



The Present Status of Economic Planning

II. The Problems Involved

by

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In a preceding article¹ an analytical survey was made of the various types of governmental economic measures that have been put into operation during the last few years. This survey showed that, although the principle of laissez-faire has been almost completely discarded in the different countries, there is as yet little consistent planning to take its place. The present article considers some of the more immediate problems inherent in the situation so created.

WITH the joint statement of monetary and commercial policy issued by the French, United States and British Governments on 26 September 1936, the world entered into a new phase of economic development. The adjustment of currencies thus initiated opened the way for economic improvement in a number of countries which had previously lagged behind in the process of recovery. The great depression, in its more acute manifestations, is now definitely a thing of the past. Not so its consequences. The seven years between the autumn of 1929 and the autumn of 1936 have wrought fundamental changes in the economic outlook of the nations. The full extent of these changes time alone can reveal, but one outstanding feature is already evident. In strong contrast to

¹ *International Labour Review*, Vol. XXXIII, No. 5, May 1936, pp. 619-645 ; "The Present Status of Economic Planning : I : An International Survey of Governmental Economic Intervention", by P. W. MARTIN.

the prevailing sentiment of the immediate post-war period, there is now no marked desire to attempt to put the clock back and return to "normalcy". It is intuitively recognised that some vital modification has taken place in economic relationships rendering this impracticable. It is not always as clearly realised in what this modification consists.

The survey of the various types of economic intervention published in an earlier article suggests one of the principal factors in the new situation. The Governments in the various countries are now one and all committed to economic action. There is no department of economic life which has not been invaded by the State; and although in some cases the Government would willingly withdraw if it could, there seems no reasonable prospect of this becoming possible to any considerable extent. Even by those who desire it most, a reversion to the quasi *laissez-faire* system of the nineteenth century is recognised as impossible. Quite apart from any other consideration, no political party can permit economic depression to "take its course"—with all that that implies in human deprivation and suffering—and still retain its hold on popular support.

The prospect of Governmental economic action thus held out, while full of possibilities, is far from reassuring. A survey of measures taken during the period of crisis leaves an overwhelming impression of amateurishness, of opportunism, and in many cases of subservience to special interests. That this should be so is not surprising. As emergencies arose they had to be met by whatever means were available. The organisation and data required for seeing and understanding the situation as a whole were non-existent. The men most expert and influential in the questions at issue were usually those who had large interests at stake. Under these conditions, economic interventionism, bearing little resemblance to anything that could be justifiably looked upon as "planning", was the best that could be expected and, in most cases, all that was achieved.

The question now before the nations is whether interventionism is to continue or whether economic planning in some form is to take its place. More explicitly, it has to be decided whether such economic action as the State finds it necessary to take shall be governed in the main by chance circumstances, short-run views and political considerations, or whether an attempt shall be made to devise more systematic methods.

In putting the choice in this form there is no underlying inference that planning must necessarily prevail. There can be no such certainty. Planning has its problems ; and they are not to be overcome by good intentions only. The essence of the matter lies in whether the nations are determined to take the measures necessary to solve these problems ; if not, the decision goes to interventionism by default.

THE NATURE OF ECONOMIC PLANNING

Economic planning differs from economic interventionism in three main characteristics. In the first place, to be considered as "planning", State action in the economic field must be positive. For Governments to intervene only when part of the economic structure is in imminent danger, and then only to such extent as may be necessary to save it from collapse, is essentially negative. With planning there must be a certain readiness to assume the initiative, not merely to rescue but to reconstruct. In the second place, planning requires that the situation be seen as a whole, and action taken with due regard to the total position. Continuous co-ordination of the different parts of a programme is the essence of planning. This, moreover, is true not only in the national sphere but, even more, internationally. No matter how expert planning may be in the various countries, so long as these separate systems are not integrated one with another the world situation remains chaotic. Finally, planning must be directed towards some end. A plan without an aim is a contradiction in terms. Nor is it sufficient to have partial and short-run objectives only. There must be some broad guiding principle or principles giving direction to the movement as a whole.

Each of these three outstanding features of economic planning—initiative, co-ordination and aim—raises fundamental problems. If the State is to take a certain initiative in shaping economic events, it must have the necessary knowledge and understanding of the working of the economic system. At present, in the great majority of countries, the means of obtaining such knowledge and understanding are not available. Again, if there is to be co-ordination between the various measures taken, some decision must be arrived at in the field of international economic relationships. As matters at present stand there

is no means of knowing what form the world system will assume. So long as this condition continues, economic action in the great majority of countries is likely to remain vacillating, provisional and piecemeal. Most important of all, the central aim of economic planning needs to be clearly established. The great mass of the peoples of the world unquestionably desire that the increased capacity to produce made possible by modern industrial technique shall be used to improve the standard of living. But it is equally unquestionable that, to an ever-increasing extent, the planning measures actually taken in a large number of countries are inspired predominantly by the prospect or fear of war.

