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How to Plan

so far we have confined ourselves to governmental planning of that part of the economic system which is traditionally the sphere of private enterprise. Beyond this there is, of course, the traditional sphere of public enterprise, which even in the most *laissez-faire* country now usually absorbs about 20 per cent of the national income. We shall not discuss this sphere of planning because the need for such planning and its broad nature are beyond controversy. (Everyone agrees that each government department has to decide what it is trying to do, and how and when it intends to do it, and this is all that planning involves—for education, defence, conservation of natural resources, town and country planning, the network of communications—for everything for which the government is responsible it must have a plan of its objectives.)

Where planning the private sector and planning the public sector meet is that they both make claims on the national resources, and have therefore to be fitted into the budget for the whole economy.)

(This is the first stage of planning; on the one hand to estimate the amount of the national income at full employment, and on the other to fit into it the various calls for consumption, investment and public expenditure.) In a democratic society the first of these items, consumption, is only to a limited extent within control; it can be expanded fairly easily, but the public resists attempts to restrict consumption, and though the government can reduce consumption by increasing taxation, it cannot restrict it very much below what people voluntarily wish to consume at full employment. This in turn sets limits to the sum of investment and public expenditure. The government can expand the one very easily at the expense of the other; but it cannot expand both beyond the limits set by the public's insistence on consumption without setting in motion the

forces of inflation, and producing disequilibrium in the foreign balance.

The master table in the annual plan is therefore that which estimates the national income for the coming year, and proposes its distribution between consumption, investment and public expenditure. The other tables follow from this, and merely translate it into detail.

(The consumption table breaks up the global sum, and shows first how people would like to distribute their expenditure between different commodities and services.) It then estimates how much of each of these commodities is likely to be available, from home production, from imports and from stocks, with a view to spotting major shortages and surpluses. The investment plan similarly distinguishes the projects that are to be undertaken; estimates the demands on various raw materials, types of plant, and types of labour; sets these demands against likely availabilities; and spots major surpluses and shortages. From these, four other sets of tables follow; a budget for each industry which seems likely to be in serious disequilibrium, a budget for each raw material that will be in short supply, setting demands against availabilities, a manpower budget, and a foreign trade budget.

(These subsidiary budgets—for unbalanced industries, scarce raw materials, manpower and foreign trade—provide the crucial information needed at the second stage of planning, for they show where the gravest shortages will lie, and therefore where action is most needed. This action will be of two kinds. First, there will be action to increase supply; this is the most important kind of action, and the primary justification of planning. The secondary justification, and the second kind of action, which is needed only if supply cannot be expanded sufficiently to meet the demand, is to have some means of allocating the short supply, whether by price, or by quota.

This leads to the third stage in planning which is to estimate the equilibrium that these two types of action will achieve; that is to say, to fix the targets.) The word target has recently been brought into disfavour by misuse. A target should not be a statement of what we should like to see achieved; that is the figure for demand, which appears in the tables at the second stage of planning. Neither is it the figure of what will be achieved if no action is taken; that is the figure of availabilities

also in the second stage. (A target is the figure it is proposed to achieve as a result of the action that is contemplated.) It is very important that this figure be estimated without illusions as to what is possible.) For at this third stage these targets are used to make final allocations in the budgets for unbalanced industries, scarce raw materials, manpower and foreign trade, and to make the final adjustment to the figure for public expenditure in the master plan, which in turn adjusts the other items in that plan. If the targets are fanciful, the whole plan will be fanciful. And this is as true whether the targets are too large or too small. Planners who promise more than they can perform throw everything out of gear, so that the economy might just as well not be planned at all. On the other side there are the planners who take a pride in being able to claim over-fulfilment of their plans, and who therefore deliberately put forward targets that they know to be too low, or else over-fulfil their targets by robbing other essential industries of labour and materials. These are just as big a nuisance, and make just as much of a mockery of planning. (Over-fulfilment is just as much a sign of bad planning as is under-fulfilment.)

