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ECONOMIC LESSONS OF
THE ALLIED WAR
EFFORT

By
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FOREWORD

The publication of the following article as a pamphlet was suggested by a reader, who wishes to remain anonymous but has generously defrayed the cost. It is the text of my Presidential Address to the Economic Society of South Africa, delivered on the 21st August, 1940. It is re-published by kind permission of the Editors of *The South African Journal of Economics*.

My remarks are as topical to-day (April, 1941) as when they were originally made. As far as the British war effort is concerned there seems to have been an enormous improvement since my address was written. But the appointment of Sir Andrew Duncan as British Minister of Supply hardly suggests that the *basic* lessons have yet been grasped. For as *The Economist* reminds us, "He has devoted many of the best years of his life to restricting production, which is not the most fitting apprenticeship for the task of increasing production by every possible means. Moreover, the Minister of Supply is also responsible for the Raw Materials Department, and it is difficult to feel very happy about the development of raw material policy under the man who presided over the Iron and Steel Federation in the years when it was building itself up into one of the tightest and most drastic monopolies that the country has ever known. Sir Andrew is wholly in sympathy with the governing oligarchy of industry and finance, whose twin pillars are the Bank of England and the Federation of British Industries." If Sir Andrew Duncan has since seen the light he may well be the best man to mobilise British productive power. His *technical* qualifications are probably unsurpassed. But *has* he seen the light ?

Whilst tragic blindness to the consequences of price-rings and monopoly persists in influential quarters, others are perceiving and trying to teach the lesson. Thus, whilst *The Times* recently described a scheme under which the British coal owners had raised the price of coal collusively (in connection with a compensation scheme) as a notable step in self-government, *The New Statesman* replied that ". . . our ruined or bombed-out shopkeeper will pay out of his income, if he has any, a contribution for keeping coal owners' income and capital intact. The rise in the price of coal will increase the costs of the railways, and since the country is pledged to keep railway shareholders' income intact our shopkeeper, when he evacuates, will pay higher fares to provide this compensation fund. Similarly, if steel costs are adversely affected he will be mulcted if any of his demands require the use of steel." That is the lesson that I have been trying to teach.

W. H. HUTT.

ECONOMIC LESSONS OF THE ALLIED WAR EFFORT

I have already dealt with certain aspects of the subject of this paper in addresses to the Cape Town "Rotarians" (on the 2nd November, 1939) and to the "University Club" at Cape Town (on the 12th June, 1940). My excuse for continuing to raise the same issues is that they are concerned with what I consider to be the most important problem which faces the democratic nations at the present time.

My address to the Cape Rotarians was called *The Economic Strength of the Dictatorships*. Subsequent history has proved that the forebodings which I expressed in it (shortly after the outbreak of war) were justifiably prophetic. I argued that the Germans had one huge advantage over France and Britain, namely, that whilst the right to withhold productive power in the interests of trade unions and capitalists' monopolies had been denied by Hitler, it still existed in countless disguised forms in the so-called democracies. I had no faith in theories of Nazi weakness, in the assumption that their aeroplanes would fall to pieces in the air, or that their tanks were jerry-built. On the other hand, I risked confessing that I had serious misgivings about the Allied productive system²

² A correspondent in *The Economist* of 10th February, 1940 remarked that the "earlier prophecies of mere orthodox economists that German economy could not long sustain an armaments drive have been completely falsified." This passage reflects the typical ignorance of the nature of "orthodox" teaching. The correspondent did not quote the economists' prophecies. All that has really been falsified is what he probably thought they would have prophesied!

I refer to my prophecies not in order to indulge in the futile satisfaction of saying "I told you so," but because they prove that my present remarks are no mere rationalisation of what has happened during the past twelve months. Last November, my warnings could easily have been mistaken for defeatism. To-day I feel they may prove to be a source of hope; for, properly interpreted, they are a message of constructive optimism. I said: "I believe that the democracies have it in their power to be incomparably more efficient, both for war and for peace, than the dictatorships. I believe, in other words, that *if* the leaders of the democracies are willing to do or are allowed to do the *right* things, they will be able not only to win the war, but pay for the war without having to impose a crushing burden on any class or community. At the same time, I believe the leaders of the democracies will in fact do the *wrong* things. I feel certain that they will fritter away their relative advantages . . . and they will do the wrong things, I suggest, because the sanctions for private property and private enterprise are hopelessly misunderstood to-day."³

