

except those on drink and tobacco. The continuation of the heavy subsidies to the cost of living without the mopping up of surplus purchasing power through stiffer indirect taxation of the lower income groups spells lengthy queues. It may well be that this is the best policy, or the only practical policy. But people should not be led to believe that they are getting something for nothing. They are exchanging high prices for longer queues and prolonged rationing.

SOME OF the effects on enterprise, economy and effort of the sustained high rates of direct taxation are fairly familiar. It should be noted that the deterrent effect of income tax on work (especially on overtime) has become much accentuated since the introduction of P.A.Y.E. Until then there was an appreciable time lag between a specific effort and the payment of tax attracted by it. The disappearance of this time lag has vividly brought home to the worker the difference between the gross and net rewards of effort, and has had an adverse effect on work in some industries. Income tax is still extremely unpopular among wide sections of manual wage earners, and the influence of the more highly paid workers may well prove the most important factor working towards a reduction in the standard rate of income tax, though the pressure may be greater for raising the exemption limit and for extending the range over which the reduced rate applies.

The adverse effect on production of a high income tax, the political difficulties of maintaining or raising the existing indirect taxes, and the inflationary effect of a substantial deficit at a time of a general shortage of commodities suggest the need to look for other sources of revenue.

At its present high level direct taxation has some further, less obvious but quite important, long term effects. It is a powerful factor strengthening the established business in competition with younger firms or newcomers, since these are prevented by the high taxation from accumulating reserves which their rivals already possess. The large companies grumble freely at the heavy burden of taxation, and point to the substantial proportion of their handsome profits which they have to hand over to the Exchequer. But they rarely realize that if taxation were less heavy their position *vis-à-vis* actual or potential competition would be less secure. Here is yet another instance favouring those already in the ring. Discrimination is, of course, strongest against the small man. The high standard rate of income tax also discourages hazardous business ventures, since a large part of any gain has to be surrendered in taxation, while the chance of loss is not diminished.

Very heavy direct taxation may also be a fairly influential long term factor in favour of currency depreciation. Some aspects of this matter have recently been reviewed by Mr Colin Clark in the *Economic Journal*. He argues that whenever Government expenditure exceeds about one-quarter of the national income, strong forces are set into motion in favour of raising prices and thus lightening the burden on the Budget and ultimately on the taxpayer. While Mr Clark's presentation of the argument gives ground for considerable criticism, there is a good deal of evidence in support of his broad conclusions. When a large part of the tax revenue is derived from direct taxation, the burden is likely to be particularly acutely felt and pressure correspondingly strengthened for lightening it through inflation.

THIS YEAR'S issue of the annual White Paper on national income, expenditure, savings and kindred matters once again reveals the revolutionary changes in the distribution of net incomes brought about by the phenomenal taxation of high in-

comes since 1941. There is a virtual ceiling on net incomes of about £6,000, but there are only about sixty taxpayers with such a net income, and well under a thousand with a net income of over £4,000. Care must be exercised before drawing too far reaching conclusions from these figures. They do not, of course, allow for any capital appreciation. There is also a good deal of evasion through expense and entertainment allowances and income in kind. In particular, entrepreneurs and company directors often regard (and return!) as expenses outlays which are part of their personal expenditure. But when these considerations are fully allowed for, the burden of taxation on the rich, and even on the comparatively well-to-do, shown by the White Paper is really striking. The urban middle and upper-middle classes (especially those with fixed money incomes) are particularly hard hit, as they are least likely to receive expense or entertainment allowances or income in kind.

The effects on the distribution of net (i.e. spendable) incomes of this spectacular taxation of the well-to-do is never mentioned by the Left Wing critics of a free economy. Uninitiated readers of such papers as *The Times*, the *News Chronicle* or *Tribune* could rarely guess the true position, since the distribution of income is generally discussed in these papers in terms of pre-tax income. It is in many ways remarkable

that the unpopularity and denigration of private enterprise should have reached such lengths just at the time when the wealthy have accepted this taxation, and when the gap between the standards of consumption of the various classes has been so greatly reduced. This suggests that those who blame the inequality of wealth and incomes for the present discontents are mistaken in their diagnosis, and that the cause of the dissatisfaction must be sought elsewhere. It will be realized that if redistribution of pre-tax incomes proceeds very far, the yields of surtax and of death duties are bound to decline, so that if direct taxation is to make substantial contributions to the general revenue, the lower income groups will have to bear a substantial part of the burden.

An illuminating contrast emerges from the expenditure figures in the White Paper. Last year some £1,200 millions were spent on drink and tobacco, while all rents (including rates), totalled about £500 millions. It would be very unwise to decontrol rents at present, but it is hard to maintain in the light of these figures that the British working man could not afford to pay more than 10s. a week for his house. The figures, taken in conjunction with the housing shortage, well reveal the results of the policy of maintaining the price of an essential commodity below the free market price for the better part of a generation.

NOTES on the WAY

Social Capitalism

By MICHAEL POLANYI

AT THE END of a long quarrel it is difficult to remember what it was all about. Nor is there much purpose in recalling the original issue unless to show what progress has been made by fighting it out.

