

The Allocation of Resources

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ECONOMICS is often described as the science of the production and distribution of wealth, but there are at least two objections to that phrase. One is that it is highly doubtful whether economics has a sufficient content of exact knowledge to justify the use of word "science." The other is that economics starts to work with no definition of the term "wealth." That is a word with very definite ethical and other emotional connotations.

A preferable description is that economics is the study of the allocation of resources, once the purpose of that allocation has been defined.

Resources are scarce. With the exception of uncompressed air, there is nothing available for man to use without effort of a conscious type. Hence, the allocation of resources is the subject of more thought, discussion and controversy than are given to any other subject. Our forefathers have, from time to time, concentrated their attention more on spiritual salvation, but we are dealing with the conditions of 1951.

Let us then consider this problem of allocation in very brief and dangerously general terms, under the three headings of purpose, of general method, and of specific efforts to allocate resources in the most satisfactory way, in order to meet the problems presented by the now agreed de-

termination of certain nations to arm themselves to resist a possible military attack by certain other nations.

II

IT has already been argued that the definition of the purpose of the allocation of resources is only to be obtained by indulging in ethical or other emotional exercises. That statement will be challenged by many serious workers in economics, but is it not, after all, a mere truism? Even without such a clear and definite obligation as that of choosing between preparations to resist anticipated attack of a military type and no such preparations, can we at any time make economic plans which are not based on some ethical or other emotional decisions?

I once made the statement that economics had a fatal tendency to become the design of machinery of action without first ascertaining the purpose for which the machinery was required, apparently rather to the horror of other economists assembled in solemn conclave, who denied any possible necessity of ethical or other emotional disturbances of the scientific mind. I could only retort that I was commenting on a brilliant discussion of economic questions, which had involved countless repetitions of the phrase "socially desirable

objectives", and wanted to know how social desirability of economic action could be determined in a scientific manner, without any intrusion of ethics or other emotion.

I believe that this is true, always has been true, and always will be true when any economic action is being planned by human beings. It is, as far as we know, not true of the economic planning of ants or bees—but we are not ants or bees.

If then this be true of any economic planning, it is true with exceptional force of planning for military action, which is assuredly not forced upon us by any extraneous pressure, but arises either from the desire to attack others, or from the purely emotional choice, of our own volition, between resisting attack or not resisting it.

Thus, in the particular case of economic planning to allocate resources for the armament of certain nations in 1951, there is no reason for the economist, *qua* economist, to devote any time or energy to deciding what is "socially desirable." He may, as a human being, as a citizen, as what Aristotle defines as a "social animal," take any attitude which pleases him to the emotional decision which is made. Since civilized men are organized into states, he must recognize, willingly or unwillingly, the emotional decision which his particular state has made, by the appropriate processes. He may escape the obligation to accept the consequences of the decision, *qua* economist, by withdrawing from participation in economic planning for the immediate future. If he is to continue to function as an economist, he must accept, for the time being, the emotional decision as to what is "socially desirable" which has been taken.

(Jowett and other authoritative translators prefer "political animal" to "social animal." The context of Aristotle's phrase makes it very clear, however, that he meant what we mean by "social", not what the word "political" signifies to modern Western man.)

THIS does not mean that all our ethical and emotional problems are solved by the decision to engage in military preparations on a greatly enlarged scale. Quite

evidently no clear decision has been taken as to what proportion of total resources are to be allocated to defence. Defence is accepted as socially desirable, but so are a lot of other forms of economic activity which had been undertaken before the proportions of the defence effort had become clear. Mr. Aneurin Bevan in England and no small number of people of goodwill in Canada are arguing quite loudly that, whatever else happens, welfare state plans which have been put in hand must be implemented, whether defence provisions can be fully made or not. In fact, the Government of Canada has announced that it intends to add some heavy spending on a new form of old age pension to the economic burdens which the nation has already assumed.

In short, there still remains the difficulty of planning how to divide an insufficient supply of scarce resources to accomplish the implementation of emotional decisions without adding up the available resources, and estimating the total available.

III

PROFESSOR H. F. Angus, in *The Canadian Journal of Economics and Political Science* for May, 1951, has the exceptional courage to point out that, for the world at large, the Declaration of Human Rights of the United Nations involves the incredibly dangerous assumption that every nation can promise that its people will have a certain standard of living, without the slightest attempt to find out whether the resources available will provide this standard of living. Here in Canada we are doing the same thing, in taking all these emotional decisions as to what should be done, without any clear idea of how the allocation of insufficient resources is to be made, as between all these desirable objectives.

It must be clear that the economists of Canada cannot possibly assume the task of advising as to allocation of resources in 1951, without first of all obtaining a solution of this general problem, and there is not the least sign as yet of any serious discussion of it.

Now, until that is done, it would seem to be of little use to go on to discuss the other two questions—of what general method of allocation of resources is most efficient, and of what specific plans should be adopted in allocating resources in present circumstances, but surely we can give some casual attention to these problems, while impatiently awaiting the solution of the overriding one of how an insufficient total of resources is to be allocated as between so many needs.

