USES AND ABUSES OF NATIONAL PLANNING

Inaugural Lecture of the Professor of Applied Economics delivered at the College on 8 March, 1966

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B.Sc. (Econ.) (London), Ph.D. (Nottingham)

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UNLIKE Canon Chasubel, who had a sermon that he could preach under any text, I have been looking for a text under which I could preach any sermon. Or, at least, a sermon that would enable this first and privileged holder of the Chair of Applied Economics to give you some idea of how he looks at those goings-on in society that for one reason or another we call 'economic' and to indicate briefly what he might do with the munificient opportunities that you have provided. Though I must add this word of warning – that if when he sits down in that Chair this evening, you are disappointed, then you will have to treat him as a 'sunk cost', which is the economist's way of saying that it is too late to get your money back.

One of the most difficult tasks of the social scientist is to distinguish the merely fashionable from the more enduring of contemporary forces. But nevertheless, I think it is a safe judgment that for the foreseeable future, national planning, like women, has come to stay. We have a national economic Plan (note the ominous capital 'P') for the whole country up to 1970; a national housing Plan; a national Plan for land and for the social services. There is soon to be a national Plan for transport. No Minister of the Crown today is complete in political raiment without a national Plan. And whatever the content and the developments, we can be pretty sure that the label will be there, a seal of good housekeeping and intentions.

Now this zest for planning a whole community is nothing new. I do not want to go back to the grand designs of Plato, who could find a slot for everyone except poets, or even more recently to Saint-Simon and Comte, who could find a slot for all and with some to spare. Instead, I shall risk being parochial by reminding you of the debate on planning just after 1945 when I was a student and which makes me feel that I have been here before. You will remember then that the great liberal guns of Hayek, Robbins, Robertson, Meade, Jewkes, Paish and Hubert Henderson discharged their salvoes with courtly devastation and there was silence in heaven for half-an-hour. The planned economy of that time, with its quantitative programmes, its allocation schemes, its restrictions on enterprise and its general suspension of the pricing system, was already breaking down through its own internal inconsistencies. For the next decade, planning was a term of opprobrium, a synonym for muddle and mess.

I must confess to you that it was then, in my student days, that I became, in Robertson's words, one of those 'with the liberal virus in our blood but unwilling to be banished to the desert and the wilderness'. I was captivated by their robust humanity, the beauty of their logic, the power of their reasoning, their sense of continuity in the affairs of men and by their eloquent refusal to follow the current fashion of standing at one and the same time with their feet on the ground and their heads in the clouds.

They were clear, as liberal economists have always been clear, on the extensive and vital tasks that the State must perform if the market economy is to work with efficiency and justice. Hence Meade's insistence that 'a large measure of State foresight and intervention is required . . . to prevent inflationary and deflationary pressures, to ensure a tolerably equitable distribution of income and property and to prevent or control the anti-social rigging of the market by private interests'. (*Planning and the Price Mechanism*, 1948, p.v.) and hence too, Robertson's endorsement of 'judicious State intervention' to correct or mitigate market imperfections. (*Economical Journal*, December, 1947).

On the other hand, quantitative programmes laid down by the State as 'directives to action' and detailed 'model' forecasts of future economic quantities were found wanting in logic and feasibility. The first could only work in war-time, when the Government was the primary purchaser of final output. The second was feasible only if the factors of dominating importance were predictable and they were not. Thus, 'if used as instruments of central economic policy, calculations of the "model" type are unlikely in my view to do more than provide model dwellings for a Fool's Paradise'. (Sir Hubert Henderson, Rede Lecture, 1947). The problem was compounded by the behaviour of exports, over which the planners had little or no control.

Since mankind needs to be reminded rather than educated, let me bring to your notice once again the main tenets of liberalism as they apply in the economic and social sphere. First of all, there is a wide dispersion of decision-making power. At the philosophical level, this promotes individual liberty by curbing the potentialities of coercion. At the economic level, it minimises the consequences of mistaken decisions and enables more effective use to be made of existing knowledge. Secondly, there is the institution of private property, including the talents and acquired skills of the labour force, the benefits from which the owners are free to exchange voluntarily with others. And thirdly, there is the rule of law, a body of settled rules binding alike on governors and governed. The voluntary exchanges are integrated by the price mechanism and competition is the major form of social control.

