Oxford Versus Cambridge on How to Pay for the War: A Comment on Littleboy

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Bruce Littleboy's trenchant article on Keynes's war finance proposals draws heavily on the contemporary critique by the Communist, Emile Burns. Littleboy concludes that '*How to Pay for the War* reveals a partisan side of Keynes that is not usually so evident. Keynes protects the *status quo* and shields the income and property of the wealthy to an extraordinary degree. Those pondering over whether Keynes was essentially a conservative, a liberal or some form of socialist should study Keynes's proposal more closely' (Littleboy 1996, p.94). But what was the alternative? The most influential rival to Keynes's plan came from the (independent) socialist, Michal Kalecki, then based at the Oxford University Institute of Statistics. In this paper I outline Kalecki's scheme for the 'General Rationing' of expenditure, summarise the academic literature on his proposal, and consider Keynes's reaction to it. My conclusion - which I arrived at somewhat to my own surprise - is that Cambridge proved superior to Oxford on this question, where both practicalities and social justice are concerned.

I

The first version of Kalecki's plan appeared, under the title, 'A Scheme of Curtailment of Consumption', in the Institute's *Bulletin* dated 30 June 1940. He raised two fundamental objections to Keynes's scheme, the first of which questioned its practicality:

> 'Compulsory savings will be in many cases offset by reduction in voluntary savings, or even by dissaving. Moreover, compulsory savings may be made by reducing expenditure on rent, entertainments, and other services which release no resources in terms of raw materials and little in terms of labour. Thus the scheme may fail to a great extent to achieve its purpose. If somebody's compulsory savings are made by saving less voluntarily, reducing his dwelling space, or giving up the cinema - he does not, indeed, contribute much to the war effort' (Kalecki 1940 [1997], p.3)[1]

A similar point concerning dissaving had been made in February by J.R. Hicks in an article in the *Manchester Guardian.*[2]

Kalecki's second objection was an ethical one:

> 'Mr Keynes's scheme does not attempt to establish a certain maximum for the consumption of the rich before compulsory saving is imposed on the poor. Moreover, it is clearly chiefly the rich who may elude the curtailment of consumption by dissaving' (*ibid.*).

Instead Kalecki suggested that expenditure in retail shops be restricted to a maximum of £60 per annum for adults, and £35 per child under 14. This constraint applied only to purchases of goods; Kalecki proposed to exempt expenditure on services, since 'reduction of enjoyment of services releases little in the way of raw materials and labour' (*ibid*). Other exceptions were to apply to gas and electricity; second-hand goods; repairs; medicines; and newspapers, journals and books. Kalecki drew on statistical estimates of income and consumption by C. Clark and N. Balchin to calculate the probable reduction in spending in the shops by 'people' (actually, households) with annual incomes over £250.[3] The estimated total reduction was between £420 millions and £550 millions. This, Kalecki concluded, compared favourably with the £500 million expected from Keynes's proposal, which was considerably exaggerated, he claimed, in view of the dissaving that was likely to occur. Administration of the scheme would be relatively simple: coupons would be issued to the extent of the expenditure rations, and it would be a criminal offence for retailers to make sales without coupons. To prevent sales of coupons by poor people, who could not fully use them, to the rich, who could, Kalecki suggested a second constraint on expenditure: 'a maximum *percentage* of income to be spent in shops must be fixed, at a level approximately equal to the actual percentage spent in shops by the poorer population' (*ibid.*, p.4; original stress). This would be enforced by requiring people to submit their unused coupons with their income tax returns.

