

★ *The intention of the Attlee Government to proceed with the nationalisation of the British Steel Industry makes this analysis of Socialism timely and important.*

SOCIALIST ECONOMICS

There is so much confusion in the public mind—and not least in the minds of socialist supporters themselves—about the central meaning and ultimate objective of socialism, that any new exposition of socialist doctrine, which contributes something to clarification, is to be welcomed. The latest essay in this direction is a small book, "Socialist Economics," whose author, G. D. H. Cole, is probably entitled to the ranking of No. 1 among top socialist writers. "Socialist Economics" was written in response to a special request of the Fabian Society, and in view of this and of the almost unrivalled position of the author in the intellectual side of the socialist movement, it may be taken as a uniquely authoritative exposition of what socialism means.

G. D. H. Cole, at present Professor of Social and Political Theory at Oxford University, was only 17 years of age when he joined the Labour Party. In 1918, when still under thirty, he became the chief research officer of the party and, on many occasions, he served British Labour Governments in an advisory capacity. He was foundation secretary of the Fabian Research Bureau and from 1939 to 1946 chairman of the Fabian Society. Professor Cole is an extraordinarily prolific writer on socialism and on the history and problems of the labour movement.

There has been a tendency in recent months for many socialists to suggest that socialism means little more than the nationalisation of a few large private monopolies plus a mild and gradual expansion of social services.* Whether this tendency signifies a sincere change of

heart, or a shrewd trimming of the sails to the prevailing winds of public opinion (with the hope that the winds will become more favourable later on) is question for debate. However, the impression thus conveyed certainly does not accord with the traditional explanations of socialism—differ in details though they do—offered in the main socialist texts; and it is far removed indeed from the interpretation of socialism given in G. D. H. Cole's important book.

Free Enterprise—Three Basic Features.

To appreciate what socialism (as described in Professor Cole's book) would involve, it is of help to recall the essential features of the system of private enterprise which still largely prevails in the democratic English-speaking nations. There are three:—

First, the production of goods and services is predominantly organised and carried out by people acting in a private capacity and not by governments or their agents; second, the mechanism of prices and costs by which producer and producer, and producer and consumer are brought together is predominantly free, and not directly determined and controlled by governments; third, the distribution of production among the members of the community is based predominantly on the *contribution* of the individual rather than upon his *need*.

These three features are, of course, subject to important qualifications. Thus, while the great part of production is left to individuals acting in a private capacity, a not insignificant part is carried out directly by the state; while the price and cost market is predominantly free, important sections are directly or indirectly controlled by governments;

*Something like this impression is conveyed in Bertrand Russell's article in "The Argus" of the 2nd August, 1950.

while the share of the individual in the national product is determined in the main by his contribution, the state through steeply progressive taxation and large-scale social services makes a strong and necessary concession to need.

Socialism and Production.

In the socialist system of G. D. H. Cole all this is to undergo a revolutionary transformation. The state itself is to become the main producer, and the field of production left to private enterprise is to be subject to strict control. "The State must itself become an investor, and therewith an owner of capital assets: not necessarily, the sole owner, but an investor and owner on a considerable scale, not only in a limited group of 'public service' industries, but over a wide field, covering every major type of capital development"; and: "The Keynesian apparatus for maintaining economic equilibrium at a high level will not work unless the state . . . owns and controls a large part of the apparatus of production . . . 'The public sector' of industry must be large enough to set the tone for the rest, leaving private industry to operate within a framework of public enterprise rather than the other way around." This hardly accords with the conception—in fact it is a direct refutation of it—of socialism as the nationalisation of a few large monopolies. Moreover, even the attenuated "private sector" remaining is no longer to be free enterprise in the sense that those who direct it will be able to use their own discretion and judgment in directing their businesses. "If a private business seeks to expand, except at a modest rate, it will have to secure the approval of the planning authorities." Profits are to be strictly controlled through price regulation and taxation.

Socialism and the Market.

So much for socialism and production! What of socialism and the market mechanism?

The free market will be abolished and the whole price system will be regulated by the state. Price fixing, according to Professor Cole, will not be done on any arbitrary basis, but will be related to costs of production. If prices were fixed arbitrarily, says the author, there could be no real freedom of choice for the consumer, for the government and not the people would, in that case, determine the pattern of consumption and thus production. Professor Cole places great emphasis on the need for preserving the right of the consumer to decide for himself what he wants. Thus he attempts to answer one of the main criticisms of his opponents, namely, that under socialism the planners will in effect tell the people what they should have. "The planners' task in relation to production will be to ensure that, as far as possible, the pattern of supply corresponds to the consumers' willingness to pay." The planners, just as businessmen do, will attempt to estimate demand and adjust their production programmes to it.

