

NOTES ON INTERNAL POLICY

I have written the following note in consequence of a conversation we had recently, in which you asked me my opinion regarding certain points of internal economic policy. This has set me thinking. In order to attain clarity on these points, I have felt the urge to survey the whole ground. This, I fear, puts a tiresome burden on your attention as reader. I only hope that you will feel the results worth while.

I am concerned exclusively with long-range policy and not the transitional period, although this policy may carry consequences for the shorter period.

Possible measures seem to me to fall into three categories, namely:-

1. those which carry further lines of social policy already well defined before the war;
2. those required by the commitments and aspirations of political parties;
3. new measures, required by the new situation or by new thinking about the old situation, that may be regarded as neutral as between political party platforms.

As economists I think we are mainly interested in 3; and it is there that I submit we shall find the means for getting a real improvement in the state of the nation. The main topics I have in mind are:-

- I. Maintenance of exports.
- II. Trade Cycle.
- III. Greater security of employment.
- IV. Population question.
- V. Long-term use of surplus savings, if any.

Measures required under these apparently disparate heads will be found to connect together in a remarkable way.

Study of these problems should not be interpreted as the quest for a comprehensive reform or set of reforms that will solve them. Such reforms may in certain cases be possible. But it is also a question of establishing new principles, which should inform the detail of administration and the planning of legislation in other fields, like the principle of economy which played such an important part in late Victorian government (and, we hope, is still alive).

On behalf of the principles and measures I have in mind, it may be said that they are relevant, capable of making a real difference to welfare and should be non-contentious. But their weakness is that they lack backing. The Civil Service is likely to push along with measures, type 1, when allowed by the politicians; the politicians will go forward with measures, type 2, (when allowed by the Civil Servants!) But with our present system of government, there is no one both responsible for and capable of initiating measures or principles of type 3. It is precisely in this field, therefore, that the machinery now being developed to deal with reconstruction problems has a unique opportunity and responsibility.

Before I proceed to detail, I should like to say a few words about measures, types 1 and 2.

I understand that there are plans for a very great expansion of the social services on traditional lines. This may be all right; I cannot shake off doubts and qualms. I certainly do not think

that if this were the principal contribution of the reconstruction committee towards a better England, it would be any matter for congratulation.

You will not think I am cynical when I say that I regard the possibility of extending benefits along existing lines as a reserve which we should draw upon slowly, to meet popular demand, from time to time. If we exhaust this reserve by a great gesture, imposing a heavy burden on the Exchequer and the community (I speak in some ignorance of detailed proposals) we leave future governments in an exposed position. They have nothing left "in the kitty". I am not un-mindful that these measures will relieve real hardship. But there are various ways of doing that.

If we are to take proper advantage of the special opportunity we should not concentrate on using up reserves, but on initiating new types of beneficial measures, which for the very reason that they have to be proceeded with by tentative and gradual stages, will themselves create new reserves that can be drawn on and actually strengthen the power of future governments to fulfil what is expected of them in the way of further reforms. For example, I think we should attempt (my heading III) to start a movement to greater security of employment by long term contract. But we cannot clearly go the whole way at once. Thus, we should not only do immediate good, but give the future the power of extending that good by successive stages. That is what I call really constructive (or reconstructive!) action. That is a respect in which the record of the government of 1906-1914 is so admirable.

There is another reason for not being in too much of a hurry in deciding to extend existing benefits. They involve burdening the Exchequer or adding to costs or both. How far we want to do or avoid doing either depends on the answers to all the problems I to V. But we do not yet know what those answers are.

No doubt those who are considering these problems have it in mind that there may be a certain amount of restiveness after the war. There may be some element of danger in the situation, like that of 1919 but more intense. This would be most unfortunate at a time when we need to be very quick off the mark in catering for our export markets.

But what sort of measures are most likely to allay this restiveness? I have been informed by a very intelligent officer, whose official duty it is to watch the morale of the forces, that what worries them much the most about the post-war situation is the question of employment and security of employment. I don't think they will be in the least impressed by better and bigger doles combined with vague and, as they will think, spoof assurances that the government is doing its best to encourage trade. They will want to see positive measures to shepherd them into jobs and hold them there; but I will not anticipate by discussion of III. Meanwhile, I should not spend an extra penny on old-age or widows' pensions (I do not refer to service widows, who are in a different case) until I was sure that I knew what money was needed and that I had sufficient of it to implement a scheme for guaranteeing employment to all of working age who sought it.

