Labour and the economy: a socialist strategy

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1. introduction

In 1964 Labour put its economic policy before the electorate, and the electorate voted for it. But the policy failed.

Failure was by no means complete. Inheriting a huge balance of payments deficit, Labour transformed it—eventually—into a huge surplus. And under Labour, though there has been little recognition of the fact, there was an improvement in the distribution of income.[1] But a satisfactory balance of payments position is a necessary condition of attaining other economic objectives, not an end in itself. And the improvement in income distribution seems likely to have been short lived, in view of the policy changes pushed through by the incoming Conservative government. Neither achievement compensated for the failure of the central themes of Labour's declared economic policy—the commitment to maintain full employment, to curb rising prices, and above all to secure a faster rate of economic growth. Here, failure was massive, and is easily documented. When Labour took office unemployment[2] was $1\frac{1}{2}$ per cent, and falling; when it left, it was $2\frac{1}{2}$ per cent, and rising. In the Tories' last year in office, retail prices had risen by $4\frac{1}{2}$ per cent; in Labour's last year, they rose by 6 per cent. And under the Tories the rate of economic growth (Gross Domestic Product at constant prices) had averaged 2.7 per cent a year; under Labour it was only 2.2 per cent. These figures do not reflect particular credit on the Conservatives: in the two years since they resumed office in June 1970 their performance on all three fronts has been very much worse than Labour's. But they are an inescapable indication of the width of the gap between Labour's promise and its performance.

reasons for failure

The reasons for this failure have been analysed many times, and will not be rehearsed in detail here. The basic reason was that the attainment of a faster rate of growth conflicted with the fixed exchange rate that Labour inherited in 1964, and for more than three years it was growth, and not the exchange rate, that was sacrificed. Against this background of slow growth a very tough prices and incomes policy was introduced in an attempt to secure gradually, over a period of years, the improvement in British competitiveness that should have been secured overnight by a lowering of the exchange rate. Quite unable to secure the necessary improvement in competitiveness within the time scale available, the prices and incomes policy succeeded nevertheless in alienating large numbers of workers who saw their restraint on money wages matched not—as all the previous arguments in favour of a prices and incomes policy might have led them to expect—by a faster rise, but by a much slower rise, in their living standards. Prices and incomes policy, introduced at the wrong time and for the wrong reasons, was discredited for years to come; and when the time came—immediately after devaluation—when it was really needed, it had become largely ineffective. Even after devaluation, therefore, when it was no longer necessary to run the economy well below capacity in order to maintain balance of payments equilibrium, the Labour government failed to bring down unemployment in case this might give a further thrust to the already accelerating pace of inflation. During its last year in office output stagnated and unemployment crept slowly upward.

The mistakes of 1964-70, and in particular the crucial mistake of not devaluing until far too late, are now so widely recognised that it is unlikely that they will be repeated by any future Labour administration. But avoiding old mistakes may not get us very far. Indeed, it is a path with pitfalls of its own. Politicians, like generals, have a genius for fighting the last war but one. The Suez fiasco reflected Eden's conviction that he was back in the 1930s, facing another Hitler. The refusal to devalue in 1964 or 1966 stemmed in large part from Harold Wilson's faith in the direct interventionist policies appropriate to the physically controlled economy of the 1940s. If anything, the danger is not of a future Labour government failing to use the exchange rate weapon in circumstances which cry out for it, but of putting too much reliance on it in circumstances which do not. The road to hell is paved with false analogies.

Except in passing, or where the argument requires it, the present pamphlet does not deal with the economic policies of the 1964-70 Labour government, or of the Conservative government that replaced it. It attempts, instead, to stand back a little from current and recent events, and to consider, without undue commitment to the past, the kind of economic objectives that should be adopted by a Labour government taking office some time during the next few years, and the kind of measures needed to attain them.

2. main objectives

Any discussion of economic objectives should proceed from a clear understanding of two basic points.

The first is that although the distinction between ends and means will in many cases be blurred, it is in principle an important one. It is, of course, true that what is an end and what is a means depends to some extent on the time scale one is concerned with. The most basic objective of economic policy is presumably something like the greatest happiness of the greatest number (of those already alive: this is not a recommendation for a population explosion); and a higher level of investment next year or a lower level of interest rates next month are merely some of the steps which may be needed to achieve this objective. In the perspective of the next year or the next month higher investment or lower interest rates themselves become important aims—and the question is, how best to pursue them? Nevertheless, somewhere on the spectrum between the advent of the millenium and the needs of day to day economic management lie the legitimate objectives of economic policy, and it is important for a government to have a clear view of what they are, and what they are not. A balance of payments surplus, for example, however much the need for it may come to dominate short term economic policy, is not a true economic objective; it is not wanted for its own sake, but as a condition of achieving economic objectives which are wanted for their own sake. Governments which lose sight of this distinction between ends and means frequently, and deservedly, come to grief.

The second point that one needs to be clear about is that different economic objectives are quite likely to conflict with each other. More success in achieving one may mean less in achieving another. The most obvious example is the conflict which has often been said to exist between full employment and price stability: the lower the level of unemployment, it has been claimed, the faster prices will rise. Where such a conflict exists, policy makers must trade off one objective against the other, deciding how much of one objective it is worth sacrificing in order to achieve how much of the other. In actual practice, therefore, the pursuit of economic objectives will not be an all or nothing affair; it will often be a question of deciding on a bit more of this and a bit less of that. This point will not be laboured in what follows; but appreciation of it must inform all policy making.

consensus objectives

Throughout the post war period there has been a substantial degree of consensus on the main objectives of economic policy. Both major political parties, and informed public opinion generally, have taken them to be full employment, a rapid rate of growth, a reasonable degree of price stability and a surplus on the balance of payments.[3] To these four consensus objectives the Labour party has, on the whole, been disposed to add a fifth: greater equality in the distribution of income and wealth.

Are these the right objectives? Should a future Labour government take them as given, and is it therefore only to the means of achieving them that thought needs to be devoted? Or do the objectives themselves need to be reassessed? This chapter considers these questions, fully recognising that, while the answers provided may meet with the approval of many socialists, they are in the last resort subjective.

full employment

Full employment, the fruit of the Keynesian revolution, was the original overriding objective of post war economic policy. Although the success with which it was achieved varied between regions, and at different times, there can be little dispute that during the first twenty years after the war Britain enjoyed full employment on any reasonable definition of the term. Unemployment averaged little more than $1\frac{1}{2}$ per cent, and allowing for those people in between jobs, those in remote areas, and those with some moderate disability, this is about as close to zero unemployment as one can get.

During the past five years the picture has been very different. Even before the rapid rise that took place during 1971, unemployment since the beginning of 1967 had averaged a pretty constant $2\frac{1}{2}$ per cent or so—not far off double the average for the previous twenty years. It is true that cyclical factors and forecasting errors played a part in this, and it is also true that the redundancy payments scheme and wage related unemployment benefits introduced by Labour in the mid-1960s probably had the effect of raising the unemployment rate a decimal point or two above what it would otherwise have been. But none of this alters the basic fact that since 1966 or 1967 the Labour party, as well as the Conservative party, has been prepared to tolerate a significantly higher rate of unemployment than the one experienced during the previous twenty years.

The main reason for this change was undoubtedly increased concern with inflation. On common sense grounds, one might suppose that an overall unemployment rate of $1\frac{1}{2}$ per cent, inevitably associated in many areas and for many skills with acute competition for labour, is likely to lead to a faster rate of wage increases, and hence of price inflation, than an overall unemployment rate of $2\frac{1}{2}$ per cent. For some, this general presumption was given hard and precise form by the statistical relationships established in the late 1950s by Professor Phillips and others between past figures of unemployment and wage increases (relationships described as " the Phillips curve "). On the basis of the Phillips curve Professor Paish concluded that whereas a $1\frac{1}{2}$ per cent unemployment rate would doom the country to perpetual inflation, a $2\frac{1}{2}$ per cent unemployment rate would ensure perpetual price stability; and there is no doubt that the effect of this doctrine on policy makers in the 1960s was powerful and pervasive. By the end of the 1960s Professor Paish's conclusion had of course come to look singularly ridiculous, with unemployment rates of $2\frac{1}{2}$ per cent or more coexisting with a rate of increase of prices of 8-10 per cent a year.

It could be argued that although the particular quantitative predictions based on the Phillips curve have been totally discredited by events, the substantive point—that lower unemployment means faster inflation—remains valid. Indeed, this is probably true. But it is not clear that it constitutes a good reason for abandoning a $1\frac{1}{2}$ per cent unemployment rate as a satisfactory definition of full employment in favour of a $2\frac{1}{2}$, $3\frac{1}{2}$ or $4\frac{1}{2}$ per cent rate. Between mid-1970 and early 1972 unemployment (as previously defined) rose from around $2\frac{1}{2}$ per cent to about 4 per cent—yet during the same period wages and salaries rose at an annual rate of 12-15 per cent, and retail prices at an annual rate of about 10 per cent. With inflation proceeding at this sort of pace, can it really be contended that higher unemployment is a useful anti-inflationary weapon?

Increased concern with inflation has tended to obscure the simple but powerful arguments in favour of the fullest possible level of employment. One such argument is economic: in a country—and a world—in which there still exists much desperate poverty, it is simply inefficient that men who wish to work should be idle. Fuller employment means higher output, and is less likely to be associated with resistance on the part of workers to the introduction of new methods or machinery that raise productivity.

The other main argument for the fullest possible level of employment is social rather than economic. A good society is one in which everyone has a role to play and a contribution to make. Few things so detract from the dignity of a human being as an inability to find a job, and the feeling of being unneeded and unwanted; and when this experience strikes young people emerging from school and university—as it has increasingly been doing in recent years—it is particularly objectionable. An economy in which virtually everyone who wants a job can find one fairly easily is an economy that can afford a good many failures in other directions.

The implication of this argument is that the next Labour government should assign a distinctly higher priority to full employment than has been assigned to it in recent years. There are drawbacks in laying down any specific unemployment target, partly because changes in attitudes and habits can change the significance of a particular figure, partly because of the crucial importance of how evenly unemployment is spread around different regions, and partly because there will inevitably be differing views on how much priority should be given to this compared with other economic objectives. On the other hand, full employment is such an important objective that there is advantage in having a widely agreed definition, against which a government's performance can be easily measured. There is much to be said for defining full employment in contemporary Britain as an overall unemployment rate of $1\frac{3}{4}$-2 per cent, so that it would be regarded as a major objective of economic policy to prevent unemployment from rising above 2 per cent.

price stability

The next consensus objective which it is convenient to re-assess is a reasonable degree of price stability. What constitutes a " reasonable " degree of price stability? How important is it to achieve? What sacrifices should be made in other directions in order to achieve it? Answers to these questions can legitimately vary—and will do, since some groups do much worse under price inflation than others. Nevertheless, they are questions on which a certain amount of objectivity is possible.

It would seem clear, for a start, that as a purely *economic* objective price stability does not rank very high. If economic policy is concerned, at bottom, with allocating resources in a way that ensures a high and equitably distributed national income, then whether or not the overall level of prices, as expressed in units of the country's currency, is rising, stable or falling is a distinctly secondary matter. *Relative* prices will of course be continuously changing, reflecting changes in the demand and supply conditions of different goods and services ; and freedom for relative prices to vary in this way is essential, in a market economy, if resources are to be channelled to where they are most " needed."[4] But there is no obvious reason why it is better that on average particular price increases and price decreases should cancel each other out, so that prices as a whole should stay stable, than that on average price increases should outweigh price decreases, so that prices as a whole rise. Indeed on purely allocational grounds the latter situation may be preferable, since there is often less reluctance to move prices up than down, and it will thus be easier for the system to respond to changed conditions. But in terms of the overall level of output or the average level of real incomes, or living standards, it does not matter very much which situation one has.

Evidently, this is not the whole story; the rest of the story follows. But it is a more important part of the story than is sometimes conceded, and it should predispose one to a certain scepticism about the importance of giving up other objectives in the interests of a greater degree of price stability. Price stability which costs nothing is fine. Price stability which requires the sacrifice of output or employment is less so.

Of the two main arguments for attaching importance to price stability, or a reasonable degree of it, the more familiar concerns the balance of payments. If prices in Britain rise faster than in other countries, the argument runs, British goods will become less competitive in export markets and in Britain itself, and the balance of payments on current account will move into the red. In broad terms, the argument can be accepted as correct, on the assumption that the rate of exchange between sterling and other currencies stays the same, so that an increase in prices in terms of sterling is automatically reflected in an increase in prices in terms of other currencies. But once this assumption is removed, the argument ceases to be valid. A faster rise in prices in Britain than in other countries can be offset by lowering the exchange rate between sterling and other currencies so that the price of British goods in terms of foreign currencies rises no faster than the price of foreign goods.

