6 Controls and planning

If there was one word that characterised Labour's approach to the economy in the 1940s that word would be 'planning'. In fact this was so from quite early in the previous decade. After 1931, as Stephen Brooke notes, 'the lingua franca of Labour's resurgent socialism in this regard was planning . . . Indeed to those within the Labour Party, planning and socialism became interchangeable terms.'[1] The broad development of Labour's policies in this direction have been outlined in the first chapter of this book, but this chapter focuses on planning both as a doctrine and as evolving policy in these decades. Whilst, of course, the main concern here is with the 1940s, the political and analytical context of the debates on planning in the 1930s is important.

Another feature of planning in the 1940s was that policy debates took place in the context of a much wider intellectual debate amongst economists. Disputes over economic planning were concerned with theoretical issues as well as policy in the 1940s, and whilst the primary concern of this book is policy, it is important to contextualise it with some account of the more theoretical debate.[2]

The general debate in the 1930s

One of the obvious difficulties in discussing the background to the planning arguments of the 1940s is the diverse meanings given to the term 'planning'. In this chapter it will normally be used to mean the allocation of resources by means other than markets. For academic economists, including those involved in the debates of the 1930s and 1940s, this definition is the usual one and uncontroversial. But it is clear that the

[1] Brooke, *Labour's War*, p. 19; S. Burgess, 'The Attlee Governments in Perspective: Commitment and Detachment in the Writing of Contemporary History' (Ph.D. thesis, London School of Economics, 1994), pp. 183–96.

[2] This debate surprisingly lacks a recent historical analysis, though see T. W. Hutchison, *Economics and Economic Policy in Britain 1946–66* (1968), pp. 55–67.

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wider debate amongst politicians, political theorists and ideologues about planning beginning in the 1930s was around a much broader notion of the term, which was unified by little more than a rejection of *laissez-faire* and the perceived failings of the market economy in generating depression and mass unemployment. Thus in the 1930s there emerged a broad consensus from Harold Macmillan leftwards in favour of 'planning', where the term embraced almost any kind of government role in the economy, from the 'rationalisation' of individual industries to full-scale nationalisation, from monetary manipulation to Keynesian macroeconomic management. What Marwick long ago called 'middle opinion' became pro-planning without, however, agreeing what planning meant.[3] One obvious example is Keynes, whose advocacy of macro-planning went along with a life-long rejection of detailed intervention in the generality of market allocation of resources.[4] This consensus may be seen in the short run as rather unimportant in the sense that it largely excluded those in political power, though in the light of recent discussion this point should not be overstated.[5] But in the longer term, for the policies of the 1940s, this range of support for planning is of great importance, for in the 1940s it was to a considerable extent those who were 'out' in the 1930s who came to influence or to be in government.

What did the consensus of the 1930s contribute to the debate of the 1940s? First, a desire to distinguish clearly between democratic and totalitarian planning. Whilst the planning enthusiasm of the 1930s was given much impetus by the Soviet five-year plans, and most middle opinion was quite willing to learn from the Soviet experience, the desire to separate that kind of planning from what was advocated for Britain was almost universal.[6]

Second, the debate of the 1930s had little to say about the precise economic mechanisms by which planning in the narrow sense of resource allocation was to be conducted (see next section). This was partly because it was only one of the several aspects of the planning

[3] A. Marwick, 'Middle Opinion in the Thirties: Planning, Progress and Political "Agreement"', *English Historical Review* 79 (1964), pp. 285–98; D. Ritschel, 'A Corporatist Economy in Britain? Capitalist Planning for Industrial Self-Government in the 1930s', *English Historical Review* 106 (1991), pp. 57–64.

[4] Winch, *Economics and Policy*, p. 348; T. Cutler, J. Williams and K. Williams, *Keynes, Beveridge and Beyond* (1986), ch. 2.

[5] A. Booth, 'Britain in the 1930s: A Managed Economy?' *Economic History Review* 40 (1987), pp. 499–522.

[6] For example, Herbert Morrison, cited in T. Smith, *The Politics of the Corporate Economy* (1979).

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debate. But it was also because there was so little practice on which to draw. It would seem that, despite the interest shown, little was actually known about how the Soviets conducted their planning.

Third, whilst there was no single reason for the popularity of planning in the 1930s, unemployment was crucial to it. It was the existence of mass unemployment in Britain from the 1920s onwards which, above all, led people to believe that the existing economic regime was unsustainable and/or undesirable and thus to embrace planning. This point should not be exaggerated. For example, there were important proponents of planning who advocated it because they believed the market system led to an inefficient distribution of resources, even if those resources were fully employed. Nevertheless, without widespread unemployment it is difficult to believe the vogue for planning would have been anything like as wide as it was. All these three elements were important legacies for the debates of the 1940s.

The calculation debate

Alongside the broad public policy debate of the 1930s there was a more specific debate amongst economists, especially between Austrian economists like Hayek and socialist economists. Its style and subject matter restricted its audience mainly to other economists – in the context of the wider discussion of planning, Smith is right to call the debate in the 1930s 'highly esoteric'.[7] This esoteric debate was nevertheless important, although clearly not for any immediate impact on economic policy. Its importance derived from two related factors. First, it was about a 'narrow' conception of planning, as a mechanism of resource allocation. It was thus at the heart of economics, a discourse founded on issues of resource allocation. So whilst it was esoteric in relation to the policy arguments of the 1930s, the debate was central to economics, which was in turn increasingly important for public policy. Second, the debate had a major impact on economists on the left in Britain, and thus on people who were to have a significant role when the political balance of forces shifted in the 1940s.

The economic planning debate amongst the economists in the 1930s is usually known as the calculation debate.[8] Its key starting point was an article by von Mises entitled 'Economic Calculation in a Socialist

[7] Ibid., p. 40. There were other writings by economists on planning in the 1930s which fall outside this debate. Probably most important in Britain was the work of G. D. H. Cole, *The Machinery of Socialist Planning* (1938), but his work seems to have had rather little impact on the public debate then or later.

[8] D. Lavoie, *The Calculation Debate Reconsidered* (Cambridge, 1985).

