

Democratic Socialism in Britain

Douglas Jay
The Socialist Case

Edited by
David Reisman



**DEMOCRATIC SOCIALISM
IN BRITAIN**



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DEMOCRATIC SOCIALISM IN BRITAIN

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1825–1952

Edited by
DAVID REISMAN

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DOUGLAS JAY
The Socialist Case

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CONTENTS

Introduction by David Reisman	vii
Further Reading	xv
Foreword	vii
Preface	ix
Introduction to the Second Edition	xi
Poverty and Inequality	1
<i>Laissez-Faire</i>	49
Money and the Trade Cycle	129
Principles of Socialist Policy	181
Index	281



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INTRODUCTION

Douglas Patrick Thomas Jay was born at Woolwich on 23 March 1907. His father, Conservative representative for Woolwich on the London County Council, was active in the Charity Organisation Society and other voluntary bodies concerned with the welfare of the deprived and the excluded. Regarding socialism as a threat to freedom, Edward Jay had doubts as well about the selfishness of individualism.

Douglas was raised at Tower House, Woolwich (where the family had six acres of grounds and a tennis-court) and at 13, Well Road, Hampstead (once the economic reverses of the war had made it impossible for the family to afford an annual holiday – a deprivation Douglas shared with nine out of ten British children – let alone a household staff of seven servants). Like his father, he was educated at Winchester (Crossman was his exact contemporary) and then, from 1926–29, at New College, Oxford. The General Strike following the cut in the coal miners' wages left him a supporter of the Labour Party. The role of the miners in making him a socialist was eloquently evoked in his maiden speech in the Commons on 16 October 1946, twenty years on.

At Oxford his study of Greats brought him into contact with the ideas of Plato, Aristotle, Cicero, Hegel, G.E. Moore. He also read widely in politics, economics and history. He obtained a First in *Literae Humaniores* in 1929. Not attracted by a career in teaching, the civil service or the law, he became a journalist on *The Times*. He started work in the week of the Wall Street Crash, at a time when even the Labour Government of Ramsay MacDonald appeared unable to push back the tide of mass unemployment.

By January 1930 Douglas was back at New, on leave from *The Times* to study economics (Durbin and Gaitskell were there as well) with Lionel Robbins. Unimpressed by Marx, Jay was (as Dalton had been) especially interested in the theories of perceived equality and market failure that had been formulated by Marshall and Pigou in the era when British Liberalism was coming to mean social and economic reform. A Fellowship in Economics at All Souls followed, from Autumn 1930 until 1937. Jay throughout that period spent his weekdays as a journalist in London.

In 1933 he moved from *The Times* to *The Economist* (then still a small-circulation City weekly with a free trade orientation). His colleagues included the Labour sympathisers Graham Hutton and Nicholas Davenport. Through them he came into contact with Kingsley Martin, Balogh, Kaldor and George Tugendhat. The backdrop was that of Roosevelt's New Deal on the one hand, the rise of the Nazis on the other. Active in Labour, Jay campaigned for Gaitskell (at Chatham) and Durbin (at Gillingham) in the General Election of 1935. He also became involved as an economist in some of the National Executive's sub-committees. One of the causes he espoused was that of low interest-rates combined with heavy public investment in order to stimulate expansion and create jobs.

Jay joined the New Fabian Research Bureau, set up in 1931 by G.D.H. Cole in protest at the intellectual inertia of the Fabian Society (with which it merged in 1939). He attended the meetings of the XYZ Club as well. It was established in 1932 by Vaughan Berry in order to ensure that socialists in the City (the name XYZ refers implicitly to their preference for anonymity) be given the chance to update Labour leaders such as Dalton on financial and monetary matters. Ceasing by 1939 to exercise its original functions, XYZ survived into the post-war years as a social-democratic dining club frequented by Crosland, Meade, Callaghan, and other moderates of the Centre-Left.