Measures, type 2. Trying to keep my stand on neutral ground and looking at the matter broadly, I feel bound to consider the economic implications of the programme of the party of "Change", should that be in power. It is important that measures type 3, which are essential measures designed to effect real improvement, should be devised to seem and be politically neutral and acceptable to both parties, so that we may be sure to have them; presumably the mandate is to make them acceptable to a "national government" should the party truce continue for some years after the war.

But the party of change will need its specific programme of reform of the correct ideology. Happily we know roughly what this

is, the successive "nationalisation" of a number of industries. This may well be whittled down to the formation of public concerns of the London Transport type. All this in itself is likely to be harmless enough but will engage a considerable amount of attention at the highest level; together with the measures, type 3, which would presumably not be eschewed, it should keep the party of change busy for a considerable period and secure us against innovations that are insufficiently well thought out.

Meanwhile there is the possibility that the party of no change may, despite its colours, press forward with a similar type of reform. It may adopt the idea of "self-government" for industry, giving the "leaders" of industry statutory powers whereby each industry may be formed into a trust or association and be planned and administered as a single unit.

As a social philosopher one may hope that these two types of reform will not come to look so much alike as to leave no room for quarrel. It is healthy in a democracy to have plenty of scope for acrimonious and venomous controversy in which the victory of either side cannot be seriously injurious to the national well-being.

As an economist, however, one is more interested in the similarity, the essence in both cases being the possibility of administering the industry, whether in some or all respects, as a unity. What matter to us are the principles adopted. Socialisation or cartelisation are mere empty shells into which the vital essence of policy still has to be poured. About this we do not, I believe, learn much from party programmes. Thus there is scope for the wisdom of the economists, if they can formulate it in practical terms.

It appears to me that the Reconstruction Committee ought to have in its pigeon-holes a list of principles, to be ready in case these formidable projects are put into effect. And I conceive that your Economic Section would do a most valuable piece of work, if it drafted such a document. It might take a particular industry, e.g. transport, for illustration.

It will be evident to you that the policy which economists would formulate with regard, for instance, to railway fares and freight rates would be very different from that likely to be propounded by railway experts. Similarly with regard to all the financial arrangements, including the decisions to increase or scrap capital equipment.

The importance of having principles formulated is equally great whether there is to be cartelisation or socialisation. In the former case, we should insist on the adoption of these principles as the price of statutory privilege. Unhappily, the principles most commonly associated with industrial "self-government" are restrictive and anti-economic. Thus, if anything but harm is to come out of all this the economists and the reconstruction committee will have up-hill work. On the other hand, there is great opportunity of doing good.

I have dwelt on this because it is sometimes said that until we know whether there is to be a socialist or a capitalist paradise after the war, it is impossible to plan radical reconstruction. This might also be used as an argument for concentrating at first upon the old-fashioned agreed social services. I do not think there is any substance in this. I am convinced that it is the neutral measures, type 3, that alone are capable of producing radical betterment. But even within the narrow topic of organisation of the separate industries, the main questions of principle that have to be decided, if they are to be centrally decided at all, are independent of whether they are to be "socialized" or not.

I. Maintenance of exports

This is linked with the problems of the external committee. I take it to be established that, to pay our way, we shall have to expand our export trades. But, I must digress here, I do not think that paying our way gives a good enough target.

After the war we may expect savings to be running at £700 million per annum at present values. Once immediate reconstruction is over, how on earth is this to be used with a population stationary and then declining? We may adopt very radical measures under V and finance a vast deal of current consumption out of budget deficits. But £700 million is probably too much to use in that way. By radical measures under IV we may arrest the decline of population; that will not be easy. I do not think anyone wishes to see a great increase in these islands. We must rely on our English speaking brothers overseas to maintain our relative manpower. It seems unlikely then that we shall be able to avoid deflation unless we can generate an export surplus of some £2-300 million.

Looking at the matter from a world point of view, it seems obvious that we ought to export capital. We are one of the richest countries but have no further outlet for capital at home.

Mr. Colin Clark has attempted a sketch of world trends in the next twenty years. There is no doubt that he has fallen the victim of the grossest exaggeration and that his findings are not acceptable. To get a world balance he has to give us a larger favourable balance than America, with an export of capital of about £1,000 million per annum, which absorbs all our savings together with a considerable amortization of capital due to the decline of population. This is, no doubt, quite absurd. But the absurdity lies not in the assumptions of fundamental trends, which seem well thought out, but in the rapidity with which he allows them to operate. I believe that much more moderate assumptions about the rate of change would still show us a capital exporter.