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Community'. Von Mises argued that rational economic calculation in a centrally planned economy would be impossible because, even if a market existed in consumer goods, the planners would have no method of making proper decisions about what and how to produce because of the absence of valuations generated by a market for producer goods. Investment decisions could not be made rationally in the absence of the prices generated by such a market. The price system therefore provides the only plausible way in which rational production decisions can be made: 'The human mind cannot orientate itself properly among the bewildering mass of intermediate products and potentialities of production without such aid. It would simply stand perplexed before the problems of management and location.'[9]

The full complexities of the debate cannot be dealt with here, and there is an extensive literature on the issue.[10] But the quotation from von Mises raises the central issue. In the absence of markets can an efficient allocation of resources be achieved? Sometimes the debate is posed as one about the quantity of information which central planning would have to handle, covering millions of commodities and techniques. But Lavoie has persuasively argued that this is not the heart of the matter. For Hayek and the Austrians the point is not just that only a decentralised market system can handle the vast volume of information in a developed economy, but that this information is only *generated* in such an economy. It is not that there are millions of bits of objective data to be handled, but that knowledge of, for example, possible production techniques is inherently subjective. Economic knowledge (of costs and prices) is specific information available only to those who discover it, arising from their participation in particular markets and from engaging in competition with other producers. Economic knowledge therefore results from and is inseparable from the market process.

The importance of this distinction in the debate between 'objective' and 'subjective' knowledge was that it was used by Hayek against advocates of market socialism, i.e. those who proposed to combine public ownership of the means of production with decentralised management and a market system. He argued that such a system would generate unsustainable tensions between the managers of decentralised enterprises searching for new techniques, output patterns, etc. and the centre trying to plan. Crucial to this division is the fact that 'the method which under given conditions is the cheapest is a thing which has to be

[9] L. von Mises, 'Economic Calculation in a Socialist Community' in F. Hayek (ed.), *Collectivist Economic Planning* (1935), pp. 87–130.

[10] Lavoie, *Calculation Debate*; T. J. B. Hoff, *Economic Calculation in a Socialist State* (1949); for a summary J. Tomlinson, *Hayek and the Market* (1990), pp. 100–15.

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discovered anew, sometimes almost from day to day, by the entrepreneur'.[11]

Hayek's debate in the 1930s was almost entirely with democratic socialist economists such as Lange, Dickinson and Durbin.[12] What must appear striking about this debate in retrospect is the extent to which the two sides shared common assumptions about the issues at stake. Broadly speaking, there was agreement about the pre-eminence of consumer sovereignty, about the centrality of freedom to the debate, and about resource allocation as a key issue. Above all, both sides accepted the undesirability of controls or planning in the sense of administrative allocation of resources as long-term mechanisms, believing them to be both inefficient and a threat to freedom.[13]

Keynes' impact on the left in the 1930s has been much discussed; that of Hayek less so. Both, I would argue, made a significant impact on democratic socialist notions of economic policy before 1939. By that date a synthesis could be seen emerging in the works of the authors already mentioned and of others like Meade, Hall and Jay.[14] Whilst there remained significant differences between individuals, this synthesis contained important common elements: first, a commitment to macrostabilisation using both monetary and budgetary weapons, though one matter of dispute was how far it would require state control of investment decisions, and, second, agreement to use traditional microeconomics for analysing other economic issues. This agreement was largely on the tools of analysis, not the conclusions. Hence, for example, the debate between Durbin and Lerner on marginal cost pricing for socialised industries.[15] This was not a disagreement about the appropriate form of analysis to apply, but about the administrative and fiscal implications of an agreed analytical approach. Broader political differences, for example on the scale of nationalisation, could be accommodated within this consensus. Here there were arguments about how far, given the economists' criteria of monopoly, externalities, etc., such public ownership should extend. As Brooke has rightly argued, once these criteria were accepted, the traditional socialist arguments about public

[11] F. Hayek, *Individualism and Economic Order* (1948) p. 196.
[12] O. Lange and F. M. Taylor, *On the Economic Theory of Socialism* (New York, 1938); H. Dickinson, *Economics of Socialism* (Oxford, 1939); Evan Durbin, *Problems of Socialist Planning* (1949).
[13] Durbin, *New Jerusalems*. Evan Durbin was also influenced by Hayek's approach to macroeconomic fluctuations – the 'over-investment' theory of cycles (pp. 142–6).
[14] J. Meade, *An Introduction to Economic Analysis and Policy* (Oxford, 1936); R. Hall, *The Economic System in a Socialist State* (1937); Jay, *The Socialist Case*.
[15] Durbin, *New Jerusalems*, pp. 263–9.

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ownership were effectively reorientated towards an agenda where the application of the economists' criteria put limits on the relevance of such ownership.[16]

Overall, the argument here is that before the outbreak of the Second World War socialist economics had been significantly affected by both Hayek and Keynes, and this had created a quite well-defined economic programme which embraced (like the Labour Party's 1937 *Labour's Immediate Programme*) a considerable amount of nationalisation as well as regulation of private investment on *macroeconomic* grounds and, therefore, considerable 'planning' in the broad sense of the term usually deployed in the 1930s. But this was quite compatible with a belief that markets should be the dominant means of resource allocation, in both the public and private sectors, and that they were necessary for reasons of economic efficiency and political freedom.

Policies in the 1940s

The actual economic policies pursued in the 1940s were not, of course, simple reflections of the debates of the 1930s. Not only does policy never follow theory in this way, but in between came the war, which had a major impact on both doctrine and the actual institutions within which Labour developed its policies in 1945, as suggested by the writings of Douglas Jay. In 1948 he stated his belief that wartime and early post-war experience had shown the effectiveness and desirability of more planning than he had suggested in his pre-war work.[17]

The extent to which this involved a reversal of his position since his pre-war *Socialist Case* should not be exaggerated. In 1948 planning was still seen largely in terms of the existence of 'conscious purpose' or 'purposive improvisation' rather than anything much more specific. Nevertheless, Jay's evolution is typical of the way in which the perceived success of wartime planning encouraged the view that planning was central to Labour's peacetime programme even amongst those usually thought of as on the right of the Labour Party. Not everyone shared this perception. Jewkes, who worked in the Economic Section and then in the Ministry of Aircraft Production, emerged a strong opponent of

[16] Brooke, 'Revisionists and Fundamentalists', pp. 157–75.