But, of course, however good one's guess may be, and however well planned the measures for achieving the plans, 100 per cent fulfilment is impossible. Over large items the planners have but small control—the prices of imports, the volume of exports, the output of agriculture—and over others all they can hope to do is to exercise an influence in the right direction. Moreover on many basic questions our information is woefully inadequate. Statistics of the British economy are primitive compared with those relating to the U.S.A. and a considerable improvement in both the quantity and the quality of our statistics is needed if economic policy is to be intelligent and precise. At present the best we can do is to try to exercise an influence in the right direction, but this is of course a very important thing to do, and the fact that the figures proposed are never those that are achieved does not make them any the less useful. The purpose of these figures is to indicate the major problems likely to arise, and to enable us to act consistently as far ahead as we can see. We shall know more tomorrow than we know today, but that is no reason for not trying to be as consistent and as intelligent as possible in what we have to do today.

(The real moral is that planning must be flexible. In part this means that the ideal is to revise the plans continuously, but this is an impossible ideal to achieve. We should try to achieve it as much as we can, and no doubt, in the event of major unforeseen changes—a slump, a good harvest or a big change in supply or demand—the relevant budgets will be altered. The budgets, however, are all relevant; they all hang together, and if one is changed the whole lot should be changed, and this is a big job which cannot be done several times a year. This is where planning through the market becomes so far superior to planning by direction.) For the market itself is a most flexible instrument. If, for example, efforts to increase supply are over-successful, the price will fall, and these efforts will be automatically counteracted, and the surplus automatically absorbed. The planners are not thereby absolved from changing their plans to meet changing conditions, but the consequences of error and delay are less if they plan through the market than if they plan by direction.

(A further corollary is that one cannot plan very far ahead. A five year plan cannot be more than a vague indication of aspirations. The national income in five years' time depends first on what happens to productivity.) Before the war productivity in this country increased at a rate of about 3 per cent per annum; today it is below the pre-war level, and no one knows whether in five years' time it will be 10 per cent less than pre-war or 30 per cent above pre-war. How can one plan a national income within limits of error so wide that they can swallow up the whole allocation to investment, or to public expenditure, or to exports, or to any major industry? Again the national income five years from now will depend on the terms of trade and the demand for exports, which may affect the balance of payments 20 per cent either way. (One must plan five years ahead all those parts of the economy which need five year plans—afforestation, power stations and so on—and one can usefully plan specific investment projects, but a *general* five year plan for the whole economy is no more than a game. One plans for as far ahead as one can see—and this means that even an annual plan must be subject to review.)

(The fourth stage in planning, when the targets have been drawn up, is to publish the budgets in which they are embodied,

with as much data as the public needs in order to understand and to criticise what the government is trying to do.) This needs no argument in a democracy, but is nevertheless most vital if planning is to be not a substitute for democracy but an instrument which the public uses to get what it wants. It is not for the government to decide how much we shall invest, or how large an adverse balance of payments we should plan for, or what is the right order of priorities for allocating steel, any more than it is for the government to decide the provisions of the company law or the right age for leaving school. In all these matters the Government must present its proposals to the public, and final acceptance or rejection must lie with Parliament. It is perfectly true that in practice the public can only criticise; it cannot submit a whole new alternative plan, because all the various parts of a plan must hang together, and a new plan can only be made self-consistent by a team of experts. But this is just as true of Parliamentary control over foreign policy, or defence, or the company law, or the government's own budget. All the provision now made for presenting, debating and controlling the government's budget should in future be made for presenting, debating and controlling the economic plan of which the government's budget is only a part.

(The documents presented to the public at this stage should show not only what targets are proposed, but also how the government proposes to achieve them) (For the sixth and final stage of planning is actually to put into operation the measures which are to achieve the targets. Neglect of this stage makes all that has gone before a farce. To draw up and publish a list of targets is not to plan; the real planning comes when the government takes action to realise these targets. This action, as we have seen, is of two kinds, action to increase supply and action to reduce demand (or *vice versa* if it is not a shortage but a surplus that is in question). Governments frequently take action to reduce demand, but are not so good at taking action to increase supply. They try to plan by exhortation, making speeches urging people to produce more, or to ask themselves whether the job they are doing is vital, and so on, but in fact have no plans, whether of inducement or of direction, to shift resources into the right places.) They are then surprised and

hurt, at the end of the year, when their plans have not been fulfilled, and they make still more speeches. Planning by exhortation is not planning.)

10 REVIEW

We may conclude by reviewing the principal shortcomings of economic planning in this country in the past three years.