The Socialist Case was published in 1937. In the same year Jay was invited by Francis Williams to become City Editor of the *Daily Herald*. The *Herald*, much later to disappear into the *Sun*, was at that time the flagship Labour daily with a circulation of two million. Jay at the *Herald* ensured that the paper opposed Montagu Norman's deflationary policies. He attacked Chamberlain's appeasement despite the City's wish for accommodation. He demanded the conscription of wealth as well as of labour in the run-up to the War. His proposal for higher duties to break up inherited property was repeated in his Labour Party pamphlet *The Nation's Wealth at the Nation's Service* (1938). Three years later, in *Who is to Pay for the War?* (1941), he was to endorse the additional instruments of an annual tax on property and a once-for-all capital levy in order to demonstrate to the working classes that the war was not being waged in effect to protect the possessions of the few.

Impatient with Fleet Street's obsessive pursuit of circulation figures and advertising revenues (although committed to socialist journalism as an antidote to the Tory press), Jay by 1939 was on the look-out for public service more active than the Home Guard to which his reserved occupation of journalist had consigned him. In the early war years of 1940–43 he

INTRODUCTION

joined the Ministry of Supply, charged as Assistant Secretary (under Oliver Franks) with recruitment, housing, training and migration of labour. He came to regard the workforce as a 'geographical resource' that cannot be moved at will. This was the beginning of his lifetime campaign to entice capital and jobs out of the over-stretched South East into areas of high unemployment. Jay concluded that pay-differentials were more effective than directives in retaining and in redeploying labour. He noted with approval just how much could be accomplished in an atmosphere of consensus and plan that would have been inconceivable and impossible were self-interest to be all.

From 1943-45 Jay was Principal Assistant Secretary at the Board of Trade. His job (of immediate concern to his minister, Hugh Dalton, whose constituency was in the North East) was to forestall post-war unemployment by inducing industry into depressed ('development') areas. Negotiating with large corporations, assisting Dalton to manoeuvre a Distribution of Industry Bill through Parliament, Jay, never a natural public speaker and never strong on cut-throat competitiveness, began to contemplate a political career for himself. On the Economic Committee of the Fabian Society, he was even in the war years close to the debate about the direction of post-war socialism. He was not always successful. The 1945 manifesto *Let Us Face The Future* contained a commitment to the public ownership of iron and steel that Jay, in favour of the nationalisation of coal, railways, the Bank of England and the public utilities, had rejected as excessive.

Continuing (until 1959) as an occasional contributor to the *Herald*, Jay spent the first year of the new Labour Government as Personal Assistant to the Prime Minister: he had been recommended to Attlee by Dalton and Durbin. In 1946, at a by-election contrived by the Leadership (the sitting Member was persuaded to become the Governor of Malta), he entered the House of Commons as the member for the safe Labour seat of Battersea North. He represented Battersea North (called Wandsworth, Battersea North, after 1974) continuously for 37 years until his retirement from the House in 1983 at the age of 76. Sub-standard housing seems to have been an especial concern in his working-class constituency. Jay became familiar with the problems of ordinary people in the relatively deprived inner city. That personal exposure reinforced his commitment to the redistributive State.

Jay, entering the House, immediately joined the Finance Group of the Parliamentary Labour Party. No stranger to the senior Westminster decision-makers, his advancement was rapid. In 1946-7 he was Parliamentary Private Secretary (succeeding Durbin) to Hugh Dalton, Chancellor

of the Exchequer. Under Cripps he became Economic Secretary (1947–50), then Financial Secretary to the Treasury (1950–51): the latter post was retained in the short Gaitskell chancellorship. Involved from 1946 to 1951 in the discussions about pay restraint and food subsidies, the Marshall Plan and the development areas, Jay occupied a position of exceptional responsibility when from July 1949 he, with Gaitskell and Wilson, was part of the triumvirate that deputised for Cripps, seriously ill in a Zurich clinic, at the time of the dollar drain that ended in the 13.6% devaluation of 18 September. Jay was made a Privy Councillor in 1951.

