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ORGANIZATION OF THE LABOR MARKET  
UNDER PLANNED ECONOMY

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## INTRODUCTION

World War II marks the end of an epoch, the epoch of laissez-faire capitalism. By laissez-faire capitalism, we mean private enterprise as the dominant form of economic organization and the absence of large-scale government intervention in economic affairs. Laissez-faire policy has been losing ground since the beginning of the present century. But it is only since the end of the recent war that the parties advocating planning and some form of socialism have been able to capture political power in the European nations. In practically all of Europe, the birthplace of capitalism, faith in private enterprise has declined, and the popularity of public planning and nationalization of the means of production has increased.

Many explanations are offered for this social revolution. The Marxists consider it an inherent evolutionary trend caused by changes in the methods of production. Other institutional and historical schools attribute it to a variety of factors indigeneous to the capitalist system. Those who bemoan the decline of capitalism often blame socialist propaganda and other extraneous influences.<sup>1</sup>

It is not the purpose of this study to determine what factors have led to the decline of capitalism or the growing

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<sup>1</sup>See for example F. A. Hayek, The Road to Serfdom. Ch. 4.

popularity of socialism and planning. Our main object is to analyse the effects of planning on the organization and working of the labor market.

It may be pointed out, however, that since the periodic depressions which have brought in their train mass unemployment and economic insecurity have exerted an important influence upon the recent developments, it is only natural that under a planned economy full employment should become one of the major policy objectives. In the United States planning for full employment, without far reaching changes in the institutional structure of capitalism, appears to be making important headway; in Europe, on the other hand, the trend seems to be toward mixed economies in which both socialized and privately owned industries function under the guidance of a planning authority.

In most of the countries planning programs are still in an early stage of their development; and the immense problem of post-war reconstruction of economic life further complicates the task of analysing the effect of planning on the labor market. There is, however, some experience of economic planning available. In the first place, it is that of the Soviet Union, which was the first nation in modern times to plan her economic activity on a national basis in peace time. During World War II, furthermore, the need for complete mobilization of resources led to the adoption of planning on a national scale in all belligerent countries. The effects of planning on the labor market in these two situations will

be described in due course.

But it is extremely difficult to derive general conclusions from these experiences regarding the organization and functions of the labor market under a planned economy. The peculiar social, economic and political conditions make the Soviet planning system so unique that its experience cannot be generalized. The unitary purpose of war planning, namely, to maximize the war effort at all costs, also limits the use of this experience.<sup>2</sup> Although these experiences do not form the basis of our theoretical analysis, they are very useful in providing illustrations for the theoretical analysis.

As a matter of fact planning, like all other social institutions, will have to be adapted to the particular social, cultural and economic environment of the nation concerned. Thus, what may be true of labor planning in Russia need not necessarily apply to the planning of labor in a highly advanced western nation like Britain. Therefore, any definite assertion as to the impact of planning on the labor market is extremely difficult, especially at the present stage of the evolution of planning.

Planning is a much abused word, and it means different things to different people. Therefore, it is our first task to define planning for the purpose of our study and to clarify the types of planning we shall consider as models for our analysis. Chapter one is devoted to this. Besides this ✓

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<sup>2</sup>See Ch. 2 and 3, *infra.* for further elaboration of this conclusion.



Chapter, Part I of this study will contain an analytical description of the empirical evidences of labor planning in Russia and in the war economies of the United States and Great Britain.

Part II will present a theoretical analysis of the impact of planning- "Socialist" and "Capitalist", as defined in Chapter one- on the labor market. It is proposed to analyze how planning will affect the basic functions of the labor market, namely, the allocation of labor among various occupations and the determination of wage rates. Since it is often claimed by the opponents of planning that planning and freedom are incompatible, the problem of freedom under planning will also receive our attention.

PART I  
CHAPTER ONE

ECONOMIC PLANNING

I

Meaning of Planning

Economic planning may be defined as "the conscious and deliberate choice of economic priorities by some public authority."<sup>1</sup> The choice must be in the social interest.

Since choice is the essence of economic activity because of scarcity of available resources, planning is sometimes taken as a synonym of all rational activities.<sup>2</sup> However, economic planning, as the term is used in this study, is more than a matter of choice; it is a conscious choice made by some public authority. This excludes such private planning as is involved in scientific management and rationalization of industry.

But not all government action or interference in the economic field implies planning. It is unfortunate that the term planning has been widely used in connection with the restrictionist policies of governments during the Great Depression. Often government intervention results from the

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<sup>1</sup>Barbara Wootton, Freedom Under Planning, 1945, p. 6.

<sup>2</sup>Lionel Robbins, Economic Planning and International Order, 1937, pp. 4,6, states that, "to plan is to act with purpose to choose, and choice is the essence of economic activity:" therefore every economic activity involves some degree of planning.

pressure of special economic interests to further their own advantage, despite loss to society as a whole. The New Deal measures to restrict farm production were of this nature. To call such measures planning would be to distort the social welfare character of planning.

Planning is also not an overall substitute for the price system. It is a deliberate coordination of economic activities through conscious efforts of public authority instead of the automatic coordination which takes place in the market; but the coordination is used only to the extent desired for some common purpose. In a dynamic economy, the presence of friction and the absence of perfect knowledge make it impossible for the price mechanism to secure the automatic adjustments described in the static analysis; and planning becomes necessary to supplement this mechanism.

What price indicates is the reaction of demand to changing supply including the demand for productive factors; what it fails to do, under dynamic conditions, is to regulate supplies in accordance with demand. By making a distinction between the active regulative function of the market and the passive index function, a neat division and interlocking of the pricing and planning principles is attained.<sup>3</sup>

## II

### Aims of Planning.

A plan without a purpose is a contradiction in terms. Economic planning is a tool which can be used for a variety of purposes.

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<sup>3</sup>Eduard Heimann, "Market Socialism and Business Cycle," Social Research, 1939, p. 101; also Carl Landauer, The Theory of National Economic Planning, 1946, Ch. I.

From a purely economic point of view, planning faces two major problems: full employment of available resources and their most economical use. Both are essential for an efficient economic system. In reality, however, the problem of mass unemployment and economic insecurity, with its grave social, political and human implications, has naturally given the full employment problem priority over the allocation problem, or the problem of efficient use of scarce resources. Moreover, in a dynamic economy, with continual changes in tastes and techniques, achievement of optimum allocation is out of the question. Wide spread monopolistic practices in a market economy are also a serious obstacle in its achievement. For a planned economy, therefore, one of the economic goals should be full employment with minimum waste of resources. Where a conflict occurs between full employment and optimum allocation, a compromise in the social interest, with due consideration of non-economic consequences of unemployment, will be necessary. This compromise may not produce maximum economic welfare in terms of goods and services.<sup>4</sup> If, however, one agrees with Professor Sydney Hook that "planning involves much more than perfecting a scheme by which production distribution and consumption can ultimately balance; it involves profound issues of social philosophy - of a way of social life with consequences for education, politics and all major

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<sup>4</sup>Cf. J. H. G. Pierson, Full Employment, 1941, p. 44f.

institutions,"<sup>5</sup> planning becomes a means to achieve new social goals. The state as a planning agent plays a fundamental role in determining the goals of planning, and the socio-political ideology of the governing party will exert a dominant influence upon outcome.

In modern warfare when market processes are found too slow to make the enormous adjustments required in production, and as reliance on these processes increases the danger of inflation and chaos, economic planning becomes a common device for effective mobilization of resources for the war effort. World War II witnessed comprehensive planning in all the major nations, both totalitarian and democratic. Even the Soviet Union had emphasized national defense as a major aim of the Five-Year-Plans. Thus war and national defense can also be aims of planning.

Of all the aims of planning, however, full employment is the most prominent today; and full employment will be considered the chief goal of planning in the present study.

### III

#### Types of Planning.

After the "Keynesian Revolution" in economic thought and the experience of planning during World War II, the belief in the ability of capitalism to plan for full employment with minimum disturbance to the prevailing institutions has been gaining ground. The Employment Act of

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<sup>5</sup>Planned Society Yesterday Today and Tomorrow, ed. Findlay Mackenzie, 1937, p. 664.

1946 in the United States and the White Paper on Employment Policy by Mr. Churchill's Government in 1945, are evidences of this belief.

Even modern socialists tend to restrict socialization to basic industries and to leave the rest of the economy in private hands; control through fiscal and monetary policies is considered adequate to maintain full employment and achieve other social goals without encroaching upon personal freedoms. The British Labor Government intends, at least for the present, to restrict nationalization to coal, power, transport and similar basic industries, accounting in the aggregate for only 20 percent of the total industrial wealth.<sup>6</sup> On the other hand, there<sup>are</sup> Soviet Russia and other nations of Eastern Europe dominated by Communists where the policy of nationalization has been followed much more rigorously. In Russia, practically all the means of production are owned by the state.<sup>7</sup>

For the purpose of our analysis of the problems of the labor market in a planned economy we shall distinguish two types of planning: Socialist or Collectivist planning, and Full Employment or Capitalist planning. Socialist planning implies complete state ownership of the means of production, while in Capitalist planning private enterprise is assumed to be the dominant form of economic organization. One hardly

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<sup>6</sup>Cf. World Report, Feb. 18, 1947, p. 14.

<sup>7</sup>Can capitalism plan? is discussed in the latter part of this chapter.

finds such clear cut distinctions in practice; but they will considerably simplify our analysis in this study, and will also aid in distinguishing the effects of state ownership, absence of property incomes and greater control in Socialist planning from those of private enterprise, existence of economic classes and indirect controls in Capitalist planning.

Socialist Planning. Socialism, like planning, is used to denote a wide variety of systems, ranging from anarchist syndicalism to state socialism and dictatorship of the proletariat, with all the different social, economic and political policies implied in them. For our purpose socialism may be defined as a system of communal ownership and operation of the means of production; production is no longer guided by the profit motive of individual entrepreneurs but by the state's desire to maximize social welfare.

There can be socialism without planning, at least theoretically;<sup>8</sup> but planning has been accepted as the method of economic organization in socialist systems, and it is often included in the definition of socialism itself. Nor is it necessary to have complete state ownership for socialism. Socialism means predominance of communal ownership. It is possible to have islands of capitalist industry under socialism.<sup>9</sup> As already mentioned, modern socialism in practice

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<sup>8</sup>It is possible to conceive a socialist system without a central direction of production, and where production managers are allowed to operate factories on a competitive basis in a market economy. A. P. Lerner in Economics of Control, 1944, envisages a "mixed economy" of this type.

<sup>9</sup>Cf. A. C. Pigou, Capitalism vs. Socialism, 1937, pp.3-4.

aims at such a mixed economy, particularly where there is a strong desire to maintain individual freedoms. But for the sake of simplification in our analysis it will be assumed that socialism implies complete state ownership. The existence of a private sector creates problems very similar to those of a full employment economy under Capitalist planning.<sup>10</sup>

The aim of socialism is maximum social welfare. This commonly includes reduction in economic inequality by abolition of property incomes, equal economic opportunity through free education and other means of self improvement.

There is no doubt remaining today as to the ability of a socialist system to plan rational allocation of resources, in theory at least. The heated controversy between the Hayek, Mises and Robbins school which denied any possibility for rational economic calculus under socialism and Taylor, Lange, Lerner et al who contested this contention has ended with the acceptance of the theoretical possibility of rational economic calculus under socialism.<sup>11</sup>

The libertarian socialist system allows for the freedoms of both consumers and labor. Freedom of labor implies free choice of occupations.

In the absence of private ownership and free markets the planning authority of a socialist state allocates resources

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<sup>10</sup>Communism, as distinct from Bolshevism of Russia commonly known as communism, is an ideal stage of Socialism where both production and consumption are socialized, that is, everyone will produce according to his ability and receive according to his needs.

<sup>11</sup>See C. D. Baldwin, Economic Planning Its Aims and Implications, 1942, Ch. 4B for an excellent review of the whole debate.



on the basis of predetermined accounting prices. These prices are treated by production managers in the same manner as if they were free market prices. The rules of operation of all plants are then : to produce until the marginal cost of output is equal to the selling price of its product, with total cost minimized. The selling price is determined by the principles of supply and demand in the consumer's market. At first the accounting prices are arbitrarily or historically determined, and they are adjusted by trial and error process, if there is any surplus or scarcity existing for any particular factor, until equilibrium is reached. A reduction in the price of a factor encourages its substitution for other more expensive factors, and vice versa. Of course, in a dynamic economy equilibrium is rarely reached, but the application of the above principles creates a constant tendency toward equilibrium and thus aids in securing rational allocation so far as it is practicable in this imperfect world.

The absence of a consumer's market will not affect this trial and error process. This means merely a substitution of the preferences of the planning authority for those of the consumers and the allocation of resources will be rational on the basis of these valuations. But as no authority can know what is best for all the citizens of the state, it will not be possible to achieve maximum social welfare, considered as the end of all economic activity by this method.

However, so far as the problem of capital accumulation is concerned, the planning authority will have to use its discretion in allocating resources between current and future consumption. This use of discretion in capital accumulation is sometimes considered a disadvantage to the socialist economy because of the danger of imposing undue hardship on the community by neglecting current consumption as in the Soviet Union. But it should be remembered that even in a free capitalist state the individual has no voice in the determination of the rate of investment. Not only the savings of business corporations plowing back their profits, and of other institutions like insurance companies supply the major share of the national savings, but also bank credits enable entrepreneurs to create producers' goods and thereby the real savings of the community.<sup>12</sup>

Capitalist Planning. Given the level of productivity, the level of employment is a function of the national income. Therefore, it may be possible to secure full employment and maintain it, if the national income or outlay is maintained at a level sufficient to remove from the market all goods and services produced by fully employed resources.

The national income is a function of the level of private consumption, private investment, public expenditure on goods and services, and the net balance of payment in foreign trade. The task of planning in a capitalist economy is to

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<sup>12</sup>The problem of economic calculation in a socialist state is discussed in detail in most of the books on socialist economics, a brief list of which is given in the bibliography.

control the aggregate level of outlay by influencing the above mentioned constituents of the national income. There is a prevalent belief that detailed production planning is unnecessary and the state can assure full employment by the use of three major weapons in its hands; they are fiscal policy, monetary measures and public expenditure. They are called in Mr. Lerner's words Functional Finance.<sup>13</sup>

The state, according to the proponents of Functional Finance, armed with these three weapons can maintain full employment in a variety of ways. It can influence consumption through social security and redistribution of income measures; it can encourage private investment through appropriate interest and tax policies; it can undertake public expenditures which create employment. The type of measures adopted will depend upon other social and economic objectives of the state besides full employment. Sir William Beveridge in his report on Full Employment in a Free Society, considers an attack on "the giant social evils of Want, Disease, Ignorance and Squalor" as the chief goal for Great Britain in maintaining full employment.<sup>14</sup>

The concept of full employment itself has serious implications for Capitalist planning. Therefore, it is necessary to define full employment before continuing the discussion of a full employment policy for a capitalist society.

<sup>13</sup>Economics of Control, Ch. 24.

<sup>14</sup>Page 31.

Numerous proposals for full employment policy have been put forward in recent years. But their detailed consideration is beyond the scope of this study. See Planning for Jobs, ed. Lyle Fitch and Horace Taylor, 1946, for a summary of a large number of proposals.

Full employment is essentially a statistical concept. It may be defined as the state of affairs where there is no involuntary unemployment, that is, where those able and willing to work at prevailing wages and conditions of employment are able to find jobs to which they are suited in a reasonable time. This does not mean that all are working at all times; the changes in tastes and techniques causing structural unemployment and seasonal unemployment are not ruled out in such an economy.<sup>15</sup> Hence, full employment is often defined in terms of vacancies available in relation to the number seeking jobs and the time required to find a job.<sup>16</sup>

The above definition is less ambitious than Beveridge's, which seeks "more jobs vacant than the number of men seeking jobs."<sup>17</sup> This objective envisages a sort of permanent over-employment situation, the stability of which can be seriously questioned except under a rigorously controlled economy which is incompatible with private enterprise and democracy.<sup>18</sup>

It is the threat of instability that has led many cautious writers to reduce the goal of full employment to a

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<sup>15</sup>It is usually assumed that unemployment of about 3 percent will prevail even in Full Employment Economy to take care of the workers' freedom of employment and structural and seasonal unemployment. J. M. Clark believes the rate will be between 3 and 5 percent, Financing American Prosperity, a Symposium of Economists, ed. P. T. Homan and F. Machlup, 1945, p. 72f.

<sup>16</sup>Ibid. p. 73f.

<sup>17</sup>Op. cit. p. 18

<sup>18</sup>Cf. D. B. Copland, Road to High Employment, 1946, p.66f.

vague high-level-of-employment concept which merely prohibits menacing proportions of unemployment endangering the very existence of the "democratic way of life."<sup>19</sup>

There is no doubt that a close correlation exists between the standard of full employment and the degree of needed government control of economic life. These differences in standards are at the root of the controversy concerning the efficacy of Functional Finance in maintaining full employment. For a high-level-of-employment, Functional Finance may be adequate without direct controls. Perhaps even for this goal, some measures to stimulate factor mobility, to prevent monopolies from sabotaging the program through inflation, and even a general price and wage policy may become essential. The measures necessary for a full employment policy will now be considered.

So far as a full employment policy is concerned, one tends to agree with Heimann and Halasi that "fiscal controls in a full employment program in themselves are far from guaranteeing the stability and durability of the industrial system as such, because the foundation of the system in supplies of labor, land, and natural resources is beyond the reach of such controls."<sup>20</sup> There is a general consensus that a synthesis of Functional Finance and some form of direct controls on investment, location of industry, foreign trade,

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<sup>19</sup>To mention only a few among these: Slichter, Copland and almost all who oppose planning but are realists enough to see the facts and to accept public works and such other measures as stop gap remedies.

<sup>20</sup>International Postwar Problems, Oct. 1945, p. 430.

and measures encouraging mobility of factors, reducing monopolistic practices etc. is essential for Capitalist planning.<sup>21</sup>

Carl Landauer believes that for stable full employment production planning is essential (if not inevitable!), and severely criticizes Functional Finance or "planless planning." He adopts a modified Ezekiel plan of industrial expansion. Under this plan, the planning authority enters into forward contracts with private firms for a certain level of output. If the market price fails to cover the cost at the level of output contracted for, the losses are reimbursed by the state. This is a part of the comprehensive production planning designed to assure full employment under a private enterprise system. Such planning also includes Functional Finance to maintain effective demand.<sup>22</sup>

For effective full employment planning, some estimates of the trend in the activity of the major elements of the economy are necessary. Such estimates form the basis of measures designed to assure full employment. Beveridge calls this a National Budget, which takes into account the total private outlay and determines how the gap will be filled to maintain full employment.<sup>23</sup> Of course such a budget must be highly flexible, since under present knowledge of statistical

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<sup>21</sup>See Beveridge, op. cit. p. 29f; also Economics of Full Employment, Oxford Inst. of Stat., p. 204f.

<sup>22</sup>The Theory of National Economic Planning, Ch. 2, and also p. 157f.

<sup>23</sup>Op. cit. p. 135f.

techniques and human behaviour the estimates cannot be very accurate.

Furthermore, if the state is using public works as a means to fill the gap in the total outlay, some long range planning of developmental undertakings is necessary to avoid the waste involved in emergency relief works programs. This planning becomes more important because of the danger of encroachment upon the private sphere of enterprise and the need of using means other than public works to maintain full employment in order to avoid such encroachments.

The question of the compatibility of planning with private enterprise is very crucial; because if the answer is in the negative, there can be no Full Employment planning which assumes the continuation of private enterprise in a planned economy. Then we would have only a socialist economy to consider for the study of the labor market under a planned economy.

#### IV

#### Compatibility of Planning and Private Enterprise.

Can capitalism plan? This has been the subject of a serious controversy in recent years. Curiously enough both the extreme Right and the extreme Left deny the possibility.

The socialists argue that economic planning to be effective implies control of the resources, and such control implies ownership. "Socialization and planning are inevitably connected."<sup>24</sup> If government plans are not governmentally

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<sup>24</sup>Barbara Wootton, Plan or NO Plan, 1935, p. 272.

executed they will either be sabotaged by vested interests, or wrecked by exploitation.<sup>25</sup> Planning under capitalism means a Fascist system.<sup>26</sup>

From the opposite camp also, come statements that planning and socialism are the same. Thus Lionel Robbins states that, "nothing but intellectual confusion can result from a failure to realize that planning and socialism are fundamentally the same."<sup>27</sup>

This identification of planning and socialism seems to arise more from personal prejudices than from rational thinking. Economic planning is a method of coordinating and directing economic activity while socialism is essentially a question of public ownership of the means of production. It is at least theoretically possible to have socialism without planning and a planned economy under capitalism.<sup>28</sup>

<sup>25</sup>Freedom Under Planning, p. 12; Mrs. Wootton, however, accepts the possibility of planning under capitalism and gives the war planning as an illustration.

<sup>26</sup>Hook, in Planned Society (ed. Mackenzie) p. 669.

<sup>27</sup>The Great Depression, 1934, p. 146; but it is much more surprising to find Mr. Baldwin, (Economic Planning, p. 30) say that the distinction between socialism and economic planning is based "at best on the shifting sand." After observing the use of economic planning in the fascist state of Germany and the war planning in the United States and Britain, it seems difficult to conclude that there can be no distinction between socialism and planning.

<sup>28</sup>Cf. Hugh Dalton, Practicable Socialism for Britain, 1935, p. 247; also Freedom Under Planning, p. 11. Of course, no one can deny that planning as a method, when employed, has important implications for political and other social aspects of the national life.



The contention that planning and private enterprise are incompatible may often be justified by the scope of the planning involved. If planning implies authoritative control of production, prices and allocation of resources, it is definitely not compatible with private ownership. Although legal ownership may remain in private hands, the substance of ownership is destroyed. Fascism is an example of this in practice.<sup>29</sup> Even if planning is undertaken on the basis of Functional Finance, investment controls and similar measures, there is danger that private enterprise which was willing to accept controls in wartime may rebel against such state interference in peacetime; and that the planners, in order to assure success, may extend the controls so far that it may be simpler to nationalize industries. Socialism, though not a logical necessity, may thus become an inevitable reality.<sup>30</sup>

The cooperation of private business in planning will depend upon national circumstances and business psychology. Perhaps planning will be more readily accepted in time of depression, when private enterprise faces the threat of complete extinction, with the social and economic disintegration brought about by mass unemployment. Similarly, the increasing acceptance of socialism and planning by many countries,

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<sup>29</sup>Cf. F. A. Hayek, Collectivist Economic Planning, 1935, p. 21.

<sup>30</sup>There are many theories, the most recent among which is Joseph Schumpeter's in Capitalism, Socialism and Democracy, which consider from the evolutionary point of view the advent of socialism inevitable. But we are not concerned with such prophecies, and assume that capitalist institutions may continue to exist under conditions of planned economy.

particularly in Europe, may induce capitalists to compromise upon some of the milder forms of control rather than to let socialism conquer.

In this connection we may note some of the proposals to bring recalcitrant employers into line. The most common proposal is to institute anti-monopoly measures, so that no single firm can by its monopoly power wreck a plan adopted in the national interest. Heimann suggests nationalization of big business which may be the most potential threat to planning. According to him, it is the dynamic field of capital formation and large scale production which is productive of crises. If this field of investment and large scale production is nationalized and the rest is left in private hands, Full Employment planning may have nothing to fear.<sup>31</sup> There is little danger of sabotage from small independent producers. If left alone, they may support such planning, since they suffer greatly from the menace of insecurity from economic fluctuations. They are the bulwark of democracy and are likely to prove an effective check against unnecessary encroachment upon the individual's freedoms. It is perhaps for this reason that libertarian socialists advocate, or do not see any objection to, small independent producers.<sup>32</sup>

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<sup>31</sup>Planned Society, op. cit. p. 895.

<sup>32</sup>Oscar Lange, "Economic Theory of Socialism," Review of Economic Studies. Vol. 4, 1936-37, p. 133; R. L. Hall, Economics of Socialist State, 1937, Ch. 8.

Sir William Beveridge does not consider socialization essential to planning, but advocates public ownership as the only cure for monopoly trends, instead of forcing unwanted competition. He also advocates state supervision and inspection of all business over a certain size, to prevent public exploitation by monopolies and trade associations.<sup>33</sup>

In general, one can conclude that socialization is not a logical necessity for planning, nor planning for socialism.<sup>34</sup> The problem of public ownership can be considered on its own merits. In such an approach there is likely to be a place for private enterprise even in a basically socialist economy. But private property is a social institution, and society may change or abolish it at will.<sup>35</sup> If private property impedes social progress or threatens its security, it will cease to exist. "The position of the owner in modern society is not an impregnable fortress from which a successful attack can be made to frustrate actions of the community."<sup>36</sup>

For purposes of this study we may assume that the cooperation of various groups is available for Full Employment planning. It is not very important to know what particular measures are taken to maintain full employment so long as we have full employment in a basically capitalist society. Our

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<sup>33</sup>Op. cit., pp. 204-6.

<sup>34</sup>Heimann, Planned Society, p. 705.

<sup>35</sup>F. H. Knight, Risk, Uncertainty and Profits, pp.359-360.

<sup>36</sup>Landauer, op. cit. p. 81.

main object is to analyze the impact of such Full Employment planning on the labor market and to discuss measures relating to the labor market required to maintain full employment.

## CHAPTER II

### LABOR UNDER SOVIET PLANNING

The student of labor under Soviet planning is confronted with many difficulties. There is an "iron curtain"-or a "smoke screen" of one's own creation-erected by ideological conflicts. There is a dearth of reliable information, as most writers seem to write with a predetermined purpose to condemn the system or to praise it as paradise on earth. Therefore, even if the student possesses the knowledge of the Russian language, he will not be satisfied as to the reliability of the sources of facts unless he takes the propaganda angle of the official information as data or gets an opportunity to find out facts himself.<sup>1</sup>

Before we consider the methods used in the Soviet Union to deal with the problems of the labor market, some attention should be given to the peculiar circumstances of that country which have influenced the Soviet labor policy.

#### I

Characteristics of Soviet Planning. First, it must be emphasized that the Russian system is not socialism as defined

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<sup>1</sup>The present writer, using secondary sources, can only assure the reader that he has tried to check facts from more than one source, and avoided all literature of purely propaganda nature, so far as it was possible.

in the previous chapter. Dr. Oscar Lange supports this contention when he says that

...the professed ideal of the Soviet Government is the achievement of socialism .... Socialism is conceived as a democracy which is economic as well as political and social. Socialist economy is unanimously conceived as democratic welfare economy. This is also the ideal of the Soviet regime. The actual Soviet economy, however, is not a democratic welfare economy. It is an authoritarian economy guided by political objectives.<sup>2</sup>

The main objectives of Soviet planning have been to make the Soviet Union a leading industrial nation of the world and to secure an effective basis for national defense.<sup>3</sup> The country was racing against time to industrialize; overfulfillment of plans became a virtue instead of an upset.<sup>4</sup>

This military objective caused the leaders to demand great sacrifices from a culturally and politically backward people, already exhausted by war and revolution. Such demands could not have been made except under a dictatorship.<sup>5</sup>

Because of ideological conflicts, there was little foreign aid available in the form of credit and technical personnel which Russia so badly needed to carry out her ambitious Five-Year Plans. During the First Five-Year Plan (1928-1932), the doctrinaire obsession of the new ruling class led to the persecution of the Kulaks and the technical

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<sup>2</sup>The Working Principles of the Soviet Economy, 1946, p.6; also A. Yugow, Russia's Economic Front for War and Peace, 1942, p. 239.

<sup>3</sup>Lange, op. cit., p. 7.

<sup>4</sup>Ibid, pp. 7 & 26.

<sup>5</sup>Yugow, op. cit., p. 255.

and managerial personnel of bourgeois origin when their cooperation was most needed.<sup>6</sup> Ideological suspicions prevented the Soviet Union from utilizing certain economic techniques long familiar to the Western World, which were later adopted under the pressure of circumstances. It was against such heavy odds that the Soviet Government tried to carry out its ambitious program of industrialization.<sup>7</sup>

Under the Soviet system, the Gosplan, the central planning authority, prepares detailed plans for output of all products in terms of physical quantities and money values, with the aid of local and regional units of production. Major policies are dictated by the Communist party through its resolutions and by State orders. The execution of the Five-Year Plans is supervised through state banks which control all credit to enterprises. Trade unions and Party cells supervise the personnel and production policies of each establishment. To prevent inefficiency, each establishment is required to maintain cost accounting and to cover costs fixed by the plan. Prices are also fixed by the plan and if profits arise, due to greater efficiency, a portion of them is retained within the establishment for the payment of bonuses to employees and similar pecuniary incentives. There is no relation between profits and output expansion nor are

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<sup>6</sup>G. S. Counts, Bolshevism, Fascism and Capitalism, 1932, pp. 40-42.

