

# ECONOMIC PLANNING

**E**CONOMIC planning—the degree to which governments should consciously interfere in the free working of the market mechanism—is the supreme political issue of our times. Yet the amount of misconception of what economic planning means and what it involves is almost staggering.

The popular tendency is to divide the opponents in this dispute into the “planners” and the “non-planners;” the “planners” belonging to the socialist camp, the “non-planners” consisting of the supporters of free enterprise. This tendency reveals a vast and distressing confusion of thought. For the issue of whether or not the state should plan is no longer in doubt. It is almost true to say that in actual fact “we are all planners now.” *The only question that now remains—and it is a very big question—is for what purposes and by what methods the state should plan.*

## FINANCIAL PLANNING

It is possible to distinguish two broad types of economic planning. Under the first the state would endeavour to achieve its ends through measures mainly financial and monetary in nature—through budgetary policy, taxation, loan programmes and works, tariffs and subsidies, and by coordination of these policies with the central bank, which has control over exchange rates, interest rates and the volume of credit.

Under this type of planning there would be little or no direct interference by governments in the administration and working of particular industries. Within the framework of the monetary and financial policy pursued by the state private businesses and individuals would be left largely free to work out their own destinies, to plan their own production, to fix their own prices, to sell their own services and labour, to buy how and where they wish, to make reasonable—but not unreasonable—profits and to accumulate essential financial reserves unimpeded by exorbitant levels of taxation. This form of planning envisages deliberate management by the state and the central bank in the fields of fiscal and monetary policy to eliminate depressions and to provide a decent minimum of economic security for all. The state, in other words,

would take action to maintain the total monetary demand for goods and services at a level sufficient to provide employment for all, and to influence a tolerably just division of the national product, but the free price market would still largely determine the patterns of production and consumption and the distribution of labour and resources.

### PHYSICAL PLANNING

The second kind of planning goes far beyond the boundaries of state intervention imposed by the monetary and financial planner. Under this type—with which we became familiar during the war—the state would interfere directly in the workings of particular industries, either through straight-out government ownership, or through physical controls such as price and investment control, the allocation of raw materials, licensing, rationing, production and sales direction, quantitative import and export controls, and other measures. Under this type of planning, not the free market but the state would, in its infinite wisdom, decide the pattern of production and consumption, of imports and exports, the more or less exact division of the national product—that “infinite wisdom” would be exercised, let it be remembered, by a handful of government officials.

The first type of planning—monetary and financial planning—would be supported by all thinking believers in the free enterprise system. The second type—which for convenience we may call “physical planning”—is the kind advocated by the present-day socialist. Between the two there is, of course, a vast gulf.

Take for instance the field of money and banking. Progressive leaders of banking are today entirely ready to concede the need for central bank control of monetary policy—to control, for example, the volume of bank lending, interest rates, exchange rates and the nation's reserves of foreign exchange. What they will not concede is that the day-to-day business of banking, at present performed by a number of private banks in competition with one another, should be carried out by one government monopoly bank. The function of general direction of monetary policy they are fully prepared to recognise as one for a central banking authority.

Within that structure of control, however, they are adamant that the present system gives a far more efficient and flexible service to the community than any government bank could possibly hope to do.

Or to take another example in an entirely different field—that of medical services. There is the strongest of cases for government action to the extent necessary to ensure that every one in the community is provided with essential medical attention at a reasonable cost. But for the government to supervise and administer the day-to-day provision of medical attention through the nationalisation or part-nationalisation of the health services of the nation, or through a type of control that endangers the confidential personal relationship between doctor and patient is another thing altogether. The latter involves a form of detailed government planning of the medical profession which the non-socialist considers to be a totally unnecessary and dangerous interference with the intimate personal life of the citizen.

#### ECONOMIC OPINION AGAINST PHYSICAL PLANNING

In his opposition to detailed physical planning of the socialist type, and his advocacy instead of broad financial and monetary planning, the free enterpriser has now the support of an impressive body of weighty economic opinion.

An article published in "Review" last June\* gave the views in this controversy of four British economists of outstanding repute: D. H. Robertson, Professor of Political Economy at Cambridge; Lionel Robbins, Professor of Economics at the University of London; R. H. Harrod, Lecturer in Economics at Oxford and Editor of "The Economic Journal"; and John Jewkes, Professor of Economics at Manchester University. To these names may now be added those of A. C. Pigou, "the grand old man" of English economics, and of James Meade, Professor of Commerce in the University of London, a member of the Economic Section of the Cabinet Secretariat during the war, and the Director of that section for the first two years of post-war reconstruction. Meade's views on planning are set out in a most important book, recently published, entitled "Planning and the Price Mechanism."

