a preference for planning by inducement wherever this is practicable. But it also shows that this is adequate only where the mobility of resources is sufficient to bring about the desired results by inducement in a sufficient space of time. Wherever mobility is inadequate, it comes down on the side of licensing and other forms of direction. But, because of its prejudice against direction, it also concludes that one of the major functions of a government should be greatly to increase the mobility of resources. For this reason the central chapter of the book is that which deals with mobility.

It is the fate of every author to complain that his book is praised or blamed for the wrong reasons. I have not escaped this fate. I am neither a planner nor an anti-planner, in the special sense of this controversy. I am both planner and anti-planner, according to the circumstances of the problem, and the major purpose of the book is to analyse the circumstances in which the one means is preferable to the other.

Having got this grievance off my chest, I may now turn to the other grievance which is the fate of every writer on political economy. This, as the reader will suspect, is the grievance that the government of the day has not followed his advice! In other words, writing now in the summer of 1951, what does one see as major problems in planning which the government still has not solved?

This section, alas, is very easy to write, because all that one has to do is to reprint the 'Review' which appears as the last three pages of the final Chapter, and which asked the same question for 1948. That 'Review' listed three major errors, and some less important. They all remain, with one important exception.

(One of the three major errors was pursuit of an inflationary policy. There is still some inflation in the British economy: how much is open to argument.) But it is beyond all question that the Government has made a valiant attempt in the past three years to end inflation, and that it has succeeded in this better than have most other governments in the world.

(Of the other major errors, one was the absence of any proper policy to bring about a sensible distribution of labour between the various sectors of the economy.) This is not quite as bad as it was in 1948, but it is still very bad. In consequence of this we still cannot produce for export all that foreigners would like to buy from us, so that we still remain short of imports, including some important foodstuffs, and are still piling up overseas debts (even, unforgiveably, debts to some very poor British colonies, which are made to take 'sterling balances', instead of goods, for part of what they send to us). In consequence of this, too, we had another serious fuel crisis in the winter of 1950-51, and have no plans for preventing even worse fuel crises in winters to come. (Mobility is the key to economic planning.) But, in so much that is written on the British planning achievement, either for or against the government, how much is written about rationing, price controls, fair shares, and the like, and how seldom is there reference to the major and almost untackled problem of mobility!

'The second shortcoming,' says the 'Review,' 'has been in foreign trade policy, where we have tried to stabilise both the internal and the external values of the pound simultaneously, with disastrous consequences for the terms of trade.' This is just as true in 1951 as it was in 1948.

Chapter V of the book argues that, if we wish to stabilise the internal

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price level, then we should destabilise the value of the pound in terms of the dollar, appreciating in boom, and depreciating in slump. The pound was, indeed, devalued during the 1949 slump, and partly, but not wholly, in consequence, the adverse balance of payments disappeared in 1950 for the first time in nearly twenty years. But in the subsequent boom we have failed to appreciate again. Prices of imports have risen sharply, with only a small rise in the prices of exports, and for 1951 we face again an adverse balance of several hundred million pounds.

We also face a further consequence, to which the end of Chapter III refers. If we stabilise the external value of the pound, our cost of living rises in booms, and any attempt to keep wage movements under control, in face of rising prices, is bound to fail. The summer of 1951 now finds us caught in a wage-price spiral, with the very successful wages policy of 1948 to 1950 no longer acceptable, and with the chances of agreeing a long-term formula for wage determination now slimmer than ever.

It may be that it is best to stabilise the external value of the pound, and to find other means of stabilising the cost of living, and of varying the prices of our exports according to the state of the world market. The book discusses these alternatives. What cannot be right is the policy which we now pursue.

(Finally, the 'Review' says: 'There are many other planning errors that have been made, such as slowness in taking steps to increase the productivity of private enterprise, failure to reform the income tax and to impose a capital levy, the passing of inadequate legislation for monopoly control, and the absence of adequate safeguards of the public interest in nationalised industries; but at the present moment these are minor in comparison with the three major errors.' None of these lesser errors has been corrected.) On the other hand, they are nearly all more widely recognised to-day than they were then, and are more widely discussed in all political circles.

The original text of the book is here reprinted without alteration. If the demand for the book continues, it may need substantial revision on a later occasion; but the time for this has not yet arrived.

MANCHESTER,
July, 1951.

W. A. L.

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NOTE.—This book, like all publications of the Fabian Society, represents not the collective view of the Society, but only the view of the individual who prepared it. The author is the Stanley Jevons Professor of Political Economy at the University of Manchester.