[17] Jay, *Road to Recovery*, pp. 9–10. See also Jay's response to Meade's views on economic planning whilst adviser to Attlee (PRO CAB124/891, Note by Jay, 14 Nov. 1945). Jay expressed general support for Meade's approach, but then attacked the idea that 'the great bulk of economic decisions should be left to the haphazard effects of competing consumer demands'.

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planning. Devons, a wartime planner in the Ministry of Aircraft Production, pointed out the problems and administrative difficulties of wartime planning. But these views were exceptional.[18]

Again, the generality of the notion of planning predominant in the 1940s should be stressed. As in the 1930s, it covered almost all governmental action in the economy, and Jay's equation of 'conscious purpose' with planning was widely shared. But there is no doubt that Labour's notions of planning in 1945 did embrace the idea of substantial state allocation of resources, a position grounded not in economic theory but in the legacy of wartime controls.

The wartime coalition had instituted a comprehensive set of such controls over the economy, covering investment, consumption and prices, manpower, trade and foreign exchange, thus suspending market mechanisms over large parts of the economy. It was widely agreed that most of these controls would have to be retained in the period of transition to a peacetime economy. For Labour the issue was how far the controls were synonymous with planning mechanisms and what, therefore, their role should be beyond the transition period.

In *Let Us Face the Future* (1945) the emphasis was on controls as a means of securing an egalitarian distribution of limited supplies of goods, and as an instrument to help offset the expected slump. The assumption was that the controls would be maintained for a long time, but this assumption was most explicit in relation to investment, where a National Investment Board (NIB) was to be established for both microeconomic and macroeconomic purposes, 'to determine social priorities and promote better timing in private investment'.[19] For reasons analysed in the next chapter, the whole idea of the NIB and the use of financial mechanisms to control investment came to almost nothing in the 1940s. As table 6.1 demonstrates, one key reason for this absence was the unimportance of external sources of finance for investment in this period.

In the short run the absence of effective financial control over investment was at least partially offset by physical controls. In the war period these involved a combination of building licensing, machinery licensing and raw materials controls. The second was administratively very difficult to operate and was largely ended in early 1946, and from then on the other two were the main instruments used. Rosenberg's analysis of building controls shows the difficulty of regulating activity in an industry with thousands of separate enterprises and with an enormous demand

[18] J. Jewkes, *Ordeal by Planning* (1948); E. Devons, *Planning in Practice* (Cambridge, 1950); also Devons, *Essays in Economics* (1961), ch. 4.

[19] Labour Party, *Let Us Face the Future*, p. 5.

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Table 6.1 *Sources of corporate investment finance, 1948*

(£m.)

New issues	300
Bank advances	125
Depreciation allowances	825
Undistributed profits	500
Reserves	250
Total gross investment	2,000

Source: PRO T230/143, 'Alternative Methods of Controlling Investment' by Mrs Hemming, 26 Feb. 1949.

for the diversion of building labour away from priority areas into house repair and maintenance.[20] In any case, controls operated via building licensing were, by definition, effective only in a shortage economy. Once building materials and labour became freely available, and similarly once raw materials were freely importable, then these controls would be undermined. Their use was in fact tightened up in 1947 to prevent a continuation of the excess demand for investment of the previous two years, but the longer term trend was for the easing of supply and balance of payments constraints on the economy to undermine physical controls over investment.

There is little evidence of a sustained attempt by the government or the Labour Party to search for methods of controlling private investment to support these wartime controls. There was some discussion of the use of the tax system, but whilst there was general support for (and use of) depreciation allowances, the Inland Revenue opposed any 'discriminatory' use of this instrument and so it was confined to a macroeconomic function.[21] Similarly, investment subsidies, apart from the unsuccessful case of the cotton industry, were not made into a significant instrument of planning.[22] Even in this case the policy's intellectual origins lay more with the inter-war rationalisation movement than with clear notions of socialist planning.

Of course, Labour's failure to control investment in the private sector is not surprising. In 1950 Harold Wilson called policies on the private sector 'almost a vacuum in socialist thought'.[23] The reason for the

[20] PRO CAB134/63, Committee on Control of Investment, Draft Report, 23 July 1949; N. Rosenberg, *Economic Planning in the British Building Industry, 1945–49* (Philadelphia, 1960).
[21] PRO CAB134/63, Draft Report.
[22] Singleton, 'Planning for Cotton 1945–51', pp. 62–78.
[23] PRO PREM8/1183, 'The State and Private Industry' by Harold Wilson, 4 May 1950.

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vacuum was, of course, nationalisation, long seen as central to Labour's ideas about planning the economy by controlling the 'commanding heights'. For reasons outlined in the previous chapter, in practice the relation between nationalisation and investment planning was problematic. To a significant degree nationalisation as a means of planning the economy was a chimera, given the Morrisonian notion of public sector managerial independence.

Alongside investment planning, the other major strand in Labour's approach in 1945, was manpower planning. But again, despite the hopes of 1945, this form of planning rapidly declined after Labour's general election victory, for reasons returned to in chapter 8.

As we have seen in the case of investment controls, the general pattern under the Attlee governments was for controls to diminish, though with qualification. The Korean War saw a reversal of that trend, and the scope of controls was still very considerable in 1951. More importantly, despite Wilson's bonfire of controls, the Labour government had not decided to abolish all of them, and intended to retain some permanently, though largely for macroeconomic purposes.[24]

In practice, the most important form of planning under Labour was not any of those envisaged before 1945, but the planning of trade. The compelling problem of the trade (and especially dollar) deficit led to rigorous and eventually effective planning of imports and to some degree of exports too, though in the nature of things planning of the latter was restricted to the supply side and so necessarily weaker than control of the *demand* for imports. Cairncross sees this as the most successful part of Labour's planning effort in this period.[25]

Internally the diminishing role for controls was also a diminishing role for planning, because in many ways the two were effectively synonymous. Labour had largely failed to develop alternative mechanisms for allocating resources. As the logic of controls to allocate shortage resources worked itself out, and those controls fell into disuse, no alternative emerged. Planning, if not dead, was certainly in a weak state by 1951.

