

BRITAIN'S ECONOMIC CRISIS

by The Cambridge Political Economy Group

Michael Ellman, Bob Rowthorn, Ron Smith, Frank Wilkinson.

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Preface

The Cambridge Political Economy Group consists of a number of academic economists at Cambridge University who are engaged in analysing the problems of the British economy from a Marxist perspective. This project was started to combat the reactionary doctrines being preached by many of our colleagues at the present time. The pamphlet begins with a brief outline of the current economic crisis, relates it to the historic failings of the British economy, and then analyses the economic policies being pursued by the Labour government.

Attempts to sustain economic growth or pursue progressive social policies in Britain have been repeatedly hindered by the pressures of international capitalism: balance of payments crises, speculative raids on sterling and the demands of foreign bankers. In Chapter II we examine the ways in which Britain could be insulated from such pressures. With these pressures reduced it would be possible to pursue a variety of economic and social policies at present conventionally dismissed as utopian. In the third Chapter we examine a number of detailed considerations that would arise in the operation of a planned economy. In Chapter IV we provide some rough estimates of the economic potential of a socialist Britain.

This pamphlet is intended not as a blueprint but as a basis for further discussion and to raise some of the strategic issues involved in the establishment of socialism in Britain. We would like to thank the many trade unionists, academics and others who have made valuable comments on earlier drafts.

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I The Crisis

1. The current crisis

At the present time the British people are faced by a dramatic economic crisis. Inflation is accelerating towards an annual rate of 20%, which used to be regarded as an intolerable 'Latin American' level. The balance of payments deficit, on current account, for 1974 is expected to be about £3,500 - 4,000m. i.e. about *five times* the 1964 deficit (even when account is taken of changes in the price level). On present policies unemployment will soon top the 1971 level of over one million workers made idle. Indeed, it has become clear to everyone that conventional policies cannot maintain full employment in Britain. It can be achieved at the top of the boom, but the balance of payments deficit caused by the boom leads to government action to balance the international accounts, which in turn generates substantial unemployment. The growth necessary to ensure rising living standards for all will be prevented, as Mr. Healey made clear in his March 1974 budget speech. On present policies real wages will fall substantially in 1974. As the National Institute's *Economic Review* noted:

The policy problems presented by this outlook are formidable. It is not often that a government finds itself confronted with the possibility of a simultaneous failure to achieve all four main policy objectives – of adequate economic growth, full employment, a satisfactory balance of payments and reasonably stable prices.

The international monetary system, so patiently constructed at the end of World War II, is now almost entirely destroyed, with violent fluctuations in exchange rates an everyday occurrence and no generally accepted system for settling international debts. The problems of the industrialised world have been aggravated by huge increases in the prices of primary products, such as copper, zinc and oil. Conference after conference has been convened in an attempt to come to terms with these difficulties, only to be overtaken by a deepening of the crisis. Many signs point to a disintegration of the capitalist world economy and a reversion to the nationalistic policies of the 1930s.

The end of the great post-war boom in the capitalist world has starkly revealed the bankruptcy of the advice proffered to the Labour government by orthodox economists. Ignoring the experience of the pre-war period, these self-styled experts continue to offer the same advice as their predecessors offered in the 1920s, i.e. to cut real wages. This is intended to cheapen exports and thus stimulate their growth. The 'experts' assume that British capitalists will respond to such encouragement, and hope for the generation of an export-led boom to drag Britain out of stagnation.

The magnitude of the current balance of payments deficit is such, however, that even if things work out as the 'experts' hope, immense sums will have to be borrowed to tide us over to the time when the balance of payments problem is solved. According to one orthodox analysis, it would mean borrowing £11,000m. from the international bankers.

Such a strategy is a recipe for an even greater disaster for the British economy and the British working class movement than occurred in 1964-70, when these same advisers foisted a similar policy on a Labour government.

Repeated doses of the stop-go medicine, of which the current advice is simply an extreme example, have steadily enfeebled the British economy and have undermined its willingness to respond, modernise its industries and its capacity to export its goods. Furthermore, world trade is stagnating and thus the market for these hypothetical increased exports is shrinking. Also, in order to raise the international loans needed, Britain would have to sacrifice her right to an independent national economic policy and abandon the pursuit of objectives not acceptable to the overseas moneylenders, whose attachment to high profits, low wages and poor social services is notorious.

Not only is it doubtful whether these policies can prove successful even by their own standards (because they would further enfeeble the economy and because the international bankers might decide that Britain, like Italy, is a poor credit risk), but their application would be suicidal for the organised labour movement. It would produce an immense gulf between the Labour government and its supporters in the country, as in 1966-70, leading to the return of a Tory government even more dedicated than the last to class warfare and enriching the profiteers. These policies are based on the implicit assumption that it is necessary and possible to reform the capitalist system, from which it follows that the cost of the crisis must, as always, be paid by the working class.

In this pamphlet we seek to explain the background to the present crisis, the futility of the policies now being advocated and the reasons for Labour's dismal past record of reform. We argue for alternative policies which are technically possible and which would ensure better results at lower cost. We also consider one set of possibilities for future economic policy, and examine how far it would be possible to smash the international links which in the past — in 1931, in 1948-51, and in 1966-70 — have prevented the pursuit of progressive economic policies in Britain.

2. The permanent crisis

The current crisis is not an isolated event, but simply a severe manifestation of the deep-rooted structural problems which have plagued the British economy and British society for the last century.

An economic structure or system which is successful and well adapted to its task at a certain stage of history may become inflexible and incapable of change, so that when its environment alters it is unable or slow to adapt. Capitalism is particularly vulnerable to this failing because the much vaunted 'market mechanism' acts very imperfectly to force adaptation to major changes in the economic environment, and then only with immense social costs in the form of bankruptcies and unemployment. To shift the system on to a new set of tracks, so as to bring about another burst of

development and growth, requires a major shock in the form of a slump, a war or determined state intervention, or quite often a combination of all three. In the absence of such a shock a particular capitalist economy may stagger along its original path indefinitely.

The British economy provides an illustration of this proposition. In the late eighteenth and early nineteenth centuries the policy of *laissez-faire* (leaving the economy to market forces and reducing government intervention to a minimum) was a progressive one. It stimulated economic growth and reduced the scope for meddling by Old Corruption. By the middle of the nineteenth century Britain had become the Workshop of the World. After a prolonged struggle the landlords had recognised that national economic policy must be determined by the needs of industrial capital rather than agrarian capital. British industry was flourishing at home and abroad under the banner of *laissez-faire*.

In the late nineteenth century, however, Britain's capitalists were confronted by industrial rivals such as Germany and the USA, and a mature working class. They reacted to these new developments by seeking protected markets in the colonies and neo-colonies, the reinvestment overseas of the income from overseas investments, and joining the traditional landlord party, in a process stretching over decades, so that all sections of capital could form a united front against the working class. They retained the traditional *laissez-faire* policy (with certain modifications) which had been so successful earlier. Unlike Germany, for example, Britain did not modernise its industry by state action.

As a result British industry began to be characterised by low investment, technical backwardness and an outmoded industrial structure. This pattern was changed dramatically by the shock of two World Wars, in both of which the state intervened decisively to adapt output to requirements and to raise efficiency, and the strength of the Labour movement (which naturally supported state intervention) increased. After both World Wars, however, the government reverted to *laissez-faire*, in whole or part; the capitalists revived their hostility to state intervention and resumed their export of capital; and the power of the Labour movement diminished. The modernisation of industry by state action declined sharply in importance. After the Second World War, despite massive military expenditure, the British Empire disintegrated, causing the loss of protected markets and permanent problems with sterling, the former imperial currency. In the 1950s controls on trade were rapidly eliminated, leaving the balance of payments on current account to market forces. As a result of all these factors, by the 1950s and 1960s British industry had lost its protected markets and was too backward to compete effectively in unprotected ones (including Britain itself). Any domestic growth was immediately followed by a deterioration in the balance of payments and a harsh budget to deflate domestic activity, create unemployment and stop growth.

Since 1948 all British governments have followed virtual *laissez-faire* policies, refusing to plan the economy or to control trade. Under British conditions this has meant that balance of payments equilibrium can only be achieved by deflation at the cost of domestic unemployment and stagnation. This pattern of stop-go — short periods of growth followed by long periods of stagnation — has meant that there has been no sustained growth in demand and therefore no incentive for

capitalists to invest. Low investment has meant that new techniques have been adopted slowly and productivity has lagged, so that British industry has become ever-more backward relative to its competitors. Hence Britain has become a depressed area of the EEC, requiring special help from more advanced countries such as Germany, France and Holland.

The determined state intervention in investment, production and trade necessary to break out of this vicious circle has been opposed by capitalists because it would pose a grave political threat. Britain is a country with a powerful working class with long socialist traditions. The position of capital is never secure and the ruling class maintains its position partly by the ideological weapon of praising the private sector and denigrating nationalised industries and the public sector as a whole. This weapon would be seriously blunted by a successful policy of state-directed modernisation, even if carried through by a Tory Government. It would be clear to all that planning, unlike the market mechanism, was able to attain national economic objectives. This would raise the confidence of the working-class movement, increase its demands and threaten the position of capital in Britain. The dilemma of British capitalism is that, economically speaking, it requires determined state intervention, but quite correctly (from its own point of view) it fears the political consequences.

3. Labour's policies

Since the formation of the Labour Government after the election of February 1974, a number of policies have either been implemented or announced to deal with the current crisis. Here we analyse the more important measures.

(a) The budget

Mr. Healey's March budget consisted of an orthodox deflationary package. It was framed by politicians, civil servants, and economists whose economic perspective is still dominated by the capitalist ideology of the 1920s. For them, the only way to deal with the crisis, to moderate inflation and to improve the balance of payments, is to cut real wages and increase unemployment. This the budget was designed to do. It is no more than a repetition of the Jenkins policy of 1968-70 and will inevitably have the same outcome — the impoverishment of the working class, the demoralisation of the labour movement, and the return of a Tory government.