<sup>7</sup>L. E. Hubbard mentions some of the national characteristics of the Soviet <sup>Union</sup> inherited from the Czarist regime which influenced the Soviet labor policy. See Introduction of his book, Soviet Labor and Industry, 1942.

consumer's choices a guide to the planning of consumer goods. Thus the Soviet planning system bears little resemblance to Socialist planning as conceived in chapter one.<sup>8</sup>

## II

### Mobilization of Labor.

The enormous scale of the industrialization program launched under the Five-Year Plans created equally enormous problems of recruitment, allocation and vocational adaptation of labor. The magnitude of these problems is reflected in the growth of industrial employment during the planning period, 1928-1937. Total industrial employment increased from 12.2 million to 22.9 million between 1929 and 1932, the period of the First Five-Year Plan, and reached 27 million by 1937, the end of the Second Five-Year Plan.<sup>9</sup>

Russia with her large population did not lack manpower to meet her growing industrial needs. The total population of the U.S.S.R. was 154.8 million in 1929 and 170 million in 1939. This natural growth and the vast reserves of surplus labor in rural areas supplied the needs of industry. The rural population declined from 125.8 to 114 million during the same period, while the urban population gained 26 million.

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<sup>8</sup>See A. Baykov, The Development of the Soviet Economic System, for a detailed description of the Soviet planning system. It has been rightly claimed that the mere subsistence level of living in Russia makes consumers' choice not necessary, but as the standard of living rises the state will have to consider the choice of consumers in the planning of consumer goods.

<sup>9</sup>Baykov, op. cit., p. 342.



The First Five-Year Plan expected a moderate increase of 4.5 million in industrial employment. The supply of unskilled labor was deemed easily available; and the problem of training skilled labor received most attention. There were many unemployed persons in 1928 and these with migratory peasants, flowing into cities for employment, were expected to meet the demand. In fact, instead of 4.5 million there was an increase of 10.7 million in employment by 1932. This over-fulfillment of the plan was due to many reasons. The plan had overestimated the increase in productivity. The lack of adequately trained and experienced engineers and technical personnel, excessive labor turnover, absenteeism and poor labor discipline, and the failure to complete the mechanization program had impeded the growth of labor productivity. Therefore the managers, anxious to meet production targets, had employed more people.

The planners, anticipating no difficulties in labor recruitment, had left the task in the hands of the individual enterprises with a wage fund as the chief method of control. Until 1930, the unemployed and the influx of peasants from rural areas had provided an ample labor supply. The establishments recruited through employment exchanges or at the gates of the factories. Advertisements in newspapers were also commonly used. Each establishment provided training for workers on the job, or in apprentice schools. In 1930, however, the acute housing shortage and the difficulties of obtaining food in industrial areas dried up the inflow of

rural labor. The development of collective farms assured adequate food and living space to the peasants who, otherwise, would have moved to urban areas for employment. This created the paradoxical situation of a severe labor shortage of even unskilled labor while there was a huge labor surplus on the collective farms. It was estimated that as many as 20 million could have been released from the kolkhozes for industrial employment in the late thirties.<sup>10</sup>

The Soviet authorities became jubilant over their success in eliminating unemployment, while the capitalist countries were struggling with mass unemployment, and declared the victory of "Socialism" by abolishing unemployment benefits and employment exchanges, just at the time when efficient administrative machinery was urgently needed to mobilize and regulate manpower under tight labor market conditions. It was ordered that those on the books of the employment exchanges be allocated to any job available, regardless of their trades.<sup>11</sup>

The result of these measures was chaos in the labor market, with establishments poaching labor from one another

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<sup>10</sup>Yugow, op. cit., p. 182.

<sup>11</sup>Prof. B. L. Marcus (International Labor Review March 1936, p. 378) justifies this action on the ground that the exchange books did not contain "anything but a residue of fictitious unemployed who were neither genuinely in search of work nor willing to accept the employment that was constantly being offered to them," and that their continuance obstructed adjustment to new aspects of the supply problem of labor and adoption of new recruiting methods. These arguments are very unconvincing, if not ridiculous.

through offers of higher wages and better rations. The Labor Commissariat continued to register unemployed among skilled workers and specialists and offered them jobs; refusal of an offer was to result in removal of the name from the register and no employment for a definite period.<sup>12</sup> However, in practice, this threat was not operative, as the managers of establishments were ready to hire every available worker to maintain production.

In 1931, a new method of recruiting industrial labor from rural areas was introduced. The industrial combines made agreements with kolkhozes (collective farms) for the supply of a certain quota of labor for a prescribed minimum period. The kolkhozes met this obligation by volunteers where possible, and pressure when necessary. This meant encroachment upon the individuals' freedom of choice of occupation.<sup>13</sup> To supervise this recruitment, local and regional commissions were created. The commissioners estimated the surplus labor supply and approved applications for recruitment. Frequently, many enterprises competed for labor in the same province. Hence, in 1938 control of recruitment was centralized and the industrial combines were given monopoly for recruitment in certain provinces. This method, however, did not interfere with the free movement to industry on the part of individuals.<sup>14</sup>

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<sup>12</sup>Baykov, op. cit., p. 213.

<sup>13</sup>No writer clearly mentions that coercion was used but it is implied in the obligatory character of the agreement fulfillment.

<sup>14</sup>Hubbard, op. cit., p. 144.

It is evident that by the abolition of employment exchanges the Soviet Government lost an opportunity of building up an efficient machinery for recruitment and allocation of labor. It had to provide ultimately some centralized control of recruitment; at present the Ministry of Labor Reserves which controls recruitment, training and allocation of about 1.2 million youths a year (during the current Fourth Five-Year-Plan), provides such machinery to a limited extent.

### III

#### Allocation of Labor.

In the beginning of the Five-Year-Plans, with sufficient labor supply existing, recruitment was not a serious problem for Russia. But allocation of the available supply to meet both quantitative and qualitative needs of industry was an extremely difficult task. Not only was there a lack of skilled labor but also facilities for training it were inadequate, while the industrialization program increased the demand for skills immensely.

Individual choice and inducements through wage differentials were chiefly relied upon to secure distribution of labor among occupations and industries.<sup>15</sup> There has been no direct allocation of aggregate or individual labor, but the

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<sup>15</sup> Thus Mrs. Wootton (Plan or No Plan, p. 76) says, "It is clear that in Soviet economy as also elsewhere a worker finds his way into his particular job as the result of personal choice operating within certain limits and that economic calculation of the ordinary type plays and is expected to play its part in this choice."

state controls the power of establishments to hire through planned wage funds. This control has not been very effective in practice, because of the defects in wage planning.<sup>16</sup>

This method of labor allocation is not very effective when the structure of the economy is changing at a very rapid rate. It is not surprising, therefore, that this method should fail to effect adjustments in the Soviet labor market during the first Plan.

Direction of Labor. As a first measure in planned distribution of skilled and technical workers, the Commissar (Minister) of Labor was given power to transfer any worker to anywhere in the country without his consent. This meant abrogation of labor's right to protection against compulsory transfer, guaranteed in the Labor Code of 1922. This power was actually used in 1931 to recall to their old jobs former railway employees who had worked at any time during the previous five years on railways. Some writers consider this as an emergency measure.<sup>17</sup> Similar orders were issued to man the merchant marine a year after.

The second measure was an attempt to increase the supply of technicians and skilled workers through training on the job, in apprentice and factory trade schools, and in technical institutions. The Commissariats for various industries were in charge of this training program, and had authority to

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<sup>16</sup>This is discussed further in the section of wages.

<sup>17</sup>Joseph Freeman, The Soviet Worker, 1932, pp. 256-7; also Wootton, op. cit., p. 79.

assign graduating students to any job for at least three years.<sup>18</sup>

The quantitative results of this training program were very impressive. The universities turned out 540,000 technicians during the first two Five-Year Plans. The output of technical and vocational schools was about 914,000 specialists.<sup>19</sup> But this quantity was produced at the expense of quality, because of lower standards, shortened courses and inadequate teaching staff and facilities. Still there were not enough skilled workers to meet the needs of industry; as a result many jobs were filled with unqualified persons and both quality and productivity deteriorated greatly.

In 1934, a campaign to improve the skill of the existing workers through training and compulsory minimum technical examinations was launched. Emphasis on quality was stressed, and short cuts in training were abandoned in order to improve training standards. Versatility was encouraged to increase labor mobility.

In 1940, all training schemes were centralized under the Commissariat of Labor Reserves, as some industrial commissariats had not taken enough interest, while others were competing seriously in recruitment of students. This centralization was also expected to aid in effective distribution.<sup>20</sup>

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<sup>18</sup>M. R. Dobb, Soviet Planning and Labor, 1943, p. 98.

<sup>19</sup>Baykov, op. cit., p. 353.

<sup>20</sup>Cf. Hubbard, op. cit., p. 141.

At the same time, the Labor Reserve Scheme created three types of schools to train about one million youths a year. There have been about 1550 schools opened under this scheme, which, during the five years of the war, trained nearly 2.5 million workers.<sup>21</sup> During the Fourth Five-Year Plan, now in operation, this scheme will provide 4.5 million skilled workers, while another 6 million will be trained under other training schemes. Thus it seems the Soviet Union has now adequate facilities to provide all the skilled workers she needs, or will need.

One major defect in the Labor Reserve scheme is the conscription used in recruitment of youths of ages 14 to 17; another is the compulsory service of at least four years imposed, after graduation, at jobs anywhere in the country assigned by the Minister of Labor Reserves.<sup>22</sup>

An attempt to meet the demand for skilled and specialist labor by importation was not very successful because of political difficulties.

There have been instances of coercion in the allocation of labor. The most common illustration is the use of peasants and political suspects in lumber cutting and road and canal construction. Prison labor has also been employed not only in prisons but also in regular establishments. But there is no objection to making prisoners work. The only thing that prevents their use in the capitalist countries is the trade union

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<sup>21</sup>International Labor Review, Dec. 1945, pp. 691-2.

<sup>22</sup>Dobb, op. cit., p. 101.

fear that it will deprive a worker of his job. Thus without any objection by organized labor the belligerent countries were able to use all convict and war prisoners on useful jobs, as there was no fear of unemployment during the war.<sup>23</sup>

How far were these methods successful in adjusting supply and demand for labor? To answer this question we should consider labor productivity and utilization in the Soviet Union.

Effectiveness of the Allocation System. In this respect, we have already mentioned the low productivity, poor labor discipline, and other symptoms of the chaotic labor market.

In spite of the fact that wage differentials and individual choice were relied upon as the chief instrument of labor allocation among occupations and industries, the equalitarian philosophy of the Party prevented their effectiveness until the famous indictment of equalitarianism by Stalin in June 1931. This equalitarianism could be blamed for the shortage of skilled labor to some extent, although the major cause of the shortage was the phenomenal increase in the demand for such labor during the Plans.<sup>24</sup>

The treatment accorded to the technical and managerial personnel of bourgeois descent had severe repercussions on their morale and efficiency. Every intellectual was a

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<sup>23</sup>Mrs. Wootton states that in times of emergency the Red Army and the party members provide labor supply. These "black leggers" would be intolerable in capitalist society. (Op.cit. p. 80.) The main objection to prison labor is not so much due to the fact that prisoners are made to work but to the dictatorship which uses prisons to suppress all opposition. We are not concerned with this political aspect here.

<sup>24</sup>Cf. Abram Bergson, The Structure of Soviet Wages, 1944, p. 200.



potential saboteur, and titles like "specialist" or "bourgeois origin" were sufficient for arrest and exile without trial. This class was strongly discriminated against in rationing, housing and social insurance benefits. The frequent trials for industrial sabotage created panic among them. They were in frantic search for jobs without personal responsibilities; excessive turnover was the consequence. Stalin's speech of June, 1931, reversed the status of this class and their authority was gradually reestablished. This was an important step toward efficient management.

There were many reasons for the fluidity of labor, a few of which may be mentioned here. There was the rural character of the Russian worker unaccustomed to intensive factory work. Acute housing shortages and appalling living conditions led workers to move in search of better wages and living conditions. Mr. Hubbard also blames "the vagrant instinct of the Russian people" for this mobility.<sup>25</sup> The acute labor shortage made managers loath to lose any workers by disciplinary actions. Rapid promotions of managers from the rank and file and the time required to reestablish managerial authority, also contributed toward poor labor discipline.

The labor turnover reached such fantastic proportions that the Government was compelled to take drastic steps to prevent the collapse of the whole economy. Unemployment insurance was already abolished; other social insurance

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<sup>25</sup>Op. cit., p. 93.

benefits were made to vary with the length of employment in the same enterprise. Directors of enterprises were given the right to issue ration cards, and to control housing, with instructions to withdraw both these privileges from workers guilty of one day's absence without cause, voluntary quits or such other breach of labor discipline. In 1932, labor pass books were issued to control labor turnover and migration. But in practice most of these measures were "dead letter" as managers were not prepared to lose any labor in their anxiety to meet production targets.

The turnover rate began to decline after 1932, partly due to the above measures and partly due to improvement in living conditions. Still the rate was high. In 1938, the Government once again started an attack on this fluidity by introducing more drastic measures. Pass books were reintroduced, which contained the worker's employment record, including reasons for discharge and other penalties received in the past. The directors of establishments were threatened with punishment if they failed to dismiss workers for more than three absences in a month or four in two months. Vacation with pay was given after eleven months of service in the same establishment; previously it was allowed after five months.

In 1940, workers were prohibited from leaving a job without the manager's permission. Punishments for offences took the form of correctional labor at the regular place of employment with a reduced pay. There is little information

available regarding the operation of these laws, or regarding labor discipline during the war. But one can assume that the spirit of patriotism must have improved discipline under the duress of the heavy Nazi onslaught.

The Russian experiment cuts a very poor figure in manpower utilization. We have already considered the reasons for low productivity and bad discipline of Soviet labor. There were other factors also.

The first Plan introduced the most up to date machinery, while there was an acute shortage of skilled and experienced labor. Its operation by unqualified persons resulted in frequent breakdowns, tremendous wastage and poor quality of the product. In such circumstances the drive to fulfil the plan in four years instead of five only made the situation worse.

Furthermore, from 1929 on, a continuous work week was introduced to make full use of existing industrial capacity. The workers worked in three shifts, seven hours a day with every sixth day a holiday. This overworking of equipment, neglect of maintenance and impersonalization of work and family life (where both husband and wife were employed with no common holiday) resulted in greater waste, frequent stoppages and a discontented labor force. This also was stopped after the famous speech of Stalin in June, 1931.

Despite the general shortage of skilled and unskilled labor there was a common tendency to maintain surplus labor

in Russian industry which Mr. Hubbard attributes "to the old habit carried from serfdom days."<sup>26</sup> Mr. Yugow quotes many illustrations of this habit in his Russia's Economic Front for Peace and War and concludes that, "there is a tremendous excess of engineers, technicians and skilled and unskilled labor in many plants, which under an efficient system of organization could be utilized in those plants where an acute shortage of manpower and technical supervision exists."<sup>27</sup>

#### IV

##### Incentives.

Incentives, positive or negative, are the principal factor in human motivation for voluntary effort. Russia experimented widely to evolve a system of incentives which could reconcile her equalitarian philosophy with productivity. The end result was the discard of idealism and the acceptance of pecuniary incentives as the chief inducement for greater effort, improvement of skill by training, and for efficiency in general.<sup>28</sup>

During the twenties, the trend in the trade union movement was towards greater equality, through minimum wage differentials and relative improvement in the social and economic status of the unskilled worker. This resulted in a minimum of inequality in wage incomes by 1928. But this trend was reversed with the advent of the Five-Year-Plans;

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<sup>26</sup>Op. cit., p. 123.

<sup>27</sup>p. 182.

<sup>28</sup>Plan or NO Plan, p. 78f.

after the purge of Tomsky and other labor leaders who favored an equalitarian wage system, money differentials in wage rates became more pronounced. But the introduction of rationing, discrimination in favor of low paid groups, and the exorbitant prices charged by "commercial" shops had brought back equalitarianism through the back door. This equalitarianism was abolished gradually by increasing emphasis on piece rates, greater differentials in money wage rates and rise in the prices of rationed goods, until single price,-free markets were established in 1935. Thereafter money earnings became the dominating influence in the real income of workers.<sup>29</sup>

Collective incentives received most attention during the period of equalitarianism. For large masses of workers without industrial tradition, working strenuously on construction activities under miserable living conditions, "the collective social stimuli to raise production and the enthusiasm for producing and building not for the sake of direct, personal, material advantages but in the name of future productive possibilities was of tremendous importance!"<sup>30</sup>

"Socialist competition" is a kind of social incentive used in Russia; it refers to the efforts of workers to raise output, improve quality, to reduce waste and cost by competition between plants or groups in the plants. The workers

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<sup>29</sup>Cf. Dobb, op. cit., p. 61; also Baykov, op. cit., p. 355.

<sup>30</sup>Baykov, op. cit., p. 220.

participating in such competition are called "shock workers."<sup>31</sup>

As an incentive to reduction in (planned) cost, to encourage inventions and technological improvements, a "Director's fund" was established in each establishment in 1928 from the savings in planned costs. Bonuses were paid to outstanding employees and the balance of the fund was used for improving the living conditions of workers. In 1936, a single fund was created from the savings in costs, profits, and  $1\frac{1}{2}$  percent of the wage bill to be used for welfare and bonuses to the best workers.

After 1935, the "socialist competition" took a different shape when Stakhanov, a coal miner, increased his production many times by rationalization of the organization and method of work. His method was imitated extensively and Stakhanovism was born. It was Taylorism in another name.

This movement was immediately,

...exaggerated into a stunt. Factories vied with each other for record production, trained best men, put best machinery, smooth material flow etc., at their disposal on a given day and the worker performed prodigious feats which reacted to the glory and repute of his factory and its directors, but were of no positive value, since during the period of preparation and trial itself the rest of the work in the shop was apt to be neglected.<sup>32</sup>

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<sup>31</sup>See Baykov, op. cit., p. 223f, for detailed description of this competition. Mr. Hubbard considers this competition as speeding up at the expense of quality and abnormal wear and tear on machines. (Op. cit., p. 46).

<sup>32</sup>Hubbard, p. 79. M. Dobb also agrees that "the movement was not without weaknesses and exaggerations and in certain directions it even became something of a mania." (Op. cit., p. 75).

These social incentives were not without material advantage to the participants. The progressive piece rate system meant higher money incomes. But to the average worker this movement was a curse, as the achievements of the Stakhanovites under special conditions were imposed as norms for all workers and this meant loss of earnings. Gradually this mistake was realized and emphasis was put on layout, supervision, training for all workers; and special courses were given in Stakhanovism. Then the movement showed substantial results in productivity. The Second Five-Year plan was overfulfilled in respect of productivity.

Honors and titles are another form of social incentive in Soviet Russia. Such titles as "Hero of the Soviet Union," and "Hero of Soviet Labor," are awarded to individuals for outstanding achievements in any activity. These titles are not only moral appreciations but also bring material advantages in the form of life time pension, wage supplements, greater social insurance benefits, and tax exemptions. There are also Stalin prizes in cash for outstanding achievements.<sup>33</sup>

In general, pecuniary incentives predominate in Russia, although attempts are being made to foster social incentives.

Thus far, only positive incentives have been considered. But one cannot neglect the negative incentives in the form of punishment for violation of rules of labor discipline and other restrictive laws against labor mentioned

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<sup>33</sup>Bergson, op. cit., pp. 46-7.

previously.<sup>34</sup>

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Wages.<sup>35</sup>

Wages in Soviet Russia perform the same functions as in the laissez-faire capitalist system. Managers of Soviet industry are under pressure to minimize cost which includes wages. They enjoy freedom in hiring their workers so that they can select different skills in most economical proportions. This leads to an efficient allocation of labor. On the other hand wages as income induce workers to move to the place or occupation where their earnings are maximum. This tendency coupled with proper wage differentials results in a rational allocation of labor.

The planning of wages is a very difficult task. It must take into account the number of workers in each plant and industry, with their occupational wage rates, and it must provide for increase in productivity and rise in wages during the planning period. To maintain a balance in the supply and demand for various skills, both relative and absolute wage changes must be estimated. Furthermore, wages as purchasing power of the working class are directly related to

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<sup>34</sup>Mrs. Wootton mentions another incentive which is known in "polite language" as patriotism. It is a herd instinct commonly aroused by cries of common danger. Soviet authorities found "capitalist encirclement" an effective weapon to arouse mass emotions and to rally the masses to sacrifice without material rewards. (Plan or NO Plan, p. 215)

<sup>35</sup>This section is largely based on Bergson, The Structure of Soviet Wages, Ch. 11 & 12 and Baykov, The Soviet Economic System, Ch. 13 and 18; therefore, no direct sources are given in this section.



the production and pricing of wage goods, savings bank deposits, turnover taxes, state loans and other financial plans of the economy. All these things must be considered; otherwise the purchasing power in the hands of workers will not be adequate to clear the market of consumer goods.

"From each according to his ability and to each according to his work" is the Soviet principle of wage determination. The basic method of determining occupational wage rates can be briefly described as follows.

All workers are classified into four major categories: ordinary labor, apprentices, engineers and technicians, and salaried employees other than engineers and technicians. For every industry a separate wage scale is established for each of these categories. This wage scale is divided into wage classes or brackets, the number of which varies with industrial and occupational categories. For each class a basic wage rate is fixed. The following factors are considered in determining wage rates: training and skill required, responsibility, working conditions and strenuousness of work, and the exactness and complexity of the work required. The rates vary with changes in relative demand and supply of the particular type of labor. These factors are almost the same as those used in job evaluation methods of private firms in the capitalist countries.

There have been frequent changes in wage rates and the role played by trade unions in their determination. In the

twenties, the Central Committee of the Trade Unions determined the wage scales, classes and the highest and the lowest wage rates. These were formally approved by the Commissar for Industry. Within each industry, local unions and managers determined wage rates for each particular occupation within the limits set by the Central Committee. The manager of each enterprise was responsible for the occupational classification of each worker, subject to trade union check and arbitration in case of disagreement. Piece rates were encouraged even during this period of equalitarianism. Managers determined production standards in consultation with factory union committees.

During this period, trade unions dominated wage determination. The labor leaders used their power to reduce inequality as far as possible (discussed above in incentives). This made wage differentials very inadequate as incentive to training and transfer of labor for the immense task of the Five-Year Plans. Stalin came to the rescue by blaming equalitarianism for all evils prevailing in the labor market. Thereafter, money wage differentials increased and piece rates were emphasized. The wage rates rose more rapidly in heavy industry than in consumer goods industry as the former was expanding more rapidly, and therefore needed more labor.

The piece rate system was extended very rapidly, until, by 1937, nearly 75 percent of all workers were paid by piece rate. The most common type was the progressive piece rate system under which earnings increased at a much more rapid

rate than output after the norm was surpassed.

The role of trade unions in wage determination also changed. The Gosplan took over the function of determining and reviewing wage scales, classes and occupational rates. Setting standards also became a purely managerial function. After 1934, the system of signing agreements between unions and management was abolished. This was a sign of the decreasing role of trade unions in determining wages and conditions of work.

Baykov mentions many defects in the prewar wage-planning technique. Unnecessary differentiations in wage scales and classes were creating confusion. The bonus systems were arbitrary and of wide variety. Often, time rates for jobs were lower than piece rates, so workers were unwilling to take time rate jobs. Foremen and technicians sometimes found that their earnings were lower than those of skilled workers under their supervision. The wage fund could not accurately take into account premium bonuses; hence wage bills exceeded planned wages (i.e. wages provided in the plan of each industry) very frequently. The whole planning of wages was very general and liable to abuse in practice. The experts were giving much attention to these problems just before the war.

How far do money wages reflect the real income of workers? This is a mystery, since the Soviet authorities do not publish any statistics on the cost of living or prices. Moreover, the

importance of money wages has also varied in the course of the Soviet regime. During the twenties, free public utility services, education, housing, medical care, social insurance and a progressive income tax made differences in money wages unimportant. After 1928, rent on housing was introduced, but varied according to income and dependency status; charges for public utility services were also introduced. However, the beginning of rationing, the appalling shortage of consumer goods, and the exorbitant prices of the "commercial" shops brought back the equality of real income. The importance of money wages in the determination of real income increased after 1935, when free markets in consumer goods were established.

There have been some attempts to measure the changes in the real income of the Soviet worker. Michal Polanyi, in The Contempt of Freedom, and Collin Clark, in A Critique of Soviet Statistics, have made such attempts. The general opinion is that real wages had declined during the First Five-Year Plan mainly due to the agricultural famine of 1931, and the emphasis on basic industry at the expense of consumer goods. Conditions improved considerably during the second Plan, though the standard of living continued to be far below the Western standard.<sup>36</sup>

The Five-Year Plans had definitely proved a boon to the

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<sup>36</sup>For latest information on the Soviet standard of living the reader may refer to the Monthly Labor Review, July, 1947.

working class. Unemployment had been abolished, the number of family members at work had increased, and opportunities for advancement through free education or vocational training had improved greatly. Soviet workers had begun to reap the fruit of their heavy sacrifices when the Nazi invasion with its ruthless destruction seriously set the economy back.

## VI

### Trade Unions in Soviet Russia.

The role of trade unions as organizations of sellers of manpower will continue to be of importance in a socialist state; and perhaps they may even increase in importance because of the monopsony of the state in the labor market.

The changes in Soviet economic policy have considerably influenced the functions of Soviet trade unions. Lenin had clearly realized the danger that a bureaucratic management of socialism might lead to the exploitation of workers and, asked that trade unions should continue to promote the material welfare of workers and to protect their interests against faults of management. But this struggle was to be of peaceful nature as distinguished from the "class struggle" under capitalism.<sup>37</sup>

During the period of New Economic Policy in the twenties, Soviet trade unions assumed all the functions of trade unions in a capitalist society. The prominent part played by Soviet unions in wage determination has already been mentioned.

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<sup>37</sup>Swartz, "Trade Unions in USSR," International Postwar Problems, July 1945, p. 322.

It may be emphasized here again that unions cannot influence real wages so much in a socialist society as in a capitalist society. Real wages under Socialism depend on the total production of consumer goods planned, so even if the unions could determine the total wage bill through collective bargaining, it would be of little importance. But unions can influence the planning authority in the matter of determining the amount of consumer goods production relative to that of capital goods.<sup>38</sup>

The advent of the Five-Year Plans in 1928 brought a radical change in the functions of trade unions. Tomsky and other labor leaders who believed in Lenin's theory of unionism were purged. Soviet unions became an organ of the state fostering "socialist competition," improving production through encouragement of training, and enforcing labor discipline. From the worker's point of view, they were welfare and recreational agencies, which sometimes checked the abuses of bureaucracy. Since the unions performed many government functions, the Commissariat of Labor became superfluous and was finally abolished, adding the administration of social insurance and the labor code to the functions of the unions.<sup>39</sup>

Soviet trade unions are organized on an industrial basis,

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<sup>38</sup>The non-wage-earning group under Socialism, consisting of farmers only, is very small, whereas under capitalism there are other property and entrepreneurial incomes which could be "squeezed" by the unions.

<sup>39</sup>Cf. Edwin Smith, Organized Labor in the Soviet Union, p. 16.

and all employees of the industry, from managers to unskilled labor, belong to the same union. The intelligentsia have, of course, a special committee which is federated on the national basis.<sup>40</sup> Membership is not compulsory, but 85 percent of the industrial employees belong to the unions. The reason should be sought in the power of the unions as administrators of social insurance and other welfare programs, the economic value of which is far more important to the ordinary worker than the union dues he could save by exercising his right to refrain from joining.

In the late thirties, the union bureaucracy's neglect of worker's interests came under heavy fire from the Party and the State (if one cares to distinguish the two). But, as Dobb has pointed out, the trade union policy has been controlled by the Communist Party since the Tomsy purge.<sup>41</sup> Thus, in Russia, trade unions have ceased to play any significant independent role in labor policy. Therefore Soviet experience is of little value in the study of the role of trade unions in a planned economy.

## VII

### Conclusion.

Due to the peculiar political, economic and social conditions of Soveit Russia, one may wonder whether from her experience any generalizations can be made regarding labor under planning. We can only take cognizance of

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<sup>40</sup>M. R. Dobb, Soviet Economy and the War, 1943, p. 74.