Whether these words of mine adequately prophesied the source of British weakness, may, perhaps, be judged by comparison with an article in *The Economist* of the 15th June, 1940. Until recently I had always regarded *The Economist* as, on the whole, a rather wavering apologist for the existing order. But cautious hints of criticism appeared in it as the war progressed, and since the fall of the Chamberlain Government it has criticised policy with encouraging frankness. This article from which I quote, attacks the system of industrial organisation which had apparently become the Government's ideal in Great Britain. It describes that system as "an orderly organisation of industries, each ruled feudally from above by the business firms already established in it, linked in associations and federations." "This is the order of ideas," continues the article, "that has transformed the trade association from a body of doubtful legality, a conspiracy in restraint of trade, into a favoured instrumentality of the State . . . It is the order of ideas that led to the Import Duties Act being drafted in such a way as to put a premium on self-seeking monopolies and a discount on the public interest; that turned 'high profits and low turnover' into the

³ Paragraphs 5 to 10 are also a slightly revised version (without change of meaning) of my address to the Rotarians.

dominant slogan of British business; that raised the level of British costs to the highest in the world." When the war broke out, the article alleges, "the noble army of controllers was recruited from organised industry, the rings, from being tolerated, became endowed with all the power of the State.... British industry.... has, until recent weeks, been making the maximum effort compatible with no disturbance to its customs now or to its profit making capacity hereafter . . . The result has been what we see—a startling inadequacy of production . . . Both in tanks and aircraft (to take only the two outstanding examples) the existing rings have failed to produce the goods. . . ."

It is my object to try to explain just why the goods were not being produced. In doing so I must emphasise the futility of simply blaming "the capitalist system." The real issue cannot be faced by means of naïve discussions of the relative merits of "socialism" on the one hand and so-called "private enterprise" on the other. The remarkable recovery of Germany under Hitler, and the striking recovery of Russia⁴ since the abandonment of her early attempts to apply equalitarian Communism are traceable to one clearly distinguishable and hardly questionable set of factors. In the German and Russian dictatorships (Italy is in a slightly different position) they have abolished the right to withhold resources from production; whereas in the democracies, the withholding of resources happens to be a common method, if not to-day the common method, of increasing or protecting private fortunes. That is, the holding back of productive power, when that power is demanded by the State, has been successfully repressed in the dictatorships, whilst in the democracies such withholding has not even been recognised as an evil. On the contrary, it is being increasingly advocated as a panacea. A study of our statute books in the Union, for instance, shows that at least half of our legislation is intended to foster this policy of scarcity creation. Practically the whole of our marketing

⁴ In case my use of the words "remarkable" and "striking" should mislead I must point out that I am thinking of the facts about increase of industrial output as presented in sober, trustworthy books like Guillebaud's *Economic Recovery of Germany*. That these regimes have been economically "successful" only in a very limited sense can be made clear from the following figures given in Colin Clark's *Conditions of Economic Progress*. Comparative standards of life measured in "international units" are as follows: U.S.A., 1,381; Great Britain, 1,069; Germany, 646; U.S.S.R., 320.

and industrial legislation is designed to make goods and services relatively scarce. Price and wage-rate control can do no more than this.

It is only when some blatant monopoly holds the community up to ransom that any public uneasiness asserts itself. For when the restrictions become customary, they become respectable. Moreover, the community and its leaders are oblivious of the action of one price control upon the apparent reasonableness of others; and they are all unconscious of the growth of an income structure which is dependent upon the continuance of a widely diffused parasitism. Any attempts to rectify the withholding of productive power seem to threaten to cause insolvency on all sides. "Cut-throat competition" as the remedy is usually called, seems worse than the disease. And so it has become customary to deny the existence of the disease.

The economic strength of Germany to-day is derived almost entirely from the power of the State to ignore private interests in the formulation of productive policy. Hitler has achieved such success as he has in the creation of a war economy mainly because he has kept the cartels and the trade unions in subjection. Certainly he has not abolished them, but they have been made fairly effectively subservient to his policy. Now the same methods applied in the democracies could have been even more successful. The productive potentialities of private enterprise are incomparably greater than those of any rigid economic system. Private enterprise simply suffers from a serious disease, a disease which is expressed in all forms of State or collusive output control, price fixing, wage fixing and so forth. That disease consists, in other words, of the various devices which, according to authorities like our own Board of Trade and Industries, are essential for the earning of reasonable profits and the maintenance of prosperity.

To illustrate this thesis it is necessary to consider for a moment the ultimate results of current price-raising expedients. When a particular commodity is made scarce it represents a deduction from the real purchasing power of the community as a whole. The consumers of that commodity have less to spend on other things. The economic machine as a whole tends, therefore, to be slowed down. Moreover, whenever the price of a raw material or the price

of labour is raised by any form of collusive or State action, it means that the costs confronting the next stage of production are also raised. And in an attempt to preserve their profits, or the wage-rates for their industry, those in each successive stage of production find it profitable to adopt *further* price and wage-rate increases, and so the process of scarcity creation goes on. In the end there is a cumulative withholding of productive power of a magnitude which would be staggering if it could be concretely represented.