The present status and future development of economic planning necessarily turn very largely upon the solutions found to these three problems : the development of the machinery of economic planning ; the problem of international economic relationships ; and the fundamental question of the aim towards which economic planning shall be directed.

THE MACHINERY OF ECONOMIC PLANNING

Apart from the Soviet Union—which falls into a category of its own—the countries of the world are at present attempting to find some half-way house between *laissez-faire* and collectivism ; some system which shall as far as possible avoid the disadvantages and combine the benefits of both individual enterprise and management by the State. That this in effect is the situation is not always recognised. Fervent partisans of the Left or of the Right are convinced that the present stage is purely provisional and that there must soon be either an advance to full-fledged collectivism or a return to “ economic sanity ”. So far as visible facts and present dispositions indicate, there would seem as little justification for one view as for the other. No country—the U.S.S.R. always excepted—is proposing to eliminate private enterprise altogether ; and no country considers it practicable to leave the running of the economic system to private initiative alone. For the present in any case it is within the framework of the “ mixed system ” that economic planning is called upon to operate.

Positive action in such circumstances is particularly difficult. In most countries the machinery and, to a large extent,

the personnel of governmental and semi-governmental organisations are still those originally adapted to a system of *laissez-faire*. The individuals responsible for taking action are not accustomed to a positive economic policy. Still more important, they have no adequate means of judging what the outcome of any particular course of action is likely to be ; with the consequence that the more responsible and the more conscientious the individual, the less is he inclined to take a leap in the dark except under the most extreme compulsion. If these difficulties are to be overcome, if economic interventionism is gradually to be transformed into economic planning, something in the nature of a National Planning Organisation is required.

The form and functions of such an organisation would necessarily vary from country to country ; but to a large extent they are pre-determined by the facts of the " mixed system ". It is clear, in the first place, that a national planning organisation must have at its disposal the best research instrument the country can afford. Planning that is not based upon detailed and accurate knowledge of the facts and their inter-action is doomed in advance. Along with a research staff, it needs some means of keeping in close touch with the activities of the various Government departments ; as also of bringing together the opinions and advice of outside interests such as trade unions, associations of business men and consumers' organisations. Finally, at the head of a national planning organisation, there must be an executive body of the highest authority capable of taking decisions and putting them into effect.

The various national economic councils at present in existence fall far short of these requirements. It is true that they normally engage in some research and in some consultation of the interests affected : but in most cases their equipment is wholly inadequate to the task ; they are not conceived for positive action ; and in many countries they are not taken seriously. The number of such councils continues to grow ; but the fact that, during the recent critical years, their influence in many instances has tended to decline rather than to increase is sufficient comment upon their efficacy as central planning organisations.

The setting up of the machinery of research and co-ordination is only part of the preparatory measures required if economic planning is to become a reality. An essential adjunct to the work of a national planning organisation is an enlargement

of business statistics. What is required is not merely an improvement of the present services—although this is also desirable in most countries—but detailed current information on dynamic business facts, in particular of sales, stocks, costs, prices and profits of private undertakings.

The need for such knowledge does not call for any elaborate demonstration. So long as these data remain unavailable, a national planning organisation is working in the dark. Every labour question—of wage determination, of changes in hours, and of conditions of labour generally—turns on and cannot be equitably settled without detailed analysis of the financial standing of the undertakings making up the various branches of production. Monetary policy and the appropriate adjustments to be made from time to time in the volume of effective demand can only be decided if the economic situation is really known and not merely guessed at. Questions of price fixing, of restriction of output, of whether a virtual monopoly is or is not abusing its powers, can be answered only if the necessary information on costs and profits is to hand. There is of course no need for details to be made public which would reveal the financial position of particular firms. The collection and compilation of data would have to be made with the same professional reticence as is now observed by chartered accountants. But full information must be available for the planning organisation if it is to perform its task.

Given the necessary machinery and information, there are four principal lines of action, basic to economic planning under the conditions of the "mixed system", in which a national planning organisation would need to engage.

The most obvious of these is the co-ordination of the economic measures taken by the various branches of the Government. In the great majority of countries the situation in this respect is anarchic, each Government department acting with little or no regard to what is being done elsewhere. That a national planning organisation could completely remedy this situation is no doubt too much to expect. Quite apart from departmental jealousy and similar difficulties, it is inevitable that action in one field will at times be prejudicial to action in adjacent fields. But a central body of acknowledged competence and authority, appraising the measures taken on the basis of economic fact and from the standpoint of the

country as a whole, could undoubtedly exercise a salutary influence.