Six months later Kalecki reasserted the case for general rationing, but made a number of significant amendments. The cash value of permitted expenditure was raised slightly (to £65 and £39), presumably to take account of the inflation that had occurred in the interim. More importantly, Kalecki abandoned the proposed percentage restriction on expenditure[4] in favour of a system whereby the government would buy back unused coupons at face value. This, he argued, would benefit the poor, be easier to administer and be less likely to stimulate a black market (Kalecki 1941a [1997], pp. 9-10). Kalecki reaffirmed the advantages of his plan when set against that of Keynes, and for the first time compared it with the specific rationing of individual commodities. The latter, he maintained, was administratively cumbersome and liable to be undermined by black marketeering; its suspected introduction would also provoke a rundown of stocks of commodities threatened with rationing. General rationing, by contrast, would be 'more convenient ... instead of struggling with an avalanche of coupons, for boots, clothing, electric torches, pots and pans, etc., etc., the consumer and the shopkeeper have to master only one set of coupons' (*ibid.*, p. 11). It offered the consumer 'the widest possible freedom of choice'. Finally, Kalecki held out an olive branch to the proponents of alternative schemes. Income taxation and specific rationing could usefully supplement expenditure rationing:

> 'The savings accumulating as a result of the functioning of the scheme should be at least partly collected not by borrowing but by taxation, and for this reason the income tax rate should be raised. In some cases this will bring a certain pressure on expenditure and so reduce the possibilities of evasion from our scheme.
>
> 'The rationing of some essential commodities is necessary also within our scheme, because the latter only reduces but does not abolish fully the inequality of expenditure. For this reason it may also be advantageous to differentiate our scheme by introducing food and non-food coupons' (*ibid*, p.12).

In a subsequent article Kalecki proposed a weekly 'food expenditure ration' of 12s 6d for adults and 8s for children (equivalent to annual rations of £32/10s and £20/16s respectively) to restrict food consumption to the supplies available from home production and imports, together with specific rationing of particular items in short supply. He concluded that it was 'very likely that use of "food rations" will be approximately full' (Kalecki 1941b [1997], p.15), but did not consider the implications of this for the general rationing of non-food expenditure.

This was in April 1941. By August he was forced to admit that his plan had been largely overtaken by the piecemeal extension of specific rationing. Kalecki therefore proposed that rationing of expenditure be introduced to supplement specific rationing, by imposing a limit on spending on otherwise unrationed food items, and on drink and tobacco (Kalecki 1941c [1997], p.16). Two months later he defended this modified version of General Rationing in no less an organ of finance capital than *The Banker*, contrasting it this time with the government's White Paper on *Price Stabilisation and Industrial Policy*, 'which in effect advocated stabilization of wages as the remedy' for inflation (Kalecki 1941d [1997], p.20).[5] By cutting real wages, Kalecki objected, this would unduly penalise

> 'the lower income grades ... and it is the reduction in their consumption which keeps in balance the demand for and supply of consumption goods. This is not only an evil in itself, but it tends also to reduce the productivity of labour both in the war sector and in consumption-goods industries. There is consequently a danger that the war effort is impaired and the output of consumption goods falls further still, causing an additional rise in prices and fall in real wages' (*ibid.*, p.21).

Comprehensive price controls, on the other hand, would impose the greatest burden on those who lacked the time - or, he remarked sardonically, the servants - to stand in queues. Once again Kalecki criticised the Keynes plan, asserting this time that 'an increase in income tax or the imposition of "blocked saving" may result *chiefly* in a reduction in "free saving" or even in dissavings' (*ibid.*, p. 23; original stress). By this time the battle for General Rationing was as good as lost, and Kalecki's subsequent work focussed on suggestions for detailed improvements to the increasingly pervasive system of specific rationing of particular commodities.

II

Kalecki's war-time colleague, David Worswick, believed the expenditure rationing scheme to have had little or no effect on official policy (Worswick 1977, p. 23).[6] There was, however a lively discussion in the British press: Osiatynski reproduces a cartoon that appeared in the London *Evening Standard* and the *Manchester Guardian* by the doyen of contemporary caricaturists, David Low (Osiatynski 1997, p.488). Kalecki's plan received sympathetic treatment from an editorial in the *Economist*, which praised the work of the Oxford Institute as 'consistently shrewd and realistic'. Kalecki's proposal was a substitute for a fiscal policy of 'sufficient ruthlessness', and

> 'would leave unresolved the problem of distributing physical supplies. In wartime all goods are, actually or potentially, in short supply - essential goods because of the competing demands for them and non-essential goods because it is not necessary to supply them; and the way in which Mr Kalecki's 25s is to be distributed between clothing, furniture, travel, entertainment, tobacco and drink will still be a problem. Nevertheless the proposal does go to the root of the matter in its attempt to prevent fiscal shortcomings from fatally weakening the real war effort; and it is a plain absurdity that solutions of such ingenuity to curtail consumption should be being worked out against a background in which civilian purchasing power - and therefore the difficulty of restraining its use - is mounting more steeply each day' (Anon. 1941a, p.142).

