

Government Planning in Great Britain

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THE British experiment in socialism has led to the development of a complex system of administrative controls which are of interest to government administrators of all democratic countries. Regardless of personal attitudes as to the desirability of extensive government planning, or otherwise, an examination into the actual techniques of planning can help to broaden and refine the administrator's knowledge concerning methods and techniques. Of particular interest are the methods adopted to reconcile the principles of democracy with the inevitable rigidities of bureaucracy.

Since economic planning and economic forecasting are inextricably bound together in a common purpose, the techniques involved in the one naturally interweave with and interact upon the techniques of the other. For that reason, while a mechanical delineation has been drawn in the present article, the division is purely artificial. It is a systematizing device, and does not obviate the fact that the two techniques are closely interlocked.

I

THE White Paper on Employment Policy was tabled in the British House of Commons during May, 1944. Since a

Coalition Government was in power at that time, emphasis was placed on the highest common factors on which all parties could agree. The White Paper therefore reflects the decision to promote high levels of employment by indirect measures of control rather than direct. For this reason, while the Paper outlines some of the problems involved, it does not properly indicate the policies of the present regime.

In the White Paper the British government stresses three major problems in the maintenance of employment. They are, first, the micro-problems involved, second, the importance of foreign trade, and third, the autonomous influence of investment.

With respect to the first, the local problems, the government set up three objectives: (a) by influencing the location of new enterprise, to diversify the industrial composition of areas which might be particularly vulnerable to unemployment; (b) by removing obstacles, to facilitate the transfer of workers from one area to another and from one occupation to another; and (c) by providing training facilities, to fit workers from declining industries for jobs in expanding industries.

In the United Kingdom foreign trade is a large and highly important component in the national income. In 1944 the

government indicated the urgent need for international collaboration. It observed that a country dependent on exports, particularly exports of high quality manufactured goods, needs prosperity in overseas markets. This cannot be achieved without effective collaboration among the nations. The government therefore advocated wide cooperation with other nations, in the first place to re-establish economic stability after the war, and next for the progressive expansion of trade.

The Coalition government also recognized that internal adjustments would be necessary to promote external trade. It is notable that the non-socialist government then in power did accept the fact that some wartime controls over industry would need to be continued. The export industries had to be resilient and flexible, and their claims for raw materials, labor and factory space merited a high priority.

The government also had definite views concerning capital expenditures, both with respect to private investment and to public investment. In the private investment field the government proposed to supplement monetary policy by encouraging privately-owned enterprises to plan their capital expenditures in conformity with a general stabilization policy. It was hoped that the larger firms would follow such a plan readily, for well-established businesses, confident of their long-term earning powers, would obviously benefit by expanding physical plant or replacing obsolete equipment when costs were low. A further inducement was to be provided by adopting a device similar to that of the deferred tax credits to stimulate capital expenditure when depression threatened.

As to public investment the government planned to regulate both central government expenditures and municipal expenditures. Actually only a small proportion of public capital expenditure is undertaken by the central government, the greater part being done by local authorities and public utilities. In the past capital expenditures by these authorities had usually fallen off during depression and risen in times of boom. To reverse this trend the central government proposed to require that all local authorities

submit annually their estimated capital expenditures over the next five years. The plans for the first year or two would be specific, those for later years more general. These plans would then be assembled by the central government and adjusted downward or upward in the light of the latest information on the employment situation. If a slowing down of capital expenditures was desired, loan sanctions and grants would be temporarily withheld. If an acceleration was desired the central government would then grant loan sanctions readily and otherwise facilitate finances to bring forward local government and public utility projects which might otherwise have had to wait for a later opportunity.

II

THE development of government planning organization in the United Kingdom can be divided into three distinct stages. The first dates from 1944 to the fuel crisis in 1947. The organization formed during this period will be outlined first, and the later stages can then be discussed in the order they occurred.