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\* "The Economists' Assault on Socialist Planning."

Pigou leaves no doubt where he stands. He points out that while in war there are powerful reasons for direct government intervention to control the allocation of resources, in normal times "the case for planning through financial procedures rather than through direct controls seems to me overwhelming." "Why," he says, "by direct physical controls, disrupt the market and saddle ourselves with the inconveniences and irritations that are inevitably associated with labour direction, priorities, rationing and queues," when, "desirable forms of expenditure can be stimulated by subsidies, and undesirable forms checked by duties?"<sup>1</sup>

Meade develops his argument at much greater length, but he arrives at almost identical conclusions. He asks the question: "Am I a planner?" And answers: "If a planner necessarily believes in a quantitative programme of output, employment and sales for particular industries, occupations and markets, and the exercise of such direct controls by the state as are necessary to carry this out, I am certainly no planner. If an anti-planner necessarily denies that the state should so influence the working of the price mechanism that certain major objectives of full employment, stability, equity, freedom and the like are achieved, then I am a planner." And of the former type of planning he says: "When one examines the possibilities of quantitative planning, one cannot but be appalled by the prospects of insidious threats to personal freedom and to public morality, of a swollen bureaucracy, and of clumsy inefficiencies." He makes it clear that in his view the only workable and efficient method of making the myriad detailed decisions which the operation of the modern economic system requires is that of the free price mechanism. In words strongly reminiscent of those used by Harrod in his book "Are These Hardships Necessary?"<sup>2</sup>, he says: "There can be no doubt that money and the pricing system are among the greatest social inventions of mankind. Properly used they should be capable of giving each individual a general command over his fair share of the community's resources; of allowing each

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<sup>1</sup> Article in "Economica"—February, 1948.

<sup>2</sup> "This social invention 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."

—R. H. Harrod: "Are These Hardships Necessary?"

individual to decide for himself in what form he will exercise this command; of allowing initiative to individual producers and merchants to produce what is most wanted in the most economical manner in the markets where supplies are most needed; in short, of combining freedom, efficiency and equity in social affairs."

Meade concludes, just as Robbins, Harrod and Jewkes have concluded, that physical planning, or, as it might be called, total or quasi-total planning, by comparison with the automatic "planning" of the free market, is bound to be clumsy, wasteful and inefficient, and probably if carried to its logical conclusion completely unworkable. There is no effective substitute for prices determined by free competition between buyers and sellers in the market place, as a means of carrying on the everyday economic life of the community, and of deciding the purposes to which the community's resources shall be applied.

#### INVASION OF FREEDOM

Physical planning has, too, several other disadvantages that do not attach to financial and monetary planning. An outstanding disadvantage, which has been emphasised many times in the columns of "Review", is that it cannot be carried to any lengths without seriously trespassing upon the territory of personal freedom. A decision by the state to determine the kinds and quantities of things that shall be produced is a decision to restrict the consumer's freedom of choice. The state through investment control, price control, materials allocation, rationing and so on, determines a quite different pattern of production and consumption to that which would result if the mass on consumers were left to make their own decisions through the free price market.

Under a nationalised banking system for instance the state would possess unlimited power to decide what should be produced and therefore what should be consumed. Men would not be free to engage in the business of their choice if the state bank saw fit to refuse them financial accommodation. Under competitive private banking, the bank client has a number of sources to which he can apply for financial assistance. If refused by one bank, there are others which may be

prepared to do business with him. Under a nationalised health scheme will the patient have the right "to sack" his doctor? Moreover the details of his illness, which have previously been the confidential concern only of his medical adviser, may now be the common knowledge of numerous government officials.

But the freedom of choice of the consumer is not the most important freedom that must be curtailed under physical planning. It is inconceivable that physical planning could achieve any success at all unless the state has the power to direct labour. The state cannot effectively determine the distribution of productive resources without this power. But direction of labour is, in Meade's words, "the hallmark of the servile state."

### CORRUPTION OF MORAL STANDARDS

One of the gravest aspects of physical planning is the threat that it carries to the moral standards of the community. Meade points out: "A system of direct quantitative controls is the breeding ground for spivery and corruption."