The great debate: (i) Hayek and Meade

How far did this evolution of policy follow the doctrinal debates over planning in this period? Before attempting to answer that question we need a more detailed picture of those debates. Cairncross sees

[24] Dow, *Management*, Table 4; Rollings, 'Reichstag Method of Governing?', pp. 15–36.
[25] Cairncross, *Years of Recovery*, (1985) p. 503.

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a fundamental cleavage between two approaches to economic planning: a socialist, egalitarian, approach which saw planning as a purely organisational activity akin to the planning that goes on within a productive enterprise, an army, or for that matter, a political party; and a liberal, Keynesian, approach which saw planning as a corrective to the operation of market forces and dwelt particularly on the need for a level of effective demand adequate to maintain full employment.[26]

To see how far such a fundamental divide underpinned the debates of the 1940s we can start with the response to a key text, Hayek's *Road to Serfdom* of 1944. In this, Hayek's most polemical work, he put forward two major and interconnected theses. One was that socialism was on a par with National Socialism and other forms of fascism; that the prevailing intellectual and political climate in Britain mirrored that in Germany during and after the First World War; and, furthermore, that this climate was likely, if unchecked, to lead to the same disastrous consequences in Britain. Second, and more specifically on planning, Hayek argued that central direction of economic activity is incompatible with liberty, and that attempts to plan the allocation of resources centrally must either be given up or must lead inexorably down the road to serfdom.

Hayek's book was produced whilst the wartime coalition was still in power, and was explicitly aimed not just at the Labour Party and socialists but 'the collectivists of all parties'. Indeed, the central message of Hayek's polemic was that there was no middle way between collectivism leading to serfdom and individualism leading to freedom. His argument was a variety of the 'slippery-slope' approach, in which it was suggested that Britain was already significantly down the road to perdition.[27]

The response to Hayek's work was, not surprisingly, extremely varied. But what seems so striking in retrospect is the limited extent to which the bases of his argument were attacked. Only Barbara Wootton really got to grips with Hayek's notion of freedom. She pointed out that what is meant by freedom is usually a conglomeration of freedoms and liberties rather than a single entity, and that there is no good reason to suppose these freedoms are strengthened or eroded together. Further, she said, one could sensibly support a positive notion of freedom (freedom *to* as opposed to Hayek's negative notion of freedom *from*) without equating it with omnipotence if that freedom was seen in this differentiated way. In other words, 'positive' freedom is an acceptable concept if it is freedom to attain specific ends rather than a singular and absolute state. Also, she argued, the compatibility of planning with different types

[26] Ibid., p. 308.
[27] F. Hayek, *The Road to Serfdom* (1944).

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of social organisation was an empirical matter. She was able to show that although Britain was, according to Hayek, a long way down the road to serfdom because of planning, there was little evidence of significant erosion of liberties.[28]

Other responses were much less profound. Keynes was sympathetic to Hayek but rather beside the point. Keynes said of the *Road*: 'Morally and philosophically I find myself in agreement with virtually the whole of it.' His 'only serious criticism' was that Hayek gave no guidance on 'where to draw the line' and that he 'greatly underestimates the practicability of the middle course'. Keynes' view was that we want more planning, but under conditions where as many as possible of the planners share Hayek's moral position. This rather missed the point that Hayek denied the possibility of a sustainable middle course.[29]

Interestingly, Pigou's review of Hayek was both more critical and more to the point. Pigou pointed out that the consequences for freedom of one crucial kind of planning, that of manpower, depended entirely on how it was done. If it meant direction of individuals to specific jobs, plainly it was totally at variance with normal notions of individual freedom. If, however, it involved the government manipulating wages and conditions to attract/deter workers from particular sectors, could this be seen as an erosion of liberty?[30]

One of the most important commentators on Hayek was Durbin, a participant in the calculation debate of the 1930s and an important economic thinker in the Labour Party until his death in 1948. His article in response to Hayek's *Road* focused on the alleged misunderstanding of what socialists advocated. Durbin's central criticism of Hayek was that he misrepresented the notion of planning held by modern socialists. Durbin argued that socialists used planning to 'indicate a principle of administration and not an inflexible budget of production'. Reiterating some of his arguments from the 1930s, he maintained that 'the centrally directed economy can be, and should be, instructed to adapt its programme to the changing wishes of the consuming public and the changing conditions of technical efficiency' (p. 96). Durbin made it plain that what he meant by 'plans' were forecasts, for example bringing out the implications for inputs of future levels of output of particular commodities, where those outputs reflected the pattern of consumer preferences and could therefore be changed at any time (p. 98). Interestingly,

[28] B. Wootton, *Freedom under Planning* (1945).
[29] J. M. Keynes, Letter to Hayek in *Collected Writings*, vol. XXVII, *Activities 1940–46* (1980).
[30] A. C. Pigou, Review of *The Road to Serfdom*, *Economic Journal* 54 (1944), pp. 217–19. Pigou's views on planning are outlined in 'Central Planning and Professor Robbins', *Economica* 15 (1948), pp. 17–27.

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Durbin chose as his example of the effects of economic planning the contentious industry of iron and steel. According to his definition, by subjecting iron and steel to economic planning 'we merely mean that the responsibility of the works' managers is changed from the Iron and Steel Federation, or even the representatives of small groups of shareholders in competing firms, to a Public Corporation, responsible in its turn to a Supreme Economic Authority representing the people'.[31] Durbin attacked Hayek primarily not because he disagreed with what he said about economic planning and its political implications, but because, according to Durbin, socialists did not intend to plan at all in Hayek's sense. How typical was this of left-wing economists in the 1940s?