Furthermore, if we are to live we must also take some risks. We want to get American support in checking the trend to autarky, in steering countries wherever possible away from manufacturing industry to better agriculture, public utilities, transport, housing, etc. Now, whatever success we have in securing that the finance of the steering committee is anonymous, whatever the formal arrangement may be now, in the long run psychology is too strong. The nation which contributes nothing loses her say. The Battle of Britain will take its place alongside the Battle of Marathon. I believe it to be true that in order to be able to export £1,000 million, we must export £1,200 million.

Well then the question is how? We look to an "expansionist" world monetary policy to keep our markets primed, and that may float us along. It is impossible to gauge the quantitative effect now, but we surely cannot hope to have our problems fully solved in that way.

In our arrangements with America, we must secure that our exchange is set at the most favourable level having regard to money wages. But exchange depreciation does not solve the problem for, if it affects the cost of living too much, it will stimulate demands for higher money wages. Our trouble will be with the minimum real wage that is acceptable.

Devices may be adopted to subsidise exports. The danger of such devices is that they can be met in full by our competitors. Indeed they approach the un-neighbourly in spirit and might jeopardise our "international co-operation".

What is the true position with regard to wages? If we look at the internal economy it does not seem that they were excessive in the pre-war decade. Indeed if we had had full employment, profits would have probably stood at a level embarrassing to the capitalists. The trend to rising productivity has been steady. The wage-earner would therefore expect to get and I believe rest content with a real wage appreciably but not unwarrantably higher than he got before the war. I do not think that in fairness or in prudence we can expect him to take less. But can we export £1,200 million at that level of costs?

It may well be that from the point of view of an exporting position we shall need a real wage not higher and perhaps even lower than that prevailing in 1933-1938. There need be no question of course of reducing money wages; that point can be looked after by the rate of exchange. But such a low real remuneration would be intolerable, especially if the national cake is substantially larger.

Should it not therefore be a cardinal point of policy that we should endeavour as far as possible to make up the real remuneration of workers by payments, outside his wages, which would not be part of costs?

These might well be quite considerable. I am keeping my stand on neutral ground and not thinking of any fresh campaign to soak the rich. It seems to be probable that with a real wage stabilised at the 1933-1938 level, and leaving to non-wage earners the share of the national cake they had at that time, quite a large sum would be available for distribution. (I should welcome the view of statisticians).

The wage-earner, it is recognised, likes honest wages and does not care for fallals. On the other hand he is intelligent. It could be put to him that owing to our exigent position in the world market, it was a matter of national policy that for a period after the war he must expect to get his increases in payments outside wages, so as not to add to our costs.

But out of regard for his sense of independence, I think it essential that the payments should be in cash and not in kind, or subsidy to the cost of living. This would have a double advantage. It would respect his own sentiment of independence; and also he would see what in money terms was being done for him. Thus if it is a question of subsidising housing, I should not subsidise rents, but give some part of the annual instalments he has to pay to make himself a house owner, leaving him, however, the option to spend the money otherwise if he wishes. Similarly if it was thought appropriate that everyone should have free wireless sets or light and fuel, I should distribute the money deemed requisite for those purposes, leaving the individual the option to forego them.

The most obvious form of subvention outside wages is the family allowance; this is urgently required under Heading IV. But the workers will be sniffy about it; and we must not therefore make it the sole form of subvention.

A subvention to the putative cost of acquiring a house would, I believe, be a healthy move. It may be connected with the large scale re-building which we contemplate after the war. I hope it will be laid down as an absolute rule that in every locality there shall be a proper proportion of houses large enough for children. The erection of small houses by local authorities has been a most crying scandal.

Free wireless-sets and their maintenance seem reasonable. Another plan would be holiday allowances. Here, I fear, we take

a leaf from "Strength through Joy". But in our case we should insist on freely disposable cash, full recognising, since we are a free country, that some would spend it all on dog-racing. Perhaps in twenty years time we shall be able to give every head of a family a free motor car.

On the face of it one might suppose that all this should be financed by taxation and could be so financed without making the tax burden more severe in proportion than it was in 1933-1935. (But how much shall we have to spend of amusements?) On the other hand, it may be that parts of it ought to be financed by loan. Sooner or later, we have got to face the question squarely how we are to dispose of the 3700 million p.m. of saving? Do we contemplate an ever rising national debt? This is the most radical question of all (see Heading V).