In the long Opposition years of 1951–64 Jay sat on the Labour front bench. Shadow portfolios under Attlee were never formalised, but Jay tended to specialise on issues arising in the Treasury or the Board of Trade that related to his training in economics and his experience in Whitehall. Jay supported Gaitskell over Bevan (and early on discounted the luckless Morrison) in the leadership contest of 1955. With Crosland, Jenkins, Woodrow Wyatt and a small number of others, he was an inner-circle ‘Frognalite’, trusted by Gaitskell, a conduit for backbench opinion, a source of new ideas on topics including regional planning. In 1959 he wrote a 15–page report for the Party which, circulated as *Unemployment: The Douglas Jay Report*, called for public-sector infrastructure, government-owned factory buildings, rent-rebates and interest-rate concessions. In the same year he also published a paper in *Forward* (the modernisers’ rival to the militants’ *Tribune*) in which, criticising the proletarian image amidst the affluence of *embourgeoisement*, he recommended the softening of the Party’s name to ‘Labour and Radical’ or ‘Labour and Reform’. The *Forward* article defended the retention of the link with the unions – and it did not mention Clause IV by name. Sharing Gaitskell’s resistance to significant further nationalisation, Jay felt it would be more trouble than it was worth to modernise a Constitution that few people actually read. Gaitskell thought otherwise. The defeat at the Blackpool Conference in 1959 was the result.

Gaitskell died suddenly on 18 January 1963. He was succeeded by Harold Wilson. Jay had encouraged Callaghan to stand against the mis-trusted ex-Bevanite and had canvassed support for him. Jay never liked Wilson, calling him a ‘little crook’ and criticising him for his disloyal attitude to the Gaitskell Leadership. Elected (by the members of the Parliamentary Labour Party) to the Shadow Cabinet, Jay found that he and Wilson were despite the past still able to work together. The uneasy alliance lasted for four years, first in Opposition (from 1963–64, when Jay

shadowed Heath at the Board) and then in Government (from 1964–67, when Jay himself was the President of the Board of Trade).

As President of the Board of Trade, Jay was bitterly aware that his Department like a number of others had lost significant autonomy to the meddling of the supra-ministerial Department of Economic Affairs. Referring specifically to Labour's unsuccessful experiment of 1945–47 with a parallel structure alongside the Treasury, Jay had warned Wilson that to create the DEA would be to open the door to confusion and friction. Even so, Jay was able to make his mark through the support he gave to export promotion (grants, loans, subsidies, exhibitions) and the development areas (for which he secured a complete exemption from the spending-cuts of the mid-1960s). In his time the Monopolies and Mergers Act was strengthened and the blocking powers of the Board of Trade extended.

Jay in the Cabinet is known to have been at one with Wilson on the need to resist devaluation even at the cost of deflation. Their shared memories of 1949 may have been a factor; and so, undeniably, were the promises made to the electorate at home and to sterling-holders abroad. In Jay's case, however, there was a further reason for resisting devaluation. He regarded a weaker pound as a necessary condition for Britain's entry into the European Economic Community – which he opposed so strongly that he contemplated the resignation of his ministerial portfolio in order to campaign for alternatives. By spring 1967 Jay was coming to believe that devaluation might after all be preferable to unemployment. What he would have said in Cabinet in the historic autumn of that year can only be a matter of speculation. Jay was dropped in August 1967. The President on holiday (as always) in Cornwall, the Prime Minister on holiday (as always) in the Isles of Scilly, the historic meeting took place in the improbable setting of the British Rail station in Plymouth. Not mentioning Europe, Wilson said simply that he wanted his ministers to stand down at 60.

Freed from collective responsibility, Jay became a leading anti-marketeer. There were articles in *The Spectator*, *The Guardian*, *The Sunday Express*, *The Mirror*, warning about the consequences for the balance of payments of agricultural protection (as opposed to cheap Commonwealth food) and the tariff wall (as opposed to multilateral free trade such as GATT had been created to bring about). There were public lectures organised by the Common Market Safeguards Committee (of which from 1970 to 1977 Jay was the founder-Chairman) and passionate polemics (*The Truth about the Common Market* in 1967, *The Truth about the Common Market* 1970 in 1970, *The Common Market: The Way Out* in