The state, then, will on the one hand be constantly striving to estimate the demands of consumer, and on the other will fix the prices at which goods are sold, not arbitrarily, but on costs of production. But how will costs of production be determined? By the state, of course! The incomes going to all sections of the community and payable for the use of all factors of production will be fixed by the planners—wages, salaries, professional fees, rent, interest and profit. (All land, incidentally, will be nationalised and the state will determine the rents to be paid for its use.)

Here the author is involved in a peculiar contradiction; for while he denies that prices will be fixed arbitrarily, he admits that costs of production, to which prices will be hitched, will themselves, of necessity, be determined more or less arbitrarily. "These payments (i.e., for the factors of production—land, labour,

capital, etc.) will be in a sense arbitrary, in that the planning authorities will be regulating them in order to promote ends which are regarded as socially desirable, and will not be merely following, in a neutral spirit the dictates of any set of supposed economic laws."

"The price system of a socialist economy will rest . . . on a structure of costs embodying socially determined valuations of the rewards due to the various producers. . . . The making of these valuations will be a task of social judgment." *"Social desirability," "social determinations," "social judgment!"—what do these abstractions mean, and what practical help can they be expected to afford in determining the structure of income payments, costs and prices? One man's view of what is "socially desirable" will differ from the next; in fact the wide disparity of views which exist on this question is at the very root of the political differences and of political party divisions in the modern democracies.* Indeed, it is safe to say that no two groups of people would think exactly alike on this question—the palpable differences among socialist thinkers themselves are sufficient evidence of that.

Despite Professor Cole's concern for avoiding arbitrary judgments and for preserving the personal choices and preferences of the consumer, the whole structure of incomes, costs and prices becomes, in practice, dependent on the subjective whims, prejudices and beliefs of a few planners, and not on countless transactions made in the light of the hard objective standards imposed by the market. Let us take a simple example! A businessman employs two men for administrative work, one of whom he agrees to pay £2,000 a year, the other £1,000. He arrives at this decision on the basis of what he considers the two men are worth to his business, that is on what the business can afford to pay. This is in turn broadly determined by the market

prospects of his products. It is true that in making his decision he has in mind the salaries generally paid in other businesses for the type of work he expects the men to do, but in the last analysis the broad limit of what it is economical for a business to pay for this class of work is set by the market, that is by the consumer. How would these salaries be determined in a socialist society? According to G. D. H. Cole they would be set by the planners, not upon the ultimate criterion of the market at all, but on "social desirability" and by "social judgment"—whatever these abstractions may mean. In actuality the decisions would depend inevitably on the personal ideas and views of the planners unhampered by any economic considerations of the market.

Socialism and the Distribution of Income.

What of the distribution of income? Since the state would be fixing broadly the payments made to all those contributing to production, it will in effect be determining directly and precisely how the total national income is to be distributed. *On what broad principle will these determinations be made? On the principle of the nearest practicable approach to equality! The author makes a reluctant concession to the need of incentives, but in numerous sentences he reveals his strong pre-disposition toward equal incomes for all, regardless of the quantity or quality of the contribution made by the participants.* Deviations from equality, he says, require particular justification on grounds either of need or of social utility. There is no mention of contribution. "I have made it clear . . . that I know of no magic formula whereby fairness in these matters can be measured, except that there is always a strong presumption in favour of the nearest approach to sheer equality that is compatible with high output and public sentiment."

* * * *

What is the picture of socialism which emerges from all this?

It is a picture, surely, of the complete and unqualified regimentation of the entire economic and social life of the community by government planners. A large part—obviously G. D. H. Cole considers the great part—of production would be directly owned and run by the state. That section remaining to private individuals would be subject in every phase of its activities—investment, costs, prices, profits, location—to minute control by government officials. All incomes would be fixed within rigid limits by the planners. There would be no nook or cranny of the economic and social mechanism into which the state would not poke its inquisitive nose and stretch its interfering hand. Every major decision of economic and industrial policy would be taken by government officials, and while, in theory, it would be open to the private citizen or private organisation to influence those decisions, what real weight would they carry where the balance of power and authority was so heavily loaded against them. It is a picture of what G. D. H. Cole in one of his earlier writings has described, and incidentally condemned, as “the omniscient, omnivorous, omniscient, and omnipresent state.”

A Question of Power.