The most important such economist in the early years of the Labour government was James Meade, head of the Economic Section in 1945 and 1946. Meade called himself a liberal-socialist, and already in 1936 had published a book which captured much of what he was to say in the 1940s (and indeed down to the 1970s).[32] In his 1936 textbook Meade had given overriding priority in economic policy to defeating unemployment. This was to be achieved by measures affecting aggregate demand, especially the guidance of investment by a National Investment Board. Coupled to this were proposals for the public management of industries where competition was not prevalent, in accordance with the principles of marginal cost pricing. Finally, the fiscal system should be used to redress inequalities.

Meade was one of the participants in the great public debate about planning. In his *Planning and the Price Mechanism* (1948) he spelt out very clearly what he saw as the tasks of government in the economy in the 1940s. These tasks were to 'guide the economy from war to peace, to prevent inflationary and deflationary pressure, to ensure a tolerably equitable distribution of income and property, and to prevent or control the anti-social rigging of the market by private interest'. Adjusted for the changed times, this position was based on the same principles as the textbook of 1936. However, Meade went on to spell out his objections to centralised physical planning, which were threefold. Such planning, he argued, would be a major threat to freedom, partly because of the loss of consumer sovereignty, but above all because it would involve the allocation of labour. Second, such planning would breed spivvery and corruption. Third, it would require a large number of people to administer the requisite controls: 'When one examines the possibilities of quantitative planning, one cannot but be appalled by the prospects of

[31] Durbin, *Problems*, pp. 95, 96, 98.

[32] Meade, *Economic Analysis and Policy*; Meade, *The Intelligent Radical's Guide to Economic Policy* (1975).

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insidious threats to personal freedom and to public morality, of a swollen bureaucracy and of clumsy inefficiencies.'[33]

This public position was enthusiastically pursued in Meade's 'private' role as chief economic adviser to the government. His diary shows him in memoranda and verbal advice spelling out his conception of economic planning. In a memorandum under that title in September 1945 he made clear that planning should be largely macroeconomic in character, and explicitly repudiated the idea of planning by industrial sectors. Earlier, in May 1945, at the beginning of his period as head of the Economic Section, he had spelt out his view that the price mechanism should only be superseded where competition was not technically possible, such as in the case of natural monopolies.[34]

Meade had a clear view of the divisions in economic thought. For him there were three views – Hayek and the advocates of *laissez-faire*; his own liberal-socialist position, and the Gosplanners. Thus in reflecting on his review of Lerner's (1945) book in his diary, Meade commented:

> what a breath of fresh air it is, after the dreadful arbitrary and authoritarian quantitative planning of a Balogh on the one hand and extreme *laissez-faire* attitudes of a Hayek on the other, to read an economist who starts out from the simple and fundamental economic proposition that the purpose of economic policy should be to make the economic calculus work'.[35]

How accurate was Meade's characterisation of the economic division of opinion? In relation to Hayek, it is interesting to note that, in response to queries from Morrison about the kind of advice likely to come from the Economic Section, Meade showed how much agreement there was between him and Robbins, Jewkes and Dennison. Robbins, of course, was a close collaborator with Hayek, especially in the 1930s; Jewkes was to write a Hayekian polemic against planning in 1948; Dennison was less well known but also a strong *laissez-faire* advocate.[36] Yet Meade was able to demonstrate large areas of agreement between these men and himself over issues of aggregate demand policy and international economic policy, with the differences limited to questions of 'industrial organisation'. By this he meant solely the issue of the extent of public ownership: 'all economists agree that at the one extreme there were

[33] Meade, *Planning and the Price Mechanism*, pp. vi, 6–7, 10.
[34] J. Meade, *Collected Papers*, vol. I, *Employment and Inflation* (1989), ch. 16; vol. IV, *The Cabinet Office Diary*, p. 79.
[35] *Cabinet Office Diary*, p. 37; Review of Lerner in 'Mr. Lerner on the Economics of Control', *Economic Journal* 55 (1945), pp. 47–69.
[36] Jewkes, *Ordeal by Planning*; Robbins also attacked peacetime planning in his *Economic Planning in Peace and War* (1947).

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certain activities which should be publicly run and that at the other there were industries which should compete, but each drawing the dividing line at a different spot'.[37]

Meade was right to minimise the distance between his views and people like Robbins and Jewkes (and by extension Hayek). Whilst he may have disagreed with Hayek's macroeconomic views (as indeed did Robbins and Jewkes by this time), his view of the role of the state as regards industrial planning would not have been very different from the Austrian view.

On the other side of the argument Meade identified the 'enemy' as Balogh. Elsewhere he perceived others.

> But I fear that Cripps (in this no doubt primed by Austen Robinson) wants a detailed Economic Plan in the sense of a statement of exactly how many shirts, how many pairs of boots and shoes etc. we should produce over each of the next five years. This, I believe, if taken seriously would lead to the sacrifice of all the flexibility which a proper use of the pricing and cost system demands.[38]

Meade's characterisation of Balogh is accurate up to a point. Balogh certainly saw himself as a planner. But his detailed discussions of what this might mean for policy were mainly limited to international economic issues, where he was a powerful proponent of maintaining physical controls, against the strong preferences of Meade, as noted in chapter 3. Whilst Balogh advocated more planning domestically, especially to address what he saw as the market mechanism's inability to generate enough savings and investment, he did not spell it out in detail. In addition, he held no official position in the policy-making or policy-advice apparatus.[39]

Meade's identification of Cripps as the chief advocate of planning in the government raises more complex issues. Cripps, like most ministers at this time, displayed a strong rhetoric in favour of planning. But beyond this he probably had the most developed notion of democratic planning and its implications for industry of anyone in the Attlee governments.

He wrote the introductory section of the 1947 *Economic Survey*, which gave a broad account of what economic planning involved in a democratic society. As Cairncross argues, this was a curious statement in that remarkably little was said about the mechanisms of planning. The emphasis was, first, on the essential difference between totalitarian and

[37] *Cabinet Office Diary*, pp. 115–16.
[38] Ibid., p. 202.
[39] Balogh, *Dollar Crisis*; 'Britain's Economic Problem', pp. 32–67; also *Unequal Partners*, vol. II, p. 269.