<sup>41</sup>Ibid., p. 77.

certain development in the Soviet labor policy which may prove a useful guide to planners elsewhere.

There is a labor market in Russia, in the sense that the price mechanism is mainly relied upon to bring about relative adjustment in labor supply and demand. Production managers, enjoying freedom in hiring labor, and with only a loose control on the wage bill exercised by the Gosplan have often competed for labor by means of wage rates, terms of employment and privileges. Of course, there are many limitations on the free working of the labor market. The supply of various skills is influenced by the Labor Reserves and other training schemes, which prepare entrants to the labor market according to the needs of the Five-Year Plans. The Ministry of Labor Reserves also exercises the power of directing these trainees to jobs where they are bound to serve for at least three years.

Laws restricting excessive turnover of labor have at times hampered the free mobility of labor essential for the efficient working of the labor market. But these measures have been temporary.

The equalitarian philosophy of the communists in the twenties did not give free play to the allocation function of wages. When large scale changes were effected in the economic structure by the First Five-Year Plan, this defect in the wage structure caused chaos in the labor market. In 1931, Stalin's attack on equalitarianism brought about the desired change, and thereafter wage differentials became an important



instrument for guiding distribution of labor among various occupations.

Social incentives, like titles and medals and appeals to patriotism, though frequently employed, have not proved effective substitutes for pecuniary incentives. However, defenders of social incentives claim that one might expect a very different result in a well advanced community with a high standard of living. They point out that the low standard of living, and hardships imposed by the Plans, and the cultural backwardness of the people might be blamed for the failure of social incentives in Russia. This does not imply that it is possible to replace pecuniary incentives completely by social incentives, except by a revolution in human nature. In any case, planners, who intend to depend on social incentives as an alternative to the complicated and delicate task of planning wages, can learn an important lesson from the Soviet experience.

Freedom of Labor in Russia. Since freedom of labor under planning is one of the most controversial of subjects, and the Russian experience is frequently quoted to support the claim that conscription of labor is inevitable under planning, it may be desirable to discuss freedom of labor in the Soviet Union in detail.

By freedom of labor one means the right of a worker to choose his vocation and to accept or refuse a particular job if offered.

The Russian worker does in general enjoy freedom to choose his vocation or the place of his employment. There is no universal conscription of industrial labor. The best illustration of this fact is the embarrassingly high turnover rate that the Soviet planners had to face throughout the planning period. Even laws passed to curb this turnover have proved "dead letter", although they appeared most tyrannical on paper.<sup>42</sup>

Moreover, one can justly defend some of these measures restricting labor mobility and freedom of employment as inevitable in the emergency conditions resulting from far reaching structural changes in the economy. Whether such changes were necessary or desirable is entirely a different question, with which we are not concerned here. One may cite the example of wartime restrictions on labor in democratic countries to justify encroachments on labor's freedom in times of emergency.

The use of prison labor is another commonly cited illustration of labor's lack of freedom in Russia. But there is no ethical or legal objection to the productive employment of prisoners. Many countries cannot provide productive work for prisoners because of trade unions' fear of loss of jobs for their members.

If it can be proved that in a planned economy, persons are arrested only to provide labor for various economic activities, there will be no doubt that labor has been enslaved,

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<sup>42</sup>Cf. Hubbard, op. cit., p. 95.

and that planning is incompatible with freedom. Kravchenko in his book, I Chose Freedom, claims that the NKVD, the secret police in Russia, did make arrests to supply labor to war plants. But one may seriously question the objectivity of his observation.

There is a great deal of information available regarding labor camps in Siberia and other areas where prisoners are employed on a large scale. But here the objection is not to the employment of prisoners nor to the planned economy which makes use of their labor, but to the totalitarian method of ruthlessly eliminating all opposition elements. There is nothing<sup>in</sup> economic planning itself which requires labor camps.

Of course, it would be untrue to deny any encroachment on workers' freedom in Russia. The obligation of Kolkhozes to supply labor to industry by agreements, and the coercion employed to fulfil the obligation, involves restrictions on the individual's right to choose his employment. Similar coercion was common in recruiting youths for training in the Labor Reserves scheme; and the assignment of these youths to various jobs for three years by the Minister of Labor Reserves on completion of training was (and is) a denial of freedom of labor.

But against this, one must also consider the great opportunities for employment and promotion through free training opened by the Five-Year Plans. Full employment, by eliminating constant fear of unemployment, increases the freedom of labor.

Wage Determination in Russia. As already mentioned, Russia follows fundamentally the capitalist principle of determining wages according to productivity of labor. Of course, the elimination of profits and property incomes increases the importance of wages and salaries as bases of real income and reduces inequality.

Wages, as cost to employers and income to employees, continue to perform the function of allocation of labor; wage differentials are determined on the same principles of supply and demand as in the capitalist system.

However, in the determination of wages there is a significant difference. The Trade Union movement - being a part of the state and controlled by the Communist Party - has ceased to play any material role in determining wages. The planning authority determines the wage classification, scales and wage rates for each class. Whether or not this is inevitable under a planned economy is discussed later in Chapter five.

The role of the trade union in industry has changed. The union now functions as a part of the state, or employer, trying to enforce labor discipline, and to encourage productivity rather than to protect workers' interests.

In conclusion, one may only repeat that the peculiarities of the Russian situation require great caution in generalizations about the labor market under a planned economy. This experience also emphasizes the limitations

to a theoretical study of labor under planning, because differences in the characteristics and conditions of various nations are important factors in the organization of the labor market.

## CHAPTER THREE

### WAR MANPOWER PLANNING IN THE UNITED STATES AND GREAT BRITAIN

#### I

#### Total War and Planning.

Modern wars are no longer fought only on the battle fronts. They require total mobilization of all resources - men, material and moral. Hence, they are called total wars.

Time is the supreme factor in modern war. Therefore, industrial and manpower mobilization must be accomplished in the shortest possible time. The peacetime mechanism of market forces takes too long a time to meet this requirement. Thus planning for production and distribution becomes inevitable. "What is needed is a temporary wartime system of collective control over all economic activities."<sup>1</sup>

There are certain special characteristics of war planning. War planning has one purpose, namely, to win the war. There are no value considerations; "win the war at all cost" is the chief slogan, and the entire planning must be subservient to military considerations. It relies on the state's power of compulsion to enforce its decisions. It mobilizes all the instruments of propaganda to secure the support of

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<sup>1</sup>The Economist, July 12, 1941, p. 42.

the masses. Patriotism is its powerful ally and restrictions on freedom are willingly endured as temporary sacrifices. The major difficulties of war planning arise from the uncertainty of war duration, and the effect of rapidly changing war strategy on the production requirements. These uncertainties complicate the problem of converting industry to war production.<sup>2</sup>

Men, materials, money and morale were the sinews of the First World War. The financing of war, while always complicated, is not a limited factor if the resources in men and materials are available. Planning for manpower is far more complicated than that of materials and supplies. As Mr. Paul McNutt, the chairman of the War Manpower Commission, in his testimony before a congressional committee stated correctly when he said, "Manpower cannot be 'fixed' like prices. Manpower cannot be allocated, hauled around and stockpiled like materials. Manpower is the people of this Nation. Their part in waging this war from farms, factory benches, and shops had to be as democratic, as voluntary as possible."<sup>3</sup>

Manpower is perhaps one of the most serious bottlenecks in war. Therefore, it must be carefully allocated between the armed forces and industrial requirements so as to maximize the war effort. All labor reserves must be mobilized

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<sup>2</sup>Cf. Carl Landauer, Theory of National Economic Planning, p. 105 f.

<sup>3</sup>Federal Security Agency Appropriation Bill for 1945, Hearings, Pt. 3, p. 5.

to meet the enormous demands of the armed forces, war production and the maintenance of civilian economy. These reserves must be trained and where necessary retrained to provide specific skills needed by industry and the armed forces. In addition, manpower planning also includes the maximum utilization of labor and the elimination of such malpractices which affect the use and morale of labor.

Such planning must be flexible to adjust to changes in production according to changing military needs. To do all this an efficient well integrated administrative organization is essential. It will have to be provided with comprehensive information on the supply and demand for specific skills and areas for formulating the policies. Since manpower mobilization can be fully effective only if the policies are understood and supported, consultation with worker and employer representatives must be an integral part of the administrative process.

## II

### Mobilization of Manpower.

The experience of Great Britain and the United States in manpower mobilization during World War II throws considerable light on the labor market organization in a war economy.

The size of the labor force in peacetime is a function of the total population, age composition, social habits and the level (and distribution) of income. Prosperity has two



effects on this size; it increases labor demand at the same time, affords marginal labor to do without work. War reverses this trend in the supply of labor through compulsion and patriotic appeals, and accordingly the size of the labor force is substantially increased.<sup>4</sup>

This increase comes from various labor reserves found in all countries. First, there are unemployed who are found in every country in peacetime, their number depending on business conditions. Second, every year a new generation of workers enters the labor market for employment; its size depends on the rate of population growth, restrictions on the age of entry into industry, and custom. Third, disguised unemployment-people whose ability and skill are not fully utilized. Fourth, the curtailment of nonessential or less essential industries in wartime to conserve materials or manpower may also release large numbers for war work. Fifth, the largest and most important reserve of all consists of persons not in the labor force in normal times, namely, housewives, students, aged pensioners, and handicapped persons. Sixth, a nation can also import labor from foreign countries to meet its manpower needs. This also may be considered to include prisoners of war commonly used on agriculture, lumbering and similar activities.<sup>5</sup> The effective

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<sup>4</sup>C. T. Saunders, "Manpower Distribution 1939-45", Manchester School, May 1946, p. 11.

<sup>5</sup>ILO Series C No 23, Labor Supply and National Defense, p. 71.

supply of manpower can also be increased by extending the hours of work, although there are obvious limitations to this method. And finally, improvements in technology, in labor productivity and in general all measures which increase utilization also contribute to effective labor supply.

The extent to which these reserves will be mobilized will depend on the total labor supply already available relative to its demand. Thus the United States did not have to scrape the bottom of her manpower reserves, while Great Britain, on the other hand, had to mobilize more completely to meet her minimum needs. This relative stringency in manpower supply had considerable effect on the methods used for mobilization.

Sources of Manpower.<sup>6</sup> Britain had almost a stationary population of "working age" (Males 14-64 and females 14-59) throughout the war at about 32.1 million. Natural growth has no longer a reserve for her and she had to rely exclusively on the existing manpower to meet her needs for the war. Total gainfully occupied population increased from 18.5 million in mid-1939 to 22.3 million in September 1943, the peak of mobilization.<sup>7</sup>

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<sup>6</sup>All facts relating to manpower planning in Great Britain can be found in the issues of International Labor Reviews, ILO Series C Nos. 23 & 24, and Sir Godfrey Ince's article in Manchester School, Jan. 1946 on "The mobilization of manpower." Therefore, no individual sources are given. For additional sources see the Bibliography.

<sup>7</sup>This does not include persons over retirement age and in employment. Ince estimates this at about 1 million at the peak of mobilization, an increase of about 400,000 since 1939. (Op. cit., p. 33). Part time employed women are also included as half unit each. (Or two women counted as one.)

The first source of this increase came from the unemployed, the number of which declined from 1.3 to about .09 million in 1943. Additional 2.2 million came from housewives, and women outside the labor force. The balance came from men called up from the schools and from handicapped persons.

In the United States, the total population above age 14 was about 100.4 million in 1940 and increased at a rate of about .09 million per year, while the increase in the labor force was at a rate of about .7 million per annum. Total gainfully employed population increased from about 48.5 million in 1940, to about 65.6 million in the middle of 1944. Unemployed persons constituted the largest reserve. Unemployment declined from 8.4 million to 1 million during 1940-1944. The remaining 6.7 million came from women (housewives), students, retired<sup>men</sup> and invalids, ordinarily not in the labor force. Total employment of women, for example, increased by 3 million. The students of both sexes in the labor force constituted 2.8 million persons.<sup>8</sup> The rest of the increase comprised of persons above retirement age (who would have withdrawn from the labor force in peacetime), handicapped persons, and fringe groups, that is, persons casually

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<sup>8</sup>This includes about 1.5 million girls included in women. Thus only 1.5 women with household duties came in the labor force. About 1 million of the students continued studies while working, and part time workers are included as full units in the United States Statistics.

attached to the labor force.<sup>9</sup>

Manpower Mobilization Measures. The British Government did not find it necessary to interfere in the labor market processes at the beginning of the war. They worked smoothly as long as there was large unemployment reserve.

In September 1939, the National Service Act (I) was passed for the conscription of men between ages 18 and 40 for the armed forces. To protect the supply of critical skills for industry the Schedule of Reserved Occupations was prepared for the deferment of skilled workers.<sup>10</sup> By May 1940, unemployment had declined greatly and regional shortages of labor, particularly of skilled workers, developed. This led to labor pirating among employers, to excessive labor turnover and similar other symptoms of an uncontrolled tight labor market.

In May 1940, when the "Battle of Britain" was under way, to compensate for heavy material losses in France, long hours were resorted to. All vacations and holidays were cancelled; industry began working at top speed, 24 hours a day, seven days a week. Working weeks of 84 hours were not exceptional.<sup>11</sup>

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<sup>9</sup>Monthly Labor Review, "Sources of Wartime labor supply," August 1944, and Jan. 1945. Most of the facts relating to the U.S. are based on various issues of Manpower Review, (Employment Security Review before 1943). International Labor Review and Monthly Labor Review. Information regarding War Manpower Commission's organization and functions is taken from House Appropriation Committee, Hearings on Federal Security Agency Appropriation Bills of 1944, 1945, 1946.

<sup>10</sup>Allocation between the armed forces and industry is discussed in the next section.

<sup>11</sup>Frieda Wunderlich, British Labor and the War, 1941, p.43.

This continued until September 1940, when the Government recommended relaxation to prevent overstrain of workers which was endangering output. Thus the temporary expedient designed to increase production with the same number of workers was abolished and the 56 hour week and holidays were introduced.

In May 1940, to combat the malpractices of the labor market the Minister of Labor and National Service received wide powers to control the use of labor and to direct any person to perform any service for which he was capable, or to register and to give any particulars about him.

The Ministers' powers were extremely wide and covered for manpower purposes practically every aspect of the country's activities. So far as industry is concerned, they have provided the sanction behind the large scale movement of labor into the vital industries and the wide redistribution of labor that has taken place within those industries; but, owing to the cooperation and willingness of the citizens of this country to serve the nation in its hour of need it has only been necessary to invoke the powers to a limited extent and with great discretion.<sup>12</sup>

Before full mobilization could be undertaken accurate information about the available supply of skilled, professional and even unskilled labor was essential. First measure, for this purpose, was taken by voluntary registration of workers in various trades and professions (through their professional associations). For critical skills compulsory registrations were ordered and the transfer of workers in these trades to more essential activities was organized. Shipping, engineering and dock activities were included in this measure.

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<sup>12</sup>Ince, op. cit., p. 19.

The Government relied upon the patriotic response of the workers to facilitate transfers to more essential activities, and to overcome trade union resistance against the dilution of skills. It also appealed to unions to facilitate shortening of training time.

Indirect pressure was brought on non-essential activities to release men, through rationing of supplies and concentration of production orders. Employment exchanges were directed to refer labor only to essential jobs. However, the effectiveness of these voluntary measures was soon exhausted.

Registration for Employment Order in March 1941 started compulsory registration of women between ages 20 and 31 and of men aged between 40 and 50. This was extended until all women between ages 18 and 50 and men over 40 were registered. In the case of women, mothers with children under 14 were exempted.

These registrations were very useful in providing an accurate basis for estimating the total manpower available and also in discovering special skills. Registration was followed by interviews and the registrants were persuaded to take up jobs in essential activities. They were given choice of jobs, but the power of compulsion was applied, where necessary, subject to appeal.

In December 1941, the National Service Act (II) was passed, which introduced conscription of women of ages 20 to 31 for Women's Auxiliary Corps, Civil Defense, Land Army

and similar noncombat activities. This Act required every person to place his property, services and himself at the disposal of His Majesty; and authorized conscription for industrial employment of both sexes.

The compulsory service measures had several distinct advantages. It was universal. It brought into the labor market all those who were outside the labor force. It also provided direct control over employment and transfers. The voluntary system was, of course, not abolished. It continued to function and was quite effective since mere compulsory power was sufficient to induce recalcitrant persons to accept the decisions voluntarily.<sup>13</sup>

In the United States, comparatively large manpower resources made industrial conscription unnecessary and throughout the war the manpower program depended upon voluntary persuasion and indirect compulsion.

In September 1940, the Selective Act introduced compulsory registration and conscription of men for the armed forces. The Act specifically prohibited deferment by "occupational groups or groups of individuals in any plant or institution." The local draft boards, comprising of prominent citizens, were entrusted the task of drafting men for the armed forces. Little coordination existed between various manpower planning agencies until the end of 1942.<sup>14</sup>

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<sup>13</sup>Cf. ILO Series C No. 23, op. cit., p. 136 f.

<sup>14</sup>ILO Series C No 23, op. cit., p. 65.

In the case of industry, higher wages in more essential activities proved a powerful weapon to attract workers. The Government organized training for war jobs to facilitate labor mobility. In view of the large number of workers still unemployed at the beginning of the war, these methods worked effectively for some time. The War plants were able to attract a large part of this reserve through higher wages, overtime pay and steady work. At the close of 1941 the conversion of plants to War production and the curtailment of other civilian production through the shortage of materials further released labor supply for war work.

Long before unemployment had disappeared critical shortages of various skills began to be felt. This led to labor pirating, manpower hoarding, and similar devices characteristic of a tight labor market. The need for a well coordinated manpower planning program increased. Accordingly, the President established the War Manpower Commission by an Executive Order in April 1942 to undertake this task.

After the initial confusion caused by the dispersion of authority in manpower planning the War Manpower Commission (WMC hereafter) gradually succeeded in coordinating the policies of the several agencies engaged in the mobilization and allocation of manpower.

In the field of mobilization the United States Employment Service (USES hereafter) organized campaigns to recruit women for jobs in war plants in 9 areas of acute labor shortage. These campaigns were fairly successful, due to the



cooperation of various civic organizations. In response to an inquiry addressed to non working women, over 4 million had expressed willingness to take up jobs. Local employment offices interviewed many of them and placed them in war industry.

The occupational questionnaires of the Selective Service System were also of value in locating manpower employed in non-essential activities. These men were interviewed and persuaded to transfer to war jobs. The difficulties caused by seniority rights, long distances between work place and home and similar problems presented serious difficulties to such transfers. Hence the WMC and the Selective Service System issued a list of nondeferable activities to be applied even for men ~~with the~~ with the dependency status. This was effective in inducing many to transfer to war jobs. Such indirect compulsion, however, was abolished by the Congress in December 1943.

The USES also analyzed occupations to find suitable jobs for disabled persons. About 2 million such persons were placed in useful employment by the end of 1943. Selective placement of youths and the aged was also carried out successfully.

In February 1943, the President ordered the compulsory "48 hour minimum week" with overtime pay above 40 hours a week, in labor shortage areas, to relieve the shortage of labor supply. As the mobilization of manpower reached its peak, the task was becoming more and more difficult. The

clamor for national service legislation increased and the President asked the Congress to pass such a legislation in January 1944. However, it was never acted upon and the United States carried on its manpower mobilization without a compulsory work program.

The importation of foreign workers was also relied upon to augment labor supply. Thus 83,000 foreign workers were recruited under agreements with the governments of Mexico and West Indies for employment on railways and agriculture. In addition, the War Department allocated 64,000 prisoners of war for work in agricultural and non-agricultural employment.<sup>15</sup>

The task of mobilization is only the beginning of a more difficult and more important task of allocation and utilization which the manpower planners have to face.

### III

#### Allocation of Manpower.

There are two major aspects of the allocation problem. The allocation between the armed forces and industry, and allocation within industry. The main function of allocation is to maximize the war effort through an equitable distribution of the available manpower among various claimants.

The real difficulty in labor allocation arises because the armed forces exclusively claim men of the military age.

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<sup>15</sup>Monthly Labor Review, Jan. 1945, p. 910.

Men in this age group are also the most productive, and as to be expected are for the most part already in employment. In addition the heavy industries which employ primarily male workers are also expanding. Therefore, the withdrawals for the armed forces must be carefully planned and related to the replacement task for industry. In 1939, for example, the failure of the French mobilization program to consider this problem led to a 50 percent decline in industrial production.<sup>16</sup>

Even, where induction into the forces is gradual, measures to protect irreplaceable skills for war production is essential.

Allocation of Manpower between Industry and the Armed Forces.

Britain, learning from the experience of World War I, prepared the Schedule of Reserved Occupations in the beginning of 1939. This Schedule protected men in essential occupations from induction into the forces by prescribing a very low maximum age of conscription for these occupations.

Often, only new entrants were allowed to join the forces.

Voluntary enlistment which could disrupt production was not permitted. All men were registered under the National Service Act, and full details of their occupational history were collected. Those possessing essential skills, but unemployed, were permitted to join the forces only if the employment service failed to provide a suitable job in essential industries. The armed forces could ask for a waiver of deferment

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<sup>16</sup>ILO Series C. No. 23, op. cit., p. 18.

of men from the "reserved" occupations, if their skills were required in the forces. The Schedule was very flexible in operation and the age limits for various occupations were altered when necessary.

From January 1942 this block deferment system was gradually changed into individual deferment by gradually raising the age limits for all reserved occupations. The District Manpower Boards undertook the task of reviewing the deferment of each individual on his own merits. The employer could appeal for deferment, and the Board reviewed the justification of deferment with the aid of Labor Supply Inspectors. The utilization of available skill was checked and if any surplus was detected it was transferred to the shortage areas, or if a particular skill was no longer required for industry, persons possessing such skill were called up for the armed forces. This change in the method helped to secure greater utilization and better allocation of manpower.

Despite all these precautions the Government had to release some 30,000 men from the forces to return to essential work. The blame goes to the voluntary enlistment permitted before September 1939.<sup>17</sup>

For the effective control of this allocation task, the Minister of Labor and National Service was in charge of the military induction, as well as labor allocation for industry.

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<sup>17</sup>ILO Series C No. 23, p. 29

He was a member of the War Cabinet which determined the size of the armed forces and thereby influenced the manpower available for the industry.<sup>18</sup>

In the United States the Selective Service Act had specifically prohibited deferment by occupational groups. Each individual case was considered on its own merits and deferment was permitted only if he was already employed in essential work and possessed irreplaceable skill.

The local draft boards, which drafted men for the forces, were technically unqualified to pass judgment on essential occupations. There was inadequate coordination with the local employment offices, to aid in this task. Consequently, the draft boards, being suspicious of employers' motives, neglected occupational deferment or subordinated it to dependency status. This could be radically contrasted with the British practice where no dependency deferment was permitted, except in cases of undue hardships, and the National Service Officers worked in close cooperation with the employment exchanges.

The WMC issued a list of essential activities to guide the boards in occupational deferment; but the draft boards were not bound to follow it. Even when the Selective Service was brought under the control of the WMC, the latter could not direct the autonomous local boards. The boards were eager to meet the quotas for the forces, often losing sight of the effect of these withdrawals on war production.

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Cf. J. J. Corson, Manpower for Victory, 1943, pp. 218-9.

In December 1942, the President prohibited all voluntary enlistments to prevent the loss of needed skills in war production. Direct control was placed on the distribution of physicians, nurses and such other professional and skilled workers whose supply was very inelastic.

The WMC sought to secure greater coordination between the employment offices, District Manpower Directors and the draft boards. Manning Tables were devised to plan the induction of industrial workers in advance, giving opportunity to employers to recruit and train replacements. When the supply of labor in agriculture, copper and other non-ferrous mining, and lumbering was being depleted at a rapid rate, temporary deferment from military service was granted to all employees of these industries. This was one of the very few block-deferment practices in the United States.

Britain employed a more farsighted policy in protecting essential skills. <sup>than the United States</sup> This was perhaps due to the existence of large unemployment at the time the Selective Service Act was passed. The anxiousness of the legislators "to keep the fathers at home," was also an important factor. Even the individual deferment system could have worked more successfully, had there been a well coordinated administrative agency. As a whole the British System appears to have some advantages over individual deferment because it is very difficult to envisage at the beginning of war all the changes in industrial production, and the resultant changes in the demand

for various skills. Moreover, once mobilization is complete the change over to individual deferment aids in checking utilization, and leads to a more efficient distribution of the available skills. The block-reservation puts an automatic check on labor migrating to non-essential activities and encourages the reverse transfer.

Allocation of Manpower Within Industry. The aim of such allocation is to transfer labor to essential activities and to hold it there. This required occupational and regional mobility of labor from non-essential to essential activities and stabilization plans designed to reduce unnecessary turnover.<sup>19</sup>

In the initial period, Britain relied upon voluntary transfers and indirect inducements to secure the desired allocation.<sup>20</sup> The Schedule of Reserved Occupations, by promising deferment from the military service, induced many to transfer to vital activities. Even those, possessing essential skills, who were eligible for induction into the armed forces were permitted to transfer to essential work from the non-essential.

Dislocation unemployment caused by the loss of export markets (in coal and cotton industry for example), shipping

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<sup>19</sup>The question of training to facilitate occupational mobility is discussed in the next section.

<sup>20</sup>The International Labor Office publication War Time Transference of Labor in Great Britain, discusses the organization and methods of allocating labor among various activities comprehensively.

space difficulties, control of supplies, and the curtailment and concentration of non-essential production, forced labor to transfer to war industries. Employers, Unions and employment exchanges aided in this transfer.

The earnings in war industry increased more rapidly relative to those in non-essential activities due to longer hours, overtime pay and higher wage rates. This was a strong incentive to transfer. For example, weekly earnings in aircraft, ship building, engineering and similar industries engaged in war work increased by about 50 percent between October 1938 and January 1942, as compared with 20 to 30 percent rise in public utilities, paper, and printing industries.

The Unemployment Compensation Act was amended to include in "suitable employment," jobs of national importance; so that no benefit could be paid for six weeks, if a worker refused to accept a war job.

The Government appealed to the skilled workers to transfer to war activities, or to join training courses if their skill could not be utilized directly. But these methods were inadequate to solve the problems of acute labor shortages. The employers' tendency to hoard and pirate labor and the labor's tendency to shop around were seriously disrupting production. So a system of direct and controlled labor transfer was organized.

As prerequisites to direct transfers, employment controls were introduced. The Restriction on Engagement orders



prohibited hiring of labor, except through the employment exchanges. First, these orders were applied only to a few occupations and were extended, until all war work was covered. Hiring of agricultural and mining labor by other industries was also prohibited.

In order to stop unnecessary labor turnover in vital activities, Essential Work Orders were issued, restricting the employer's right to fire, except in cases of gross misconduct; and the employee's right to quit without the National Service Officers' permission was also restricted. These orders guaranteed weekly wages and working conditions as determined by collective agreements. The worker<sup>s</sup> had a right to appeal against the decision of the National Service officer. Nearly 8.75 million workers were covered under these orders by the end of 1944.<sup>21</sup>

From 1942 all employment of women, between ages 20 and 31, was put under the control of the employment exchanges.

The organization of direct transfers is impossible without a system of priorities. The Supply Departments supplied a list of production priorities to the local employment exchanges and Labor Supply Inspectors. But as the local supply of labor dwindled, and as the importance of transfers, regional as well as <sup>from</sup> less vital to more vital activities, increased, the coordination of transfer activities on a national scale became necessary. The Labor Supply Coordinating Committee of various departments at the national level

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<sup>21</sup>International Labor Review, December, 1944, p. 717.

prepared "Headquarters preference" lists to be followed by the local employment offices and by the regional authorities. For top priority, "bottleneck" lists of particular occupations were prepared from time to time.

For regional mobility purposes, the nation was divided into three types of areas; the "scarlet" areas, which must import labor to meet their requirements; the "red" areas were self sufficient; and the "green" areas showed surplus labor available for export. The "scarlet" and "green" areas were linked together for transfer purposes.

To minimize labor transfers, which cause considerable personal hardships, the location of industry was controlled on the basis of manpower supply.

Registrations - of particular trades and general - were of great service to the employment exchanges in locating the supply of workers in less vital activities, and persuade them to transfer to war jobs. If a worker refused he could be prosecuted. In spite of such prosecution threats, the transfer of ex-coalminers back to the pits was found extremely difficult owing to bad working conditions, and the Government had to direct conscripted youths to these mines.