In sharper, if cruder, terms, what this boils down to is that men cannot be trusted with power; that they cannot see much further than the ends of their noses; that in general they prefer leisure to effort; and that they will work better if the rewards of effort accrue to them directly. These I take to be empirical truths in modern free enterprise economies and, indeed, in most societies through the ages. In the words of Robbins, 'both as an incentive and as a rough test of survival, I do not know of any substitute for competition between independent units with a free field for new entrants' (*The Economic Problem in Peace and War*, 1947, p. 80).

Whatever the type of national planning (and there are many varieties), two consequences seem inescapably to follow that do not at all accord with these philosophical preconceptions or, if you will, errors in intellectual upbringing. The first is that government is placed in the centre of the economic and social picture, with everything that is good and vital seemingly emanating from it and feeding back to it, the touchstone of all that is relevant and worthwhile. The second is that voluntary groups on both sides of industry consolidate into fewer and more powerful forces so as to deal with the commands, threats, cajolings and (dare one say it) bribes of the Leviathan in the middle. In a word, concentrations of power beget concentrations of power. This may be what 'Society' wants but it is not something that one with the liberal virus in his blood can view without apprehension and cultivated dread. He sleeps more soundly at night when competitive markets are in the centre of the picture, when voluntary groups are numerous and disciplined by law and the fear of new entrants, and when government is 'jollying along' somewhere on the periphery of things, being tough with monopoly and collusion and filling in the gaps that private endeavour cannot fill adequately or, in some cases, at all. National planning, then, whatever else it may do, shifts the focus of things away from markets to governments and greatly increases concentrations of power.

You may now be murmuring, 'What on earth has all this to do with economics, applied or otherwise? Have we come to the wrong lecture or could it be, perhaps, that the speaker has brought the wrong notes?' Let me put these justifiable promptings to rest at once by reminding you that economics as an independent discipline grew out of the study of the effects of governmental activities on economic welfare, particularly in the fields of foreign trade and private monopolies supported by the State. Economics was then known by the sturdier name of Political Economy and even if we stick with our new label (for which Jevons of Manchester was oddly responsible) we are simply following a firm and fruitful tradition in putting public policy to the critical test.

Despite the intellectual rout of twenty years ago, when they retired in complete disarray, the planners are back in the saddle more firmly than ever. How that came about is a political rather than an economic story so I will stick to my last and leave it alone, except to emphasise that the dramatic shift has not been due to improved theorising or to more tested economic knowledge.

But we can say that the proximate causes were inflation (prices rising at about 3 per cent compound per year) and an allegedly slow rate of economic growth (real national income rising at about $2\frac{1}{2}$ per cent compound per year). I shall confine my remarks to planning and growth. Not because I think inflation unimportant – very far from it. But partly because of limitation of time; partly because national planning would almost certainly have come even had prices been stable; but mainly because my distinguished colleague, Professor Victor Morgan, said all that I could say, and much more effectively, in his Presidential address to Section F of the British Association last September.

I spoke a moment ago about the *alleged* slow rate of economic growth of the U.K. since 1945. No nation seems to enjoy international flagellation more than the British but it is not my intention to add to the pleasurable pain. Compared with experience in the U.K. over the past century, growth performance has been excellent. But compared with many European countries and Japan it has, since around 1950, been 'poor', in the sense that we have been consistently at or near the bottom of the international growth league table. For my part, I share the scepticism of Messrs. Knapp and Lomax (*Lloyds Bank Review*, October, 1964) about the usefulness of league tables (save of course for flagellistic purposes) and their insistence that we do not possess that tested body of knowledge concerning the long-run determinants of growth in capitalist economies that we need in order to know whether our economic performance has been good, bad or indifferent.