Let me illustrate how the withholding of capacity works. A few years ago, it was decided, with the full support of the British Government and the co-operation of the Bank of England, to reduce the capacity of British shipyards. The scheme was known as the "National Shipbuilders' Security." Part of the supposed "surplus capacity" was "sterilised," i.e. kept idle compulsorily. But in order to make sure that a good deal of the rest of the "surplus capacity" should not be used at any subsequent period, it was agreed to have recourse to high explosives. Accordingly, the so-called "redundant" shipyards were blown to smithereens—exterminated for all time. This had the immediate effect of checking the decline of incomes from investments in shipbuilding. But what were the consequences? It raised the cost of new ships. It meant also a reduced demand for steel, and a reduced demand for coal. Then, to maintain the fortunes of investors in steel, the steel monopoly was tightened up and the price of steel raised. The coal owners and the miners' unions also welcomed a scheme for keeping up the price of coal, and their scheme was partly made reasonable because of the decline in the demand from the shipbuilding industry. In this way shipbuilding costs merrily mounted. Naturally, the building of new vessels was driven increasingly from British to foreign yards. A further consequence was that the British shipping conferences, faced with higher capital costs, were encouraged in their efforts to gear up all freights. Even tramp shipping became monopolised for the first time in history. Scrapping schemes were agreed upon; and during 1939 there were quite a large number of scrapings of valuable, perfectly sea-worthy vessels. Some of the mail boats on which many of us in this country have travelled in recent years, were broken up shortly before war came upon us, as though for fear that they might later be sunk by German submarines. Through the maintenance and raising of freight rates, investors in shipping were assured

of "reasonable dividends," but all the British export interests were robbed of the benefits of relatively low freights. I have no time in this paper to develop this illustration further. A whole volume would be required to trace out the ultimate repercussions of the shipbuilding restrictions. And whatever line of activities one chooses for study, the same sort of happenings present themselves. Every restriction in one industry burdens innumerable other fields of production. Attempted parasitism by all, means the waste of the community's resources and net gains to few in the long-run. To-day, most organised groups are trying to live parasitically upon one another, but they are in fact only engaged in the collective destruction of the well-being of all. As Mr. E. F. M. Durbin has recently graphically expressed it "Industries live by strangling each other. Benefits are gained for a section by starving not feeding the whole of society . . . It is a process of slow, suicidal, sectional restrictionism."⁵

The dictatorships *appear* to have price and control schemes of the same nature. I say "appear," for the similarity is really the most serious illusion which could be entertained. The chief reason for the continuance of the similarities has been tact, the necessity for face saving during a period of transition. In fact there is relatively small power to withhold resources or maintain prices in the dictatorship countries. Certainly private dealings have to be suppressed, but that is not because they are manifestations of competition, but because the ideal is different from what it is under private enterprise.

The dictatorships are efficient, not owing to price and output controls engineered on behalf of pressure groups or by cartels and price rings, but because such price and output controls have been effectively suppressed in the national interest.

In time of war the problem becomes very similar in the democracies to what it is in the dictatorships; for all other social objectives must become subsidiary to that of winning the war. In September last, the British Government ought to have mobilised the community's resources with a ruthless disregard for the rights of vested interests. Quiet but vigorous steps ought to have been

⁵ *Politics of Democratic Socialism*, p. 201. The word "suicidal" is an exaggeration in so far as the peace time situation is concerned. But the situation may well be "suicidal" in war time.

taken by the Allied Governments to bring into operation every element of their productive resources. This, they obviously failed to do.

Immediate pre-war experience warned us of the danger. Even when a furious submarine campaign was threatened, the British Government took no steps prior to the outbreak of hostilities to de-sterilise the shipyards which had been compulsorily closed under the National Shipbuilders' Security. Nor were any steps taken before the war to rebuild the shipyards, which, under the same scheme, had been blown to pieces by dynamite. In short, no steps were taken to rectify a situation under which British productive power before the outbreak of the war had been geared down to well under half its capacity. Cartels, price rings, trade associations, systems of resale price maintenance, marketing boards, trade unions, ca'canny practices and so-called unemployment insurance had all contributed to the shackling of the British industrial effort; and this was at a time during which the Nazis were all out in their productive effort.