This applies to the conflict between Socialism and Capitalism. Could we but realize to the full the profound transformation of capitalism towards greater social solidarity—and see at the same glance the wholesale withdrawal of Socialists from their earlier claims—the passage of the last 100 years (since the Communist Manifesto was written) would appear as a continuous process of mutual instruction, crowned by fundamental reconciliation.

BOTH SIDES of the conflict have shared some basic errors which took their origin in the fatefully wrong theory which capitalism had given of itself at the opening of the 19th century.

Industry and commerce were governed—so the leading economists of that age taught a readily believing public—by the unailing principle of self-interest. Supply and demand settled the tasks of all human endeavour and the laws governing profits and wages fixed everyone's proper share and reward. Labour's share tended towards the minimum of subsistence. These laws were inexorable, as they formed part of the great arrangements preserving the order of nature. Thus—through the mouths of Bentham, Ricardo, Malthus—did capitalism announce its arrival at the gate of the 19th century.

A great truth was here turned into false prophecy. For the discovery of the invisible hand allocating economic resources to a delicately ad-

justed, infinitely complex pattern was true. It was—and remains—a great vision of a harmonious human co-operation. But in demanding that the whole life of society be governed by the laws of the market, this vision was turned into its own travesty.

For the true motives of the movement which led up to capitalism were generous and liberating. It had fought lawless feudal oppression. It had eradicated parasitical privilege and opened to each man access to economic opportunities. It had replaced a hierarchy of hereditary bonds by a network of voluntary responsible obligations. It had helped to discover and proclaim the Rights of Man. It was perverse, therefore, to describe the capitalist system as a mere machine of interlocking appetites; as a cruel and inexorable robot.

WHENCE THIS curious self-debasing deception? It sprang from a new conception of society based on scientific pretensions. Bentham had jeered at the hollowness of the Rights of Man and promised to build a good society on the scientifically secure grounds of the Desires of Man. Ricardo and Malthus followed with gusto, defining society in terms of greed and of mathematically progressive breeding. The scientific travesty of society was complete; mercy banned as unscientific; sympathy indicted as the true enemy of welfare; Gradgrind and Bounderby set up as sentinels to guard society against disorganization by any outburst of an unscientific generosity.

From here Marx took his clue for his class war theory. If capitalism promised general welfare

[In order to preserve the essentially individual character of NOTES ON THE WAY we allow those who contribute them an entirely free pen. We must not be taken as being necessarily in agreement with the opinions expressed.—EDITOR, TIME AND TIDE.]

through unrestrained smash and grab, socialism would follow suit and go one better. It affirmed that the establishment of a perfect society—planned and classless—would necessarily result if one class mercilessly devoured the other.

Marx's prophecy was in fundamental harmony with the extreme *laissez-faire* theory of capitalism—both when it insisted that social reform under capitalism was impossible, and also in putting forward its own combination of satanic and inexorable mechanical laws guaranteeing the automatic advent of a Millennium. It is characteristic that Marxists up to this day hold firmly to the early theory of capitalism, even though meanwhile a century of social reform has radically changed the conditions which according to this theory should have remained rigidly fixed for ever.

FOR WHILE Marx was busy writing up his indictment of the capitalist system, based on the horrors of early 19th century conditions, capitalism around him was resounding with the axe of reform. During the thirty odd years (1849-1882) that he sat in the British Museum elaborating his thesis of the progressive pauperization of the working class, British workers' hourly earnings more than doubled. In the same generation the barbarous use of child and woman labour was effectively reduced; protective regulation and inspection was extended to workers in most industries; the employers' special liability for accident established; the right of Trade Unions to strike and picket legally recognized; sanitary conditions in and around workers' dwellings comprehensively regulated; local School Boards set up with legal power to subsidize and enforce cheap general education, and the parliamentary vote by secret ballot extended to practically all town labourers.

SOCIAL REFORM advanced unceasingly. But there was no blessing on it. For at every step it was liable to contradiction by authoritative opinions horrified at the unwisdom of flying in the face of economic necessity. There was no iniquity of economic exploitation, no arbitrariness in the employers' rule over the workers, no irresponsibility in respect to the social repercussions of the factory system that could not appeal for defence to the "inexorable laws" of economic science. The objections were overruled but widespread misgivings remained.

To this uneasiness the growing band of Marxists contributed their share. They jeered at the futility of plastering over the deadly antagonism between the exploiter and his victim. They denounced it as an attempt to becloud the issue of class war and to bemuse the class consciousness of the worker.

Thus Social Reform came into its own apologetically, with an uneasy intellectual conscience, among the misgivings of the friends and the jeers of the enemies of the capitalist system.

MEANWHILE the doctrine of class war had triumphed in Russia. It brought a measure of social reform, educational progress and industrial expansion. All these advances which had been quietly achieved in other countries, were gained, under Marxist guidance, with a maximum of violence, hatred, suspicion and oppression.

There was also a great display of vigorous economic action by the State. Yet finally the régime submitted—however reluctantly and surreptitiously—to allowing economic life to be guided in most of its day-to-day decisions by the pursuit of commercial profit.