What I do strongly emphasise is that these kind of measures should be given priority over any extension of the traditional social services. (i) As a matter of urgent necessity. We have got to keep our vast body of workers content in the sense that their prospects are improving and that they are getting their fair share of increasing national output; but we must do so without adding to costs of production. (ii) It is lacking in sense of proportion, and, dare I say, a sign of decadence, to pile on dolos and pensions, that accrue to the profits, dividends and interest, while doing nothing for the normal adult worker, on whose efficiency and good heart we all depend. This point is emphasised when we consider the sinister trend of our age composition.

It follows from the foregoing arguments that in any extension of the social services, nothing more should be loaded onto employers' and employees' contributions (both of which enter into costs). I am aware that it is argued that this is a good method, because well-established, for raising money. This argument is not nearly strong enough to counterweigh the other considerations.

Finally, I draw attention to the fact that any radical measures under III, for increasing the scope of long term contracts, might serve to help exports; by increasing the proportion of costs which the employer classes as indirect, we reduce the price at which under normal commercial motives he is prepared to accept in a competitive market. This might be a potent way of subsidising exports, but too subtle to be banned as un-neighbourly.

I add an Appendix on the economic theory underlying these proposals.

II. Trade Cycle

Trade cycle considerations ought to affect every department of policy and administration. This idea is now beginning to take root; its consequences have been elaborated elsewhere; and I need not labour the point. I will deal very briefly with certain headings.

A. Capital Works. Wherever it is possible to plan ahead this should be done, the time for starting operations being left free to be fixed by the decision of a central economic Council of State. Where there is preliminary work which takes time but does not employ much labour, this should be done in advance, so that at the zero hour named by the Council we may be able to push straight in to the full load of activity.

"Capital Works" are more comprehensive than "Public Works". We should include not only capital works undertaken by the central and local authorities, but all work of any corporation, receiving

direct or indirect privileges from the Central or local Government, such as London Transport, all utility undertakings, the railways, port authorities etc. If any industry were nationalised or turned into a "public corporation" it would fall within the ambit. Furthermore whenever the principle of "self-government" is applied, i.e. whenever an industry is given statutory powers to regulate its affairs (price-fixing, quotas etc.) it should in every case be laid down as a condition for granting this privilege, that the timing of all new plant, extensions, reconstruction, etc. would be subject to the Economic Council. This is a matter of urgent national policy and should be insisted on where powers are being asked to enforce measures in the interest of the industry.

Housing programmes should be brought within the ambit. Under town and country planning it is presumably intended to control the replacement of destroyed houses and the re-building of our old congested cities. This is in part a problem of the transitional period; a technique should then be evolved for securing the central control of timing.

We want presumably to maintain steady employment in the building trades proper. But it makes a big difference to general employment whether the stress at any time is laid on routine repairs and maintenance or new development schemes. In the latter case there is much extra employment of general labour on the preparation of sites, road construction etc. and this should be governed by trade cycle considerations.

It is most important that re-building should be well spread. In view of the population position it would be undesirable to have any big expansion of the building trades after the war, since contraction is ultimately inevitable. It is also desirable of course to secure priority of materials (steel, timber etc.) for the export trades in the transitional period. Gradualism should also be favoured by those interested in planning from the point of view of preservation of amenities and orderly and beautiful development; but there will no doubt be great pressure by the ordinary citizen, to get on with the job quickly. There ought to be a strong alliance between the economic expert and the "planning" expert to resist this pressure.

Thus in one way and another it ought to be possible for the Economic Council to be able to turn on within the course of about a year capital works of many millions p.a. (£2 or 300 m.?)

B. Beneficial expenditure. It has been suggested that social service payments such as unemployment benefit should be increased in depression and reduced in revival. This would not be inequitable, since, as unemployment becomes more intense, it becomes less easy for members of a family to help each other out.

It would also be possible to "time" new plans for subventions outside wages (wireless sets, etc.). This might be politically difficult as a new government usually likes to distribute lollipops. Would it be possible to secure general recognition of the principle that in all cases of this sort there should be a distinction between the time of announcement and the time of operation of the scheme (as in the case of deferred credits)?