If it were possible to find a sufficient supply of planners gifted with superhuman intelligence, benevolence and wisdom such a system might be made to work. Even then it is highly questionable whether it would be a desirable system; for what scope or encouragement could there be for the individual person to work out his own destiny and to shape the course of his own career, where practically every significant decision he might wish to take on his own behalf would be subject to the approval (or disapproval) of a state official?

Democracy, it is well to remember, is in the last analysis a question of power, and every great movement toward democracy has been one of curbing the arbitrary and overweening powers either of the state itself or of private individuals or groups, and to widen the scope of individual choice and decision, and thus of individual freedom. Socialists, themselves, notably Bertrand Russell, have appreciated this, but they do not seem to appreciate the consequences to which their proposals would lead.* *The socialism of Professor Cole would clearly entail a grand centralisation of power in the hands of the state, and a corresponding curtailment of the power of the individual citizen.* The question of whether, in an economic sense, socialism would be efficient or inefficient is of relatively minor importance beside the supreme question of its consequences to political and personal freedom.

Let us try to bring this down to earth by a few practical examples. Where there are many private employers to choose between, one can disagree or fall out with one's employer without necessarily jeopardising one's whole career; but could any individual afford to disagree with the state, where the state was very nearly the one big employer? One can argue about one's salary or conditions of employment with the private employer, but it might not be so easy, or indeed so wise, to argue with the state. Could any private businessman afford to fall out with the state, where overriding economic power was in the hands of the state, and where, with a stroke of the pen, a government official could injure or cut off the source of his livelihood? One can have a difference with one's bank manager when there are other banks a few doors down the street eager for custom; but

*“The aim of democracy is to secure as nearly as possible an even distribution of ultimate power.” (Bertrand Russell in article in “The Argus,” 2nd August, 1950.)

if one wants good treatment from the one socialist bank, it might be discreet to watch your step. The consumer can refuse to take the products or accept the prices of a business where there are alternative sources of supply; but how could he refuse the products of the state, or argue about their prices, when there are no alternative sources of supply available? How could the trade unions exert any real influence on conditions of employment or the level of wages when the state was the main employer, and when any alteration of wages might seriously upset the balance of the economic plan devised, after such infinite labours, by the state planners?

It is only because there are alternative ways of doing what one wants under free enterprise—even though they may be limited—that we have avoided building a race of obsequious “yes men.” But cut off those alternatives and we might soon find that the moral fibre of the people was in danger of serious degeneration.

Efficiency.

And, quite apart from its effects on political freedom and personal character, there still remains the great question of the efficiency of the socialist system. As a basic principle of socialism, Professor Cole calls for the establishment of a minimum living income for every person—a principle with which most non-socialists would agree and one which is being given increasing recognition in all the democracies today. But he then makes the significant admission that “the level of minimum income a society can afford depends on its total productivity.” *It follows that a large part of the case for socialism must rest on whether it will prove to be more efficient and productive than an economic system based preponderantly on free private enterprise.*

If experience had any say in this matter then the case against socialism and for private enterprise would seem to

have been established beyond all dispute by the United States, which, by general consent, is the most productive society the world has known. And as one eminent economist in Britain, Lionel Robbins, said: “I confess I find it more than a little paradoxical that at the present day we are continually told that in order to obtain American standards of efficiency we must go over to wholesale collectivism.” But experience seems to weigh little with the socialists and their whole case for efficiency under socialism is largely drawn from abstract reasoning conducted in the seclusion of ivory towers rather than from the hard facts of observed experience.

A great part of Professor Cole’s argument for socialism derives from his repeated claim that socialism will more fully satisfy the demands of the consumer than the present system does. He says, for instance: “The aim of the planners will be to respond to the consumers’ demands by taking every opportunity to increase the efficiency and thus lower the unit costs of production.” This is, of course, nothing more than pure assertion of what he *hopes* the planners will do, or perhaps what he himself would do if he were a planner. But *why* will the planners be alert “to take every opportunity” to increase efficiency? Where is the kick if they fail or neglect to avail themselves of the opportunities? Because all production is fixed according to an overall plan there is no real competition, either direct, or, indeed, indirect by way of substitutes. And there is no immediate compulsion on the planners to drive for efficiency. They can’t be put out of business because of inefficiency. Moreover, if they are efficient, how do they stand to gain in a personal sense? In a society in which there is so strong a predisposition toward equality of incomes, where will there be the incentive to strive for greater efficiency? Admittedly Professor Cole concedes the need for adequate—

but not more than adequate—incentives. But what *are* adequate incentives? If the top planners err on the side of “inadequacy,” then presumably the production managers will lapse into inefficiency.