But within the Labour party the left has achieved a more powerful position since Jenkins' day, and the pre-Keynesian orthodoxy of the budget is now combined with a social compact and plans for industrial reconstruction.

(b) The social compact

The social compact, Labour's alternative to an incomes policy, is a scheme by which a set of government promises will be exchanged for voluntary wage restraint by the Unions. The promises involve the repeal of the Industrial Relations Act, the renegotiation of the Treaty of Rome, the payment of higher pensions, price controls and subsidies on basic foodstuffs to protect the real wages of working people; together with various measures to improve the distribution of income, such as the replacement of the Pay Board by a Royal Commission on Income Distribution, help for the lower paid, and higher taxes, including a wealth tax, on the rich.

This policy was welcomed by the TUC and in particular by Unions representing the lower paid, since it offered prospects of material benefits to these workers which would be more difficult to achieve by free collective bargaining. But trade union cooperation in voluntary wage restraint will depend very much on Labour meeting its obligations and in particular on its ability to control prices — otherwise the social compact is likely to degenerate into yet another wage freeze imposed by the State on the workers.

(c) *Industrial reconstruction*

Perhaps the most overtly socialist of Labour's policies is that concerned with the modernisation of industry, which was proposed in the manifesto and is now being worked out by Tony Benn. These proposals have several positive aspects. They recognise that British industry is technically backward and requires a massive injection of investment which private sources are unwilling to provide. To remedy this will require State intervention in production and investment, implemented in various ways, including planning contracts negotiated with a National Enterprise Board. In addition, at least one section of the government appears to recognise the right to work, though unfortunately this progressive policy did not influence the budget, which will put vast numbers out of work. Benn has also recognised the need to question the divine right of management to determine production, investment and employment, and to start to establish industrial democracy. Moreover, he is one of those rare Labour leaders who appreciates the need to mobilise political support among the rank and file, as is shown by his speeches around the country.

There are, however, negative aspects to these policies. There is a serious danger that Benn will go the same way as George Brown at the DEA, formulating plans on paper that have no hope of success. There is no point in making planning contracts if there will not be adequate demand for the goods which firms agree to produce. The CEB had this unfortunate experience when it loyally followed the National Plan's 4% growth projection in its investment planning, but found itself with excess capacity when this growth rate failed to materialise, and therefore had to raise prices to pay for the surplus plant.

The other negative aspect is that industrial democracy may not represent workers' control, but rather the incorporation of trade union leaders into private firms. This would merely serve to shore up a decaying system and to widen sectional splits within the Labour movement. This danger is illustrated by the comments of the French trade union organisations, the *Confédération Général du Travail/Force Ouvrière (CGT/FO)* on the 1967 law which made profit sharing obligatory in France:

The Law has not brought about any innovation despite its name . . . Its essential motives are the promotion of self-financing by business concerns and forced savings by the workers. In fact, the worker's situation cannot be fundamentally altered by applying legislation whose targets are the effects and not the underlying causes of alienation. He still sells his labour in accordance with the law of the market. About his firm the only thing he knows are the contents of his wage packet and — if his works council is efficient — the company's overall output and balance sheet. What happens in between remains, and is deliberately kept, a mystery to the man on the factory floor. If this is so, how can one talk of participation? Of sharing in management? Or whatever the current slogan is.²

(d) *Micawberism*

There appears to be a widespread feeling that it is not really necessary to make any dramatic changes in Britain's economic and social institutions, because within a few years North Sea Oil will have arrived and solved all the problems. Like Micawber, many people cling to a belief that 'something will turn up' and ignore the length of time before North Sea Oil will be flowing in significant quantities; the size of Britain's fuel requirements in the 1980s; the balance of payments burden of remittances of oil profits by foreign companies; and the steady relative decline of British industry, which will prevent British capitalism from taking advantage of any potential benefits. Even taking account of North Sea Oil, the Treasury paper on which Callaghan's arguments for renegotiating the EEC budget contributions were based predicts that by 1980 Britain's national income per head will only be 65% of the community average (as compared with 80% now). The increase in self-sufficiency which will result from the inflow of North Sea Oil will be valuable, but it cannot be regarded as a substitute for the transformation of Britain's outmoded economic and social institutions. In fact, unless such a transformation is achieved, the growth potential of North Sea Oil will merely be dissipated in servicing and repaying the medium-term debts incurred to finance the huge balance of payments deficit which we are now running, and in paying for the dramatic rise in imports which a return to full employment in the late 1970s would generate.

(e) *Labour's reversals*

A traditional feature of Labour Governments is that before coming into office they arouse the expectations of the working class; on taking office they may introduce some progressive measures; but in due course they inevitably alienate many of their own supporters by reneging on their commitments. The Labour Government of 1929-31 was unable to reduce unemployment and ended up trying to cut unemployment benefits. The Labour government of 1945-51 initially implemented a programme of nationalisation and social reform, but eventually drifted into a policy of wage freezes and cuts in the social services. The Labour government of 1964-70 came in on a wave of enthusiasm for a 'white-hot technological revolution', but after 1966 it also imposed a wage freeze, cut social services and created unemployment. Thus, whatever its promises, it is more than likely that the 1974 Labour government will follow a similar line. These reversals are not accidental, and the reasons for them are explained in the next section.

4. Labour's Record

Since the First World War the Labour party has been one of the two major parties in the country and has held office repeatedly. In spite of this Britain remains an unequal hierarchical society suffering from a permanent economic crisis.

The Labour party's failures result from the nature of the Labour party, the nature of the British crisis, and Labour's lack of understanding of the contradictions of capitalism.

Unlike the Tory and Liberal parties, the Labour party emerged as an extra-parliamentary mass movement committed 'to secure for the workers by hand or by brain the full fruits of their industry and the most equitable distribution thereof

that may be possible upon the basis of the common ownership of the means of production, distribution and exchange, and the best obtainable system of popular administration and control of each industry and service'.³ Nevertheless on attaining office the leaders of the Parliamentary Labour party have seen themselves not as the leaders of a mass movement reflecting the interests of a particular class which is seeking to replace the existing ruling class, but partly as an alternative administration, and partly as the representatives of what was fated to remain an underclass. Hence they have accepted many of the worst features of the British State and have failed to attack capitalist power. They were happy to share the fruits of imperialist exploitation, and failed to mobilise their supporters in the country in defence of their programme when it was being attacked by their opponents. They even failed to transform that bastion of reaction, the Bank of England.

The left wing of the Labour party, which is particularly strong in the trade union movement, has consistently opposed the right-wing policies of the leadership of the parliamentary Labour party, but has lacked the theoretical perspective and political strength necessary to defeat the right. Until recently even the left wing believed that socialism could be achieved by parliamentary action alone. Under the impact of mass working-class struggle against such parliamentary measures as the Industrial Relations Act, this belief has been weakened, but it nevertheless remains strong.

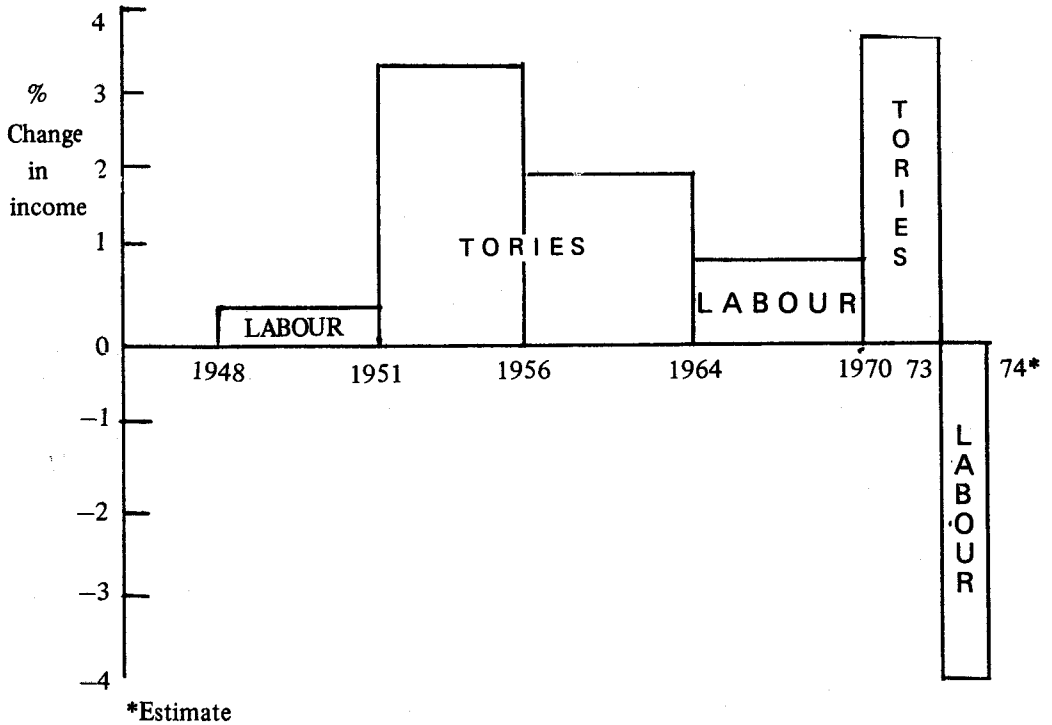
The idea that Britain was on a long-run downhill path of relative industrial decline requiring urgent remedial action played little major role in Labour thinking until Tony Benn took over the Department of Industry in 1974. Previously the leaders of the parliamentary Labour party, lacking a theory of Britain's crisis, had generally been content to endorse solutions already rejected by advanced bourgeois thinkers, such as free trade and the gold standard in 1924 and 1929-31, and free market policies and demand management in the 1950s and 60s.