1975). There was the much-repeated defence of a long-established democracy as against the unelected Commission, of the cultural benefits of the Commonwealth connection as against the ruinous contribution to the Community's budget. There was an early confrontation with Roy Jenkins (published as *The Common Market Debate* by the Fabian Society in 1962). There was a Penguin Special, *After the Common Market* (1968). There were the accusations that Jay was unbending, xenophobic, eccentric, obsessive. EFTA and NAFTA, NATO and the UN – Jay in the end did not stop the House from voting for entry in 1971 nor the nation from endorsing the decision in the referendum of 5 June 1975 that Jay was later to describe as 'a historical tragedy'.

Jay after 1967 became a part-time director of Courtaulds (1967–69) and also held a part-time post in the Clarkson group of companies. He went on the board of the Trades Union Unit Trust (1967–79) and of an investment trust, Flag Investment Company (1968–71). Concerned about double-carriage motorways in London, he was instrumental in creating the London Motorway Action Group (he was its Chairman from 1968–80) to prevent the car-culture from destroying homes and communities in long-established areas such as Camden Town, Hackney, Camberwell and Shepherds Bush. In 1968 he was elected a Distinguished Senior Fellow at All Souls. In 1980 his autobiography, *Change and Fortune*, documented the extent to which he had sought to make his ideals – his critics said his dogmas – his guide. In 1985, nearing 80, his *Sterling* showed that he was still taking an interest in cost-inflation, stagnation, the public sector borrowing requirement and the need 'in effect to extend the principle of law and order, rather than the rule of force, to wider areas of society' by means, quite specifically, of a comprehensive incomes policy.

Douglas Jay was created a life peer – Baron Jay of Battersea – in 1987, four years after he had left the Commons. He died, aged 88, on 6 March 1996.

An intellectual in politics, Douglas Jay was the author of two influential treatises on the managed economy and the redistribution of wealth: *The Socialist Case* (1937) and *Socialism in the New Society* (1962).

Socialism in the New Society, like Crosland's *The Future of Socialism* and Strachey's *Contemporary Capitalism* (both 1956), was an attempt to provide a principled legitimisation for Gaitskellite social democracy that the nationalisers and the planners continued to dismiss as pragmatism without purposiveness. The 38 chapters are divided into six sections. Part I – 'What Socialism Means' – sets the stage by arguing for a rejection both of

the *laissez-faire* kaleidoscope and of an error-ridden Marxism that rolls up its blueprint at the revolution. Part II – ‘War and Peace’ – reminds the advocates both of gunboat diplomacy and of ‘Ban the Bomb’ of the high priority that must be assigned to collective security, world order and multilateral disarmament. Part III – ‘Full Employment and Growth’ – shows that macroeconomic management is in a strong position to contain the great evils of unemployment, stagnation, cyclical instability and inflation. Part IV – ‘Social Injustice’ – emphasises the need for taxes that level (capital gains and inherited property are at the margin the abuses that most urgently require the politician’s redress) and for services that equalise (not least housing and education since they reduce the felt gap in cultural life even as they extend opportunities and promote meritocracy). Part V – ‘What Types of Social Ownership?’ – argues that there are alternatives (such as State shareholding) to the traditional public monopoly that, the public utilities and the natural monopolies already in the nationalised sector, ought increasingly to modulate the stridency of Clause IV. Part VI – ‘Society and Politics’ – brings in wider concerns such as the mass culture, the Tory press, and the status of a ‘Labour’ party in an affluent society that was steadily upgrading its workers into a universalised middle class. The message of *Socialism in the New Society* was that pragmatism and purposiveness were not substitutes but complements precisely because, in the *new* society, the old panaceas had given way to a careful consideration of the circumstances.