The position in France before the war was equally disturbing, although her great resources would have been most formidable if they had been fully employed. The course of French politics before the war had made the restriction both of the powers of her labour force and of her physical resources the accepted economic order. At a time when she was threatened more than she had ever been threatened in history, her industrial workers were being encouraged to agitate and to strike for the forty-hour week. That fight did not represent a genuine demand for leisure by a prosperous and secure people. It was wholly an output reduction manoeuvre.

No wonder Hitler's confidence continued to grow. But whereas in France the seventy-two hour week was immediately introduced when war commenced, Great Britain continued, on the whole, to adhere to normal trade union hours. Only when the disasters which led to the fall of the Chamberlain Government had made clear the tragic inadequacy of previous productive efforts do the unions appear to have permitted the increase of output which longer hours would have made possible.

During the first eight months of the war, I and my colleagues and friends with whom I discussed these questions, hoped that our forebodings were ill-founded. The pronouncements of British

and French statesmen were for a time reassuring. We all hoped that the very reality and urgency of the problem was leading to a quiet revolution behind the scenes. Naturally everything had to be secret. It seemed to be everybody's duty to be passively trustful. But as the months wore on, there were anxious but guarded comments in the critical press; that is, in journals like *The Economist*, *The New Statesman*, *Time and Tide* and so forth.

Their questionings caused one to begin to doubt whether the British Government had really grasped the problem. A vast army of unemployed remained. That was a terribly worrying sign when it continued month after month. The right policies should soon have produced all the phenomena which are known as "labour shortage." Moreover, one heard virtually nothing about the utilisation of the multiple shift in order to double or treble the productive capacity of industrial plant. Only since the fall of the Chamberlain Government, it seems, has the obvious step of exploiting the multiple shift, wherever practicable, been taken. Nor did any one hear anything about control of the large trade associations which had for years been devising schemes for destroying productive capacity and suppressing competition. Certainly there were control boards. But as *The New Statesman* has pointed out (29th June, 1940) the Government "tried to use the existing trade associations, rings and combines . . . as the State's agents . . . It is altogether too much to expect that they will . . . introduce of their own accord an increase of capacity which they are bound to regard as a serious menace to their post war prospects of profit."

As the months dragged on, the murmuring that the war was not being seriously waged in the factories and workshops of the Allies gradually became more persistent and persuasive. But it was not until German successes in the Norwegian campaign shocked the Allied public that the appalling truth began to become clear. There had obviously been a terrible failure on the production side. All sorts of suggestions have been made to explain it. "Britain has been strangled by the old school tie," says one critic. Others blame pure nepotism in part. Others believe that members of the Chamberlain administration were unwilling that the community should bear the burden of a whole-hearted war production. But the failure was, I suggest, not due to a moral defect on the part of the administration, but in the main to an intellectual failing. The

Government had not perceived the nature of the British monopoly economy. They had not grasped the significance of withheld capacity. The events of July have taught them, and the world in general, a most distasteful lesson. Until then the Allies had apparently been outclassed by the Nazis not on the fighting field, but in the factories.

As a concrete illustration of what had been wrong, we can consider the case of Richard Thomas and Co. About the time when the Norwegian campaign was in full swing, it became known in Britain that there was trouble between the firm of Richard Thomas and Co., of South Wales, and the Iron and Steel Federation, an organisation around which a sort of steel cartel has been built. We know that Sir William Firth, the Chairman of Richard Thomas, was dismissed, but the exact nature of the trouble did not come out. Only a public enquiry could disclose what really happened. But there are certain things that we do know. The firm of Richard Thomas was very well equipped. It had an up-to-date plant which had been financed with the aid of the Bank of England. The scheme under which it was financed provided that the firm should be largely controlled by its competitors—an arrangement quite typical of the last couple of decades. The reason in this particular case has been explained by *The Economist* (27th April, 1940) in these words: "The mere existence of the new plant creates the gravest problems for the other members of the industry. It disturbs the whole system of production quotas . . ." Thus, the problem that confronted the industry was, in *The Economist's* words, that "one company can offer a new and superior product at the same price, or even less," especially when it operates at a full working load. "And when," says *The Economist*, "Richard Thomas and Co. was forced to submit to control from without, the form of the control clearly implied a decision to solve the problem by co-operation between the firm and its competitors."

What are we to infer from these cautiously obscure comments? Are we to suppose that Sir William Firth's offence, for which he was dismissed, was that he wanted Richard Thomas and Co. to go out for the highest possible production? Why else should his competitors on his board have dismissed him? *The Economist* remarks guardedly: "In many respects he has been personally unfortunate in his laudable designs to improve the technique of the industry. He has had to yield to political considerations." They

refer to the situation as a "test case" and ask, with a sudden burst of courage: "Can a centralised, a cartel-like organisation of industry . . . be reconciled with the community's interests in the utmost speed of technical progress." But what an extraordinary question to be asking in the midst of a war! Surely that question should have been answered in the negative immediately war was declared. On May 11th, *The Economist* used this phrase: "If the insatiable demand for steel prevents any policy of deliberate restriction in war time, will the same hold good after the war?" Here we get an indication of Britain's disease. It reflects the investor's fear of so-called "surplus capacity" after the war. It is a principal factor which has been hindering the fullest development of British and French productive power, not only in the steel industry but probably in many others.