The Labor Supply Inspectors checked manpower utilization in plants by inspection and they had power to order a release of any surplus labor found, which could be employed more effectively elsewhere. However, they had to face considerable resistance from workers and employers in this task.

The task of transferring women to other regions was extremely delicate because of the resistance of the relatives, and the public sensitiveness towards the treatment of the fair sex. All registrant women were classified into "mobile" and "immobile" groups. The latter included women with household responsibilities, and those employed in the exempt occupations like laundry and nursing. This classification of "immobile" women, that is, women not available for regional transfers, was narrowed down as the shortage of labor became more acute. Employers were persuaded to use married and old women on part time basis, and to release young women for vital work elsewhere. Compulsory withdrawals of women of the conscription age (20-31) were carried out, and these women were given the option to join vital war jobs or non combat activities like Women's Auxiliary Corps and Civil Defense.

About 7 million women had been interviewed for employment or transfer during the war. The policy of the Government was persuasion where possible, pressure if necessary and compulsion only if inevitable. The existence of compulsory powers brought out more voluntary cooperation making compulsion almost unnecessary, except in rare cases.

In the United States as in Britain during the early war period higher wages, overtime pay and steady work attracted workers to join the war industries. The conversion of plants from peacetime production to war effort also released labor

for war jobs. The average weekly earnings in the durable goods industries (mostly war work) increased by about 28 percent and the employment increased by 21 percent between September 1941 and September 1942, while in the non-durable goods industries (civilian production) the corresponding figures were 15 percent and 1 percent respectively.<sup>22</sup>

After the Spring of 1942 when unemployment had declined greatly, serious regional shortages, particularly of skilled labor, developed; and in the absence of government control, labor pirating, manpower hoarding, and similar abuses were practiced on a wide scale. Since there was no central administrative agency to take immediate steps, this confusion continued until the WMC received more powers, to tackle its task.

The USES was instructed to give priority to war industries in the placement of workers, according to the War Production Boards' priority list. It also tried to persuade men, eligible for conscription and working in non-essential activities, to transfer to war jobs. This persuasion was made more effective by issuing the "non-deferrable" activities list for the guidance of the local draft boards. This so-called "work-or fight" order had some effect on the transfer of workers from non-war to war work. But it applied only to men of the conscription age. Their transfer was of less importance because their induction into the armed forces later created once again the replacement problems.

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<sup>22</sup>Cf. Nicholls & Vieg, Wartime Government in Operation, 1943, p. 12.

The orders to curtail and concentrate non-essential production out of war centers augmented the badly needed labor supply in these centers. But one cannot say that this program was as successful in the United States as in Great Britain. There are no direct statistics available for the manpower released by this method; but the changes in the total employment of distribution trades, services and similar non-essential activities, <sup>give us some idea of this</sup> In Britain the employment declined by 50 percent (from 9.3 million to 6 million) between 1939 and 1944; Whereas in the United States it had remained almost constant. Only building industry lost 1.3 million workers.<sup>23</sup>

To stop labor pirating, voluntary employment stabilization agreements were signed by employers under the guidance of the Area Manpower Committees of Unions and Management. By these agreements, employers agreed not to accept other's employees without Certificates of Availability, - issued by the employer or the employment office. These agreements were not enforceable by law. But, the employment office refused to refer workers to the recalcitrant employer<sup>s</sup> and gave Certificates of Availability freely to his workers. Pressure was also brought through threats of withdrawing war contracts.

This voluntary system failed to maintain labor supply for the non-ferrous mining and lumbering industries. Workers

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<sup>23</sup>CF. S. E. Harris, Price and Related Controls, p. 294.

left to secure higher wages and better working conditions, elsewhere. Therefore, the "job-freeze" orders were issued, prohibiting the employees of these industries to leave without Certificates of Separation. Other industries were prohibited from employing these workers without such certificates. All employees of the above industries were temporarily deferred from the military service. Still, production continued to decline at an alarmingly rapid rate, because the USES did not have sufficient facilities to effect compliance of these orders. The problem was solved by the release of 4000 men from the armed forces. Similar "job-freeze" orders were issued for poultry, railroad and merchant marine workers.

To prevent excessive turnover through "shopping around" for jobs, the Executive Order in February 1943, authorized the WMC to prohibit hiring except through the employment offices or other approved agencies. This was applied at first to the areas of acute labor shortage; and only in July 1944 this order was extended to cover all the workers. The same order also prohibited employers from retaining employees more urgently needed elsewhere, and the WMC was given the authority to direct any worker to more essential job. If the worker refused to comply, he was fired and no one could employ him for sixty days.

Since war production was concentrated in the regions where facilities existed, the regional transfer was important in adjusting the supply and demand for labor. The WMC had divided the regions into four classes for this purpose;

group I areas requiring import of labor, group II areas anticipating shortage in six months, group III areas anticipating surplus in six months and group IV areas with surplus labor available for export. A system of inter-area clearing was developed. But there were no state provisions for the payment of traveling allowance as in Britain. Usually employers eager to hire agreed to pay the cost of importing workers. The WMC had also arranged for the recruitment of workers in Mexico and West Indies for railroads and agriculture, mostly.

The Bureau of Census estimates of the Inter-state migration between April 1940 and November 1943 are 3.5 million. This refers to net migration, that is, excess of in-migration over out-migration. (it will be reverse, in the case of the States losing population). So the total migration was probably greater than this. Professor Haber estimates total inter and intrastate migration at about 7 million during the war period.<sup>24</sup> This also seems to be a conservative estimate.

It is natural that such proportions of migration would cause serious problems of housing, transportation, and sanitation in the usually crowded industrial areas. The WMC had to tackle all these problems with the aid of other agencies.

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<sup>24</sup>Economic Reconstruction, (ed. S. E. Harris) 1945, op. cit., pp. 101-2.

The WMC had evolved a program for transferring workers to essential industries, but there was nothing like the Essential Work Orders of Britain to hold them there. An effective coordination between production and manpower planning at all levels was also lacking until the end of 1943.

The WMC had announced its intention to implement the "Hold-the-line" order by publishing a list of essential activities from which the workers could not leave for higher wages in less essential activities. But the furore of the trade unions led to its revocation. The unions were opposed to any form of "freezing on the job." So the WMC, as a compromise, fixed certain minimum standards of employment controls which must be included in the local stabilization agreements.

In 1944, an integration of the production planning with the manpower program was finally achieved. The War Production Board prohibited further war contracts in Group I areas where labor shortage was most acute. The local production urgency committees representing the WPB, Selective Service, Navy and War Departments, and the WMC determined priority ratings of various plants. The area manpower priority committees (representing the same agencies) advised the WMC on the priority referral and utilization programs.

In July 1944, the "priority referral program" came into force. All workers throughout the country could be hired only through the employment offices, which must follow the priority list in referring workers. No worker could be



referred to non-essential activities, except where he was unemployable for war jobs or could not be transferred to other regions owing to personal hardships. The penalty for non-compliance was, no benefits to the unemployed worker, and no referral service to the recalcitrant employer.

Employment ceilings were introduced in group I and II areas. Their function was to maintain the existing level of employment or to reduce it for transfers to other establishments.

These measures for allocation of manpower were not completely successful in achieving their aims. The Director of War Mobilization and Reconversion had stated that, although all possible measures under available powers had been utilized, the Government had failed to transfer workers to more essential, but less agreeable work, or transfer workers from the surplus to shortage areas, to prevent withdrawals from the labor force, to recruit workers from the non-working population or to prevent non-essential activities from hiring workers without approval or exceeding the established ceilings.<sup>25</sup>

#### IV

#### Vocational Adaptation of Labor.

Training is the best way of securing the vocation adaptation of labor to the needs of industry. Training is essential in war for many reasons, to prepare the entrants to the

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<sup>25</sup>International Labor Review, July, 1945, p. 64.

labor force for employment, to train existing workers for more skilled jobs, to retrain workers transferred from one occupation to another, to increase labor productivity, and to train supervision personnel.

A shortage of skilled labor begins to be felt from the beginning of a war because defense industries require a greater proportion of skilled and semi-skilled workers, and even the armed forces require a large variety of skills. Therefore, the manpower planners must plan very carefully all measures for increasing the supply of skills and for an effective use of the existing supply. The utilization measures are most important for the skills whose supply is inelastic, for example, physicians and engineers.

The peacetime method of training in apprentice schools and in technical institutions is too slow for war purposes. Still, by reducing the training time and shortening courses, such training can be made useful in long wars. Moreover, the facilities of vocational schools and technical institutions are useful for special preemployment and supplementary training (for upgrading). Both, the United States and Great Britain, had utilized such available facilities during the recent war.

To facilitate speedy training, job breakdown and dilution of skills are necessary. This cannot be done without union-management cooperation. The cooperation of unions can be a great asset in war. It can help in discovering rusted skills and in preventing labor hoarding or such other

malpractices of employers.<sup>26</sup>

Since the number of workers to be trained is very large, the government must take steps to open new, or expand the existing, training centers. It must solicit the cooperation of employers in expanding in-plant training. Usually employers are very reluctant to free equipment and experienced workers from current production for training. And the skilled workers available as instructors have no teaching experience; so they must be trained first, how to teach.

There is also a problem of the selection of trainees. Old prejudices against age, sex and color prevent the training of right persons. Often youths eligible for immediate induction are trained.

Training Schemes for War. In the United States, the defense training program was launched in the middle of 1940. At first, training was given to the unemployed on the Works Project Administration relief roll and to those referred by the USES. There were many independent agencies duplicating this training program. The U.S. Office of Education (through vocational schools), National Youth Administration and Civilian Conservation Camps provided out-plant training. The Apprenticeship Committee of the Department of Labor, and the Training Within Industry Division of the Office of Production Management helped employers to organize in-plant training. There was little coordination of their activities until the Bureau of Training

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<sup>26</sup>Union management consultation is discussed later in this chapter.

under the WMC was organized.

Most severe criticism had been aroused with respect to the vocational school training. There was no coordination between this type of training and the local industrial needs. The schools trained students in the trades for which facilities existed, irrespective of the local needs. Consequently, unnecessary migration was caused or the training was wasted. No training allowances were paid during the training period; hence, many left without completing their training to accept jobs as unskilled workers. Pre-employment training activities showed serious inadequacies in quality and Mr. Corson attributes the blame for this to, "the jungle of conflicting authority duplicating administration and lack of direction in which much of this activity has been carried on."<sup>27</sup>

Most of these defects were gradually corrected, and the increased importance of training-within-industry also helped in reducing much waste.

The defense training program was quite successful in providing skilled personnel. So far as quantity is concerned, more than 10 million had participated in various training schemes during the first four years of the war. About 6.2 million received training in the vocational schools, or in the training centers; 1.2 million were trained within industry; 2.5 million received food production training and 1.5 million participated in the managerial and engineering courses.

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<sup>27</sup>Manpower for Victory, p. 180 f.

Britain had also followed similar methods for war training. She used very extensively the training centers, provided for the training of unemployed in peacetime. These centers were organized on the factory style.

The main difference between the British and U. S. programs lay in the payment of training allowance, Britain paid training allowance equal to what the trainee could earn on production without training. For further encouragement the allowance was increased during the training period as the trainee passed periodical tests. There was no training allowance in the United States except for the National Youth Administration trainees.

## V

### Manpower Utilization.<sup>28</sup>

Manpower utilization is important for many reasons. It reduces the need for more labor which becomes increasingly difficult to secure as the mobilization of manpower approaches its peak. Manpower utilization is also important in maintaining the employees' morale. It has been proved that turnover, absenteeism and other symptoms of poor labor discipline are directly related to the waste of manpower. Moreover, it is criminal to impose unnecessary sacrifices on the people through forced migration to already overcrowded

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<sup>28</sup>See Manpower Review, October 1943, for detailed discussion of utilization problem in war with particular reference to U.S.A.

regions, if the task could be performed by greater utilization of the available manpower.

During the war when production is expanding at a very rapid rate, employers have a tendency to employ more labor to secure greater production. This tendency is strengthened by the growing labor shortage. Moreover, under "cost plus" war contracts there is no question of losses through unnecessary expense; on the contrary, the payment of profits as a percentage of cost makes higher cost profitable. It is, therefore, the task of manpower planning authorities to check the waste of manpower and secure its maximum utilization. There can be no effective and equitable allocation of manpower without its maximum utilization.

Mr. Paul McNutt describes two major functions of the utilization program; (1) to ensure maximum time on the job; (2) to ensure maximum effectiveness on the job.<sup>29</sup> Maximum time on the job implies maximum work week compatible with human capacity, and minimum loss of time due to turnover, absenteeism, accidents, sickness etc. It also includes the prevention of labor disputes.

For maximum effectiveness on the job, employers must rationalize the organization and method of work, improve personnel and employment policies to reduce discontent among their employees, and they must institute a scientific

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<sup>29</sup>Full Utilization of Manpower, The Committee on Military Affairs, Hearings, p. 956.

upgrading program through job breakdown and occupational analysis. Practices of discriminating against sex, color or creed, and labor hoarding must be prevented. The employer must plan in advance the recruitment and training of his employees for expansion or for the replacement of inductees to minimize disruption in production.

#### Manpower Utilization in the United States and Great Britain.

In the United States, the laissez-faire policy of the Government, in the beginning of the defense program, with respect to the labor market operation gave full scope to employers in hoarding and pirating labor. Labor started "shopping around" for higher wages. Strikes for union recognition and higher wages had reached a very high figure. The increased production tempo led to the neglect of safety. It was estimated that 16 million man-hours were lost every day through poor utilization of labor.<sup>30</sup>

Measures taken to check labor pirating, turnover, and such other malpractices through the employment stabilization program have already been discussed before.

To stop the discrimination of minority groups, and negroes the President established the Fair Employment Practices Committee to investigate discriminations in defense industries and the Government, where it was prohibited by the same Executive Order. Trade Unions, the acute labor shortage and

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<sup>30</sup>Manpower Review, October, 1943, p. 3.

patriotism were powerful allies of the Government in this program.<sup>31</sup> Britain had no such problem because of the homogeneity of her population.

Labor turnover and absenteeism increased very rapidly in the United States. In May 1943, Dr. William Haber stated that, "we have about 50 million civilian workers in the U.S. with the labor turnover averaging about 100 percent a year."<sup>32</sup>

The WMC tried to tackle this problem through its Manpower Utilization Bureau. Its Consultants approached the management of plants suffering from excessive turnover, absenteeism, production lag, serious accidents and threatened strikes, and offered to help find their causes. The main causes were defects in plant conditions, production procedures, personnel policies and out of plant factors like housing, transportation, recreation etc. Attempts were made to remove these defects as far as possible and considerable success was achieved in securing greater utilization of the man power.

There was nothing new in this utilization program. It only meant the application of sound management and industrial relation policies well known to industry, but forgotten in the haste of war expansion.

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<sup>31</sup>Cf. Corson, op. cit., p. 135 f.

<sup>32</sup>Federal Security Agency Appropriation Bill for 1944, Hearings, III, p. 39.



Britain had fully realized the significance of good welfare, working and living conditions in maintaining the worker's morale and labor discipline during the war. Special training courses for welfare officers of industry were started. For out-of-plant welfare problems, a special department was established within the Ministry of Labor in May 1940. Its regional and local staff supervised and aided civic organizations in solving housing, recreation, transport and health problems. The Essential Work Orders guaranteed weekly earnings, and working conditions as determined by collective agreements. Compulsory provision for hot meals in large factories at low cost, communal restaurants for transferred workers, lodging allowance for workers not able to transfer families and settlement allowance for workers moving with families, low cost travel to hometown twice a year were great assets in maintaining and improving the worker's morale.<sup>33</sup>

Strict employment controls prevented excessive turnover and absences. Workers could be prosecuted for unreasonable absences or quits. But such measures were used with great discretion.

For an effective manpower utilization within plants, Labor Supply Inspectors were appointed who visited plants to check under-utilization of labor, to prevent manpower hoarding and who had powers to secure the release of workers and

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<sup>33</sup>I.L.O. Ser. C, No. 24, Wartime Transference of Labor in Great Britain, Ch. 4.

to transfer them to more essential work. They performed the functions of the Manpower Utilization experts in the United States and had also powers to review an employer's demand for more labor or his application for an employee's deferment. In a sense they were the link between the manpower agencies and industry, supervising the execution of all manpower policies. They were not just trouble shooters for management in war production.<sup>34</sup>

Industrial Disputes. Another problem in manpower utilization is the prevention of labor disputes which interfere in war work.

In Great Britain, the Trade Union Congress and the British Employer's Confederation agreed to settle all disputes by peaceful means and in the last resort to accept the arbitration award of the National Arbitration Tribunal. In short, compulsory arbitration was accepted by both the parties.

The National Arbitration Tribunal comprised of 3 public members and 2 representatives nominated by the Minister of Labor from the panels submitted by the Trade Union Congress and the Employer's Confederation. All disputes must be notified to the Minister and if collective bargaining and other dispute settlement machinery agreed by the parties failed to settle such disputes the Minister at his discretion could submit the dispute to the Tribunal within 21 days.

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<sup>34</sup>Cf. E. H. Biddle, Manpower, A Summary of British Experience, p. 22, also ILO Series C No. 24 p. 149 f.

During this period all strikes were prohibited. The trade unions were encouraged to establish <sup>their</sup> own voluntary machinery to reduce the work of the Tribunal.

This machinery was fairly successful. Voluntary collective bargaining continued throughout the war. But the man-days lost as a result of strikes (most of which were unauthorized) were very small. The lowest point was reached in 1940 because of the grave war situation. Thereafter the number of days lost began to increase and reached an alarming proportion in 1944. The Government was forced to declare all strikes and lockouts in essential industries illegal and impose penalties on the strike leaders.<sup>35</sup> On the whole, loss to the war effort due to strikes was very negligible, which could be easily tolerated as the price of freedom.

In the United States the reality of the War brought a "no strike no lockout" pledge from the unions and industry. The President established the National War Labor Board (NWLB hereafter) to settle disputes not settled by the Conciliation Service and certified by the Secretary of Labor, or those taken up on its own motion.

The NWLB could use mediation, <sup>and</sup> voluntary arbitration in settling a dispute. It could also give an award which, however, the Board had no power to enforce, but it relied upon the President's powers to seize plants to enforce it.

The War Disputes Act of 1943 strengthened the powers of

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<sup>35</sup>International Labor Review, Aug. 1944. p. 222.

the NWIB; it prohibited strikes without a secret ballot vote of members and a 30 day cooling off period. It also prohibited work stoppages in the plants operated by the Government. This Act had little effect on reducing strikes.<sup>36</sup>

The National unions were faithful to their pledge but "wild cat" strikes often broke out. The total amount of working time lost by strikes amounted to only .11 percent of the total during the World War II.<sup>37</sup> This measures the success of the dispute settlement machinery; of course patriotism would account for a much larger share of this success.<sup>38</sup>

## VI

### Wage Policy.

In wartime the supply of consumer's goods remains constant or declines to the minimum essential for war effort; while the purchasing power in consumer's hands increases with increase in employment, rise in wage rates, overtime etc. If this increased purchasing power is spent, it will only raise prices and profits without increasing real wages. "For this reason, a demand on the part of trade unions for an increase in money rates of wages for every increase in

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<sup>36</sup>Davis, National War Agencies Appropriation Bill Hearing, Bill 1945, p. 262.

<sup>37</sup>Monthly Labor Review, May '46, p. 720.

<sup>38</sup>Detailed consideration of dispute settlement machinery is beyond the scope of this study. See H. W. Metz, The Labor Policy of the Federal Government, 1945, for a critical discussion of this problem.

the cost of living is futile, and greatly to the disadvantage of the working class."<sup>39</sup>

In such conditions, the tendency for money wage rates to rise is very strong because of the increased bargaining power of trade unions, willingness of employers with "cost plus percentage" contracts to pay higher wages to prevent strikes and attract more labor, and speculative rises in the cost of living. Therefore, some form of government intervention becomes inevitable, unless the trade unions show great restraint in wage demands.

This does not mean wage increases are not at all justified during a war. It is essential that labor's equity in the national income should be maintained. Mr. Harris objects to increases in wage rates as threatening stabilization program.<sup>40</sup> However, labor is justified in securing wage rate increases to compensate for a rise in the cost of living, as a means of increasing its share in the national debt, although such increases may be of little importance so far as the immediate increase in real income is concerned. It is a question of maintaining a balance in the sacrifices of various groups. The government should be able to freeze temporarily such purchasing power through various other measures.

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<sup>39</sup>J. M. Keynes, How to Pay For The War, 1940, pp. 6-7. Keynes suggested freezing of the cost of living and compulsory saving plan to withdraw the purchasing power from the workers. This purchasing power could be made available in the post war period. But the trade union opposition was too strong for the British adoption of such a plan.

<sup>40</sup>Economic Reconstruction, pp. 67-8.

Wage rate increases may also be necessary to encourage the mobility of labor from non-essential to essential industry, where no direct allocation through controls is practiced. Even where compulsory transfer is resorted to, transfers from high wage to low wage jobs is extremely difficult without wage adjustments. It is this reason which compelled the British Government to raise the wage rates in coal mining and agriculture substantially.<sup>41</sup>

Labor is also justified in demanding higher wages, if employers are allowed to make excessive profits in war. This makes a just profit policy a part of the national wage policy.

The British Wage Policy. In Great Britain, the Coalition Government was unwilling to interfere in collective bargaining by freezing wages. It only provided a compulsory arbitration tribunal to settle labor disputes. But strong measures were taken to stabilize the cost of living through strict rationing, price control and subsidies on the key items of the worker's family budget. This policy was highly successful as can be seen from the behavior of the cost of living index which rose by 28 percent between September 1939 and April 1941 but remained constant at that level, thereafter, throughout the war. This index was based on a very old family budget enquiry and hence was not a reliable indicator of the worker's cost of living. The probable increase

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<sup>41</sup>ILO Series C No. 24, p. 104 f.

was about 40 percent according to the Oxford Survey.<sup>42</sup>

In the first five years of the war, wage rates increased by about 38 percent; while weekly earnings increased by about 76 percent. The higher increase in the latter was due to piece rates and output bonus, overtime pay, night shift allowance etc.<sup>43</sup>

Wage Policy in the United States. In the United States, wage rates increased rapidly in the beginning of the war. In April 1942, therefore, the President ordered the NWLB to stabilize them, with due consideration for the correction of gross inequalities and inequities, and for the elimination of substandard wages. In July 1942, the Little Steel Formula was announced as a policy to guide wage increases. According to this formula a 15 percent rise was permissible above the January 1941 level as a compensation for the equivalent increase in the cost of living between January 1941 and May 1942.

A more comprehensive policy was established after the Economic Stabilization Act of October 1942, requiring the stabilization of wages as of September 15 of the same year. An Executive order prohibited wage increases without the approval of the NWLB.

In April 1943, the "Hold the Line" order, prohibited

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<sup>42</sup>Labor and Industry in Britain, July 1944, p. 109 n.

<sup>43</sup>Monthly Labor Review, Nov. 1945, p. 1000.

wage increases which affected prices or were designed to poach labor from essential to non-essential industries.

The NWLB prepared a bracket system of wage rates for various occupations based on the survey of "going wage rates" for key occupations in the various labor markets. Wage adjustments up to the minimum rates of the brackets were allowed in order to remove intra-plant and inter-plant maladjustments. Only in exceptional cases the maximum rates of the brackets were permitted.

For a general wage increase the Little Steel Formula was adhered to. In substandard cases, an increase up to 40 cents an hour without permission, and to 50 cents an hour with permission, was allowed.

Wage incentive plans were approved if they could secure increased productivity and without a rise in the unit cost or a demand for price relief, and they must aid in the war effort.

Thus, the United States which hesitated to employ strict controls on employment went quite far in the control of wages. Britain did just the reverse. In the former, urban wage rates increased by about 32 percent between January 1941 and April 1945. (The rate of increase was 17 percent in the pre-stabilization period and 13 percent in the stabilization period). The weekly earnings increased by 77 percent. (46 percent and 21 percent respectively in the two periods).



The wage rate increase includes merit increases, individual wage adjustment and incentive earnings.<sup>44</sup>

In spite of the great difference in the wage policies of Great Britain and the United States, the relative wage increases were remarkably similar. This might be explained by the differences in the structure and growth of the labor movements, in the union-management relationships, and in the political conditions. The British trade union movement is well coordinated and is socially conscious with the wisdom of the age behind it. It also had political responsibilities as the chief supporter of the Labor Party participating in the Government during the war. The gravity of the national emergency had also its repercussions on the trade union behavior. Long collective bargaining tradition ensured union security. While in the U.S. the infancy of the labor movement, legally imposed collective bargaining on still hostile employers and the rivalry within the trade union leadership made voluntary restraint difficult.

## VII

### Administrative Machinery.

In this section a brief description of the organization of the manpower administration with particular reference to the role of union-management consultation will be considered.

A central administrative authority in charge of the formulation, coordination and the execution of a manpower

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<sup>44</sup>Monthly Labor Review, Sept. 1945, p. 519 f.

planning program is indispensable. There should also exist a network of employment exchanges to carry out the program, and a well integrated regional machinery to supervise the execution of policies.

Britain had already such a machinery in the Ministry of labor with its regional directors and employment exchanges. Some adjustments were necessary for interdepartmental coordination, and additional machinery was built around the employment exchanges to carry out some policies, for example, District Manpower Boards, National Service Officers, and Labor Supply Inspectors.

At regional levels the manpower directors worked with the coordinating committee of unions, industry, and the supply, transport and housing departments to supervise and coordinate local activities.<sup>45</sup>

In the United States there has been a tendency to strip the Department of Labor of its various functions by establishment of new agencies. Many more agencies came into existence under the defense program, all of which worked independently creating confusion and chaos in the labor market. The Select Committee of the House of Representatives Investigating the National Defense Migration in its scathing criticism of these chaoting conditions lists War Manpower Commission, War Labor Board, Selective Service Administration, Labor Production Division and Labor Requirements

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<sup>45</sup>See Biddle, op. cit., p. 16 f; also Series C No. 24 for detailed description. Such description falls beyond the scope of this study.

Committee of the War Production Board, the Civilian Personnel Division of the Army's Services of Supply,<sup>the</sup> USES as having conflicting jurisdictions in the manpower field.<sup>46</sup>

The WMC, with its inadequate powers, could not coordinate the activities of all these agencies until the beginning of 1943. The Select Committee deplored that the WMC had deteriorated, to a subordinate agency operating the employment service instead of formulating policies, and coordinating all activities relating to manpower. By 1943, the powers of the WMC had been increased, and the Selective Service System came under its control. However, one cannot say that an effective coordination with other departments, for example, with the Chief of Staffs and the War Production Board, had been achieved until when the peak of mobilization had been reached. The Federal-State relationships had also created certain difficulties in regional and local coordination.<sup>47</sup>

The application of democratic processes to ~~war~~ time economic planning is based on the consultation of unions and management in the formulation of production and manpower policies. Both the United States and Britain developed such consultation machinery at national, regional and local levels. The WMC appointed Labor Management Policy Committee representing labor, industry and agriculture. It was only an

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<sup>46</sup>Oct. 1942  
6th Interim Report, p. 5.

<sup>47</sup>See Corson, Manpower for Victory, ch. 8; and also the testimony of Governor McNutt and others in the Appropriation Bill 1944, Hearings, for a detailed description.

advisory body and its members represented the views of their respective organizations. The Committee had also a semi-judicial function of advising the chairman of the WMC on appeals of employers or workers against the WMC's actions. It also enjoyed the privilege of access to all the WMC's records and the services of its staff.

In Great Britain the Joint Advisory Council of 30 members and the Joint Consultative Council of 14 members, (for more frequent consultation) representing the Trade Union Congress and the British Employer's Confederation equally, were appointed by the Minister of Labor. Their function was to advise the Minister on matters of policy and its execution. They were the mouthpiece of all labor and industry. But they enjoyed less privileges and had less functions than the committee in the United States.

But the union-employer representatives played more important roles at the regional level and in production planning in Great Britain than in the United States.

At the local level the voluntary character of the U.S. manpower program made manpower committees of unions and management very important in securing action through moral pressure. They also worked as appeal boards and advised the USES and the area manpower directors in solving local problems. In Britain these committees were only

advisory and acted as liaison between the manpower agencies and industry.<sup>48</sup>

A brief mention should also be made of the role of trade unions and management in the settlement of disputes machinery. The British Arbitration Tribunal comprised of 3 public members, and one representative each, from the panel of names submitted by the Trade Union Congress and the British Employer's Confederation, appointed by the Minister of Labor. At the local level also the unions and the employers had representatives along with a lawyer on the appeal boards, to hear complaints against actions under the manpower program.