This was the first and last occasion on which the *Economist* would refer explicitly to Kalecki. The journal did however return to the possibility of 'rationing total expenditure on all goods as the final act' (Anon. 1941b, p. 751), and to 'all-in rationing' as a solution to the problems caused by the piecemeal extension of specific rationing, which merely induced purchasing power to cascade down to unrationed goods (Anon. 1941c, p. 788).

Before long an academic literature was also generated, for the most part more critical than this. First into print was J.J. Polak, who in May 1941 published in *Economica* an English version of a paper on rationing that had originally appeared in the Dutch journal *De Economist* before the fall of the Netherlands in the previous year. He now added some comments on Kalecki's plan. Without substantial inequality in income, Polak argued, there would be no need for physical rationing. In an ideal socialist community, rationing by price would be an acceptable way of allocating scarce commodities, as all would be affected equally and the proceeds would accrue directly to the state. 'Inequality', however, 'implies the existence of a group of rich who, owing to their very low marginal utility of money, can push up almost to infinity the prices of a few essential commodities' (Polak 1941, p. 224), and a corresponding reduction in consumption of the poor, below minimum subsistence standards.

Polak's objection to the Kalecki scheme was that it was insufficiently egalitarian. It would leave far too much disposable income in the hands of the rich, who would be able to outbid the poor for essential commodities. Hence it was not, as Kalecki claimed, a real alternative to specific rationing:

> '... his value ration is put so high that a large part of the population cannot spend it; a considerable degree of inequality of income is thus maintained with respect to the commodities subject to general rationing. Hence free choice and free prices are (socially) unworkable under the Kalecki system' (*ibid.*, p. 238n 1).

Instead Polak proposed a system of 'purchasing power rationing' differing from Kalecki's in two crucial respects. First, it was to apply only to necessities and not to (almost) all goods bought in shops. Second, it would be supplemented by measures to enable the poor to buy the minimum ration of necessities, either through means-tested cash payments or by price subsidies. Subject to the latter qualification, there would be no need for price controls, since the business tax system could be used to mop up excess profits. Polak also favoured heavy taxation of incomes to restrict expenditure on non-necessities. His proposal was designed to permit the abolition of specific rationing and the restoration of consumers' freedom of choice. 'No system is needed to regulate the physical distribution of commodities - the consumers can take care of that themselves' (*ibid.*, p. 238).

The desirability of some form of expenditure rationing soon became a live issue in North America. Writing for a Canadian audience, the Leeds economist J.H. Richardson cited both Kalecki and Polak in describing purchasing power rationing as 'drastic and comprehensive ... it has not been considered necessary or desirable to apply it in Great Britain' (Richardson 1942, p.74). It would not obviate the need for specific rationing, Richardson argued, since without physical rationing of some commodities hardship would be incurred by individuals unable to obtain basic necessities in short supply. He did, however, see some merit in the rationing of expenditure on non-essentials - the exact reverse of Polak's proposal (*ibid.*, pp. 74-5).

After the United States entered the war, expenditure rationing was under serious consideration in Washington, or so the *New York Times* reported in May 1942 (Weintraub 1942, p. 109n 1). It held little appeal for Sidney Weintraub (who, a quarter of a century later, would become an enthusiastic Kaleckian): 'Most people in this country would regard [expenditure rationing] as too great a step towards "socialism". Given the present war circumstances the scheme hardly possesses much chance of political success' (*ibid.*, p. 114). There were other grounds for rejecting it, Weintraub argued, in favour of Keynes's proposals. The latter offered at least some 'incentive to work for victory', which was lacking from Kalecki's scheme. Keynes's plan would also produce a more egalitarian postwar distribution of wealth, whereas the rationing of expenditure would simply 'increase the total savings and wealth accumulation of the high income groups' (*ibid.*, p. 112). Finally, Weintraub claimed, Keynes's proposals could be implemented very cheaply through the existing income tax system, while Kalecki's would require a substantial new bureaucracy. 'From the standpoint of administration', he concluded with some exaggeration, 'a system of compulsory savings possesses overwhelming advantages compared to the Kalecki plan of expenditure rationing' (*Ibid.*, p. 114).

