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CENTRAL PLANNING AND NEOMERCANTILISM

Edited by Helmut Schoeck and James W. Wiggins

Central Planning and Neomercantilism

Edited by

HELMUT SCHOECK and JAMES W. WIGGINS



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D. VAN NOSTRAND COMPANY, INC.

PRINCETON, NEW JERSEY

TORONTO

NEW YORK

LONDON

D. VAN NOSTRAND COMPANY, INC.
120 Alexander St., Princeton, New Jersey (*Principal office*)
24 West 40 Street, New York 18, New York

D. VAN NOSTRAND COMPANY (Canada) LTD.
358, Kensington High Street, London, W.14, England

D. VAN NOSTRAND COMPANY, LTD.
25 Hollinger Road, Toronto 16, Canada

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Published simultaneously in Canada by
D. VAN NOSTRAND COMPANY (Canada), LTD.

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PRINTED IN THE UNITED STATES OF AMERICA

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Preface

During a conference in 1961, examining the then so fashionable confrontation of the public and the private sectors of the economy, several participants recognized in the advocacy of an enlarged public sector a neomercantilist ideology and a renewed wish for centralized planning. (By 1964, proposals for "massive Federal planning," even—literally—for a "neomercantilism," have come forth in numerous articles, books, pamphlets, position papers, and national conferences.) It seemed, therefore, of interest to continue these critical explorations of the philosophy, limits, and record of central planning.

Five of the participants in the 1961 symposium joined six additional members for a week-long conference in September of 1962. The papers discussed at that meeting resulted, after revisions, in the present volume.

Even though the final versions of most of the essays reflect positive responses to the suggestions and criticisms each author received from the others, it should be pointed out that, as always in such enterprises, several differences of interpretation and emphasis have remained. Each author is alone responsible for his views and facts. It would be unfair to look for a group consensus on the majority of the questions analyzed in this book.

Nevertheless, the invitations to this symposium had been extended to men whose published work had shown an open mind for the potential, the advantages, and the inherent worth of the unplanned society and economy. The "debating team approach" rarely yields a readable book.

Of course, today as ever we can point to gaps and disturbances in our social, cultural, and economic environment which we all might wish were not there. There will never be a society so perfect, and with all its members on the same high level of well-being at the same time, that nothing could be imagined to be improv-

able. The question is only whether some sort of central planning, and centralized allocation of resources to pay for the programs, will do the trick.

The contributors to this volume are probably as distressed by the sight of slums, unemployment, and wasted resources as the planners. But they see little in the facts to feed a hope that these blemishes in a society will go away after vigorous centralized planning. They think they can offer solid reasons and numerous series of facts to support the conclusion that such planning, no matter how well intentioned, usually will make the problems only more intractable.

HELMUT SCHOECK

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I

Logical and Ethical Problems Inherent in Central Planning

D. ELTON TRUEBLOOD

I

The idea of central planning seems, at first sight, so reasonable that it is hard to see why any intelligent person would oppose it. For one thing, it appears to be a mere extension of individual planning, which all of us practice. Every intelligent person engages in planning. A thoughtful man plans his day, his week, his year, his life work. The unplanned life, by which is meant passivity at the mercy of events, is bound to be one of confusion. Man is a creature who needs to assess his powers, to envisage dangers, to employ his available time and resources in a careful, rather than a haphazard way. It is not too much of a distortion to render the famous remark of Socrates in the form: "The unplanned life is not worth living."

There is no doubt that there is today general acceptance of the idea that planning may be extended validly from the experience of individuals to the experience of organized groups. That this is true is attested by the appearance of a plethora of five- and ten-year plans on the part of colleges, churches, and business enterprises.

All recognize the inevitability of change, but, since all realize that change may take place in more than one direction, a strong effort is made to determine the direction of change in the hope that it will constitute progress.

As soon as we recognize the crucial difference between progress and mere change, efforts at central planning seem to be required. We know that change is inevitable, but because we also know that change may actually represent decline, we are driven to do something about it, and central planning is the popular answer. Nearly all who have known anything of the philosophy of the late Professor Whitehead have accepted his teaching when he said, "Advance or decadence are the only choices offered to mankind." Whitehead defended his dictum, in part, by his famous doctrine of process. "Thus," he wrote, "each actual thing is only to be understood in terms of its becoming and perishing. There is no halt in which the actuality is just its static self, accidentally played upon by qualifications derived from the shift of circumstances."¹ Because our world is always in process, and because the direction may be downward or upward, we dare not proceed without trying to do something about it. All this is agreed, though the precise character of our response is open to serious question.