Labour's willingness to act as an administrator of British capitalism shows its lack of understanding of the contradictions of such a position. To act as the administration of a capitalist economy means to maintain and reinforce a system built on inequality, hierarchy and the alienation of the working class. Whatever humane and egalitarian ideals the party may have had, in administering this system it has not only attacked the class from which it gains its mass support, but has attempted to incorporate the trade union leadership into this attack. For example, fig. 1 shows how Labour has repeatedly attempted to 'solve' crises by freezing real wages. The big increases in real wages, in 1951-56, and 1970-73, have been won under Tory governments; while Labour governments in 1948-51, 1964-70, and 1974 have held them down in a vain attempt to solve the capitalist crisis by adopting capitalist policies. It has often appeared as if Labour's objectives were to integrate the working class into capitalism and to apply reactionary policies which would be violently opposed by the unions if attempted by Tories.

5. Conclusion

Britain is currently experiencing an acute economic crisis. Prices are soaring, unemployment will soon reach high levels and there is a gigantic balance of payments

Annual average changes in real disposable income of a typical wage earner.



deficit. Labour is dealing with the problems by a deflationary budget, a social compact, and ideas for reorganising British industry. Labour's dismal record, which results from the nature of the Labour party, the nature of the British crisis, and Labour's lack of understanding of the contradictions of capitalism, suggests that as the crisis deepens the social compact will be transformed into a wage freeze and Tony Benn's policies discarded. To prevent this requires a vigorous struggle by the left, based on an analysis of the alternative policies open to a socialist Britain.

FOOTNOTES

1. See the forecasts made at the Department of Applied Economics, Cambridge University, and published in *The Times* of 22 and 23 January, 1974, the forecasts made at the London Business School and published in the *Sunday Times* of 21 April 1974, and the forecasts made at the National Institute for Economic and Social Research and published in the National Institute *Economic Review* for February and May 1974.
2. John Horner, *Studies in Industrial Democracy* (London 1974), p. 206.
3. Labour Party Constitution, Clause 4.

II Britain and the World Economy

1. Introduction

Any attempt to plan the economy and implement progressive social policies must come to terms with the realities of Britain's international position. She derives certain material benefits from her role as a major imperial power and yet at the same time her close links with the world capitalist economy restrict internal policies in a variety of ways. Britain is in the paradoxical situation of being both an imperial power and a dependent economy. Labour governments have always accepted this situation, regarding it as either inevitable or desirable, and have framed their policies accordingly, sacrificing the interests of the working class to the pressures of the world market and the demands of foreign creditors. In this Chapter we examine the consequences of rejecting such a path and making a determined attempt to break the hold of imperialism and world capitalism on the British economy. We assume a specific scenario, in which the rest of the western world remains capitalist.

There is a view on the left that the power of world capitalism over the British economy is now so great that it is no longer possible on a national basis to gain any freedom of action to pursue progressive policies, and that change is only possible within the framework of a world or European revolution. According to this view, while the rest of the western world remains capitalist, a detailed examination of the problems of creating socialism in Britain is pointless, diverts attention away from the basic task of establishing world socialism and may also fuel the dangerous chauvinistic sentiments already so prevalent in this country. There are, however, a number of problems with this cavalier approach. Firstly, it is based on a rather strange view of the dynamics of class struggle, which are seen only on an international plane, completely ignoring their national dimension. One of the most effective ways of politically destabilising the world capitalist system would be a serious attempt to detach one of the main western countries from this system. Such an attempt will never be made if the left restricts itself to defensive trade union struggles, however militant, and to the building of an international movement. The left must take seriously Marx's words in the *Communist Manifesto*.

Though not in substance, yet in form, the struggle of the proletariat with the bourgeoisie is at first a national struggle. The proletariat of each country must, of course, first of all settle matters with its own bourgeoisie.

To do this requires a strategic perspective appropriate to the country concerned, which in turn requires a detailed understanding of its links with the world economy and the problems these pose.

Secondly, starry-eyed internationalism has served the left ill in the past. The

Bolsheviks, for example, dreaming of a simultaneous world revolution, awoke to find themselves in power, surrounded by formidable enemies and quite unprepared for the real material and political problems facing them. Even if one believes that European or world socialism is an imminent reality, prudence would suggest taking seriously the possibility that this is not the case and that the left may take power in Britain before it does elsewhere. And, finally, those who talk of European or world revolution never get beyond the realm of abstract slogans which, although they may be valid, provide no theoretical perspective beyond the need to create an international working-class movement, something which all on the left support, even those such as ourselves who believe that the problems of socialism in Britain must be taken seriously.

The fact that we consider a particular scenario in which other western countries remain capitalist does not imply that we believe this to be the only possibility. A shift to the left in Britain, for example, could well be part of a general European movement, as a result of which it would become possible to plan the socialist development of Europe as a whole. Clearly, the left must retain sufficient flexibility to respond to such developments as they arise and lend them every possible support. It must also avoid the chauvinistic excesses and little Englandism that have characterised much of the campaign against the common market.

The national struggle in Britain against the forces of world capitalism is in fact international in two senses. Its success depends on the support of working-class movements in other countries to prevent a trade boycott of the UK and to force their governments to adopt a cooperative stance towards a socialist Britain. And it is firmly internationalist in its attack on the roots of British imperialism.

2. Freedom of action

Britain is deeply enmeshed in the world capitalist system. Its economy is highly international, both financially and industrially. The City of London is the world's leading financial centre, key industries are dominated by multinational firms, many of which are foreign-controlled, and Britain relies heavily on other economies both to supply her needs and to purchase her goods. Much of the activity in these various economic spheres is conducted by capitalists operating in a virtually uncontrolled fashion. If these capitalists do not like what the government is doing or are unhappy about domestic economic prospects, they can shift their money abroad and precipitate a financial crisis in which the British government is faced with bankruptcy. Particularly powerful in this respect are the multinational firms, which engage in currency speculation on an enormous scale. In addition they can undermine the balance of payments by importing what could have been produced in Britain and producing overseas what could have been exported.

In these and many other ways the present situation subjects Britain to the discipline of the world capitalist system. Any government which tries to introduce radical changes in such areas as the distribution of income or the ownership of property will find itself facing bankruptcy, as money pours out through the foreign exchanges and multinational firms boycott the economy, shifting their activities elsewhere. Sometimes this flight of capital may be politically motivated, an act of deliberate sabotage. More

often it will merely be the natural response of suspicious investors, worried for the safety or profitability of their assets.

Under these circumstances the government has a number of choices. It can abandon its programme in a desperate bid to regain capitalist 'confidence'. Alternatively, it can finance the flight of capital by borrowing from foreign governments; but these loans will usually be given only on condition that the British government abandons its radical aims and behaves 'responsibly'. Or, finally, it can stick to its aims and fight the power of international capital. To succeed in such a struggle it will need to be both determined and resourceful, using every strategem at its disposal to divide and out-manoeuvre its opponents. It will need a strategic perspective to guide its day-to-day struggle, and most important, it will need to mobilise popular support at home and solidarity abroad from both the socialist countries and the working-class movements of Europe and elsewhere.

3. What can be done?

Faced with the massive array of capitalist power we have just described, what can a left government do to ensure that its programme is not wrecked by the actions of hostile foreign and domestic investors? To begin with, at the first sign of trouble, or preferably before, it can take emergency measures to prevent a flight of capital. Dealings on foreign exchange markets and the stock exchange can be suspended and foreign money banked or invested in Britain can be temporarily frozen. None of these measures is particularly revolutionary, having been used by right-wing nationalist governments such as those of Gaullist France and even in an earlier period by British governments. But, by their nature, they are stop-gap measures, which must be replaced by a more flexible and comprehensive system of controls on capital movements, both short- and long-term, together with controls on the behaviour of multinational firms, covering their production, investment and foreign trade policies, the transfer prices they charge and so on. Naturally, these controls would have to be chosen in accordance with the general priorities of the government, as laid down in some kind of national plan.

But to believe that the process can stop here, that it is merely enough to impose controls on international capital, would be a mistake. Controls may not be effective and they may be resisted. Capitalists have at their disposal a number of means by which they can evade or completely sabotage controls. Capitalist institutions may prove obstructive, either disobeying instructions or withholding vital information. Firms may reschedule overseas payments and receipts and the consequent 'leads and lags' may cause the loss of hundreds of millions of pounds worth of foreign exchange. They may undercharge for exports or overpay for imports, thereby evading restrictions on the export of capital. In this respect multinational firms may prove the most troublesome, being the best placed both to evade regulations and to withhold information. Without the active cooperation of other states it would never be possible to develop a foolproof or even adequate system of controls on the operations of international capital. Since a left government is unlikely to receive such cooperation, it would sooner or later, and probably sooner, be driven to more radical measures. Much of the international business of the City would have to be run down and most of the rest taken over and administered directly by the government. Equally, many inter-

national firms would have to be taken over, either completely or with majority government participation. Exactly which institutions or firms should be taken over or run down, and when and how this should be done, depends of course on the exact circumstances of the time and upon detailed conditions which it is beyond the scope of this pamphlet to discuss. Even so it is realistic to expect that the reaction of multinational capital would dictate a rapid and extensive transfer of ownership embracing the bulk of the City and many big multinational firms, both foreign and domestically controlled.