Three contributors to the September 1942 symposium in the *American Economic Review* on 'Price Controls and Rationing' also discussed the Kalecki proposal. W.W. Rostow argued that

> 'Schemes for over-all rationing, in fact, emerge as a continuum, stretching from orthodox fiscal policy at one end of the scale to complete and direct allocation of particular resources and finished commodities at the other.
>
> 'Realistic controversy, on a middle ground, now centers on the relative advantages of rationing over-all expenditure, as opposed to rationing commodities by a point system' (Rostow, 1942, p. 498).

The critical issue, Rostow concluded, was the degree of egalitarianism that was desired.

Like Rostow, W. Allen Wallis did not refer to Kalecki by name, but he was clearly familiar with the arguments. Wallis revealed some sympathy for expenditure rationing applied to 'all consumption goods and services' (Wallis 1942, p. 504). He rejected it, however, on the grounds that it was 'more drastic than is required in this country, at least in the immediate future. The degree to which it would equalise consumption exceeds by far what is necessitated by war conditions, and a sudden equalisation of consumption would produce serious secondary shocks, both economic and psychological' (*ibid.*, p.505). Wallis proposed instead a steeply graduated consumption tax, with few or no exemptions, to be levied on all expenditure above a basic (dollar) ration.

Ralph E. Holben's article in the same symposium was dedicated to a severe criticism of 'the Kalecki plan', which he regarded as 'both theoretically invalid and practically quite unworkable' (Holben 1942, p. 513). He raised four objections, two of them relating to contemporary economic conditions in the United States and two with a more general applicability. First, Holben maintained, Kalecki's proposal would induce large and unpredictable shifts in relative prices as consumers reacted to the ration. The shifts could not readily be predicted by producers, and the result would be huge windfall gains (and losses), and considerable waste. Second, and for this reason, the plan was incompatible with the general price freeze introduced by the U.S. Government in May 1942. Third, it was unnecessary: there still existed numerous commodities in plentiful supply, some of which would remain unsold if expenditure rationing were brought in. Fourth, it was excessively egalitarian and would cause great damage to the morale and productive efficiency of the better paid (*ibid.*, pp. 516-20). Holben's own preference was for specific rationing, coupled with income taxation and compulsory saving.

By the beginning of 1943 Hans Neisser could describe Kalecki's proposals as 'well known' in the United States (Neisser 1943, p. 379). Like Polak and Richardson, Neisser criticised them on the grounds that expenditure rationing would not guarantee the supply of essential goods to all consumers; like Holben, he was also concerned about the microeconomic effects. The rationing of purchasing power would

> '... not curtail the expenditure for each item of consumption proportionately, but would cause violent shifts of demand. The limitation of dollar expenditure will induce the well-to-do classes to go over to the consumption of cheaper and inferior qualities (e.g., from steak to hamburger). The market price of these goods would, therefore, display a tendency to rise despite, or rather because of, the limitation of total expenditure. On the other hand, the prices of a great number of goods previously in demand by the well-to-do classes, especially also of the better qualities, would decline considerably' (*ibid.*, p. 379).

Although the poor could to some extent be protected by the provision of subsidies, Neisser concluded that physical rationing of essential commodities would need to be maintained, greatly reducing consumers' freedom of choice. As an alternative to both general and specific rationing he proposed a system of 'group rationing', in broad categories, which permitted consumer sovereignty with respect to choice between close substitutes and allowed the exchange of coupons for one category of good for those of another category (*ibid.*, pp. 389-94).