And what is to be the test of efficiency where the state runs production? The test of efficiency in private enterprise is the ability to make a profit—or to avoid a loss—in competition with other producers. This is a compelling one; and, although by no means fully operative in private enterprise, it does prevail over a large section of business. In the small private business, failure to make a profit may not only endanger the business and savings of the proprietors, but their very livelihood. In the large public company the very suspicion of failure will lead to unsettling post-mortems between the managers and the Board of Directors and the Board of Directors and the shareholders. *The socialists have not yet shown, and Professor Cole does not show, what is to substitute for these compulsions and incentives.*

Professor Cole argues the case for efficiency under socialism from a further standpoint. He claims that the planners will be less likely to misjudge demand than the private business, because in planning production they will be more fully informed of what is going on in other parts of the economy. *But is it not likely that the planners will be somewhat more careless, somewhat less meticulous, in their attempts to estimate demand than the private businessman, where a miscalculation can have dire consequences for his business? There is no compulsion on the planners to be correct in their predictions. If they make an error of judgment, where is the penalty? They are hardly likely to lose their jobs or even to lose money.* Mr. Strachey still flourishes as a senior Cabinet Minister in the British Government despite the colossal fiasco of the African groundnuts scheme.

But when Charles Luckman, appointed President of the American branch of the great British combine of Lever & Unilever Ltd. in 1946, turned a profit into a loss, he found himself on the labour market. As Professor Cole himself says: “If the planners mistakenly expect an expanding demand which does not accrue even at a reduced price, *that is just too bad.*”*

Responsibility for Mistakes.

Moreover, even if penalties could be imposed, how would the responsibility for mistakes be nailed at the right door? It is notoriously easy “to pass the buck” in government departments, but no amount of “passing the buck” in a private business will serve to turn a loss, due to a miscalculation, into a profit. A business loss is its own penalty. *The stick is never far away from the businessman's back and, generally speaking, it induces a wariness, an intentness, and a driving energy on his part far greater than can humanly be expected of a government official working under entirely different conditions.*

A Race of Supermen.

Professor Cole asks a great deal of his planners. They are to decide what is to be produced in what quantities after, of course, having ascertained what the public wants—by no means an easy task when you come to consider the myriad different products and the vast number of variations of the same product which are bought by the consumer; they are to decide directly what proportion of the national production is to be devoted to investment or capital goods, and what proportion to consumption goods (itself, it may be noted, a serious infringement of the consumers' freedom of choice); they are to fix prices throughout the market; they are to decide how much each contributor to production is to be

*The italics are ours.

paid in accordance with "notions of social justice and expediency" (whose notions; and what proportion of "justice" and what proportion of "expediency"?). To quote Professor Cole: "They will be asking themselves, wherever the need for judgment arises, what the consequences of acting in this or that way are likely to be, and adopting the solution which, in all the circumstances, seems best calculated to promote the general welfare . . . they will be responding to as well as moulding a structure of actual and prospective consumers' demand which it will be their principal function to satisfy as fully as the available resources allow. But they will have to do their own weighing of claim against claim, and of future needs against present demands. They will not be in a position to disregard the need of incentives in order to press the claims of equality to the limit, or to ignore the state of opinion about the standards of income appropriate to different callings; but it will be their function, in the light of commonsense and democratic intention, to weigh these considerations in the balance and to propose accommodations between conflicting objectives and attitudes."

One might comment that a great deal more than commonsense and good intentions will be needed. *The planners who are to carry out this gigantic assignment*

effectively will need knowledge and comprehension far above those allotted to the common run of men. They will need, indeed, to be a race of supermen.

Perhaps even Professor Cole is appalled by what he is asking his planners to do; perhaps he has a lingering doubt himself whether it is not just a little too much, for in one place he writes: "In all the foregoing I have of course had in mind not some board of supermen entitled to impose their judgment on society. . . ."

Professor Cole's conception of the fully functioning socialist society is sheer economic fantasy. But to argue a case against socialism is not, it should be remembered, to establish the perfection of the present economic system. The existing system has to its credit great practical achievements, and many good features which we should, at all costs, preserve. It possesses on the other hand, as any unbiased observer will concede, some features capable of improvement. *The task of correcting these faults is one that should be pursued vigorously and unremittingly—for this is the surest form of protection that can be taken against the establishment of the ultimate futility and calamity of the socialist state.*