The need to run down parts of the City and take over foreign-controlled multinationals would be reinforced by the reaction of foreign investors and their parent states. Faced with the inevitable uncertainties surrounding any left government in its initial years, together with extensive controls on capital movements and business operations, many foreign investors would want to wind up their operations fairly quickly and withdraw their funds. This would confront the government with a number of possible choices. It could simply refuse to allow liquidation and risk retaliation in the form of trade boycotts or worse. Or it could confiscate the property of foreign-controlled firms and repudiate Britain's financial debts. The risks of retaliation then would be even greater than if the assets concerned were merely frozen. Or, finally, it would allow some liquidation, paying off short-term debts and nationalising foreign-owned subsidiaries with compensation. This would reduce, although not eliminate, the risk of foreign retaliation. The feasibility of such a path is discussed below. What matters for the moment, however, is simply that foreign capitalists and their parent states may not tolerate a policy of freezing the flow of funds into and out of the country and controlling the operations of foreign-owned firms. Consequently, the government may be compelled to wind up much of the City's international activity and take over many foreign-owned firms.

4. Breaking the chains

Thus, in order to exercise effective power over the economy and because of foreign pressure for liquidation, a left government would be compelled to nationalise wide sections of the City and industry and to wind up much of the City's international business. Furthermore, in the absence of sympathetic regimes in what are now the advanced capitalist countries, it would in many cases be necessary to honour Britain's debts and offer compensation for foreign property nationalised. This is not a question of abstract morality but of politics. In any particular case the choice between compensation and confiscation must be guided by general political criteria — which of these best contributes to the long-run survival of socialism in Britain; whether the assets concerned belong to poor countries which have long been exploited or to rich imperialist countries, and so on. In most cases, provided the money can be found, compensation is likely to be the more advisable course, for widespread confiscations, especially of European-owned property, might lead to a crippling trade boycott which would seriously damage the government's chances of survival or drive it in the direction of greater authoritarianism as its popular base was eroded.

The obvious question at this point is: 'Could the money be found?' If the answer is 'No', then a serious left government might be driven into a confrontation with one or several of the major capitalist powers, as were Chile and Cuba, which had

little choice but to take over foreign property without compensation. For both the costs of confrontation were high; had they been able to pay compensation their relations with the United States might have developed differently, although given the threat their existence posed to US interests throughout Latin America, this is not certain. Even so, the confiscation of American property provided the US administration with the excuse that it needed to act against the regimes concerned. If they had offered genuine compensation it would have been more difficult for the US administration to justify its policies to the American people.

Fortunately Britain is not a simple neo-colony as were Cuba and Chile. British capitalists own enormous assets overseas and, if these were requisitioned by the government, they would in theory be sufficient to repay all of Britain's debts and to buy out foreign subsidiaries in this country, thereby weakening British capitalists by depriving them of foreign support. In practice, of course, things would not be so simple, for many of Britain's assets overseas, such as industrial subsidiaries, would be difficult to sell quickly, except at knock-down prices, and there might be serious political problems in actually requisitioning them. Even so, the existence of these enormous assets provides opportunities for a determined British government not available to its counterparts in Cuba or Chile.

(a) British assets

Table 1, based on data published by the Bank of England, gives a breakdown of Britain's external assets and liabilities at the end of 1973. In almost all spheres the private sector is a massive net creditor. British industrial firms own production facilities overseas worth £12,000m, which is nearly twice as much as the holdings of foreign industrial firms in Britain. Even if British holdings in underdeveloped countries are excluded from the picture, Britain remains a net creditor, owning far more industrial assets in the advanced capitalist countries than they own here.

Similarly, the City is a net creditor. Britain's 'nuge portfolio' holdings of stocks and shares in America, Europe, Australia, South Africa and elsewhere are more than enough to offset a comparatively small deficit in the Eurodollar market. Overall the City owns assets worth about £1,200m. more than its liabilities. If the City could be eliminated by trading off Britain's financial assets against its financial liabilities, this is the surplus that would remain.

By contrast with the private sector, the public sector is an international pauper. Part of the overseas expansion of British capital has been financed by official borrowing, with the result that the government now owes a considerable amount overseas. Even so the overall position is still favourable to Britain, with private sector credits greatly exceeding public sector debts. If all UK private holdings overseas were taken over by the government, it would be possible to reduce dramatically the hold of international capitalism over the British economy. In some cases foreign firms could be bought out and financial creditors repaid. British holdings of US securities, for example, could be sold and the money used as compensation for American firms taken over, or where appropriate to purchase a majority holding in such firms.

British holdings in underdeveloped countries would have to be treated rather differently from those in the developed world. The simplest, and probably the best solution, from our own point of view, would be to hand over British investments

Table 1
UK external assets and liabilities, end 1973 (£m)

	<i>Assets</i>	<i>Liabilities</i>	<i>Net assets</i>
Private sector			
<i>Industrial</i>			
1. Non-oil	9,725	4,655	+5,070
2. Oil	2,350	1,900	+ 450
3. Total industrial	12,075	6,555	+5,520
<i>Financial (the City, etc.)</i>			
4. Eurodollar banking	35,719	39,017*	-3,298
5. Sterling banking	3,665	3,271	+ 394
6. Portfolio	7,150	2,925	+4,225
7. Other financial	2,439	2,548	- 109
8. Total financial	48,975	47,760	+1,215
9. Total private	61,050	54,315	+6,735
Public sector			
10. Long-term loans etc.	1,790	1,545	+ 245
11. UK official securities		2,651	-2,651
12. UK short-term borrowing		1,091	-1,091
13. UK official reserves	2,235		+2,235
14. Total public	4,025	5,285	-1,260
15. Grand total	65,075	59,600	+5,475

Source: *Bank of England Quarterly Bulletin*, June 1974.

Notes: Totals are rounded to the nearest five, following Bank of England practice.

*includes £890 millions borrowed abroad by UK banks on behalf of public bodies;

free of charge to the countries concerned, offering to provide any technical assistance necessary for their continued operation. This would open the way for genuinely cooperative and mutually beneficial trade agreements between Britain and the countries concerned.

There remains one important problem. Would it be possible to requisition British assets held overseas? There are certainly precedents. In both world wars the government requisitioned British assets abroad and sold them to pay for the war effort. Legally there is no reason why this should not be done again. In the final analysis, of course, it would not be international law but politics which decided the issue. The capitalist world would only accept such a programme if it was faced with a de-

terminated government, willing to mobilise popular support at home and working-class solidarity abroad.

(b) Costs

The balance of payments would be affected in a number of ways by this programme for requisitioning British assets overseas and substantially reducing the role of the City, the activities of British companies abroad and those of foreign companies in this country. Many of the overseas earnings of the City would be lost, for its business would contract as foreign capitalists moved their funds to safer havens. British property income in the form of interest, profits and dividends from abroad would decline, as would payments of property income to foreign capitalists with investments in this country. Table 2 gives a pessimistic estimate of how some of these changes might affect the balance of payments. Details of the calculations are given in our forthcoming book. Broadly speaking, we assume that the bulk of service income received by the City would be lost, as would all net UK property income from abroad. Given these assumptions we estimate that the annual service income of the city would drop by about £380m., and net UK property income by about £500m., giving a total of £880m. This would be a big loss, but it would not cripple the economy. It is just a little more than British exports earn every fortnight. It is also equal to about 1¼% of gross domestic product. If unemployment could be reduced by about 400,000 and the additional output sold abroad, the entire loss would be made up.

Table 2
Estimated direct effects on balance of payments (£m., 1974 prices)

Losses:

1. City service income:

Insurance	235
Banking	90
Merchanting	20
Brokerage	35

Total City	380
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2. UK property income (net)	500
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Total losses	880
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Gains:

3. Overseas military expenditure (net)	200
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4. Common market	400
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Total gains	600
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Net annual loss = £280m.

Sources and methods: see text.

Great efforts have been made to convince the British people that their well-being depends on the continued activity and expansion of the City and the overseas investment of British firms. 'Invisibles', we are told, provide a large and indispensable part of Britain's foreign exchange earnings. And so they do. But we are rarely told that the bulk of these earnings have nothing whatever to do with the City or overseas investment, but consist of such items as shipping and civil aviation. The City itself accounts for only one tenth of all invisible exports and less than 4% of total exports. Its receipts are little larger than those of civil aviation alone and only a quarter of those of British shipping. Banking, the most troublesome of the City's activities, earned a mere £77m. of foreign exchange in 1972.

One item often mentioned in this context is the export of capital. It is widely believed to be one of the main components of Britain's balance of payments deficit. Savings of £1,500m. are sometimes quoted as the immediate benefits of banning the export of capital. This is in our opinion incorrect. In the first place, Britain's massive deficits are on *current* account, which excludes all capital transactions. A ban on capital exports would have no direct effect on such deficits. In the second place, the export of capital has recently been matched by corresponding imports in the form of foreign long-term investment in Britain and borrowing overseas by UK companies and banks acting on their behalf.¹ A radical programme of disengagement from the capitalist world system would lead to a drastic fall in this inflow, sufficient to offset any saving in the export of capital. Britain cannot expect to have its cake and eat it.

There remains one more cost to be mentioned, which is impossible to quantify but could prove important. A substantial part of Britain's trade takes place within multinational firms; components produced in one country are shipped to a subsidiary of the same firm in another country. Ford motor cars, for example, are produced on a European-wide basis. If a foreign subsidiary in this country were nationalised, its parent company might refuse to supply necessary components or purchase its output, causing a significant if temporary dislocation. But this weapon cuts both ways, for the parent company itself often depends on its British subsidiary. Given an appropriate combination of threats and blandishments a determined British government could in the short run take over many foreign subsidiaries and continue trading as before, but in the longer run it would be wise to diversify and reduce dependence on the former parent companies. Even so, the multinational companies pose difficult problems for any British government attempting to disengage from the world capitalist system.

5. Military alliances and the EEC

Britain has signed treaties which would inhibit any left government attempting to transform the social and economic structure of this country, both directly through their military and political provisions and indirectly through their economic costs.