During the first stage a Cabinet Secretariat containing an Economic Section and a Statistical Section was set up to coordinate statistical inquiry and to advise the Ministers on economic policy. Among other projects, forecasting and target work were initiated by the Economic and Statistical Sections. The purpose was to set down the principal data and main considerations necessary to enable the Ministers to reach conclusions. On the basis of these conclusions a plan would be drawn up by the Ministers, setting out in broad terms the distribution of the country's resources among principal competing means. In this way a feasible and satisfactory plan could be formulated for the year ahead, having regard to underlying economic conditions and the declared objectives of public policy.

Within the economic sphere the principal organ in the planning machinery was the Official Steering Committee. This was composed of the senior civil servants in the main economic departments, to-

gether with the directors of the Economic Section of the Cabinet Secretariat, the director of the Central Statistical Office (which comes under the Lord President's Committee), and the senior civil servant in the Lord President's Office. It should be kept in mind, however, that a Ministerial Committee functioned above this group, and the whole Cabinet assumed the ultimate responsibility.

The planning process began with the Economic Survey Working Party, a body of elastic composition generally comprising the economic advisers or heads of the statistical branches of all the Departments concerned, but ultimately limited to the Economic Section and the Central Statistical Office with respect to responsibility for the Survey Report

The wartime system of departmental "requirements", that is, claims on resources and allocations, was adapted to current conditions, and could also have been used for full employment problems had they arisen. Some of the "requirements" originated in the Departments; others were forecasts of market demand; while still others were departmental programs which depended upon private activity for their fulfillment. In the last two cases a forecasting problem arose.

There were other sub-committees of the Official Steering Committee, either standing or set up *ad hoc* to deal with particular questions. There were also other administrative streams which were not formally associated with the Official Steering Committee system. Coordination was achieved at two levels, first, by the work of the Cabinet Secretariat in bringing matters to the Cabinet, and, second, where appropriate, by providing for representation of the Economic Section or the Central Statistical Office on such committees.

The second stage in the organization development began with the Cabinet shuffle which resulted from the fuel crisis in January-February, 1947. Sir Stafford Cripps, who held the Board of Trade portfolio, took over the newly formed Ministry for Economic Affairs. The work of the Official Steering Committee passed to a Central Economic Planning Staff, which served directly under Cripps. An Econ-

omic Planning Board was also set up as part of the Ministry for Economic Affairs, but it served in an advisory capacity only.

In September, 1947, the third stage of organizational development began. Sir Stafford Cripps became Chancellor of the Exchequer, and the Central Economic Planning Staff continued to serve directly under him in this new capacity. At this stage two fundamental changes occurred, and have continued to develop since that time. First, the economic planning processes became much more closely allied to the parliamentary budget, and as a consequence the budget itself has assumed a new significance. Secondly, there has come to be a greater emphasis on long-term planning, partly as a result of the Marshall plan and partly as a result of the more mature planning operations of the government. This maturity is particularly evident in the investment program, always a long-term problem.

III

IN the postwar planning, the parliamentary budget has come to play a very important part. This is also true, of course, in the United States and in Canada; but in the United Kingdom where requirements since the war have been consistently above resources, "budgeting" of scarce goods and services has been particularly essential. The manpower "budget", the fuel and power "budget", and the "budgets" for steel and other scarce materials, form in total the national income and expenditure "budget".

Before Sir Stafford Cripps became Chancellor of the Exchequer these economic "budgets" were quite distinct and separate from the parliamentary budget. This differentiation was explicitly stated in the *Economic Survey for 1947*:

"These economic "budgets" are entirely different in character from the Chancellor of the Exchequer's yearly Budget. They deal with man-years of work and quantities of goods; these may be totalled in terms of money, for that is the only way to add up the host of things which constitute the national production and consumption, but the money figures are really a

short-hand for expressing production. The economic budgets must balance themselves ultimately, for it is impossible to consume more than is produced; the real question is how the balance is brought about. The Chancellor's Budget, on the other hand, deals solely with money; it is his estimate of the Government revenue and expenditure, and forecasts a net surplus or deficit on the transactions of the Central Government. The economic "budgets" have a considerable bearing upon the Chancellor's Budget, but the two forms of national account are entirely different and should not be confused."