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democratic planning, which ruled out in particular any direction of labour, and second, on the need to plan for the output of six basic industries, namely coal, power, steel, agriculture, transport and building. Beyond these sectors planning would consist of a set of budgets relating needs to resources. The budgets would be of manpower and of national income and expenditure, and would be supplemented by analyses of particular problems – foreign exchange, investment and basic materials.[40] The mechanisms available to government, Cripps argued, would be different from those available during wartime, because of the unacceptability of labour direction and the rapid decline in the role of government as purchaser of output. Many other wartime controls continued but, he argued, their effectiveness depended crucially upon consent: 'Events can be directed in the way that is desired in the national interest only if the Government, both sides of industry and the people accept the objectives and then work together to achieve the end.'

But whatever the political logic of this emphasis on co-operation, it could not be said that it provided a magic key to democratic planning, especially because, as Cairncross notes, the relation between planning and the price mechanism was entirely neglected in Cripps' discussion.[41] This is a crucial point about the debate on planning in the 1940s. Cripps in many ways represented a wide range of opinion, both within Labour and beyond, which on the basis of the experience of both the inter-war slump and wartime planning had come to have a deep, if often implicit, distrust of the price mechanism. This view was what Harrod denounced as 'This evil . . . distrust of the price mechanism and of the automatisms of the old economy'.[42]

Such distrust is perhaps best summed up in Franks' *Central Planning and Control in War and Peace*, which does not so much attack the workings of the price mechanism as assume its ineffectiveness and undesirability in dealing with contemporary economic problems, and consequently assume that the major issue is what kind of administrative mechanisms to put in its place.[43]

Meade offered a powerful critique of this view.[44] His key point was that the administrative issues of planning could not be separated from the issue of the role of the price mechanism. For example, in relation to the primary problem of the balance of payments, Meade argued that

[40] *Economic Survey* (1947), paras. 8, 12, 15–22; Cairncross, *Years of Recovery*, pp. 304–9.
[41] *Economic Survey*, para. 27; Cairncross, *Years of Recovery*, pp. 308–9.
[42] R. Harrod, Review of Jewkes, *Ordeal by Planning*, *Economica* 15 (1948), p. 223.
[43] O. Franks, *Central Planning and Control in War and Peace* (1947).
[44] J. E. Meade, 'Planning without Prices', *Economica* 15 (1948), pp. 28–35; see also D. H. Robertson, 'The Economic Outlook', *Economic Journal* 57 (1947), pp. 430–3.

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Franks' discussion of the mechanism of control of exports and imports had to be linked to a discussion of the extent to which market mechanisms would fail to make the necessary adjustments, or would do so too slowly.

Whatever the undoubted omissions and confusions of Cripps' exposition or Franks' implicit defence of that position, it is doubtful whether Meade's picture of the minister as a Gosplanner is very accurate or helpful. Cripps did believe in planning of a sort, but his democratic planning owed much more to a tripartite style of industrial co-operation than to Soviet-style central planning. In his statement of aims when he was first appointed to the Board of Trade in 1945, Cripps spelt out this philosophy. The primary aim, he said, was to raise industrial efficiency, but central to its success was the mobilisation of consent in industry: 'We should avoid the impression that we wish to impose upon the industry a pre-conceived government plan. On the contrary, both sides of industry should feel that what the Government is trying to do is to help the industry help itself.' This ideology was the basis of Cripps' emphasis on working parties and later Development Councils as Labour's key policies for the non-nationalised sector.[45] If we want to understand Cripps' and to a large degree Labour's notion of democratic planning, it is this kind of proposal we need to focus on, not the economists' agenda of planning and the price mechanism as alternative means of allocating resources.

Meade identified Austen Robinson as the economic adviser behind Cripps' Gosplan approach. Again, this seems exaggerated. Robinson was certainly keener on government controls over resource allocation than Meade. But this needs to be qualified substantially. First, Robinson's enthusiasm for planning was primarily an enthusiasm for manpower planning – this was true in the 1940s and remained so into the 1960s. That, however, did not involve support for direction of labour, but of 'wage planning'.[46]

Second, and more importantly, Robinson saw the prime function of planning as speeding up the changes in the economy which the market mechanism was slow to make: 'the main aim of planning should be to make planning unnecessary'.[47] Hence he was not a Gosplanner any more than Cripps. Rather he was at one end of the spectrum of views

[45] PRO CAB71/21, 'The Government's Plans for Encouraging Industrial Organisation and Efficiency', 27 Aug. 1945; see also BT13/220, 'President's Morning Meeting', 29 Aug. 1945. On Development Councils see Mercer, 'Labour Governments', pp. 71–89.

[46] E. A. G. Robinson, *Economic Planning in the UK: Some Lessons* (Cambridge, 1967); 'Economic Problems', pp. 165–85.

[47] PRO T229/47, 'Comments on Economic Sections Survey for 1948–51' by E. A. G. Robinson, 23 June 1947; also 'Economic Problems', p. 177.

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about how quickly wartime controls should be reduced as normality returned. He did not see a permanent role for those controls once the transition to that normality was made.

The general argument here is that Meade's view of the range of economic opinion amongst ministers and their advisers was distorted. There was no significant difference in basic economic views between him and people like Robbins and Jewkes. Similarly, there was no serious advocacy of Gosplan-style planning from ministers or economists in his period as head of the Economic Section. Meade's critique of the non-economist Franks had more relevance to the kind of ideas informing the planning proposals of people like Cripps than much of the 'great planning debate' amongst economists in this period.

The debate of the 1930s had focused on planning as a device for efficient resource allocation. In this debate Meade followed Keynes in believing that, given full employment of resources, the market (with qualifications) would deliver an efficient allocation of those resources. Hence both his enthusiasm for planning in the sense of national income planning, i.e. demand management, and his hostility to Gosplanners.