Under NATO agreements American troops are stationed in Britain and British troops in Germany. The former would provide valuable allies for reactionary forces in Britain, should they attempt to overthrow our democratic institutions, while the latter, although safely out of harm's way, are very expensive to maintain. This reactionary alliance should be wound up. One immediate benefit of such a step would be a reduction in the level of overseas military expenditure, currently running at

around £400m. a year. Further savings could be made by withdrawing from imperial outposts in the Far East and elsewhere. Some of the expenditure is used to purchase exports from Britain, so the actual savings of foreign exchange would be less than the full figure. At the very least, however, £200m. a year could be saved.

The Rome Treaty binding Britain to the EEC also limits our freedom of action significantly by imposing conditions on the way the economy is run. Effective planning is prevented by: free trade within the market; movements towards the greater mobility of capital; competitive requirements for nationalised industries, and so on. In the longer run, if it survives, the common market may reduce national sovereignty even more and Britain may be administered as part of a unified and capitalist West European bloc. Under present circumstances this would make a radical shift to the left impossible in Britain. Naturally, if continental Europe went to the left the situation would change and it would be correct for our working class to support integration. But, as things stand, this is not likely and for the foreseeable future the Common Market will be an alliance serving to consolidate and extend capitalist power in Western Europe. To oppose it is not chauvinism but class interest.

So far the foreign exchange costs of Common Market membership have been less than anticipated, as world food prices have risen dramatically. Quite soon, however, Britain will be paying large amounts under the Common Agricultural Policy. It will also be importing very expensive food from the Common Market instead of cheaper (although still expensive) food from elsewhere. On the most conservative calculations, the direct foreign exchange costs of Common Market membership will soon be at least £400m. a year. This is in fact the official Treasury estimate of Britain's annual net contribution to the EEC budget by 1980.

6. Direct effects on the balance of payments

Table 2 brings together some of the balance of payments effects of the above forms of disengagement. Drastically cutting Britain's role in international investment and finance would produce a *maximum* loss of £880m. a year in the form of service and property income foregone. Against this must be set the savings from pulling out of the EEC and bringing the troops home. Between them these would mean a *minimum* annual saving of £600m. Overall the net loss would be at most £280m. This is a mere 1.5% of Britain's total exports of goods and services, and is equivalent to the output of 100,000 workers — one sixth of the registered long-term unemployed in 1973. A small price to pay for the freedom of action a left government would gain as a result of disengagement.

In addition to this figure there are of course the losses caused by changes in the pattern of international trade, following attempts to control the activities of multinational firms or the nationalisation of their subsidiaries in this country. As we have seen above, however, no quantitative estimate can be made of these and they might be small or large, depending on the exact course of events.

7. Foreign trade

Recent predictions suggest a current account deficit of well over £3,000m. in 1974 and a cumulative deficit by 1977 of nearly four times as much. With a higher growth

rate the deficit would be worse, and any determined attempt to break with the world capitalist system might impose further costs on the balance of payments. In the present situation a socialist government would have no practical alternative but to take vigorous steps to reduce this deficit. Not to do so would saddle Britain with huge debts to foreign bankers and governments and give the capitalist world a veto over our economic and social policies. But it would also be wrong to adopt the orthodox solutions of devaluation or deflation, for the former by itself is hopelessly inadequate (though it might be useful as one component in a total strategy), while the latter involves unacceptable costs in terms of unemployment and waste.

Immediate action to hold down imports and raise exports would be essential, involving a crash programme to produce exports and import substitutes; direct controls to hold down imports; and negotiations to expand exports, especially by developing new markets with socialist and third world countries. The main aim of such a crash programme would be to eliminate completely the non-oil deficit and to permit a fast and sustained growth of domestic output, unconstrained by balance of payments problems. In practice, a socialist government might have to go further and attempt to eliminate the oil deficit itself, should the Arab countries refuse to finance oil inflows until North and Celtic Sea fields reach full production. Britain could reduce its oil deficit by switching from suppliers such as Kuwait and Saudi Arabia, which cannot absorb a large quantity of British exports, in favour of such countries as Nigeria, Iraq, Iran and the Soviet Union, which may be prepared to exchange oil for British goods.

In the longer term trade can be planned in a variety of ways — direct controls in the form of import and export licenses; state trading, so that goods are bought and sold overseas by government agencies on behalf of private or official clients; and domestic nationalisation, so that the import and export decisions of firms are directly determined in conjunction with the central planning authorities. If British trade was planned in this way it would be much less difficult to combine sustained economic growth with national solvency. The National Plan of the last Labour government foundered not because of union militancy or a failure to devalue, but because no serious attempt was made to plan and control foreign trade.

Long-term trading plans would have to recognise the need to establish alternative patterns of trade, especially with the third world and the socialist countries. This would imply certain planned shifts of production; for example, existing capacity in the motor industry could be used to produce trucks and tractors for the third world. There could also be a planned expansion of trade with capitalist countries, either on the basis of a negotiated realignment of currencies or in the last resort by bilateral deals. At the moment, the benefits of much trade are only marginal, for instance, we simply exchange different brands of cars with other European countries. But certain imports are essential and we must be able to produce and sell the exports to pay for them; therefore it is fundamental to the development of the economy that trade should be organised effectively.

8. Retaliation

If the whole of Western Europe and North America united to boycott the British economy the effect would be crippling. Together they account for two-thirds of all

Britain's imports and exports. The loss of these trading partners is the spectre always raised by the defenders of free trade whenever planned trade is mentioned. But is such a widespread boycott likely? The answer depends, of course, on government tactics and strategy. Outright confiscation of all foreign property in this country, combined with random and senseless cuts in imports, might provoke fairly wide retaliation. On the other hand, if Britain offered compensation for property taken over and proposed reasonable trade deals, most capitalist countries would have strong reasons for cooperating. The alternative would be a protracted trade war, which few of them can afford, together with the possible loss of their property without the compensation originally offered. In the case of Europe, with its progressive labour movements, it would also be possible to mobilise working-class solidarity against a boycott. There is, therefore, every reason to believe that a determined but reasonable government could negotiate a new system of planned trade with Western Europe and most of the rest of the world.

One problem arises in this context. The US might institute a single-handed boycott of the British economy in an attempt to bring down the government. Against this Britain would have a powerful weapon. It could threaten to nationalise without compensation all US property here. Equally important in deterring an American administration would be the knowledge that Britain is not so very dependent on America, which accounted for only one tenth of our trade in 1973. Our most important imports from the US were tobacco and wheat. The former would have to be replaced by other, less familiar types and the latter could be purchased on the world market. Indeed, more wheat could be grown at home. Increased trade with the socialist countries would also help cushion the impact of an American boycott. Given Britain's alternative sources of supply and markets, a boycott might easily boomerang, causing insufficient dislocation to bring the government down, while being widely resented as an interference in our internal affairs. For this reason the US administration might decide that a boycott would do more harm than good.

9. Summary

The freedom of a socialist government to introduce progressive policies in Britain would be very much constricted by the international links of British capitalism. Accordingly such a government would have to take international trade out of the hands of market forces, nationalise foreign firms in Britain, reduce substantially the role of the City, end overseas military expenditure and leave the EEC. It should be prepared to reduce the risk of damaging trade boycotts by compensating foreign capitalists for their UK assets nationalised (out of the assets of British capitalists abroad).

FOOTNOTES

1. In 1972 — a record year for capital exports — UK private investment overseas was £1,479m. Against this can be set the following imports of capital: direct borrowing overseas by UK companies and institutions, £252m.; foreign currency borrowing (net) by UK banks to finance UK investment overseas, £733m.; and £721m. provided by foreign direct and portfolio investment in the UK.

III Problems of Planning

1. Political

Socialism, if it is not to degenerate into either left-wing authoritarianism or social democratic betrayal, must be based on the mobilisation and involvement of the broad working-class movement.

In the past, whenever the Labour leadership has sacrificed the interests of the working class to capitalist pressures of one kind or another it has invariably blamed the consequent political conflicts either upon the activities of wreckers and militants or upon a failure to 'communicate'. It has never in peacetime attempted to tap the tremendous potential of the trade union movement, which has dissipated itself in sectional or defensive struggles of one form or another. The reason for this, of course, is not some unfortunate misunderstanding by the leaders of the parliamentary Labour party, but results from the nature of their class perspective and their divorce from the day-to-day struggles of the working class.

The Labour Manifesto has of course promised 'a fundamental and irreversible shift in the balance of power and wealth in favour of working people and their families', but the leaders of the parliamentary Labour party interpret this in traditional Fabian terms of modest reforms designed to change the form but not the content of our society. If taken seriously, Labour's phrase would entail a root and branch attack upon the capitalist system and a real shift of power to the mass movement, which Labour's leaders have traditionally regarded as an embarrassment and a hindrance to progressive change.

An important feature of the present situation is the strength which has been displayed by the organised working class in defeating capitalist attacks. Indeed, in our capitalist economy, characterised by insecurity, lack of control over work, and exclusion of the working class from positive control over the society, this strength has been used to prevent the attainment of many rational objectives. For example, it is not possible to restructure the British economy in an efficient manner because the workers concerned, quite correctly, understand that the so-called transitional costs will fall on them and the gains will go to the employers. One of the most basic irrationalities of capitalism is its waste of the creative capacities of working people.

Many workers would be prepared to make sacrifices for pensioners, low paid workers and other underprivileged members of our society, provided that they received a guarantee that this transfer really did take place and that there were no privileged members of society who were not making such a sacrifice. One thing they will not do, quite reasonably, is to make sacrifices designed indirectly to benefit overpaid businessmen, managers, academics and others who tirelessly lecture to them about the need to 'tighten our belts'.

Much of the sectionalism of the present working-class movement stems from the need of particular groups of workers to defend their jobs and living standards in a highly insecure, inequalitarian and authoritarian society. The political task of the day is to tap the potential displayed in both sectional and broader trade union struggles, in order first to break the power of the capitalist class in Britain and then to build a new society. This can never be done simply by passing the appropriate laws in parliament, but requires the mobilisation of ever wider strata of working people in ever more political struggles. Clearly the discussion of the political problems involved in such a mobilisation would require a book in itself and is beyond the scope of this pamphlet.