The second main task of a national planning organisation would be to analyse the situation of the various industries from the point of view of the desirability or otherwise of Government management and control. At present there are three main tendencies in this respect. There is the purely negative method by which an industry is taken over or subjected to some measure of control only when it is on the verge of bankruptcy. At the other extreme there is the doctrinaire method by which industries are liable to be put under State management, or otherwise drastically regulated, irrespective of technical considerations. In between is the worst of all systems, where private interests by special influence secure Government backing to promote their own ends. A national planning organisation could not of course give the last word on whether or not Government ownership or control is apposite in any particular case. In the final analysis the question is a political rather than a technical one. But the technical side is important; and an appraisal from this angle could exercise a useful influence.

An even more important field of action is that concerning monetary and financial policy. As indicated in the preceding article, the outstanding development in economic practice during the last few years has been the gradual adoption of the expansionist method of meeting industrial depression. In 1929 it was the accepted dogma that deflationary action provided the only means of dealing with the downward phase of the business cycle. During the last five years the overwhelming majority of countries have gone over to the opposite view and in one way or another have deliberately reinforced the volume of buying.¹ It remains to be seen whether and how a more or less crude expansionist policy can be turned into a permanent technique of monetary adjustment. The work to be done here is enormous. There is great confusion of thought—not only in the popular mind but also among responsible statesmen—as to the *modus operandi* of reinforcing and maintaining effective demand. In most countries the necessary co-ordination between the banking system, the Treasury, and the Government departments and other public authorities engaged in large-scale expen-

¹ Cf. *International Labour Review*, Vol. XXXIII, No. 5, May 1936, pp. 636-640.

diture has not so much as been begun. The criteria for determining when to reinforce and when to damp down the total volume of buying ; the means by which this reinforcement and damping down are to be effected ; the principles on which an international co-ordination of monetary policy might be based, are all still to be worked out. In this field, more than any other perhaps at the present time, national planning organisations in the various countries could perform a service of the utmost importance.

Finally, a national planning organisation would have to examine how the country could best adapt itself to or co-operate in changing the present world economic situation. The question here broadens out into more general considerations of international economic relationships.

THE PROBLEM OF INTERNATIONAL ECONOMIC RELATIONSHIPS

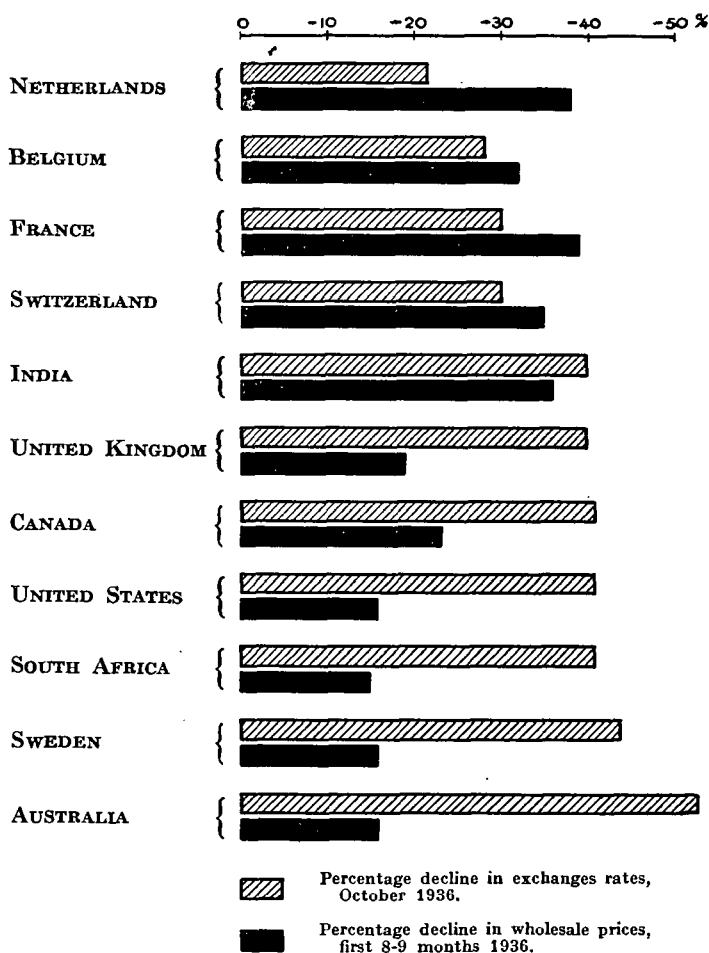
From the end of the World War till the beginning of 1929 the constructive economic energies of the various countries were chiefly engaged in working back to the pre-war system based on the gold standard and a considerable measure of freedom of trade. Between 1929 and 1933, under the impact of industrial depression, the laboriously erected structure crumbled and collapsed. Tariffs, quotas and exchange regulations made havoc of world commerce. Singly or in groups the countries left the gold par of exchange and took monetary policy into their own hands. The one major attempt to reorganise the world system—the London Monetary and Economic Conference of 1933—signally failed. During the next three years the questions which could not be decided in London were submitted to the tribunal of experience, and on 26 September 1936 the Governments of the United States, Great Britain and France issued their joint statement on monetary and commercial policy. This document, in highly summarised form, touches on all of the main problems of international economic relationships at present before the world.