In the United States, the National War Labor Board had nine members representing equally labor, management and the public. But it also had an administrative function of wage control besides settlement of disputes by mediation, voluntary arbitration or award. This was criticised as causing confusion in the settlement machinery, because the functions of arbitrators and mediators differ widely and should not be entrusted to the same personnel in the same dispute. The local appeals were handled by the manpower committees of unions and employers as in Britain.

## VIII

### Conclusion.

The experience of war manpower planning will provide a

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<sup>48</sup>An excellent discussion of this subject can be found in International Labor Review Oct. 1945, "Wartime Methods of Labor Management Consultation in U.S.A. and Great Britain."

very useful guide to the planners in peacetime. It throws significant light on the many issues which are being raised in relation to labor under a planned economy.

War has provided the first empirical evidence vindicating the Keynesian theory of full employment. As Beveridge has shown, war proved a great boon to the millions of unemployed in the U.S. and Britain by assuring full employment outlay through deficit spending. The proponents of Full Employment Planning received a great fillip from the war experience, as to the practicability of their thesis.

In the sphere of labor planning the importance of a well organized labor market with the system of efficient employment exchanges as its nucleus has become evident. The war experience also reflects the need for information about changes in the market conditions, both current and expected, to form the basis of the planners' actions.

Despite the fact that the war involved an overemployment situation and immense changes in the structure of manpower distribution in a very short period, there was no conscription of labor or general job freezing employed in the U.S. Even in Britain, the Government made the maximum use of persuasion and voluntary inducements within the legal framework of comprehensive conscription and allocation powers.

The use of greater control of labor in Britain can be explained by the serious threat of invasion and the need for more complete mobilization because of inadequate manpower. The acceptance of such restrictions by the trade union movement

was made possible by the realization of national emergency, and the presence of the Labor Party in the Government.

Therefore, in a full employment economy, where there are no immense structural changes taking place, it is not impossible to bring about necessary adjustments in the distribution of manpower without direction or compulsion. Of course this will require the will of a democratic government to evolve a system of economic incentives and voluntary persuasion to effect the desired allocation of labor.

This brings us to the problem of economic incentives. Patriotism was one of the most powerful weapons in the hands of the government, with which it could invoke voluntary effort of the people in the most strenuous and hazardous tasks without any reward in material terms. Of course social recognition in the form of medals and titles played its role also, as a means of psychological satisfaction. But it was the presence of a common enemy menacing national security which lighted the fire of patriotism in the masses. The planners of full employment can not arouse such spirit permanently; nor is it possible to have the whole community live in such high emotional tension for prolonged periods without grave social and psychological consequences on the individual personality.

Despite the willing sacrifices of the people in the name of patriotism, pecuniary incentives did not lose significance in human behavior. Thus England could not secure

adequate manpower for coal mines and agriculture by appeals to the patriotic motive and by the compulsory direction of labor. The wage rates had to be raised to make the acceptance of jobs in these industries more attractive. In the United States, although strict wage control was in force, a loophole in the form of piece rates and premiums on production was allowed and extensively used to increase the worker's earnings. The overtime pay after forty hours a week also served the same purpose.

The necessity of a correct relative wage structure as a stimuli to the proper manpower distribution was not neglected in war manpower planning.

It is extremely interesting to note that Britain, which employed rigorous controls on the employment of labor, had no controls on wages; while the United States hesitating in the use of compulsion in the direction of labor imposed vigorous controls on wages almost from the beginning of manpower planning for the war.

One may explain the success of voluntary restraint of the British Labor Movement in wages by its trust in the Government, the general acceptance of collective bargaining as a permanent institution by employers, and the gravity of the national emergency. This sense of social responsibility in the Labor Movement will be of tremendous value to the planners in peacetime.



In the U.S., the immaturity and disunity of the labor movement and the hostile employer's pressure were probably responsible for a comprehensive wage control policy.

This difference in the American and British wage policies may be used to support the recent thesis of Mrs. Wootton that wages must be planned if the direction of labor is to be prevented in a planned economy.<sup>49</sup> The proof, however, is not conclusive. This problem will be discussed in detail in a later chapter.

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<sup>49</sup>Freedom Under Planning, ch. 7.

PART II  
CHAPTER FOUR

LABOR ALLOCATION UNDER PLANNED ECONOMY

I

Characteristics of the Labor Market.

To analyse the impact of planning on the labor market, it is necessary to have a clear understanding of its nature and functioning under laissez-faire capitalism or market economy.

Under market economy, allocation of the factors of production and distribution of the income are simultaneously performed by the same market process. Thus, in the labor market, wage rates determined by the supply and demand forces determine the distribution of labor among various occupations and regions as well as the income of labor.

In the model labor market of the economic theory where pure or perfect competition prevails, the optimum allocation of labor results as the employer tries to minimize his cost by employing the most economical proportions of various skills of labor, subject to technical conditions of production. These proportions are achieved when the marginal productivity of each grade of labor is equal to its price; this means that the employer will gain by continuing to employ more of a particular grade so long as the increment in revenue derived from the product of the marginal unit

exceeds the cost of employing it, which is equal to its wage rate.

On the supply side, the worker trying to maximize his income moves to that occupation or industry which pays highest wages for his labor. This free mobility, combined with competition both among employers and workers, results in an equilibrium position where the "net advantages" (wages, leisure and working conditions) of all occupations are equal and all labor is employed in the most socially useful places.

Wages as income of labor determines the relative share of different grades of labor which is proportional to their contribution to production. This relation of income and productivity acts as incentive to effort and mobility of labor, and thus aids its rational allocation.<sup>1</sup>

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<sup>1</sup>Anticipating the argument that under socialism wages do not equal the value of the marginal product of labor, it may be questioned whether this equality under capitalism is economically justified. In this respect Harrod has very ably pointed out the fallacy of extending the argument that a worker equates the marginal disutility of his work to the marginal utility of his product from the Robinson Crusoe's economy to one where division of labor is extensively used. Under modern methods of production often the alternative to a job of given duration and intensity is no job at all. There is also a problem of equating marginal utility of the consumer and the disutility of the worker who are not the same person in most of the cases.

Even if this argument of wages being equal to the marginal productivity of labor were true, its application brings absurd results. For example, if a worker is given two tasks involving the same amount of disutility but the value of their products different; and if he is allowed to work alternately on both the jobs, he will work less hard or less long on the task producing greater value or utility than the other. (The elasticity of income in terms of effort is assumed to be less

The real labor market, however, is one of the most imperfect and inefficient markets in the economy. The conditions of perfect competition, namely, large number of buyers and sellers, perfect knowledge, free mobility, and homogeneity of the product are least satisfied by this market.

A worker has little opportunity of knowing wages and working conditions prevailing in different firms not to mention of different areas. His choice of employment is the result not so much of rational calculation of "net advantages" of various jobs as that of "a combination of luck (good or bad), opportunity, tradition, ability and a heap of other social forces equally incalculable."<sup>2</sup> It should be recognized that calculation of advantages of following a particular vocation for a life time is almost impossible. Only the knowledge of prevailing conditions in various occupations can be made available for guidance which although inadequate, at least aids in avoiding "blind alley"

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than unity) This result is just the opposite to what is socially desirable. The worker should work harder on the task producing greater utility; under laissez-faire it is this which enables the fortunate people to get away with less work than the others.

The socialist state can solve this riddle by paying differential wages but differences in wages being less than differences in productivity. Capitalism solves it by institutional restrictions. Thus a well known doctor is forced to work hard in order to maintain his reputation although he can earn income satisfactory to himself by working shorter hours and enjoying greater leisure. Cf. R. F. Harrod, Economic Journal, March 1936, p. 163 f.

<sup>2</sup>Wootton, Plan or No Plan, p. 18.

occupations from the beginning. Lack of information not only obstructs the right choice of occupation but also hampers mobility necessary for adjustment in the labor market.

Workers differ greatly in innate aptitudes and they do not have equal opportunity for training. Consequently, they do not form a single homogeneous group but a number of non-competing groups with little mobility between them.

Except where highly organized labor compels the use of union hiring halls, usually labor market transactions take place at the gates of the employer where one buyer and many sellers come into contact. Moreover, the number of employers is often small in a locality and even if it is large the competition for labor through wage bidding is commonly ruled out by "gentlemen's agreement."

On the other hand with restricted regional and occupational mobility and sale of labor power as the only source of income, an individual worker is put under serious handicap in bargaining with the employer. To the worker inability to sell his labor is a "personal catastrophe" while the employer at the most suffers only inconvenience or loss of profits.<sup>3</sup> In order to offset this weakness in bargaining strength trade unions are organized for collective bargaining. The state also intervenes on behalf of those who cannot protect their interests through minimum wage laws, and factory legislation.

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<sup>3</sup>Beveridge, Full Employment in a Free Society, p. 19.

Thus instead of perfect competition one finds the labor market governed by the bargaining between monopolistic groups, each trying to obtain maximum advantage for itself. The wage rates are then determined by a combination of social and economic forces.

Marginal productivity as a determinant of wage rates, and therefore, of the level of employment and distribution of income is not very effective in a dynamic economy. Where there is a fixed capacity, productivity varies with the level of output. The business man's concept of normal profits varies with business conditions. In conditions of imperfect product and labor markets marginal productivity is indeterminate within a certain range. There is also the problem of measuring marginal productivity. All these factors enable wage rates to vary from marginal productivity. Still it is a very useful concept as a norm of wages in the long run equilibrium consideration.<sup>4</sup>

In collective bargaining for wages the demand side is influenced by the extent of the organization among employers, degree of competition in the product market, elasticity of demand for the product, business conditions or expectation of profits; While on the supply side the trade unions must consider the following factors: competition of non-union workers, extent of unemployment among members, elasticity of demand for labor, ability to restrict labor supply through

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<sup>4</sup>J. R. Hicks, The Theory of Wages, 1930, p. 21 f.

apprenticeship rules in case of skilled trades, and closed shop. The elasticity of demand for labor is a function of the elasticity of demand for the product, the proportion of labor to total cost, substitutability of labor and prices of other factors.<sup>5</sup>

## II

### Allocation of Labor Under a Market Economy.

Under a market economy there are two incentives operating to effect rational distribution of labor among different occupations, industries and regions; the desire for gain and the fear of hunger through unemployment. In fact they are two aspects of the same rule, *viz.* "He who does not work neither shall he eat." The humanitarian forces restrict the full use of this rule.

Under pure competition this rule forces down the wage rate where there is excess of labor relative to demand, and the reverse is true where there is shortage of labor. This increases the differential in wages and induces some workers to move from the former to the latter. Thus efficient allocation of labor is secured.

However, there are many barriers to mobility which restrict the effectiveness of the above incentive. The humanitarian forces which attempt to mitigate the harshness of unemployment through unemployment benefits reduce the incentive to move. This is not to deny the justification

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<sup>5</sup>Ibid., ch. 8.

of such benefits in an economy where many are forced to remain idle through no faults of their own. We have also noted previously lack of information, agreements among employers not to bid up wages, and aptitude and training limitations as causes of immobility.

The reluctance of workers to leave familiar and friendly conditions of work, seniority rights, pension privileges etc., affects mobility. The trade union restrictions on entry into a particular trade through closed shop and high initiation fees, apprentice rules, should also be included as factors increasing immobility.

The barriers to spatial mobility are greater than those to occupational movements. The reasons for this include the cost of moving the family which may be beyond the means of a worker, home ownership, social ties and sentimental attachment to the place, employment of other members of the family and the uncertainty of finding jobs elsewhere. There may also be differences in social customs, language, and climate influencing the consideration of change of residence.

Age is also a factor in mobility. Youths are more adaptable occupationally and also have less family responsibility, therefore, they can be induced to move easily. But without proper guidance the mobility of this group is haphazard and often wasteful. In spite of such obstacles



to mobility, labor has been found fairly mobile in the long run.<sup>6</sup> But under dynamic conditions the development of depressed areas is the main consequence.

How will Full Employment Planning affect these conditions of the labor market? This will be our next problem for investigation.

### III

#### Allocation of Labor Under Full Employment Planning.

Since it is assumed that there will be minimum disturbance to capitalist institutions under this type of planning, it is natural that the organization and functions of the labor market should also remain fundamentally the same. Wages should continue to perform the function of allocating labor simultaneously with the distribution of income.

But there is one fundamental change. The labor market which has hitherto been a buyers' market save in wartime will be a sellers' market permanently. This is bound to have a far reaching effect on the institutions and the working of the market.<sup>7</sup> Full employment in a dynamic economy raises many problems: will direction of labor be necessary? Can trade unions be relied upon to secure the relative wage

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<sup>6</sup>Cf. Beveridge, op. cit., p. 85; also "Studies in the Mobility of Labor," Oxford Economic Papers, No. 2.

<sup>7</sup>Cf. Beveridge, op. cit., p. 21. Compatibility of free choice of occupation of workers with planning is discussed in chapter 6.

structure required for economical distribution of labor through collective bargaining? Can freedom of collective bargaining be allowed without jeopardizing full employment stability? What about labor discipline when there is no unemployment fear? An attempt will be made to answer these questions in this and the next chapter. But it may be stressed here that in social sciences the variables are so many that no definite answers can be provided. Full employment policy will vary greatly in different countries according to their particular circumstances, and so will vary the labor policy.

Therefore, in this study our task will be only to consider various measures useful for improving the organization and functioning of the labor market and the possible action in case of inflation, or breakdown of discipline.

Disorganization of the labor market caused by lack of information, immobility, and casual employment practices is incompatible with stable full employment.

An efficient system of employment exchanges is an indispensable part of a well organized labor market. In all advanced countries such a system exists on a national basis. It plays a prominent role in bringing together the right type of job and the one seeking a job, and it reduces considerably needless wandering involved in hawking labor from door to door of prospective employers. Regional adjustment

between supply and demand is also stimulated through the regional clearing system of exchanges.<sup>8</sup>

The effectiveness of the employment exchange system on the labor market depends upon the cooperation of employers. If they continue to hire at the gates no improvement can result. Will such cooperation result without compulsion? Past experience reveals that the use of employment service increases in the boom period. For example, the U.S. Employment Service record of placement activity indicates a drop in the number of jobs filled through the service between 1936 and 1938 from 5 to 3 million a year, whereas during the revival of 1940, 5 million, and in 1941, 7.5 million were placed through it.<sup>9</sup>

It is, therefore, likely that under full employment the use of the exchange facilities will increase automatically. An educational campaign to popularize the use of exchanges may also bring about the desired results.

It may be necessary to make the use of exchanges compulsory for particular skills which are so scarce that their rationing is required to break bottlenecks in production. But such restrictions will be only temporary and limited in scope.

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<sup>8</sup>In the U.S. the State control of public employment service hinders inter-state clearing of information and mobility. During the last war, although the Federal Government took over the administration, the local and State pressure on the exchanges continued to hinder effective clearance and transfers. Such a state of affairs will be recognized as undesirable under Full Employment Planning and nationalization may be necessary. Cf. Corson, Manpower For Victory, p. 226.

<sup>9</sup>Manpower Review, May 1943, p. 11. The British experience is also very similar.

In planning full employment outlay, information regarding the employment situation, both current and anticipated in the near future, will be necessary. During the war, similar information was collected both in the U.S. and Britain by the employment exchanges.

The employment exchanges possess information of unemployment through registration of those receiving unemployment compensation and vacancies notified by employers for placement service. But this information is inadequate for planning. Therefore some type of compulsory notification of changes in the work force, both current and anticipated, may become necessary. There can be little objection to such compulsion, as it does not encroach upon any essential freedom either of the employer or employee.<sup>10</sup>

Measures to Increase Labor Mobility. "So long as there are competition, innovation, movement, and free choice in the economy, there will be jobs coming to an end and others opening up requiring shifts of employment which will not all

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Mrs. Wootton, in Freedom Under Planning, p. 91, suggests compulsory notification of hiring and separation of employees by the employer. This would supply only part of the information needed. Without some information about coming changes in the employment as contemplated by employers it will be very difficult to provide for compensatory spending to offset any deflationary movement.

be voluntary and which will take time before a new job is found."<sup>11</sup>

Immobility jeopardizes the stability of full employment. If labor fails to move from a declining industry to an expanding one, output will not increase in the latter and local booms will result. Speculative forces may turn these into a general boom, and threaten the whole program. Even if inflation is checked through rigorous controls, immobility will create bottlenecks in the productive process on the one hand, and pockets of unemployment on the other.

One matter of relief to the planners is the fact that in the past mobility of labor has increased in the boom period relative to that in depression. This can largely be explained by psychological factors. In prosperous times a worker is more confident of finding a job elsewhere than in depression. He can also finance the cost of movement from his savings or by loans with confidence of being able to earn the amount of the cost in a short time. But in depressions he hesitates to spend savings or use his credit for travel which may be badly needed for the survival of the family. So it can be expected that under full employment voluntary movement will also be high.<sup>12</sup>

To avoid bottlenecks in production caused by labor shortage overtime may be used to increase output by 10 to 15

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<sup>11</sup>J. M. Clark, Financing American Prosperity, A Symposium of Economists, p. 75.

<sup>12</sup>Cf. C. A. Myers and W. R. MacLaurin, The Movement of Factory Workers, 1942, p. 57 f. It is a study of labor mobility in the small industrial towns of the New England States.

percent without labor mobility. This overtime, however, cannot be used as a permanent substitute for increased labor supply because it is an encroachment on labors' leisure time. Shorter working hours are elected by the workers as an alternative to higher income and the planners should not deprive them of this choice just because under modern methods of production it is not in the hands of individuals to choose between these alternatives. Widespread use of overtime should be regarded as a signal for reduction in the total outlay to avoid inflation.<sup>13</sup>

As Beveridge has pointed out geographical mobility is more difficult than occupational, for reasons already noted. Moreover, mass transfers of people are not desirable even from the social point of view. Such movements create "ghost towns" where the social capital invested in sanitation, education and such other facilities are wasted, while other towns face serious overcrowding conditions. Nor are all choices of location by private industry so judicious as to realize economic advantages more than the loss of social capital involved in decaying towns. Therefore, some control on the location of industry may be necessary to avoid wasteful mass transfers of population and to direct industry where there is surplus labor. In the words of Sir William Beveridge, "It is better to control businessmen in the location of their

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<sup>13</sup>Cf. Worswick, Economies of Full Employment, p. 71 f.

enterprises than to leave them uncontrolled and require work people to move their homes for the sake of employment."<sup>14</sup>

Since old people are less adaptable and less willing to move the adjustment in supply and demand situation should depend on the youths. Even under the market economy it is the new entrants to the labor market who play a major role in securing the adjustment. To hasten this adjustment, Beveridge suggests compulsory use of employment exchanges for youths under 18 years of age, so that they can be prevented from entering "blind alley" occupations, and directed to expanding industries.<sup>15</sup> If such compulsion is not desired at least a system of closing entry to declining industries should be introduced.

In a country like Britain, where the number of entrants to the labor market is small due to the decline in the rate of population growth, this method of securing adjustment is not available fully. Furthermore, as the proportion of the older people in the labor force is also larger the difficulties of mobility are also greater.<sup>16</sup>

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<sup>14</sup>Op. cit., p. 32.

<sup>15</sup>Ibid., p. 32.

<sup>16</sup>Cf. A. G. B. Fisher, Economic Progress and Security, 1945, p. 98. The condition is not so gloomy as it sounds because even if the population is stagnant there will be replacement in the labor force. If one assumes the working age of 50 years (from 15 to 65 years of age) there will be about 2 percent replacement. This percentage will be slightly greater if allowance is made for early retirement of women, loss due to early deaths, accidents etc. to the labor force. For 20 million in the labor force in Britain there

One way of inducing mobility of adults and minimizing the cost of transfers of particular workers is for the state to pay traveling and settling allowances. Those who are unemployed for reasonably long periods may be required to undergo training or to transfer to other places. The penalty for refusal would be no benefits. Such measures have already been employed in Britain.<sup>17</sup> The experience of Britain in the prewar period was rather disappointing. But deficient demand was a reason for the small movement, and the allowances did expedite the process of transfer.<sup>18</sup>

Education increases the adaptability of people therefore greater emphasis on education, which is also indispensable for a democratic nation, may also aid mobility problem of full employment. Vocational schools and other forms of technical training schemes should pay more attention to production of versatile labor. Russia realized the importance of a versatile labor force in stimulating mobility and after 1935 reorganized her training program accordingly.<sup>19</sup>

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would be about 400,000 new entrants every year. This number should be adequate to secure normal adjustments. However, as the age distribution in all occupations is not similar, it will not be possible to avoid some rearrangement of the adult workpeople.

<sup>17</sup>Worswick; op. cit., p. 74.

<sup>18</sup>Cf. Economic Stability in the Postwar World, League of Nations, 1946, p. 222.

<sup>19</sup>See Ch. 2 Supra, Section 3.



Mr. Frank Graham has suggested the creation of a mobile troop of versatile workers who can be directed to any place for temporary adjustment in the labor market.<sup>20</sup> Russia's labor reserve scheme can be said to be providing such a short period adjustment in the labor market, because every graduate of this training scheme is under obligation to serve anywhere for at least four years under the direction of the Minister of Labor Reserves.<sup>21</sup>

What about restrictions on entry into particular trades imposed by trade unions? These restrictions on entry are the product of job insecurity and therefore will probably be relaxed in the full employment economy. But it may happen that some unions may continue such practices in order to extort monopoly wages. Such policy is definitely anti-social and will have to be severely dealt with.<sup>22</sup>

These measures to improve the working of the labor market only supplement the financial inducements and do not supplant them. The British War experience quoted in the previous chapter has shown clearly that even compulsion and patriotic appeals cannot fully replace the financial incentives. The Russian experience was also not dissimilar.

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<sup>20</sup>Social Goals and Economic Institutions, 1942, p. 176.

<sup>21</sup>Supra, ch. 2, Section 3.

<sup>22</sup>Trade Union role under Full Employment is discussed in the next chapter.

## IV

Labor Allocation Under Socialist Planning.

There are three methods available for allocating labor under socialism: direction by the planning authority, free choice of employment for labor and reliance on non-pecuniary motives to secure the desired allocation of labor; and free labor market with financial incentives as the chief though not the only inducements to effect rational allocation.<sup>23</sup>

The direction of labor should be ruled out as impractical not only because it involves conscription of labor but also because the planners do not possess the knowledge of aptitudes of all workers and their fitness for particular jobs required for the effective use of this method. Mrs. Wootton has brilliantly pointed out the unworkability of this method; she says,

For those economic decisions, which are concerned with the actions of people, fall necessarily into a different category from those which are concerned only with the use of things. It is possible authoritatively to decide that a certain piece of land shall become the site of a theatre. But outside a slave state where the rights of ownership extend to people as well as things, it is not possible to decide in the same way that a certain person shall become an actor in that theatre. This decision can only become effective if the cooperation of that actor is obtained. In other words, so far as everything to do with control and distribution of labor supply is concerned no economic system can function which cannot depend on certain patterns of human behaviour.<sup>24</sup>

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<sup>23</sup>H. D. Dickinson, Economics of Socialism, 1939, Ch. 4, Section 2.

<sup>24</sup>Plan or No Plan, p. 75.

The next method involves the question of the effectiveness of non-pecuniary incentives as substitutes for pecuniary ones. This problem is considered later in this chapter. It is sufficient to note here that mere reliance on non-pecuniary motives is not practical unless a profound change occurs in human nature.

The third method implies the existence of a free labor market, and wage differentials to ensure economic allocation of labor among various occupations.

In a socialist system it is not necessary that wages be equal to the value of the marginal product of labor. If the wage rate for each occupation is equated to its marginal product the production managers will have to keep only one set of books for payroll and labor cost. But this will not be the usual case as the planners will plan the wage bill in relation to the value of the total consumer goods on the market rather than marginal productivity of labor. Of course relative wage pattern must still continue to reflect differences in productivity.

For allocation of labor in the system where equality of wages and the marginal productivity is dispensed with, the planning authority will create an accounting wage category, just like rent and interest which do not exist independently in socialism for lack of free markets for land and capital. The planning authority can fix the accounting wage for different grades of labor arbitrarily or from historical data, at first.

The production managers must consider these rates as the cost of labor which they must try to minimize through the use of the most economical combination of factors. This combination is attained when the value of the marginal product of each grade is equal to its accounting wage. This rule will determine the rate of employment of each grade in various occupations.

The planning authority will secure the full employment of all grades by adjusting the rate of each through trial and error. If any surplus of a particular grade exists at the prevailing wage rate, the rate will be reduced so as to encourage its greater use by substituting it in the place of more expensive factors. The reverse will be the action in case where a shortage is revealed. Thus at an equilibrium position all grades will be fully employed with other factors. In practice, however, this equilibrium can never be reached under dynamic conditions. Still the use of these principles will aid in approaching the most efficient use of the resources.<sup>25</sup>

Two difficulties are involved in the use of this method, namely, the difficulty of grading labor accurately and that of measuring its marginal productivity; both of these tasks are almost impossible. However, the planners can secure rough groupings with the aid of job analysis and evaluation methods;

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<sup>25</sup>Cf. Bergson, The Structure of Soviet Wages, ch. 2, Sec. 2., Dr. Lange with the aid of Mr. Lerner first elaborated this theory. See Economic Theory of Socialism, 1937, (Ed.) B. E. Lippincott.

while average productivity of groups may serve the purpose of marginal productivity as fair approximation.<sup>26</sup>

Under socialism, the planners have considerable freedom in determining the distribution of income, as allocation is determined by accounting costs only. But in the case of wages, the existence of free labor market and reliance on financial inducements to induce people to take up jobs useful to the society, limit this freedom of distribution. It is this need for rational allocation of labor that prevents equality of incomes in socialism.

Equality of income is an economic necessity for attaining maximum social welfare, because maximum total satisfaction can result only when the marginal utility of income is equal for all. It is assumed that the capacity for enjoyment of all individuals will be equal in an equalitarian society. This <sup>equality, however,</sup> is not compatible with the allocation function which demands unequal rewards for unequal work. This conflict is only apparent in a socialist society if one considers the differences in leisure, safety, agreeableness of work, etc. "net advantages," as alternatives of money income purchased by the worker in jobs involving less disutility. In other words, less paying jobs means greater purchase of

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<sup>26</sup> R. L. Hall, Economics of the Socialist State, 1937, p. 82.

"net advantages" and the total of both would be the same for all employments.<sup>27</sup>

The inequality of income will not be a serious menace to the socialist system because the absence of property incomes, equal opportunity for education, greater mobility between occupations will reduce its proportions considerably. To the extent that the state is able to substitute non-pecuniary incentives for pecuniary ones this inequality can be further reduced. But some inequality is inevitable if the free choice of occupation is to be maintained.<sup>28</sup>

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<sup>27</sup>Lange, Economic Theory of Socialism, p. 102. This argument does not apply to the capitalist system because the inequality of income and educational opportunity, restrictions on entry into trades, create discrepancies between the wages or "net advantages" of occupations and the relative disutility involved. It is this that leads to the paradoxical situation in capitalism where the most hazardous, strenuous, and disagreeable occupations are some of the lowest paid. Free education and abolition of restrictions on entry will remove this injustice and inequity to a great extent in a socialist system. (Cf. Bergson, op. cit., p. 13 f)

<sup>28</sup>Dickinson advocates progressive income tax as one of the methods of equalizing incomes under socialism. (Op. cit., p. 135). Such a tax is undesirable under socialism because the only inequality that prevails, is a true reflection of the relative differences in the disutility involved or rent of ability. If a proportional (not to talk of progressive) tax is imposed on such incomes it is bound to affect the willingness to follow occupations involving higher disutility relative to income. Rent of natural ability is in a different position because its supply is independent of the rewards paid. In a capitalist system where the incomes do not reflect the relative disutility of the occupation for reasons mentioned before, this tax does not affect the incentive to effort to such an extent. The greatest burden usually falls on property incomes and rent of ability.

How will the relative wage pattern be determined under socialism? If socialism is brought about through evolution, there will be the capitalist pattern to guide in the beginning. But if a situation similar to the Russian is met, a process of trial and error, the use of job evaluation techniques etc. will have to be used to evolve a correct pattern. In Russia, training, experience, responsibility, safety and agreeableness, ~~etc.~~ factors were used by the trade unions in determining rates for different jobs. These are also the factors used in job evaluation techniques in this country.<sup>29</sup>

For inducement of mobility, occupational and regional, the planners will continue to use the method of varying relative wage rates or net advantages as the chief incentive. Of course, the same limitations and measures to alleviate them described for the full employment system will also apply to this system.