Socialism in the New Society was the product of a Britain that had never had it so good. *The Socialist Case* was different. Written in the Depression at a time when even Laski and Strachey were sympathetic to the Soviet solution, it was the thesis of the case for the middle way that liberty and intervention were more than able to deal with absolute deprivation and social distance without the need for an across-the-board suppression either of the price system or of private capital. Selective nationalisation was essential (including the Bank of England, the armaments industry and rented land); and so was legislative control (tariffs, subsidies, regulation of working conditions). Even in *The Socialist Case*, however, it was the contention of the 30-year-old moderate that socialism was more and more about unmerited privilege, less and less about economic inefficiency. Jay’s book built on Dalton’s *Practical Socialism for Britain* (1935): the two together constituted a persuasive alternative to the Marxism of Gollancz and the Left Book Club. It was influenced by Meade’s *An Introduction to Economic Analysis and Policy* (1936): to that text, Jay recalls in his autobiography, ‘I owed more than to any other published work’. It resembles

Keynes's *General Theory* (1936) in its optimistic attitude to the management of effective demand: Jay believed, however, that he had largely completed his chapters on macroeconomics before the publication of Keynes's book. Although the *Socialist Case* appeared in September 1937, it had been begun in 1935. The long gestation period is to be explained by the fact that Jay (who was a full-time journalist at the time) could only work on his book in the evenings and at week-ends. If he did arrive at Keynesian conclusions before the advent of Keynes's *Theory*, an important reason is likely to have been the discussions with Meade and Durbin in the XYZ Club of the 1930s.

The Socialist Case was read in manuscript by Gaitskell. It was well reviewed by a number of distinguished thinkers, including Hobson, Robbins and Dalton. In 1938 it was translated into Swedish. A revised edition appeared in 1947, just after Jay had entered Parliament. It was embellished with an introduction by Attlee in which the Prime Minister wrote: 'I believe myself that these arguments are unanswerable.' Only very minor changes were in the event made in the second edition. References to 'the price system' and 'capitalism' are frequently altered to 'laissez-faire' (as in the titles of Chapters VIII, IX and XIV). The phrase 'it is a consequence of perfect competition' (p. 103) becomes 'on the unreal assumption of perfect competition' (p. 91). A short preface (on the withering away of economic rivalry) is added to reinforce the author's belief that collectivism need not be less efficient than real-world enterprise. Two extra columns of figures (for 1938 and 1944) were appended to the table on income distribution on p. 39 (p. 31). On balance, however, the typical revision was a cosmetic one – from 'such is' (p. 41) to 'such was' (p. 33), from 'before the war' (p. 44) to 'before 1914' (p. 37), from 'in 1937 prices are rising' (p. 171) to 'in 1947 prices were sky-high' (p. 155). The present reprint follows the text of the revised (1947) edition.

DAVID REISMAN

INTRODUCTION

Further Reading

Primary

Jay, D., *Socialism in the New Society* (London: Longmans, Green and Co., 1962)

Jay, D., *Change and Fortune* (London: Hutchinson, 1980)

Secondary

Durbin, Elizabeth, *New Jerusalems: The Labour Party and the Economics of Democratic Socialism* (London: Routledge and Kegan Paul, 1985)

Haseler, S., *The Gaitskellites* (London: Macmillan, 1969)



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THE SOCIALIST CASE

by

DOUGLAS JAY

with a foreword by

THE RT. HON.
CLEMENT ATTLEE

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To
H.G.J.



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FOREWORD

I would like to commend this book to all those interested in the present British experiment in democratic socialism. It is the aim of *The Socialist Case* to set out the basic philosophic arguments for collective management of our economic resources, under the ultimate authority of Parliament, and to show that the economic scramble of *laissez-faire* cannot achieve a distribution of wealth in accordance with the needs of the common people.

I believe myself that these arguments are unanswerable; and they certainly deserve the attention of those throughout the English-speaking world, whether convinced Socialists or not, who are watching the present efforts and achievements of the British Labour Movement. The future of free Government will partly depend on the success of these efforts, and the general understanding of the fundamental issues involved.