Though all of us agree about the need of attention to the direction of change and of individual planning of our lives, the word "planning" is highly ambiguous. Planning for another involves factors which are totally absent in planning for one's self. I can, for example, operate more adequately on the basis of foresight in regard to my own life than is possible when I am planning the life of another, because I have inside information about my own intentions, while I do not have such information about the intentions of any other person. Furthermore, the life of the individual is organic, while that of the group, the city or the state, is not organic except in a purely figurative sense. In state planning the initiative is taken by government officials, whereas in individual planning the initiative and the operation have the same locus. This may turn out, upon analysis, to constitute a significant difference.

The relatively uncritical belief in central planning has been shown in a great variety of ways. The British government, for

example, recognizing the inevitability of the population and geographical growth of Greater London, now plans and supervises the establishment of new satellite towns a few miles beyond the old population limits. The experience gained from the development of Letchworth and Welwyn Garden City has helped greatly in this new venture. When the first "Garden Cities" were established, an over-all plan was made at the start, with strict zoning in advance of construction, rather than *after* construction. The hope was, thereby, to avoid the familiar evils of congested centers and unlimited rural sprawl. The former was avoided by a planned civic center, with much open space, while the latter was avoided by a definite limitation on total size as well as by the establishment of a permanent "green belt" within easy walking distance of all residents. The conviction of the founders of these cities was that haphazard development leads inevitably to crowding and thus to the existence of slums and the human ills they foster. This kind of planning has had some success, though some of the people supposedly benefited do not appreciate the planning which has been done for them, and a good many actually long for their old, unplanned lives.

Another vivid illustration of the present popularity of planning is provided by our colleges. Once, not long ago, colleges and universities proceeded with the business at hand a step at a time, without any conscious over-all vision. Little thought was given to what the institutions would or should be in ten years or fifty years. As money for buildings was available, buildings were erected, often without any attempt to fit them into a comprehensive architectural plan and often with marked architectural confusion. The ordinary campus is thus an object lesson in the history of American architecture. For the most part, the central architectural planning, so strikingly illustrated by the West Campus at Duke University, is a strictly modern phase of academic life.

Now nearly all institutions of higher learning have "plans." These involve the probable number of students, the character of the educational opportunities offered, the amount of money needed, and the particular image which the institution is expected to project on the world. The plan of most seems to involve getting

just a little larger than they are now. At the present time, the American Association of Colleges, through a grant from the Eli Lilly Endowment, of Indianapolis, employs three men, all of them former college presidents, to spend their entire time in going from campus to campus in order to encourage wise planning for the future. In many ways this is producing improvement in our institutions of higher learning. Buildings no longer appear haphazardly, but are frequently more pleasing in appearance, because they are integrated into a preconceived plan of development. So important is this aspect of our academic life that, in most of our institutions, the money-raising department is often called the office of development; and here, development means planning.

Many are beginning to believe that we must try to plot the directions of our national future. President Eisenhower gave significant encouragement to this effort by his appointment of a group of distinguished men who were asked to think carefully on what the future of America ought to be. A leader of this group, Henry M. Wriston, is now the president of *The American Assembly*, with headquarters at Columbia University. In 1960, as the seventh decade of our century began, *Life* magazine presented a series of articles on "The National Purpose," with contributions from a variety of thinkers, including Adlai Stevenson, Archibald MacLeish, John Gardner, and Walter Lippmann. Most Americans are determined that they will not permit the wanton destruction of our natural resources or the continuation of depressed economic conditions in particular areas, such as West Virginia.

While central planning is not as clearly developed in the total life of western nations as it is in regard to individual towns and colleges, there is no doubt this is the direction in which we are moving, not merely in avowedly socialist states, but in the United States of America as well. Illustrations on a national scale are easily available. One is agricultural planning, according to which farmers are no longer free to plant and harvest as they please. Many are convinced that, apart from fairly rigid and explicit national planning of crops, there is no possible solution to the pressing problem of surplus commodities. Another illustration is provided by the magnificent and expensive superhighways being

planned on a national scale and planned in such detail that commercial development along them is severely limited. This is a radical and perhaps beneficent departure from our earlier "string-town" development.²

Any reasonably sophisticated person is aware of the fact that what sets out to be total planning in intention is seldom total in practice. It is well known that the various Russian plans concerning agriculture have come far from attaining the level of success that was confidently expected. The farmers did not react like puppets. Before we take too much satisfaction in this, we need to face the fact that the American efforts to curtail agricultural production have not been more successful than are the Russian efforts to increase production. We cut down, by means of the soil bank, on land which can be used for the production of grain or meat, but many farmers merely put their poorer land into the soil bank and, by using more fertilizer on the rest, produce as much as they produced before on more land. Thus, the alarming and costly surplus continues.