Nevertheless, we believe it to be possible and we shall consider the problems of planning the British economy in a situation in which the working class movement is effectively mobilised.

2. Economic

(a) *Reasons for planning*

In a capitalist economy, many of the basic decisions about what is to be produced and who is to get it are not in reality decisions at all, but simply fatalities. The destruction of our cities by the motor car, for example, was not decided consciously by anybody, but was the result of many millions of uncoordinated decisions by isolated consumers and producers connected by the market mechanism. The technical possibilities discussed in Chapter IV can never be realised in Britain simply by introducing increasingly subtle and complex financial devices aimed at inducing private firms to behave in a socially rational way. Their realisation requires direct and centralised control over the key sectors of the British economy. This control must be exercised not by a privileged and self-perpetuating elite, but by a democratically appointed and accountable administration.

(b) *Problems of planning*

Big business

In the British economy mergers and takeovers have created an institutional framework well adapted for central planning. At present the top 100 industrial firms account for more than half of all industrial output, and the proportion is rising fast. Many of the remaining firms are little more than subcontractors. Hence a takeover of the top 200 firms would bring virtually all industrial production under public control. It would also acquire the services of skilled planners, who would be able to use their expertise not just in company-wide planning but in nation-wide planning. Naturally the role and operation of the enterprises would change drastically. They would in no sense resemble today's nationalised industries, which are often characterised by low pay, excessive bureaucracy and authoritarian work relations, are severely circumscribed in their productive activities and are not used as a powerful and centralised instrument of economic control.

Small business

A commitment to the socialisation of the means of production does not imply the immediate elimination of small-scale private enterprise. This would be both wasteful

and unnecessary, as well as encountering tremendous opposition. The correct tactic is to isolate big capital by making reasonable arrangements for small-scale enterprise. One can see how this might work by considering just four sectors: distribution, agriculture, medicine and the housing stock.

The role of small-scale private enterprise in the distribution has fallen dramatically in the post-war period, as large firms have taken advantage of economies of scale and the enhanced bargaining strength which size brings. A left government, while taking over the large firms, would not hamper those small firms playing a useful social role, ranging from corner grocery stores to small wholesalers. The two changes which they would notice in their operations would be that they would have to provide decent conditions for employees and that they would not have to pay extortionate and increasing rents to landlords.

Agriculture plays an essential role in the economy and it makes no sense to introduce fundamental organisational changes in a sector where the family enterprise can be an efficient unit. We would wish to see an expansion of output to reduce our dependence on imports, and a left government could provide farmers with state technical advice and assistance, as well as guaranteed and stable prices for their products. It could nationalise all land not owned by working farmers and could lease it to worker cooperatives or younger farmers, who can now only enter the industry as managers for absentee landlords. A left government would naturally wish to see an improvement in the pay and working conditions of farm workers.

In the field of medicine a crucial role is played by highly trained specialists (general practitioners, hospital consultants), whose mentality in many cases is akin to that of small businessmen and who would be naturally unsympathetic to a socialist government. A left government would deal with this by providing all medical students with adequate grants (after seven years of depending on private means one naturally acquires an individualistic attitude to society), by transforming the health service into a salaried service rather than a contractual one, by greatly expanding the number of doctors turned out by the medical schools, and of course by abolishing private practice. In the USSR there is a very large number of doctors per thousand of the population, because of the large scale of the training programme, the relatively short hours that doctors work, and the large numbers of women who are attracted to the profession because of the convenient hours and the opportunity of doing an obviously useful job. There is also a great stress on preventive medicine. These are all areas in which we should try and learn how to improve the facilities available in Britain.

Before the First World War virtually all the housing stock was owned by private landlords. Since then there has been a massive increase in the proportion owned by local authorities and owner occupiers. The former has occurred as a result of working-class pressure for better conditions, and the latter has been designed to convince a majority of the population that it has an interest in maintaining the private ownership of the means of production. The tax and interest rate system operates so as to provide massive subsidies for owner occupiers. These subsidies are regressive and benefit the richest owner occupiers most. A socialist housing policy would be concerned with providing decent housing for those who are now poor and exploited, living in bad quality privately rented accommodation or unable to find accommodation at all; reducing the land element in house prices and rents; giving local authority

tenants more say over their own estates; removing the speculative element from the housing market, and ending the present system of regressive subsidies for owner occupiers. Save for this latter provision, owner occupiers, who tend to keep their houses in good condition and often improve them, would be left undisturbed. There is obviously a case for redistributing the housing stock in accordance with need, but it is outweighed by the tactical need to unite the greatest possible forces behind the struggle against big business.

Worker enthusiasm

The creation of an efficient and egalitarian society in Britain requires both social control of the economy and the mobilisation of popular enthusiasm and support. The former would arouse massive opposition from capital, both domestic and foreign, and could be implemented only if it had widespread popular support. This could only be achieved on the basis of an egalitarian democratic and credible programme of modernisation, which, in turn, could be successfully implemented only on a basis of popular support. Each is a condition of the other. An important result of popular support is willingness to accept structural changes in the pattern of output and employment. In a capitalist society such changes cause unemployment and hardship to the workers displaced and so are justifiably resisted. In a planned economy such as we envisage, however, workers would be guaranteed alternative employment with decent wages and it would be in their interest to assist modernisation and the elimination of waste.

(c) Inflation and incomes policy

Inflation creates difficult economic problems in any economic system. It makes economic calculations difficult and undermines the social fabric by producing large and arbitrary redistributions of income and wealth, forcing every section of society to organise to protect its position. Itself a product of social conflict, inflation exacerbates this conflict further. At present governments throughout the capitalist world are unable to contain inflation without resorting to depression and unemployment. The boom in commodity prices has added a new twist to the spiral but is not its underlying cause.

The major instrument by which the government is hoping to restrain rising prices in 1975 is incomes policy. In return for certain minor concessions, in the form of higher taxes on the upper income groups, dividend restraint and limited price control, the working class is supposed to reduce its wage demands, abandon its claim for higher living standards, and revert to its 'proper' role of an apathetic labour force. There are a number of fundamental reasons for opposing this alleged solution.

First, the means of production will remain in the hands of private capitalists subject to no real social control. Secondly, there is to be no basic change in the internal organisation of industry, which is to remain as authoritarian as before. Thirdly, in the absence of a successful growth policy, 'a successful incomes policy' is simply another term for a freeze or even a reduction in real wages. Fourthly, workers will be expected to continue paying high taxes and prices to finance the various wastes detailed in the Chapter IV. Fifthly, and most importantly, an incomes policy will emasculate and exclude from effective political influence the main organs of working-class power, such as the shop stewards movement. Politics will revert to their old parliamentary

forms, in which self-perpetuating elites alternate amidst frequent consultations with 'responsible' trade union leaders.

For these reasons anyone who supports the emancipation of the working class and the eventual creation of a rational and egalitarian society must oppose capitalist incomes policies.

The situation would, however, be very different in a socialist economy, where the planning of incomes would be part of an overall and democratically determined plan for the rational utilisation of social and economic resources. Extreme forms of sectional wage bargaining, which are simply one aspect of the anarchy of capitalism, would have no place in such a society. Even during a genuine transition to socialism, i.e. in an economy in which capitalist power was being fundamentally challenged, the working class for tactical reasons might have to restrain its wage demands. Britain, of course, is not in such a situation at present, and existing incomes policies must be resisted.

It must be recognised, however, that the strategically vital struggle against capitalist incomes policies may under certain circumstances strengthen sectionalist tendencies within the trade union movement. These could prove to be a difficult and obstinate barrier during the period of transition to socialism in Britain. Many income differentials both within the working class itself, and still more between workers and professionals, have no rational economic basis, but simply reflect some past or present power relationship. Recent years have shown that lower-paid workers are becoming less prepared to tolerate this situation and a basic task during the transition to socialism would be to contain conflicts between one group of workers and another. Quite apart from weakening the working class politically, such conflicts could prove a powerful inflationary force.

The solution to this problem cannot be found through the authoritarian mechanism of an incomes policy imposed upon the working class, nor through some fraudulent social compact. It can only come from the unification of the working class in the course of struggles for broad political and economic objectives. Only in this way can the working-class movement achieve the internal discipline and unity necessary both to defeat its capitalist enemy and to build socialism.

(d) East European experience

When capitalism was the only economic system, the case for socialism could be made by contrasting the reality of capitalist waste with the Utopia of socialism. Now that socialist planning has existed for many years in Europe, it is necessary to consider the lessons to be learned from its experience.

The experience of the European socialist countries has shown that planning can ensure a large increase in employment, permanent full employment, stable prices, economic growth and technical progress, harmonious regional development and a steady rise in real wages. In the USSR the result of four and a half decades of socialist planning has been a profound structural transformation of the economy. A formerly backward country, with extensive illiteracy, high infant mortality and low life expectancy, limited opportunities for women, and a low level of technology, has been transformed into a country with (almost) universal literacy, low infant mortality and long life expectancy, greatly improved opportunities for women and modern

technology. Formerly 'backward' Russia has a good internal airline system, efficient underground railways in the big cities, fleets of hydrofoils on her rivers and lakes, and exports cameras, watches and ball bearings to the advanced industrial states.

At the same time there are two important negative features of the socialist experience. First, for many years living conditions, particularly in the USSR, were very difficult by comparison with Western Europe. A diet mainly consisting of bread, potatoes, cabbage and porridge, a severe housing shortage, widespread shortages of various consumer items, extensive queues and an acute shortage of everyday services (such as housing repairs) made everyday life difficult and inconvenient. Secondly, and not unconnected with the first, a widespread mood of apathy and lack of interest in production was very noticeable. Socialists have always believed that one of the advantages of socialism is the worker enthusiasm it can kindle, but East European experience has been marked by widespread apathy, lack of interest in production and privatisation. Workers have often been much more interested in the small private jobs that they could do in their own time than in the contribution they could make to socialist industry.