At any rate, those in authority hold that the market economy has not come up to scratch and that we need a dose of French-type planning. It is, by the way, in no impish sense that I point out that Germany has achieved the highest growth rate in Europe since the war through the market economy and without planning as it is usually understood. But *toujours la politesse*, let us have a look at the best planning we've got.

There is one inconsistency that would have immediately stood out in that great debate of my student days. It would have been forcefully maintained that the faster the rate of technical progress and the greater the dependence on exports, the less scope there would be for economic planning at home. For technical progress makes the economic future more uncertain, more difficult to forecast, and international vicissitudes put paid to the best laid plans of mice and men. It was not for nothing that Schumpeter predicted that socialism would come into its own when the capitalistic dynamic had fizzled out in a whimper and passed into the stationary state. Yet two of the chief aims of *The National Plan* (H.M.S.O. Cmnd. 2764, September, 1965) are to increase the rate of technical progress and export dependence *and at the same time* to extend the scope of planning. Any erring student in my day who said that would have been flunked out of hand.

Another edict that came down from on high in those days was that if government must intervene in the economy, then let it work with the forces of the market and not against them. There are one or two genuflections in the Plan, such as 'care will be taken not to destroy the complex mechanisms on which the market economy is based' (p. 3) but the general tenor of the Plan is that, if markets get in the way of declared objectives, then so much the worse for markets. My magisterial tutors would have raised their eyebrows and chuckled at the thought of mere politicians trying to hold back or divert for long the forces of markets, like Mrs. Partington trying to sweep back the tide. The other day I came across what happened to

Charles I when he tried the same thing. The trouble was over soap and it contains so many economic lessons that, with your indulgence, I propose to quote the episode in full. It comes from Miss C. V. Wedgwood's *The King's Peace**, and this is what she relates:—

> In 1631 the King granted to a group of projectors the exclusive right to make soap of vegetable oil for fourteen years. They agreed to pay the King £4 a ton and to make five thousand tons a year at 3d. a pound; they were permitted, in view of the supposed superiority of their soap, to examine all other manufactured soap and impound or destroy any that they thought below standard. At a test held in private in London, their soap was certified better than that of the London soap-makers. It did not fare so well at Bristol where a tavern maid and a laundress lathered away in public at some soiled linen napkins with the projectors' soap and with soap made by the Bristol soap-makers; they demonstrated that the Bristol soap washed whiter and more economically than the projectors' soap. In spite of this the King ordered the closing down of seven out of Bristol's eleven soap-boiling workshops.
>
> In London the struggle went on with unabated venom. The King's projectors prevailed on the King to prohibit the use of fish oil in soap altogether; on the strength of this they seized the stock of the London soap-makers and prosecuted them in the Star Chamber, following this up by an offer to buy them out of business. The London soap-makers refused the bait and some of them were imprisoned. Murmurs were now rising on all sides. While fishing companies were affected by the prohibition on whale oil, the people in general declared that the projectors' soap was bad. The projectors mobilised the Queen's ladies to write testimonials to the excellence of their soap but laundresses and—more important—cloth-workers throughout the country continued to condemn it. In response the King prohibited the private making of soap altogether and gave the projectors the right to enter and search any private house. All in vain. By the summer of 1634 illicit soap was being sold at a shilling the pound or six times its original price, so low was the general opinion of the projectors' soap. At this point the projectors gave up their plan of using only vegetable oil and took to using the fish oil, which they had made illegal for everyone else. In a final effort to drive their rivals out of business the King put a tax of £4 a ton on Bristol soap. The Bristol soap-boilers refused to pay, and fourteen of them followed the London soap-makers to prison. The farce could not continue much longer and in 1637 the King wound up the project and bought in the projectors' rights for £40,000, of which he made the London soap-makers contribute half. He then allowed the London men to go back to their interrupted manufacture on payment of a tax of £8 a ton to the Crown.

*The quotation is from pp. 160–161 of *The King's Peace* (Collins, 1960). Permission to reproduce the passage has been given by Miss Wedgwood.

