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## Contributed Article.

# "BRITAIN UNDER A LABOUR ADMINISTRATION"

*The author of this important contributed article, Mr. R. F. Harrod, is one of the best known economists in the world. He is regarded in some quarters to be the natural successor to Lord Keynes. Mr. Harrod is the joint editor of "The Economic Journal," the journal of the Royal Economic Society. He is at present engaged in writing the Life of Lord Keynes. A strong critic of the economic policies followed in Britain since the war, Mr. Harrod's book, "Are These Hardships Necessary?" published in October, 1947, caused something of a sensation. By special arrangement, Mr. Harrod has contributed this article, exclusively to "Review."*



# BRITAIN UNDER A LABOUR ADMINISTRATION

By R. F. HARROD,

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In reviewing the strength and weakness of the British Labour Government (1945-1949) we can criticise its conduct in discharging the normal functions of a government, or we can single out those failings that were specifically due to its being a socialist government. In what follows I shall be concerned with the second of these topics. In passing, however, it may be said that in the economic field it has shown rather marked weakness simply as a government.

In the first two years it went forward with large plans without reckoning whether their total cost was within the resources of the national economy. This led to the severe crisis of 1947, when a re-adjustment was forced upon it. It was during this ill-considered phase of lavish expenditure that it conducted its experiment in sterling convertibility in accordance with the terms of the United States Loan agreement, the resounding failure of which has led to a chain of consequences, from which we still suffer.

The efforts made in 1947 to "disinflate the economy" were inadequate, and there was renewed laxity in 1948. The devaluation crisis of 1949 also showed signs of lack of forethought and preparedness. In consequence of earlier policy, devaluation may have been inevitable, but it should have been accompanied by a number of supporting measures to give strength to the drive to sell in the dollar area, and to re-establish the international standing of sterling. Instead it was carried out in apparent haste—although the need for some such measure might have been foreseen many months before—and without a supporting programme. We needed something like the famous Australian Premiers' Plan of 1931. Such a plan should have consisted of a variety of measures, within which devaluation would have played its appropriate part.

These are symptoms of a weak government, of one lacking in statesmanship and far-sightedness—anyhow, in the economic sphere. They are only related at long remove to its specifically socialist complexion. If we ask the question how far socialism has suited Britain, it is exceedingly difficult to give an answer, because it is by no means clear what part of Labour policy has been guided by specifically socialist motives, or what socialism in Britain now means.

## NATIONALISATION

Of the various measures of the present government, those which most clearly bear the hall-mark of socialism are the measures of nationalisation. The Government's haste to proceed with these measures stamps it clearly as socialist in intention. Other parties might not have been implacably opposed to a measure of nationalisation in one or other of the cases in question. But a government that was not doctrinaire would have hesitated to embark on such measures at this particular point of time. For Britain has been confronted with a host of problems, touching her solvency and power of economic survival, which were bound to tax the abilities of any administration to the utmost. All hands, and brains, were needed to deal with the immediate problems of reconstruction and solvency; the nationalisation measures have absorbed a large amount of this administrative energy which could ill be spared. If nationalisation is defended on the ground that private enterprise in these spheres had proved inefficient, or monopolistic in tendency, then the gain to be expected from the change-over would only be a long-period one. What was needed at this juncture was administrative action that would bring quick returns. It is evident, therefore, that if the Government pushed on in this direction, that was because it was tied to a party programme, the implementation of which was needed to retain the loyalty of socialist supporters.

We must next consider the implications for the future of these nationalisation measures. Are they to be regarded as the first instalment of the full programme for nationalising all the

“means of production and distribution”? There is no doubt that some Government supporters so regard them. On the other hand there may be other supporters who look upon the matter quite differently, and in its future election programmes the Labour Party may have regard to the votes of these other supporters also. There are some who, while averse from general nationalisation, would claim that these particular industries were specially suitable for it.