## V

### Unemployment and Planned economy.

The problem of efficient use of resources, to which we have devoted this chapter thus far, is unimportant if there is mass unemployment. Then, it does not make much difference if resources are efficiently employed because the alternative is idleness. The greatest attack against the unplanned systems is based on their inability to prevent unemployment. How serious will be the problem of unemployment in planned economies?

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<sup>29</sup>The role of the trade unions in wage determination is considered in the next chapter.

With free choice of occupations and changes in tastes, techniques etc. some structural and frictional unemployment is inevitable. For this we have already made a provision in our concept of full employment which permits about 3 percent of unemployment at any time. 3 percent average means 15 percent of the labor force unemployed for about 10 weeks, or 30 percent unemployed for about 5 weeks every year. Thus it lends considerable flexibility to full employment.

But it is not structural or seasonal unemployment that is a serious menace; it is the cyclical unemployment which is the problem, for a capitalist system. There is no agreement on the causes of trade cycles. But it is generally agreed that deficient total demand plays a significant role in causing unemployment. The planning authority can prevent such deficiency in the effective demand and thus remove an important cause of unemployment. Expectations as to profits and prices enhance if they do not cause economic fluctuations. To prevent this, the planners stabilize the price level.

It may be pointed out here that it is not only necessary that total outlay is adequate for full employment, but also that it should be specifically directed to the point where unemployment exists; otherwise it will increase inflationary pressure without full employment. This is important when unemployment results from structural changes and deflation is threatened. In such a case the planners must



direct public works program to this area or subsidize the declining industry to prevent large unemployment, and permit gradual withdrawal of men from that industry.<sup>30</sup>

The use of the "guaranteed annual wage," which transfers labor cost from the variable to the fixed category of costs, may also be considered as a method of preventing rapid contractions, and thus enable the planners to plan for preventing deflationary movement from layoffs. Such wage plans will be effective only where firms are allowed to balance profits and losses over a period longer than a year.<sup>31</sup>

It may also be necessary to control the rate of introduction of technological changes, as the effect of large and sudden changes may be difficult to counteract and unemployment may increase. The social loss involved in such an action is more than offset by the gain, economic, social and psychological, from the prevention of unemployment. Such control should not be left in the hands of employers and trade unions, who may use it to promote their interest at the expense of the society.

The ability of planning to prevent mass unemployment is quite ably demonstrated by the experience of Russia and

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<sup>30</sup>Cf. Economic Stability In the Postwar World, League of Nations, ch. 15.

<sup>31</sup>Cf. Planning for jobs, op. cit., p. 401.

War economies. Even if one makes allowance for the rigorous controls, huge investments etc. which may not be used in peace time planning to the same extent, there is little doubt that unemployment can be prevented by planned action.

The socialist planners have two advantages in planning for full employment: there is no uncertainty of business firms' behaviour as the production managers of the socialized industries prepare production plans in advance; there are also no political complications involved in subsidizing a declining industry for maintaining employment temporarily out of the profits of others. Of course there is also a danger that this policy may be carried too far and waste of resources may result.

## CHAPTER FIVE

### WAGE POLICY UNDER PLANNED ECONOMY

#### I

#### Distribution Policy Under Socialism.

Under capitalism "the production and the 'distribution' of the social product are but different aspects of one and the same process that affects both simultaneously - - - (in the socialist economy) this is no longer so."<sup>1</sup> This distinct automatism of the capitalist system is replaced by a political act of the socialist state. However, as we have seen in the last chapter this freedom of the distribution is limited by the conditions of the free labor market and reliance on wages as the chief labor incentive.

The social product is distributed into three major categories: (1) Capital Accumulation; (2) Social Services or Communal Consumption; (3) Private Consumption.

Capital Accumulation. Under socialism the planning authority determines the rate of investment or capital formation and does not leave it to the voluntary savings of citizens.<sup>2</sup> The provision for capital accumulation will reduce the amount of resources available for the production

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<sup>1</sup>Joseph Schumpeter, Capitalism, Socialism and Democracy, 1945, p. 173.

<sup>2</sup>Supra. ch. 1.

of consumer goods and services for private and communal consumption.

Communal Consumption. Communal consumption refers to the public expenditure on defense, education, health and such other social services. The socialist state is likely to spend a much larger proportion of the national income on social services than the capitalist society. Free education, medical care, comprehensive social security programs will constitute important parts of the socialist program. The purpose of free social services is to remove certain goods and services from the expenditure budget of individuals, the social utility of which is greater than the utility to individuals, e.g. the value of the education of children is greater to the community than to the parents who may not gain anything except the sentimental satisfaction of doing the parents' duty.<sup>3</sup>

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<sup>3</sup>Cf. Bergson, op. cit., p. 19. Mr. Bergson is right in pointing out that social services cannot be used for redistribution of income in socialism as certain inequality in the distribution of real income is inevitable to attract workers in the different occupations in proper proportions. But there is no validity in objecting to the extension of social services in a community with a rising standard of living. Although this method of using greater productivity reduces the relative inequality (percentage wise) in the distribution of income, it does not affect the allocation of labor, because the absolute differences will continue to be the same. This argument is analogous to the one used for the distribution of social dividend without any consideration of the wages paid, discussed below. In fact, one can treat social services as a form of social dividend.

Private Consumption. Private consumption refers to the consumption of goods and services by individuals. These goods and services are purchased in the free consumers' market with income received by them. In order that all goods be taken off the market, it is necessary that the citizens should have sufficient purchasing power. The chief source of purchasing power is wages and salaries of all workers gainfully employed. It is not likely that the total wage and salary bill will always equal the prices of the consumer goods and services for sale. It may happen that a large part of the resources are used for capital formation and social services in which case the purchasing power may exceed the value of the consumer goods for sale.

There is also another factor which may cause a discrepancy between the purchasing power available and the value of the commodities. This is savings of the individuals. When the individuals are given the free disposal of their incomes they may prefer to save a part of it. This propensity to save may be less in a socialist system than under capitalism because of less inequality in income and greater job security. Still the desire to provide "for a rainy day" or to purchase expensive durable goods by accumulation of savings will still persist. The provision for savings is one of the major complications in wage planning. A stable price level will aid in stabilizing the amount of savings. The state should also encourage the use of savings banks, and

investment in government bonds so as to be able to keep a check on the size of the savings and make necessary adjustment to maintain adequate purchasing power in the hands of individuals.<sup>4</sup>

What are the methods available for a correction of discrepancy between prices of consumer goods and the purchasing power? It may be suggested that all wages and salaries be adjusted proportionately. This would mean a proportionate wage increase when the purchasing power is inadequate, and a decrease if it is excessive. The first objection to this method arises from the human element; workers will object to such arbitrary decreases in their wages although they will not mind the increases. But a more serious objection results from the distorting effect on the allocation of labor caused by the proportionate changes in wages. There would be no correspondence between the differences in the wages and those in the disutility of different occupations if this proportionate rule is followed.<sup>5</sup>

The next course open to the socialist planners is to adjust the prices of the consumer goods so that the available purchasing power is adequate to remove them off the market.

<sup>4</sup>Cf. Hall, op. cit.

<sup>5</sup>Mr. Lerner (Review of Economic Studies, Oct. 1936, p. 72 f.) was first to point out this objection to the payment of social dividend on "proportionate" rule. If one calls this increase (or decrease) in wages as dividend (or tax) the first objection will disappear because the worker will no longer consider it as a reward for his regular work. But the validity of the second objection will continue.

At first, this may appear more attractive to the planners because of the ease with which they can administer it. But this course is also objectionable. If the production managers are following the rule of equating price of the product to its marginal cost and use profits as the basis for expansion of the industry, such arbitrary changes in consumer prices will result in the departure from the optimum allocation of resources.<sup>6</sup>

It may be suggested that such an effect on the allocation can be prevented by the use of sales or turnover taxes and subsidies. It is true that in this case profits (or losses) of the enterprises will not exist to affect the decisions of investment (or disinvestment) because they go to the state in the form of tax (or return as subsidy). However, differences in real wages will no longer correspond to the differences in relative disutility and this will affect the willingness of workers to accept more arduous occupations.<sup>7</sup>

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<sup>6</sup>Cf. Bergson, Op. cit., p. 20 f.

<sup>7</sup>This is true only when the tax is imposed on goods whose demand is elastic for the working class. If the planners use this tax or subsidy on necessities of life there will be little distorting effect on the allocation of labor. Usually the tendency is to tax luxury goods more heavily on the principle of progressive taxation. There is no place for progressive taxes in the socialist system. It is on this principle that one can justify the Russian practice of large turnover tax on essentials of life. Mr. Bergson is therefore wrong in condemning all sales taxes as undesirable (op. cit., p. 21).

The third alternative is the payment of a fixed social dividend, or imposing a fixed tax on all individuals. It may be distributed equally per head of population or according to age, size of family or any other principle which does not affect the choice of occupation.<sup>8</sup>

It is necessary to emphasize here that the social dividend or tax is an integral part of the full employment policy of the socialist state, because if at any time investment is reduced, the social dividend must be raised to increase purchasing power so that labor released from the producers' goods industry can be absorbed in the production of consumer goods.<sup>9</sup>

## II

### Wage Policy Under Full Employment Planning.

There are two major problems related to the wage policy for full employment: first the relationship between wage rates and employment; should wage rates fall as employment increases? Secondly, the wage-price relationship and the problem of inflation.

Wage Rates and Employment. There are two schools of thought regarding the behavior of wage rates necessary for full employment. Pigou and other economists of the neoclassical

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<sup>8</sup>Lange, op. cit., p. 84

<sup>9</sup>Cf. M. R. Dobb, Economic Journal, Dec. 1939, p. 723. It is assumed here that social services are undertaken on their own merits and not for maintaining full employment.



school believe that the best way of securing full employment is the reduction in wage rates. The decline in wage cost will enable employers to reduce prices and increase the demand for their products, and this will increase employment. There need not be any fear of a decline in the effective demand because decline in the wage rates will reduce the rate of interest and stimulate investment and employment, which will offset any effect of wage decline on the effective demand.<sup>10</sup>

The Keynesian school disputes the practicability and the effectiveness of the above method. The strong opposition of trade unions to wage reductions, the danger of expectations of employers turning the initial deflationary act into a cumulative process, and the increase in liquidity preference preventing a fall in the interest rates are some of the serious barriers in the use of this method.<sup>11</sup> This school suggests increase in the money supply and influencing the effective demand as a policy for full employment.

It may be pointed out here that one of the implicit assumptions of the deflationary policy of Pigou et al is that the real wages must fall as employment increases. It is derived from the application of the law of diminishing returns, which assumes other factors constant. In reality,

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<sup>10</sup>Cf. A. C. Pigou, Lapses from Full Employment, 1946, ch. 5 - 9.

<sup>11</sup>See Lerner, Economics of Control, ch. 22, for an excellent presentation of this view.

however, the idle capacity enables an increase in employment without diminishing returns. The empirical investigations have proved that marginal cost remains constant for a considerable range of output. Even if the marginal cost is rising, the price may not rise, as Keynes has pointed out that "it is rare for any one but an economist to suppose that price is predominantly governed by marginal cost."<sup>12</sup>

Michal Kalecki has given another explanation for this relation between real wage and employment. He believes that the degree of monopoly declines, as employment increases. Therefore prices do not rise and real wages do not fall.<sup>13</sup> Beveridge has pointed out that in full employment the restrictive practices of workers will be relaxed and this will also be an offsetting effect to any tendency of increasing cost.<sup>14</sup>

Professor Pigou has rightly claimed one advantage for his policy if adopted. There will be no danger of inflation which constitutes a serious menace when the monetary policy of achieving full employment is followed.<sup>15</sup>

<sup>12</sup>Economic Journal, March, 1939, p. 46.

<sup>13</sup>Theory of Economic Fluctuations, 1939, ch. 3.

<sup>14</sup>Op. cit., p. 197. Even though real wage rates may fall in full employment, it will not be a disadvantage to the working class because fuller employment, steady jobs, more members of the family working, etc., will increase the wage earnings of the class as a whole although their relative share in the national product declines. Therefore workers do not have to fear the possibility of fall in the real wage rates. (Cf. Lerner, International Postwar Problems, Jan. 1946, p. 100)

<sup>15</sup>Op. cit., pp. 39-40.

Wage - Price Policy. The general wage level is an important factor in determining the price level. There are three courses open to the planners in selecting the wage - price policy: let the price level fall as productivity increases and wage level remains constant; let the price level be constant and wages rise with productivity; and let both prices and wages rise, the former at a slower rate than the latter, depending upon the rate of productivity growth.

When prices are falling with productivity the working class gains in real wages through the fall in the cost of living. This is an ideal policy for a perfectly competitive economy. But where monopolistic elements predominate there is no guarantee that increased productivity would be passed on to consumers fully and not used to inflate the profits. Moreover, the workers are not likely to be satisfied with the same money wages although real wages are increasing through the decline in price level. There is some psychic satisfaction involved in receiving greater money wages although there is no change in real wages. This policy is also objectionable from the social point of view. The fall in the price level increases the burden of the public debt and the rentier class benefits. This may increase savings and accentuate the investment problem in an economy where investment opportunities are few. Therefore, this policy will be rejected by the planners.

The policy of rising prices with wage increases above productivity growth may also be rejected because it may develop into runaway inflation with chaos in the economy. Even if there is no such runaway inflation, rising prices result in adverse balance of trade and continuous depreciation of exchange. It will also spell disaster for the fixed income groups including pensioners, salary earners etc. In short such a policy is incompatible with stable full employment.

Therefore stable price level and increase in wages corresponding to productivity appear to be the best policy. Stable price level neutralizes the expectations of business men, an important factor in industrial fluctuations.<sup>16</sup>

Danger of Inflation Under Full Employment. Is it possible to have a stable price level? Will not trade unions force up wages beyond any productivity increase? This leads to the problem of inflation under full employment.

There is some difference of opinion regarding the threat of inflation. Some believe that the inflationary

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<sup>16</sup>Cf. Beveridge, op. cit., p. 201. Beveridge suggests that price control of wage goods should be used to stabilize the cost of living of the workers so as to remove a significant cause for higher wage demands. He believes that such control of wage goods will present no "insuperable administrative difficulties." But such a policy will create another problem. In the free labor market the employers producing non-essential goods will be able to offer higher pay and pirate labor from the essential wage goods industries. Therefore partial price control is impracticable. The state can, however, stabilize cost of living through subsidies on key items of the worker's family budget as it is done in Britain today.

spiral will start before full employment is reached because the trade unions will start pushing<sup>up</sup>/wages rapidly. Thus Professor Slichter believes that even the guarantee of full employment opportunity rather than actual jobs will need wage controls because "wages may rise so fast in response to increase in the demand for labor that little increase in employment would occur."<sup>17</sup>

There are many factors which lead to the conclusion that generally trade unions become more aggressive in their wage demands as employment increases.

To the members of any particular union higher money wages bring an immediate increase in the real wages as the price of their own product has little effect on their cost of living. But as other unions catch up and prices rise in general the rise in real wages will be wiped out. On the contrary it may even reduce real wages if this game is repeated - which is likely under sectional bargaining where unions compete to outbid each other in securing better terms

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<sup>17</sup>Financing American Prosperity, p. 308. Professor Machlup cites the illustrations of 1937 and 1940 revivals in support of this contention (ibid. p. 457). These illustrations cannot be considered as conclusive evidence for the trade union behavior in full employment, because the unions were still organizing labor during this period and wage increase as inducement to join the unions becomes a part of the strategy of the organizing drives. Moreover, there was no guarantee of full employment. In such circumstances trade unions as well as business men follow the policy of "making hay when the sun shines." Higher wages in prosperity constitute some compensation (real or imaginary depending on price behavior) for unemployment in depression.

for their members - because prices will rise faster than wages.<sup>18</sup>

Mrs. Joan Robinson has rightly pointed out that a rise in money wages is a function of the level of employment itself. As employment increases the financial resources, and the membership strength of trade unions increase, competition of "black legs" declines, and employers with high expectations of profits are less reluctant to concede to union demands. In fact, if there is scarcity of labor developing the employer himself may jump on the union band wagon and give higher wages in the hope of tempting labor from other employers.<sup>19</sup>

Therefore without the cooperation of trade unions it may be impossible to obtain full employment without strict controls of wages and prices.<sup>20</sup>

Measures to Counteract Inflationary Pressure. Once the possibility of wage increases beyond the productivity is recognized, it is necessary to consider possible measures to counteract the threat of inflation resulting from it.

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<sup>18</sup>Cf. Economic Stability, League of Nations, p. 207; also Beveridge, op. cit., p. 199. All writers on wage policy for full employment agree that the threat of inflation is greater when there is uncoordinated sectional bargaining.

<sup>19</sup>Essays in the Theory of Employment, 1937, pp. 13-14.

<sup>20</sup>This does not deny the possibility of inflation being started by any other organized group in the economy. The farmers and businessmen are not incapable of such an act. One may remember the artificial meat famine caused in 1946 in protest against price control in the U.S.A.

The twin aspects of wages - cost of production and income or purchasing power - make it extremely difficult to analyse the impact of wage changes on employment. It is due to this reason that one finds completely contradictory suggestions regarding wage policy. Some suggest increase in wages to secure fuller employment while others suggest reduction in wages. The fault lies in the failure to consider both aspects of the wage problem, by either party.

If one emphasizes the purchasing power aspect of wages in full employment policy he will recommend higher wages to increase consumption and employment. But if wages rise beyond the level justified by productivity increase, given the profit level just sufficient to induce the current level of output, prices must rise, or it will reduce employment. If prices rise there will be little increase in demand. Even if profits are large enough to absorb some wage increase monopolistic employers may prefer to shift the cost to consumers through higher prices.

It is this menace of inflation that has led many to suggest that the goal of full employment be changed to "high level of employment." One may define "high level of employment" as one beyond which the trade unions will start pushing up money wages.<sup>21</sup> But this level may be relatively low and thus involve considerable waste of resources.

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<sup>21</sup>This is the "upper critical" level of employment in Mrs. Robinson's words, the "lower critical" level is the one below which downward pressure on money wages increases. (Op. cit., p. 6 f.)

Therefore one must reject this method of avoiding inflation as incompatible with Full Employment Planning.

Mr. Kalecki suggests that if money wages rise beyond productivity when there is full employment, price control should be imposed to prevent prices from rising. The planners will have to reduce total outlay through taxes or reduced budget deficit. In short it is a plan to squeeze profits. If there are no excessive profits, employment will be adversely affected and private investment discouraged. To offset this Kalecki recommends subsidies for losses and incentives to investment. These subsidies are to be financed by progressive income tax. He does not prefer excise or sales tax, because <sup>they</sup> it will increase cost of living. The advantage of income tax on such redistributive measures lies in the fact that the marginal propensity to consume of wage earners is greater than that of the high income groups. This will reduce the need for budget deficit to maintain full employment.<sup>22</sup>

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<sup>22</sup>Economics of Full Employment, pp. 55-7. We may add here the possibility of cost reduction by employers suggested by Mr. Worswick. (Ibid., p. 67). There will be less need for expensive advertisement, and aggressive salesmanship to push up sales of one's products. With price control, the marginal firms unable to cover costs will be driven out of the market and intra-marginal firms will be able to use their excess capacity, common under imperfect competition, to absorb the sales of the marginal firms. This will reduce cost. One may also add the incentive to greater efficiency on the part of management and introduction of labor saving devices as possible sources of cost reduction. But one must realize the limit of such economies in cost a firm can achieve.



Although the theoretical effectiveness of such a scheme for checking inflation may be great, one should consider its practicability. Can a democratic state follow such a policy? One should not forget that capital can also go on strike and sabotage the whole program. One can also question the practicability of permanent price control. The administrative difficulties of universal price control in a dynamic economy are insuperable. Even during the war when patriotism was a powerful weapon in the hands of the government, "black markets" were not uncommon. So far as the U.S. is concerned one tends to agree with Braunthal that as yet the public opinion "hardly seems ready to go very far in approving the continuation or establishment of price control (or) price subsidies."<sup>23</sup> The post war experience of price control strengthens this opinion.

Carl Landauer in his Theory of National Economic Planning makes another suggestion. If money wages rise and cause unemployment, assuming price control is effective, the planners should reduce the supply of labor from the market by reduction in hours of work, vacations, early retirement of the aged, etc. The reduction in hours of work or vacations or vacations will be without compensation so that full employment outlay is not exceeded with the increase in money wages.<sup>24</sup>

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<sup>23</sup>Wage Policy in Full Employment Economy, International Postwar Problems, Jan. 1946, p. 48.

<sup>24</sup>p. 85.

There are many objections to such a policy. Reduction in the supply of labor through early retirement or reduction in the work week means only disguised unemployment. It would be an acceptance of the inability to maintain full employment. There is no objection to these measures undertaken as a choice between higher real income and greater leisure. But when it is forced to share work or disguise idleness from the social point of view it is as bad as unemployment itself.

Moreover, the trade unions will not accept such a reduction in the hours of work or vacation if it involves reduction in earnings, as there would be no meaning to the increase in money wages secured.<sup>25</sup>

It may be pointed out here that only large wage increases beyond what is justified by increase in productivity

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<sup>25</sup>If they do not object to this reduction, there might be no objection to subsidizing industries for losses caused by money wage increases to be financed by sales and excise taxes. Since **taxes take** the place of rise in prices trade unions may have less objection, and this tax policy not only prevents inflation by removing the excess purchasing power but also improves the position of workers to a limited extent because the taxes will also be paid by non-wage earners. So there is some redistribution of income in favor of the workers.

The tax-subsidy policy has also another advantage over reduction in the labor supply. There is no great possibility that reduction in working week or vacation plan will increase productivity sufficiently to prevent reduction in output. This implies reduction in the general standard of living as well as a continued pressure of inflation unless total outlay is reduced by the planners. There will be no such decline in the level of output in the tax-subsidy policy. There will also be less resistance from the business firms to such a policy.

produce a serious threat of inflation. Small increases can be easily adjusted by increased efficiency or absorption in the profit margins. Here it is appropriate to note Professor J. M. Clark's warning that, "If powerful groups were to act as if the government's program is a christmas tree or a grab bag, the inflationary tendency would go far enough to do harm."<sup>26</sup>

The alternatives remaining are two. The trade unions should show statesmanship in collective bargaining and restrain from inflationary wage demands or the government will have to come in and control wages. Can unions be expected to show restraint? If not, how can the government interfere? These questions will be discussed in a separate section with other trade union problems under full employment.

Distribution of Increased Productivity. It has been mentioned several times before that productivity is the source of increases in money wages without price increases. It is the only source which ensures increases in real wages with rise in money wages. In a policy of stable price level it is necessary that growth of productivity should result in higher money wages. Otherwise larger profits accruing to the capitalist class would go into savings and enhance investment needs. In a highly industrialized economy with profitable investment opportunities limited this would

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<sup>26</sup>Op. cit., p. 176.

aggravate the full employment problem. However, higher wages by increasing consumption would aid in maintaining full employment.<sup>27</sup>

How should the increased productivity be distributed? It may be suggested that wages of workers in each industry should be raised by an amount equal to the growth in productivity. The cost of production will remain the same while purchasing power is increased so as to absorb any employment caused by technological progress. One may argue in support of this method that workers who contributed in productivity should enjoy it. This is, however, not completely true as often the workers have no share in innovations which increase productivity. There are also some other objections to this method.

If wages are allowed to rise according to increase in productivity of each industry the relative wage structure will be distorted causing structural unemployment. For the workers in industry where technical improvements have increased productivity wages will rise. This will attract workers from other industries where wages are low but there is already surplus labor in the former industry created by technical improvements. Moreover, there will be no incentive to invest if the whole savings in cost are passed on to the wage earners. This will create chronic unemployment.

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<sup>27</sup>We have rejected the method of lowering prices as productivity increases as undesirable in the beginning of this section.

There will be two courses open to the trade unions; restrict entry into that industry by erecting barriers or get higher wages everywhere which by increasing costs will force prices upward or reduce employment.<sup>28</sup>

Hansen and Ellis suggest that wage increases in the whole economy should be equal to the average increase in productivity. For industries where productivity growth is below the average, costs will rise and so must prices, while prices of the products of industry where the growth is greater than the average must fall. So that average increase in prices is zero.

As Machlup has pointed out there are several difficulties in administering such a policy without a national trade union policy for wages. It would be impossible to strike at wage increase equal to the average productivity increase if trade unions continue their race for the greatest increment in wages. There is also a problem of compelling reduction in prices of industries with rapid productivity growth.<sup>29</sup>

As Clark says, "Union leaders are under pressure to produce a gain for membership every now and then, to earn their salaries and to justify the union dues and overhead."<sup>30</sup>

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<sup>28</sup>Cf. Fritz Machlup, Financing American Prosperity, p. 433 f.

<sup>29</sup>Op. cit., pp. 435-6.

<sup>30</sup>Ibid. p. 117.

The average growth in productivity is too small in advanced countries to permit sufficient wage increases. This means greater danger of <sup>the</sup> wage-price spiral developing.<sup>31</sup>

Here also we arrive at the same conclusion that the only alternative to wage control (this will automatically bring productivity distribution in the hands of the planners) is a national wage policy of the trade unions in terms of real wages. Is there any possibility of trade unions accepting such responsibility? This will be the next problem for our analysis.

### III

#### Trade Unions Under Full Employment Planning.

In our previous analysis of the labor policy for Full Employment Economy the questions were raised regarding the trade union policy in three crucial problems: (1) General wage level. Will trade unions continue the habit of pushing

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<sup>31</sup>Mr. Worswick (op.cit., p. 64) suggests that a 2 to 3 percent rise in wages every year will not satisfy anybody, provided the trade unions agree, the distribution should take the form of 10 percent wage increase for 20 percent of the workers. (Assuming productivity growth at 2 percent per annum).

This policy, however, is very impractical in a private enterprise system because the state will have to undertake the task of taxing all the firms whose productivity has increased and using the funds to subsidize those firms whose employees are to receive the wage increase. The effect of such policy on the incentive to introduce innovations should also be taken into account. It can be practicable only in the socialized sector of the economy where state receives the profit of increased efficiency and can distribute it among wage earners as it likes. The problem of increased productivity distribution under socialism is discussed later.

up wages beyond productivity when employment increases, and threaten the stability of full employment? (2) Flexibility in the relative wage structure is essential to induce mobility of labor when desired. Can free collective bargaining assure the right pattern of the wage structure and the flexibility desired? (3) Restrictions of trade unions on entry into particular occupations hamper mobility. Will they disappear with increased job security? There is also the problem of union-employer conspiracy to exploit the consumer and share the spoils. Under full employment the trade unions can push up wages by restricting supply of labor in industries the demand for whose product is inelastic.<sup>32</sup>

We have already discussed the dangers of inflation and the difficulties of controlling it without controls of wages and prices if trade unions do not show restraint in their wage demands. It may be emphasized, here again, that stable full employment is impossible without rigorous controls of the whole economy, if the trade unions do not show statesmanship in their wage policy.

There is almost a unanimity of opinion amongst economists that Full Employment Planning with minimum controls is possible if one can only witness wiser counsels prevailing

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<sup>32</sup>See R. A. Lester, Economics of Labor, 1947, p. 145 f. for illustrations of conspiracies in building trades, photo engraving, etc. in the U.S.

among organized labor and organized industry. The threat of nationalization may be an effective sword of Damocles for industry but control of labor may spell the end of freedom and democracy.

Can we permit free collective bargaining in a planned economy and rely on the wisdom of labor leaders to ensure stable full employment? There can be no definite answer to this question. It depends upon many factors peculiar to each nation, the structure of the trade union movement, the type of labor leadership, its past experience, and social, cultural and political factors.

The structure of the trade unions is a product of the social and historical forces. In the U.S. the labor movement is divided into two factions, by structural, ideological and personality differences. The trade unions enjoy "sovereignty" within the confederations and will resist any encroachment upon their powers. The confederations are only advisory bodies. In such circumstances it is extremely difficult to envisage a national wage policy of trade unions.<sup>33</sup>

So long as there is sectional bargaining, the competitive race to secure greater benefits for one's membership will continue, and no amount of wisdom on the part of

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<sup>33</sup>The Congress of Industrial Organization's coordinated strategy for wage bargaining is a hopeful sign from this point of view.



particular labor leaders can save the stability of the program of full employment.