This episode illustrates with charming vividness the real balance of power between markets and men, even though those men be kings.

The method of construction of the National Plan is well enough known for me to be brief. A questionnaire was sent to the various industries, who were asked to give estimates from 1964 through 1970 of total production, production for the home market, exports, imports, investment, employment, etc., on the assumption of a 25 per cent increase in national output by 1970. The returns were then collated by the Department of Economic Affairs, who found that they added up to a 'significantly lower increase in total output' than the required 25 per cent and showed a different pattern from that desired. There is then the disarming comment (*National Plan*, p. 24, para. 6) that 'subsequent discussions led to numerous revisions in agreement with industry. The revised output estimates gave a total increase of 25 per cent and broad agreement was also reached on the industrial pattern that would be consistent with the achievement of this increase in national output'. Perhaps I have a suspicious mind but this looks to me rather like cooking the books!

Even if we grant that a 25 per cent increase in total output is feasible by 1970, what worth are we to put on these output forecasts for particular industries? In my view, none at all. At best they are innocuous and at worst mischievous, directing the efforts of industries to targets that the market forces of technology and consumer preferences have been rendered obsolete. The guiding signals in a market economy, which the Plan assents will continue to govern most manufacturing industry and commerce, are relative prices and profits, not targets of physical output. Yet relative prices and profits are not even mentioned in the Plan. There is the implicit assumption that, if the output targets are realized, the output will be saleable at prices that yield a commercial rate of return. It is to say the least sad that, when Soviet-type planned economies

have realized the wastes of physical output criteria and are taking profit as their guide to resource allocation, that this country should be moving in the opposite direction to criteria that have been long-tried and found wanting.

But it is unlikely that the industry targets will be achieved, even if the government should step in to subsidise the losses of unsaleable output. The record of economic forecasting is simply very bad – so bad, in fact, that I would think it uncharitable to those concerned to go into the matter in detail. I will simply mention the expected long-run rise in the demand for coal, the expected long-run demise of the gas industry, the expected surplus of doctors and the expected persistence of world dollar shortage – these are but a few of the confident expectations of the 1950's that were quickly and rudely violated. The dynamic of the market economy pays scant regard to those who try to perceive any but the dimmest outlines of the economic future. And in this context, I am reminded of George Eliot's dictum that, among all forms of mistake, prophecy is the most gratuitous.

But perhaps that estimable soothsayer, the Registrar General, will forgive me if I instance his efforts by name. Forecasting population is among the simpler exercises of social prophecy. Yet the Registrar General has been constantly put out by the persistence of women in having babies in larger numbers than thought likely and, perhaps, even desirable. Despite all our technical progress, the method of making babies is still somewhat old-fashioned – a cottage industry evidently subject to large and unpredictable changes in productive activity.

The planners are not unaware of these problems. Thus the National Plan concedes that 'some of the forecasts or projections for particular industries will inevitably turn out to be wrong' (Par. 14), and that it one forecast that will certainly turn out to be right! But I am more impressed by the following judgment, taken from a book which attempts, numerically, to work out a possible picture of the British economy in 1975.

> There is no authority and no system of calculation which can tell industry X what the demand for its products will be ten years hence—or for that matter, five years hence. (*The British Economy in 1975*, by W. Beckerman and Associates, C.U.P., 1965 p. 2.)

Now the authors of this large and weighty tome are highly sympathetic to quantitative planning, and I would have thought, after that admission, that they would, in the words of the poem, 'go out and pick blackberries'. But not a bit of it. The quantitative picture of 1975 is filled in with great detail, even though they confess that 'there is no system of calculation . . .' to justify it.

Let me give just one example of how the technical coefficients, assumed in the models to be constant, can change and make the quantitative view of the future redundant. In a chapter by G. F. Ray on 'Energy', completed, I suppose, about 1963, occurs the following statement.

> If natural gas is found in substantial and accessible quantities under the North Sea, then the division of demand between main forms of energy . . . postulated in 1975 could be altered a good deal. (Beckerman, op,cit., p. 323).