Lowering the exchange rate in order to offset the effect of rising prices on the balance of payments is not a policy to be resorted to light-heartedly or frequently: such action would itself sap confidence in the future of the currency, and add to inflationary pressures through its effect in raising import prices. These arguments were given far too *much* weight in the mid-1960s; it would be a pity to go to the opposite extreme and give them too *little* weight in the 1970s. There is, however, some sort of happy mean, and this ought to be easier to attain now that there has grown up a considerable amount of international support for more flexible exchange rates—for example exchange rates that would be altered more frequently, but by smaller amounts, than has been the case during the past 25 years.

It seems reasonable to conclude that provided British prices do not rise at a very substantially faster rate than prices in other countries—and there is no reason why they should—and provided that the exchange rate is regarded and used as a legitimate instrument of economic policy, then there is no reason to claim that a satisfactory balance of payments position requires any particular degree of domestic price stability.

The second argument for attaching importance to a reasonable degree of price stability—the one that people fall back on once the balance of payments argument is disposed of—is essentially an argument about income distribution. In its crudest form, the argument is that "inflation hits those on fixed incomes." A more sophisticated version is that while it may be true that once inflation becomes established as a permanent feature of the economy nearly everyone's money income will in fact rise, some groups will be in a much stronger position to secure large increases, which fully protect them against inflation, than others. Hence there will be changes in the distribution of real income which may be undesirable.

There is no doubt that the argument that there will be changes in the distribution of real incomes is correct. But the question is, why should the changes in income distribution that result from rising prices necessarily be worse than the changes which take place in a situation in which prices are stable? The inter-personal distribution of incomes in a country like Britain reflects the "original" pattern of incomes that emerges from the processes of the market, as modified by taxation on the one hand and social security and related benefits on the other. There is no particular reason to suppose that the net result of all this will be less egalitarian under a situation of inflation than a situation of price stability. Some factors, such as the proven ability of groups of well-off and highly-organised professional people to raise their fees virtually at will, may point in one direction; others, such as the extent to which large numbers of skilled and semi-skilled manual workers benefit from the processes that lead to inflation, may point in the other. The millions of people whose incomes consist wholly or largely of state benefits can easily be protected from inflation: their benefits can be linked to an index of average earnings, so that their real incomes remain in the same relationship to the incomes of the rest of the community regardless of the rate of inflation. The much smaller number of people on private fixed incomes are more difficult to help, and not all of these people are by any means well off. But insofar as they suffer under inflation, someone else benefits, and it is not clear how far, in income distribution terms, the change is for the worse. Although not a great deal is known about the way inflation affects different income groups, it seems likely that the middle income groups lose out to some extent to the rich (which is bad for income distribution) and to some extent to the poor (which is good). But in any case, as inflation comes to be accepted as inevitable, schemes can be, and have been, devised to help cushion private fixed income receivers from its effects.

There is one other distributional effect of inflation which is unfavourable, and which probably helps to account for (or rather, provide a genuine reason for) the unpopularity of rising prices. This is the effect on the distribution of income within the family. Where a man hands over a given *amount* of his weekly pay-packet or monthly salary cheque to his wife, rather than a given *proportion,* the faster rise in his take home pay which is the counterpart of inflation will not be automatically reflected in the housekeeping allowance: his family, rather than he himself, will feel the pinch. But clearly this is another case where sensible behaviour can neutralise the adverse effects of inflation.

This brief examination suggests that the two arguments conventionally deployed against rising prices—the balance of payments argument and the distribution of income argument—are not as important as is sometimes claimed. But it should not necessarily be concluded from this that a reasonable degree of price stability should be afforded a low degree of priority by a future Labour government. First, rising prices are obviously unpopular, and however misconceived the logical basis of this unpopularity, a party that seeks to be elected or re-elected had better be seen to be taking the problem seriously. Secondly (the same point, perhaps, but in a more general form) the logic of economics is not the only logic that needs to be applied to the problem. In terms of its effects on traditionally important economic variables such as employment or growth, a rate of inflation of the kind experienced during the last year or two, of 8-10 per cent a year, may not be enormously different (given sensible fiscal and monetary policies) from a rate of inflation of the kind experienced throughout most of the 1950s and 1960s, of 3-4 per cent a year. But in terms of the threat to political and social cohesiveness the difference may be marked. With prices rising by 3 or 4 per cent a year the pace of change of income distribution may be relatively slow, but with prices rising by 10 per cent a year the economic and social position of large groups of people may be threatened at a speed that the digestive capacity of society is unable to absorb, and indeed with an arbitrariness that may make such changes highly undesirable. It is no answer to say that for decades many Latin American countries have been experiencing rates of inflation that make 10 per cent a year look mild: Latin American social and economic conditions (not to mention Latin American methods of changing governments) are so totally different from ours that it would be very rash to assume that a rate of inflation tolerable there would necessarily be tolerable here.

What, then, is one to conclude about the importance of a reasonable degree of price stability? My own view is that while reasonable price stability is not an important economic objective in the sense that full employment is an important economic objective, it must nevertheless be regarded as a constraint on the vigour with which other objectives can be pursued. There are good social and political reasons why a future Labour government cannot afford the 8-10 per cent rate of inflation that the country has been experiencing over the last year or two. The rate of inflation that is tolerable is a matter of political rather than of economic judgment; but in the long run anything faster than, perhaps, 3 or 4 per cent a year seems likely to be attended by serious difficulties.

the balance of payments

The third major consensus objective is a surplus on the balance of payments current account.

An unsatisfactory balance of payments has been such a frequent—not to say near-permanent—feature of the British economic scene during the past thirty years that it is hardly surprising that a balance of payments surplus should have come to seem a major objective of economic policy. And indeed, in the circumstances in which Labour took office in 1964, putting the balance of payments right was something that had to be given very high priority. The underlying trend of the current account had been worsening since the late 1950s, and in 1964 there was a large deficit, now estimated to have been £376 million. This meant, put at its simplest, that in that year Britain consumed £376 million more stuff than it produced—not something that an advanced industrial country can hope to do for very long. In addition to this current deficit there was also a large capital account deficit, now put at £299 million, so that there was an overall deficit approaching £700 million.[5] In other words, Britain had to find nearly £700 million out of its gold and foreign exchange reserves, or by borrowing from overseas, partly to finance overseas investment, but mainly to finance more imports than its exports were paying for.

It was necessary, in this situation, that the current account should move, not merely out of deficit (so that as a nation we ceased to consume more than we were producing) but into surplus, so that there could be some building up of the inadequate level of reserves, and some paying off of past borrowing. In the event, Labour's failure to devalue at the right time meant that there were also current accounts deficits in 1965, 1967 and 1968, and capital account deficits (to a considerable extent due to speculative outflows both before and after devaluation) in every year until 1969. This meant that for some years to come large current account surpluses became necessary; and these were in fact achieved in 1969, 1970 and 1971.

In the long run, however, once one's external asset/liability position is "normal," a large balance of payments surplus is not a desirable, nor indeed a legitimate, objective of economic policy. It is not desirable because it means that the country is consuming less than it is producing—living standards are lower than they might be. It is not legitimate because if one country has a balance of payments surplus another country must have a balance of payments deficit, and there is no more reason to expect that other countries (certainly if they are advanced industrial countries) will tolerate this in the future than there was to expect that Britain would tolerate it in the past. The measures taken by President Nixon on 15 August 1971, with their potentially severe effects on the whole post-war system of regulating international trade and payments, were a direct response to the failure of some European countries and Japan to take adequate steps to reduce their chronic balance of payments surpluses.

There are, it is true, two reasons why it might be reasonable for Britain to aim, on average, for a balance of payments surplus on current account—provided it was a fairly modest one. The first one would apply if the *social* rate of return on overseas investment were greater than the social rate of return on domestic investment. In this case it would make sense to secure a current account surplus so that foreign exchange resources would become available for overseas investment. But while overseas investment may often be profitable for a *company*, it is likely to be much less profitable for a *country*, chiefly because the higher incomes generated by new investment, and in particular the tax yielded by these higher incomes (including profits tax) accrue to a foreign government instead of the home government. The cases where Britain as a whole benefits from investment being carried out overseas rather than at home may be relatively rare.

The second possible justification for running a balance of payments surplus stems from the point just made. If British investment overseas benefits foreign countries, it might be argued, should it not indeed be carried out—but in developing countries only? The answer to this is yes, but only to a very qualified extent. Private foreign investment can be of benefit to developing countries, but it can also do great damage, and whether or not it is valuable will depend very much on the circumstances of the particular case.

Government assistance is usually likely to be of much more benefit than private investment—but if it is to be really valuable it should take the form of grants, not loans, and will therefore already be included in the debits on the *current* account. So the argument that an advanced industrial country ought to run a substantial current balance of payments surplus in order to help the developing countries, while it should not necessarily be rejected out of hand, should at least be examined with a considerable degree of scepticism.

The short answer on the balance of payments, then, would seem to be this: an advanced industrial country like Britain should ensure that over a period of years its current account is more or less in balance, erring if anything in the direction of modest surplus. It is not the case that a substantial balance of payments surplus should be an important objective of economic policy; it is rather that the need to keep pretty well in balance should be recognised as a constraint on the pursuit of other economic objectives.

income distribution

Of the two economic objectives referred to earlier which have not yet been discussed, the non-consensus one (greater equality in the distribution of income and wealth) requires no justification to socialists. It should, in its widest sense, be one of the most fundamental, perhaps *the* most fundamental, of the economic policy objectives of the next Labour government. What this involves, and how it should be achieved, forms the theme of much of the rest of this pamphlet. And it is of considerable relevance in assessing the importance of the last consensus objective, economic growth.

economic growth

Since about the mid-1950s economic growth has been the greatest consensus objective of all. This is not very surprising. By that time—a decade or so after the end of the war—it was clear that the government knew how to maintain full employment—that is, how to utilise existing productive capacity to the full. If society were to become better off there had to be an increase in this productive capacity. In other words, there had to be a respectable rate of economic growth, with total output (technically, Gross Domestic Product at constant prices) rising, each year, as rapidly as possible.

As an index of the welfare of a society, or the happiness of its members, Gross Domestic Product at constant prices ("real GDP") suffers from some very severe drawbacks, and these will be discussed a bit later on. But it is hard to believe that it is not going to be easier to satisfy people's needs if real GDP is rising by 4 or 5 per cent a year than if it is rising by only 2 or 3 per cent a year. In the terms of a metaphor that everyone became thoroughly tired of in the 1950s (no doubt it reflected the end of butter and sugar rationing), the important thing was to increase the size of the national cake; this would mean more for everyone. Even a socialist, whose main concern was fairer shares, could subscribe to this aim since it was inherently more probable that one could increase the *relative* amount going to the poor if the cake itself was growing than if it was not.

It is not surprising, then, that by the time of the 1959 General Election the ability to promote a faster rate of economic growth should have become the central economic issue between the parties, or that the next decade should have seen continuous attempts—reflected most obviously in the creation of the National Economic Development Council by the Conservatives, and the Department of Economic Affairs by Labour—to move Britain onto a higher growth rate.

During the last few years, however, voices have increasingly been heard to ask whether this emphasis on a faster rate of growth is really desirable.[6] Is it really what we want? May it not do us more harm than good? Is there not something rather nasty about a rapidly growing economy, and something rather nice and cosy about a slowly growing one?

Some of this concern probably reflects the time honoured British proclivity to self-deception and hypocrisy; or—to look at it more charitably—to stoically putting up with things. We've had a slower growth rate than almost anybody else? Well, who wants a faster growth rate anyway? This line would obviously be more convincing if it had preceded rather than followed Britain's dismal post-war performance. The essential point is that a faster rate of growth *has been* the declared central economic objective for the last fifteen or twenty years, and has, for whatever combination of reasons, signally failed of achievement.

The more sophisticated critique of economic growth fastens onto what Mishan very properly calls the *costs* of economic growth—the congestion, noise, air pollution and so on that are such a feature of life in an advanced industrial society. To a large extent these costs, real though they are, do not enter into the national accounts on the basis of which the GDP is calculated. Thus a policy of maximising the rate of growth of the real GDP is a policy which ignores many of the variables which affect human welfare.

