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The ECONOMISTS' ASSAULT ON SOCIALIST PLANNING

THE socialist conception of the planned economy has received much of its inspiration and most of its technique from the economist. While it is true that without the work of the practical labour politician and trade union official, socialism would have remained a text-book curiosity, it is also true that without the economist, socialism could never have become a practical programme of political action commanding widespread sympathy and support. It is this fact which makes labour governments lean so heavily on economists in their administration, and it is this fact also which accounts for the rather lukewarm attitude toward the economic profession manifested in certain business circles and among the political opponents of socialism.

It has, indeed, over the past ten years, not been easy—in Australia at anyrate—to find economists to contest the socialist view of society and to espouse the cause of free enterprise. And, in fact, during the war, when post-war planning was all the rage, economists professing to see virtues in old-time liberalism would have been regarded with rank astonishment by their fellow intellectuals. It was assumed at that time that the old order was so utterly discredited as not to be worth a moment of any sane person's thought, that the war-time

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methods of economic planning had, beyond all serious dispute, revealed the way to full employment, social security and everlasting prosperity and progress in peace; had, in other words, provided the long-sought key to the kingdom of economic Utopia.

UNANIMOUS DENUNCIATION

The three years of chaos, confusion and crisis, since the war, must, however, now have surely shaken the convictions and aroused disquiet in the minds of even the most hardened planners. At anyrate, it is of no great consequence. What is much more important than any signs of a change of heart, or confession of error, on the part of the socialist doctrinaire, is that from the highest and most impartial levels of economic thought is coming a virtually unanimous denunciation of the kind of total planning that has been preached by a large section of the economic profession, and practised in the post-war years by labour governments in Britain and Australia. Those of the liberal faith can take heart in the fact that this new high-level intellectual assault on the citadels of socialist thought cannot fail to have — sooner or later — a profound effect on the future.

THE ATTACKERS

For the attack on the current conception of the "planned economy" proceeds from men, all of whom have risen not only to national but to international eminence in their profession. There is D. H. Robertson, Professor of Political Economy at the University of Cambridge; Lionel Robbins, the Professor of Economics at the University of London; R. H. Harrod, Lecturer in Economics at Oxford, and John Jewkes, Professor of Economics at Manchester University. These are considerable names. Robertson is generally regarded as the successor of Lord Keynes in the academic world of Cambridge, the home of economic thought, and as one of the most distinguished economists in Britain. Lionel Robbins began his career as a socialist. He served under Lord Keynes at Bretton

Woods and at other international negotiations, and, as head of the Economic Section of the British War Cabinet during the war, gained direct experience of government planning at the top level. Jewkes also acquired first-hand knowledge of planning during the war as Director of the Economic Section of the War Cabinet Secretariat and Director-General of Statistics and Programmes in the Ministry of Aircraft Production. He assisted in drafting the famous White Paper on Employment Policy for the Churchill coalition government in 1944, and was a member of the Working Committee appointed by the Labour Government to investigate the cotton textile industry. Harrod is Joint Editor of "The Economic Journal," and is at present engaged in writing the life of Lord Keynes. His book, "Are These Hardships Necessary?" published toward the end of last year, is a smashing indictment of the British Labour Government's economic policy and of the current theories of economic planning.

BELIEF IN ECONOMIC LIBERALISM

In the views of these men there is a remarkable measure of unanimity. Naturally enough there are differences of detail and emphasis—Harrod, for instance, probably goes further in his criticism than the others, indeed, further than most would be prepared to go—but in each case the broad lines of the argument against State planning run very nearly parallel. In the writings of all men, there is, either by direct assertion or by unmistakable implication, a profession of belief in the fundamental tenets of economic liberalism. In a day when academic thought and teaching has swung to the very opposite extreme to old-time traditional doctrines of the laissez-faire school of economists, this new development must be regarded as not merely of academic significance, but of profound political importance. It would be surprising if it did not in time restore the balance in many a university school of economics, and in those places where practical political programmes are conceived.

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This development in top-level economic thinking will, let it be said, eventually exert a far wider and more decisive influence than Professor Hayek's renowned work, "The Road to Serfdom." And this is not only because the combined intellectual weight of the people concerned is necessarily far greater than that of Hayek alone. Hayek's attack on the planned economy came before we had had close experience of its operation under peace-time conditions. It was, in addition, based primarily on the incompatability of total planning with individual freedom and political democracy. But this new assault comes as a direct consequence of observation and experience of government planning in peace. Moreover, it is concerned, in the main, not with the abstract—although none the less important—territory of individual liberties and democratic rights, but with the more concrete ground of the sheer economic inadequacies and inefficiencies of government planning of the type we have experienced in the post-war years. For this reason it is likely to be more compelling and convincing to the mass of the ordinary people who, rightly or wrongly, are more interested in bacon and eggs than in political rights. The latter they—again rightly or wrongly—tend to take for granted.