A more sympathetic discussion of Kalecki's plan came from one T. de Scitovszky (later much better known as plain Tibor Scitovsky), who professed himself unconcerned by the continued need for specific rationing of essential foodstuffs. He proposed a variant of the Kalecki scheme. Instead of employing ration coupons, Scitovsky proposed to make cash 'a restricted currency, whose amount available to the consumer would be limited and graduated according to his income, and whose use would be confined to current purchases of consumers' goods and services' (Scitovszky 1943, p. 123). Cheques would still be used for transactions between firms, while wages would be paid partly in cash and partly in war stamps, which could be saved or used to make contractual payments that did not require cash. New bank notes would be needed ('brown-backs' to replace the greenback). The system could be administered by the banks, and the degree of income graduation could be varied according to the exigencies of war, with complete equality as the limiting case (*ibid.*, p. 124). A similar proposal was put forward eight years later, with due acknowledgement of Kalecki, by Scitovsky, Shaw and Tarshis (1951).

Scitovsky reported a much more far-reaching proposal, published by the Government Statistician of Queensland, Colin Clark, in the Sydney *Daily Telegraph* in March 1942, shortly after the fall of Singapore and reprinted as an Appendix below. Clark (1942) advocated the total suspension of the use of money, with a moratorium on rents, taxes and other contractual payments. Individuals would instead be paid in coupons, with a face value of 15s. per week for adults and 10s for children. Consumer goods would be made available only in exchange for coupons. This, as Scitovszky noted, went far beyond anything previously suggested outside Australia. Even if Kaleckian expenditure rationing were to be extended to all goods and services, savings would remain unrestricted, together with 'the semblance at least of graduated incomes and the distributions of social prestige that this implies. Unimportant though they may seem, these two factors may well be sufficient to make [expenditure] rationing proper more feasible politically than Clark's plan, even in the greatest emergency' (*ibid.*, p. 119).

The American Marxist Paul Sweezy criticised expenditure rationing on different grounds. It was certainly superior to price controls and specific rationing, he conceded. Heavy taxation on middle and upper incomes, combined with compulsory saving for all except the poor, was also necessary. But attention must be paid to the 'production side' of the economy:

> '... it seems to me that just because the expenditure rationing plan *is* the logical outcome of the income approach it shows up most clearly the weaknesses of that point of view. Leaving things to the law of supply and demand, however closely the field of its operation may be circumscribed, is precisely what should *not* be done in a war economy. For adjustments to new conditions via supply and demand shifts take time, often a great deal of time, and involve dislocation and waste of resources ... it is just this that we cannot tolerate in wartime' (Sweezy 1943, pp. 67-8; original stress).

Sweezy therefore advocated 'standardization, simplification, and the elimination of wasteful methods of production and distribution' (*ibid.*, p. 69), in addition to the fiscal measures previously described. But all of this was already being achieved in Great Britain. Sweezy, later to become a personal friend and intellectual collaborator of Kalecki's, was on this issue closer to the Keynesian approach than to the Kaleckian.

Thus, by 1943, Kalecki's proposal had been criticised as on the one hand too 'drastic' and socialistic, and on the other hand as insufficiently egalitarian; for paying no attention to the distribution of wealth or the implications of war finance for postwar inequality; for being unable to guarantee the subsistence requirements of the poor, thereby failing to dispense with the need for physical rationing; and for being wasteful, and difficult and expensive to administer. Some, at least, of these accusations were well-founded. A significant increase in tax rates would have met the critics' objections, to some degree, especially if supplemented by the wealth tax or 'capital levy' advocated, for example, by the Labour intellectual Douglas Jay.[7] While Kalecki did call for higher taxation (Kalecki 1941a [1997], p. 12), he made no attempt to provide details of the required magnitudes. Without them, though, he had no defence to the charge that expenditure rationing in wartime would simply add to the contents of the 'rich man's piggy bank' - to use a term popular with British opponents of wage and dividend controls in the 1960s and 1970s - to finance higher luxury consumption spending in the peace. Kalecki was mildly contemptuous of the 'deferred pay' (or forced savings) component of Keynes's plan (Kalecki 1941a[1997], p.8), but he offered nothing in its place. Particularly striking is his failure to suggest any precise method for maintaining the supply of basic consumer goods to the poor. They were to be able to sell unused expenditure coupons back to the government (unused because unusable, since poor people would lack the cash for the necessary purchases). What Kalecki expected them to do with the money they received in return was not made clear. He never did reply to his critics, point by point, in any detail; probably he was simply too busy with more pressing tasks.