This critique, like any critique which challenges accepted patterns of thought, is salutary without necessarily being correct. What is wrong with it is that it goes too far in one direction without going far enough in another. It goes too far in denigrating growth. At a technical level, the fact that growth has costs as well as benefits does not mean that the costs *outweigh* the benefits—that is, that the *net* benefits are negative.[7] As long as the net benefits of a 4 per cent growth rate are greater than the net benefits of a 2 per cent growth rate (and it is impossible, as far as the present is concerned, to believe otherwise) then a 4 per cent growth rate is better than a 2 per cent growth rate. At a more general level it needs to be recognised that many of the unpleasant by-products of economic growth are the by-products of economic growth that has taken place in the past: slums, crumbling and decaying schools and hospitals, sordid and soul destroying factories and offices, congested cities, derelict countryside, inadequate sewage works—these are largely the fruits of unplanned and profit-orientated growth in the past rather than of the increase in output this year or last year. Rapid growth this year or next year can hardly make these conditions much worse; but it does create resources which can be used to make them better.

This commonsense point can be illustrated by reference to Labour's ill-fated National Plan. The Plan's basic objective was to secure a 25 per cent increase in real GDP between 1964 and 1970 (an annual rate of growth of 3.8 per cent). In the event the increase was only 14 per cent (and the annual rate of growth only 2.2 per cent, as mentioned earlier). This means that, had the Plan target been achieved, and had the pattern of resource allocation been the same as it was, expenditure on everything would have been roughly 10 per cent higher, in real terms than it actually was: consumers' expenditure (including the expenditure of retirement pensioners), spending on slum clearance, hospital building, local authority health and welfare services and so on—all would have been something like 10 per cent higher in real terms.[8] Can it seriously be contended that this would have been an undesirable state of affairs, simply because it would have been attended by more traffic congestion and aircraft noise? Such a contention makes little sense. But even if the degree of traffic congestion and aircraft noise were one's ultimate tests of the good society, one would have thought that with the £4,000 million of extra resources made available by a 25 per cent, instead of a 14 per cent, increase in real GDP one could afford to reduce these disamenities below what they actually were by building quieter aircraft engines or subsidising public transport.

Thus the critique goes too far in that it blames the contemporary cult of economic growth for evils which are the product of growth in the past. But at the same time it does not go far enough, in that it fails to say what it is, if not the rate of economic growth, that economic policy should be maximising. Mishan does have views on this, but they are engagingly eccentric, including as they do recommendations for the abolition of air travel and a return to the use of horse drawn vehicles in cities. Other economic theorists are quite clear about what needs to be maximised: the "social welfare function." This is as helpful to governments as a recommendation that they should be against sin. Nevertheless, exhortations to avoid sin are sometimes necessary: to be told that one should *not* be maximising the rate of growth of real GDP is a vital piece of information, if not a very constructive one.

In order to provide an answer to this question it is necessary to stand back and look at the process of economic growth, and in particular at the implications of future economic growth on the assumption that it closely resembles past economic growth. It will help to look at this process from two different standpoints, which may be summarily described as the *ecological* and the *socialist*.

ecological considerations

Ecologists have been getting more press coverage than economists recently, a situation which reflects the former's much greater catastrophe-predicting abilities: what is galloping inflation or mass unemployment, after all, compared with the prospect of a world inhabited solely by ants (a prospect held out to us by *The Hellstrom chronicle,* a recent film whose total intellectual incoherence is typical of much of the more raucous contemporary doom mongering) ?

However, the fact that the ecological case is sometimes presented in highly sensational terms is not a good reason for dismissing it. In one version or another, it appears to have the backing of a large number of eminent scientists. Of course, this does not mean that the case is correct —eminent scientists have been wrong before now ; but it provides some grounds for taking it seriously. Even stronger grounds for taking it seriously lie in the nature of the case being presented, for this is not a situation in which it is reasonable to assign similar weights to the probability of different outcomes : the risks involved in erring in one direction are infinitely greater than the risks involved in erring in the other. If the more pessimistic scientists turn out to be wrong, they can buy us all a drink and look suitably discomfited as we tease them. But if they turn out to be right, the pubs will be closed. To take a concrete case : 33 highly qualified people, most of them scientists, signed a statement of support for "A blueprint for survival," published in the January 1972 number of *The Ecologist.* One of the blueprint's main conclusions was that "if current trends are allowed to persist, the breakdown of society and the irreversible disruption of the life-support systems on this planet, possibly by the end of the century, certainly within the lifetime of our children, are inevitable." Even if one feels that this conclusion is "probably" or "very probably" or "almost certainly" wrong, how small would the chances of its being correct have to be before one felt comfortable in ignoring it ? 1 in 5 ? 1 in 10 ? 1 in 100 ?

The basic ecological case, insofar as it is relevant to the argument of this pamphlet, might be put very briefly as follows. If world industrial production were to continue to grow at the rate at which it has grown over the past decade (by about 6 per cent a year), in 25 years' time it would be more than four times as great as it is now (25 years from now takes us to 1997, which may seem a long way off but is the same distance in the future as 1947 in the past—a year when Denis Compton was still heading the batting averages and Harold Wilson was already in the Cabinet). 25 years after that—before some of today's primary school-children have even retired from work—it would be nearly 20 times as great as it is now. Growth on this scale is likely to lead to serious—perhaps insoluble—problems of depletion of resources on the one hand and disposal of waste products on the other. As far as *depletion* is concerned, "A blueprint for survival" claims that in 25 years' time, on the assumption that resource use continues to rise at the rate of the past decade, the world will have exhausted a large part of its mineral resources.[9] As far as *disposal* is concerned, it is argued that the biosphere may well be unable to cope with the waste products generated by a more than four fold increase in industrial production over the next 25 years, and almost certainly unable to cope with those generated by a near twenty fold increase over the next 50. The rivers and oceans will be increasingly polluted by noxious chemicals used in industry, and by the run off of the fertilisers and pesticides being used in ever increasing quantities in agriculture. The atmosphere will be increasingly polluted by a number of chemicals, particularly carbon dioxide, with potentially disastrous effects on the temperature of the earth's surface. These effects are likely to be compounded by the increased thermal pollution caused by increased electricity generation: on past trends, one would expect electricity generation in 25 years' time to be 6 times as great as it is now, and in 50 years, 36 times as great. Apart from the problem of thermal pollution, there is the associated problem of pollution by radioactivity, since the great bulk of future electricity generation will have to come from nuclear power stations which produce large quantities of radioactive waste. The argument concludes that attempts to go on increasing world industrial production or GDP at the rates of the recent past will lead, sooner rather than later, to a breakdown of the ecosystem, with supplies of uncontaminated food, air or water being insufficient to go on supporting life on earth.

It seems fair to say that on the whole this argument is not at present taken very seriously by most economists. Much of the subject matter of economics concerns the way in which the price mechanism allocates scarce resources among competing uses, and ensures the substitution of products or inputs which become relatively more expensive by those that become relatively less expensive. Also well entrenched in economic theory is the notion of technical progress, which has the effect of increasing the value of output per unit of input (particularly per unit of material input). Economists are therefore encouraged by the methods of thought enjoined by their discipline to argue that the ecological case ignores some of the cardinal features of economic growth. As some resources become scarcer, they argue, they will be replaced by other natural resources, or by newly developed synthetic substitutes. Where for technical reasons this is not possible, it will become economic to re-cycle particular minerals, or to work inferior deposits which it does not pay to work now. Moreover future economic growth may increasingly take forms which create far fewer depletion/disposal problems than simple minded extrapolation of past trends would suggest. Economic growth means—to take only three examples—the production of more sophisticated versions, of existing products (such as colour television sets instead of monochrome ones); more than proportionate increases in expenditure on public services such as health and education; and more leisure. Thus the idea that a rapid rate of economic growth must inevitably be associated with a rapidly growing depletion of scarce material resources and a rapidly growing output of noxious wastes is a very over simplified one. Economic growth should not be thought of as a destructive juggernaut leading the world to disaster; on the contrary, it is an inventive, expansionary process that will provide us with the extra wealth we need in order to cope with such problems of resource depletion and pollution as will undoubtedly occur. Finally —an economist might point out—on a number of previous occasions in history it could have been predicted (and no doubt was) that on the basis of the then existing technology and the then existing availability of natural resources, the resources would soon run out and life would cease to exist. So far, such predictions have always been proved wrong.

These points are important, and it is a weakness of much of the ecological literature that it takes so little account of them. But I cannot say that I find them particularly reassuring: they do not appear to dispose of the ecologists' basic case, though they may postpone for a few decades the ultimate day of reckoning.[10] No doubt re-cycling and substitution will increasingly become the order of the day, but re-cycling will not solve the problem of *increasing* demand, and the materials from which substitutes are manufactured (of which oil is an obvious example) are themselves likely to become increasingly scarce. And the argument that prophecies of doom have always been wrong in the past is not only alarmingly unscientific, but completely overlooks the fact that it is only within the past 20 years that a rapid rate of deliberately engineered growth has become the overriding economic objective of virtually every country in the world. It is possible that technological innovation will take care of these problems, but to rely on this betokens an act of faith—with extinction the possible penalty of disillusionment—on a scale that the most zealous adherent of a revealed religion might shrink from. For the sheer pace of the technological change that would be required to cope with the depletion/disposal problem posed by the doubling of world industrial production every decade or so (which means it would be over a hundred times its present level within the life time of people already born) is almost impossible to imagine.

Of course exponential growth cannot continue for ever; no one imagines that world industrial production will really be 100 times its present level in 80 years' time, any more than they imagine that world population will be 20 billion (compared with the present 3.7 billion), even though this is what recent rates of increase point to. The real question is, what will prevent this growth from taking place?[11] In the case of world population, if it is not an early and substantial fall in the birth rate, it will be an early and substantial rise in the death rate. In the case of industrial production, if it is not a conscious policy of slowing down and eventually halting growth, it is likely (in the absence of nuclear war or mass starvation) to be the appearance of resource shortages or the build up of pollution. It is possible that these effects will develop sufficiently slowly and piecemeal to allow the economy and society to adapt to them, in the way that Britain has adapted to the increasing scarcity of easily accessible high grade coal by discovering and piping ashore North Sea gas, and to increasing air and river pollution by legislation regulating the fuel that industry and householders may burn, tighter controls on the disposal of industrial effluents, increased expenditure on sewage plants, and so on. But these successful micro-adaptations to particular problems in a particular country may be a very misleading guide to the likelihood of successful macro-adaptations to general problems appearing on a worldwide scale. It is arguable that the build up of air and water pollution is proceeding at a pace which is too rapid and too wide spread to be controlled by *ad hoc* legislation as the need arises; on present trends, it seems possible that a breakdown of vital parts of the ecosystem might happen rather suddenly. As regards resources, the absolute size of the depletion of mineral deposits each year, and the rate at which this depletion is increasing, combined with the inability of the free market system to take proper account, in establishing today's prices, of the likely supply and demand situation in 20 or 30 years' time, suggest that shortages may develop with a speed, and on a scale, that the industrial system will find it very difficult to cope with.

This point is not widely appreciated by those economists who are accustomed to thinking in terms of the economy adapting itself, as time goes on, to changes in the relative prices of different inputs, and who are quick to point out that, if anything, the trend of primary product prices over the last decade or two has been downward rather than upward. The pace of change may well render this kind of marginal analysis totally inapposite. At the present time (1972), to take one example, only about a tenth of the world's proven reserves of crude petroleum has been used up: the other nine-tenths remain. But if the trend of consumption over the past couple of decades is extrapolated, the remaining nine-tenths will be gone in less than 20 years. Compounding this problem of the pace at which mineral resources are being depleted is the problem of what (to borrow a phrase from demography) might be called the "braking distance"—the period that is bound to elapse between a decision by governments to slow down the rate of resource depletion (or pollution accretion) and the time that such a decision becomes fully effective. The braking distance is less likely to be measurable in years than in decades. To put it at its lowest: though one might argue that there is a sufficient likelihood of the discovery of new material deposits or the invention of new techniques that world industrial production can safely be left to increase into the distant future, as things stand at the moment it would be very rash not to give the ecologists the benefit of some of the doubt.