There are some who question the possibility of restraint, even when there is a national trade union wage policy. For illustration Mrs. Wootton argues that trade unions have always considered a greater share for labor in the national income as their very *raison d'etre*. To ask them to observe restraint in wage demands is to invite them to cooperate "in their own metamorphosis."<sup>34</sup>

These notes of pessimism are based on the experience of the past. Can we expect a change in the trade union attitude in the full employment economy?

The war experience of Great Britain raises the hope that labor leaders are socially conscious and can lead the rank and file on a responsible path. Without any wage control, wage increases in Britain were relatively small and compared very favorably with the wage rise in the U.S. where rigorous control on wages had been imposed.<sup>35</sup> Of course, patriotism, the temporary character of the self-restraint, and strict employment controls should be recognized as important factors. (Here one may also add greater coordination within the trade union movement, its participation in the government as a political party and the wisdom and responsibility gained by the

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<sup>34</sup>Freedom Under Planning, p. 113. Prof. Clark's statement, quoted before, about pressure on union leaders to produce gains for membership frequently, supports this contention. *Supra* p. 153.

<sup>35</sup>*Supra* Ch. 3.

leadership from long experience as favorable influences in the British trade union restraint during the war. In the postwar period, because of the economic crisis of Britain and as the largest supporter of the Labor Party, the Trade Union Congress has shown remarkable wisdom in the wage and other labor policies).

Sir William Beveridge has great confidence in the British Labor movement. "Organized Labor in Britain," he says, "has sufficiently demonstrated its sense of citizenship and responsibility to justify the expectation that it will evolve in its own manner, the machinery by which a better coordinated wage policy can be carried through." The post war experience justifies this expectation greatly.<sup>36</sup>

Relative Wage Pattern and Collective Bargaining. The importance of correct wage pattern to induce workers to accept various occupations in proportions socially desirable has already been stressed. The wage pattern must be flexible so that changes in demand and supply of labor in different regions, occupations and industries are immediately reflected in the relative wages (and "net advantages"). Otherwise there will be no effective incentive to labor mobility and full employment will not be possible without direction of

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<sup>36</sup>Op. cit., p. 200. See the previous paragraph for the significant development in Britain which has influenced the trade union policy in the post war period. It may be added that the Labor Party convention at Margate in May of this year rejected a national wage policy for Britain.

labor. Mrs. Wootton has rightly pointed out that "planned production implies industrial conscription or a planned wage structure."<sup>37</sup>

Can free collective bargaining assure correct wage pattern and the necessary flexibility in it? The answer is no, if one assumes that the present uncoordinated sectional bargaining will continue. It is impossible for the trade union of a declining industry to accept wage cuts voluntarily. There is almost a complete agreement among economists that sectional bargaining is incompatible with the full employment need for correct and flexible wage structure.<sup>38</sup>

It is quite possible for the planners to induce the central body of the trade union movement to accept adjustment in the relative wage pattern if there is a coordinated wage policy. Thus the case for a centralized wage policy is further strengthened for a full employment economy.

A New Form of Collective Bargaining. From all this there emerges a necessity for a new type of collective bargaining. There can be no sectional bargaining between individual employers or their associations and particular trade unions. The federation of trade unions and the employers' federation

<sup>37</sup>Op. cit., p. 118.

<sup>38</sup>Beveridge, op. cit., p. 199; Wootton, op. cit., p. 165 f.; Worswick, op. cit., p. 77.

may continue negotiation for general wage increases and adjustments in the relative wage structure. If there is disagreement, the issue may be submitted for arbitration. There can be no question of the use of their economic power to force settlement. It would be a national catastrophe. Thus compulsory arbitration becomes an essential part of the wage policy. Of course the sense of responsibility and public pressure may result in voluntary acceptance of peaceful dispute settlement procedures. The state need not interfere in that case. If, however, the terms of the collective agreement are against public interests or a threat to the stability of the economy the state will have to interfere and refer the matter, if necessary, to arbitration.

If the trade unions fail to cooperate the planners will have to plan wages; this is a better alternative to industrial conscription. There are two methods available for planning of wages. The planners may take over the task as in Russia or provide for compulsory arbitration as in Australia, where the courts have a right to review periodically the wage level and adjust minimum wages. It also settles questions of relative wage structure. In a full employment economy the courts will have to fix both minimum and maximum wages.<sup>39</sup>

Both statutory wage determination and arbitration have some defects. They introduce rigidity in the wage structure.

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<sup>39</sup>Cf. Copland, op. cit., p. 124 f.

There is also the difficulty caused by lack of fixed principles to be followed. At present they follow some vague rules like "fair wage," cost of living changes, changes in wages of comparable occupations, and ability to pay.<sup>40</sup>

It would be extremely difficult to make trade unions accept statutory wage determination as in Russia where the trade unions have little voice in planning of wages.<sup>41</sup> But it is possible that compulsory arbitration may be made acceptable to labor.<sup>42</sup>

The next problem is that of trade union restrictions which hamper mobility. It is likely that with increased job security the trade unions will be willing to relax these restrictions. Public opinion and education of labor will play a great role in eliminating such practices. It does not mean all restrictive rules should be abandoned. There are some which serve to maintain or promote high standards of skill, professional ability, integrity and efficiency. They are essential to progressive society.<sup>43</sup>

<sup>40</sup>Cf. Wootton, op. cit., p. 109 f.

<sup>41</sup>Ibid., p. 118.

<sup>42</sup>Mr. Allen, M. P., a trade unionist, has clearly shown the need for a bold wage policy for Britain. He believes that the unions will object to government regulation of wages because their very existence will be at stake. But, in order to replace reason for higgling on the basis of economic power, he suggests that the government should provide the services of economic experts at the bargaining and give advice in wage negotiation. This is a very good suggestion. See his article, "A Wage Policy for Britain," The New Statesman and Nation, July 19, 1947.

<sup>43</sup>Cf. Beveridge, op. cit., p. 174.

With change in conditions, institutions will have to modify their structure and functions, otherwise they will cease to exist. The trade unions can be no exception. So long as the creative ability of man is not exhausted, one may rest assured that new institutions will arise to preserve the values he cherishes.

Even if the trade unions lose their right of free collective bargaining, still they can play a great role in the protection and promotion of the interest of workers. They will continue to be the bulwark of democracy both in industry and politics. They will continue to fight the autocracy and arbitrariness of management and promote safety and agreeableness of work. As a political group they will represent worker's interests in a democratic government.

#### IV

#### Wage Policy and the Role of Trade Unions Under Socialism.

It is quite evident from the analysis of the distribution policy under socialism, that the trade union aim to increase the relative share of labor in the national income has no place in the socialist system. There are no property incomes which may be squeezed.<sup>44</sup>

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<sup>44</sup>Of course if a private sector is allowed, there may be some scope of increasing labor's share at the expense of non-wage earners. It may be pointed out that the trade unions have not been very successful in this policy even under capitalism. The proportion of wages and salaries in the national income has remained remarkably constant both in the U.S.A. and Great Britain for almost a century.

The real income of labor depends not on the money wages it receives, but on the proportion of the national resources devoted to the production of consumer goods and services. Therefore, the trade unions should keep a watch on the decisions of the planning authority regarding investment and consumption parts of the national product. There is no problem of inadequate purchasing power because the planners provide it through the social dividend. In short, the general money wage level is of no concern to the trade unions. It becomes an automatic part of the financial and pricing plans of the state.

Russia provides an excellent illustration of this. As we noted in the second chapter the total wage fund is planned by the Gosplan as a part of its financial plan of prices, turnover tax, savings deposits, etc. Of course it must also take into account the distribution of labor in various occupations and industries and the rates for different occupations. Planning of wages is one of the most complicated tasks.

Will there be a menace of inflation under Socialism? This depends upon the level of investment and the fiscal policy of the state. In Russia, the production of consumer goods and services was seriously neglected while an ambitious investment program was carried out. Hence there was excess of purchasing power which could not be removed by fiscal measures without adversely affecting the incentive of

workers. In consequence there were all symptoms of inflations prevailing throughout the planning period, - Rationing and acute shortage of consumables until 1935, and high prices and fantastic turnover taxes thereafter.

But in an industrialized economy there will be little danger of inflation because the supply of consumables will be adequate even though the rate of investment is high and the state will be able to offset any small inflationary tendency easily through fiscal policy.

There is also no problem of the method of the distribution of increased productivity. The easiest way would be to let the prices fall as costs decline. There will be no danger of expectations starting cumulative deflation or the rentier benefitting.

This brings us to the question whether free collective bargaining can exist in socialism? If by collective bargaining we mean bargaining between production managers and individual trade unions, the answer is negative so far as the occupational wage rates and general wage level are concerned. For reasons we must go back to the system of labor allocation under socialism.

As mentioned in chapter four, there is no direct relation between the cost of labor followed by the production manager for determining the employment of labor and the wages paid. The manager is not responsible for the wage bill. He accounts for efficiency in terms of accounting wage units



which are not the same as wage rates paid to workers. Therefore he has no interest in the amount of wages paid so long as it does not affect his accounting wage units which the central planning authority determines. Furthermore, if different production managers were to negotiate for wage rates there would be no assurance that the relative wage pattern, necessary to distribute labor in the different occupations in proper proportions, would be achieved. Industrial conscription would then be inevitable.<sup>45</sup>

The alternative to the chaotic sectional bargaining is that of negotiations between the central body of the trade unions and the planning authority.<sup>46</sup> They will decide the wage scales and occupational classifications and the wage rate brackets for each occupation. Actual rate for particular person and classification of particular jobs in the plant will remain the subject of negotiation between production managers and local trade unions. Some regional decentralization of negotiations for adjustment in relative wages according to changes in the demand and supply of labor will also be inevitable.

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<sup>45</sup>Such sectional bargaining would also create the problem of purchasing power adjustment. But the planning authority would have sufficient fiscal powers to make the necessary adjustment. Since it has greater control on the productive and pricing processes than a planning authority of the full employment economy, it would be easier to administer.

<sup>46</sup>Perhaps bargaining or negotiating is not the proper term for such a method. Consultation is more appropriate because the sovereign powers of the state form the basis of the planners authority.

There is no danger of trade unions losing their independence. It is not necessary that the trade unions should become the "Labor Front" as in Nazi Germany. The Russian experience is equally unreliable. It is unfortunate that the Russians have forgotten the advice of Lenin regarding the role of the trade unions in protecting and promoting the interest of the toilers in socialist enterprises. He had foreseen the possibility of conflict between worker's interests and the director's policies of increasing productivity and cost reduction, or the inefficiency of bureaucracy.<sup>47</sup>

One main defect in the trade union development in the U.S.S.R. was its lack of independence from the Communist Party. The purge of Tomsky and other trade union leaders brought an end of whatever trade unionism spirit that prevailed. Today the unions are a part of the government supervising workers not representing them.

It is unlikely that the strong trade union movements in the democratic countries will give up their independence under democratic socialism. As Woodcock, the Assistant General secretary of the British Trade Union Congress has pointed out, the trade unions will play a far greater role in the production management and promotion of workers' interests under socialism. Labor's participation in

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<sup>47</sup>Cf. Swartz, op. cit., p. 322.

managerial functions, which was closed under capitalism as the exclusive privilege of the management, will increase and improve labor's status.<sup>48</sup>

Will it be possible for trade unions to strike under socialism? In Russia there is no legal prohibition of strike, but no strike has ever taken place in the soviet regime. As Schumpeter has pointed out, strikes would be considered a "mutiny" and intolerable by the state.<sup>49</sup>

Mr. Woodcock believes that the legal right to strike will remain unimpaired, "But the question of ~~strike~~ action by trade unions in nationalized industries should become entirely theoretical."<sup>50</sup> There will be a grievance procedure and arbitration machinery to settle differences peacefully.

Worker's Control. It is necessary to say a few words about the compatibility of worker's control of industry with planned economy.

There are some groups of socialist, syndicalists, Guild socialists etc., who advocate management of industry by persons elected by workers or the adoption of the political form of democracy for industrial management. It is very doubtful, however, whether efficient management can result from such a system.

Once again we can refer to the Russian experience.

<sup>48</sup>Labor, March - April, 1947, p. 209 f.

<sup>49</sup>Op. cit., p. 215.

<sup>50</sup>Op. cit., p. 211.

During the "War Communism" the trade unions had taken over the functions of management and complete anarchy prevailed. Of course, the Civil War, lack of experience of the leaders in management function, lack of coordination and numerous other factors were responsible for the chaos to a large extent.

Even during the twenties the trade unions and workers had many privileges in the sphere of management. The status of the unskilled labor had been exalted and that of managers had deteriorated. The manager's authority was seriously undermined. This led to the lack of labor discipline and inefficiency.<sup>51</sup>

It is very likely that if the managers were to depend upon the votes and good will of their employees for the tenure of their service, they will be seriously handicapped in maintaining labor discipline. Of course, consultation with the worker's representatives is entirely a different matter because the managers are not bound to obey their advice and there is no danger of losing the job for this.

Union-management consultation is a very healthy influence on industrial relations. During the war Britain made very extensive use of this both in production and labor planning.<sup>52</sup>

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<sup>51</sup>See ch. 2, supra.

<sup>52</sup>Supra. ch. 3.

The central planning under socialism will also require that the managers are responsible to the planning authority, otherwise execution of the plans will be impossible. Therefore it is unlikely that effective worker's control on the management will be practised in socialism.

V

Incentives and Industrial Discipline Under Planned Economy.

"The essence of civilization is that men should come to be led more by hope and ambition and example and less by fear."

Beveridge

In the market economy, economic motives of gain and hunger are the main incentives to effort. Full employment removes the fear of starvation especially when combined with unemployment insurance and assistance programs. Will it be possible to evoke maximum voluntary effort in full employment?

Here it must be recognized that with social progress the effectiveness of this fear of hunger has been greatly restricted. The poor laws, unemployment insurance and other social security measures were introduced precisely for this purpose. Nor has the desire for gain been allowed a free hand. Progressive taxation and inheritance taxes are conspicuous in the fiscal policy of all advanced states.

These limitations on the working of economic motives are based on the belief which Beveridge has so

eloquently expressed in the quotation stated above. In other words, the importance of the social consciousness or altruistic motives is increasing.

This is not to belittle the importance of economic motives in an economy based on voluntary effort. Russia had unsuccessfully tried to minimize the importance of wage differentials in the twenties and chaos was the consequence.<sup>53</sup> In the every day monotonous work altruistic motives can not last long.

The only mass use of non-pecuniary incentives known to us is that during the war or such national emergencies, when the hatred toward a common enemy (real or imaginary built up by propaganda) releases devotion and effort without expectations of reward.

But such outbursts of effort are only temporary and cool off unless constant propoganda keeps them up. This high state of civic exhaltation can be maintained only when members of a society live in a perpetual state of self consciousness, self-commendation and mutual admiration. The emotional tension built up thereby is dangerous to rational behavior and individual personality.<sup>54</sup>

This is quite different from the high sense of public duty developed by a long educational process and a rising

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<sup>53</sup>Of course cultural backwardness of the people and the low standard of living and the strenuous effort of industrial development were important elements in the failure of social incentives. See ch. 2, supra.

<sup>54</sup>Cf. Wootton, Plan or No Plan, p. 336.

standard of culture.

A capitalist society has two serious disadvantages in the use of the altruistic motives as incentive to effort: First, in capitalism pecuniary gains are closely associated with social prestige as "most of the paraphernalia of social prestige have to be bought," while a socialist society can bestow such prestige without so large pecuniary gains as in capitalism and will be equally appreciated. Secondly, in capitalism the outlook of workers is warped by profit motive; while a socialist state can inculcate greater moral allegiance and a healthier attitude towards his duties which may reduce the need for unemployment fear or larger pecuniary gains.<sup>55</sup>

This leads to the conclusion that the loss of fear of unemployment as incentive may be partially offset by greater social consciousness. The socialist state will have a greater success in this respect, probably, than the capitalist planners.

The existence of wage differentials still allows full scope to the ambition of a man to promote his material welfare and rise in social prestige. "For civilized human beings ambition and desire for service are adequate incentives."<sup>56</sup>

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<sup>55</sup>Schumpeter, op. cit. p 208, 211-2. Mr. Baykov believes that "under the planned system of a national economy, as it develops, and improves and standard of living rises, the importance of social incentives will grow and replace material incentives," at least to a limited extent. (Soviet Economic System, p. 36.)

<sup>56</sup>Beveridge, op. cit. p. 250

To prevent the demoralizing effect of the irresponsible and lazy element of the working class there will be the employer's freedom to fire anyone for misconduct, and there will be no guarantee of jobs to every individual. There will be no unemployment benefits for those who are discharged for misconduct or who have left job voluntarily. This loss of income during the period between jobs will continue as a deterrent.<sup>57</sup>

If there is some waste due to frivolous mobility or lax discipline, Beveridge argues that it will be offset by the elimination of restriction of output, frequent strikes and such other symptoms of discontent arising from the fear of unemployment. Very often excessive mobility is the result of bad personnel management and it will be a challenge to the employers to improve it.<sup>58</sup>

If unauthorized strikes or other breach of discipline threatens the stability of the program, the state will be fully justified in taking severe measures, with public support. The use of troops in January 1947, by the labor

<sup>57</sup>Ibid., p. 197. This loss of income is not complete in Britain where the Assistance Board is ready to help subject to the means test. Therefore Mrs. Wootton suggests a widening of the margin of benefits between voluntarily and involuntarily unemployed, and no payment at all for refusal to accept a job or training. (Freedom Under Planning, 97 f.)

<sup>58</sup>Ibid., p. 197; compare also the Manpower utilization experience in the U.S. during the last war mentioned in ch. 3 supra.



Government in Britain to break the unauthorized strike of truckers and dockyard workers in London is an illustration of this point.<sup>59</sup> Such measures are not encroachments upon labor's freedom to strike. "All liberties carry their responsibilities" and any irresponsible use of freedom must be checked.

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<sup>59</sup>Labor, February 1947, p. 164. The Chairman of the National Coal Board of Britain also threatened to use legal sanctions if unauthorized strikes persisted in coal mining. Chicago Sun, July 9, 1947, p. 1.

## CHAPTER VI

### PLANNING AND FREEDOM<sup>1</sup>

#### I

#### "The Road to Serfdom."

Man is conservative by nature. Therefore any advocacy of change or reform in the existing social order is bound to arouse opposition. Of course, one cannot blame the general conservatism of man for all the opposition; often the established economic interests, who fear that their particular welfare will be jeopardized by such change, are most vigorous in leading the opposition.<sup>2</sup>

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<sup>1</sup>The subject of this chapter falls predominantly in the realm of political theory and philosophy and therefore, outside the special competence of the present writer who is primarily a student of economics. Naturally, there will be no discussion of the nature of democracy and the particular freedoms which one may expect to prevail under a planned economy. As a matter of fact no body of knowledge or thought has yet been developed by political theorists on this subject. One can only hope with Mr. Arnold Brecht ("Democracy - A challenge to Theory," Social Research, June 1946, p. 208) that the challenge of Professor Hayek will be accepted by them and a theoretical guide to experiments in democratic planning be made available.

This chapter is mainly devoted to a critical discussion of the recent thesis that planning is a road to dictatorship. This excursion into the field of political theory is necessary to defend the democratic basis of planning assumed in the present study. If planning inevitably leads to dictatorship the present study becomes meaningless for all practical purposes.

<sup>2</sup>It is of interest to note that Professor Hayek, the author of the Road to Serfdom, admits embarrassment because of the support he has received from some groups. (New Leader, August 24, 1946, p.9.)

Professor Harold Laski has eloquently expressed the general human reaction to proposals of reform in his Reflections on the Revolution of Our Time. He says:

Men live by their routines; when they are called into question, they lose all power of normal judgment. They become uncertain of the criteria by which behavior is to be judged. Discussion becomes a challenge; new ideas seem to be a threat. They become gripped by fear, and fear, by its nature, is the enemy of thought.... By clinging with passion to their wonted routines, they insist that the challenge to it is a blasphemy. They will not hear the voice of reason which tells them that courage only can meet, because courage only can understand, the implications of a challenge. The plea for reason seems to them a demand for surrender. Invited to experiment, they act like children who are terrified by the dark. Each item of change called for becomes transformed, for them, into an assault upon their most cherished values. They must give away nothing, they insist, lest they be called upon to surrender all. In this atmosphere, not only are they deaf to reason, they are unresponsive to the leadership which gropes for reason. They will listen to nothing save the echo of their own voices; all else becomes dangerous thoughts. They assume themselves that the heart of the people is sound. It is misled by agitators and intellectuals, as if these ever got an audience unless it was out of their power to respond to something deeply felt in the popular consciousness.<sup>3</sup>

It is not at all surprising therefore, that economic planning has been described as a menace to democracy and the values civilized men cherish. Professor Hayek, the author of The Road to Serfdom, is a champion of this thesis. Professor Frank Knight and Ludwig Von Mises, and the Publicist Walter Lippmann are also active exponents of it.<sup>4</sup>

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<sup>3</sup>p. 11.

<sup>4</sup>F. H. Knight, Freedom and Reform, 1947; Ludwig Von Mises, Omnipotent Government, 1944; Walter Lippmann, The Good Society, 1937. In all these books economic planning is used as a

Professor Hayek presents the best exposition of the thesis of the incompatibility of planning and freedom.

He defines planning as "a central direction of all economic activity according to a single plan, laying down how the resources of society should be "consciously directed" to serve particular ends in a definite way."<sup>5</sup> It implies a comprehensive plan for the production of all goods and services laid out in the form of a blueprint. There can be no compromise from this, because according to Hayek, "(planning and competition) are alternative principles used to solve the same problem and a mixture of the two means

synonym of socialism. Actually, this controversy on the compatibility of planning and freedom is only a stage in the century old controversy on the practicability of socialism.

First, it was claimed that the equality of socialism would only bring widespread misery through the operation of the Malthusian law of population. Fortunately, technological progress destroyed the Malthusian devil by raising the standard of living with increasing population. Next came the question of incentives under a socialist equalitarian system. If inequality were reduced people would not work and mediocrity would be the rule. When in the socialist literature, the notion of absolute equality of income was **discarded** and the emphasis on equality of opportunity stressed, the incentive problem was shelved. Then came another issue, the issue of rational allocation of resources without a system of free markets. As mentioned in chapter one, Hayek and Von Mises were also the exponents of the thesis that socialism could not achieve rational economic calculus. Thanks to Lange, Lerner and others, this opinion was sharply refuted. Finally, Hayek and Von Mises created a new line of defense against the inroads of planning: This is the claim that planning is incompatible with democracy and freedom.

<sup>5</sup>Op. cit., p. 35. Underline is of the present writer.

that neither will really work and the result will be worse than if either system had been consistently relied upon."<sup>6</sup> In short, Hayek holds that if you want to plan it must be total planning; there can be no such thing as a "mixed economy." Hayek makes this totalitarian concept of planning very clear when he identifies planning with socialism, communism and fascism and states that they are all manifestations of totalitarian collectivism trying to organize the whole society and its resources for a unitary purpose and refusing to recognize spheres in which ends of the individual are supreme.<sup>7</sup>

Thus, after making planning totalitarian by definition, Hayek tries to prove that planning leads to dictatorship. His whole thesis is a mere truism. He denies the possibility of free markets for consumer goods and labor services under a planned economy.<sup>8</sup> He also denies the practicability of a competitive private sector in a planned economy. If one rejects this, the connecting bridge between planning and "the road to serfdom" breaks down. The planners get the opportunity of selecting the road on which they want to travel; it is quite possible that some planners may follow "the road to serfdom" charted by Hayek. But it is not the only road.

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<sup>6</sup>Op. cit., p. 42.

<sup>7</sup>Ibid., p. 56-57.

<sup>8</sup>Discussed later in this chapter.

Coming back to the Hayekian definition of planning, one can seriously question the necessity of planning all economic activity. In fact few planners believe in the necessity of such total planning of production. The Economist has this to say in support of this view:

The World has become familiar with the concept of an economy partly nationalized and partly free. The Monnet Plan in France introduces the similar, but more realistic and fruitful, concept of a planned section and an unplanned section. If the key resources are provided and if the important bottlenecks are widened, the whole economy can go forward without needing to be planned or controlled in detail.<sup>9</sup>

There is no need of complete centralization of ownership or production control for planning. It is quite possible to restrict nationalization to a few key industries or where monopoly obtains. What the planners require is not production control but statistical information about the estimates of production and a flexible budget for the major economic activities like private consumption, investment, and public expenditure. Of course, such flexibility creates uncertainty and loss in efficiency. But it is the price every dynamic system must pay.

Hayek's argument about the incompatibility of planning and competition is not convincing. There has never been free competition prevailing in the whole economy. Monopoly

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<sup>9</sup>December 14, 1946, p. 933.

or "private planning" is a common phenomenon in the "free enterprise system" associated with competition by Hayek. Planning, like socialism and capitalism, is a genus with several different species. But Hayek identifies planning exclusively with the extremes of direct control on a totalitarian basis. The same is true about his conception of capitalism. There is no mention of monopolistic or imperfect competition in the whole book, although modern economic theory has accepted this form of competition as probably most representative of the present private enterprise system.<sup>10</sup>

Of course, Professor Hayek is aware of the problem of monopoly under the private enterprise system. But he does not believe that monopoly is the natural product of technological development, or, as Schumpeter<sup>11</sup> has suggested, that monopoly reflects an inherent tendency of capitalism induced by the desire of protection against depression, technological progress, and other forces. Hayek blames government intervention and socialist propoganda for the development of monopoly.<sup>12</sup>

This theory of monopoly expounded by Hayek is a mere extention of his ~~curious~~ thesis "that in social evolution nothing is inevitable but thinking makes it so,"<sup>13</sup> and that

<sup>10</sup>Cf. C. W. Guillbaud, Economica, Nov. 1946; p. 215.

<sup>11</sup>Capitalism, Socialism and Democracy, ch. 8.

<sup>12</sup>Hayek, op. cit., ch. 4.

<sup>13</sup>Op. cit., p. 48.

planning, monopoly and similar institutions he dislikes are "the product of opinions fostered and propagated for half a century," by socialists.<sup>14</sup> It is surprising that a scientist of Professor Hayek's status should neglect the historical conditions and environmental influences which affect the evolution of ideas and institutions.<sup>15</sup> If Hayek's views were true how easy would it be to create a paradise on this earth just by flooding the world with the right type of propaganda!

Whatever may be the reasons of its evolution, once the existence of monopoly is accepted the question arises how to control it. Even Hayek agrees that "The decisions which the Managers of such an organized industry would constantly have to make are not decisions which any society will long leave to private individuals."<sup>16</sup> From this public ownership or control would appear to be a natural conclusion. But according to Hayek, monopolies are scarcely complete and the

<sup>14</sup>Ibid., p. 43, 48, and also p. 11-12.

<sup>15</sup>Schumpeter, in his otherwise sympathetic review of Hayek's work, writes, "The author deals with ideas and principles as if they floated in the air. If he had gone into historical conditions from which the ideas arose which he dislikes so much, he could not have helped discovering that they are the product of the social system which he likes." Journal of Political Economy, June 1946, p. 270.

<sup>16</sup>Ibid, p. 195.



threat of potential competition haunts the monopolist forever. A consumer will be much better off under such monopolies than under a public monopoly!<sup>17</sup>

These are poor consolations because Hayek, who has so much to say against the political dangers of the concentration of economic powers in the government, unfortunately forgets the menace of irresponsible private monopolies to democratic politics; and of course there is no mention of the non-existence of economic liberty for the large mass of unemployed workers under such a monopolistic system. Big business, which represents the chief monopoly element in the capitalist system, does not behave as Hayek suggests. The Economist's observation is very interesting in this matter. It writes:

The feudal setup of big business, with its baronial domains and courts, transferred individual self government into a conspiracy against production and trade, the national well being and defense. It is admirable for obtaining 'security' and remunerative profits - at the cost of an irreducible general unemployment. It is emphatically not a setup that can give the country wealth in peace or strength in war.<sup>18</sup>

Planning and Democracy. The most important consideration urged against planning is its alleged incompatibility with political democracy. Hayek states that, "Planning leads to dictatorship because dictatorship is the most effective

<sup>17</sup>Ibid., p. 197.