Even in shipbuilding the same motives lingered on. A note in *The Economist* of April 12th, which actually refers to the National Shipbuilders' Security scheme as "strikingly successful," says that "contract prices combine reasonable profits for builders with an incentive for ship-owners to take a courageous view of their future tonnage requirements." It seems that they were still concerned, with what was going to happen to profits in time of peace! Obviously, the unknown factor of the degree of success which may be achieved by the Nazi campaign against British shipping makes appropriate the building of many more vessels than will actually be required, given average luck, to make good war time destruction. And if the distributive consequences of capital losses arising from a relatively large survival of shipping (or accumulation of other specialized equipment) in post-war years are very serious, ship-owners could rightly be compensated by the State. But the increase in the supply of ships should not be regarded as in itself a burden on the community at large. On the contrary the additional ships, however acquired, should be regarded as valuable assets. The point of view which thinks of such assets as an "oversupply" which must be exterminated in the interests of the "prosperity" of ship-owning is a reflection of the very attitude which has led Britain into the economic disorder from which she is now attempting to struggle.

In agriculture, the same sort of blindness seems to have been overcome only after the fall of France increased the dangers of a successful blockade. Sir Daniel Hall wrote in a recent article in

the *Manchester Guardian* (reprinted in the *Cape Argus* of 15th August): "The scarcity policy, of withholding supplies beyond the amount the public would absorb at a price and diverting the surplus to some channel, however uneconomic, must go." Again, we cannot refrain from commenting: what an extraordinary principle to have to assert after eleven months of war!

The waste of human resources has been at least as serious as the waste of physical resources. I can best illustrate this point by quoting from a most interesting article which appeared recently in the *Manchester Guardian* and was reprinted in the *Cape Argus* of the 21st May. It was by Cecil Walton, who was one of Lord Weir's right-hand men when he was Director of Munitions in Scotland, during the last war. Walton enunciates the following proposition: "In production no previous skill is required." Skill is only required in preparing for production. He says that in 1916 he offered to produce anything on a basis of 95% unskilled men and women, and and 5% skilled men for setting up the operations. It will be noticed that he says "produce anything." He claims to have been completely successful in every job entrusted to him on this basis. "And," he says, "It can be done far better to-day than twenty years ago." By splitting up even the most complicated job, "each operation is so simple that an operator can master it in hours, not weeks". It will be noticed that he says "hours". He adds: "Nothing was too intricate, too delicate to undertake . . . and if it is said that the products may have been inferior my reply is that inferiority is impossible under the system of Government inspection." Talking of a shell factory which was *entirely operated by women*, he says, "I have the millionth shell they made beside me now, as fine a specimen of workmanship as ever graced a machine shop." He explains how he established factories employing—to the extent of 95%—industrially inexperienced women. Factories of this kind even produced heavy guns and tanks on a huge scale. "We had," he says, "a forge with heavy hammers and presses entirely manned by women and run without fatigue."

Walton ends by suggesting that the British were not, when he was writing, "even within measurable distance of making a supreme effort." The truth is that almost every one of Britain's 800,000 remaining unemployed could be utilised in production, quite apart from the large numbers of women who could be spared for industrial work in war time. The obstacle has been the attitude of

organised labour. There have been endless controversies and discussions about "dilution" and rates of pay. Owing to this sort of opposition, or owing to the failure of Governmental efforts to overcome it, after nine months of war the British had, it was alleged, not even an adequate industrial training scheme in operation. *The Economist* pointed out on May 11th that the Nazis had 16,000 full-time industrial instructors handing on their skill, whilst the British had not even as many pupils in training centres.

Shortly after his accession to office, Mr. Bevin was reported to have said that the British had now learned that their great weakness lay in monopoly. One wonders whether he has really learned the lesson. It is too early to judge from the facts that we are allowed to know. But if he believes that organised labour is less blameworthy than organised capital, then he has not learned enough. The scope of the emergency powers now conferred by legislative authority does suggest that the nature of the problem as a whole has at last been grasped, however. All persons are now required to place themselves, their services, and their property at the disposal of the State, when these are deemed necessary for maintaining supplies or services essential to the life of the community. Everything now depends upon the wisdom with which these far-reaching powers are utilised. Mr. Hore Belisha, the former British Secretary for War, envisaged the problem when he said, on the 12th August, after eleven months of war: "Our economic task is to recruit and embody fully all the productive capacity . . . The present incompleteness of our industrial mobilisation must not be tolerated for a moment longer. We cannot beat Germany with 800,000 unemployed."