The Economic Survey for 1948 reflects a change in attitude, however. In addition the new viewpoint is well brought out in Sir Stafford Cripps' budget statement in the House of Commons on 6 May, 1948:

"The problem of removing inflationary pressure is not the only one affecting the Budget, though certainly the most immediately important. There are two ways that inflationary pressure can be reduced—voluntary withholding of spendings and Government taxation. Much of the Government's capital investments of the highest priority should properly be met from savings. But in the present inflationary condition a different and more stringent test is required. Inflationary pressure has not yet decreased to a marked extent. In view of these factors we must secure a Budget surplus big enough to yield a balance after all the forms of Government expenditure have been met."

Cripps went on to point out that the budget must have two objectives: "First, to obtain, with equitable distribution of the load of taxation, a real substantial surplus which more than provides for all Government expenditure, capital and current, and leaves a balance to be used to counter inflationary pressure, and second, so to adjust taxation as to encourage production by providing a better incentive to producers."

The 1948 Survey speaks in terms of inflationary and deflationary influences, but the inflationary problems merely indicate the basic problems involved in allocating scarce resources among competing ends. The large capital investment program and the ambitious export targets are

both desirable but inflationary factors. To offset them Cripps arranged, both in 1948 and in 1949, that the parliamentary budget should provide for substantial surpluses to drain off the large accumulation of expenditure funds. In addition, an agreement was concluded with the private corporations to the effect that dividend payments should not be increased. Efforts to freeze wage levels by agreement with the trade unions were less successful. Other deflationary devices have been rationing and special luxury taxes to discourage particular types of expenditure.

The food subsidies are, of course, inflationary, but they form part of the philosophy of more even distribution of essential goods. Sir Stafford Cripps in his 1948 budget statement presented the peculiar argument that they were actually deflationary in operation, saying, "We have decided to continue subsidies because we are convinced that, although in theory they may be inflationary, in practice they have an opposite effect since they restrain the demand for increased personal incomes to meet the increased cost of living." The argument would appear to be valid only if it is admitted that there is no adequate control over wage demands, as there is over dividend payments.

IV

THE economic forecasting and planning work done by the Economic and Statistical Sections of the Cabinet Secretariat falls into two classifications or stages. They are (a) the survey and (b) the plan.

The "requirements" of the government and the private sectors of the economy are obtained through a survey which is made for a year in advance. A breakdown on a quarterly basis is also undertaken. The survey is based on submissions by the Departments. These submissions contain the departmental programs plus desirable targets which are set for the private sectors of the economy in which the individual Departments are interested. In cases where a Department's statistics are more readily related to a period other than the calendar year, that is the financial year or the crop year, these Departments are

asked to put in estimates based on their operational year in addition to the estimates relating to the calendar year. In this year the calendar year figures may, if preferred, be shown as rough corrections of the operational year data.

Expenditure figures are classified according to particular categories of demand and are related to the estimated demand for particular end-products or classes of end-products. The figures are therefore provided by the Departments responsible for the end-products concerned. Manpower figures, on the other hand, are classified by industries, and are provided by the Departments responsible for those industries. In cases where a Department is responsible for an industry which provides material for other industries, or for an industry some of whose end-products are the concern of other Departments, the responsible Department must know all the claims to be made on the industry before it can formulate consistent manpower requirements. To avoid delays on this account, such claims are put in and made available to the responsible Department in advance of the general timetable.

The Central Statistical Office, in conjunction with the Economic Section, makes an estimate of the aggregate pressure of demand for consumption goods and services on the basis of current personal income and past savings. In consultation with the various Departments, this estimate is broken down into a number of broad categories of consumption demand. The estimates allow for the effects of overseas shortages both on the consumption of specific items (more currently import shortages caused exclusively by restrictions) and on the probable diversion of demand into markets for other things. But, as part of the calculation relates to the level of potential demand, the effects of possible limitations on domestically produced supplies are excluded at this stage. Concurrently with the above, the Departments themselves estimate requirements which, in view of departmental policy, they regard as reasonable minima in cases where a shortage of supplies is anticipated.