<sup>18</sup>Editorial, June 15, 1940; p. 1033. No one can call the Economist a leftist propaganda organ. Then how can one follow Hayek's suggestion and leave these monopolies alone?

instrument of coercion and the enforcement of ideas and, as such, essential if central planning on a large scale is to be possible."<sup>19</sup> Since planning according to Hayek implies conscious direction of resources to serve particular ends in a definite way, and in democracy people will disagree on the ends, the only way to plan would be to "manufacture agreements." There will be a tendency to take disagreements out of politics by the delegation of power to experts. The delegation of power to different agencies or "autonomous bodies" creates a new obstacle to efficient planning, namely, a lack of effective coordination between such agencies. Therefore discontent grows in the people and demands for stronger action lead to the establishment of a dictatorship. To preserve democracy, therefore, the state interference should be restricted to the spheres where true agreement prevails. According to Hayek only a competitive private enterprise system can assume such restriction.<sup>20</sup>

Thus, the idea that planning implies agreement between political parties on what to produce and how much of every item forms the essence of this theory of incompatibility between planning and democracy. It is of course natural that all cannot agree on such details, but is it not possible for a parliament to agree on the major common ends and let the detailed planning be left to public

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<sup>19</sup>Op. cit., p. 7.

<sup>20</sup>Op. cit., ch. 5.

corporations or boards guided by consumer's demand as reflected in market prices? Hayek's denial of the possibility of such planning is based on his inconclusive argument, already discussed, that planning and competition are complete alternatives and cannot be combined.

Hayek's remarks that public corporations or such other "autonomous bodies" will be arbitrary and will impose their preferences on the people seem rather erroneous in the light of the experience of the London Passengers Transport Board and the British Broadcasting Corporation in Great Britain and of the Tennessee Valley Authority in the United States.

Of course, one must recognize the limitations of the possible agreement in a democratic assembly and limit the scope of planning accordingly. It seems quite possible, however, for a parliament to agree on Full Employment Planning as we have defined it in this study without implications of such detailed intervention in production as is implied by Hayek.<sup>21</sup>

Another argument against the practicability of democratic planning runs as follows:

The reasonable inference from history, current experience, and reasoning in general terms is that planning by any central authority would sacrifice (the free government). ... Any government which had the task of managing the economic life of a modern nation to say nothing of the world, would have to be a dictatorship and to repress the primary freedoms of thought, communication and association.<sup>22</sup>

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<sup>21</sup>See Mrs. Wootton, Freedom Under Planning, p. 137 f. for an excellent discussion of the possibility of agreement on ends in a democratic government.

<sup>22</sup>Knight, Freedom and Reform, p. 363.

By inference from history, Knight probably means the association of free enterprise and democracy in historical evolution.<sup>23</sup> However, mere association does not prove any causal relationship between democracy and private enterprise. One can cite examples of private enterprise flourishing in the countries where political democracy did not exist. The history of Germany and Japan provides excellent illustrations. In both these countries feudalism continued to dominate the state in spite of their highly industrialized economic structure, with private enterprise as the mode of economic organization.<sup>24</sup>

The reference to recent experience by Knight seems to apply to the experience of the Soviet Union and Nazi Germany. This experience<sup>is</sup> very often cited as proof of the incompatibility of freedom and planning. But in both these countries the dictatorships were established neither by an advocacy of planning nor under a planned economy. Both the nazis and the communists preached totalitarianism in theory long before they came to power. People handed over power to them not on the promise of a planned economy but because they promised

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<sup>23</sup>Cf. *Ibid.*, p. 198 ff. Hayek also argues that "personal and political freedom has never existed in the past ... without freedom in economic affairs." (*Op. cit.*, p. 10).

<sup>24</sup>Cf. Heimann, "Industrial Society and Democracy", *Social Research*, Feb. 1945, p. 52 ff.; Calvin Hoover, in *Contemporary Problems in the United States*, (ed.) Horace Taylor, Vol. II. p. 336. The latter states that he would not claim that democracy has existed under capitalism at all times and at all places.

a way out of the chaos, misery and insecurity that stalked the masses and made freedom meaningless. One can also blame the lack of a democratic tradition in these countries for so easy a surrender of their liberties by the people.

It is no doubt true that planning was (and is) effectively used by dictatorships as an instrument not only of effective control of the economy but also of tyranny. But to argue that because dictators use planning, planning leads to dictatorship, is non sequitur. This is like arguing that because atomic energy is known today only as a great menace to civilization, all further research in the field of Nuclear Physics should be prohibited.<sup>25</sup>

It is necessary to emphasize that planning is merely an instrument and may be abused under a despotic regime. "It is certainly possible to plan ourselves into serfdom: it is also possible to plan ourselves into freedom. In this case...the result just depends on what sort of instruments we use and how much sense we show in using them."<sup>26</sup> But there is no adequate support for the assumption that planning is a certain passport to dictatorship.<sup>27</sup>

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<sup>25</sup>Probably a more proper analogy can be given from the theory of Sismondi in the early part of the nineteenth century. Witnessing large technological unemployment and widespread misery wrought by the Industrial Revolution, Sismondi predicted permanent mass unemployment unless the mechanization process was stopped and the old handicraft system revived. Perhaps, Professors Knight and Hayek will go down in history as the Sismondis of the present era of transition. See Sismondi, Nouveaux Principes D'economie Politique.

<sup>26</sup>Wootton, New Leader, August 24, 1946, p. 8.

<sup>27</sup>Professor R. H. Tawney rightly states that: "Human

Economic Conditions and Democracy. It is a historical fact that democracy, as it is understood in the Western European nations, came into existence with the development of laissez-faire capitalism. The latter created conditions very congenial to the development of individual freedom and political democracy. It restricted the powers of the state to the need of maintaining law and order at least in the beginning of its evolution. But this was made possible by the wide diffusion of economic power among the individuals whose activities were coordinated by the forces of competition through a market system.

Thus, when Jefferson conceived the democratic order, the ownership of the means of production was widely distributed, In the decade of 1820-30, sixteen out of every twenty persons owned their means of livelihood.<sup>28</sup> It is but natural that laissez-faire should be the best policy at that time.

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27 cont.

institutions are merely instruments. All of the - Law Courts and police, armies and navies, churches and schools - can be and have been used for bad ends. It is perfectly true that authority armed with coercive power has often been, and in some countries still is, the enemy of freedom. But to make much of these points is it seems...to labor truism. The question which matters is not whether as every one admits the abuses feared may in certain circumstances occur. It is whether they must necessarily occur; whatever the circumstances and whatever the precautions taken against them." What Labor Can Do, 1945, p. 97.

<sup>28</sup>Lewis Corey, The Unfinished Task, 1942, p. 56.

Jefferson viewed the self-sufficient yeomanry as the best guarantee of democracy and looked upon industry with suspicion.<sup>29</sup> But conditions have changed completely today. Nearly 85 percent of the people depend upon jobs from others for their livelihood.<sup>30</sup> It is no longer a world of small producers with no control on their markets. There is a dangerous concentration of economic power in the hands of the few, who may employ it irresponsibly for selfish purposes at the expense of society.<sup>31</sup>

A continuous struggle goes on between various interests or pressure groups trying to use the power of the state to promote their special interest. It is erroneous to assume that the state fosters monopolies by its own interventionist policies. Under a democracy the state expresses the will of the people; it is not an evil monster, acting independently of the social will, trying to destroy the beautiful laissez-faire system as Hayek envisages it.<sup>32</sup> Of course, the state has at times intervened on the weaker side of the economic conflicts between the employer and his workers; but this is only to

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<sup>29</sup>John Dewey, Freedom and Culture, 1939, p. 258.

<sup>30</sup>Corey, Lewis, op. cit., p. 56.

<sup>31</sup>Of course this includes the economic power of organized labor and organized farmers, along with that of big business. The growth of the former two can be explained as the consequence of the latter, in the protection of their respective interests.

<sup>32</sup>Op. cit., p. 43.

restore the balance of power. The National Labor Relations Act of 1936 in the United States is an illustration of such intervention.

Concentration of economic power has thus created as precarious a situation in the domestic field as the game of power-politics has done in the field of international relations. It is not possible to let the tug of war between economic groups go on unchecked, with all its consequences of mass unemployment, misery and insecurity. It is a menace to democracy itself, because to the common man, constantly faced with unemployment and destitution, freedom ceases to have any meaning. Thus a democratic state is in a grave dilemma and it must act wisely or face the extinction of democracy itself.

But there are serious differences of opinion as to what should be done. One reaction is to go back to the glory that was past laissez-faire capitalism. Professors Hayek, Von Mises, et al are the proponents of this view. But the task of restoring a self-equilibrating competitive system, as it is described in economic textbooks, is so immense that it may be considered quite impractical under a democratic system.<sup>33</sup>

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<sup>33</sup>Mr. Herman Finer, in Road to Reaction; 1945, p. 78 f., has attempted to describe the tasks with which a government under present economic conditions would be confronted if it sought to restore the pure competition required for a Hayekian liberal system.



The Fascists came up with a temporary solution of suppressing all interests by imposing the supremacy of a mythical state as expressed in the will of its leader or dictator. The Communists (Bolshevists) want to end the battle through the dictatorship of the proletariat, which in reality becomes the dictatorship of its self-established vanguard, the Communist Party.

The democratic socialists advocate a redistribution of economic power by nationalizing the large monopolistic industries and maintaining private enterprise where competition is effective. They would construct a new social order through a democratic government which ensures reasonable security of employment and income. Planning is to be used as a supplement to the market mechanism.

There is no doubt that some concentration of economic power in the state will result because of the fact of planning. But the cure is to provide adequate checks and balances to prevent its abuse, and not to be frightened away by it. In a nation with a democratic tradition this is not an impossible task.

Professor Hayek is so much concerned about the coercive potentialities of state power, that he even denies the use of science and reason in social affairs. He believes it is a mistake to master the forces of society as we can master

the forces of nature.<sup>34</sup> In this connection, E. F. M. Durbin's caustic remarks are worth repeating:

Men are condemned by Professor Hayek to remain forever in their economic affairs, in a pre-rational and pre-scientific age. They must allow their economic life to be directed by 'impersonal forces,' that no person responsible for economic decisions can understand or direct. They must suffer unemployment and depressions and the persistence of excess capacity, all directly traceable to the inability of economic administrators to foresee the results of their collective actions, just as their forefathers endured plagues and famines before the development of the sciences of medicine and agriculture.<sup>35</sup>

Professor Hayek of course recognizes that "Man has come to hate and revolt against the impersonal forces to which in the past he submitted, even though they have often frustrated his individual efforts..."<sup>36</sup> But Hayek advises him not to be so foolish as to refuse to submit to such unintelligible forces, otherwise the whole of civilization will be destroyed! This civilization, which prides itself as the most rational of all times, must depend on blind faith in impersonal forces for its survival! This is Hayek's solution of the present day crisis of Western civilization.<sup>37</sup>

The tendency of the opponents of planning to deem absence of control far superior to restrictions, however indirect, imposed by planning, is a curious repudiation of the

<sup>34</sup>Op. cit., p. 205.

<sup>35</sup>Economic Journal, December, 1945, p. 366.

<sup>36</sup>Op. cit., p. 203.

<sup>37</sup>Op. cit., p. 205.

fundamental basis of Western civilization. Scientific progress has not depended on the belief that conscious control is dangerous. On the contrary, it was based on the belief that man possesses intelligence which he can use to find ways and means of controlling forces that impede the maximum realization of human welfare. The measures used to control these maleficent forces often restrict the freedom of the individual, as in the case of Public Health and Safety laws. There is no reason why science and rational method should not be applied to control the damaging effects of social and economic forces. If such control involves restrictions on individual freedoms, the greatest possible discretion will be necessary in its application, because individual freedoms are recognized as essential for the full development of the individual personality, a cherished end of civilization. But individual freedoms are only means to an end and not ends in themselves. It may be necessary to modify particular freedoms in order that desired ends may be effectively realized. Those who dogmatically oppose any change in social institutions are confusing means and ends. For example, private ownership of the means of production has been very effective in the past in improving the material welfare of the masses. But this does not prove that freedom to own the means of production will always be necessary to promote material welfare.

If one were to follow Hayek's recommendations, the question would immediately arise, what about unemployment

and economic insecurity? Hayek concedes that the conquest of unemployment is important but he cautions that vague talk of full employment may be dangerous. Wage flexibility is proposed as the cure for unemployment. If trade unions resist wage reductions, coercion is the alternative, which a free economy can not use; and upward wage and price adjustments may start inflation. Hence wisdom will be necessary with primary reliance upon voluntary action.<sup>38</sup> This represents a rather complacent attitude.

Democracies can remain complacent about unemployment only at their own peril. Political rights alone are clearly insufficient to maintain a democracy if there is no economic security. Therefore, the concern of the masses over full employment is fully justified.

## II

### Economic Freedoms and Planning.

Thus far we have discussed only the compatibility of democracy or political freedom and planning; but there are also other freedoms which are considered essential for a free society. However, before we can discuss these freedoms, it is necessary to define what we mean by freedom. Professor Tawney has given an excellent definition of freedom.

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<sup>38</sup>Op. cit., p. 206-9.

There is no such thing as freedom in the abstract, divorced from the realities of a specific time and place. Whatever else it may or it may not imply, it involves the power of choice of alternatives - a choice which is real, not merely nominal, between alternatives which exist in fact, not only on paper. It means in short, the ability to do - or refrain from doing - definite things, at definite moments in definite circumstances, or it means nothing at all.<sup>39</sup>

However, absolute freedom for the individual does not exist. It is the essence of civilization that the freedom of the individual be restricted to the extent necessary to prevent encroachment upon the freedom of others. It is in this sense that the democratic socialists argue that a restriction on the freedom to own the means of production is necessary in order to enhance the opportunity of enjoying freedom by the majority through the elimination of unemployment and insecurity.

One must, of course, be wary of any encroachment upon his freedom; eternal vigilance is the price of liberty. One cannot be indifferent to his rights and expect that they will be preserved.

The freedoms commonly desired are many: civil freedom, cultural freedom, political freedom; and economic freedom, which includes freedom to choose one's own occupation and to spend his income as he likes.

Private ownership of the means of production is not considered an essential freedom of the individual, because it is not enjoyed by many and sometimes becomes an obstruction

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<sup>39</sup>R. H. Tawney, op. cit., p. 83.

in the realization of freedom of choice of employment for the majority.<sup>40</sup> This does not mean that complete socialization of all means of production is desirable or necessary. There is serious danger in the nationalization of all industries, as such complete concentration of economic power in the state may readily be abused. Mrs. Wootton has discussed in excellent fashion the relation of these freedoms and planning, in her book Freedom Under Planning. In the present study, we are mainly interested in the freedom of choice of employment. As a citizen, every worker is of course interested in all the freedoms; but freedom in choice of occupation is of special interest to him.

Freedom of Choice of Occupation. Freedom of choice of occupation refers to the freedom of an individual to choose the kind of work he likes to do and to accept or refuse a particular job offered to him. This freedom is essential because occupational maladjustment has profound effects on the life and happiness of the individual.<sup>41</sup> One agrees with Hayek that "As for most of us the time we spend at our work is a large part of our whole lives, and as our job usually also determines the place where and the people among whom we live," some freedom in choosing our work is very important.<sup>42</sup>

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<sup>40</sup>Cf. Beveridge, op. cit., p. 23.

<sup>41</sup>Cf. Wootton, op. cit., p. 83.

<sup>42</sup>Op. cit., p. 94.

But according to Hayek, the planners who promise free choice promise much more than they can possibly fulfill. "If they want to plan, they must control the entry into different trades and occupations or the terms of remuneration or both." In all known instances of planning such controls and restrictions were common. Therefore freedom of choice would become purely fictitious. It makes little difference whether adjustments in wages and the other terms of employment are used to regulate supply and demand for labor in various trades. It would as effectively bar many from entering such trades as if there were orders restricting entry.<sup>43</sup>

When the terms of employment are fixed, and objective tests used for selection among the candidates, only the qualified will be taken up and not those who have set their hearts on such jobs, but do not have the necessary ability or qualifications. "We (workers) shall have to conform to the standards which the planning authority must fix in order to simplify its task. To make this immense task manageable, it will have to reduce the diversity of human capacities and inclinations to a few categories of readily interchangeable units and deliberately disregard minor personal differences."<sup>44</sup> But in a competitive society the person whose qualifications are

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<sup>43</sup>Op. cit., p. 95.

<sup>44</sup>Ibid., p. 95-6.

not of the standard type can come to special arrangements with some employer. In short, according to Hayek there are two reasons why adjustment in the terms of employment fails to assure the same flexibility under planning as under competition. Firstly, the planning authority recognizes only a small number of job categories in order to simplify its task of wage determination. Secondly, the planning authority requires plant managers to conform to the standards established for hiring.

It would be desirable to consider the type of labor market Hayek has in mind for a planned economy in order to understand fully the implications of his arguments stated in the previous paragraphs. Unfortunately, there is no definite statement available expressing his views on the labor market under a planned economy. But one frequently finds statements like the following in his book.

In a planned economy "individuals will have to decide not whether a person is needed for a particular job but whether he is useful for anything; and how useful he is. His position in life must be assigned to him by somebody else." Again, "It may be bad to be just a cog in an impersonal machine; but it is infinitely worse if we can no longer leave it, if we are tied to our place and to the superiors who have been chosen for us."<sup>45</sup>

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<sup>45</sup>Op. cit. p. 106 f.



If these quotations authentically reflect Professor Hayek's views on the labor market under a planned economy, one may conclude that according to Hayek there can be no labor market under a planned economy. The term labor market implies purchase and sale of labor services. There can be no such transactions where individuals are assigned to particular jobs which they cannot leave. This is a system of universal slavery, and no question of free choice of occupation can exist in such a system.

What all conscientious planners envisage is a free labor market with variation in the terms of employment as the chief instrument of labor allocation. An efficient system of employment exchanges, training facilities and similar aids to stimulate labor mobility may be necessary to enhance the effectiveness of this method of labor allocation.

In such a system, it is likely that the present wage structure will continue to prevail. And there is no need for the planners to establish definite job categories for wage determination. What they must do is to vary the terms of employment and remuneration for particular occupations and in particular areas according to the changes in supply and demand for labor in those occupations and areas. There is also no need for the production managers to conform rigidly to the standards in the selection of their employees. In this matter, the Russian experience is quite enlightening. The managers of Soviet factories enjoy considerable freedom

in hiring their employees. There have been some restrictions on this freedom but these were mainly temporary expedients to meet emergency situations.

The main objective of the planners is to secure a proper allocation of labor in the economy as a whole. They are interested in the total labor supply available to various occupations and not in the allocation of individuals. Thus, they need not worry whether Joe is useful as a drill press operator or as a janitor. Joe can be left to decide it for himself with some guidance from the employment exchange.

If the supply of janitors is inadequate the planners will have to make the terms of employment for janitors more attractive so as to induce people to become janitors.

However, it may be desirable to prevent undue wage cuts in the declining occupations to induce the transfer of their surplus labor to the expanding occupations, because social and psychological factors impede the effectiveness of wage differentials in inducing mobility. Therefore, in the interest of the majority of workers who would continue to remain in the declining occupations and who otherwise would have to suffer a prolonged reduction in earnings, the planners may prohibit new entry into such occupations. This would involve some restriction on freedom of choice of occupation, but an individual would still have a vast choice of occupations available; and this choice would be far more real under conditions of

full employment in a planned economy than under laissez-faire capitalism with reserves of large unemployment. What matters is some choice and no tying down to a particular job, as Hayek himself agrees.<sup>46</sup> These conditions are compatible with planning.

The problem before the planners is not that of providing freedom of choice but of maintaining labor discipline when the fear of unemployment is eliminated. They will also face the question of maintaining a flexible wage structure under trade unionism. These problems have already been discussed in the previous chapter. They have important consequences for the efficient functioning of the labor market and therefore, for free choice of employment.

In conclusion, one may add that there is no serious threat to freedom of choice of occupation under planning. If a totalitarian state prefers conscription to free choice, "It will be because it is dictatorial, not because it is engaged in planning."<sup>47</sup>

Consumers' Freedom.<sup>48</sup> Consumers' freedom refers to the freedom of the individual to spend his money income as he likes. To exercise this freedom he must have a variety of goods and

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<sup>46</sup>Op. cit., p. 94.

<sup>47</sup>Wootton, op. cit., p. 85.

<sup>48</sup>Consumers' freedom is also denied by Hayek and it is assumed to prevail in the planned economies discussed in the present study. Hence the need for this discussion.

services available to choose from. Rationing is the negation of this freedom, because it restricts the right to buy the amount one likes or to substitute one thing for another.

It is not necessary to emphasize the need for such freedom in a society where individual tastes and preferences vary widely. Since consumption is the end of economic activity, maximum satisfaction can result only when the individual is left to choose what he wants. No planner can know the preferences of all the citizens of an advanced society where innumerable varieties of goods and services are consumed. Even in a society with a subsistence standard of living a free consumers' choice is desirable because of the differences in the individual's tastes.

It is claimed by the critics of planning that there will be no freedom of choice for consumers under planning. The planners possess unlimited power over production and prices which they will use to decide what and how much to produce and at what price to sell. Therefore, it is argued, even if there is freedom to spend one's income, the choice will be restricted to what is produced.<sup>49</sup>

Whether the economy is competitive or planned, it is equally true that consumers must generally select only from what is already produced. The question, therefore, is

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<sup>49</sup>Hayek, op. cit., p. 93.

whether the planners will consider what consumers desire - as reflected by the supply and demand conditions of the market - in deciding what and how much to produce.<sup>50</sup>

It is quite possible for the planners to adjust production of consumer goods to demand by the trial and error process described in chapter one in connection with Socialist planning. Of course, planners may interfere with consumers' sovereignty by manipulation of prices or by propaganda. But the concept of consumers' sovereignty is now generally discarded as an exaggeration of the role of consumers in the determination of production even under a competitive economy. The use of advertising "to create demand" and the system of branding have considerably restricted the rational choice of consumers.<sup>51</sup>

### III

#### Conclusion.

Thus far we have tried to prove how inconclusive are the arguments of those who assert that planning and freedom are incompatible. This does not prove that planning cannot be abused to suppress freedom. The question whether democracy and freedom can be combined with planning in any

<sup>50</sup>Hayek concedes that a planned economy will also provide a market for consumer goods in order to assure freedom to spend one's income. Op. cit., p. 93.

<sup>51</sup>See Freedom Under Planning, op. cit., ch. V. for the detailed discussion of this problem; Also M. R. Dobb, Political Economy and Capitalism, ch. 8.

particular nation will depend on so many social, cultural, and economic factors that it is difficult to give any positive answer.

It must be realized that democracy is a political method of arriving at political decisions through certain institutional arrangements; and like all other social institutions it must adapt itself to changes in time, place and circumstances. The rights of individuals and groups may need redefinition to suit the new conditions.<sup>52</sup>

The manner in which the nature of democracy will be affected by economic planning is very difficult to forecast. Usually social and economic changes occur first and the mechanism of control correlated with it evolves afterwards.

One of the problems of adapting democracy to planning is caused by the possibility that the ruling party may be defeated at the next poll and the opposition with a different economic program may come into power. This may throw the whole economic system into chaos. It would be particularly disastrous if industry were run on a party politics basis.<sup>53</sup>

It will be necessary to remove the administration of planning (and industry in socialism) from party politics through a system of permanent boards of experts. This makes

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<sup>52</sup>Heimann, Planned Society, p. 904.

<sup>53</sup>Cf. Wootton. op. cit., p.131 f.

the selection and training of civil servants as planners and administrators of industry very important. But the Parliament must be ever vigilant to check any abuse of powers by them. In this respect one can only hope that the prejudice against civil service as bureaucratic and inefficient begun in the heyday of laissez-faire will be discarded because such prejudice prevents talent from joining it and also affects public cooperation with the civil servants in their task.

In conclusion, it may be emphasized that if democracy is to be preserved it is important for education to be critical of all encroachments on individual freedoms. This does not imply dogmatic opposition to every suggestion for modification of individual rights.

## CHAPTER VII

### CONCLUSION

The existence of the labor market seems indispensable to any system of libertarian planning, whether socialist or capitalist. Without it, any guarantee of free choice of occupation or efficient distribution of labor among various trades will be extremely difficult, if not impossible. The alternative to the market for labor is conscription and direction of individuals. This implies not only a loss of freedom in the choice of occupation, but also inefficient allocation and use of manpower resources, as the planners can not possess the knowledge of all individuals' aptitudes and abilities which would be required for their direction to the right jobs.

However, the traditional sluggishness and inefficiency of the labor market are incompatible with the needs of planning. Its organization needs to be streamlined and its working improved. In chapter four, we have suggested some measures for increasing the effectiveness of employment exchanges, which will form the chief instrument for the control and supervision of the market under planning.

The importance of greater occupational and spatial mobility in the adjustment of relative supply and demand for labor in various trades has already been stressed. The role



of vocational training, incentives and employment exchanges in stimulating labor mobility will have to be planned carefully.

There is no significant difference between Socialist planning and Capitalist planning in the working of the labor market. Wage rates will continue to provide guidance in allocating labor and determining its income. But it is possible for a socialist system to differentiate between the allocation, or cost, aspect and the income aspect of wage rates. It may use mere accounting wage categories as costs to productive establishments, distinct from the wage rates paid to workers. However, if free choice of occupation is to be preserved, the accounting wage units and the actual rates paid to workers will have to bear a definite relationship as between different occupations.

It is in the sphere of wage determination that planning demands radical changes. As noted in chapter five, the present system of sectional collective bargaining is incompatible with planning.

Under a full employment economy, the competition among various trade unions, each trying to secure maximum benefits for its members, may jeopardize the stability of full employment by pushing up the general wage level. Sectional bargaining also impedes quick adjustment in the relative supply and demand for labor in various trades by introducing rigidity into the wage structure and by creating barriers to mobility.

Therefore, planning of wages by the state will be inevitable, unless the trade union movement shows economic statesmanship and evolves a national wage policy in consultation with the planners and employers. Trade unions regard wage bargaining as their very *raison d'etre* and are also reluctant to submit their individual sovereignty to the national federation. This will make the problem of wage policy the most difficult of all issues confronting the planning authority.

The ultimate solution will depend upon the political, social and cultural factors of particular nations. Some nations may adopt wage planning by the state; others may be successful in evolving a satisfactory compulsory arbitration system with supervision of maximum and minimum wage rates by the planning authority.

Failure to evolve a wage policy under planning will either jeopardize full employment or threaten workers' freedom of choice of occupation. Planning of wages is better than conscription of labor or mass unemployment.

In a socialist system, sectional collective bargaining is not possible if accounting wage units are used as cost. In this case, the production manager will have no interest in wage rates paid to workers. Even where the same wage rates are used for cost and income purposes, the planning authority may retain greater control over money wage determination in order to achieve more accurate planning of purchasing power, pricing of consumer goods, and similar

elements of financial planning.

In such a system, trade unions can probably serve the interests of workers better by influencing the planning of the production of consumer goods and services, rather than devoting their attention to money wage rates. Of course, bargaining for job classifications and personal wage rates will continue to play its part at the local level. The trade union movement may also be expected to enjoy greater participation in the management of socialized industries. But there is no necessity for trade unions to lose their independence or to discard the function of protecting workers' interests. It is, however, expected that peaceful methods of solving differences will replace the use of economic power through strikes.

Examining the controversy over freedom under planning we have found that the arguments of the opponents of planning are inconclusive. There is no danger of losing economic freedoms, like free choice of occupation or choice of consumers, merely because of planning. Even in the realm of politics, democracy or political freedom is not incompatible with planning.

Whether the freedoms one cherishes will be preserved in a planned economy will depend upon the political, social, cultural and economic forces operating in particular nations. It is possible that the democratic institutions evolved under laissez-faire economic conditions may need modification to suit the needs of planning. But to imagine that any

change in prevailing institutions will bring serfdom is unjudicious. Institutions are means and not ends in themselves, and the tendency to confuse means and ends is an enemy of progress. (This does not deny the use of scruples in the choice of means).

Planning, no doubt, increases the concentration of power in the state. The risk involved, if the power is abused, also increases. The remedy is to provide adequate checks and balances and not to be frightened away by the mere existence of such power. The problem of increased power and increased risk of its abuse is the problem of progress itself. The human conquest of nature has placed enormous power in the hands of man and it is often abused. But few suggest going back to the primitive way of life by eliminating such power. The solution is to take adequate measures of safety and to enforce proper social conduct.

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E.J.	Economic Journal
I.L.R.	International Labor Review
I.P.P.	International Postwar Problems
J.P.E.	Journal of Political Economy
M.L.R.	Monthly Labor Review
M.S.	Manchester School
Q.J.E.	Quarterly Journal of Economics
R.E.S.	Review of Economic Studies
S.R.	Social Research

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