The immediate object of the joint statement was to facilitate the devaluation of the French franc and to obviate as far as possible any tendency towards competitive currency depreciation. This move, together with the complementary action taken by a number of countries—notably Switzerland, the Netherlands, Italy and Czechoslovakia—unquestionably brought a

measure of reality into an essentially unreal situation. As Figure 1 indicates, if the extent of exchange depreciation and the movements in commodity price levels since 1929 are both

FIGURE 1. THE ALIGNMENT OF CURRENCIES

Percentage Decline of Exchange Rates and of Wholesale Prices since 1929 in Countries with Free Exchanges doing more than one per cent. of International Trade.



SOURCE: LEAGUE OF NATIONS: *Monthly Bulletin of Statistics*.

taken into account, the principal countries with free exchanges may be said to have reached a rough alignment.¹ To this extent

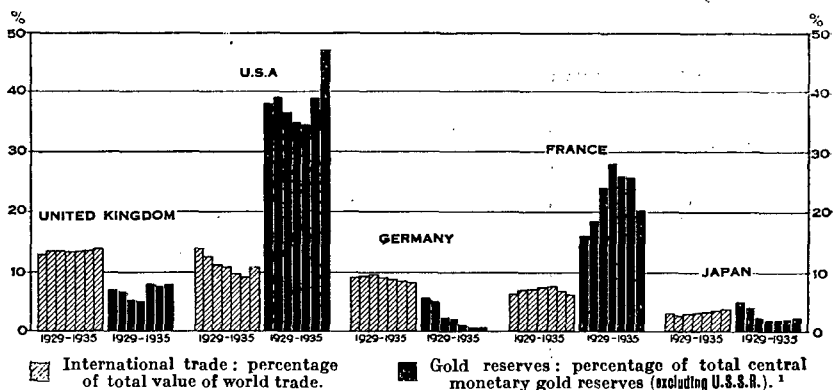
¹ In considering this diagram it is necessary to remember that movements of the commodity price level at wholesale are only a very general indication of

an important step has unquestionably been taken towards what the joint statement calls "the re-establishment of a lasting equilibrium between the various economic systems".

At the same time it is evident that the adjustment is by no means complete. In particular, some thirty countries (including Germany, Japan and Italy), accounting approximately for nearly one-third of world trade, remain subject to exchange control. In certain cases, it is true, this "blocking" of the exchange is nominal only or of relatively slight importance; but in a number of countries it presents an absolute bar to freer trade.

To enter into a detailed examination of the difficulties to be overcome in liberating these exchanges would carry the present article far beyond its bounds; but it may be useful to give quantitative point to certain of the principal obstacles commonly cited. Figure 2 shows the percentage of international

FIGURE 2. INTERNATIONAL TRADE AND GOLD RESERVES



SOURCE: *Statistical Year-Book of the League of Nations*.

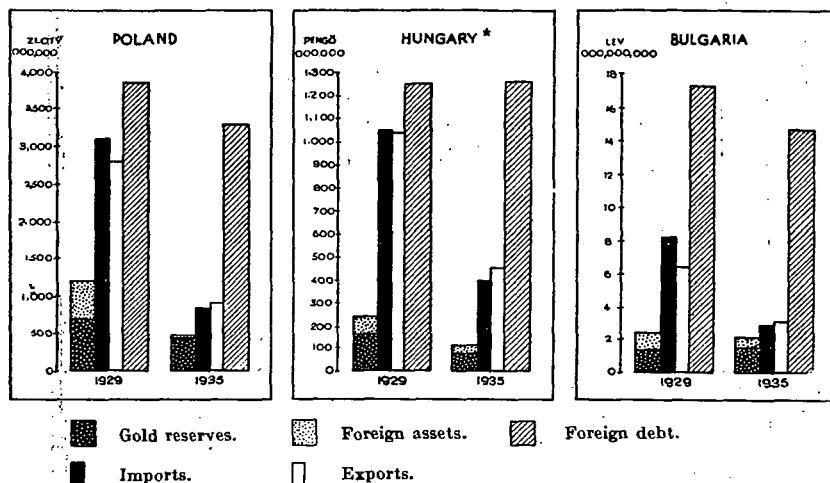
¹ Returns for the United Kingdom do not include gold held by the Exchange Equalisation Fund.

trade held by the five principal trading nations, and compares it with the percentage of central monetary gold reserves held by these countries. As will be noticed, the three countries which issued the agreement are in possession of approximately three-

changes in the competitive position of the countries concerned; that the 1929 position, taken as base, was far from being a position of equilibrium; and that, whereas some price levels are practically stationary at the present time, others are rising rapidly.