The use of this latter term raises a fundamental problem about what is meant by planning under the Labour government. The Soviet five-year plans were above all about *modernising* the Soviet economy, not reallocating an existing set of resources. One of the tensions not sufficiently recognised in Labour's economic policies was between what was essentially an economists' agenda of full use and efficient allocation of resources, and the modernisation aims of some ministers in the Labour government, such as Cripps and, to a lesser extent, Dalton. Thus the aims of planning were further complicated by this additional objective, which cut across the economists' agenda. But precisely what 'modernisation' meant never clearly emerged in this period, though it did involve a large number of initiatives by the government.[48]

The great debate: (ii) Hall and the events of 1947

In 1947 Meade was succeeded as head of the Economic Section by Robert Hall. Like Meade, Hall had been a pre-war advocate of 'liberal socialism', albeit of a much less clearly defined character. Like Meade, he kept a diary of his period in the Economic Section which has subsequently been published, but he is much less revealing about his policy views than Meade.[49] PRO material, however, makes clear that his pos-

[48] See chapter 4.
[49] Hall, *Economic System*; *The Robert Hall Diaries 1947–53*, ed. A. Cairncross (1989).

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ition was very similar to that of Meade. In 1948 he wrote: 'In all of these you will see that my view is that a detailed plan is impracticable for an open economy, and that we should therefore plan for an adaptable system so that we could adjust ourselves to whatever fate has in store for us.' The following year he noted: 'my own view of the matter is that planning in the UK is primarily a matter of forecasting where we are going, making the best prediction we can of present trends and taking existing policies as given'.[50] Hall, then, maintained a great deal of continuity in policy advice with his predecessor. However, his period as head of the Economic Section coincided with the creation in 1947 of an Economic Planning Board (EPB) and a Central Economic Planning Staff (CEPS), which suggests that the government was increasing its commitment to notions of economic planning.

The significance of these events of 1947 is complex to unravel. Many analyses of the Labour government see 1947 as marking a decisive shift in policy away from planning and controls and towards the dominance of fiscal policy.[51] How does this view chime in with the creation of this new apparatus of planning? The central economic point is that prior to 1947 the government had not got to grips with the excess demand in the economy which resulted from the build-up of purchasing power in wartime and the limitations on supply. The changes of 1947 (especially the budget of November) were certainly 'Keynesian' in the sense that the budget was explicitly used to reduce the level of demand, but in other respects deeply ambiguous, a theme returned to in chapter 10.

Any idea of a simple move from planning to fiscal policy in 1947 therefore needs to be abandoned. On the other hand, was there a 'real start to central planning' in that year, as Dalton suggested?[52] As noted above, whilst investment was controlled more effectively after 1947, the controls (largely via raw material allocations, especially steel) were relevant only as long as shortages persisted. Alternative methods of allocating investment expenditure were not created.

Similarly, the importance of the EPB and CEPS for planning should not be exaggerated. The EPB, made up of employers and trade union representatives (plus civil servants), was largely a talking shop and of little significance in policy-making. The CEPS is of more interest because it created another, if limited, channel for expert economists to

[50] PRO T230/323, Hall to E. Plowden, 'Have We Got a Plan?', 21 April 1948; Hall to Wright, 4 March 1949.

[51] For discussion of this issue see Tomlinson, *Employment Policy*, ch. 5; Rollings, 'Reichstag Method of Governing'; A. Booth, *British Economic Policy 1931–49: A Keynesian Revolution?* (1989), ch. 6.

[52] Cited in Cairncross, *Years of Recovery*, p. 452.

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influence policy-making. It was headed by Edwin Plowden, an industrialist/civil servant, but included among its staff Austen Robinson, who had figured in Meade's assessment of the state of opinion when he held a previous official appointment at the Board of Trade. Plowden himself seems to have shared the views of Robinson already noted, that 'the aim of planning should be to make planning unnecessary'.[53]

Amongst the adherents of this view of planning Robinson was certainly more sympathetic to quantitative targets than Meade was. Their difference in approach broadly speaking reflected a difference between the ethos of the whole Economic Section as opposed to that of the Planning Staff.[54] It is brought out quite explicitly in two documents produced by these departments. In one, entitled 'What Does the Economic Section Believe?', written in April 1949, David Butt of the section began with the question: 'Do we believe in economic planning?' Basically, his argument was that the section believed in 'mild' planning, planning in aggregate and some of the big investment programmes, but not in 'fierce' planning of specific resource allocations enforced by government.[55] This was really the Meade line continued.

On the other hand, a 1948 document by Robin Marris and Kenneth Berrill of the CEPS, produced in the previous year, began bluntly with the statement: 'Fundamentally the difference between the Economic Section and ourselves is that, as an act of faith, we believe in planning and they do not.' This was followed by a further statement of faith:

> We believe that it is probable that the United Kingdom needs certain radical changes in the pattern of its economy and that on balance, the changes will come about more quickly if the economists use their judgement and advise on direction, quantities and methods than if all sit back and allow the machine to attempt to drive around the corner by itself.[56]

This was an important difference, and it was reflected in some of the work done in the different organisations. In the Economic Section, for example, any long-run forecasts were regarded sceptically. On the other hand, among the planning staff there was a clear interest in what was called 'level of industry' planning, and this led to work, at least of a preliminary kind, on input–output calculations of the structure of certain British industries. This work, however, seems quickly to have been abandoned.[57]

[53] Plowden, *Industrialist*, p. 46.
[54] See also Cairncross and Watts, *Economic Section*, esp. chs. 8, 9.
[55] PRO T230/143, 11 April 1949.
[56] PRO T229/166, 'Presentation of the Long Term Survey' by R. Marris and K. Berrill to A. Robinson, 15 June 1948.
[57] PRO T23O/145, 'Questions for a Numerologist or Planner', R. Butt to R. Hall, 22 June 1948; T229/166, unsigned, undated memo, 'Level of Industry Planning'.

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Thus the CEPS emerges as the closest to Gosplanners that Britain had within the official machine in the late 1940s. Some of its members certainly saw themselves as engaged in a battle with other economists: 'We have tried to argue a case not universally accepted by economists that detailed production planning is desirable on theoretical grounds to maximise output over time. Further, it is especially desirable where an economy needs rapidly to change its structure.'[58]

The result of all the discussion and debate within the CEPS was a fairly mild version of the planned economy:

> We believe that it is quite impracticable and far from desirable over the whole field of industry to set production targets for the whole range of final products . . . But we believe that, more particularly in the short period, it will be necessary both to set general targets for the basic industries . . . and in the case of the main manufacturing industries to establish the general levels of production which are necessary to meet the needs of the export market and the main needs of the home market.[59]

In any event, Robinson in the CEPS was not such an influential figure as Hall, the head of the Economic Section, and generally the Planning Staff seem not to have had very much impact on policy; much of what they did was to process the implementation of policy decisions unambiguously made elsewhere. Even their muted version of planning was thus rather marginal to the government machine.