C. R. ATTLEE.

November, 1946



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PREFACE

THE purpose of this book is to sum up the case for socialism on the basis of an examination of the fact of poverty as it exists in the contemporary world. It may be thought that such an examination is co-extensive with the whole of economics. But this is not so; for economics as a science quite rightly investigates economic phenomena in abstraction from their social, legal, and institutional context. This book seeks to consider the problem of poverty in relation not merely to ultimate economic causes but also to the social institutions of a modern industrial community. The argument that follows is consequently not planned on the basis of any particular traditional system of thought. It attempts to ascertain the facts—both of practice and of principle—and to draw on the traditional systems in so far as they throw light on these facts.

In general the circumstances discussed are those of a modern industrial country. For purposes of clarity, however, the existence of international exchange is ignored, except where it is for some special reason relevant to the argument. Normally it is simpler and clearer to pursue the inquiry on the assumption of an economically 'closed' system, such as the world as a whole.

The conclusion which the argument of this book suggests is the entirely unoriginal one that democratic socialism, properly understood, is the best cure for poverty and the best method of furthering the happiness of the human race. There are of course a great many other lines of argument of a political, scientific, aesthetic, religious, or personal kind which tend to the same conclusion. With these other arguments this book is not concerned. It is written in the belief that the fundamental case for socialism rests on the necessity to alleviate economic privation. The argument is therefore based on considerations which would normally be called economic. Such questions as whether socialism could or could not abolish war are consequently not discussed.

The output of literature by even the most eminent economists in the last twenty years has been large; and to most of them, and above all to Lord Keynes, the majority of us are deeply indebted. The argument of this book owes in particular a great deal to *Plan*

PREFACE

or No Plan by Barbara Wootton, *An Introduction to Economic Analysis and Policy* by J. E. Meade, and to Mr. E. F. M. Durbin's two books, *Purchasing Power and Trade Depression* and *The Problem of Credit Policy*. I also have to thank Mr. Hugh Gaitskell for reading the typescript of this book and pointing out various errors in the argument.

1937

AN INTRODUCTION TO THE SECOND EDITION

THIS book, first published in 1938, is now republished with such minor revisions as are necessary to bring it up to date, and with alterations in the emphasis, but not the basis, of the argument.

Five years' practical acquaintance with the Government's efforts to organize industry, first for the war effort and then for reconstruction, has convinced me that the case for Socialism, and in particular for conscious collective planning of the economic system, is stronger than appeared to me writing in a more philosophic, or academic, spirit nine years ago. Then I knew it to be desirable, and believed it to be practicable. Now I know it is both practicable and necessary; and to judge by the result of the General Election of 1945, many others in Great Britain have learnt the same lesson.

The case for Socialism in a free society, as set out in the first edition of this book, rested on a reasoned denial of the three central assumptions made by traditional defenders of *laissez-faire*. Those three assumptions are that under *laissez-faire* conditions—i.e. in the absence of Government control—in a modern industrial community:

(1) The money demands of the various consumers normally reflect their real needs with some approach to accuracy.

(2) The labour force and other economic resources of the community are normally fully employed.

(3) Something like perfect competition normally prevails throughout the system.

All these assumptions are false. As realistic arguments they have to-day evaporated; and with them has evaporated the only serious case for *laissez-faire*. Their unreality is demonstrated in the chapters mentioned below; and the substance of the argument of this book can thus be read in these chapters.

The denial of the first assumption is summarized in Chapters III and IX on 'Happiness and Choice', and 'Needs and *Laissez-faire*'. In particular, Chapter IX states the basic philosophical case for Socialism and Planning.

I do not apologize for having originally stated (and now repeated) at some length the fundamental explanation why the

AN INTRODUCTION TO THE SECOND EDITION

blind inhuman calculus of *laissez-faire* cannot achieve anything approaching a reasonably distributed satisfaction of human needs. The basic *laissez-faire* case is that it can—and that (in the current phrase) ‘free enterprise’ will somehow bring prosperity for all. The Socialist case is that it cannot—and that only collective planning based on human values (or ‘social priorities’ in another current phrase) can do so. This is the ultimate issue.

Nine years ago I wrote (p. 28) that ‘the State choosing collectively between the welfare of different sets of people must employ some other criterion than a calculus of desires or happiness. And the only possible criterion available for that collective choice is the direct judgment that this or that state of Society, as a whole, is the better’, I see no need to alter the fundamentals of this argument, to which no answer has been given.