C. Taxation versus borrowing. I have always thought that in order to strengthen the hand of the Chancellor and maintain his authority as the watchdog of Economy, we ought to have a stabilisation Fund with independent commissioners who would inform him from time to time how much pump-priming (i.e. borrowed) money was available for him. The commissioners would be entirely guided by the trade

cycle barometers. I do not mean that his ultimate responsibility for the debt position would be statutorily abrogated. He would still have the power to borrow or repay on his own initiative. But monies found by the commissioners would come in automatically and no special explanation in Parliament would be needed. And the Chancellor could be very firm with his colleagues in refusing to borrow outside the authorisation of the commissioners. Failing some such arrangement, our public finances might get lax and the position of the Chancellor be seriously undermined.

For this arrangement to be effective, it is essential that the consequential tax remissions should be of a kind likely to produce an immediate increase of consumption. This would have to be carefully planned in advance.

III. Security of Employment

I have already explained that in my judgement this is the matter which gives the greatest anxiety to the average decent worker. In the question of the standard of living we are bound by the necessities of the case; any attempt to give too much in wages will either keep us out of export markets and lead to the most severe unemployment crisis or lead to the disaster of inflation. But in the question of security of employment we have not the same excuse. The worker feels, I think with perfect justice, that if we leave him under the daily and constant menace of unemployment, it is because we are too slack and indifferent to organise our system.

I suggest that there are three big ideas which work in together, namely the worker's desire for security, the importance of maintaining purchasing power in a slump and our need to get a great deal more mobility of labour than we have at present. This need will become more acute when the working population is stationary or declining. Having each of these points in mind, I suggest the following scheme.

The minimum term of employment to be at least a year. (Special arrangements, of course, for seasonal trades). If this looks awkward from a legal point of view, it could be secured by making shorter terms subject to a really penal tax (e.g. 100% of the wage). Dismissal for inefficiency would naturally be allowed; it would be in accordance with modern trends to make this subject to appeal to a joint works committee.

Notice of termination of contract to be at least six months. To prevent the routine handing out of such notices, the employer would be subject to a fine if notices exceeded actual terminations by more than a certain amount.

The employer's contract would, however, be fulfilled if he transferred his employee to another job of the same grade in the same locality.

Notice of termination would also go to the Labour Exchange, which would be responsible for finding the man another job. Failing that the state would pay him full wages during the period for which he was out of work.

But in return for this benefit the man would be under an obligation, with due notice, to change his locality or his trade. He would receive the necessary expenses of movement, and/or re-training, if he were a skilled man. If he was unwilling to comply he would forfeit his wages and lapse onto unemployment assistance.

I suggest that the need to increase mobility in the post-war situation is one that we ought to take very seriously.

The present unemployment scheme would lapse; but since it would not be possible to make the new scheme comprehensive anyhow in the early stages a scheme of benefits would still be necessary to cover the case of the residue.

No doubt the employers would complain of this new restriction and many might have to change their practices. But they already have to enter into long-term contracts for sites, equipment etc., and it is difficult to see why it is only the human element that they should feel free to play fast and loose with.

They would claim that it added to their costs. But it would only be an addition to overheads and should not affect the prices they ask in the more competitive parts of their market (exports); indeed it ought to reduce the price down to which they are willing to go rather than lose the trade.

If any industry desires compulsory powers for rationalisation, the minimum term of contract should automatically be raised to two or five years for all who are parties to the scheme.

This is a very rough sketch, and is intended to suggest a line of thought rather than present a cut and dried plan.

IV. Population Question

Here again I need not elaborate. This will be the paramount problem in the coming age. All social reforms should be scrutinised for relevance to it. It should be a dominant consideration in housing and town-planning schemes. Quite apart from family allowances, subventions outside wages could be directed towards it, e.g. by the free provision of modern facilities to the housewife.

Of family allowances, I will only say:

- (i) that it appears to me a wanton waste of money to give anything for the first or second child;
- (ii) that what is given for subsequent children should be on a generous scale, not only to cover all actual expenses but to include an element of remuneration to the mother for her services;
- (iii) that it would be a great scandal if nothing extra were done for the middle class (viz. all those from skilled manual workers upwards); from every point of view it is desirable that these should contribute their fair share, and, if possible, more than their fair share to the next generation; but the inducement must be proportional to income; I suggest a compulsory insurance scheme with contributions and benefits varying with income on the lines of the F.S.S.U. scheme of pensions for university teachers;
- (iv) nothing new should be done for the growing class of old people until this problem of the next generation is satisfactorily solved.

The need to assist population is in happy accord with the policy proposed for maintaining exports (I). And anything done to increase security of employment (III) should assist the population.