III

What was Keynes's response? From the start he had defended his own scheme on grounds of equity, a recurrent theme being that inflation would cut working class consumption if the Keynes proposal did not. 'The working classes', he told Douglas Jay in December 1939, 'cannot be given increased present consumption, but they can be given a share in wealth, in other words, a claim on future consumption' (Keynes 1978, p. 89). In a radio interview with Donald Tyerman, reprinted in the *Listener* in March 1940, Keynes insisted that the rich alone could not pay for the war: 'If you took away the whole of everyone's income in excess of £10 a week, you would only meet about two-thirds of the cost. So it is necessary that those with less than £10 a week must take a share' (*ibid.*, p. 113).

In his introduction to the (never-published) French edition of *How to Pay for the War*, he described those earning between £5 and £12 per week as the 'most favoured' class, in the sense that they were the least heavily-taxed, and noted that they 'include[d] today a considerable number of the most highly paid trade unionists' (*ibid.*, p. 136). As for a capital levy, Keynes wrote in *The Times* in April, he was all in favour, but only *after* the war (*ibid*, pp. 121-4).

Keynes had always regarded rationing as a 'pseudo-remedy' for the problem of war finance:

> 'But against a general increase of purchasing power rationing is useless. It merely serves to divert demand from the rationed to the unrationed article. Rationing is always a bad method of control because it has to go on the assumption that everyone normally spends the same amount on a given article; and, even apart from the intolerable bureaucratic burden which is involved, this characteristic puts out of court a system of universal rationing applied to all articles' (*ibid.*, p. 43).

This was written in November 1939, several months before the publication of Kalecki's plan, and by 'universal rationing' Keynes must have meant the specific physical rationing of each individual commodity, rather than the general rationing of total expenditure.[8]

In the summer of 1940 he became a Treasury official, and was now prevented (by the conventions of the day) from engaging in public controversy. The internal memoranda reprinted in the *Collected Works* make it apparent that Keynes maintained his opposition to the principle of rationing. There might need to be physical rationing of particular commodities, he wrote (on Boxing Day 1940!). 'But as a means of securing a *general* restriction of expenditure, it is surely far the worst and far the most difficult of the expedients open to us' (*ibid.*, p. 263; original stress).

As far as I know there was no correspondence between Keynes and Kalecki on these matters. That Keynes was aware of the latter's argument is evident from a February 1941 memorandum on 'The policy of the budget'. Selective rationing, Keynes reiterated, 'merely drives the consumer from pillar to post', but was probably inevitable given the circumstances of the time:

> '*Comprehensive* rationing is being advocated in some quarters; for example, a limitation on retail purchases as a whole to a maximum of (say) £1 per head per week. War-communism on these lines has its attractive side. I reject it on the grounds (i) that it concentrates the expenditure of all classes on the cheapest article to the disadvantage of the poorer groups and at the cost of wasting some useful sources of supply, (ii) that it ignores the variety of individual circumstances and needs and breaks down on details, (iii) that it would take many months and use up much manpower to create a machinery capable of administering it, and (iv) that it goes beyond the necessities of the case and also beyond what public opinion is prepared for. There is no good reason to behave as though we were much worse off than we are' (*ibid.*, p. 282; original stress).

As I have already suggested, Kalecki's proposal fell far short of 'War Communism'. But there is much to be said for Keynes's criticisms, especially points (i) and (iii).[9] In the event Britain's war effort was financed by an untidy combination of voluntary saving, specific rationing and increased taxation, the latter being used to soak up the excess profits generated by wartime inflation and offset to a limited extent by 'postwar credits' on the lines advocated by Keynes (Moggridge 1992, pp. 645-8). David Worswick is surely correct: general expenditure rationing was never seriously considered.