The plain fact is that many people will not submit to controls which they do not conceive to be in their own best personal interests. They will search for ways round them. The law-breakers, the black-marketeers, fare much better than those at first prepared to abide by the law. The latter naturally ask themselves why they should be penalised for being honest. Their patience and forbearance become exhausted and some of them join the ranks of the law-breakers. And so the contagion spreads and law and order are progressively undermined. A hard cynicism develops. The "poor sap" who abides by the law, who cannot get what he wants because he refuses to pay or accept the black market price, or to stoop to petty bribery, or to falsify his applications for government licenses, or to evade his excessively heavy taxes, or to break the wage-pegging regulations, becomes regarded almost as an object of contempt by his fellows. The whole tone and standard of the national life become tainted and corrupted. Under this kind of system, it is the unscrupulous, the dishonourable, the "smart alecks," those who never give a thought to their community responsibilities, who thrive and prosper. How much of this sort of thing have we witnessed in Australia in recent years? It would be a brave man who would be prepared to argue

that these practices of dubious virtue are not already widespread; and that a "new rich" section of undesirables has not made an unwelcome and unwanted appearance in the life of the community. Laws that cannot be effectively policed constitute a severe penalty on the law-abiding citizen.

Moreover, the controlled system places a tremendous strain on the integrity of officialdom. The government official is given immense powers to bestow favours and benefits or to inflict injustice and hardship. He would be almost more than human if he did not sometimes abuse those powers. To quote Meade: "To give central and local officials the daily task of handing out, what must inevitably be to a large extent arbitrary considerations, pieces of paper called permits or licenses of great value to the fortunate but limited number of recipients, is to expose our fine and honourable public service to a strain which may in the end prove unbearable."

## PLANNING WITHOUT PLAN

It is difficult to discern in this country, which has now had in office for several years a socialist government pledged to the doctrine of economic planning, little sign of any coherent and purposeful economic plan.

The socialist has based his case against free enterprise and for government planning on three master criticisms:—

First, the socialist claims that the free enterprise system is an economically unstable system, that it does not lead to stability and therefore to permanent full employment.

Second, he argues that free enterprise does not produce the goods most needed by the community—it produces luxuries before necessities, inessentials before essentials, champagne for the rich before clothes for the poor.

Finally, the socialist believes that free enterprise does not distribute the products of industry in an equitable and just fashion.

By these criteria, how far has post-war planning in Australia been successful?

Only in the third instance could it be claimed that the government has achieved any success, and even then only the roughest form of justice has been attained. There have been great advances in providing economic security for the under-

dog, the rich have been denuded of some of their wealth, but in the process a "new rich" class has arisen; and immense injustices and hardships have been inflicted on perhaps the most important section of the community — the white-collar worker, the manager and business executive, the salaried man, many professional men.

So far as the first criticism is concerned, it has to be conceded that the planning pursued by the government has yet to be put to the final test. So far, however, it has not produced stability. On the contrary an inflationary boom with dangerous possibilities has been allowed to develop. There are many symptoms of acute instability in the present Australian economy, and it is a matter for some doubt whether we will eventually be able to avoid the consequences of our failure over the last few years to apply strong financial and monetary checks to the post-war inflationary forces.

But it is with the second criterion that the failure of government planning is most pronounced. It would, in fact, be difficult consciously to devise a more unhappy and uneconomic distribution of productive resources than that which prevails today. There is abundant production of inessentials, a lamentable scarcity of essentials. Food production, coal, steel, metals, building materials, civic amenities, essential public projects, all are disastrously short of labour. It is not sufficient to protest, as did one Cabinet Minister recently, that the Commonwealth Government, because of the rejection of the 1948 referendum, does not possess the constitutional power necessary to plan an economic allocation of resources. The mal-distribution of productive resources was well under way while the Government was fully armed with authority under its war-time powers.

The truth is that there has been planning without plan. The Government has indulged in socialist experiments here and there, such as the free medicine scheme and the control of broadcasting, of extremely doubtful benefit to the community, the control of prices of second-hand cars and homes, and the such-like. But where and what is the overriding plan? There has been a great deal of control for the sake of control to satisfy socialist doctrine. But to what general ends has much of the control been directed?

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The fact is that no effective system of state planning involving physical controls is possible without the direction of labour. And this step naturally enough the government has not been prepared to take. A democratic community, if it wishes to remain democratic, must give up any ideas of the type of planning involving detailed price control, rationing, licensing, materials allocation, and direction of resources and labour by the state. There is, however, a vast field for profitable experimentation in the use of financial and monetary controls to preserve economic stability within the structure of free enterprise and the free price market. Here lies "the middle way" which those who wish to combine freedom and order, individual enterprise and consumer choice with economic stability and full employment, should explore to the full.