The nationalisation of the Bank of England was not a very controversial measure. I personally hold that it has enhanced the real power of unprogressive forces within the Bank and has, in fact, whatever it may be in name, been a retrograde move. British coal mining has long been in a peculiar position; labour relations have been bad, perhaps partly owing to the segregation of mining communities and to the lack of contact between higher management and the rank and file; the heavy proportion of wages in the cost of production has exposed mine workers to successive shocks when markets have receded; bitterness due to the fierce contests in 1921 and 1926 (after Britain's return to the Gold Standard) has survived. Thus, although coal mining is not technically well suited to nationalisation, many non-socialists have held that it was the only solution to the psychological impasse which had been reached in that industry. An orthodox case, on semi-liberal lines, can be made for the nationalisation of railways, electricity and gas, on the ground of their being natural monopolies. Finally, we have the controversial case of the iron and steel industry. Its wide ramifications whet the appetite of true socialists. But these can point out to those less doctrinaire that this industry has become an artificial monopoly in consequence of the deliberate fostering of co-operation in order to secure “rationalisation” in the period before the war. Thus, the Government might plead that, broadly, it had not carried its nationalising doctrine beyond the point of getting public control over monopolistic organisations.

There is another strand of thought which has influenced many of middle opinion. The oscillations of the trade cycle and the severe unemployment in Britain in the inter-war period have given rise to the doctrine that the central authority should have power to influence the pace of capital outlay in those industries which are responsible for the greater part of it. Keynes was of that opinion. The white paper (Cmd. 6527) of the Coalition Government itself indicated the need for central influence over the pace of investment by the large capital users. While this was not intended to point to nationalisation, it could reasonably be argued that the exertion of such influence might be both difficult and vexatious, and that it was simpler to cut the Gordian knot by nationalising.

Now, it may be that all this is special pleading, and not at all what those who ultimately control power in the Labour Party have at the back of their minds. The point, however, is that the fact that the British electorate consented in 1945 to nationalisation thus far, does not justify the inference that it would consent to a full-blooded programme. There is thus a very great uncertainty as to what Labour will do if it wins successive victories. This is super-imposed upon the normal uncertainty as to which party is in fact likely to win, and has a very injurious effect on enterprise. A spectre haunts the mind of youthful business men and inhibits far-reaching plans. If only Labour could be compelled at pistol point to pronounce one way or another, that might be a great help. But such a crisp decision on doubtful issues is not possible in a democracy.

The proposals for Labour's next five years of office, should she obtain them, do not resolve the mystery of her intentions. The programme for further nationalisation is a modest one, comprising sugar refinery, cement, and a sector of insurance. This may be interpreted to mean that nationalisation policy is petering out, and that Labour will settle down to the role of a progressive party, content to protect the interests of the rank and file and confine itself to such "planning" as non-

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socialist planners may accept. But equally well this may be held to be merely an example of *reculer pour mieux sauter*. Tacticians may argue that after five hectic years it would be well to have a period of pause, during which living conditions might improve and the prestige of a Labour Government increase, in order to go forward with further proposals for a large advance in socialism five years later. Who knows? No one outside the inner circle of the Labour Party, and perhaps not they, either! Those who think that total socialism would be a great evil will probably incline to think it better to take no risk and vote against a party of ambiguous intentions.

### THE SYSTEM OF CONTROLS

Although nationalisation belongs to the inner core of a socialist programme, from the point of view of British problems during the last four years it has been something of a sideshow and irrelevant. Its main practical bearing has lain in its depressing psychological effect. We must turn to those parts of socialism which have been operative and have influenced events. Of these by far the most important has been the system of control. In many spheres these have taken the place of that essential ingredient of a private enterprise economy, "the price mechanism." Enterprise has, to a large extent, been impeded from adapting itself to monetary demand and has had to conform to a pattern designed at the centre. This is not wholly true. The consumer's will has sometimes pushed its way through all obstacles as in the case of the "football pools." But its assertion of might has been patchy. Furthermore, the control system has impeded the flow of materials and components to industry, and there is little doubt that thereby it has gravely hampered efficiency. In the case of articles in short supply, the price mechanism is a magnificent weapon for weeding out less urgent or postponable demands. Where a requirement is marginal a high price may deter the purchaser; but if he only has to talk round a government official, he will not

