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PRIVATE & CONFIDENTIAL.

DRAFT MEMORANDUM ON A PLANNED ECONOMY.

Scope and Purpose of the Memorandum.

At the last Liberal Assembly a series of amendments to the Official resolutions were put forward, each of which emphasised the necessity for a planned economy if the ordinary men and women of this Country are to enjoy economic security.

The official resolution on 'Freedom of Enterprise' and the amendment thereto, defining the functions of the Minister of Planning, were referred back by the Assembly to a Committee to be set up by Sir Percy Harris and the Parliamentary Liberal Party. This memorandum has been prepared by its signatories in order to present to this Committee the considered views in concrete form of those who are convinced of the necessity for a planned economy if the Liberal Party is to carry out the policies to which it is committed.

The necessity for the Liberal Party to commit itself wholeheartedly to economic planning on the lines of this memorandum is more than ever imperative now that the Party has unreservedly accepted the Beveridge report. In preparing this memorandum we have concentrated on the principle of economic planning and have deliberately ignored certain questions vital to the effective functioning of a planned economy such as civil service reform, technical education, and the reform of patent and other commercial law. We have only incidentally touched on social policy.

Form of the Memorandum.

The memorandum which follows is divided into the following sections:-

- The objects of Liberal Policy for the Post-War World.
- The alternative to planning.
- The elements of an Economic Plan.
- Full employment and a steadily improving standard of living.
- The stimulus to consumption.
- The stimulus to investment.
- National Ownership of monopolies and semi-monopolies.
- Control over the economic system.
- Price Control.
- Control of raw materials.
- Freedom of enterprise within the economic plan.
- Compensation.
- Investment control.
- Foreign trade.
- The need for International economic planning.
- The functions of a Minister of Economic Planning.

The Objects of Liberal Policy for the Post-War World.

Economic organisation and policy is not an end in itself. Our economic organisation and policies after the war must be determined by the kind of society we wish to see established, i.e. by the objects of Liberal policy for the post war world.

What must be the fundamental bases of such a Liberal policy?

The Liberal Party has always stood for the interests of the community as a whole. It has consistently resisted all attacks from whatever quarter they might come against the hard won civil

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liberties of the British people. It has also, led by the radical elements within the Party, sought to improve the spiritual and material conditions of the masses of the people. In performing these functions it has in the past courageously undertaken a ruthless analysis of facts, and arrived at conclusions fearlessly, standing for basic principles and policies rather than for phrases and institutions. At this juncture of world history, more perhaps than at any other time, these qualities are called for.

The pre-war world has passed away and co-incident with the war there is taking place a complete revolution of ideas, of values and of hopes for the future. Over and above those economic problems around which our political conflicts have been waged for the last twenty-five years, there is now emerging a deeper spiritual and moral urge inspiring men to struggle for the establishment of a society in which every member of the community has the opportunity to live a full, happy and well-ordered life. At the end of the last war the common people were imbued by a similar spiritual and moral urge, which was frustrated by the substitution of catchwords for realistic analysis of facts. That past frustration is present in the mind of this generation, which is determined not to be similarly misled. Yet once more attractive catchwords are being bandied about both on the right and on the left.

On the one hand, the Conservative Party, speaking through Lord Salisbury, says that private enterprise acting through the profit motive will secure these aims. "Fortunes", he says, "are normally made only by providing the community with something better and cheaper than it had before." He would restrict State intervention to subsidies.

On the other hand, sincere progressive men such as the Archbishop of Canterbury, would have us believe that there is something morally wrong in the profit motive whether it applies to Labour or Capital and that a spirit of service or sacrifice must be substituted for it in our national life.

Both views are erroneous and misleading. Profits in an individualist economic system which produces at the risk of individuals represent the mechanism by which production is directed into the channels where it is most needed. No amount of Christian introspection or willingness to serve can tell the producer what he should produce and by what methods. But under present day conditions profit is an inefficient working alternative to the collective planning of economic activity, and is unjust in its social results.