FULL EMPLOYMENT AND SOCIAL SECURITY

Lest there be any misunderstanding, it needs to be emphatically stated that the views of the four economists mentioned do not add up to a plea for a return to the pre-war relationship between private enterprise and the State. With the new developments in the field of full employment and social security, and with the increased scope for government investment and responsibility which these objectives entail, these four men are, one might say with confidence, wholly in accord. The use of budgetary policy and of broad financial and monetary controls to counteract the inherent tendency of the economic system to move from boom to slump and back again to boom, would also receive their full support.

The continuous adjustment and improvement of the broad legal framework governing the operation of private business enterprise would be regarded by them as eminently necessary. It is not a static economy, or a reversion to the pre-war status quo, that they visualise, but a progressive and flexible adaptation of economic and financial policies to meet the needs of the moment and of long-term goals established beyond question as desirable. As D. H. Robertson says: "These would in any event be positive and arduous tasks, well begun by those who have gone before us, but of their nature never complete."

SOCIALIST PLANNING

But this kind of government planning is a very different thing from that practised in Britain and Australia since the war, and to that advocated by modern socialist thinkers. The essence of present-day socialist planning lies in the belief that the government should concern itself not merely with the total level of industrial activity, and thus of employment, not only, in other words, with the volume of production, but with the kind and quantity of things produced. It should do this by establishing, just as in war, national and social priorities and by setting targets or goals in the main fields of production. And, just as in war, it must carry out—or rather, endeavour to carry out—its programme by the central allocation of materials and labour, by rationing, and by detailed controls over investment, prices and finance.

RATIONING RAINDROPS

Now this is a vastly different conception of government planning from one which aims to guarantee employment and social security through influencing fluctuations in total economic activity by public works, overall monetary and fiscal controls and social services. And it is one which in the opinion of all four economists is bound to fail, not only because it tends to put economic motive and individual initiative in a strait-jacket, but because of the sheer administrative impracticability of any single centre of intelligence successfully directing the details of production and distribu-

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tion in the way that such a conception envisages. In general they would all agree with "The Economist's" viewpoint that: "The State should seek its ends by trying to influence the economic weather, not by trying to ration raindrops."

CENTRAL PLANNING FACES IMPOSSIBLE OBSTACLES

The mistakes of the planners during, and particularly since, the war, have been legion. This is not because of any constitutional incapacity on the part of the planners—the great number of whom are probably men of more than ordinary competence—but because of the colossal magnitude and complexity of the problems with which they have to contend. In Harrod's words: "The problems are too complex for the human intellect, too complex for a hundred Einsteins duly divided up among the appropriate sub-committees." In war—when there is one over-riding objective to which everyone subscribes—some measure of effectiveness may be possible. But in the peace there is no single straightforward objective to which all subscribe. There is a multiplicity of objectives varying from group to group, from class to class, almost from individual to individual. And everyone will continue to pursue their own purposes, regardless of whether or not these purposes are opposed to those of the government. The planners in peace are, in effect, attempting the impossible task of achieving team work and co-operation when the members of the team are all pulling in different directions, and many in a diametrically opposite direction to that called for by the plan. In this fact, in this refusal to co-operate, lies the reason for black markets in materials, consumer goods and labour; for the evasion of regulations and taxation; for the clamour for shorter hours and higher wages when the success of the plan may call for harder work and wage stabilisation; for the pressure for increased government hand-outs when the situation may actually demand a reduction in government expenditure; for the maldistribution of labour between essential and inessential occupations; for the demand for more and more goods for consumption in the home market when the plan may require the curtailment of consumption expenditure and the provision of more goods for capital purposes and for exports. The structure of any national plan, however tidy and logical on the blueprint chart, will inevitably be torn and rent asunder by conflicting strains and stresses. All this is quite apart from the loss of personal initiative and responsibility and of freedom of movement and choice which a detailed national plan must involve.

DISPERSAL OF DECISIONS

But the greatest weakness, the fatal flaw, in total planning lies in its concentration of power and of all major decisions in a few hands. A mistake by the central planning committees can thus have catastrophic consequences for the whole economy (Jewkes gives several examples of this for Great Britain since the war—notably the 1946 fuel crisis when the great part of British industry was dislocated for nearly three weeks and probably £200m. of exports were lost to Britain).