By now the conception of planning based on human values is generally accepted both in the theory and practice of British social policy. The justification for it in theory, as against the basic assumptions of the apologists for *laissez-faire*, is set out in Chapters III and IX of this book; and that justification will be seen to be every bit as valid in peace as it is in war.

The justification for it in practice will be obvious to anyone who considers the achievements of British Governments in the main field of social policy during recent years. What sort of a people should we have been if education, housing, unemployment relief, health, nutrition, and the care of the aged (not to mention war) had been left to a *laissez-faire* calculus which cannot weigh one man’s needs against another, and not to conscious Government control under the authority of Parliament? What sort of distribution of food and other necessities should we have had from 1939 to 1947 if we had left it not to rationing but to the price scramble of *laissez-faire*?

The denial of the second of the above assumptions is summarized in Chapters XIX and XXVII on ‘Employment Policy’ and ‘Redistribution and Employment Policy’. In Chapter XIX I wrote (page 222) in 1937 that ‘if full employment is specifically adopted as the criterion of policy, and the control of effective demand as the aim, the cure of the trade cycle and of unemployment may be brought within our reach’.

This, which was still an unorthodox belief in 1937, has to-day become the orthodoxy not merely of Lord Beveridge’s ‘Full Employment in a Free Society’, but of the Coalition Government’s White Paper on Employment Policy, of 1944. I have abbreviated,

AN INTRODUCTION TO THE SECOND EDITION

but found little need to alter, the argument here either, except to emphasize (1): the lessons learnt during the war about the location of labour and mobility of industry; and (2) the need for maintaining effective demand by way of consumption rather than the illusory road of what has come to be called 'investment'. The over-emphasis on 'investment', springing from confusions analysed in Chapters XVIII and XIX in this book, is the principal weakness in the orthodox employment theory of to-day.

The denial of the third assumption is summarized in Chapters X, XXXI and XXXII. Here I must confess to having seriously understated the case. I wrote (p. 121) in 1937 that 'imperfect competition is the rule in the real business world and perfect competition the exception. What is more, the exception is a rare one.' After five years of fairly close acquaintance with a large number of firms and industries in Great Britain, I have become convinced that competition (in the sense in which its classical defenders conceived it) is not merely rare, but for all practical purposes, non-existent. To an extent that neither the public nor the academic economist seems even yet to have realized, restrictive practices—whether by way of Combines, Trusts, cartels, rings, price arrangements, or the gentlemen's agreement of the trade association—are practically universal in modern industry. And this has come about, not because of any particular qualities or vices of the British or other industrialist, but for basic and inescapable reasons which are bound to prevail increasingly in all highly developed industrial societies. With the ever-growing economies, not merely of large-scale production, but even more so of large-scale organization, the tendency for almost all forms of production to be concentrated in a fairly small number of units is overwhelming; and the likelihood that these units can be induced, in the search for profit, to compete to the detriment of themselves and their colleagues (for that is how they regard one another), simply does not exist. Competition between products, such as gas and electricity, or between alternative services, such as sea and air, may still continue in the modern world. But competition between individual producers in the same industry has become virtually a myth; and yet such competition was the sole serious justification for *laissez-faire*. I have, therefore, strengthened this part of the argument to bring it into line with contemporary fact.

In describing the alternative to Socialism, it now seems to me best to use the words '*laissez-faire*', rather than 'capitalism', 'competition', 'free enterprise', the 'market economy', or 'price sys-

AN INTRODUCTION TO THE SECOND EDITION

tem'. The earlier phrase *laissez-faire* gives a truer description of the real issue before the modern world. 'Capitalism' is not the alternative, because any State-planned system will almost certainly leave much productive equipment (not to mention Government Bonds) in private hands. 'Competition' is not the alternative, because the absence of Government control means nowadays not competition, but a chaotic struggle of profit-seeking restrictionist groups. 'Free enterprise' is even more certainly not the alternative, because our modern restrictionist business men all too frequently dislike freedom and enterprise above all else. (What they in fact only too often believe in is private monopoly enforced through Government control.) Nor is Lord Beveridge's phrase 'market economy' a true description, since the uncontrolled struggle of monopolists and would-be monopolists seeking profit is not an 'economy' but chaos; and normally depends not on the 'higgling of the markets', but on the conspiracy of the Board Room and the bureaucratic toils of the private trade association. Nor finally can the *laissez-faire* world be justly described as a price 'system'. The haphazard interplay of monopoly and semi-monopoly prices is in fact not a system but a scramble.