A pseudo-solution

It is widely thought that the solution to these problems is greater use of the price mechanism. This is the doctrine which has been implemented in Yugoslavia and to a lesser extent in Hungary, and which was toyed with in the USSR in 1966-69.

The two great advantages of the market are in the provision of consumer goods and in reducing the power of the bureaucracy. The price mechanism can ensure that production is in line with demand, that scarce goods are allocated with minimum inconvenience, and that there is an opportunity for small-scale private enterprise to meet everyday needs. In addition, it greatly reduces the power of state officials, taking many day-to-day decisions out of their hands.

Greater reliance on the market, however, has a number of offsetting disadvantages, which have prevented the further development of market relations in the USSR. The price mechanism cannot be regarded as a 'solution' to the problems of the traditional system for a whole number of reasons.

For example, greater reliance on the market is naturally associated with a shift in income distribution. East European experience has shown that, whereas professional people, the self-employed and farmers may benefit, industrial workers may get no absolute benefit and may find themselves in a relatively worse position. Similarly, distribution may shift against the backward regions to which resources were formerly being channelled by the state, towards advanced regions which do not want to subsidise backward ones. Furthermore, full employment can be jeopardised by a policy which puts the economy at the mercy of market forces, as Yugoslav experience has shown. In addition the model which many of the reformers have in mind appears to be that of liberal capitalism, and they seem unaware of the irreversible technical and social forces which transformed competitive capitalism into state monopoly capitalism. Large-scale modern industry cannot be run efficiently by small competitive firms. In addition, there is the question of the ultimate goals of this kind of evolution. Hungary is undoubtedly more prosperous than it has ever been, but is it becoming a more egalitarian and democratic society?

The solution

It seems to us that the true solution is the simple proposition that a socialist economic system should be based on democracy and not coercion. For example, whereas at the moment national 'discussions' are held to confer legitimacy on economic targets which have already been decided, such discussions ought to be used to assist in the formulation of policy objectives. Similarly the traditional Soviet decision-making pattern of 'one boss management' could be replaced by a more democratic style of decision-making. Ultimately what is required is a political change which will end the traditional interpretation of democratic centralism and the view of trade unions as transmission belts whereby the decisions of the leaders are communicated to the masses.

What prevents such a change coming about in Eastern Europe in the near future? There seem to be three major factors. First, the needs of defence. The competition in armaments, initiated and maintained by the United States, is a serious burden on the socialist countries, and hampers any thoughts about internal changes. Secondly, the traditional backwardness of East Europe and its tendency to lag behind Western Europe mean that the desires of its citizens are set by consumption patterns in Western Europe and North America (as in Latin America). Hence the rapid growth in private motoring in Eastern Europe. Thirdly, the people of these countries are traditionally accustomed to a hierarchical and authoritarian system and lack other traditions that could be counterposed to this.

The transition to socialism in Britain could avoid these problems for the following reasons. The British working class has a long history and tradition, constitutes an overwhelming majority of the population, and has deeply rooted democratic traditions. Hence there is no question of a minority regime attempting to create the class to which it ought to be responsible. In addition, during the transitional period small-scale private enterprise could be left to flourish where it was socially useful. Moreover, the transition to socialism need not be accompanied, as it was in Eastern Europe in 1948-51, by a sharp fall in the share of consumption in the national income (resulting from the very sharp rises in the shares of defence and investment).

It is not enough, however, to rely on these objectively favourable factors. The Labour movement must be alert to ensure that the transition to socialism remains a fully democratic process. It is by bearing in mind the lessons of experience, being conscious of both their positive and negative aspects, that we can hope to gain the advantages, while minimising the problems, of socialist planning.

3. Summary

A socialist society can only arise from the struggles of a unified working class for the defeat of capitalist power and the creation of a better society. A socialist economy must be a planned economy to ensure the achievement of social objectives. In the transition to a planned economy in Britain it would be necessary to take over big business, permit socially useful small business to continue, implement an effective programme of modernisation, guarantee the right to work and ensure democratic decision-making at all levels. Inflation, which is such a problem in contemporary capitalist economies, largely results from social struggles which a socialist government would transform by eliminating big capital and uniting the working class movement in the struggle for national economic objectives. East European experience

shows that a planned economy can be a very effective means of attaining a large increase in employment, permanent full employment, stable prices, economic growth and technical progress, harmonious regional development and a steady rise in real wages. It also shows that such an economy is not free of problems. The British Labour movement could minimise these problems by studying carefully the lessons of experience and, in particular, by ensuring that a planned economy in Britain be based on democracy and not coercion.

IV The Economic Potential of a Socialist Britain

It is a traditional socialist argument that at a certain stage in its development capitalism becomes a system which hinders the growth of production and wastes much of the output that is produced. The present state of the British economy is a vivid illustration of this thesis.

In this Chapter we assume that a victorious working class has taken power, and consider the economic possibilities open to it. The replacement of capitalism by socialism in Britain would mean a marked change in the quality and pattern of life, the elimination of capitalist waste, and the vigorous modernisation of industry.

1. The Quality of Life

Britain today is characterised by a marked lack of social provisions and by a tremendous emphasis on individualistic consumption. The inadequate facilities for sport, medical care, transport, nursery education, holidays, pensions and so on, are notorious. Not only are supplies inadequate, but they are maldistributed, being concentrated in the middle-class South East rather than in working-class Glasgow, Liverpool or Newcastle. In this situation individuals are compelled to make provision for their needs on a personal basis, which is generally wasteful and inefficient. This individualistic system is defended by the privileged on the ground of freedom of choice, but the freedom of such people is purchased at the expense of the majority of the population, who cannot afford to pay for country cottages, private medical care, private education and the like, and who can only just afford to buy private transport.

A major priority of socialism would be to ensure adequate collective facilities in all these areas. This would provide for the working class the real freedom of choice which capitalism, despite appearances to the contrary, denies them. For example, many people in Britain today would do without a motor car and use instead an efficient public transport system, were such a choice open to them; but the working of the market economy has ensured that it is not. To take another example, the freedom to participate in many sports is available only to millionaires and university students.

More generally, socialism would mean very different social relations in many spheres of life, for example between men and women. These changes are not, however, considered explicitly in the present pamphlet, although obviously they have profound economic implications and are implicit in many of our arguments. To end discrimination against women, for example, requires an attack on the existing division of labour between the sexes, new social provisions for the care of children, and better educational and training facilities for women. All of these imply a new allocation of economic resources. In turn, however, the resulting liberation of women's creative

and organisational talents would lead to a big increase in the efficiency of production, partly because women would compel the introduction of a new technology by refusing to tolerate the present situation, where they are mainly used as cheap labour to perform menial or repetitive tasks.

2. Elimination of Capitalist Waste

The elimination of capitalist waste is important both because it would free resources for other uses and because of the negative effect on society which such waste can have. The consumption of the rich, for example, not only directly wastes resources which could be otherwise used, but sets a pattern for emulation by the rest of society which brings about even more waste. The flaunting of consumption by an unproductive class also breeds resentments and spreads parasitical aspirations which inhibit the rational organisation of production. One of the reasons for Britain's low rate of productivity growth has been a lack of working-class cooperation in production, resulting from job insecurity, authoritarian work relations, and the spectacle of gross overconsumption by the rich.

How much capitalist waste is there in contemporary Britain and what quantity of resources could be transferred to other uses?

(a) *Upper class consumption*

The upper classes derive their consumption from a number of sources: unearned income in the form of interest, dividends and rent; 'earned' income in the form of over-inflated salaries, fees and profits from self-employment; and concealed income such as expense accounts, company housing and company cars. In addition they enjoy the benefits of such personal property as large houses and country cottages. From a political point of view it is essential to make inroads into this income and wealth, with a view to cutting drastically upper-class consumption and freeing resources for other uses.

The amount which could be raised by 'soaking the rich' is substantial, but should not be exaggerated. There are two reasons why it is less than many believe. First, not all unearned income accrues to the idle rich or even to employed members of the upper classes. A fair proportion is used to support 'widows and orphans', the sick and aged, who would still have to be supported in a socialist society. Secondly, during a transitional period it would still be necessary to provide comparatively high incomes as a material incentive for some of the professional managers, technicians, the self-employed, small capitalists and others performing essential services. Naturally, a socialist government would aim at the ultimate elimination of comparatively high incomes.

How much could be raised by soaking the rich? To answer this let us assume a vigorous programme of redistribution, which:

1. levies no additional taxes on any wage or salary below £75 per week,
2. provides adequate material incentives for experts, small capitalists and others performing essential tasks,
3. provides particularly high incomes for manual workers whose jobs are especially onerous or dangerous (e.g. miners, fishermen),

4. makes adequate provision for those amongst the aged and the sick at present supported out of unearned income,
5. eliminates the idle rich by expropriating their wealth, and
6. cuts drastically other higher incomes which fulfil no necessary economic function during the period of transition.

A programme of this kind would, according to our calculations, reduce upper class consumption by about 2% of national income, which in money terms is equal to £1,400m. a year. This figure is not, of course, exact, since it depends on how large material incentives must be to qualify as 'adequate'. This in turn depends on the political climate of the time. For example, if the imagination of specialists and experts could be captured, so that they supported the creation of a socialist society, lower material incentives would be needed and correspondingly more resources would be released.¹ In addition, by taking over large estates and great concentrations of private property, the above programme would add significantly to the quality of life by providing for the public open spaces, parks, and large houses.

(b) Military expenditure

In 1974 Britain has roughly 370 thousand people in the armed services, at an estimated annual cost of approximately £4,000m. Reducing this by a half would give a saving of £2,000m. Britain, while no longer able to maintain its military presence in Singapore, Cyprus, Malta, Germany and other overseas countries, would still be able to defend itself after such a cut.