fourths of the world's gold. Figure 3 shows the external debt situation in three Central and Eastern European countries—Poland, Hungary and Bulgaria. In each of these countries,

FIGURE 3. EXTERNAL DEBT AND INTERNATIONAL TRADE

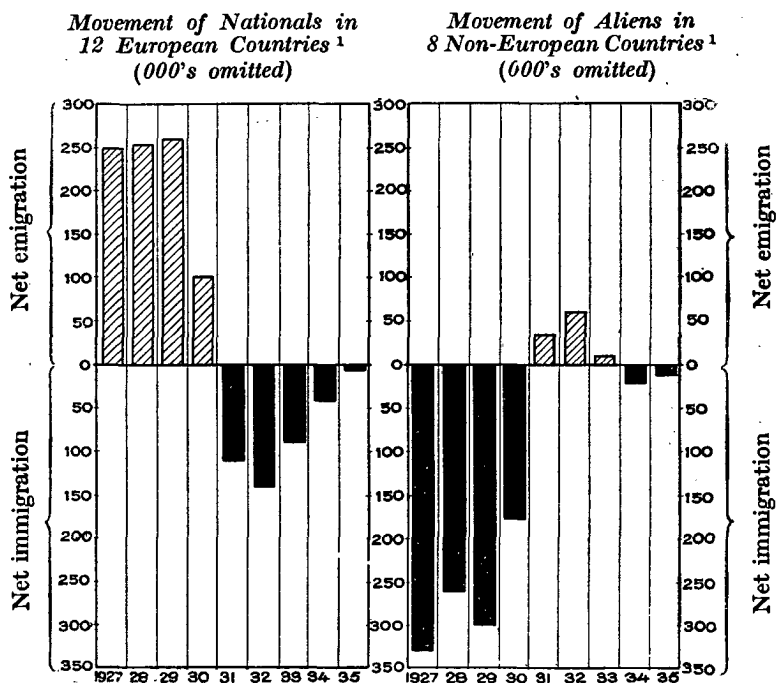


SOURCE: *Statistical Year-Book of the League of Nations.*

* HUNGARY: Foreign debt: 30 June 1930 and 30 June 1935.

external debt on the one hand and the value of international trade on the other were more or less comparable in size in 1929. In 1935 the value of international trade done by each of these countries had sunk to less than half of what it was, while their external debts had remained relatively unchanged. Over the same period their reserve of gold and foreign assets had suffered a marked diminution. Figure 4 (p. 188) illustrates the progressive shutting off of migration during recent years. European countries, in place of a net emigration of their nationals, experienced a net immigration which has only recently ceased. Extra-European countries, which had previously received immigrants in considerable numbers, during the deepest years of the depression actually registered a reverse flow. It is widely believed, particularly in certain countries of Central and Eastern Europe, that there can be no solution of their economic problems without freer migration. However this may be, there can be little question that to such extent as restrictions on migration are imposed or maintained, so much the greater is the need for the freer international movement of goods and of capital.

FIGURE 4. MIGRATION



SOURCE: INTERNATIONAL LABOUR OFFICE: *Year-Book of Labour Statistics*.

¹ Germany, Belgium, Spain, Great Britain and Northern Ireland, Hungary, Irish Free State, Italy, Poland, Rumania, Sweden, Czechoslovakia, Yugoslavia.

² Argentina, Australia, Brazil, United States of America, Mexico, New Zealand, South Africa, Uruguay.

In sum, these three sets of considerations all point to the fact that a restoration of world economic equilibrium is not likely to come of itself but requires positive action if the difficulties which have grown up in recent years are to be surmounted.

The second main question touched upon in the joint statement of 26 September 1936 is that of monetary policy. Two guiding principles are laid down. Each of the countries, it is stated, must "in its policy towards international monetary relations, take into full account the requirements of internal prosperity". At the same time, all three countries will continue the policy which they have pursued during recent years, "one constant object of which is to maintain the greatest possible equilibrium in the system of international exchanges". Thus, in place of the single main objective of the gold standard—management of the balance of payments so as to keep exchange

rates stable—there is now a two-fold objective: the “requirements of internal prosperity” and the “greatest possible” exchange equilibrium.

The question which immediately arises is whether it is possible to work a dual policy of this sort without fairly explicit agreement among the principal countries on the methods to be followed. As already noted, in order to meet the “requirements of internal prosperity”, the great majority of countries have found it necessary to abandon deflationary action and to engage in positive measures of expansion. Moreover, in a number of cases very considerable success has attended these measures, and it is difficult to believe that they will not be continued and developed in the future. On the other hand, there is no generally accepted mode of action. Unless some international agreement is arrived at as to the general principles on which monetary adjustment of this sort is to be based, it is virtually certain that at the next downward turn of the business cycle, if not before, international economic equilibrium will again be disrupted. It is true that a far greater flexibility is being given to exchange rates than in the past and this would help to cushion any shock. The new French franc, for instance, may fluctuate over a range of some 15 per cent. of its value instead of within the narrow bounds of the “gold points”; while a large number of countries, including the whole of the Sterling Group, have kept their hands completely free. But for all this, if in the course of the next major depression some countries aim at achieving internal prosperity by the old method of forcing down prices and costs, while others deliberately reinforce and sustain effective demand, international disequilibrium will necessarily result.