Not only has natural gas been discovered, it is to be sold to the Gas Council at fivepence a therm! And my applied science friends advise me that the 'powder route' to strip steel may well revolutionise that industry within the next decade.

All this does not mean that no planning takes place. Of course, individuals and business enterprises plan in the sense that they look ahead and make provision now for likely contingencies in the future. But precisely because these multifarious plans are dispersed throughout the market mechanism, they are flexible, capable of frequent revision to meet the change of circumstance. It may well be that the quantum of information for decision-making is sub-optimal in a voluntary exchange economy, the main reason being that the costs of producing information are much higher as a rule than the costs of re-producing it. In the absence of property rights in information, which enable the original producer to recoup his costs and a rate of return, then theory predicts that the amount of

information will be less than the community as a whole would be willing to pay for. The theory of information is at present rudimentary but it seems intuitively reasonable to allocate an important role to government in improving the flow of information through legal devices and subsidies.

But what *kind* of information is consistent with preserving 'the complex mechanisms on which the market economy is based' is still an open question. Perfectly competitive economic models assume implicitly that information is a free good, to be had in infinite supply. A good deal of misunderstanding about imperfect competition could have been avoided if this assumption had been made explicit. Information costs resources to produce and so we settle rationally for some minimum amount of ignorance. Insofar as the Economic Development Committees (or 'Little Neddies' as they are known) for the various industries improve the flow of information which firms in an industry would be willing to pay for *collectively*, that would seem to me to be net gain, an equalizing of net private and net social marginal cost.

But the National Plan goes further than this. It envisages that projections of output, etc. up to 1970 'should help firms and industries to take more informed decisions than if they were left in the dark about other people's intentions and beliefs'. This implies, if it does not actually require, that each firm in an industry should know of the 'intentions and beliefs' of its immediate competitors. Now much of that information is of a kind that firms are willing to pay for but which is not normally sold, unless it finds its way into the new growth industry of industrial spying. A vital part of the competitive process is keeping plans secret from competitors and gaining a short-run, quasi-monopolistic corner of the market. So one of two things will emerge from the National Plan's intentions. Either firms within an industry will collude in some rough and ready market-sharing scheme (and there is informal evidence of this happening now through the E.D.C.'s, thus undoing the work of promoting competition achieved by the

Restrictive Practices Court). Or firms will simply not tell the E.D.C.'s the truth. For why should a firm reveal its plans to competitors without compensating gains from collusion?

This seductive idea, then, that uncertainty about the future faced by all firms in all industries could be reduced by pooling knowledge of future plans leads either to collusion and restrictions on competition, which the Plan is clear must be swept away, or to false information from firms about their plans, in which case the Plan becomes even more meaningless than I now hold it to be.

But now we come to the heart of the matter, which is that the Plan will be self-fulfilling if only all concerned believe in it, change their attitudes and play their full part. I will not trouble you with quotations from the National Plan itself, which is choc-a-bloc with this sort of thing. But in the Beckerman study it is stated that 'we *believe* that as a community we have it in our power . . . [to] grow faster than in the past and . . . [to] become more competitive in international trade'. (Op.cit. p. 1, my italics). The Hacketts say of the French plan that it is 'above all no doubt, a state of mind' (*Economic Planning in France*, Allen & Unwin, 1963, p. 7) and in the same book the chief French planner, M. Massé, remarks that 'happily, the spirit of the Plan is spreading'.