I believe that the verdict of history will be that the first nine months of the war, at any rate, were largely wasted in Britain's production effort. And the belated attempts that are now being made are apparently handicapped because the nature of the problem has not been fully grasped. It appears to have been only partially realised that the rigidities encountered are all the product of protective devices which restrict competition (or, what is exactly the same thing, which restrict utilisation). The rigidities are all due to the canalisation of the flow of resources and services through different stages of production—a canalisation rendered more permanent through the so-called "rationalisation" schemes, and the trade union demarcations which have made it an almost unheard

of thing for a man to be, say, a mason to-day and a turner to-morrow.⁶ Thus, in endeavouring to transfer builders to war-time industries, it has been found that this cannot be done because, if private building is curtailed, there will be unemployment among the masons. What an incredibly inefficient world the opponents of orthodox economics have produced for themselves. The rapid and harmonious transfer of productive aims from the private requirements of peace to the collective requirements of war has been frustrated because the wrong sort of authoritarianism has destroyed fluidity. In other words the attempt to substitute State demand for private demand has met with all the restraints which have been allowed to grow up under the policies fostered during the two previous decades (directly and through the State itself) by the Trades Union Congress and the Federation of British Industries.

The supply task confronting the British now requires the vigorous application of a policy of forcing "withheld capacity" into utilisation.⁷ It does not call for an authoritarian policy in the usual sense although, in the present emergency, State ownership and control may well be appropriate. The situation calls for the sudden and drastic application of State functions of an anti-monopoly nature which, in the special existing situation, may have to take the *form* of authoritarian planning. Unless this is understood, both thought and policy are likely to be dangerously confused. The attack on withheld capacity *could* have been undertaken in times of peace had the continued sacrifice of productive efficiency been recognised as obviously as it is to-day. Moreover, it could then have been undertaken without the arbitrariness and dangers of extended

⁶ The mentality and habits produced by demarcations remain as a serious hindrance even when their deliberate enforcement ceases. The extent of the demarcation burden in Britain can be gathered from *Are Trade Unions Obstructive*, by John Hilton and others (1935), a work which endeavours to minimise the burden but effectively exposes it. The remarkable relative freedom which has remained in this respect in the United States is casually illustrated in an article in *The Reader's Digest* (June, 1940), entitled *Now I Work in a Factory*. A music teacher, aged 39, finding that business as a pianist has fallen off, joins a queue at an automobile factory and is taken on at \$25 a week. He is soon put to work on power shears. He goes rapidly from this to work in the buffing room and is later made foreman of a plating oven.

⁷ I cannot here attempt a careful explanation of the concept of "withheld capacity." It is dealt with in my *Theory of Idle Resources*, Chapter X; and certain sources of misconception are discussed in my article in the *Economic Journal* (March, 1940), *The Concept of Consumers' Sovereignty*.

State ownership. It could have been followed also without the ruthlessness and the scope for error and injustice which are inevitable when, as now, it must be frantically resorted to in dire emergency.⁸ War seems to have forced the British to grope towards the remedy without accurately diagnosing the disease.

The existence of war does not justify "State planning" except in the senses: (a) that, when encountered, the monopolisation of resources must be boldly overcome by the State, even if it has been tolerated in peace-time; and (b) that in formulating State demand, the amount of that demand, and the choice between immediate ends within it (e.g., between guns and tanks and aeroplanes), should be rationally determined. *In principle* (although in practice the principle must necessarily be obscured by countless short-cuts in emergencies, and concessions to political expediency and contemporary ideologies) it does *not* justify the commandeering and employment of *otherwise utilised* (i.e., to satisfy non-State demand) resources for State purposes at prices less than can be earned by them for private purposes. This is, of course, on the assumption that the monopolisation of resources can be overcome in some way. Thus, if commandeering of *utilised* resources has to be resorted to on a large scale, it is *prima facie* evidence that war taxation or borrowing are unduly low.⁹ But the conscription of property and labour which has recently been authorised in Great Britain, Canada, Australia and New Zealand, under emergency powers, is defensible on the same grounds as private enterprise if it is regarded as the most effective way of overcoming obvious or disguised withholding of capacity.

