CHAPTER II.—GENERAL POLICIES

29. In this chapter are described the policies of a general nature that the United Kingdom intends to adopt in order to guide the nation's effort in the economic field during the next four years. These general policies are fundamental to the success of the more detailed plans and programmes described in subsequent chapters.

(1) THE PROMOTION OF UNDERSTANDING AND COMMON EFFORT

30. The difficulties of the present economic position do not present themselves in an obvious form to the British public. Unemployment is barely noticeable; jobs are apparently secure; industry is finding it easy to earn profits; wages are relatively high; the necessities of life are more fairly distributed than ever before; and because they cannot buy many necessaries, many people have money which they can spend on things which they would otherwise regard almost as luxuries. A real and grave crisis in economic affairs seems remote and unreal. At the same time many workers have in the background of their minds the unemployment between the wars. This comes to the surface when the practical problems of changes in the structure of industry involve changes of employment, and, perhaps, the risk of unemployment in the transition.

31. For this reason it has been, ever since the end of the war, the policy of the United Kingdom Government to give the people at all times the fullest information about the realities of the economic situation, and to impress upon them the need for a high level of production. A large volume of statistics of current economic affairs is published monthly; and every year there is issued an Economic Survey in which immediate needs, prospects and policies are explained as fully and forcibly as possible. Modern techniques of publicity are used to explain and bring home the contents of these surveys, and generally to make known to the nation its fundamental economic problems and the policies necessary for their solution.

32. Techniques of joint consultation between Government, management and labour in the preparation and execution of plans have been widely developed. These are essential to the efficiency of democratic planning and to the promotion of a proper understanding of national problems. At the highest national level the Economic Planning Board, the National Joint Advisory Council and the National Production Advisory Council for Industry are particularly concerned with general policies. For particular industries the Departments concerned have their own machinery for consulting the management and trade union side of such industries at the national level. At the Regional level the Regional Boards for Industry (represented by their chairmen on the National Production Advisory Council for Industry) bring together the regional officers of Government Departments and the two sides of industry. The general purpose of all these consultative bodies is similar; they provide a regular means of consultation between Government, management and labour.

(2) FISCAL POLICY

33. The central principle which guides the financial policy of the United Kingdom was stated by the Chancellor of the Exchequer in opening his budget on 6th April, 1948, "Government expenditure and revenue ought not to be considered in isolation from their effects upon the general economic prospects of the country. . . . . The new task of the Chancellor of the Exchequer is not merely to balance the budget; it is a much wider one—to match our resources against our needs so that the main features of our economy may be worked out for the benefit of the community as a whole."

34. In order to make the fullest use of the available resources, the fiscal policy of the Government must be directed to the maintenance of a high level of employment. It became evident in the course of the year 1947 that a persisting inflationary pressure, originating in the necessities of financing a total war, was liable to impede the course of recovery. The pressure of home demand was competing with the needs of the export drive, both directly and through its tendency to drive up costs and prices. At the same time, an abnormal prosperity was being experienced by all industries, which hindered the best use of resources because of its effect upon the expansion of those industries whose products were most urgently needed from the national point of view. Both the supplementary budget

of November 1947 and the budget for the fiscal year 1948–49 were designed to correct this situation. In opening the 1948 budget, the Chancellor stated one of its principal objectives in the following words: "Sufficient purchasing power must be withheld by taxation and by voluntary saving to offset the purchasing power created by public expenditure and capital investment." Since the current level of voluntary savings was inadequate to finance the investment programme, the 1948 budget was designed to produce a surplus of revenue over current expenditure of £780 million (over 3 billion dollars), which was expected not only to meet the capital expenditure of the Government but to provide a further sum estimated at about £321 million (over $1\frac{1}{4}$ billion dollars) towards the total saving needed to offset private investment.

35. Thus the policy of public finance is to maintain full employment but to counter any inflationary pressure arising from a deficiency of voluntary saving in relation to the projected level of investment. The application of this policy is a matter of considerable delicacy and it is clearly impossible to forecast the particular form which will be taken by subsequent budgets. The investment policy described elsewhere in this programme, which plays a large part in the plans for recovery, is placing, and will place, a heavy strain on British resources, particularly in view of the objective to eliminate the present overseas deficit within the period of four years.

36. If a deficiency in demand became apparent, the policy of full employment would require an appropriate change in fiscal policy. To quote again from the 1948 budget speech "We must watch the situation carefully and be ready to detect the moment when the inflationary pressure vanishes and gives place to deflationary tendencies; if such a thing should happen, we must then make a rapid readjustment of our economic and financial policies."

37. Within this general framework the fiscal provisions should encourage the general increase in productivity which is looked for during the recovery period; while the system of indirect taxation and of subsidies contributes towards a general policy of price and wage stabilisation. To encourage productive effort the 1948 budget made considerable reductions in the burden of direct taxation on earned incomes and the rates paid on the lower ranges of income were reduced. The policy of food subsidies, which was designed to keep down the costs of essential foodstuffs and thus to support the general objective of costs stabilisation referred to in the following section, was continued. One of the problems of an inflationary situation is the difficulty of securing the redeployment of labour into the more essential but not always the more attractive industries, and the present fiscal policy, accompanied by the measures described below, is designed to assist this movement.

(3) POLICY IN RESPECT OF PERSONAL INCOMES

38. A general increase in the level of personal incomes unless matched by increased production would merely raise costs and prices, imperilling the drive for exports and imposing hardships on all those with fixed incomes. Ultimately a continued movement of this kind must bring economic ruin and social breakdown. All are agreed that it must be prevented. In the United Kingdom wages are determined by collective bargaining. These methods of free negotiation and agreement have had great success. In the last three years only 10 million days' work have been lost in industrial disputes compared with practically 150 million in the same period after the first world war. It is the Government's constant concern to assist the two sides of industry in developing their machinery for joint negotiation and the settlement of disputes. Owing to the awareness by both sides of industry of their responsibilities, movements of wages and prices have not been so rapid as to cause fears of a runaway inflation. The Government has, however, issued a statement setting out certain vital principles for the guidance of those responsible for determining the level of personal incomes from whatever source. The Government at the same time announced as its policy that when remuneration is increased in any class of employment there can be no presumption, whatever may have been the practice in the past, that the resulting costs will be taken into account in settling controlled prices, charges or margins, or other financial matters requiring Government action. Another problem which is being faced in the United Kingdom concerns traditional or customary relationships between personal incomes which tend to persist in spite of changed