The third main feature of the joint statement is the promotion of freer trade. The Governments concerned are agreed “that the success of the policy set forth above is linked with the development of international trade”. In particular, “they attach the greatest importance to action being taken without delay to relax progressively the present system of quotas and exchange controls with a view to their abolition”.

As Figure 5 (p. 190) shows, the recovery in international trade has not kept pace with the recovery in output. Primary production during the depression fell relatively little and is gradually returning to the 1929 level. Industrial production fell a full 30 per cent. but is now well above the 1929 level. The quantum

FIGURE 5. WORLD OUTPUT AND WORLD TRADE
(Base : 1929 = 100)



SOURCE: LEAGUE OF NATIONS : *Monthly Bulletin of Statistics*.

of world trade, while falling nearly as far as industrial production, has made but a slight recovery and is still some 15-20 per cent. short of what it was in 1929. This diagram, moreover, under-estimates the real extent of the damage done. From certain aspects it is not so much the quantum as the value of world trade that counts ; and this, even when measured in depreciated national currencies, is only some 50-60 per cent. of what it was. Furthermore, international trade as shown here is not by any means the same thing as world trade properly so-called. Many of the transactions included in the figures of international trade are no better than bilateral barter, a process possessing few of the valuable features which make an improvement of world trade of such outstanding importance from a political standpoint.

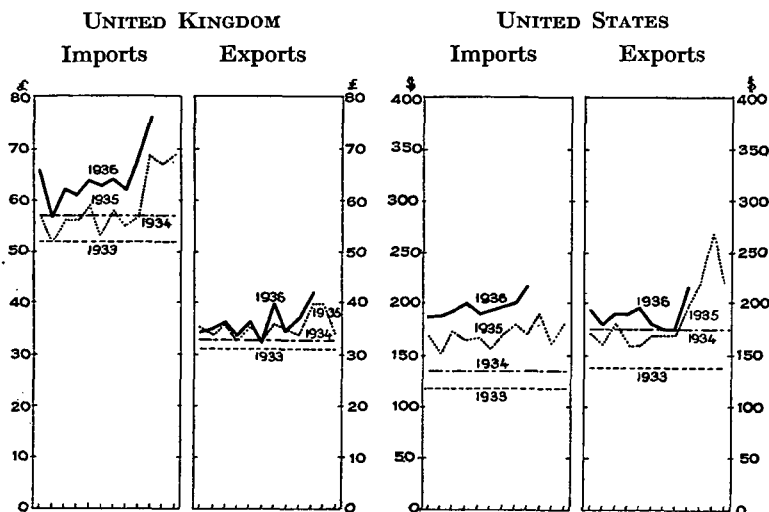
More detailed analysis shows plainly where the falling off in international trade has occurred. Broadly speaking, so long as countries followed a deflationary policy, their trade with other countries declined, both relatively and absolutely. As soon as countries turned from a deflationary to an expansionist policy, their trade improved ; save in those cases where exchange restrictions and similar measures acted as a strait-jacket. This improvement is, of course, not so great as the figures

showing the value of imports and exports would suggest, the consequences of the change in the value of the currency necessarily tending to exaggerate the upward movement. But the growth in the physical volume of trade of countries following an expansionist policy is appreciable; and the fact that the rise in imports is in many cases more marked than the rise in exports suggests that the more favourable situation is in large measure attributable to the increase in business activity rather than to the competitive advantage conferred by devaluation.

In sum, as the foregoing analysis indicates, it is becoming increasingly evident that monetary policy is fundamental to the whole question of international economic relationships. Provided the principal countries, particularly the great creditor and gold-holding nations, take the measures necessary to sustain effective demand upon their home markets, certain direct and indirect consequences may reasonably be expected to follow. In the first place, as a direct result of greater internal prosperity, these countries will at once tend to buy abroad in larger volume. At the same time, it becomes politically possible for them to lower their trade barriers—a course of action virtually ruled out so long as no guarantee exists that demand upon the home market will be sustained. Furthermore, the increased buying and freer trade thus brought about are likely to prove more effective than any other measure in extending business activity and improved confidence to the remaining countries; thereby enabling them to take part in the general movement towards prosperity and better economic relationships generally. In such an atmosphere international co-ordination of monetary policy becomes at least a possibility.