However for affluent people in the affluent West to call for a slowing down or halting of world economic growth is quite unacceptable on moral and political grounds: it has been well summed up as the philosophy of "I'm all right, Jack; let's stop here." Growth must continue in the developing countries, if possible at a faster rate than before (though how far this growth should be defined in terms of GDP is another question). But, if the ecological argument is to be taken at all seriously, this makes the case for slowing down growth in the richer countries very strong indeed. If the *present* population of the earth were to receive real per capita income (where it now falls below it) equivalent to that of the average British family, world industrial production would need to be about 4 times as high as it is. If per capita income were to be equivalent to that received by the average American family (a level of income with which, needless to say, the average American is highly discontented) industrial production would need to be more like 10 times as high as it is. Since (barring catastrophes, and taking an optimistic view of the speed with which the birth rate can be reduced) future world population is unlikely to stabilise at much below 3 times its present level, the increase in industrial production needed to promote *present* British or American living standards is accordingly trebled to 12 and 30 times the present level respectively. Put in these terms, it is difficult to see how *any* further increases in industrial production in the affluent countries of the West can be justified—at least to socialists; let alone a policy of rapid growth into the indefinite future.

socialist considerations

The ecological argument against continued rapid growth of industrial production thus merges into the socialist one, at any rate on the assumption that socialism does not stop at one's own frontiers. But there is a different socialist argument, at a domestic level, for querying the priority that a future Labour government should give to a rapid rate of economic growth. Although it may be true, as was suggested earlier, that it is easier to redistribute income from the rich to the poor against the background of a fast growth rate than a slow one, such modest re-distribution of income as has taken place in Britain over recent decades has not contributed very much to the achievement of socialism. Indeed many of the features of precisely those processes which promote a rapid rate of growth in Western industrial countries represent the antithesis of socialism. To a large and increasing extent, a rapid rate of growth in Western industrial countries reflects a high degree of success in inventing, developing, producing and marketing goods the need for which often has to be manufactured with nearly as much skill as the goods themselves. This is not to say that consumption of these goods is bad; on the contrary, air travel, central heating, dishwashers, convenience foods, television, paperbacks and dozens of other products that would probably not be nearly so widely purchased but for the kind of commercial pressures we live under—all are products that make life more interesting and comfortable for those who can afford them. Even at the extreme end of the spectrum—the beauty aids, electric carving knife, onyx desk set end—it would probably be going too far to suggest that such products are totally useless, and no doubt some of them have a psychic importance out of all proportion to their apparent usefulness. Psychic needs can of course be satisfied at very little resource cost, as Schumpeter recognised when recommending that those whom society wished to honour should be allowed to stick postage stamps on their trousers).But clearly the needs satisfied by such products are quite trivial by comparison with the needs left unsatisfied in societies in which commercial pressures are paramount. A more rapid rate of growth (as was noted earlier in the context of the failure of Labour's 1964-70 National Plan) would undoubtedly make available more resources to satisfy " real " needs, notably the alleviation of poverty in all its forms. But it would also involve the creation and satisfaction of a much wider range of trivial needs. This is the more undesirable the stronger the ecological argument (in terms of resource depletion and increased pollution) and the more strongly one feels that increasing amounts of resources should not be devoted to the development, production and marketing of such products as supersonic aircraft, self-stirring saucepans and three-dimensional television sets in a country—let alone a world—in which people live and die in conditions of poverty, squalor, ignorance and avoidable disease. The fact that faster economic growth may alleviate such distress to a greater extent than slower growth may—if true—be a redeeming feature of capitalism; it is a long way from socialism.

I conclude from all this that the central economic objective of the next Labour government should not be to attain the fastest possible rate of growth, as measured by GDP at constant prices. There are a number of reasons why the GDP is an unsatisfactory index of society's economic welfare.[12] One, as we saw earlier, is that it takes no account of "externalities" such as noise or air pollution. Another is that it excludes leisure from the reckoning, so that if everyone did 20 per cent less work—possibly an excellent thing from the point of view of human welfare—the GDP would suffer a large drop. Another is that it takes no account of income distribution. A given level of GDP is consistent with either great equality or great inequality in the distribution of incomes; and in the opinion of socialists, at any rate, welfare will be much higher in the former situation than the latter. Quite apart, therefore, from the longer term ecological arguments against maximising the growth of GDP (or of industrial production, which in Western countries accounts for nearly half of GDP), there are immediate reasons of self interest against doing so: maximising the growth of GDP is not maximising happiness.

The advantage of taking a faster growth of GDP as the main objective of economic policy (as the Labour Party did in 1964) is that it is fairly clear what it means, and fairly easy to see at the end of the day (or Parliament) whether it has been achieved or not. The difficulty about taking the fastest possible growth of "social welfare" or "happiness" as the main objective of economic policy is that neither of these tests can be applied: people will disagree about what it means, and whether it has been achieved. It is one of the more obvious cases of *quot homines, tot sententiae.* Nevertheless, I would hope that the following rough definition would command considerable support among socialists.

In contemporary Britain, achieving a rapid increase in social welfare or happiness means, in my opinion, assigning a very high priority to raising the real incomes of those at the bottom of the scale, and a very low priority to raising those of the people at the top. Ideally, the aim might be defined as raising the real incomes (in the widest sense of the term) of everybody in Britain to the sort of level now enjoyed by people in the top 10 per cent of the income distribution. At the same time—looking abroad—a rapidly increasing quantity of resources should be made available to help in raising real incomes in the developing countries.

3. means

But how can this very substantial levelling up of real incomes be achieved? The main requirement, in my view, can be put in a sentence: it is a rapid and controlled rise in a wide range of public expenditure, and a corresponding restraint on the growth of private expenditure on consumption. Most of the rest of this pamphlet is devoted to elucidating what this means, and how it might be done.

the crucial role of public expenditure

It should be made clear, at the outset, that putting the priorities in this way does not mean that I regard all public expenditure as " good " and all consumers' expenditure as " bad." This would be a very odd view, implying for example that it was a bad thing for individuals to spend money on food or clothes but a good thing for the government to spend money garrisoning the Far East or subsidising supersonic aircraft. It does, however, mean that I regard increases in a wide range of public expenditure *including transfer payments* as having much more to contribute to improving social welfare over the next 10 or 20 years than increases in consumers' expenditure, at any rate out of the higher non-transfer incomes.

Because the relationship between public expenditure and social welfare is a complex one, it may be useful at this point to divide public expenditure into four broad categories, and briefly discuss each of them in turn.

First, there is expenditure on the provision of *cash benefits.* Much the largest item in this category is social security benefits (covering national insurance and supplementary benefits, retirement pensions and family allowances).[13] There is no getting away from the fact that any substantial improvement in social welfare is going to require a very substantial increase in the level of expenditure on these benefits, on which something like a fifth of the population are wholly or largely dependent. On a social welfare criterion, or a marginal utility of money criterion,[14] there is a very strong case for a future Labour government aiming to double the real incomes of retirement pensioners, for example, over a period, if not of five years, at any rate of ten. This alone would require total public expenditure in real terms to rise by about 10 per cent. Of course, this increase in public expenditure would be accompanied by a substantial increase in personal consumption—part of the object of the exercise would be precisely to enable old age pensioners to buy more and better food, fuel and comforts of every kind, since the marginal utility of money spent in this way must be very high. This is a case, then, where more public expenditure (on the wide definition given above) is not a rival to private consumption expenditure, but a way of promoting it.

The second main category of public expenditure is *benefits in kind,* of which education, health and welfare and housing are the most important components. Here, too, a rapid increase in social welfare requires a rapid rise in expenditure, since such expenditure is highly redistributive: the value of the benefits of free or subsidised health and educational services, and housing, is greater, in relation to their incomes, for poor families than for rich families. However, although for this reason any increase in the proportion of GDP spent on health and education, and housing subsidies, is likely to have a favourable effect on income distribution and social welfare, for such an effect to be maximised, a proper balance has to be maintained for expenditure in different geographical areas, for different age-groups etc. This is not the place for a detailed account of the best techniques for ensuring a maximum social rate of return on government expenditure; but it is clear that as long as there are big discrepancies between conditions in different areas, improvements must be concentrated on the poorer areas if one is to achieve the biggest possible improvement in welfare from the deployment of a given amount of resources. In terms of a whole range of social indicators—infant mortality rates, size of general practitioners' lists, hospital beds and number of home nurses per thousand population, size of school classes, numbers staying at school after the school leaving age, overcrowding and lack of modern amenities in housing and so on—some regions and cities are much worse off than others. To bring conditions in all areas up to the level of those in the best will require a very big rise in public expenditure; and even then many socialists would probably feel that the overall level of expenditure was too low in relation to the country's total resources.

The third main category of public expenditure is expenditure on *goods and services* that it is either impracticable or inefficient to provide except *on a communal basis*. In the case of such items as defence one would hope it will not be necessary for a future Labour government to spend more money; but on others it clearly will. As a society becomes more complex and more prosperous, the need for communal expenditure on such things as transport and communications and the disposal of human and industrial waste tends to rise more than proportionately—as today's traffic congested cities and polluted rivers and coastal waters bear witness. Few people, even among the ranks of the blithest ecological optimists, now doubt that more government expenditure "on the environment" or "to counter pollution" is going to be needed.

Nevertheless the need for more expenditure in this field should not be oversold: there are two reasons for doubting whether, if the fastest possible rise in social welfare is the goal, increasing this category of public expenditure deserves quite as much attention as a future Labour government must accord to the first two.

The first reason is that in many cases the right approach is not for the government to permit the pollution to happen, and then to spend money on clearing it up; but to prevent it from happening in the first place. Clean Air Acts forbidding the use of certain types of fuels or furnaces are an obvious case in point. Where this is done, the cost (of preventing pollution rather than curing it) will tend to fall on the consumer of the product. In other cases, where some degree of pollution is inseparable from an activity (like the heat produced by power stations or the noise produced by aircraft) expenditure may be needed to mitigate these effects (like on the construction of cooling towers, or soundproof rooms); but whether this expenditure is undertaken by the industry or by the government is a detail; the point is that it must be *financed* by the industry, so that the costs it incurs in carrying on its business include all costs it imposes upon the community. In this case, too, the cost of the activity will tend to be borne by the consumer of the product in question, rather than by the general taxpayer.

The second reason why public expenditure "on the environment" will not always be as high a priority as is sometimes suggested is that much of it will be regressive in its effects—for example, it will be of more benefit to those in the upper income groups—particularly in the top 5 or 10 per cent—than those in the lower ones. Well off people often recognise that their well being will be increased more by certain kinds of public expenditure than by their spending the money themselves on new consumer goods. Cleaner streets, action to divert motor traffic from residential areas or to enforce legislation against traffic and other noise, or to preserve rural areas from development, and a host of other measures which either require public expenditure or in some way impose extra costs on the rest of the community—all can be ways of benefiting the better off rather than the worse off. This is not to say that such measures should not be taken—many of them will become increasingly essential conditions of a civilised life, and indeed some of them are needed urgently if irreversible damage to our towns and countryside is to be prevented. The point is simply that they do not always deserve the priority that middle class pressure groups claim for them.

The fourth category of public expenditure is a *residual one*: all expenditure not falling within the first three categories. On the most comprehensive definition of public expenditure—that adopted in the Public Expenditure White Papers[15]—the main items covered are debt interest and the capital expenditure of the nationalised industries. It would obviously not be an object of policy to increase these expenditures at a rapid rate: one would hope that debt interest would stay at about the current level, or even fall; and nationalised industries' investment would largely be determined, like private investment, by the growth of demand for their output.[16]

good public expenditure

My proposal—to return to the main theme—is that the central economic objective of the next Labour government should be to increase as rapidly as possible those kinds of public expenditure which do most to promote a levelling up of real incomes. This expenditure will include most of that covered by the first two categories discussed above, and some of the third (for a more precise—though still rather arbitrary—account of what might be included, see note 17). Partly for the sake of simplicity, and partly to focus attention on the importance of the concept, I propose to give the total of these kinds of public expenditures the provocative title of Good Public Expenditure, or GPE. The main object of the next Labour government's economic policy, therefore, should be to secure the fastest possible rise in GPE. The questions now arise, how fast should this increase be? And what would be the implications for the rest of the economy?

It is impossible to give precise answers to these questions without doing a great deal of the kind of work that was done in Whitehall in 1964-65, in the course of drawing up the National Plan. This is not to say that a new Labour government should necessarily have a new National Plan. What is needed is something less elaborate, less detailed and less minutely self-consistent than the 1965 Plan, but something more wide ranging and comprehensive than the five year "forward looks" at public expenditure now published by the Treasury, which have very little to say about the private sector of the economy. This would involve a sophisticated exercise, forecasting economic developments 5-10 years ahead on the basis of a range of different assumptions about future trends and the effect of various policy changes. There is nothing new or mysterious about this—this kind of work has been done in Whitehall in the past and is probably being done now, though the present government shows few signs of wishing to publish the full results.