If the nation is misled after this war, as it was misled after the last war, by catchwords and phrases, the consequence may well be disastrous.

In the disillusionment false prophets might be listened to and the great traditions of this country swept away. To uphold what is best, to give an effective leadership to Europe on which our national future as a great power depends, is only possible if those features of our economic and social system which we recognise as evil are eradicated.

What then are those basic principles which the Liberal Party has stood for in the past, and must stand for in the future?

Firstly, to secure and safeguard the individual liberty of the subject not only against autocratic absolutism but also against all who by fortune and the existing system have been placed in a more favourable position than most of their countrymen and have acquired power over them in any shape or form.

Secondly, to secure steady improvement in the well being of the greatest numbers, which is the fundamental basis of a true democracy.

Thirdly, to eliminate the causes of friction and hatred in the intercourse of nations so as to secure peace on a permanent basis and not on bayonets, as the Nazis wish.

These fundamental principles of Liberalism can only be secured in the post war years if we deliberately plan our economic and social life to those ends.

The Alternative to Planning.

Before we set out the elements of a planned economy, we feel we should consider the alternative. The alternative is a return to the conditions that obtained in 1919, before the outbreak of war. But a return to those conditions as we show in the following paragraphs is impossible, not only because of the inherent trend of competitive capitalism towards monopoly capitalism, but also because of factors which have become operative during the war and which have accelerated that trend.

The choice before the British people is not the choice between an economic system planned in the interests of the community or capitalism in which the entrepreneur is forced to be efficient because competition pushes production to the point where profit on marginal output disappears. The choice lies between monopoly capitalism, working in the interests of the monopolists or a planned economy in which industry functions for the community. The reasons why competitive capitalism is rapidly transforming itself into monopoly capitalism are not far to seek.

In industries where production costs decrease when the scale of production increases, the resultant savings tend to squeeze out the small man until only the giants of the industry are left. The industrial giants left in the industry soon find that it does not pay to push production to the point where profits disappear, but, by collusion to restrict it, thus raising prices so as to permit maximum profit to be earned. Any disturbance from abroad by competitive groups is then eliminated by protection. Finally the survivors of the international battle get together and establish cartels which keep prices high.

Production is conducted by these groups not in the interests of the community but with regard only to their own sectional interests. In other words, they cease to produce according to the state of demand, technical knowledge and availability of natural resources which would be the governing factors in a freely competitive system.

Furthermore, it is not in the interests of these groups to have full employment as full employment increases the bargaining power of Trade Unions, which are the counterpart on the Labour side of the monopoly organisation of capital. In reply, the Unions, which have no safeguard for the well being of their members but scarcity of the skill they represent, do their utmost to restrict the supply of skilled labour. In order to placate the Unions, and to entrench themselves, the Employers' Organisations share part of the monopoly profit derived from exploiting the community with members of the Union. Thus industry, instead of being organised to respond automatically to the changing demand of the consumer, increasingly

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imposed on the consumer its own conditions. Instead of free enterprise, we are confronted by log rolling in which the most powerful vested interests carry the day. As not infrequently technical development causes losses to established vested interests they resist change and impede progress. Thus, the development of the whole community suffers and our competitive power abroad decreases.

The last ten years have seen an astonishing growth of this kind of economic fascism in this country.

The way in which controllers have been chosen during this war, as the Economist has shown, further speeded up the process.

Concentration of industry to release labour, plant, and factories from civilian consumption industries is also playing a vital part in speeding up the process.

In a substantial and increasing part of the economic system we are confronted with partly statutory regulations of entry and a self-government of industry in the main interested primarily in protecting itself instead of serving the community. Capital and labour, within the industry combine to support this process, because both fear excess capacity which spells bankruptcy for capital, and unemployment for labour.

In most recent pamphlets on post war organisation emanating from trade interests, proposals will be found to restrict competition in the industry concerned under the guise of eliminating unfair competition.