BUT WHAT about unemployment?

It is generally assumed that Russia abolished

unemployment by "economic planning" and that capitalism could achieve the same result only by submitting to similar measures. Both these ideas are, however, untrue. The official announcement that unemployment had been eliminated in the Soviet Union was made on October 9th, 1930, in the midst of unparalleled economic chaos. It was not economic planning that absorbed the unemployed but an entirely unwanted inflationary expansion, which had originated in the wholesale paying up by the Soviet Government of all losses incurred by its enterprises. And it was this same inflationary bias which has ever since kept up a pressing demand for labour in Soviet Russia.

Nor is there any difficulty in applying similar methods to the abolition of unemployment under capitalism. The Keynesian theory shows that unemployment, far from being inherent in capitalism, is merely due to an incidental defect of it—a defect, which can be eliminated without any other "planning" than is involved in the maintenance of an appropriate budgetary deficit. What is needed is the issue of new money, carefully regulated so as to fill the gap between Saving and Investment.

It is true that there are inconveniences and even dangers involved in applying such a policy. But they are the same under public and private ownership. It is not possible to reduce unemployment under a certain minimum (say three per cent) without flooding the labour market with tides of monetary circulation which will be difficult to keep under control. Stringent regulations for prices and wages and the tying of workers to their jobs may then become indispensable. That will be equally true of public and private ownership. Totalitarian governments have no other than the doubtful advantage that by a severity which no free country would

tolerate they can keep under control an exceptionally large volume of circulation. In any case the controls usually described as "planning" have no part in creating full employment, but come in only to counteract the dangers of an existing excessive state of employment.

THERE IS thus little difference left between the workings of State ownership in Russia and Social Capitalism in the West.

Russian practice has submitted to the necessity of conducting the day-to-day affairs of economic life mainly by the pursuit of commercial profit. Capitalist practice in the West indicates that all requirements of social justice can be met under private ownership: Unemployment can be eliminated both under State and private ownership through maintaining an adequate flow of purchasing power in terms of money. Nor is there any other way of maintaining Full Employment under either system. The difficulties to be met by a policy of Full Employment are also the same under both systems.

WE MUST get rid of the false theories which perpetuate the apparent conflict between Socialism and Capitalism. Modern Social Capitalism must resolutely cast off the shackles of *laissez-faire*. It is true that the market is a machine and an indispensable machine, but this machine need not overrule respect for humanity and social justice. On the other hand the monstrous complacency and callousness of Marxism, based on a mechanical theory of history and an empty conception of economic planning, must be radically dispelled.

Then we shall be rid of a conflict between a fiction and a fable and turn to deal again with real problems.

Next week's "Notes on the Way" will be by Canon Roger Lloyd.

Culloden: April 16th, 1746

By GLADYS SCOTT THOMSON

THEY ARE BOTH in the National Portrait Gallery: Charles Edward, of the house of Stuart; William Augustus, his kinsman, of the house of Hanover. Charles Edward, aged twelve years, looks out at the spectator, pink cheeked, with the full dark liquid Stuart eyes—they are said to have been the colour of a dark chestnut—and the equally characteristic full red lips. Across his breast is the blue riband of the Garter, for his father in exile insisted on his right to create peers and to bestow orders. William Augustus, aged eight years, Duke of Cumberland since his fifth year, a plump smiling little fellow, wears the voluminous robes of the order of the Bath, a distinction conferred on him, in this case by the reigning sovereign, when he was four.

When their two armies met at Culloden, each was in his twenty-sixth year; Cumberland four months the younger.

IT HAD BEEN heavy going for both sides. At Derby, on Friday, the sixth of December, 1745, "black Friday", Charles had learned from Lord George Murray, to his incredulous amazement, that, with no effective rising of the English, no landing of the French, the word must be no longer forward to London, but back to Scotland. Cumberland, who had tried to intercept Charles on his way south, but had been given the slip, had been at Coventry that day with ten thousand men, preparing to go on to Lichfield in order to hold the march on the capital. There had been

two more English armies waiting, one under Wade at Wetherby and the third on the heights of Finchley—an army that was to be commemorated by Hogarth in his picture of the March of the Guards to Finchley, and concerning which two directly opposing statements were to be made and accepted: the one, that George II had been preparing to proceed to Finchley himself to take command; the other, that so far from doing this he had been packing up to take refuge in Hanover.

But there had been no advance on London. Slowly, sullenly, Charles' army had fallen back, harassed by the county militias, fighting back and plundering where they could. Behind them had come Cumberland and his men, with some of Wade's army who had joined his, held up on the moors near Penrith by a rearguard action admirably engineered by Lord George Murray, but reaching Carlisle on the twenty-first of December only the day after Charles, on his birthday, had recrossed the Esk into Scotland. He had left behind a small garrison in Carlisle Castle and this garrison had had no choice but to surrender on promise of their lives being spared, but with the promise also of deportation to the West Indies. The reception in London of the news of the very modest success throws some light upon the alarm that had been felt in the capital—after all there had been a run on the Bank of England, which had been reduced to paying out in sixpences. Cumberland was hailed the