There are only two broad alternatives ever suggested for the allocation of resources. One, long accepted as being the proper one, is that human beings should be left free to allocate resources. The rule should be one of *laissez-faire*. This assumption is based on a good deal of experience, going to show that, left free to act as they desired, the people of any community would produce a total resultant of action which would accord, as perfectly as possible, with the general desires of the community.

The difficulty is, of course, that, with the total of resources available insufficient to satisfy the total desires, the stronger would get a larger share than the weaker. Assuming that that is an undesirable state of affairs—a subject which does not seem to have been explored logically to any extent—men of goodwill have been inclined to accept some method of correcting the alleged deficiencies of *laissez-faire*. Unfortunately, it seems true to say that almost all the attempts at correction have been directed, in the last half-century at least, to limiting the “*laissez*” part of the formula—to depriving men of freedom to act as they desired, rather than to correcting errors made in the “*faire*” part of the problem; to trying to induce men to act in such a way that the total action of the society would produce more desirable results.

IT is no great tribute to human intelligence that this should have been the trend of thinking in recent decades, but there can be no doubt that it has been. The plans advocated have been, first, to make some rough general assumptions,

with no proof back of them, concerning the socially desirable division of resources, and then to attempt to obtain this by forcing everyone to act according to some pattern determined by some vague theoretical machinery of state control.

The results have not been very promising. It appears that capitalists and labour, workers and consumers, farmers and city dwellers, the members of all sorts of groups with a clear appreciation of their own special interests, and little realization of the general community of interest, will use the political machinery of a democracy to obtain an allocation of resources in their favour, which does not seem to produce even the socially desirable equality of allocation which was taken as being the basic objective.

Take the case of someone holding a small and poorly paid job, or the case of a widow living on modest savings as examples. Belonging to no pressure groups with political power, these people find themselves pushed to the wall, in this struggle of various groups to use state power to determine the allocation of resources. It is quite common to hear about the sad fate of those who were the weaker in a free society—as far as any free society ever did exist. The fate of the weaker in a rather completely controlled society can be just as desperate. There is plenty of evidence now available to show that planned allocation of resources by the state will produce at least as much injustice as the *laissez-faire* method, and a smaller total of wealth.

IV

THE allocation of resources is simply another name for rationing. A total production insufficient to satisfy the desires of everyone must be rationed in some way. The *laissez-faire* theory assumes rationing by price—by purchasing power. Is it not a fact that the other choice, of rationing by state power, merely means that political power in place of cash in the bank will be the rationing control? Has not that now been proved quite completely

in practice? There was surely never any doubt, in theory, that it would happen.

There must be some system of rationing. The basic objectives of rationing adopted must be accepted as ethical or emotional decisions. They cannot come out of any system of reason. Does it not, however, seem quite probable, on purely logical grounds, that once an ethical or emotional system of rationing has been established, this is quite as likely to be carried out efficiently by a *laissez-faire* society, deeply influenced by broad ethical concepts, as by any machinery of state control?

The case has been put in epigrammatic form. Taking the ethical principles of Christianity, generally accepted by Western society in theory, if not generally in practice, it has been reasonably argued that the sort of state control which is roughly described as Socialism will not work successfully, except to the extent to which the society really, and not merely verbally, accepts the Christian ethic, while, in a society which generally acts according to the Christian ethic, there will be no need for an elaborate bureaucracy enforcing complex legislation to obtain the allocation of resources according to the Christian ethic.

The logic of this position seems unassailable. There seems every reason to believe that a society will act in socially desirable directions only to the extent to which it is a society which acts in socially desirable directions as its free choice, and that success in this endeavour will depend, not on the creation of a bureaucratic system of controls, but purely on the extent to which the mass of the people are seriously affected by genuine faith in the social desirability of some pattern of allocation.

So much for the general principles of allocation of resources—after the ethical or emotional decision has been taken as to the desirable pattern of allocation. What should now be done, in practice, in allocating resources in Canada in 1951?

FIRST, there has to be some sort of decision as to what proportion of the national resources will be devoted to that

activity of national defence which has been accepted as of overwhelming importance. That decision obviously cannot be undertaken by comparing the desirability of national defence with the desirability of increased old age pensions, or more housing, or anything of that sort. By its very nature, the effort of national defence has to be made dominant. It has to be given absolute priority. For that reason, it is most urgently necessary that the first decision which is made is what proportion of the national resources will be allocated to defence. That question should be settled at once, and in definite and precise terms, and those terms should be made known to every citizen, for, in the end, every citizen will have to contribute to this allocation.

The next point which has to be decided is whether this allocation of resources for defence is to be made so that it follows the general existing pattern of allocation of resources, which simply means that it will be made by taking from everyone in the country the same percentage of his existing income, or whether it will be done, as was the case during the Second World War, by such alterations in the proportion of resources taken from every individual as to create a condition in which the diversion of resources from non-military to military objectives is, at the same time, a redistribution of wealth within the nation.