What about the Union's war effort? Have we had a similar or a different experience? Everything seems to be less urgent with us. Certainly the urgency was increased last May, when important sources of foreign supply ceased. Our efforts appear to have been suddenly revolutionised. But unlike Great Britain, we do not,

⁸ So far only one country has seriously tackled the problem in time of peace, namely, the United States, through her anti-trust legislation; and even there, although the policy has undoubtedly brought enormous economic benefits, it has been largely frustrated owing to the political strength of "pressure groups" and the imperfect grasp of the problem by the legislature, executive and judiciary.

⁹ For such reasons, the British "Sales Tax" seems to have been wisely conceived.

even yet, feel ourselves to be up against a life and death struggle; and we have no similarly situated and neighbouring enemies with whose productive effort ours may be compared. Hence the cramping influence of our monopolistic traditions is not threatened with the same conspicuous exposure. I am not even sure that the authorities are aware of that influence. Yet we are truly suffering from the same disease. Perhaps it is being quietly mitigated by governmental efforts. In the course of their supply endeavours, the Government may well have met and surmounted obstructions which have originated from collusive restrictionism. But it is impossible to say. There is much that we necessarily cannot be told. All we know is that the cutting off of overseas war supplies forced the Government to face the task of rapidly improvising home production. Guns, mortars, shells, armoured plating, rifles, cartridges, bombs, steel helmets and even precision instruments are now being manufactured in the Union. Textile production has, we are told, been increased by 150% over pre-war output, there has been an enormous increase in the production of boots, the canning of fish and meat has advanced, and other food industries which have a special war-time importance have gone ahead.^{9a} As an effort of organisation, as an effort in the rapid solution of technical problems, the appearance is of huge difficulties having been courageously overcome. But how and at what cost we do not know.

If the question of cost is overlooked, if the problem of the burden on posterity is ignored, apparently remarkable accomplishments in the present are not difficult. Dr. van der Bijl told us a few weeks ago that he had the help of a committee of accountants and costing experts, and that it was they, and not the manufacturers, who "ultimately decide the price of a product." Indeed, he told us that "manufacturers are giving their work for next to nothing." This sounds almost too good to be true, but by no means exaggerates what we have a right to expect. It would have more reassuring, however, if Dr. van der Bijl had discussed his costing principle; for as every modern economist knows, costing cannot tell us what a price ought to be. At best, it can only show us the relation of output to *private* profitableness.¹⁰ And unless competition is

^{9a} There have been further developments since July, 1940, when this was written.

¹⁰ Rationally considered, *marginal* costs and *marginal* receipts indicate maximum private profitableness.

effective, private profitableness and social benefit do not coincide. As an emergency policy, war orders which can be supplied by the employment of existing equipment ought to be placed on the principle that the additional costs incurred by fulfilling the order (*strictly excluding overheads*) are no more than covered by the price of the product.¹¹ The policy (followed in the last war) of paying costs (*including overheads*) plus a percentage for "profit" has no social justification. I do not know that this policy is being followed to-day, but I do know that it is widely believed to be an equitable principle. Until the equipment of a firm is fully employed,¹² i.e., until it is working for the full twenty-four hours (unless there are insuperable technical obstacles to the multiple shift system), there is no reason why that firm should be allowed to earn (let alone retain) any excess profits. This principle only ceases to apply when the existing capacity of an industry is so fully utilised that the installation of new plant or even of new factories is necessary for a full response to demand. One may then have to choose between (a) raising the price of the commodity to make the expansion of capacity profitable, in that way enabling established undertakings to make excess profits¹³ (which taxation may rightly confiscate), and (b) providing the additional plant or factories under capital subsidy or subsidised State ownership, whilst charging the State (for output) the additional costs only. These are actually alternative ways of attempting to achieve the same result, the capital subsidy method being, I feel, the more likely to work satisfactorily. The implication of this is that, in those lines of production in which any existing plant is not already fully utilised whilst able to execute orders which, at the existing price, would cover additional costs, the existing price is too high. The prices at which war supplies are obtained should tend to be considerably lower than the prices of the same products in peace time except in

¹¹ The additional costs would, of course, include "user cost"; i.e., additional depreciation (including contribution to replacement reserve when the replacement cost of equipment is rising) arising through the execution of the order.

¹² The term "fully employed" is defined in my *Theory of Idle Resources*, pp. 35-36.