But although calculations of this kind are needed if an authoritative estimate is to be made of the rate at which GPE could rise without putting unacceptable strains on other sectors of the economy, the lack of such calculations—or lack of access to them—should not inhibit an outsider from making estimates of his own. Indeed a cynic might argue that any figures of possible future developments finally agreed on in Whitehall are so likely to represent a compromise between many different viewpoints, and so likely to be disbelieved in by large numbers of individuals and departments, that their authoritativeness, compared with outside estimates, can be exaggerated.

My own view is that it should be possible, without imposing intolerable strains on the rest of the economy, to raise GPE by something like 6 or 7 per cent a year in real terms, thus doubling it within 10 or 12 years; and that a future Labour government should require a great deal of convincing before settling for any lower figure.

The effects of an increase in GPE as rapid as this would be to transform the conditions of life within this country, and to do it within a timescale that a government might reasonably expect to remain in office. The exact nature of the transformation would of course depend on which programmes within GPE were given the highest priority, and this would be for the government and Parliament to decide—an essential feature of the democratic process being public participation in decisions on the allocation of society's resources. My own view is that the most urgent needs lie in the fields of housing, health, retirement pensions, and—looking overseas—assistance to developing countries; and that moving closer to socialism requires these programmes to be given priority. But it is all a matter of balance, and everyone is entitled to a view. The basic point is that doubling GPE within 10 or 12 years, provided that allocation within the total is sensible, seems likely to be the best way of maximising social welfare—or, to put it in ancient but valid terms, securing the greatest happiness of the greatest number. And that, in the last resort, is what economic policy is for.

the availability of resources

This is all very well, it might be retorted: people have been busy constructing utopias since the time of Plato, at least. What reason is there to suppose that such a rapid rise in " good public expenditure " is feasible, or feasible without starving the rest of the economy in a way that is neither economically sensible nor politically possible?

These questions can be more conveniently considered in terms of the more familiar context of total public expenditure, as defined in the Public Expenditure White Papers. If GPE were to rise by 6-7 per cent a year, total public expenditure would probably rise by 5-6 per cent a year in terms of the real cost to the economy.[17] So the question is: would such an increase in total public expenditure be feasible, and what would be its implications?

The first point to be made is that a growth in total real public expenditure of 5-6 per cent a year, although certainly ambitious, is not completely out of sight of what has been achieved at certain times in the past. It is, for example, only about a third higher than the growth rate of total public expenditure of 4¼ per cent adopted *and exactly achieved* by the last Labour government, over the period 1964-65 to 1970-71. And during the first four years of the period public expenditure actually grew by about 6 per cent a year; it was only the virtual cessation of growth during the last two years, to free resources for the balance of payments, that brought the average down to 4¼ per cent.[18] And 4¼ per cent is still a lower rate of growth of public expenditure than that notched up in recent years by many other comparable countries.

There is certainly little reason to doubt that a 5-6 per cent annual increase in public expenditure, taken by itself, is attainable. Of course it will require careful planning, and co-ordinated action to ensure that physical resources are available at the right place and the right time to permit the rapidly rising sums of money allocated to public sector programmes actually to be spent. In some cases this will present few problems: a rapid increase in transfer payments, for example, will result in a rise in expenditure on food, clothing, electricity and so on by old age pensioners and others, and this increased demand will be accommodated by supply responding in the usual way. But insofar as increased public spending takes the form of the construction of hospitals or motorways, or the employment of doctors or architects, plans must be laid for the acquisition of land, or the expansion of certain fields of higher education, up to 10 or 15 years in advance. But provided this kind of long term planning is done (and of course it is being done already, though it could be significantly improved) there is no reason why total public expenditure should not be pushed up by 5-6 per cent a year.

The real question arises when one asks how much such a rapid rise in public expenditure would leave over for other purposes, meaning—assuming the balance of payments current account to be roughly in balance—personal consumption (other than that financed by transfer payments) and private investment. It does not require particularly sensitive political antennae to recognise that an economic strategy which allows nothing for increases in the personal consumption of those not receiving social security benefits is not going to make any sense. Nor is a strategy that assumes no increase in the level of private investment.

However there is no reason to suppose that the kind of strategy proposed would have anything like such drastic implications as this. It is impossible to be at all precise about the quantitative implications for the rest of the economy of a 5-6 per cent rate of growth of total public expenditure, because it depends to some extent on the pattern of increases within the public sector. To take an extreme example : if the whole of the increase in public expenditure over the next 10 years took the form of an increase in expenditure on motor vehicles, the increase in resources available outside the public sector would be very large, since the level and potential rate of increase of productivity in the motor industry is relatively high. If, at the other extreme, all of the extra public expenditure took the form of employing more probation officers, by about 1980 every adult in Britain would be a probation officer, and there would be no production of any kind, except of whatever it is that probation officers produce. However, if one makes reasonable assumptions about the pattern of future public expenditure increases, along the sort of lines indicated earlier, what sort of answer does one get? Although this pamphlet seeks in general to downgrade the overall rate of economic growth (the growth of Gross Domestic Product at constant prices) as a key feature of economic policy, it is a concept that needs to be invoked if this question is to be answered.

overall growth rate

The sort of overall growth rate that has been regarded as a reasonable one for Britain to aim at by those bodies which have examined the problem during the past decade or so has been about 4 per cent. This was the figure adopted by the National Economic Development Council in the early 1960s, and it was the figure that Labour's National Plan aimed to achieve "well before 1970."[19]

For various reasons 4 per cent seems to me something of an under-estimate of the growth rate Britain should be able to achieve *if* a rapid rate of growth were made the central policy objective and *if* the right economic policies (particularly demand management and exchange rate policies) were adopted. One reason is that over the past 15 or 20 years the actual trend rate of growth has been nearly 3 per cent, despite the appalling ineptitude of macro-economic policy, the continual stopping and continual going, and the traumatic effect all this has had on productive investment, industrial attitudes, and the incentive to innovate and expand. To expect a satisfactory rate of growth in these circumstances is like expecting to break the mile record by playing grandmother's footsteps. One careful recent analysis[20] suggests that if the balance of payments constraint could be removed by more sensible exchange rate policies, the growth rate might be raised by perhaps 1 per cent (to approximately 4 per cent). But this seems to allow too little for the likely effects on efficiency of a deliberate high growth, full employment policy.[21] A reasonable guide to the sort of growth rate Britain might be capable of if growth were really put at the centre of the picture is provided by the experience of other countries at the same sort of stage of economic development, mainly in Western Europe, which have to a large extent avoided "stop-go," and over the past decade or so have registered growth rates of around 5 per cent.[22] A further possible reason for supposing that Britain should be capable of achieving a growth rate of something over 4 per cent in the future is that there is some evidence that the underlying trend of productivity has been accelerating. Not everyone accepts this evidence, and too much should not be made of it ; but if anything it is a bull point, not a bear one.

However, these various reasons for supposing that an overall growth rate of more than 4 per cent may be attainable all presuppose that the fastest possible overall growth rate is the main objective of economic policy ; and this pamphlet is not advocating that. If total public expenditure rises by 5-6 per cent a year (because the main economic objective is taken to be the maximum growth of GPE rather than GDP), the overall growth rate will be slower than if total public expenditure rises more slowly. The main reason for this is that the level and rate of growth of output per head, as measured in the National Income Accounts, is lower in the public sector of the economy than in the private sector ; any increase in the share of public expenditure in the GDP therefore reduces the maximum rate at which the GDP, as conventionally measured, can rise.[23] So if one is advocating a rapid rise in public expenditure, one will probably not be justified in assuming an overall rate of growth of more than 4 per cent, or perhaps even as much as 4 per cent. However an argument in the other direction is that public expenditure has a lower import content than private expenditure, and a faster rise in public expenditure for any particular GDP growth rate will therefore mean better terms of trade and hence greater availability of resources. All in all it seems reasonable, assuming sensible macroeconomic and exchange rate policies on the one hand, and a 5-6 per cent rise in total public expenditure on the other, to work on the basis of an overall growth rate of 4 per cent or a little less.

consumers' expenditure and private investment

How much, in that case, would be available for consumers' expenditure out of non-transfer incomes, and private investment? Again there is no unambiguous answer, but on reasonable assumptions it seems likely that expenditure on these two items could grow by about 2½ per cent a year. If, in the context of an overall growth rate of about 4 per cent, private investment needed to grow faster than 2½ per cent (a plausible but by no means necessary assumption), the growth of consumption would have to be slower—say something between 2 and 2½ per cent.

In terms of objectives this seems to me perfectly acceptable. It should be borne in mind that this figure of 2-2½ per cent does *not* include the consumption of those receiving transfer incomes. This would rise very much more rapidly (for old age pensioners, for example, the rise might be 7-10 per cent a year, depending on exact intra-public sector priorities). Moreover the ecological and socialist considerations outlined earlier suggest that another aim should be to prevent the consumption of those in the top 10 per cent or so of the income scale from rising at all, and to engineer correspondingly small increases for those just below them. The more difficult question is, can it be done? What steps would have to be taken, consistent with permitting a Labour government to be elected in the first place, and re-elected 4 or 5 years later, in order to prevent (non-transfer) consumers' expenditure from rising by more than 2-2½ per cent a year, and to arrange as far as possible that the biggest increases go to those furthest down the income scale?

This is a formidable requirement, though it may be as well to begin by noting that as far as the total is concerned, it does not in fact require any massive departure from past trends: over the period 1960-70, for example, the average rate of increase of consumers' expenditure in real terms was only 2½ per cent. Nevertheless, in a society in which one cannot look at a newspaper or magazine, travel on public transport, or even open one's morning mail without being bombarded by advertising matter of a highly professional kind, a relative shift of resources from private consumption to public expenditure is not going to come easily. Nor, in a society in which most people have become accustomed to pay increases of 8, 10 or 12 per cent a year, is a slow growth in consumption going to be easily reconciled with a reasonable degree of price stability.[24] Nor is it going to be easy to twist the structure of disposable incomes in a way which helps to channel the bigger increases in consumption towards those with the lower incomes. But if, as socialists, we want to allocate resources to where they are most needed, it must be done. And if, as ordinary citizens, we accept that there is even a possibility that the ecologists are right in arguing that the consumer oriented economies of the West are depleting irreplaceable resources and disposing of waste products at a rate that has already brought the world within sight of disaster, it must be done soon. Admittedly, if the gloomier ecologists are right, action taken by Britain alone will be of little use. But this is not a reason for Britain to hang back ; it makes it all the more imperative that we should give a lead. It is a question, really, of how tough a line a future Labour government is willing to take. On both socialist and ecological counts, the argument seems strong for taking a hard line rather than a soft one.

Assuming, then, that the aim is to prevent consumers' expenditure (out of non-transfer incomes) from rising by more than 2-2½ per cent a year, and within this total to favour the lower incomes rather than the higher ones, what measures should be taken?

Consider the case of the poggy, that new consumer good advertised in last Sunday's colour supplements or yesterday evening's television programmes, or in any one of a dozen other places. Until your attention was drawn to it you had never realised you wanted it; but now it has become a coveted object, to be acquired for oneself or presented to somebody else. The basic moral problem is that behind the availability of the poggy (to those who can afford it) lies a long history of research and development by highly educated and qualified people, the extraction, refining and transportation of raw materials, the assembly of a trained workforce, the purchase of machinery, the consumption of energy, and finally the production and marketing of the poggy itself. In the world of pure economic theory, this process is acceptable. In the world in which we have been living, it has been tolerated. But in the world we are moving into it seems likely that it will come to look increasingly like madness.