On the same ground, control of entry into the industry is also being advocated. In the case of retail distribution and of the concentrated industries, promises have been made that people forced out by the war will have priority of re-entry when the war is over. Registers have in fact been opened for the purpose. Moreover the re-institutive provisions of the National Service Acts implicitly demand such a priority. If the handling of restriction of entry is entrusted to the Trade interests concerned, they will be tempted to restrict entry in order to eliminate competition sufficiently to bring about high profit margins. This will inevitably prejudice progress in the same way as monopoly associations of producers. Freedom of enterprise for the individual has ceased to exist over large areas in large scale industry. With the continuance of the present system the remaining areas of industry in which freedom of enterprise is possible must rapidly disappear.

The Elements of a Plan.

The problem in evolving a plan is to establish what reforms are necessary:

- 1) - to bring about continuous full employment and thus end for the masses of this country the demoralisation and degradation of mass unemployment.
- 2) - to secure for the people a steadily improving standard of living.
- 3) - to prevent the natural evolution towards large scale enterprise described in the preceding section from having unfavourable repercussions on the community.
- 4) - to secure full international economic collaboration.

Full Employment and a Steadily Improving Standard of Living.

General agreement exists among men of goodwill everywhere that now again shall we tolerate the twin scourges of want and unemployment, which have so formidably contributed to the causation of the present war and to the frustration of all the hopes which animated people at the end of the last war.

These two problems are to a certain extent interdependent. Without the solution of how to employ fully and effectively the manpower of our country we shall not be able to secure a sufficient production of these commodities which are necessary for a basic minimum of the standard of life. At the same time, we must secure such distribution of the products of the economic system as to ensure an adequate and steadily improving basic livelihood for all.

a) Full Employment.

Full employment depends partly on the elimination of those fluctuations in business activity which characterised the existing economic system from its inception and which is the main cause of economic insecurity for employers and workers alike. It depends furthermore on securing mobility of labour and capital so that readjustments in the productive structure can be readily effected, and so that such national and social ills as were represented by our distressed areas can be avoided.

The elimination of the business cycle can be accomplished by maintaining a steady general level demand for the products of the industry and agriculture. This can be done by stimulating consumption or stimulating investment or both.

The Stimulus to Consumption.

It is in our view the duty of the state to procure basic decent conditions for each member of the community. The Liberal Party has accepted and is pledged to implement the Report on Social Services by Sir William Beveridge. His plans would secure that none should suffer want as a result of either unemployment, sickness or old age. He envisages, moreover, a scheme of family allowances which would abolish the present scandal of want which scourges large families whose breadwinner happens to be in a lower paid occupation.

The redistribution of income, implied by the recommendation of Sir William if financed equitably will stimulate consumption and thus also provide opportunities for investment in supplying the needs which could be satisfied from the additional social security income.

This increase in consumption and investment demand will help to remedy the perennial tendency of progressive rich countries to save more than can be profitably used for investment by private businesses, i.e. investment which is undertaken only if the prospects of making substantial profits are good. In this way, the provision for the poor is one of the most important mainstays of the system of free enterprise. If in time when reconstruction is completed, it should be found that the social security incomes as prepared by Sir William are insufficient to offset the tendency to over-saving, these incomes should be raised thus securing participation of the least fortunate in the growing prosperity of the country and at the same time preventing slumps due to a falling away of demand.

Stimulus to Investment.

A second and complementary method of curing unemployment is to stimulate investment.

Some, like the Economist, prefer stimulus to private investment by various kinds of subsidies to private companies to stimulate their investment dividend by increasing depreciation allowances for tax purposes, by the provision of cheap capital, or by the state guarantee of private issues. Indeed the memorandum of

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Industrialists demands that State stimulus of investment should be concentrated on this, and that State investment should be confined to "public works." This amounts to nothing more than a policy of granting public money to private individuals. This policy of making the wealthy wealthier, must be rejected outright. This view regards State investment only as a balancing element to give full employment and nothing more. It implies that once the war is over 'effective' demand of private individuals should immediately take precedence over any consciously planned method of meeting the basic needs of the community. Those who propound it must demonstrate that the distribution of effective demand at the end of the war will wholly coincide with the long run interests of the community as a whole.