The Departments also put forward estimates of expenditure requirements for other

classes of demand, that is, for current central and local authority purposes, for investment and for exports, on the same principle as that already outlined, namely, at levels sufficient to fulfill departmental policies and programs, having regard to the need for economy, the urgency of demands, and the different degrees of direct control which can be exerted. In a number of cases, therefore, requirements proposed on this basis are smaller than those which would fully meet current market demand. In the case of exports, as with home demand, it was generally assumed that the seller's market would continue throughout the period under survey. There has recently been some modification of this assumption in so far as sales to hard currency countries are concerned.

In addition to showing the aggregate of demand in relation to the supply of national resources, the survey indicates the likelihood or otherwise of particular requirements being achieved in view of prospective supplies of labor, fuel, raw materials, etc., and the conditions necessary for meeting these requirements wholly or in various degrees. This subject is discussed by officials of the Cabinet Secretariat in consultation with senior members of each individual Department.

Expenditure figures in the survey are presented in terms of the prices and costs which are expected to be ruling at the time. In the first stage the Departments state the expenditure requirements in terms of current wages and current import prices, adjusted for changes which it is known will take place within the period of the survey. The Ministry of Labour then forecasts movements in wages and hours in particular groups of industries, while the Treasury forecasts possible changes in import prices. Adjustments of each Department's figures are then made in consultation with that Department.

A similar procedure, in terms of known changes followed by adjustments, is followed with respect to indirect taxes, insurance premiums, etc., and also with respect to retail prices of subsidized goods. Expenditures on subsidies are then deducted.

In putting forward manpower requirements the individual Departments responsible are obliged to show how these are related to the requirements for expenditure put forward for the period under review or to demands anticipated for further ahead, by reference to the assumptions made about costs and productivity.

The results of the survey are coordinated by the Economic Section of the Cabinet Secretariat. These requirements, in total, form what is ordinarily referred to as the economic target

Thus it will be noted that the British government does not prepare an objective forecast separately from the survey. Forecasting is implicit in the surveys undertaken by the several Departments, and only in the event of inter-departmental conflict would an "objective forecast" be shown separately from the survey forecast. For example, manpower forecasts are made, but only if the claimant Departments and the Ministry of Labour could not agree would two figures be shown. Otherwise the forecasts and the requirements would coincide.

ON the basis of the survey a report by the Cabinet Secretariat is submitted to the Ministers, together with comments, joint conclusions and recommendations for economic policy by the Official Steering Committee. Beginning in 1947, this work was assumed by the Central Economic Planning Staff, working under the direct supervision of Sir Stafford Cripps. Thereafter, the Ministers reach a decision on an allocation of the resources in which they try to bridge the gap that exists between requirements and total available resources, having regard to probabilities. Since the survey has already been more or less scaled down to practical size, the Ministerial decisions are principally concerned with means for bringing about desired shifts in the components.

In this connection the important change, since Cripps became Chancellor of the Exchequer, is the positive role of the parliamentary budget in bringing about these desired shifts in the components so that the necessary requirements will be met.

Since the plan is based on the calendar year, and since the parliamentary budget is ordinarily brought down in the House of Commons in the spring, the parliamentary budget may not take into account the changes desired in the economy during the first quarter. When it is brought down however, the plan will have determined the general, though not the particular, provisions contained in it. Thus, if a large investment program and a high export target are assumed in the calendar year plan, a rigorous and disinflationary budget to restrain consumption becomes inevitable. This internal consistency between the plan and the budget is possible only when the management of the two is closely linked; and in the United Kingdom both the plan and the budget appear to have come largely under the control of the Chancellor of the Exchequer.