Remember, during the Second World War the decision was taken, consciously or unconsciously, to make the aged, the dependent, the more thrifty, the weaker, pay a larger proportion of their incomes to provide for military activities than would be provided by the younger, the more active, the less thrifty, the stronger. This decision was implemented by what we know as inflation, by a system by which the war was not financed by taking from each an equal share of his income, but by putting into circulation vast masses of newly created money. Under that system the younger, the more active, the more spendthrift and the stronger share in the total production of goods and services on an increasingly advantageous scale as com-

pared with the older, the dependent, the more thrifty and the weaker. Political weakness and the possession of savings were qualifications for being called upon to surrender a larger proportionate share of the individual's income for military expense. Inflation, in the simplest possible words, financed military expenditures out of the savings of the people—not out of their current earnings.

ORGANIZED labour and organized capital, in proportion to their respective shares in the national income, were paid increased incomes for playing their part in a common enterprise. Unorganized workers and small savers found their effective incomes sharply reduced.

Clumsy attempts have been made to compensate for this by the distribution of public charity out of the taxes, on a shotgun basis, but, naturally, this sort of distribution has only added to inflationary pressures, and thus compounded the injustices which it was intended to cure.

Surely there should be a lesson in this, now that we face another problem of the reallocation of resources for military reasons. Surely it should be indicated that the most unjust of all decisions which can be made—assuming any concept of justice which will be accepted by a society broadly affected by the Christian ethic—is to destroy the value of money, by debasement of the currency; that the basic need of anything which could be called social justice in a period of serious reallocation of resources for a common purpose is the rigid maintenance of the soundness of the currency.

V

THUS, in Canada in 1951, facing as we do the urgent need for a new pattern of allocation of resources, because the world is in danger of a great war, the first of our needs is to consider this ethical problem. Will we once again engage in that type of reallocation of resources which has ended in robbing the weak and those who have saved, for the benefit of the strong and those who have not saved?

This is not some question in abstract philosophy. It is the immediate problem

which faces us at a very critical moment in our national history. The decision will be interpreted in all the economic, monetary and fiscal policies of the Government of Canada during these next few years. It is a decision which will deeply affect the life of the nation after present international stresses are liquidated, be it in war or the creation of world peace.

The economist is not yet in any position to offer counsel as to detailed public policies during the present crisis, for there is lacking, up to the minute, any general decision on the major ethical or emotional points. First, what is the proportion of the national resources which it has been decided to devote to military preparations? After that has been settled, what will be the ethical basis of the necessary reallocation? Will it be, once again, to assume that it is proper to rob the weaker and those who have saved for the benefit of the stronger and those most capable of earning?

After these decisions have been made, and made in very definite and specific terms, then the moment will have arrived at which competent economists might reasonably be called upon to offer practical and intelligent advice as to the method of allocating resources, of rationing goods and services between various purposes and between various classes, which will be appropriate.

The first need is for the ethical decisions to be made and proclaimed.

IT has been argued that, until these decisions have been taken, the economist cannot work intelligently at his trade of planning the machinery needed to execute them, and also that the economist, *qua* economist, has no function of directing these decisions. He is merely one more citizen and voter.

Yet, this is an insufficient description of the challenge which faces the economist. Surely it is his privilege and his obligation to give, to the Government and to the public, plain warning of the consequences which will follow the taking of any ethical decision, unless its implementation be arranged along sound lines of policy.

Despite the careless suggestions sometimes made that all politicians are con-

scienceless opportunists, no one really believes that they are. The Canadian people have a keen sense of fair dealing. When they accept such policies as inflation, as rental control, as attempts to keep prices and profits down, while wages rise freely, they do so in ignorance, not in malice. It is reasonable to assume that the members of Cabinets and legislatures make their mistakes for the same reason.

The relations between Governments and their economic advisors remain confidential. It is still fair to enquire whether it was the deliberate choice of the Government of Canada, during the Second World War, operating on full and frank advice of its experts, to follow the plans of public finance which ended in disastrous inflation. If the Government feared that the public would not accept a more rigorous discipline, did it deliberately fool the public by the untruthful promise that price control would prevent the inflationary results of the fiscal and monetary measures which were adopted? Was it the error of Government, or of its expert advisors, to plunge into welfare expenditures on a great scale, at a moment when the condition of employment and the standard

of living of the people were at the highest levels on record?

These decisions produced the injustices of inflation, and grave economic and social stresses, which are still with us.

NOW that the nation faces new problems, involving serious risks of further inflation, and growing injustice, what are the economists, in advice to the Government, and statements to the public, giving in the way of warning?

Resources are always scarce, compared with the total of the desires of the people to use them and their products. The allocation of resources among the infinite number of claims made upon them in a free society is a difficult task. Surely it is the right and the duty of the economist, not to allocate the resources—for that is better left to the people, with such interference by the Government as may become necessary when such emergencies as real or apprehended war face the nation—but to give the plainest possible warnings concerning the effects which will follow both the ethical decisions to allocate resources otherwise than the free market would do, and the choice of the various methods of allocation which may be used.

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