If indeed, at the end of the war, effective demand originated from the desires of approximately equally well endowed individuals, this might perhaps be granted. However far reaching the changes in economic and capital distribution brought about by the war, this hypothesis is a veritable travesty of the truth. It indeed suggests that in our reconstruction schemes we are to pay no attention whatever to priorities for increasing the well being of the community. It would permit the haphazard distribution of wealth and income, especially of wealth, to exhaust the productive capacity of the country. But even those who scorn the humbug of finance will readily admit that the productive powers of Britain are not unlimited, that therefore choice will have to be made as to what the community can afford after the war. Are we to proceed in future, especially in the dangerous immediate post-war period, merely on the basis of the desires of those individuals who by their purchasing power can make their desires effective? Are we to permit the building of palaces before ensuring decent housing conditions? Are we to import luxuries when it will be difficult to import necessities for the community as a whole?

The Liberal Party must insist that the provision of a minimum standard of life for all must take precedence over the less urgent needs of the more fortunate in planning reconstruction and planning the future development of the country. To secure this there should be established a control over investment both public and private. Together with a direct stimulus to consumption outlined above, the State, whenever private investment threatens to fail, should undertake useful investment, such as housing, and thus maintain a steady progress of the community. In its investment policy, the State must be directed by priorities dictated by the basic aims of the community. In other words, the Liberal Party should regard the economic structure as an instrument to be used only in the interests of the community as a whole. The State must therefore determine the basic effective demand, plan reconstruction, ensure basic decent conditions for the population as a whole, while luxuries become the balancing factor in the equation. In other words, if basic decencies are guaranteed, the margin of available productive power, which would be very considerable, should be permitted to be used freely by those who can afford it for obtaining luxuries and amusements.

National Ownership of Monopolies and Semi-Monopolies.

The prosperity and progress of the community depends not merely on the full employment of its productive resources promoted and accompanied by the organisation of an equitable distribution of the resulting product but also on the most effective and efficient employment of these resources. We view with concern the growth internally of private monopolistic practices and externally of exclusive, restrictive practices, both of which reduce productivity and each of which promotes and strengthens the stranglehold of the other. We recognise however that only by co-ordinated planning

which gives some economic security not merely to employees but also to entrepreneurs can this invidious tendency be made superfluous and thus be overcome. The securing of a steadily increasing demand should contribute materially to this end. Further and more specific measures are, however, needed.

Today the individual cannot function in large scale industry - the basic industries. There the trend towards monopolies is inevitable. Sixty years of American experience of anti-trust laws prove that such monopolies cannot be broken up. In any case to break up large scale industrial enterprise might result in worse service to the community and worse conditions for the workmen.

Monopolies privately owned, as they are not subject to the rigours of competition, must be put under public control because otherwise they cease to justify themselves by service and begin to exploit the community. They also strike at the roots of Parliamentary democracy by log rolling to secure the help of the state in forwarding their sectional interests against the interests of the community as a whole. The fundamental question of economic organisation from the point of view of the ordinary men and women of the country is therefore this:

shall private sectional interests use the State to
control our economic structure in their own interests

or

shall the State control the economic structure in the
interests of the community as a whole?

To those who stand for the interests of the ordinary men and women of this country there can be only one answer. To control certain monopolies and semi-monopolies effectively they must be owned by the State. To avoid bureaucratic control they should be operated by Public Utility Boards. Such Utility Boards should be composed of men of wide financial, industrial and commercial experience on the same lines as the Boards of Directors of a public company. They would appoint managers just as private industry does, paying them production and efficiency bonuses. The choice of such managers would be based, not on Civil Service examinations, but upon those factors that would lead to their selection by private industry. Unlike the Central Electricity Board or the London Passenger Board, these Public Utility Boards would be subject to Parliamentary control, in the sense that their budgets would come up for review by the House of Commons when the Minister of Economic Planning presents his plans in budgetary form to the House of Commons at stated intervals. This interval in our view should be longer than one year, but at this stage we would not commit ourselves to either a three year or a five year interval. Steel, Coal, Transport and Power are examples of industries which it is vital should be owned by the community. Insurance and Joint Stock Banking should also be owned by the community: Joint Stock Banking because it is a strategic point for controlling investment. It is no less vital that land should also be nationalised.