¹³ This can happen in so far as the tendency towards increasing costs is not offset by (i) a fall of demand for competing non-war requirements, or (ii) a fall in the supply price of labour owing to some measure of "dilution" of so-called "skilled labour" permitted as a war-time concession.

so far as materials¹⁴ have risen in price. For existing equipment is more fully utilised,

Now to have attempted to apply such principles would have meant so astonishing a breach with tradition, that it is hardly possible that an attempt could have taken place quietly. If the problem had been tackled with a clear awareness of the fundamental weaknesses in our economy, I feel that we should have had some definite Governmental pronouncement on the matter; for there would surely have been serious opposition at first. The truth is that we have no grounds for trusting that our Government and officials have given up any of those ways of thinking which are recorded in the reports of that notorious sympathiser with current economic ideologies, namely, our Board of Trade and Industries. And unless our statesmen and their advisers can throw off these ideologies, they will be quite unable to face the issues. Expediency may well make rigorous application of the policy I suggest impossible. But it points the direction in which the economy of war production should be steered.

Moreover, there are certain undeniable facts which must give rise to misgivings. For instance, after ten months of war it is notorious that we still have a huge reservoir of virtually wasted labour powers in our Coloured and Native peoples. As we have no unemployment insurance, they are not actually *unemployed*, like the British "dole" receivers, but they are effectively prevented, through our industrial legislation and official policies, from doing all sorts of valuable and easily learned work. If industrially inexperienced women can produce tanks and guns and shells, there must surely be a vast field of industrial war work on which the non-Europeans of this country could be set to work. The appropriate trades and industries can only be known to those who are actually directing the supply effort. Have they been inhibited from thinking about the utilisation of this hardly tapped source of productive power? As a matter of fact, we are so fortunately endowed in this country that, if we made full use of our human resources, we could probably pay for our full war effort without burdening ourselves in the present or the future with the crippling material sacrifices which must fall upon the shoulders of less fortunate nations. If you

¹⁴ In general, only imported materials should have risen in price.

ask where these rich natural endowments are, apart from the gold mines, I reply that it is wrong to think of the mines as being so valuable. The value is in the Natives who work the mines. The mines are the only non-agricultural pursuit in which we make unrestricted use of this basic resource.¹⁵ And we could almost certainly employ it profitably on work from which it is at present debarred without ruining our European artisans. It would not be appropriate in this address to attempt to prove the inherent practicability of protecting European vested interests. The argument is contained in the last chapter of my *Economists and the Public*.

The suggestion that for the war period there should be a general relaxation of our restrictive industrial laws has been met with the decision of our Department of Labour that everything is "to be administered as in the past" (*Cape Times*, 16th August). Opposing views are described as "short-sighted," as inviting industrial unrest. The real danger lies, I insist, in that intellectual inertia which regards our Labour laws and traditions as the quintessence of economic and political wisdom. Conscription of property and labour has now been adopted under emergency powers in all the Dominions apart from the Union. If our peculiar political difficulties make it unwise to follow suit (and in my inexpert judgment that is not so) it does not justify the calm assumption that everything is well.

The industrial and agricultural history of the last two decades, and the absence of any indication that the government has seen the problem in the form in which I have tried to explain it, make one fear that it may be failing, as seriously as the Chamberlain Government failed, to perceive the nature of the productive problem. Or is the political problem more important with us than production? I conceive it to be the economists' duty to-day to stress their fears about our economic health. Our government may be competently advised on questions of finance; but is it well advised on the question of the utilisation of resources? The critical times in which we are living require revolutionary productive

¹⁵ I leave this phrase as it appeared in the original article. The truth is, as I myself have often pointed out, that no body of workers is more drastically excluded from skilled employments, by statute, regulations and trade union pressure than Natives on the mines. Unfortunately, in pruning a long article, I inadvertently cut out essential qualifications at this point.

policies to the full extent that political expediency permits. The Nazi threat to the Union demands that every restraint on production shall be removed. If income-rights are thereby upset in such a way as to produce ruin and distress, the State must compensate. There is admittedly a limit to the extent to which private expectations can be trampled on, even in the general interest in war time. The inevitable private burdens of drastic changes which lighten the total burden (through releasing productive power) must be equitably shared by the community as such. But such sharing must be regarded as a secondary problem to that of production.

In conclusion, I must repeat that it is not private enterprise which has proved wanting in the Allied countries, but a system of monopoly capitalism, largely State protected. The full economic strength of the Allies (including ourselves) has so far remained unrealised through the failure of statesmen, officials and their advisers to understand the sanctions for private enterprise and private property. The functions of the State in relation to a system of economic freedom have not been recognised; and only under the stress of war have the weaknesses become obvious. This is my diagnosis. I put it forward with no great expectation of its being understood or even carefully considered in influential circles. But there is just a chance that statesmen will to-day be more willing to study the pronouncements of economists than they are in normal times. So I have written this address with rather more hopes than usual that it will be noticed by those to whom we have entrusted the reins of government during one of the most critical periods of our history.

W. H. HUTT.

Cape Town.

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