V

WHILE the British procedure can definitely be described as plan forecasting, it should be noted that the plans formulated must match the majority desires of the public if they are to succeed. Moreover, even though the government may use persuasion in the form of detailed explanation and propaganda, it has to contend with an active and vocal opposition party at all times. Thus the British procedure differs quite as radically from that used in totalitarian countries as it does from the target work which is attempted by the free enterprise economies through monetary or quasimonetary policies rather than by physical planning.

As Professor R. C. Tress (formerly a member of the United Kingdom Cabinet Secretariat and now of the London School of Economics and Political Science) very properly points out, the Russian budget speech for 1949 and the Cripps budget speech for the same year read very much alike. But the first is not subject to open criticism by democratic procedure and the second is. Therefore, while the internal budget procedure of the United Kingdom would appear to resemble the Russian, the parliamentary procedure is radically different.

The objective of the United Kingdom government is to devise a plan for the utilization of the national resources which is popularly acceptable, and which can at the same time be popularly carried out. The extent to which the government has reached this objective is a political judgment which the British people themselves are best qualified to make. Of course, even the British people do not directly determine the annual budget. A government may have general parliamentary support, and yet in any one year it may present a budget which does not have popular support.

Altogether there are several points of comparison and contrast between the British and American techniques. The first relates to government policy. In Britain there seems to be a much closer relationship between economic forecasting or survey work and government policy determination than there is in the United States. This is, of course, a reflection of the wider and more direct control which the United Kingdom government undertakes to exercise over its national economy. Such control is not entirely a development of the Labor government. The need to regulate and to encourage foreign trade, the chronic though not continuous problem of unemployment, the progressive advancement of social legislation and the welfare state, and, finally, the impact of wartime controls, many of them with varying degrees of rigidity, have all contributed to an extension of direct government controls over private enterprise.

The second point of comparison arises in connection with net national income at factor cost. Up to and including 1948 the United Kingdom surveys and plans were presented in terms of net national income and expenditure at factor cost rather than in gross national income and expenditure at market prices as is done in the United States. This required the subtraction of depreciation allowances from gross capital formation to arrive at net capital formation, and the deduction of indirect taxes less subsidies from total expenditures to arrive at net national expenditures. In preparing *The Economic Survey for 1949*, however, the gross na-

tional product at factor cost was used so that gross capital formation is now shown.

As a third point the United Kingdom forecast is expressed in terms of the prices anticipated during the forecast period, with the exception of the 1949 Survey which is in end-1948 prices. This involves a forecast of price changes as well as of income and expenditure aggregates.

The fourth and final point has to do with the publication of surveys and plans. The current British procedure is similar to that followed in the United States, and is in contrast to the restrictive method which is at present being followed by the Canadian government. Thus, at the present time the Canadian government publishes an annual estimate of investment and an estimate of the potential supply of basic materials. Early in 1949 the Prime Minister announced that a Gross National Product of \$17 billions might be expected for the year, but no explanation of the forecast was offered. It is true that in the very early stages the United Kingdom forecasting unit did hesitate to publish forecasts because of the fear that pioneer weaknesses might discredit the whole procedure. But that feeling has long since passed. Since the spring of 1947 an annual White Paper, and since 1948, a popular illustrated version as well, have been issued in which the probabilities for the calendar year are indicated. In addition radio broadcasts and other publicity are provided. Also the United Kingdom forecasters feel that there is merit in a free international exchange of ideas and techniques in economic forecasting, and have cooperated readily with American and Canadian governments in this regard.

VI

ORIGINALLY the United Kingdom concentrated on its annual survey and plan, and did not attempt extensive studies into long-range prognostication. But the need for a large investment program and an accelerated rate of export trade, which are both of a long-term character, have brought about a change. Moreover, there was a second and very pressing reason.

As a member of the Organization for European Economic Co-operation, and as a recipient of American aid under the European Recovery Program, the United Kingdom has been required to prepare long-term estimates for the period from 1948-49 to 1952-53.