V. Use of Surplus Savings.

This, though not such a paramount question as that of population, has wider ramifications in the narrower sphere of

economics and presents more formidable intellectual problems. The two questions are of course interconnected. The more effective we are in arresting the decline of population, the smaller the surplus of savings will be. But at best we can only hope for a stationary population and I find it hard to believe that the savings of a rich country can be profitably absorbed merely in increasing the capital equipment per head.

It may be, of course, that I am mistaken, and that the savings will be absorbed in the course of nature. But I do not think we can neglect the other possibility; plans we make against it will do no harm, they will merely prove unnecessary in the upshot.

What is to be done with the savings? One solution would be to prohibit them! This would entail a more radical form of communism than is to be found, I believe, even in Russia, and would be obnoxious, quite rightly in my view, to the people of this country. With our rising standards of living we are in sight of a wide, perhaps before very long almost universal, diffusion of property ownership. This would be far more effective than socialism, however radical, in mitigating "wage slavery", and would diffuse an amount of happiness, sense of security and of responsibility out of all proportion to the money involved. The modern equivalent of, for every man, his plot of land, which our factory worker cannot have and does not want, is his own house or saving certificate. It would be a most retrograde move to call a halt to all this.

Or is the solution to have a zero rate of interest? I do not think this is compatible with a system of property. No doubt the rate of interest must be low. But I imagine that there is a limit (is it $2\frac{1}{2}\%$ or $2\frac{3}{4}\%$?) below which we cannot force it without causing confusion. This seems to be a point on which economists should form a view.

Or can we simply recognise the facts as follows: In a rich society there is a tendency for accumulated savings to grow; but with a stationary population there are not enough profit-yielding physical objects which it is possible to make to represent the value of these savings; therefore we simply issue paper to the savers; this enables contemporary consumption to stand at a higher level than it otherwise could, but imposes an obligation on future producers to surrender a proportion of their product to the owners of the paper as interest. The future generations might ultimately revolt at the system; but we cannot look too far ahead; so long as the property is well distributed, the system should not be felt to be oppressive.

The paper would presumably be issued by the government. Is the following a reasonable budget for the decade after the immediate period of post-war reconstruction?

£.million		£.million.	
Annual savings 700		1. Utmost demand for new capital goods in a stationary population	300
		2. Foreign investment	200
		3. Subvention to consumption (= net government borrowing)	200
			<u>700</u>

It might be thought desirable to earmark this source of funds (3) for implementing the four interconnected lines of policy referred to in I-IV.

APPENDIX

I feel that the economist might object to the line of thought expressed under I on the ground that whatever is the equilibrium rate of wages in relation to export trade ought to be the equilibrium in the community as a whole, and that in equilibrium the real wage should be equal to the wage cost.

This puzzled me for some time, but I believe I have the true answer. It is contained in an argument that I have often heard expressed by business men, but, to say the truth, I have only recently appreciated its point.

It depends upon the distinction between the sheltered and unsheltered trades. Owing to imperfect competition and monopoly it is probably true that the returns per unit of real capital employed (i.e. capital measured by cost) are higher in the former.

Let us suppose that $\$a$ buys x unsheltered goods (viz. those entering international trade) and y goods in the shops. If it were not for the monopoly element in the sheltered trades it would buy $y + z$ goods in the shops. Suppose that for full employment and a balance of trade the wage should stand at x . If we raise it above $\$a$ it will stand above x and we shall have unemployment. On the other hand it can stand at z/y of $\$a$ above $\$a$ while still leaving as high a rate of profit on real capital throughout industry as obtains in the competitive part of it.

To put the same thing in another way, if the profit rake-off were no higher in the unsheltered than in the sheltered trades $\$a$ would buy $y + z$ goods.

We cannot abolish the monopoly element in the sheltered trades without taking over the whole of industry. We cannot raise wages above $\$a$ without either causing unemployment, if there is no exchange depreciation, or causing the prices of goods to rise as much, if there is.

What we can safely do is to keep wages at $\$a$ and distribute z/y of $\$a$ (or some part of it) in subventions outside wages. We get rough justice by taking off the monopoly profit in income tax.

It is only rough justice of course. But we should not get nearer justice by a differential tax on monopoly elements for a reason which will be obvious to you. Since actual capital values represent the present value of probable profits and not the cost value of the physical equipment, there is no probability that existing capitalists at any time chosen are earning a higher average return on their investments in the case of the sheltered than in that of the unsheltered trades, monopoly elements always being immediately capitalised when they occur.