How, in a country, and a world, in which acutely genuine needs remain unsatisfied on a vast scale, can one go about cutting down on the quantity of resources—many of them finite resources—which go into the production and marketing of poggies? Broadly speaking, there seem to be three things that one can do. First, one can redistribute incomes. If all incomes in Britain—let alone the world—were equal, there would be precious little demand for commodities like poggies. Secondly, one can discourage the sale of poggies, for example by heavy taxation. Thirdly, one can simply ban the production of poggies altogether. To democratic socialists the first two alternatives are preferable to the third, and it is on these that a future Labour government should concentrate.

incomes policy and the distribution of income

The more intractable problem will lie on the incomes side, as the history of attempts to introduce a workable incomes policy in Britain over the past 25 years makes abundantly clear. The aim, ideally stated, is to prevent the real incomes of those around the top of the income distribution from rising at all; to enable the real incomes of those at the bottom of the income distribution (or rather of the earnings distribution, since those whose incomes are derived from National Insurance benefits and so on have been covered in the earlier discussion) to rise by perhaps 5 per cent a year; and to permit the real incomes of those in between to rise by something between 0 per cent and 5 per cent. Of course success in achieving this aim is bound to be imperfect, since income differentials do to some extent reflect productivity differentials, and as long as profits are the main criterion of business decisions firms will be unwilling to pay a labourer as much as a skilled man, or a skilled man as much as a professionally qualified one. But the differentials which exist at the moment vastly exaggerate men's differences and underemphasise their similarities. Sooner or later, one way or the other, the relative pay—or command over real resources—of different people in Western countries is going to have to be determined by rational and agreed criteria, in which the essential equality of one man with another has rather a large weight, and the immediate bargaining power and ability to hold society to ransom of particular small groups of workers has rather a small weight. One of the tasks of the next Labour government will be to move Britain in this direction as fast as is consistent with carrying the bulk of its supporters, including the unions, with it. Admittedly, this may not be very fast; but the job has to be done, and against the background of such strong egalitarian policies a good deal of progress should be possible. At the same time, incomes policy must of course be directed against inflation. The need here is so familiar as hardly to bear repeating : money incomes in total must not be allowed to rise too much faster than output. If inflation is to be kept down to a rate of no more than 3 or 4 per cent a year, money incomes in total must not rise faster than 7 or 8 per cent a year. Because of the strongly redistributive nature of the incomes policy proposed here, this would mean that in money terms the increases going to many lower income groups would have to be bigger than 7 or 8 per cent, while those going to higher income groups would have to be less—though the necessary divergence would be limited by the progressive nature of the direct tax structure : the income of someone earning £10,000 a year has to rise by about 7 per cent simply to compensate for a 4 per cent rate of inflation.

Nevertheless, the anti-inflationary features of a Labour government's incomes policy should emerge as a by-product of the policy's emphasis on improving distribution. The importance of the redistributive objective is such that there is a strong case, instead of basing the policy on a *percentage* norm, as has been done in the past, for basing it on an *absolute* norm. For example, instead of the aim being to give everyone (apart from a few exceptional cases) a pay increase of 3 or 4 per cent a year, it should be to give everyone a pay increase of £50 a year.[25] Utopian though such a suggestion, in pure form, may be, it is a much better starting point for a socialist government than the policies we have had in the past. Not only would it be a powerful weapon for redistributing income ; it would also bring home to many people high up in the income distribution just how great the present inequality is.

It would require another pamphlet to cover the subject of incomes policy satisfactorily.[26] But one thing that needs to be made clear is that if an incomes policy is going to work it must in the last resort be backed by legally enforceable sanctions. No incomes policy can be successful if large or small groups of people who happen to have a lot of bargaining power, whether they are owners of property or suppliers of labour, high paid professional experts or low paid manual workers, can with impunity sabotage the programme of a democratically elected government. The idea of compulsory arbitration, even as an infrequent last resort, will be anathema to many socialists. But it must be accepted as a necessary cost of achieving a democratic socialist society ; and argument and persuasion must go on until it is accepted. Machinery would need to be established to operate such an incomes policy. The old Prices and Incomes Board (set up by Labour in 1964 and, ludicrously, abolished by the Tories in 1970) forms a perfectly respectable model, though a new body should have rather less of an inclination to investigate every aspect of an industry's efficiency, and rather more of an inclination to recommend changes in pay that promote greater equality. And agreement must somehow be reached between a future Labour government and the unions that the awards of such a body must in the last resort be legally binding.

wealth and inheritance taxes

Although the kind of body indicated above would obviously be concerned with prices and profit margins, and hence dividends, its influence on unearned incomes would be rather indirect. Unearned incomes would need to be subjected to higher rates of taxation, but the main weapon in this part of the field must clearly be a wealth tax, combined with a far more effective levy on the transfer of wealth from one person to another than we have at the moment. The present system of estate duty is little more than a joke, and needs to be replaced by an accessions tax—a combined inheritance tax and tax on gifts *inter vivos,* according to which duty would be levied on the cumulative value of all the legacies and gifts that an individual received during his lifetime. As regards a wealth tax, what is needed is something pretty fierce—an annual tax at a rate of perhaps 5 per cent or more, aimed at eliminating large holdings of wealth within 20 years. In the long run a reasonable socialist aim would be for every family to own a house and a few thousand pounds' worth of other assets: complete equality will never be achieved, nor is it particularly important that it should be; but we are a very long way from a satisfactory degree of equality at the moment.

low priority goods

So much for the income side. On the expenditure side, it will be necessary to move towards a tax structure which bears particularly heavily on less essential goods and services—those bought out of their extra income by the higher income groups. For goods whose usefulness is particularly hard to discern there is no reason why indirect tax rates should not be several hundred per cent, and the same goes for goods for which the external diseconomies of production or consumption are large, but not so large as to justify an outright ban. The difficulties posed by a value added tax for intelligent discrimination in the application of indirect taxes make the need to introduce VAT an especially onerous cost of joining the EEC, except to the extent that future social democratic governments in Europe come to accept the logic of the case being argued here. But this is by no means the only case where the policies being advocated in this pamphlet may lead to international difficulties (see page 26).

However, heavy rates of indirect taxation are not by themselves going to be enough. If resources are to be discouraged from flowing into the production and marketing of low-priority consumer goods, something is going to have to be done about advertising. The mildest measure, and perhaps the one that a future Labour government should start off with, is to disallow advertising expenses as a cost of production, so that advertising costs would have to be met out of profits. More drastic, and perhaps a measure to be introduced gradually, starting with the more useless or ecologically damaging products, would be to ban advertising completely.

The banning of most of the kind of advertising to which Western society is exposed today may seem an extreme measure; but it has to be set against the implications of exponential growth in the production of vast quantities of goods which add relatively little to human welfare, yet are produced and disposed of at a rate which the planet's resources may not be long able to sustain. It is possible that the problem can be solved without placing severe restrictions on advertising, but it seems unlikely.

giant corporations

If anything, realistic criticism of the above argument would be not that it goes too far but that it does not go far enough. It is no good blinking the fact that the economies of Western countries are increasingly dominated by giant, usually multinational corporations, whose whole *raison d'etre* is to sustain a rapid growth of their sales and their profits. They do this by applying huge quantities of capital and manpower to the invention, development, production and marketing of goods whose role in promoting human welfare is often exceedingly tenuous—trivial consumer goods, capital goods to make those consumer goods, and defence equipment. Supply is no longer created to satisfy demand; demand is created to absorb supply. Is it credible that these giant corporations are going to succumb tamely to measures which curb the disposable incomes or wealth of the rich, which impose heavy taxes on their trendier products, and which even forbid these products to be advertised?

It is not inconceivable that the answer is yes. Big firms are very law-abiding, and if the legislation is passed they will conform with it. Of course they will do their utmost to prevent the legislation being passed; but resisting this kind of pressure from big business is one of the things a Labour government is there for. The worst that such a company can do, in the face of a resolute socialist government, is to go elsewhere—to divert new investment to other countries. This will have disadvantages for Britain, but none that cannot be coped with; and from the point of view of moving towards the kind of society this pamphlet is concerned with, the disadvantages will be much outweighed by the advantages.

public ownership

But where it is clear that large firms are not going to conform with the letter or the spirit of the law, and are going to obstruct measures designed to slow down the rise of consumers' expenditure and to increase the consumption of the poor much more rapidly than that of the rich, then the answer must be to take them into public ownership. The fundamental argument for public ownership is that in cases where all other inducements and restrictions have failed, it enables society to determine directly the terms of reference to which giant enterprises should work. Instead of the firm subordinating all its decisions to the need to maximise the rate of growth of sales or profits, and hence indulging in the increasingly unacceptable want-creating behaviour that fulfilment of this objective calls for, it would be required to conduct its operations in accordance with different criteria, far more consistent with the growth of society's general welfare. These criteria would differ in different cases, but they would all be grounded in the notion that in the real world (as opposed to the textbook world of perfect competition) behaviour aimed at maximising the profits of the individual enterprise is very unlikely to be behaviour which maximises the welfare of society. This is partly a matter of taking account of the divergence of social and private costs and benefits, as for example the nationalised coal and railway industries have to some extent done in refusing to close down uneconomic pits and branch lines (that is, refusing to maximise their own profits) because of the much greater social costs to which closure would give rise. Nationalisation is neither a necessary nor a sufficient condition of getting an enterprise to operate on the basis of social rather than private costs: not necessary because the same result can often be obtained by appropriately taxing, subsidising or regulating private firms; and not sufficient because nationalised industries, too, can and do ignore social considerations in their decision making. Nevertheless, nationalisation may sometimes be an appropriate instrument.

But more is needed than this. The costs to the community of closing the only pit in a remote mining valley, or closing railway lines in remote areas, are in principle fairly easy to recognise and take account of. The costs to the community of the decisions which have led to the present pattern of output of consumer goods (and the capital goods required to make them) are impossible to evaluate—but they exist nevertheless. Nothing can be done about them, but something can be done about the social costs, in the widest sense, of future decisions. What is needed is the application of some kind of criterion of what is good for society, rather than what is good for the profits of the particular enterprise. Some indication of the kind of criteria that should be applied may be seen in terms of two examples.

While by no means the worst example of an industry which creates wants in order to satisfy them (the fashion industry would presumably capture that title) the car industry, by virtue of its enormous economic importance, is an obvious example of an industry whose consumption of resources is out of all proportion to the welfare it produces. So great are the social costs to which the unrestricted manufacture and use of cars give rise that increasingly severe legislation is being passed in Western countries, particularly in the United States, to control the specifications to which cars are manufactured, and the conditions under which they are used. But such legislation, designed to make cars safer and quieter, and to reduce the extent to which they paralyse urban traffic and pollute the atmosphere, though of considerable importance, does little to satisfy the basic ecological and socialist objections to the way the car industry operates. The basic ecological objection is that it is directly and indirectly responsible for the burning up of colossal and rapidly increasing amounts of an irreplaceable fossil fuel. The basic socialist objection is that the vast quantities of capital and manpower it uses in the design and production of new models could make a much greater contribution to human welfare if employed in other ways. It is possible that taxation and legislation will do all that is practicable to meet these objections, while leaving the production of cars in private hands. But it seems unlikely. Much more probable is that before very long the car industry will have to be taken over by the state, and given terms of reference for the product which concentrate far more on durability and technical efficiency and far less on product differentiation and novelty of design.

Of course it might be argued that while the car industry, with its obvious products or by-products of conspicuous waste, deaths and injuries, congestion, pollution and noise, is fair game, it is also a special case. Certainly, the ecological objections may be smaller in the case of many other industries ; but this is not necessarily true of the socialist ones. Take, for example, the toy industry—an industry whose products do not, by and large (though there are alarming exceptions) generate death, disfigurement, congestion, pollution or noise, but which do bring happiness to children. And who could possibly be so Scroogeian as to begrudge resources used in this way ? What else is a high level of incomes for ? But in fact, of course—and the toy industry is a good example precisely because the truth is even more obvious in the case of children than of adults —it is not the increasingly elaborate products of an increasingly vast and commercialised industry that make children happy. Toys may be an important ingredient, but this applies just as much—perhaps more—to unsophisticated toys, or those made or found by children themselves as to those marketed by giant corporations. More important ingredients include health, education, environment (including housing) and treatment by their parents ; and these are likely to be wholly or largely, directly or indirectly, generated by public expenditure rather than expenditure by the individual parent. Obviously the point should not be pushed too far ; of course toys are " goods " rather than " bads." But it seems fair to say that the current size and rate of growth of the toy industry is far less an indication of genuine concern for the well-being of our children than of the pressures and guilt feelings engendered by a highly competitive and commercialised capitalist society. (The size of the modern toy industry is staggering. Fantastic though it may seem, at one point in the late 1960s the capital value of the largest manufacturer of toy model cars—Lesney—was almost as big as that (a year or two later, admittedly) of the largest manufacturer of real cars—British Leyland). Imposing heavy taxation on toys, or taking over toy companies and deliberately curtailing the range of existing products and the resources devoted to developing and producing new ones—these are highly politically vulnerable steps to take, and I am not suggesting that the Labour Party should advocate them in pure form at the next election. But if, as socialists, we are really going to try to take whatever steps are practicable to increase human welfare, these are the kind of measures that will eventually have to be taken ; and the next Labour Government's economic policy must recognise this from the start.

an open economy

Before this section of the discussion is concluded a word is needed about the implications, for the kind of policies suggested above, of the fact that Britain is an open economy ; for until now I have been treating it as though it were a closed economy, isolated from the rest of the world. Given the complexity of the relationships that exist between Britain and other countries, and the obligations that Britain has accepted under the terms of a series of international agreements, is it realistic to advocate that such policies be pursued by a future Labour government?