Control over the Economic System.

Up till now, risk and unemployment were not merely a blight on human living, they were at the same time an essential basic factor in procuring economic stability. If risk is eliminated and no State control is imposed, then in the absence of restraints there will be a runaway upward spiral originating from the side of entrepreneurs. This will take the form of speculation in commodities, speculation on the Stock Exchange, and speculative investment ending in a crash. Equally on the labour side, unemployment performed a necessary function by providing elasticity in the economic system, and by ensuring that Trade Unions could not, by driving wages up, indefinitely cause an inflationary spiral.

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If we are to rely on the present individualist system, where the movement of productive factors is enforced by variations of income, by loss of income, and destitution, then indeed, the scale of unemployment necessary to permit the maintenance of stability will be considerable. To ensure full employment we must have a system which retains some measure of planning and direct control, which relies for discipline not on the fear of the poor of destitution, but on their sense of responsibility. In order to avoid fascism, we must therefore have a centrally but democratically planned policy which ensures that full employment should not be used by any section of the population to extort undue advantages for itself to the detriment of economic stability and to the community itself.

This does not mean that full employment after the war will entail such far reaching regimentation, especially over man power as has become necessary in all belligerent countries during the war. In a war economic system, the task is to build up a maximum military striking force at whatever economic sacrifice may be compatible with the maintenance of efficiency and morale.

The state must, therefore, apart from its control over investment continue the controls over the allocation prices and use of basic raw materials and foodstuffs. It must moreover develop the slowly evolving system of arriving at a mutually agreed wage policy in harmony with the interests of the community.

Price Control.

All consumption goods vital for the community should be subjected to costing control over prices on the same principle as is applied towards some utility goods today. Prices should be based on the cost of production of the most efficient units producing on the optimum scale. This would eliminate both inefficiency and monopolistic exploitation.

The production and distributing units would be left under private ownership and there would be no control over luxury goods. The purpose of continuing the production of utility goods into the peace is to secure for the masses the basic necessities of life of sound quality at minimum prices consistent with that quality.

Such a system of price control requires the adoption of a standard cost accounting system for industry.

Control of Raw Materials.

So as to assure a plentiful supply of utility goods there would need to be a continuance of control over raw materials. Such control is necessary otherwise people with money will compete for the raw materials for luxury goods and either utility goods will get no raw materials or only at such high prices as to defeat the object in producing utility goods. We do not advocate raw material controls in their present form of control by industry for industry at the expense of the community as a whole.

Labour.

Labour would be guaranteed a minimum wage, but only on condition of a willingness to work, including re-training and under generous safeguards, to accept jobs in other industries or localities. Wages would have to come before a tribunal. Full employment and collective section bargaining are incompatible, but safeguards must be created to guard against fascist exploitation or regimentation.

Freedom of Enterprise within the Plan.

The measures set out above would fully guarantee freedom of enterprise within the limits set by the over-riding needs of the community. Indeed, this is the only way to protect the small man against the encroachment of monopoly.

In many trades, especially the retail trade, the advantage of large scale enterprises, e.g. Woolworths, does not so much originate in the physical productivity of the large scale enterprise but in its monopoly buying power. It can receive goods at a cheaper price by buying up the whole output of factories. It can secure finance on conditions completely closed to the small man.

The utility scheme referred to above safeguards supplies to the small man on exactly the same terms as those obtained by the large retail multiple organisation. Combined with control over banking and the long term capital market this represents the only possible way of maintaining in existence the small retail trader, which is one of the aims of the Liberal Party.

The failure to establish planning on a national scale will unquestionably result in a co-operative cartel planning of each section of the economic field - in the interests of the vested interests which dominate the field, and not in the interests of the community. Indeed, we see a further accentuation of this tendency in the demands to protect the markets of industries and distribution by licensing and minimum price legislation. What we want is maximum prices laid down centrally so as to prevent exploitation, and to impose maximum efficiency.