(c) Redundant services

At the present time about 1.3 million workers are directly employed in advertising, the financial and legal work generated mainly by capitalist property disputes and tax avoidance, and property ownership and management. Others are indirectly employed in producing equipment, supplies and complementary services for these workers. In a rationally organised society where the City was no longer a world monetary centre, and in which the great concentrations of wealth had been eliminated, half of this would be unnecessary. Economies could also be made among such categories as police, foremen, social security investigators, and others whose jobs are partly to impose discipline in our over-authoritarian society. Many of these workers would, of course, continue to be necessary, although the nature of their work would be radically transformed. Foremen, for example, who have both a disciplinary and an organisational function in the existing economic system, would in a less authoritarian system be able to devote more of their energies to productive tasks.

At a conservative estimate resources equal to about 3% of national income could be released, which would provide an output of around £2,100m. for other uses.

(d) Other waste

Private motor transport is undeniably one of the greatest wastes in our society. Quite apart from its destructive effects on the environment, the motor car is an astronomically expensive way of providing what is in reality a quite inadequate transport system.² A major shift to public transport, more taxis, and a unified national car hire system

could provide a more efficient and flexible system at half the price. In 1973, the motor industry and allied services cost over £5,000m. With domestic inflation and higher oil prices this figure will rise sharply in 1974.

Other areas of waste are: grandiose projects such as Maplin, Concorde, and many prestige office buildings; built-in defects and planned obsolescence in many durable goods; and packaging and promotion which often cost more than the manufacture of the goods themselves.

A rational organisation of production and transport could save at least £2,800m. a year and probably considerably more. Naturally investment in public transport would have to be increased, but this would still leave us with a substantial saving.

(e) Non-employment

Under-utilisation of resources is endemic in contemporary Britain, since the ruling class has a recurrent need to deflate the economy in order to discipline its labour, and because capitalism is an anarchic system which suffers from frequent crises. Quite apart from the half a million unemployed registered at the end of 1973, there was an enormous amount of hidden unemployment in the form of prematurely retired workers, and women who would have chosen work if offered decent jobs with good pay and adequate facilities for those with children. This hidden unemployment could be anything up to two million or more and there is no reason why a high growth economy should not increase employment by 1.25 million very quickly and by much more in the long run. The 1.25 million extra workers would yield an increase in output of about £3,000m. annually.

(f) Total capitalist waste

The results of all these changes are summed up in Table 3.

Table 3
Resources gained by reducing capitalist waste

	<i>£m. at 1974 prices</i>	<i>as % of GNP</i>
Upper-class consumption	1,400	2.0
Military expenditure	2,000	2.9
Redundant services	2,100	3.0
Other waste	2,800	4.0
Higher employment	3,500	5.0
Total resources gained	11,800	16.9

Note: It is assumed that 1974 Gross National Product will be £70,000m.

Eleven thousand eight hundred million pounds is about a sixth of total output; six times annual expenditure on housebuildings; three times that on pensions; a quarter of the national wage and salary bill, and twice net productive investment.

(g) Time perspective

How long would it take to gain these resources? This depends on both political and technical factors. Politically the three crucial factors are: a firm guarantee by the socialist state of the right to work, coupled with suitable financial and training arrangements for those being redeployed; an acceptance by the workers concerned of the need for change; and the defeat of sabotage by the former privileged, who would use every opportunity to obstruct a socialist government. These factors are of course all interrelated. For example, the traditional resistance of British workers to the rationalisation of industry is not due to natural bloody-mindedness, as the capitalists claim, but to their correct understanding of what is involved in the form of insecurity, unemployment and impoverishment. In a planned economy, however, structural changes need not have these consequences and workers would have far less reason for resistance. Indeed it would be to their advantage to promote change. To create these political conditions might well take some time.

Technically the main requirements are that the state should take over the strategic allocation of resources in the economy, i.e. that the economy be a planned one, and that workers should be actively involved, as they were in the production committees of World War II or are in China today.³ The experience of transition to a war economy in 1939-41, and of demobilisation in 1945-46, shows that enormous changes in the distribution of the labour force and the pattern of output are possible in a very short period under these circumstances. For example, at the end of World War II some eight million troops and armament workers were redeployed to peacetime production within 18 months.

3. Modernisation of Industry

The appalling growth record of the British economy compared with such European countries as France, Sweden and the two Germanies, and the imperative need to improve on it, has been recognised in official circles since the creation of the National Economic Development Council more than a decade ago. Nevertheless, despite Macmillan's NEDC, George Brown's National Plan, and the Heath-Barber 'dash for growth', Britain's growth record remains poor and therefore living standards in Britain are steadily falling relative to those in the rest of Europe. The reasons for this are not to be found in the bloody-mindedness of the workers, an overvalued currency, the high price of oil, an incorrect tax policy, or any of the other ruling class excuses. All the 'plans' for growth have assumed that the balance of payments problem has been solved and that no decisive action was needed in this area. Invariably within months these expectations have been falsified by a cataclysmic balance of payments crisis, and the 'plan' was abandoned. For this reason any talk of sustained economic growth is nowadays dismissed as utopian, as indeed it is so long as Britain's international trade is left to market forces. It is for this reason that the longest section of this pamphlet has been devoted to Britain's international relations and that we have argued that control and planning of international trade and finance would be a major priority for a socialist Britain.

In our opinion it is realistic to expect in a socialist Britain, where trade is planned, growth rates which are nowadays dismissed by orthodox economists and commen-

tators as impossible, because the main obstacles hindering such growth rates have been tackled.

A socialist Britain would increase sharply net productive investment and enable existing resources to be fully utilised (because of its international trade policies). The benefits of such a policy can be seen from the following calculations. Even if we assume an annual output growth of only 4%, which is roughly what Britain has achieved in the post-war period plus an allowance for North Sea oil, over four years this would produce additional resources equal to all the structural gains listed in Table 3. Under present circumstances Britain has no possibility of achieving anything like this rate of growth, and the losses involved in current deflationary policies over the next few years will amount to many thousands of millions of pounds. With a planned trade policy which would allow sustained growth these losses could be avoided.

In this discussion no allowance has been made for the long-run effects of socialism in Britain on the technical efficiency of industry. The organisational and inventive talents of the working class, at present largely wasted, would in a socialist economy be effectively mobilised, permitting a far more efficient use of resources and a much higher rate of productivity growth. As wartime experience showed, enormous increases in production are possible when the abilities and enthusiasm of working people are mobilised. Moreover, the level of investment would be much higher than in the past, and this too would raise productivity. In our opinion it is possible to achieve rates of growth of productivity much greater than those hitherto attained.

Such a transformation in production would not involve merely a quantitative increase in output, but a major change in the whole pattern of life. This is already implicit in our assumptions that the private motor car is phased out; that advertising and packaging are drastically reduced, and so on. Extra production could be used in a variety of ways: to cut the working day (which in turn would increase productivity still further); to care for the environment; to husband exhaustible resources; to aid underdeveloped countries; and generally to improve the quality of life.

4. Summary

A socialist organisation of the British economy would make possible a major improvement in the quality of life by changing existing social relations, eliminating waste and permitting the modernisation of British industry.

FOOTNOTES

1. For example, if a 100% tax rate were imposed on all personal incomes above £75 per week, and all expense account fiddles and tax evasion eliminated, resources worth about 4% of national income would be released, or in money terms about £2,800m. a year. This is twice the amount we have assumed in the text.
2. Inadequate because well over half the population does not have access to a car. Non-owners, young people and old people have all suffered from the domination of our society by the car, with the consequent decline of public transport and a spatial pattern of building which makes car ownership a necessity for the individual. For a detailed discussion of this see *Personal mobility and Public transport* (PEP 1973).
3. For a description of the latter see B. Richman, *Industrial Society in Communist China* (New York, 1969).

Conclusion

The current economic crisis is a manifestation of a long-run deep rooted situation, the failure of Britain to adopt institutions compatible with steady economic growth. Its explanation is to be found in the British class structure. The need to end this situation and halt the steady relative decline of British living standards has been recognised by official circles for a decade and a half, but all their 'plans' have been torpedoed by crises on the balance of payments front.

Planning, if it is to be real planning rather than paper 'planning' of the George Brown variety, must be largely concerned with the removal of the obstacles to the fulfilment of our goals. In the concrete circumstances of contemporary Britain this means running down the City, taking over foreign firms in Britain, state control over international trade, and nationalisation of big business.

A planned economy would be feasible only on condition that the working class was mobilised and involved in attaining its economic and social objectives. Only on a basis of popular mobilisation and support would it be possible to take over and control big business democratically and to organise the economy in a rational way. The labour movement would have to be alert to prevent bureaucratisation and left authoritarianism.

The capitalist solution to the crisis is the same today as it was in the 1920s, to cut real wages. This can only be done by smashing the organised working-class movement. This will inevitably be resisted, and the militants who organise defensive actions are not the 'wreckers' of capitalist propaganda, but the harbingers of a society in which it will be possible to improve substantially the quality of life, eliminate capitalist waste and modernise British industry.

The Authors

The Cambridge Political Economy Group currently comprises:

- Michael Ellman** Research Officer, Department of Applied Economics, Cambridge University.
Author of *Planning problems in the USSR* (Cambridge University Press, 1973).
- Bob Rowthorn** Lecturer in Economics, Cambridge University.
Author of *International big business* (Cambridge University Press, 1972).
- Ron Smith** Assistant Lecturer in Economic Statistics, Cambridge University.
Author of *Consumer demand for cars in the USA* (forthcoming).
- Frank Wilkinson** Research Officer, Department of Applied Economics, Cambridge University.
Co-author of *Do Trade unions cause inflation?* (Cambridge University Press, 1971).