A single miscalculation, an error of commission or of foresight, a failure to realise the anticipated target in a basic item such as, for instance, coal or steel, necessitates complex and costly readjustments to the entire plan, throws practically all the government programmes out of gear, reverberates, in fact, in every nook and cranny of the economy. Private business management has its own way of meeting crises such as these. Anticipating a shortage of supply, it will raise prices, warn the consumers of its products, search for substitutes or alternatives, will, early in the piece, cast about for ways around its problem.

But governments, as experience shows, will, until the last moment, keep hoping against hope for a turn in the tide rather than take the arduous or unpopular course. They will not take the trouble to cover themselves against possible errors of judgment. There are, after all, no direct penalties for failure.

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Government officials are usually appointed for life and politicians may not have to face the electors for three or four years. But the business man may have to run the gauntlet of an angry Board tomorrow morning, and the directors themselves meet the shareholders at an extraordinary meeting next week. Since they are accountable to shareholders, business managements are more likely to take a realistic view than governments who are eternally optimistic—they have to be. The voting public is much more gullible than the small group of shareholders who feel the effects of mistakes directly in a reduction in their own personal incomes. The public can be fobbed-off with excuses, and massive miscalculations can be concealed under mountains of misleading statistics.

When economic power and decision are widely dispersed, errors of judgment do not have such dire results; moreover, they can be offset by decisions made at other points of the economy. For instance, the refusal of financial accommodation to a budding Nuffield by an officer of the nationalised banking system proposed for Australia, would be a decision highly unfortunate for the Australian people. But under the present banking structure where decisions are widely dispersed there is clearly far less likelihood of the occurrence of such a contingency.

All four economists lay strong emphasis on the importance of this matter of decentralisation of decision. Thus Robertson says: "The dispersal of economic judgment commended by the liberal philosophy—was not merely a device for promoting administrative efficiency, but a recipe for securing that all eggs should not be in the same basket—that in this highly uncertain world the fortunes of a whole trade, or a whole area, should not depend on the foresight and judgment of a single centre of decision." And Jewkes: "It is inconceivable that any democratic system can operate effectively unless the great mass of economic decisions are left to individual consumers and producers acting within the price framework."

Thus, quite apart from whether or not it is consistent with political democracy and personal responsibility, the centrally planned economy based upon social priorities determined by the State and involving detailed controls over the producer and consumer, must, by its nature, be inefficient, wasteful, slow-moving, and be fatally exposed to errors of judgment which must have disastrous effects on the mass of the people.

"THE BEAUTIFUL MECHANISM"

What, then, is the alternative? If it is unwise for the government to attempt to decide how the national resources in capital, materials and labour shall be applied, who or what is to decide? The answer is the free price market. Harrod makes a dramatic plea for the reintroduction of what he calls "this beautiful mechanism" as soon as possible. "There is no solution to the problem of central allocation. It is bound to be very inefficient. . . . But there is a device known to man, a very ancient device, a wonderful mechanism almost magical in its effects, an eternal talisman, a little round piece of metal, of gold, if you like, in fact, money. This, acting through what is known as the price mechanism, has the power of stripping away all padding, of distinguishing the more urgent requirements from the less urgent, the immediately necessary from the postponable." He admits that it would have been impossible to rely on the free price market during the war. "But now the war is over it is highly desirable to reintroduce this beautiful mechanism. It is likely to increase output per man-hour by far more than all the ministerial exhortations, and other devices, now under discussion." "This social invention," he says, "has surely greater subtlety and flexibility than any mechanism devised by the physical scientists. It is one of the greatest human inventions, comparable to the wheel or the steam engine. . . . It cannot surely be thought by any reasoning person that the methods of a central materials allocations committee can possibly be an improvement on this marvellous product of man's inventiveness—money."

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"FIRST THINGS FIRST"

Thus, the alternative to the planned economy is the much-abused and now long-suspended free price market. It is nearly ten years, let it be noted, since prices were free to move of their own accord in response to the competition of producers and the demands of consumers. The beauty of the free price market is that it carries out exactly what the government planners are attempting to do through the system of national priorities, but infinitely more efficiently, infinitely more delicately and more accurately. The root principle on which government planning is based is that of "first things first." But the price system is capable of putting this principle into effect automatically, and without the inevitable confusion, the endless application forms, the wastes and evasions and mis-calculations of government planning. The free market registers the order of preferences of consumers for the things they want to purchase. Robbins describes it as "that process of election which not only allows proportionate registration of minority opinion, but also continuous review of producers' decisions by those immediately concerned with their ultimate results."