The word 'Socialism' on the other hand, in its original meaning of collective ownership and collective control, is an intelligible and true description of what we mean.

The real issue is thus between *laissez-faire* on the one hand and on the other collective control in the collective interest by the democratic State. Wherever any section of the economic life of a modern industrial nation has become important enough to require, for the sake of efficiency, central organization or control, the proper system is that which civilized societies have long accepted in the case of the armed forces, the police, the currency, the law courts, and numerous other public services. That system is control by a suitably organized central authority, responsible to a democratic Parliament. Responsibility to Parliament for policy is of course the vital condition which distinguishes a public from a private monopoly. Responsible central organizations of this kind are thus the essential mechanism by which, in a modern industrial democracy, the vast economic resources now at our disposal can be rationally employed in the service of basic human needs. In a world where men and women are becoming progressively more educated, and in which fear and greed are thus steadily giving way as human motive to public spirit and pride in creative work, the need for public ownership and democratic control becomes steadily greater. Such is the

AN INTRODUCTION TO THE SECOND EDITION

inevitable conclusion, as this book argues, from a real understanding of the nature of human needs and their satisfaction, and of the trend of modern organization and economic life.

Ever since the power of modern technique and organization became a reality, there has never been any escape from this conclusion, except the appeal to the magic hidden hand of *laissez-faire*—an appeal whose only elements of rationality rested on the three assumptions criticized above. With the vanishing of those assumptions into thin air, the *laissez-faire* creed has become nothing but an untimely superstition, a distorted fantasy which parts company more completely every year with the facts of the real world.

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CONTENTS

Foreword	page vii
Preface	ix
Introduction to the Second Edition	xi
PART I. POVERTY AND INEQUALITY	xix
I. Poverty, Inequality, Insecurity	1
II. 'Utilities' and Wants	7
III. Happiness and Choice	21
IV. The Facts of Inequality	30
PART II. <i>LAISSEZ-FAIRE</i>	49
V. Some Confusions	51
VI. Worker, Capitalist, and Entrepreneur	54
VII. Prices and Costs	76
VIII. The Significance of <i>laissez-faire</i>	91
IX. Needs and <i>laissez-faire</i>	96
X. Imperfect Competition and Monopoly	105
XI. Earned and Unearned Incomes	114
XII. Inheritance	121
XIII. Other Social Monopolies	125
XIV. The Case against <i>laissez-faire</i>	127
PART III. MONEY AND THE TRADE CYCLE	129
XV. Total Effective Demand	131
XVI. Money and Credit	139
XVII. Is Deflation Inevitable?	152
XVIII. Saving and Investment	161
XIX. Employment Policy	117

CONTENTS

	<i>page</i>
PART IV. PRINCIPLES OF SOCIALIST POLICY	181
XX. Possibilities of Redistribution	183
XXI. Principles of Redistribution	193
XXII. Confiscation and Taxation	197
XXIII. The Effects of Redistributive Taxation	203
XXIV. Taxation and Earned Incomes	208
XXV. Taxation and Unearned Incomes	216
XXVI. Taxation and Inheritance	222
XXVII. Redistribution and Employment Policy	237
XXVIII. Redistributive Expenditure	240
XXIX. Planning and Prices	242
XXX. Costs and Prices in a Socialist Community	246
XXXI. Monopoly and Competition	261
XXXII. The Limits of Planning	272
XXXIII. The Case for Socialism	275
Index	281

PART I

POVERTY AND INEQUALITY