Insofar as all this can be reduced to theoretical form, what is presented to us is a psychological theory of growth, the notion that faster growth can be achieved if only enough people can be brought to believe that it is possible. Now I have no wish to minimise the role of faith in enquiry in the social sciences. I have made it clear that I myself prefer the competitive market economy which, on some other occasion, I could deck out with garlands of high theoretical sophistication. But at the end of the day, it needs a dash of faith, a leap in the dark, to get to the conclusion that *this* is the best we can do as a community and that it cannot be done in any other way. But surely the act of faith comes at the end of the day, after the analysis and the appeal to

empirical evidence, a human rounding off of the best that mind and sensibility can accomplish. It should not come, as in modern planning it does come, at the beginning of the day, the core around which all else is draped and total commitment to which is crucial to success. There was still lurking around when I was a student a psychological theory of the trade cycle, the notion that booms and slumps occurred because enough people believed they would occur. While economists still recognise that psychological forces are at work, anyone who now put them in a prominent role in his theory would be laughed out of court. We do not as yet have a satisfactory theory of growth but it would not seem to me too harsh to dismiss the current psychological 'theory' as metaphysical bunkum.

And yet, you know, the central role of psychology in national planning is not accidental, a temporary refuge until more intellectually reputable tools can be forged. The issue has been put most clearly by Hayek, in his *Counter-Revolution of Science* (Free Press, Glencoe, 1952, p. 39).

> The problems which social scientists try to answer arise only insofar as the conscious action of many men produce *undesigned* results, insofar as regularities are observed which are not the result of anybody's design. If social phenomena showed no order except insofar as they were consciously designed, there would be no room for theoretical sciences of society and there would be . . . only problems of psychology. It is only insofar as some sort of order arises as a result of individual action but without being designed by any individual that a problem is raised which demands a theoretical explanation. *(my italics)*.

Now the market economy is the major example of social order without conscious design. It is for that reason that competitive markets have been the core of economics as a social science since the time of Adam Smith. And it is not mere intellectual chauvinism that leads me to claim that it is also the reason that economics became and has remained *primus inter pares* among the various disciplines that make up the social sciences. It is again not accidental that M. Massé says that French planning is less a theory than a practice or that Professor Peston reaches the conclusion that British planning does not contain a theory of economic growth.

By now some of my geography friends may feel impatient that I have said nothing about regional planning. That omission is due partly to my congenital inability to talk about everything at once but mainly because regional planning, like national planning, is a phenomenon in search of a theory. In the present state of theoretical and empirical knowledge, regional planning might be anything from baffled politicians in search of their souls to glittering prospects for areas still marred by the *disjecta membra* of a by-gone industrial age. And as Jewkes has sagely remarked, 'we must not think we have found a solution when we have only found a phrase'.

At any rate, if national economic planning continues to consist of comprehensive output targets to be achieved by industries, then I know of no advances in economic theory or in tested economic knowledge to change Hubert Henderson's judgment of twenty years ago, that such a policy is unlikely to do more than provide model dwellings in a Fool's Paradise.

I have concentrated almost exclusively on what seem to be the abuses of national planning and I have done so because they have suddenly become so dominant a part of our national life and have been subjected to so little critical appraisal. I really need another lecture to deal with uses of national planning, if we must use that term to describe those activities by which government seeks to raise the general level of economic welfare. And although my remarks must be brief, let me leave no mistaken impression: those uses are real and extensive. Among those concerned with improving the performance of the market economy, I would regard the Restrictive Practices Act, 1956 and the Resale Prices Act, 1964 as national planning of a high order, as acts sweeping away damaging restrictions and promoting competition. The interplay between law and economics is theoretically fascinating as well as socially useful and I am delighted to see that a

Chair of Law is to be established here. The creation of industrial skills will also test our intellectual and social calibre. Economics already contribute to the Applied Science courses here and that contribution is to be considerably extended in collaboration with Industrial Engineering.

This, and much more that I could mention had I not over-tried your patience already, lacks the drama and political sex-appeal of grandiose national economic plans, with politicians popping up here, there and everywhere, forever visible, vigorous and visionary. But I would hold that it is precisely in these quiet and steady ways that the soundest contributions to the common weal are made. There are certainly no mutual gains from trade to be had from exchanging two centuries of economic thought, built around the notion of competitive markets, for the latest burnt offerings of the political process, which raise opportunism to the status of principle, reduce economic theorising to mere *ad hoccery*, and offer us mysticism as a short cut to Shangri-la.

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