But first we must set the matter in perspective. It is not the case that bad planning has hindered the recovery of this country, and caused us to fare worse than unplanned countries. For we have not in fact fared worse than unplanned countries; on the contrary we have done as well and better. Production has grown as rapidly since the end of the war in the U.K. as it has in the U.S.A. Compared with pre-war years the U.S.A. has far outstripped us, but this is primarily because there were ten million unemployed in the U.S.A. when war broke out, who have now been absorbed. At the time of writing (mid-1948) industrial production is about 20 per cent above pre-war, and agricultural production still larger. There is no other country in Europe affected by the war that can claim such progress—least of all those that have been pursuing *laissez-faire* policies. We could have planned better; but the suggestion that we would have done better if we had planned less has no more value than the statement that others who have planned less have done better than we have, which is made to support it, and which is patently contrary to the facts.

(The first shortcoming has been a failure to get labour correctly distributed between industries.) We are producing a lot, but too much of the less essential and too little of the more essential. The acid test of this is the failure year after year to realise the targets set in the manpower budget. The major consequence is not enough of the goods that could fetch good prices abroad, especially coal and textiles; consequently a shortfall of exports, restrictions on imports, and continued rationing. The cause of this failure has been reliance on planning by exhortation, instead of taking positive measures to induce movement into the essential trades, and failing this to fill up by immigration. If a ban were placed on ministerial speeches (which seldom do good and often do harm) ministers would have to ask themselves what positive steps they could take to achieve their

targets now that mere talk was ruled out, and the efficiency of our planning would improve beyond recognition.¹)

(The second shortcoming has been in foreign trade policy, where we have tried to stabilise both the internal and the external value of the pound simultaneously with disastrous consequences for the terms of trade—the U.K. is the only European country against whom the terms of trade have moved since 1938, and if we now enjoyed the same terms as in 1938 the adverse balance would now be negligible.)

(The third shortcoming has been the pursuit of an inflationary policy, which has raised profits, strained price and raw material controls, dissipated stocks, impeded production, made it difficult to get labour for essential trades, and drawn heavily on our reserves of foreign exchange.) The complaint of excessive restrictions, licences, forms and so on has largely followed from this. Inflation puts such a strain on the price mechanism that it becomes necessary to pile on more and more restrictive controls. Happily this phase is now over.

(No government can be perfect. 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. That the Government should have made just these errors is a natural outcome of the history of the Labour Party. To socialists in the past, planning has been concerned principally with the distribution of income and with the nationalisation of industry; that is to say principally

¹ This paragraph was written in mid-1948. Publication of the *Economic Survey for 1949* while this book was in proof has shown that Ministers have reacted in exactly the opposite way to that suggested above. Having found that targets cannot be hit simply by exhortation, they have now ceased to set targets. Where there are shortages the only 'planning' that is to be done is to ration demand, and even the pretence of planning to eliminate shortages is now dropped. The fact that we still have a lopsided economy is admitted, and also the fact that this lopsidedness costs us dearly in shortages of essential commodities. But the effort to get our resources properly distributed is nevertheless abandoned. Even anti-planners have been shocked by this abdication of an important duty.

It is also to be noted that the budgets for commodities which are still in short supply and still rationed have not been published, so that the public may see, discuss and criticise the basis on which allocations are made. This violates the important principle that planning must be open if it is to be democratic.

with the subject matter of our chapters II and VIII and not with the subject matter of the intervening chapters. Socialist planning has had no principles for dealing with money, investment, foreign trade, mobility, or private enterprise. It is therefore natural that a Labour Government should devote itself with gusto to the subject matter of Chapters II and VIII, and should flounder rather helplessly with everything else. Unfortunately for the government, the standard of living of the workers is much more intimately affected by these other matters; they ought to have a much greater priority in socialist planning than either income distribution or nationalisation, and the fact that a Labour Government always neglects them (exactly the same thing happened in 1929-31) is a tragedy both for the country and for Labour Governments, who are always defeated by just those economic matters that they neglect. Time spent in 1945-47 proudly nationalising the Bank of England, Cable and Wireless, civil aviation or the railways (all desirable measures in themselves) would have been much better devoted to getting labour into the right industries, or to working out policies that would conserve our foreign reserves, for in the hierarchy of planning these are clearly of incomparably greater importance. (The greatest lessons that planners have to learn are that nationalisation and the distribution of income are only a small part of the matters that claim their attention; and that when we cannot do everything we must put first things first.