The machinery for devising and preparing these estimates is similar to that used in the preparation of the annual forecasts. With due regard for the uncertainties, the work involves greater precision than that which is attempted in the United States in connection with its formulation of long-term policy. Nonetheless, the United Kingdom government fully recognizes the difficulties inherent in any long-term planning. According to official statements, long-term economic planning in the United Kingdom is based upon three fundamental facts: (a) the economic fact that the United Kingdom economy must continue to be heavily dependent upon international trade; (b) the political fact that Britain is and intends to remain a democratic nation with a high degree of individual liberty; and (c) the general fact that no economic planning body can be aware of more than the very general trends of future economic developments.

For an open economy, like that of the United Kingdom, the assumptions and forecasts underlying long-term planning are largely the result of the assumptions and forecasts concerning international trade. Plans for production, capital development, and consumption within the country must be linked to findings relating to foreign trade. Yet, in the international field matters of trade are not under the control of any one country. Nonetheless, the United Kingdom has undertaken to direct the general course of events in some respects. The basic problem with which she is faced is to attain economic viability by the time the American aid program comes to an end in 1952. According to government policy, this entails a curtailment of imports from the western hemisphere; increased exports to the western hemisphere; further expansion of trade within the colonial area and the sterling area; the economic development of colonial areas as a source of basic raw materials;

and the expansion and integration of intra-European trade.

On the domestic side full employment is assumed. A capital investment program of some size is planned, and other technical means for increasing productivity are under study. A maintained but little improved standard of living for the people is assumed. In the latter connection it should be noted that the socialist program already in operation has had the effect of lowering living standards of the upper and middle classes, while it has raised the basic standards of the lower classes by comparison with the higher ones. As Sir Stafford Cripps stated in the House of Commons in October, 1948, this has been accomplished largely through broad and indirect measures, such as progressive taxation, rationing of food, price controls, food subsidies and social legislation.

The moderate socialist view, however, is that recovery must not be purchased at the price of arbitrary and excessive interference with the liberties of the individual. The government states that it intends to make continued use of traditional techniques of financial policy, that is, progressive and directive taxation, and also that it intends to exert direct public control over certain basic industries. In addition, it considers that a large measure of control will have to be maintained over imports, over total consumption, and over the direction and volume of capital investment. But the government indicates also that powers of prohibition and compulsion over the particular economic acts of individual citizens should be confined to the narrowest possible field. Where possible the execution of plans is to be based upon the voluntary cooperation of individuals, and certainly upon the willing cooperation and understanding of the general public. This objective recalls the views of Sir William Beveridge as expressed in his *Full Employment in a Free Society*, published at the end of World War II.

As a specific and precise statement of its long-term plans the United Kingdom has prepared a balance of payments schedule for 1952-53. The main imports and exports, such as food, tobacco, raw materials, shipping, tourist traffic, interest, profits

and dividends, etc., are listed. Also the anticipated patterns of trade, for each of these items, which the United Kingdom expects to have with all the major trading areas of the world are shown. Based on this detailed estimate of international trade a forecast of the internal economy in terms of the national accounts has also been prepared.

Although these estimates are expressed in exact monetary terms, the government stresses the fact that as forecasts they are of doubtful value. They are really only production, trading and consumption schedules which the government admin-

istrators hope and believe they can attain on the basis of currently known conditions, and upon assumptions concerning the future which currently appear reasonable and feasible. Should conditions alter so that the assumptions required revision, then the estimates and tables would also need to be altered accordingly. For this reason the United Kingdom government lays particular stress on the need for flexibility. The long-term forecasts and plans are put forth simply as statements of economic strategy, and should not be interpreted as complete and rigid instructions for several years ahead.

The Beast of Fear

The Beast to fear is not the bear,
Is not the panther, not the snake
In any of his modern patterns,
In any of his deadly forms.

The beast to fear is none whose lair
Is death to Adam, death to Eve
In any of their modern patterns,
In any of their deadly forms.

The beast to fear is on the stair—
The ape corrupted into sheep,
In any of his modern patterns,
In any of his deadly forms.

LEROY SMITH, JR., in

SATURDAY REVIEW OF LITERATURE