The first and most general point to be made about this is that neither a desire to see a socialist society, nor an intelligent concern about the way the world is headed, are confined to the British Isles. Indeed one sometimes sees more evidence of them abroad than at home. Eastern Europe, for example, for all its iniquities, has much to teach us about a socially just allocation of resources. It was in the United States, for example, under a Republican administration (not in Britain under a Labour government) that the decision was made *not* to commit thousands of millions of pounds to a method of transporting businessmen across the Atlantic in three hours instead of six that is certainly economically, and quite possibly ecologically, insane. It was in Christian Democratic Germany, for example (not in Labour Britain) that really effective steps were taken to ensure that the living standards of old age pensioners bore a reasonable relationship to those of the rest of the community. There is no good reason for a future British Labour government to reject the kind of policies suggested here on the grounds that we cannot go it alone. For we would not, on the whole, be going it alone. And if, taking the whole strategy rather than individual aspects of it, we were pushing socialist thinking in a world of finite resources faster than other countries, perhaps that is a contribution that one of the oldest socialist movements in one of the oldest democracies might reasonably expect to make.

So much for the general picture. But it should not be lost sight of in focussing in detail on particular segments of the canvas. It is, for example, a fair bet that by the time the next Labour government takes office Britain will be a member of the EEC. Some good British socialists see this as a fate worse than death. They have a vision of a virginal socialist Britain being raped by a depraved capitalist Europe. Perhaps they have too little faith, and should at least envisage the possibility of a hesitant capitalist Europa being seduced by a strong minded socialist John Bull. It is a scenario that is at least as plausible, and much more attractive. The Treaty of Rome, and the myriad interpretations of it embodied in the regulations handed down by the EEC Commission, are there in black and white, and cannot be ignored. But in an enlarged EEC the values and attitudes of a Labour Britain, backed up by other new entrants with more radical and strongly based socialist movements than Britain has, and supported by strong—sometimes governing—social democratic parties in Continental Europe, will not be able to be ignored either. They have a good chance of bringing some socialist sanity to bear on the evolution of the world. To argue that a future Labour government cannot push forward towards socialism because of the constraints that will be imposed on it by membership of the EEC is pusillanimous, and smacks of arranging a line of retreat. In EEC, the difficulties will be greater; but so will the prize.

The second main way in which the openness of the British economy would need to be taken account of in pursuing the policies proposed in this pamphlet is in regard to the balance of payments. As every schoolboy knows, Britain is dependent on imports of goods and materials from abroad, and has to export manufactured goods in order to pay for them. How can we go on doing this if we deliberately adopt a policy of squeezing the consumer goods sector (and related parts of the capital goods sector) by a tough policy of taxation, regulation, legislation and nationalisation? Surely clamping down on the development of new consumer goods, and perhaps even of some existing ones, will destroy our ability to compete in overseas markets, and lead us into a chronically weak balance of payments situation which can only be dealt with by a never-ending series of cuts in imports?

I do not believe there is any great danger of this, for a number of reasons. First, for a wide range of Britain's existing exports of capital goods and high quality consumer goods there is no reason to expect the policies advocated here to lead to any significant loss of competitiveness. Secondly, there is likely, at least in the slightly longer run, to be some worsening in the terms of trade against consumer goods, and it will become more worthwhile for Britain to grow more of her own food and produce or re-cycle more of her own materials rather than to export consumer goods in return for food or raw materials. Thirdly, and most important, the kind of policies suggested in this pamphlet are likely in many major respects to increase Britain's export potential rather than to diminish it. The kind of programme outlined here would enable us to become leading exporters of many of the kind of goods and services purchased by public authorities—designs for new patterns of urban living, mass urban transit systems, new drugs and medical equipment, new educational techniques. In a world context these are growth industries. On the import side, too, there would be advantages. The more emphasis that is given to increasing " good " public expenditure, or GPE, the lower the import content of total output is likely to be; and measures aimed at curbing the growth of consumers' expenditure on trivia will hit imports of such goods as well as domestic production of them. The main instrument to be used in ensuring that the balance of payments balances is the exchange rate (discussed above, on page 6, and again briefly on page 30 below) ; but there is no reason to suppose that the terms of trade at which the current account would be in balance would be any worse under the proposed policy than under a more orthodox growth policy.

On capital account, too, there is no reason to expect that the effects would, on balance, be adverse. In some parts of the consumer goods industries new capital would cease to flow in, and existing capital might flow out. But in other consumer sectors, and particularly in those sectors servicing the rapid rise in public expenditure, the opposite might happen: there are good reasons, after all, for expecting the overall growth rate, at least in the early stages, to be faster under the policies proposed than it has been in the past. Of course where foreign companies were nationalised (the three American owned car companies are an obvious example) compensation would have to be paid, and this would have to come out of the foreign exchange reserves; but over a period of time this would be offset by the reduced outflow of profits and dividends. One final implication of the fact that Britain is an open economy, and a free society, needs to be mentioned. The measures aimed at preventing much further growth in the real incomes and consumption of those at the top of the income distribution, and at re-distributing wealth, will lead, it might be argued, to a mass emigration from Britain of the most qualified and skilled people, and their personal wealth.

As far as the people are concerned, I simply do not believe it. In terms of consumer expenditure, living standards in North America are much higher than in Britain; yet the number of highly skilled and qualified Britons who emigrate permanently to the US and Canada is comparatively small. The kind of society Labour should be striving to achieve would be a good society to live in, regardless of the exact range and trendiness of the consumer goods available compared with those available in other countries. Some skilled people would emigrate, but others would want to immigrate: the problem might well become one not of keeping our own people in, but of keeping other people out. Britain is already regarded as a haven of civilisation by people in North America. Unrestricted freedom of movement for people is to be regarded as an inalienable right; unrestricted freedom of movement of capital is not. A Labour government should not allow radical measures to redestribute wealth to be thwarted by the export of capital. Genuine emigrants would of course have to be treated generously in the amount of capital they could take with them; though even here there would have to be limits. Others should not be permitted to export capital, or not except to a small extent. This would call for effective exchange control, though not to a significantly greater extent than the exchange control we have had in the past. Membership of the EEC should not, *de facto,* be allowed to prevent this. France, after all, is notorious for operating one of the tightest and most comprehensive sets of exchange control regulations in the world.

Enough has now been said about the means of attaining what should in my view be the central economic objective of a future Labour government—the fastest possible rise in social welfare, which might be roughly defined as requiring the fastest possible growth of GPE. This process would comprehend a radical redistribution of income and wealth. Something must now be said about the means of attaining what has been taken in this pamphlet to be the other main objective of economic policy—though it too is closely bound up with the previous one: the achievement and maintenance of full employment. Little needs to be said about this. Currently (April 1972) unemployment is over a million. This is an appalling state of affairs, which should never have been allowed to develop, and should be terminated as rapidly as possible. This level of unemployment is not, as it is becoming increasingly fashionable to argue, the result of new and mysterious forces at work in the economy.[27] It is the result of much too slow a rise in effective demand over the past two or three years; this in turn is the result partly of forecasting errors, but principally of a desire on the part of both Labour and Conservative governments (particularly the latter) to use higher unemployment as a weapon to fight wage inflation. When effective demand has been expanded, unemployment will come down to reasonable levels.

There is an interesting analogy to be drawn, in this connection, between Britain in the early 1970s and the United States in the early 1960s. In the US at that time unemployment had reached the 7 per cent level, and it was being widely claimed that this was a reflection of fundamental structural factors against which Keynesian remedies were powerless. In fact it was a reflection of the very slow rise in effective demand during the later years of the Eisenhower administration, and when demand was increased, as it was first by Kennedy and later by Johnson, unemployment fell to almost unprecedentedly low levels. It is highly likely that the same policies in Britain would be attended by the same results.

regional policies and re-training

However, one must not put all the weight on the demand side. Although a large and sustained increase in effective demand is now by far the most important step needed to restore full employment, it is not the only step that is needed. Nor, in the longer run, can an efficient and productive kind of full employment be maintained simply by operating on the demand side. If an overall level of unemployment of 1$\frac{3}{4}$-2 per cent is not to mean high unemployment in some areas and acute labour shortages in others, steps must be taken to match labour supply and demand both on a regional level, and in terms of skills. Of course there is nothing new about this: the problems of regional imbalance, even when the overall unemployment rate is satisfactory, and shortages of skilled labour, particularly at times when the overall unemployment rate is satisfactory, have been with us ever since governments undertook responsibility for economic policy. The trouble is, they have not so far been solved. But what is needed to solve them is not a great change of direction or set of totally new initiatives, but simply the same kind of policies employed by the last Labour government, but pushed with a good deal more determination. The only trouble with the Regional Employment Premium introduced by Labour, for example, was that it was not big enough; it must be restored (since the Tories, absurdly, apparently intend to abolish it) and at a higher rate. The only trouble with the policy of withholding Industrial Development Certificates in the congested areas was that it was not always operated adamantly enough. And the only trouble with the country's training and re-training programmes is that they still operate on far too small a scale, given the size of the labour force and the pace at which the need for old skills disappears and the need for new ones arises.[28] This is not to say that these problems are going to be solved easily; but we do at least know, in broad terms, the kind of approach that is needed.

a satisfactory balance of payments

Of the two requirements identified in chapter 2, one (an annual rate of inflation of no more than 3-4 per cent) has already been discussed in the context of an incomes policy whose main thrust would be directed to improving the distribution of income, but which would have the moderation of inflation as its main by-product (pages 22 to 23). A word remains to be said about the second—a balance of payments on current account that is in balance or modest surplus.

There ought to be no great difficulty about this. It has already been argued that there is nothing in the kind of programme advocated in this pamphlet that should prevent Britain from balancing her overseas payments at acceptable terms of trade, provided of course that the exchange rate is intelligently used as an important instrument of economic policy, and not regarded as a mysterious deity to be endlessly propitiated with human sacrifices. Fortunately the experiences of the last few years, culminating in the American recognition on 15 August 1971, that even the dollar was just a currency like any other, which sometimes needed to have its value in terms of other currencies adjusted to take account of different rates of growth of money incomes and productivity, should make the need for such future sacrifices unnecessary. The significantly greater degree of flexibility we are likely to see in exchange rates in future has rendered obsolete the cry for " export led growth " which has been heard from time to time in Britain in recent years; for export led growth of the kind achieved by Germany and Japan during the 1950s and 1960s is only possible for countries which start off with an undervalued exchange rate in an era when changes in exchange rates are regarded as the ultimate defeat. Had Britain gone in for a large devaluation in the late 1950s or early 1960s it might have got itself into the virtuous circle of export led growth; but now it is too late.[29] But if the new era of more flexible exchange rates denies us the possibility of export led growth, it should also rescue us from the old bogy of import led stagnation. There was never much of an excuse for deflating rather than devaluing in order to cope with a balance of payments problem; henceforth there will be no excuse at all. One of the virtues of Mr. Barber's March 1972 Budget speech was that he explicitly acknowledged this.

4. summary and conclusions

I have sought in this pamphlet to stand back from day to day (and even year to year) considerations, and look in broad terms at the main economic objectives that a future Labour government should set itself over a 10 or 15 year period; and the means it might employ to achieve them. A number of specific policy proposals are scattered throughout the pamphlet, but they need to be looked at in terms of this wider perspective.

The most basic objective of all should be to restore and maintain full employment, by which I mean an unemployment rate of no more than 2 per cent. Unemployment is evil not merely because it represents unused resources in a world of shortages, but because it represents an unforgiveable degradation of the individual human being. This should not need to be said; but at a time when unemployment has been allowed to increase to over a million (about 4 per cent) it clearly does need to be said. Maintaining full employment is not difficult, provided that sensible demand management policies are pursued, and that the problems of regional imbalance and industrial re-training are tackled on the appropriate scale with a combination of taxes, subsidies and direct controls. On this front, the last Labour government's approach was on broadly the right lines; but it will need to be pressed with a good deal more vigour next time.