hesitate to do so. The smooth running of production, especially in the early years has again and again been gravely hampered by the unprocurability of some vital material or component, often quite a small one. Furthermore, the control system has led to wasteful hoarding. Owing to some change of circumstances unknown to the central authority, the allocation to a particular firm may prove redundant; the firm will then be at pains not to release it to the general market, but to hoard it as an insurance against future short-falls in the allocation. Under the price mechanism, hoarding against a future rise of prices is uncommon save among professional speculators who have a distinctive function; it is usually too expensive for ordinary people; but the refusal by the control to release needed material is such an unmitigated evil that one may be willing to incur heavy expense in order to be insured against it. If the recent period may be taken as a test, allocation of materials by central controls stands decisively condemned.

Here, again, the attitude of Labour is ambiguous. We are told that controls essential for planning are to be retained, while a great many redundant controls, temporarily justified by shortages, are to be swept away. No one knows precisely what this means.

While it may well be that Labour has tended to retain controls because they are conformable to its philosophy, it has to be admitted that their abandonment would have been attended with perplexing problems and required high statesmanship. The whole net-work of control depends on the central allocation of materials. It has been argued that while the price mechanism can look after temporary shortages or shortages of a few specific items, it is inadequate to deal with the problems of a general all-round shortage. General shortage is a phenomenon of inflation, and advocates of free enterprise have urged that inflation should be brought to an end in order to make the controls unnecessary. During 1948, inflation was greatly reduced, and inflationary pressure is now slight. But this only

serves to bring clearly into the foreground the other obstacle to abolishing the controls—the import programme. Here, indeed, we are at the very centre of the whole system. If imports have to be severely restricted, that seems to justify the whole apparatus of allocation of the materials in restricted supply. Why retain the import programme? This question brings us face to face with the “dollar problem” itself. Does the adverse dollar balance inevitably bind our whole economy in the straight-jacket of universal control?

Consideration of this would take us into problems which are subtle and intricate, and beyond the scope of a short article. The idea of the Bretton Woods settlement was to provide a mechanism by which foreign exchanges would be established at an equilibrium level, which would make direct import restrictions unnecessary. It is well known that post-war disequilibria in international trade have been greater than was contemplated in 1944. But it may also be true that the systems of control and restriction which almost all nations are applying to their imports are themselves serving to perpetuate this disequilibrium indefinitely. I am inclined to think that any government which desires to re-establish free enterprise should put in the forefront of its programme, as the Belgian Government did, the need for unrestricted importation. I believe that Britain and other countries could have proceeded more quickly towards greater freedom of importation and currency convertibility, if they had had a passionate desire to de-control their internal economies. The absence of such a passionate desire is natural in a Labour Party. It does not necessarily follow that it would have been present in a Conservative Party in sufficient strength to overcome all the obstacles. It would require high statesmanship and international leadership to bring the nations together along the path of relaxing mutual restrictions on each others exports. Britain has been particularly handicapped in this matter by the existence of her enormous “sterling

balances," externally held, which may well be classed as the greatest single cause of international economic disorders in the last two years. Until Britain can fund the greater part of these balances and remove them from exerting a pressure on foreign exchange markets, it is difficult to see how progress can be made towards multilateral payments and the reduction of restrictions. Even within these limitations, however, a government favourable to free enterprise might have been able to take the risk of allowing sufficient unrestricted importation of basic materials to have enabled it to remove internal controls over these.