IV

I count myself a Kaleckian, rather than a Keynesian, on most major issues of economic theory and policy. I used to barrack for the Dark Blues in the annual boat race, even before I became an (Oxford) undergraduate. I genuinely believed, when I first read Bruce Littleboy's article, that 'General Rationing' dominated *How To Pay For The War*. I was wrong, and Littleboy's critique of Keynes is somewhat overdone.

APPENDIX

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'This war plan is the real thing', by Colin Clark.

If we are lucky we may have two to three months to prepare ourselves against invasion.

We have quite a substantial army in Australia and its numbers are being rapidly augmented, but we are facing attack by an enemy who might well be able to bring up an attacking force of half a million men, and whose command of the sea compels us to disperse our forces over thousands of miles of coastline.

But in the meantime we need to increase the labor engaged in war production and works in Australia from its present figure of some 500,000 to about double that level.

These changes are not outside the bounds of physical possibility.

At present there are still some 900,000 workers engaged in the production and distribution of goods and services which cannot possibly be called necessaries.

If women whose housework does not at present keep them fully occupied were to amalgamate their households, or do part-time industrial work, we would further obtain the equivalent of more than 500,000 full-time workers.

Australia's present population is 7,150,000, of whom 2,500,000 are children under 14, old people over 70, or invalids, leaving 4,650,000.

The forces with their auxiliaries require 1,500,000, leaving a balance of 3,1500,000 potential workers. If each woman kept house for five people (or rather less in the case of young children), or alternatively did some part-time outside work, the essential housework could be done by the equivalent of 700,000 women working full-time.

This would leave a working force of 2,450,000. Our essential civil production requires 1,500,000 workers, leaving 950,000 for war production as against 500,000 so employed at present.

To be of any use to us in our present emergency, these changes must be set on foot at once and carried through in the next few weeks.

The only obstacle is economic. Men engaged in the non-essential trades earn good livings, and they very naturally ask: "Why should I have to join the Army and my family go short, while A-B and B-A are getting such good pay and profits and will continue to get them while I am in the Army?".

And men with a grievance like that will never make good soldiers.

But what a difference there would be if it was known that luxury spending and profiteering were stopped, and everyone were guaranteed an equal ration of the necessaries of life.

These results can only be achieved by a change which is not quite so starting as appears at first sight.

For the duration of the emergency (say, six months) all use of money would be discontinued.

Ration books would be issued fortnightly to every man, woman, and child, and coupons from these books would be used in place of money for current purchases of food and necessaries.

The coupons would purchase about 15/- worth of goods a week for each adult and child over 16 and 10/- for each younger child. Every able-bodied man and woman would have to fight, train, or work as directed by the Commonwealth.

All money transactions would be forbidden. Legal and contractual money payments would be under moratorium for the duration of the emergency - rents, interest, insurance premiums, and the like.

From the legal point of view it would just be as if six months had been taken out of the calendar.

The non-essential industries which occupy 900,000 workers at the present time are:-

Biscuits, cakes and pastry,
Tea, coffee, and cocoa,
Tinned foods (except for forces and pastoral areas),
Patent foods,
Beer, wines, and spirits,
Tobacco,
Private motoring,
Furniture,
Jewellery,
Radios,
Refrigerators etc.,
Toys, sporting goods,
Fancy goods,
Holiday travel and accommodation,
Betting and lotteries,
All commercial entertainment,
Domestic work (except for large families),
Higher education other than technical.

For a period of six months or so it would not hurt us to do without these entirely. In the case of habitual indulgences, such as tea, beer, and tobacco, complete deprivation is much easier than attempted restriction of consumption.

Export production, except of goods such as wool and lead, of which the Allies are in urgent need, should also be restricted.

Where large stocks of food have already been built up, employment in that industry could be cut down to a minimum necessary to maintain the best properties in working order and provide future food requirements.

Present stocks of tobacco, etc., would go to front-line troops.

Service industries providing civilian needs would be cut down to items such as gas, water, electricity, essential public transport (occasional short private journeys would be allowed), communication, distribution of food, clothing and domestic supplies.