Who was for planning

The previous sections have advanced the argument that, for all the rhetoric of planning in the late 1940s, influential advocates of planning in the narrow sense usually employed by economists were very thin on the ground. Economic advice to the government was overwhelmingly dominated by a 'liberal-socialist' view, which in Meade's later phrase, said 'two cheers for the market'.[60] This was not substantially altered by ministerial opinion. Cripps, who had the most developed concept of planning, was also totally committed to a consensual, co-operative view of government–industry relations which militated against any idea of Soviet-style planning. For him planning was mainly about the development of such good relations. When he committed himself on the issue of planning in the economists' resource allocation sense, he seems in fact to have shared the view that the aim of planning should be to restore the conditions for production to be guided by consumer demand: 'In a

[58] PRO T229/166, unsigned, undated memo, 'Long Term Economic Planning'.
[59] PRO T229/208, unsigned, undated memo, 'Economic Survey 1948–51', note by CEPS.
[60] Meade, *Intelligent Radical's Guide*, p. 162.

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free society, planning should seek the satisfaction of consumer wants with the most economical use of our resources. In normal times production should be fitted to the pattern of market demand.'[61] This strong emphasis on consumer sovereignty was established in the debates of the 1930s, and was obviously central to economics as a discipline which regards consumption as the ultimate aim of economic activity. But this theoretical orientation also fitted with the political mood of an important part of public opinion in the 1940s, which saw rationing and consumer austerity as irksome, a view much emphasised by the Conservative opposition. Cairncross points out how sensitive economists were to the tide of public opinion, and Labour politicians were not immune.[62]

The most consistent advocates of planning in a radical sense in this period were probably the engineering unions. In a series of memoranda from 1945 to 1949 the National Engineering Joint Trades Movement and later the Confederation of Shipbuilding and Engineering Unions came out strongly for a system of targets for the sectors of the engineering industry to be turned into targets for individual factories. What is interesting about these proposals is not just that they were the most developed example of a case for planning made in this period, but also how little support they received. In particular what is of note is the resistance by the government even to having a Development Council in the industry. It agreed only reluctantly to the establishment of an Advisory Council with minority union representation and a purely advisory role.[63] The engineering unions do not seem to have gained TUC support for their position on planning: it is precisely their idiosyncrasy which makes them stand out in this period.

Conclusions

Socialist planning, a recent article observes, 'was a notable, if unlikely casualty of Labour government after the Second World War'.[64] Why did all the debates and discussions, intense since the 1930s, seem to come to so little in the 1940s? Stephen Brooke's argument is that the

[61] PRO T229/417, 'The Framework of Economic Planning' by Minister for Economic Affairs, 11 Nov. 1947.

[62] Letter to author, 1989; Ina Zweiniger-Bargielowska, 'Rationing, Austerity and the Conservative Party Recovery after 1945', *Historical Journal* 37 (1994), pp. 173–97.

[63] Modern Records Centre, Warwick University, MSS 292 615 2/5, 'The Engineering Worker and Economic Recovery', 5 Dec. 1949; MRC MSS44/TBN147, 'Plan for Engineering', 1949/50; PRO SUPP14/137, 'Proposals for an Engineering Advisory Board' 1946–52; Hinton, *Shop Floor Citizens*, ch. 8.

[64] S. Brooke, 'Problems of "Socialist Planning": Evan Durbin and the Labour Government of 1945', *Historical Journal* 34 (1991), pp. 687–702.

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key problem in the 1940s was that such planning 'was untenable in practical terms given the intransigence of the unions'.[65] Whilst this view has a long pedigree, it seems to put too much emphasis on the unions *per se* as upholders of voluntarism and free collective bargaining. Support for such an attitude to wage bargaining was much broader and deeper than a 'government versus unions' analysis suggests.[66]

But whilst general support for free collective bargaining was an important political and ideological obstacle to a more thoroughgoing planning regime, it was by no means the only such obstacle. In addition, there was opposition from almost all private sector industrialists to the enhanced role of government in industry, and also opposition from those who took over the newly nationalised corporations. Relations with the first group were largely defined by a consensual, co-operative approach which in some ways generated the worst of both worlds. By focusing so much on the need for agreement it ruled out radical policy departures based on government leverage over private firms. On the other hand, by being coupled to such strong notions of parliamentary sovereignty it ruled out freeing the 'tripartite' bodies and allowing them to execute significant policy initiatives. The latter position ruled out, for example, any idea of a semi-autonomous *commissariat au plan* on the French model, let alone any Gosplan.[67] Similarly, the commitment to the Morrisonian corporation in the public sector ruled out the subordination of the newly nationalised industries to any national plan.

These features of Labour's position – consensual tripartism, the Morrisonian corporation, parliamentary sovereignty alongside free collective bargaining – provide what may be called the 'iron quadrilateral' of political positions which bound the government's economic and industrial policies. They are returned to in chapter 13. They militated strongly against any kind of planning in the narrow sense. Equally, Keynesianism eroded support for planning by seeming to present a solution to the unemployment problem without involving a compromise with these political principles. An alternative planning strategy, aimed at industrial modernisation, never cohered in this period. It didn't fit with the economists' approach to the issue, focused on resource allocation, which had become increasingly influential; and it threatened those political principles outlined above which bounded Labour's approach to industry. The (partial) triumph of demand management as an alternative to planning combined a doctrinal triumph for Keynesianism,

[65] Ibid., p. 700.
[66] See chapter 8.
[67] On British reactions to the Monnet Plan PRO CAB125/9242, 'Discussions on Monnet Plan', 5 Sept. 1945.

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broadly defined; a (partial) triumph of a policy objective of stabilisation over modernisation; and a (partial) triumph of certain deep-seated aspects of Labour's political philosophy.

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