Labour's greatest failure last time was its failure to achieve economic growth. The National Plan promised a 25 per cent increase in real GDP between 1964 and 1970; in the event the increase was only 14 per cent, or 2.2 per cent a year. There seems little reason to doubt that had economic growth been given the priority that Labour had said in opposition it would give it, instead of being sacrificed to the exchange rate, growth would have been considerably faster than this. Given sensible policies on demand management, the exchange rate, regional imbalance and re-training, and possibly taking credit for some speeding up in the underlying growth of productivity that may have occured in recent years, it does not seem unduly optimistic to assume that Britain should be capable of something like a 4 per cent growth rate in the future.

However, it is not the contention of this pamphlet that Labour's central economic objective should be to secure a 4 per cent rate of growth of the GDP. There is a correlation between GDP and the welfare of society—social welfare in Britain would now be greater if the growth of GDP in recent years had been faster—but the correlation is not a particularly close one, and is getting less close as the absolute level of the GDP rises. A Labour government should concentrate on increasing social welfare rather than on increasing the GDP as such.

The difficulty about this prescription, of course, is that social welfare is a vague concept which means different things to different people, while the GDP is a very precise concept that is measured by statisticians. But this difficulty is inescapable—social welfare may be more difficult to define, but is more important to increase. A Labour government has to decide what steps are going to raise social welfare at the fastest possible rate, and then take them—even if (as is probable, given the way national income accounting is done) this results in a slower growth of measured GDP than would otherwise occur. In my view, a rough proxy for social welfare can be found in certain kinds of public expenditure, particularly on social security payments and social and environmental services. A pound spent here is likely to increase social welfare a lot more than a pound spent on consumer goods, particularly by the higher income groups. The object of policy should therefore be to raise what I have called "good public expenditure" (GPE) at the fastest possible rate. Calculations based on an annual rise in the economy's productive potential of 4 per cent suggest that GPE (in real terms) could be raised by 6 or 7 per cent a year without imposing intolerable strains on the rest of the economy; and that within 10 years this would transform the conditions of life in this country. However if such a rise were to be attained, the rise in consumers' expenditure (apart from that financed by transfer incomes) would need to be restrained to about 2-2½ per cent a year, and this overall increase would have to be channelled to where it would most promote well-being. It should be the object of policy—incomes policy, taxation policy, and where necessary direct prohibition on the production or import of certain goods—to prevent any increase in the consumption standards of those in the top 10 per cent or so of the income distribution, and to concentrate increases on the rest of the population in inverse proportion to their existing consumption levels. The ultimate aim should be to give everybody the kind of standard of living now enjoyed by those in the top 10 per cent of the income distribution.

That everybody should enjoy a standard of living akin to that now enjoyed at the top of the income distribution must seem a legitimate aspiration to socialists, however difficult it may be of achievement; and it would require GDP to be little more than double its present level—which a 4 per cent growth rate (even allowing for some population increase) could promote in something like 20 years. But why should the living standards of the top 10 per cent be taken as the ceiling? Why, given the enormous difficulties of preventing the real incomes of the rich from rising, should so much emphasis be put on this?

One answer to this is simply that it is not possible to promote a substantially greater degree of equality of income and wealth if the incomes and wealth of those at the top of the tree continue to rise. But a more basic answer seems to lie in ecological considerations—in the rate at which the planet's irreplaceable resources are being depleted, and its atmosphere and oceans polluted, by the explosive growth of world industry and trade. It is possible that rapid economic growth of the kind pursued over the past 15 or 20 years by virtually all of the richer countries in the world, and most of the poorer ones, can go on far into the future; that as some materials and fuel sources begin to give out, others will replace them; that rapidly increasing chemical, thermal and radiation pollution can be coped with; that technology will find a way. But it seems unwise to put too much of one's money on it. It seems more likely that at some point in the not too distant future growth will have to slow down and stop; and the important thing is that it should be slowed down and stopped by rational action, not by external disaster.

For Britain, the most drastic action likely to be consistent with any semblance of political reality is to stop the rise in living standards of those in the top 10 per cent or so of the income distribution, and to level the rest of the community up accordingly. But drastic though it may seem even this aim, taking a broad and a long view, could be characterised as absurdly self-indulgent. The living standards enjoyed by the top 10 per cent in Britain are enormously high by comparison with those of almost any other time in history and any other place on earth, and they permit the gratification of desires which are intrinsically trivial or completely artificial. To give everyone in the world this standard of living, assuming that such a concept is meaningful, and making the very optimistic assumption that world population can be stabilised at around 10 billion, would require a level of world industrial production something like 30 times what it is now. Such a prospect is scarcely imaginable. It seems much more likely that the great majority of mankind will never attain anything like the living standards now enjoyed by better-off people in the West. In view of this, and of the fact that the "ecological demand" of rich people in the West (in terms of consumption of materials and energy and the disposal of waste) is already perhaps 50 times larger than that of the peasants who constitute half the world's population, can there be any conceivable justification for further increases in such rich people's real incomes, or the demands they impose on the environment?

Considerations of this kind must, I believe, come to assume very much greater importance in the making of economic policy in the richer nations of the West than they have until now. The programme outlined in this pamphlet is a rough attempt to indicate what this should mean for the economic policies of Britain's next Labour government.

notes

1 For a fully documented account of the reasoning behind this conclusion see my chapter "The distribution of income" in Wilfred Beckerman (ed), *The Labour Government's economic record: 1964-70*, Duckworth, 1972.
2 Wholly unemployed (excluding school leavers), seasonally adjusted. Only a small part of the increase reflects the introduction of redundancy payments and wage related unemployment benefits.
3 See, for example, paragraph 69 of the Radcliffe Committee Report on the Working of the Monetary System (Cmnd 827), where these are taken to be the objectives of monetary policy, as of economic policy generally.
4 "Needed" in the sense that people are willing to pay for them. How far this is a good criterion for allocating resources is a question taken up in chapter 3.
5 Revisions have brought this figure down from the £800 million deficit that the statistics showed at the time.
6 Among the best-known voices were those of J. K. Galbraith, particularly in *The new industrial state*, 1967; and of E. J. Mishan, in *The costs of economic growth*, 1967.
7 See Wilfred Beckerman, "The desirability of economic growth" in Nicholas Kaldor (ed) *Conflicts in policy objectives*, Blackwell, 1971, for a systematic analysis of this point.
8 The exact pattern of increases, in real terms, would have been influenced by various technical factors such as the terms of trade, the "relative price effect" for public expenditure, and so on; but this does not affect the essence of the argument.
9 Reserves of oil, silver, gold, copper, mercury, molybdenum, nickel, lead, platinum, tin and zinc will be exhausted; and exhaustion of reserves of bauxite, cobalt, manganese, and tungsten will not be far off ("A blueprint for survival", *op cit* pages 6, 7, and 41-42). Similar conclusions can be found in P. R. and A. H. Ehrlich, *Population, resources, environment*, W. H. Freeman, San Francisco, 1970. A more balanced (but still far from comforting) view can be found in *Resources and man*, the report of a committee set up in 1968 by the US National Academy of Sciences (W. H. Freeman for the National Academy of Sciences, 1969). The latest and most sophisticated study, conducted at the Massachusetts Institute of Technology, while predicting that most mineral resources will last rather longer than the time-span forecast in "A blueprint for survival", comes to very similar conclusions on the main points of substance.
10 Through brevity or oversight, I may have failed to do full justice to the economists' argument; but it was disconcerting to see how little of the published economic comment on "A blueprint for survival" consisted of reasoned rebuttal, and how much of contemptuous dismissal and even simple abuse. In a letter to *The Times*, for example, John Vaizey described the document as "breathtakingly foolish," and in *The Sunday Times* Nicholas Faith used phrases such as "naive, short-sighted mugs" and "simple minded rubbish."
11 Normally the growth of a "population" (in the widest biological sense) describes a logistic or shallow s-shaped curve. The transition from the middle (fast growing) to top (slow growing) part of the curve can be accomplished by either internal controls (such as some form of birth control or infanticide) or external controls (such as a scarcity of living space or food supplies).
12 Most of them, incidentally, long familiar to economists—not a point that contemporary anti-growth arguments always make clear. When economists (or at any rate sensible economists) talk of "giving top priority to growth" or "maximising the growth rate" they mean that growth of the GDP should not be deliberately held back (as it has been so often during the past 25 years) in the interests of maintaining a fixed exchange rate or trying to stabilise prices; it is not that they are unaware of the sort of considerations set out in this paragraph.
13 Other items, of less importance in the present context, are cash grants of various kinds to industry, agriculture, and transport.
14 I assume that an extra £1 for someone getting £10 a week brings more satisfaction—has greater "utility"—than for someone getting £100 a week.
15 The latest of this series of White Papers is *Public expenditure 1970-71*

to 1975-76, Cmnd 4829, November 1971.
16 For various reasons both the latest White Paper, and the first path breaking one published by the Labour government (*Public expenditure 1968-69 to 1973-74,* Cmnd 4234, December 1969) foreshadowed very slow increases in nationalised industry investment.
17 The reasoning behind this estimate of 5-6 per cent for total public expenditure is as follows. I have included in my somewhat arbitrary definition of " good public expenditure " (GPE) the following items (taken from table 1.2 of Cmnd 4829): overseas aid; research councils and so on; investment grants; one quarter of other expenditure on trade, industry and employment; all environmental services except law and order, of which only a third; all social services; miscellaneous services; and one half of expenditure on Northern Ireland. (One can add to or subtract from this list fairly freely without greatly altering the conclusions, provided that expenditure on social services and environmental services is always included.) The total of these items is extrapolated, on the basis of the 1970-71 provisional outturn figures at 1971-72 outturn prices, at 6.5 per cent a year. The total of all other items is projected at 2.0 per cent a year, which is approximately twice as fast as the projections in Cmnd 4829, the justification for this being partly that under the proposals in this pamphlet the overall rate of growth of GNP would be faster than the one on which the White Paper appears to be based, and therefore the need for some of these expenditures would be greater; and partly simply to err on the safe side. The rise in the total of all public expenditure over a 10-year period would be at an average annual rate of 4.9 per cent (on these assumptions the increase would of course show some acceleration over the period). In order to allow for a somewhat more rapid rise in resource costs than this (the " relative price effect " and the fact that different kinds of expenditure can have a different impact on output are partly, but not wholly, allowed for in these figures) the rise in total public expenditure, in terms of real cost to the economy, is therefore put at 5-6 per cent a year. It is acknowledged that these assumptions and calculations are somewhat arbitrary and crude; but they are probably not so arbitrary and crude as to invalidate the basic argument in the text.
18 Cmnd 4234, table 1.1, and Cmnd 4829, table 3.23.
19 *The National Plan,* p 2. The figure of 3.8 per cent referred to earlier was the projected average increase over the whole period 1964-70.
20 M. FG. Scott, " Growth and the balance of payments " in Nicholas Kaldor (ed): *Conflicts in policy objectives,* Blackwell, 1971.
21 As E. F. Denison has pointed out, productivity in Britain is not only lower than in the other countries of North West Europe, but lower to a greater extent than can readily be accounted for by " stop-go "; the explanation may lie in the much greater " overmanning and all that goes with it " that Britain suffers from (quoted in M. FG. Scott, *op cit,* page 148).
22 OECD, *The outlook for economic growth,* May 1970, table 1.
23 Another possible reason is that the taxation policies needed to " finance " the rapid increase in public expenditure—which are discussed later—might have an adverse effect on incentives; however, empirical research lends little support to this hypothesis.
24 Because unless there is an increase in the propensity to save, a 10 per cent annual increase in money incomes would probably lead to either a faster than 2-2½ per cent rise in consumption, or a faster than 3-4 per cent rise in prices.
25 Both norms would result in more or less stable prices.
26 I have, as a matter of fact, together with Rex Winsbury, written such a pamphlet (Michael Stewart and Rex Winsbury, *An incomes policy for Labour,* Fabian tract 350, 1963). Neither the nature of the problem nor the measures needed to deal with it seem to have changed much in the intervening decade.
27 This argument appears frequently in the political columns of *The Times,* in which the views of " senior ministers " are invoked as evidence. Seasoned political journalists should recognise an alibi when they hear one.
28 In February 1972 the Conservative

government announced plans for a substantial increase in the country's training and re-training facilities. These plans—particularly that for a fivefold expansion of the capacity of Government Training Centres—appear to be very much along the right lines.

29 It would not necessarily have been a virtuous circle by the criteria of this pamphlet, of course, as is suggested by the complex of social and environmental problems now facing Japan.

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