Retail distribution of food, clothing (working clothes would be distributed free), and domestic supplies would be undertaken by one rationalised organisation in each district, using the most suitable premises and labor, exchanging essential goods in return for ration coupons.

Commercial houses, banks, agencies, advertising firms, would be closed, and certain public administration departments heavily reduced.

All education other than primary would be technical and trade only.

Medical services would be free, and all run through public health organisations.

Commercial entertainments would be eliminated for the six months period.

Domestic service would only be allowed (and there provided free) to housewives with three or more children under eight years of age or equivalent duties, and would be part-time except in the case of the women with the most onerous duties.

Invalid persons, expectant mothers, etc., would receive some part-time domestic assistance, or the working members of their families could be allowed to work shorter hours.

Items of food, toilet requirements, stationery, books, short journeys, telephone calls, and all others allowed in the maintenance ration would be exchanged at fixed values in coupons in each district.

The price in coupons of perishables such as meat, fruit, vegetables, would be fixed from day to day by the central distributing organisation for each commodity, according to the supplies available.

Workers would be issued with free travel passes to and from work.

This system of coupons freely disposable over all available goods is vastly preferable to attempts to ration each individual commodity.

Present industries would not be nationalised and questions of compensation would not arise, as the emergency organisations set up to carry on for six months would not interfere with ownership, but just use real assets as required. Use of stocks and depreciation could be compensated later.

Payment of rent would be discontinued for the period, but persons might be required to move to smaller premises to make room for large households, or to take lodgers. All present money (cash and notes) would be recalled and credited to individuals' accounts to prevent black market transactions, and a new type of currency issued after the six months' period or after the war.

All existing war industries and war industry expansion works would run continuously (except for repair periods), needing in some cases four shift workers on each job.

Many of these jobs, particularly the plant expansion work, could have one or more trainees standing alongside each worker to learn the job so that workers became proficient as the new plants were put up. The greatest pressure would be put on plant expansion that could be fulfilled within one to two months.

As munitions plants expanded further men and women who had been trained in fighting tactics would be called in for munitions work training. The vast lightly-equipped emergency army built up in the early stages would be stiffened and progressively replaced by an expanding force of highly-trained mechanised troops using the new equipment.

To the leisured and comfort-loving all this is a hard prospect. But it is a paradise compared with the lives we would lead under Japanese military rule.

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Notes

1 Page references to Kalecki's articles are from the 1997 *Collected Works* version.

2 Kalecki does not refer to this article, which provoked a (rare) reaction from Keynes; the ensuing correspondence with Hicks is reprinted in Keynes (1978, pp. 108-10). Keynes's reply to A. Falter, cited by Littleboy (1996, p. 93), is couched in very similar terms to his earlier response to Hicks.

3 Income units over £250 were estimated to spend 55% of their total expenditure in shops, amounting to between £226 and £295 per income in 1937. Kalecki allowed for a price rise of 15% by mid-1940, to give current spending in shops of £260 - £340 per income. Under his plan a married couple with one child would be permitted to spend £155 (£60x2 + £35), a reduction of £105 - £185. With an estimated three to four million incomes over £250, the reduction in aggregate expenditure becomes £420 million - £550 million, as reported in the text.

4 Kalecki ignores two rather obvious problems: the delays associated with the system of annual income tax returns, and the relatively small proportion of the adult population required (in 1940) to submit returns.

5 See also the analysis of the White Paper by Kalecki's Oxford colleague Frank Burchardt, who strongly endorses expenditure rationing but also supports Keynes's 'deferred consumption' proposals in order to give workers a fair share in national savings (Burchardt 1941).

6 Worswick 'thought at the time, and I still think, that the paper on General Rationing was the most important single thing that Kalecki did in war economics' (Worswick 1977, p. 23).

7 See the interview reprinted from the *Manchester Daily Herald*, 7 December 1939, in Keynes (1978, pp. 87-90).

8 Cf. *The Times*, 18 April 1940, where Keynes reaffirms his plan as an alternative to 'the complex tyranny of all-round rationing', permitting as it did the preservation of some degree of individual liberty.

9 I suspect, however, that point (iv) was the decisive one with Keynes's political masters.

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