### LIMITATION OF DIVIDENDS

Among the ways in which the socialism of the Labour Party has manifested itself, one of the most important has been in securing a voluntary limitation of dividends. The Chancellor of the Exchequer, rightly fearing the dangers of a vicious spiral of mounting costs and prices, became eager to limit demands for wage increases. As a quid pro quo, he called upon industrialists, whose sense of the danger of inflation was no less acute than his own, to make a voluntary stand-still in dividend increases. What could patriotic industrialists do but agree? Yet it was no doubt with a heavy heart. No individual likes to be greedy at the national expense, yet a self-denying ordinance may have injurious effects. The British Chancellor admits that he relies on private enterprise to capture new dollar markets. Britain needs to sell a wide variety of specialities in this very large area, where the costs of distribution are high and the selling risks great. How can business men, many of them small ones, be expected to embark on this great adventure, often at the expense of valued custom in the home market, for purely altruistic motives? In connection with devaluation, the Chancellor of the Exchequer raised the profits tax on the ground of equity. The Economist Newspaper (October 8) commented with some interesting statistical information. Adjusting money values for the rise in prices, it found that wages had increased by 20% since 1938, while the distributed profits of companies had fallen by 24%.

## MERCILESS TAXATION

Conjoined with dividend limitation is merciless direct taxation. Socialists take pleasure in its levelling effect. But they rely on private enterprise to capture dollar markets! This can only be done by a business community which is inventive, lynx-eyed to seize new advantages, hopeful, prepared to build up a new line of trade from a small beginning. The picture of British industry at present is that it is being run largely from the motive of loyalty to the old firm. The well-established man cannot bear to see his business run down. Further to that there are the host of small folk taking quick advantage of the high prices of trumpery consumer goods. Britain lacks the army it needs of youthful men, determined to build up new solid business structures with a view to rich returns over the years. They see no possibility of such returns with taxation at its present level.

## THE SOCIAL SERVICES

The aspect of Labour policy to which the outside world has given the greatest attention is not one that can be classed as specifically socialist—namely the provision of social services. This has been in line with British development since 1908. It was inevitable that the hardships of war should give rise to the demand for a new step forward. During the war Sir William Beveridge, a leading liberal, outlined certain proposals, and these were accepted in their broad trend, although not with alacrity, or in every detail, by the three parties of the Coalition Government. It may have been unwise to attempt such an ambitious increase in the straitened years after the war, and with this in mind Sir William Beveridge himself made a proposal to defer increments to old age pensions—but this was not accepted. It may well be that the Government has been too lush and lavish in executing the advance, and that there have been faults in the administration. Any economy in public expenditure at this juncture would certainly be most welcome. But the positions resulting from the main advance in the provision of social services will be held, roughly as they are, by any political party.

## FOOD SUBSIDIES

Finally, much criticism has been directed against the food subsidies. These have a distorting effect and should clearly not be retained in their present form as a permanent feature. It is hoped, however, that Britain will obtain relief from the reduction in a number of food prices on world markets, and it might be unwise to provoke an internal pressure for increases of money wages, by allowing domestic food prices to rise, until we know where world prices will settle down. In regard to that element in the food subsidies which may be needed to protect British agriculture against cheap imports, it is the correct doctrine that this should be borne, as now, by the taxpayer, and not by the food consumer. The British consumer should get his food at world prices, and, if it is desired as a matter of national policy to help the British farmer, the help should come out of subsidies from public funds, as agreed by Parliament.

## THE FINAL VERDICT.

Thus, the final verdict cannot be a clear one. Apart from the nationalisation programme, the charge against the Labour Government must be that it has not wrestled manfully against many difficulties in order to free enterprise from restrictions, rather than that it has, as a matter of deliberate policy, clamped its own system of planning upon that enterprise. It has, however, shown a callous indifference, conformable to its philosophy, to the hopes and aspirations of the brain-workers and men of enterprise who are responsible for industrial progress. The effect of this attitude, if maintained, will grow more serious with the passage of years, as the generation of established men, now acting from motives of loyalty, passes out of the picture, and new recruits, willing to take risks and devote the best energies of their lives to building up new businesses, do not appear.