To some extent, as Figure 6 (p. 192) illustrates, action in these directions is already proceeding. In Great Britain, the considerable measure of internal recovery recorded during the last two or three years—largely as a consequence of the “cheap money” policy pursued—has been accompanied by a marked increase in the value of imports, without a corresponding increase in exports. Similarly, the policy of reinforcing effective demand and of promoting international commerce consistently followed by the United States under President Roosevelt and Secretary Hull has made for an enlargement of genuine world trade. There can be no question that such increased importing on the part of the great creditor and gold-holding

FIGURE 6. GROWTH OF IMPORTS IN TWO PRINCIPAL CREDITOR COUNTRIES
(Monthly values; 000,000's omitted)



SOURCE: LEAGUE OF NATIONS: *Monthly Bulletin of Statistics*.

nations exercises a salutary influence upon the situation of debtor countries and countries whose foreign commerce has suffered severely; making eventually for a reduction of trade barriers, a removal of exchange restrictions, and progressive improvement in standards of living throughout the world.

THE AIMS OF ECONOMIC PLANNING

The third main characteristic distinguishing economic planning from economic interventionism is that, whereas interventionism is essentially opportunistic, planning must have an aim.

This fact, that planning by its very nature is purposeful, has given rise to an infinity of misconceptions. For, while it is true that planning is always planning to some end, all planning is not necessarily to the same end. The most cursory review of the controversies that have raged around the concept of economic planning will reveal that supporters and opponents alike repeatedly assume that what they consider to be the aim of economic planning is the sole aim, or at least the most essential. According to the various views held, this aim may consist in the taking over of industries by the State, the formation of cartels, measures for the restriction of output, self-

government in industry, interference with international trade, economic self-sufficiency, expansionist monetary policy, manipulation of the price level, rationalisation of industry, redistribution of income, and still other objects. In point of fact, economic planning is essentially a method—the deliberate organisation of means to a given end. What that end may be is vitally important; but at the same time totally irrelevant as an argument for or against the principle of planning.

Given then that planning must necessarily have an aim, the question still remains what this aim ought to be. Of all the many formulations current, that laid down as the basis of the work of the International Labour Organisation would probably command the widest assent. “Universal peace based on social justice” is a principle going to the very heart of the present world situation. Necessarily, however, in the application of this principle opinions differ widely as to the best means to be adopted. Decision here is in part a matter of economic understanding and judgment, in part a question of values. A mere enumeration of some of the principal divergencies of view will serve to indicate the general nature of the problems involved.

From a social-economic standpoint, one of the centres of controversy during recent years has been whether the production of goods should be adjusted down to consumption (i.e. effective demand) or whether effective demand should be adjusted up to the capacity to produce. Both of these views have their fervent supporters and to some considerable extent both have been put into effect. As seen in the preceding survey, much of the emergency action taken by the various States—including many projects for “self-government in industry”—has been towards adjusting production down to consumption.¹ The various forms of expansionist measures adopted, notably in the United States, Great Britain, Germany and Sweden², present examples of the direct or indirect reinforcement of effective demand. In this particular case, decision as to the appropriate aim of planning is largely a matter of economic judgment, although the question of values has a certain relevance.

From a more pronouncedly social standpoint one of the principal grounds of dispute is whether planning should be

¹ Cf. *International Labour Review*, *loc. cit.*, pp. 631-635.

² *Ibid.*, pp. 636-640.

directed primarily towards maximum efficiency of production and rigorous elimination of the economically "unfit" or towards a more equal distribution of income. The controversies surrounding State intervention in the determination of wage rates, in the provision of social insurance, in the regulation of agricultural output, in differential taxation, unemployment relief, subsidies to industry and a large number of other measures, all have their origin in this radical difference of aim. Here, although questions of economic judgment still play a part, considerations of values tend to predominate.

In other fields there are equally wide divergencies of opinion. There is the fundamental question whether economic planning is to be essentially on behalf of the individuals making up the community, or whether the community is the supreme value and the individuals comprised in it are of secondary importance. There is a similar profound cleavage between planning with the ideal of freedom and planning with the ideal of unity predominantly in mind. The questions involved here are almost exclusively in the realm of values.

In enumerating these various conceptions of what the aim of planning might or ought to be, it is not intended to convey that in every case a choice must actually be made between the opposing theses. In some instances, at least, the supposed antinomy is more apparent than real. The question whether planning should aim at adjusting production down to consumption or adjusting effective demand up to the possibilities of production is a case in point. To the thorough-paced idealist, to suggest that production should in certain cases be restricted when human beings are in need of these goods amounts to a crime against humanity. To many self-styled realists, on the contrary, the idea that effective demand can be "artificially" sustained is both ludicrous and dangerous. The entire truth rests with neither of these points of view. Facts have shown that on occasion it is both possible and advantageous to take positive measures to reinforce and sustain effective demand. At the same time, even though effective demand were being sustained for goods in general, it would still be necessary to ensure as far as possible that the production of the various types of goods—bread, shoes, steel, bricks, motor cars—was proportionate to the effective demand for these particular types of goods; and this on occasion would certainly require restriction of the production of one type in order to promote the pro-

duction of another. In point of fact, there is no fundamental antagonism between these two aims : effective demand for goods in general needs to be adjusted so as to keep industry as a whole fully employed ; while the production of each separate variety of goods needs to be adjusted to the effective demand for these particular goods. Each of these aims is appropriate, in its right setting and at the right time.