Compensation.

State control and communal ownership does not mean confiscation. Compensation should be paid to all dispossessed owners. It means that the formidable obstacles against progress which lie in the necessity of protecting existing capital investment can be overcome. Moreover, high cost producers, who are now kept in being, even though they are inefficient, can be eliminated if they are compensated. Under the existing system they must be carried, and the low cost producers reap unwarrantable profits.

Investment Control.

From the point of view of the community we must plan for the constructive work of peace, just as we plan for war. In war we cheerfully live on half our national income and devote the other half to war purposes. When peace returns we can increase our standard of living by half as much again as it is today and the balance can be saved by planning for investment by the community for the community. It is by these means that we can plan effectively for full employment, for ending poverty, for a steadily improving standard of living and that the individual, under a planned economy can receive the reward due to his courage and initiative in the field of private enterprise. That this is possible is borne out by the following facts:

The national real income according to a calculation of Mr. N. Kaldor⁽¹⁾ (Economic Journal, June-September 1942, Page 218) has increased from £4,595 to £5,170 millions in 1941, and might be as high as £5,400 millions at the moment. This increase has been accomplished in spite of the fact that roughly five million people have been called up into the services, where their pay and maintenance is smaller per head than in industry. This increase

(1) All figures at factor prices, i.e. excluding indirect taxes (or subsidies).

moreover, is not of all resources which we acquired from temporary sources such as disinvestment at home and abroad and borrowing from abroad. On the other hand, this figure includes the cost of the armed forces. After demobilisation we may reckon that of the five million, two million will go to replace people such as married women who are in employment only because of the war, etc. There will be a net increase of three million in industry. As those three millions are highly productive young men and women we may assume that the increase in their productivity, as compared with their war productivity, as measured by their army pay and the cost of their maintenance, will be big enough to offset the net decrease of employment by two million after the war as compared with the position in the war. In this connection, people in the army must be regarded as in employment even though in relatively non-productive employment. We may, therefore, assume that the national income at 1938 prices of roughly £5,400 millions can be maintained after the war. As present consumption is £2,850 millions, we have a difference of roughly £2,500 millions to play with.

Private consumption was £3,467 millions in 1938, i.e. roughly £600 millions above 1941. If we assume that the cost of social security will be an additional £400 millions, we could restore national consumption of 1938 and still have £1,500 millions available. We are not in favour of restoring consumption to its exact state in 1938, but of bringing about an increase of consumption to the 1938 level more evenly distributed.

After the war, the expenditure of public authorities on goods and services might be as high as it was in 1938. This would leave something between £700 and £1,000 million for internal and external investment, i.e. double the amount available for these purposes before the war. If a sound international policy were pursued, we need not reserve more than £200 millions out of this for an adverse movement in our terms of trade.

If, however, such reorganisation of the economic system takes place as is suggested above, and if monopoly profits and monopoly practices are abolished, and if the community applies its productive factors not to competitive selling but to the production of more goods and services, then the national income could be increased by at least another twenty to thirty per cent. This means that part of the unnecessary railway workers freed by technical inventions hitherto excluded by Trade Union practices, part of the distributive workers, etc., could go into industry and increase production instead of merely providing unnecessary services. This means that we would have available another £700 to £1,500 millions worth of productive power to be used either to reconstitute our investments abroad, to help destitute countries, to develop backward parts of the Empire, or to increase home investment for home consumption.

Foreign Trade.

Special attention must be paid to the problem of foreign trade. The end of the war will find us net debtors. It will find us with a tremendous leeway to make up in exports and with increased import requirements. Recontrol of foreign payments and trade would see a complete breakdown of the pound and chaos.

It follows, therefore, that the following steps must be taken:

- 1) - foreign payments must remain subject to licence.
- 2) - imports will for some time have to be conducted mainly by bulk purchases to secure essentials, with non-essentials at first wholly excluded. We cannot allow the existing inequality in the distribution of purchasing power to lead to imports of non-essentials when essentials are unobtainable.