It is true, of course, that the preferences of consumers as expressed through the price market may not coincide with the views of the government planners on what is nationally desirable. But who is to prevail in this matter—the planners or the people? Does anyone seriously think that any self-respecting people with a spark of independence are, for long, under conditions of peace, prepared to acquiesce in handing over their sovereignty of choice to a few government officials. The question has only to be asked to be answered. This is the classic conflict between what the planners think the people should have and what the people actually want. And it is this conflict which makes the failure of total planning certain.

THE FREE MARKET AND INCOME DISTRIBUTION

The standard retort of the socialist planner to this kind of argument is that the free price mechanism, because of the existence of great inequalities of income, does not result in a distribution of resources which satisfies either elementary morality or economic common sense or need. It puts luxury homes and picture theatres before low-cost housing, the Rolls Royce before "the people's car," after-dinner brandies before milk for school children. But the answer to this surely is that these things are not in fact an inevitable consequence of the free price mechanism at all; they are the outcome of a certain distribution of income and wealth among consumers. If it is felt that this distribution is unfair, then it can be changed through redistributive taxation and family allowances. To attempt to achieve justice in the distribution of wealth by clumsy interference with the free price mechanism through government planning of resources, price control and subsidies, is equivalent to choosing an ocean liner to cross the River Yarra.

"If," as Robbins argues, "it is felt that the working of the market results in distribution of goods which is not equitable, the remedy is to be found, not in suspending the market or in falsifying the system of prices, but rather in direct operation on the level of net incomes and property either by way of taxation or by way of subsidies to persons. But Robbins cautions: "If you hold that for reasons of incentive and perhaps of decentralisation of initiative and power, some differentiation (in incomes) is necessary, then you must not grumble if the market transforms inequality of net money incomes into inequality of real incomes."

It can be further contended, however—and has been by many people favouring planning of this kind—that even under an ideal distribution of income many people will fail to spend their incomes in the way most likely to lead to material and moral well-being. For instance, some mothers may choose to purchase cosmetics and lipstick instead of fruit for the children, or some fathers beer instead of books. This sort of thing, of course, does occur, and will occur whatever the distribution of income. The remedy does not, however, lie in the arrogant assumption of divine wisdom and dictatorial authority by government planners to tell the people how they must spend their money, but rather in argument, persuasion and education in the duties of good citizenship.

There is, of course, a large class of communal services and goods to which the principles of the free market should not apply. Education, sanitation, the provision of roads and communal transport, water and electricity are examples. All this would be conceded by the strongest supporter of free enterprise, but the free enterpriser would not say, as the socialist tends to say, that because this principle has advantages in a limited field it should therefore be applied to the whole range of economic activity. On the contrary, he would argue that over the greater part of the economy which covers goods of a private and personal rather than public and communal character, the free market best ensures economic efficiency and best guarantees the consumers freedom of choice.

POLICY IN THE TRANSITION

It should be clearly understood, however, that none of these four men — while they are all stern critics of the planned economy as a permanent basis for peace-time society—would advocate the immediate removal of government controls over all materials and prices. All recognise that, while the inflationary situation persists, controls in some degree are inevitable. Where they differ from the policies at present being pursued in Great Britain and Australia is that they would advocate a much more forthright programme to deal with the inflationary pressure which make controls necessary, a more discriminating use of essential controls and their relaxation wherever reasonably feasible. As Robertson says in discussing the views of Robbins: "Not a precipitate return to laissez faire, but a reconsideration of inflated programmes and a progressively increasing use of market mechanisms—these were his prescriptions for the period of transition through which inevitably we have to pass."

"THIS AND THAT"

Unless there be any mistake, it needs to be emphatically stated that the present conflict over economic policy is not whether we should have price control or no price control, price subsidies or no subsidies, rationing or no rationing, government controls over resources or no government controls, but whether we should move away from the present tight and comprehensive system of controls and restrictions to a looser system in which the free play of economic forces and the free price market occupy a bigger part. The problem of economic policy is seldom a simple, crude issue between black and white or "this and that." It is almost invariably a matter of much of this and little of that, or more of that and less of this.

In Australia the Commonwealth Government has done little since the end of the war three years ago toward relaxing wartime controls. On the contrary, in some directions—notably in the price field—control has been more rigidly applied. On the other hand, there is little sign that the Government has yet achieved much success in reducing the inflationary pressure since 1945, despite the great improvement in the supplies of goods since that time. It is still being argued that controls must be retained because of the shortages caused by the war. That is less true today than 12 months ago, and very much less true than two years ago. Today controls are necessary, not so much because of the war, but because of the persistence of inflationary pressure attributable in large part to misguided financial policies. It is on the reduction of this pressure that economic policy should now be concentrating.

We have in the work of these four economists the beginnings of an intellectual revolt against government planning which cannot fail to affect profoundly the shape of the future economic structures of the democratic nations.

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