Much the same is true of other apparently irreconcilable divergencies of aim, so long as it is essentially a matter of economic understanding and judgment. But as soon as the question of values comes into the calculus, real and fundamental differences arise. Here, indeed, is the crux of the whole problem, not merely of economic planning but of civilisation itself. In the world at present there is no community of values.

There remains one supremely important decision which falls into a rather different category from the rest, in that neither economic judgment nor a sense of values plays the principal part. As already noted, the outstanding practical issue at the present time is whether the economic activity of the various countries shall be directed primarily towards the advancement of social well-being or towards an all-inclusive preparation for war. To enter into this question in any detail would carry the discussion too far afield. But, as any observer of the march of events during the last few years cannot help but recognise, preparations for war are more easily started than stopped. Once a certain stage has been passed, economic judgment and a sense of values are alike caught up and rendered powerless in the grip of an overmastering fear.

CONCLUSION

In conclusion an attempt may be made to sum up and integrate the principal features which have emerged in the course of the foregoing analysis.

The fundamental issue on which a decision is at present being taken is not, as is sometimes still supposed, between economic planning and *laissez-faire*. That question was decided in the years following the collapse of 1929. For good or ill, Governments are already exercising and must continue to exercise an active influence in economic affairs. The question now is whether such action shall be co-ordinated or haphazard. If, taking the world as a whole, it continues to be haphazard,

there is the possibility—not to put it higher than that—of planning in its most sinister form ultimately being forced upon practically all countries by the fear or fact of armed conflict.

The alternative to haphazard intervention consists in positive, co-ordinated, purposeful action on the part of the various countries, with the prevention of war and the advancement of social well-being as the principal aims in view.

From the standpoint of economic planning under the “mixed system” two main conditions repeatedly appear as essential to the attainment of this aim. These conditions are: adequate and sustained buying of goods in general, so as to keep production and employment at a high level; freer world trade (and the freer circulation of capital that goes with it) so as to extend to all countries the higher standards made possible by modern industrial technique. These conditions in turn call for four main lines of action: specific measures in all of the major countries to sustain effective demand and thereby maintain internal prosperity; agreement on the general principles to be followed in maintaining internal prosperity, so as to obviate international disequilibrium arising from the application of incompatible principles in the different countries; on the basis of this maintenance of internal prosperity, freer buying abroad on the part of the great creditor and gold-holding countries, leading the way to a general increase of world trade and a reduction of trade barriers; the setting up of national planning organisations by which the necessary co-ordination, national and international, may be secured.

There are, of course, many other measures required, certain of them of the very greatest importance; but these four would appear to be fundamental. Without monetary action designed to sustain effective demand, production and employment are subject to disastrous fluctuations. Without international co-ordination of monetary policy, world economy is in constant danger of disruption. Unless measures to sustain effective demand are being applied in all of the principal countries, and at the same time co-ordinated internationally, nations cannot and will not trade freely with one another. On the contrary, in their attempts to meet the difficulties arising from inadequate demand, they will endeavour to export to the utmost and shut out all goods that can possibly be produced at home—a course detrimental alike to world peace and to higher living standards. Finally, while it is true that the movement towards

a co-ordinated monetary policy and towards freer trade may go some distance without specific organisations being set up, the permanent running of such a system cannot be satisfactorily assured on a makeshift basis. In all the major countries, at least, there must be the necessary machinery without which economic planning remains no more than an aspiration.

The possible outcome of measures such as these should not be exaggerated. They touch the material side principally ; and the psychological elements are at least as important as the material. At the same time their efficacy should not be under-estimated. Adequate effective demand and freer world trade do not guarantee world peace ; but they provide an economic basis making world peace possible. Neither do they guarantee social justice ; but they furnish the essential foundation for a general improvement in the standard of living and all that goes with it. These are the possibilities, the potentialities, of economic planning. How completely they will be realised during the next few years there is no means of judging. The three positive factors in the present situation—economic recovery in the majority of countries, the general change-over to expansionist methods, the statement of 26 September 1936—are encouraging, but far from decisive. Everything turns on how they are followed up. For this reason the action taken in the immediate future is of critical importance. But again, not decisive. Economic planning is not a short-run issue. It is, rather, a new phase of the age-old struggle for control between man and his environment. Applied science has enabled man to free himself to an extent never before known from the domination of material necessity. It has now to be seen whether applied science in its turn can be controlled.