- 3) - exports will have to be planned as direct payments for these bulk imports. Exports will be provided partly by collectively owned basic industries and partly by private industry operating through State Controlled Export Companies, which buy from the cheapest producer on a free competitive basis, or by private export merchants working under licence.

It will be necessary to shift from the export of such things as textiles, where we have no special advantage, to machinery and other products into which a high degree of special skill enters.

It is inconceivable that without such arrangements we can avoid first terrible hardship and then devastating fluctuations in business. As trade revives on a peace time basis and international planning is established first on a regional, and then perhaps on a world basis, decontrol within the limits indicated of non-essential commodities can slowly take place. The basic necessities must, however, remain under control. The control of basic commodities such as tin and wheat, which is now being planned in the interest of vested interests and the maintenance of high cost producers, must be changed to control in the interests of the consumers in this and other countries.

It seems inevitable to us that we shall have to use our importing capacity and the increased efficiency of our industry as a bargaining weapon. Otherwise we shall find ourselves unable to secure supplies, especially as we are not able to promote our foreign trade by giving long term loans. Europe and the British Empire are, however, complementary rather than competitive and on the basis of progressive planning we should be able not merely to balance our trade, but begin to develop backward areas both in Europe and in the Empire. Without full employment and full efficiency this would be impossible.

Need for International Planning.

While post war international relations lie outside the scope of this memorandum, it is necessary for us briefly to express our views upon them in order to bring the question of our national economic set up into a true perspective. We say above that the third aim of the Liberal Party is to secure international peace. After 1919, the world was twice devastated by a major cyclical depression. Having recklessly over-lent, the creditor nations withdrew their credits, the debtor nations were made bankrupt because they were prevented from paying their debts by means of exports at reasonable prices, partly by depression and partly by the attempt of the creditor nations to prevent imports.

Unable to cope with the fall in demand and the concomitant poverty at home, the nations used tariffs to protect their nationals from the effects of the change in demand abroad.

These factors drove Germany into destitution and Hitlerism. Freedom to move capital about, irrespective of the consequences of such movements upon the community, further aggravated the crisis. Economic nationalism was further intensified by growing competition for exports. Monopolistic combinations on an international scale, planning, not for progress, but for the sectional interests of producer groups, added fuel to the flames. The present war has interrupted international economic intercourse. As a result, at the end of the war, economic development throughout the world will be widely divergent. The sudden decontrol of world trade would unquestionably lead to a catastrophic clash of vested interests, which have become

established in the war and pre-war periods. Without a carefully planned and slow re-integration of the world economic system, violent fluctuations and an even more extreme economic rationalism must result. It is inconceivable that Governments will tolerate widespread destitution as a result of foreign competition. They must, in the interest of their own people, strive to preserve the industries which have grown up within their own borders as a result of the war. Thus the economic seeds of the next war are already sown unless by international economic planning a solid foundation for permanent international peace is laid. The purpose of international economic planning must therefore be to secure for all people throughout the world, including the population of British Colonies and Dependencies, enjoyment of a steadily improving standard of living. The aim of the leading industrial nations must be steadily to raise the standard of living of all nations to the same high level as their own. In this they will recognise that prosperity in the future for the already highly industrialised nations will depend upon the extent to which they help the more backward nations to attain the same level of development.

The Function of a Minister of Economic Planning.

If the policies set out in the foregoing memorandum are to be carried into effect in time to operate when peace once more comes to Europe, then it is imperative that a Minister of Economic Planning should be appointed forthwith. He should be provided with the nucleus of an Economic General Staff.

His immediate functions would be:

- 1) - to prepare the legislation necessary for bringing ~~about a planned economy.~~
- 2) - to plan the departmental organisation necessary for controlling a planned economy.
- 3) - to plan the allocation of duties connected with economic planning between the existing departments and to co-ordinate their activities.
- 4) - to prepare the first economic plan for the immediate post-war period and to present it to Parliament in budgeting form. This plan should cover a period longer than one year.