Though central planning seems to be an accepted part of our contemporary culture, that is not the end of the matter. We must be sufficiently critical to realize that central planning involves serious problems, and that these problems are primarily intellectual in nature. While some planning is intrinsic to the human undertaking, we need to ask carefully what *kind* of planning is justified. Perhaps the issues involved in individual planning are radically different from those involved in state planning. Is planning for others comparable to planning for oneself? Who is worthy of the task of planning the lives of others? These questions require careful consideration, but, first, we must look at the historical development which culminates in one vivid contemporary experiment.

II

The history of central planning, by which we mean that which influences the lives of political groups, seems to be as old as serious human thought. For the Greek thinkers, it was a significant

part of political science and one of the chief reasons for the practical importance of that science. Plato, not only in the *Republic*, but even more elaborately in the *Laws*, set up possible plans which would affect all the inhabitants of the city-state. That Aristotle went almost as far is indicated by the following:

It is political science that prescribes what subjects are to be taught in a state, which of these the different sections of the population are to learn, and up to what point. We see also that the faculties which are most highly regarded come under this science: for example, the art of war, the management of property, the ability to state a case. Since, therefore, politics makes use of the other practical sciences, and lays it down beside what we must do and what we must not do, its end must include theirs. And that end, in politics as well as in ethics, can only be the good for man.³

Almost all students, when they first encounter Plato's *Republic*, are struck by similarities between the teaching involved in this great work and the teachings of contemporary socialism or even communism. It is not only that they note the economic sharing of property on the part of the Guardians; they note, too, the vast and intricate planning which the Guardians undertake for the welfare of those who are not Guardians. And, in a sense, the students are right. There are similarities, though there are also crucial differences, between the Platonic and the communist dreams of society. The deepest similarity is that of the acceptance of planning of total lives.

Socialism is intrinsically a theory of a planned society,⁴ the relative rejection of private property being only one feature in a larger plan. Indeed, it has been recognized that, since "socialism" has an evil connotation in many minds, acceptance of socialist ideas may be surreptitiously encouraged by referring to them as the ideas of planning, for planning sounds acceptable to almost everyone. There is wide acceptance of the dictum of George Bernard Shaw when he said, "But you cannot alter anything unless you know what you want to alter it to."⁵ It seems obvious to

many that detailed planning of the total life, including the economic life, is the only alternative to naturalistic chaos.

The considerable success which the Soviet propagandists had in the fourth decade of our century in winning converts in the United States, was attributable, in large measure, to the emphasis on planning as a valid idea. Very attractive books were made available, in the English language and at slight cost, explaining the character of the First Five-Year Plan and showing, in simple terms, the contrast between life so organized and one in which economic matters are allowed to take their course blindly. The inference was that lack of planning would be bound to lead to excesses of boom and depression, the actual depression seeming to give factual support to this claim. Many became communist sympathizers or actual party members because the alternatives of an ordered and an unordered society seemed to exhaust the possibilities.

What has developed in what is now orthodox Marxism-Leninism, is deliberate and total planning of the total life of a people. That this is far more than an economic system or a doctrine of state ownership of the means of production is obvious when we see the way in which the system embraces art, music, education, listening to broadcasts, science, and much more. It is the concept of total planning that necessitates the role of the Party, which is the General Staff of the Movement. The entire endeavor is envisioned as a military campaign, and nobody imagines that a military campaign can be well conducted without careful planning on the part of a competent minority. That is why the present membership of the Party amounts to a very small percentage of the total Soviet population. The central idea here is that of the Vanguard.

What we call communism has been highly conscious of its need to reject the emphasis on spontaneity, which its critics are always advocating. "The theory of worshipping spontaneity," wrote Stalin, "is decidedly opposed to giving the spontaneous movement a politically conscious, planned character."⁶ It is only in the light of the "politically conscious, planned character" of the Movement

that we can understand the famous prediction of Engels about the withering away of the state. Lenin devoted many pages to trying to explain what this meant. The crucial passage, in the words of Engels, regarding the state is:

When at last it becomes the real representative of the whole of society, it renders itself unnecessary. As soon as there is no longer any social class to be held in subjection; as soon as class rule, and the individual struggle for existence based upon our present anarchy in production, with the collisions and excesses arising from these, are removed, nothing more remains to be repressed, and a special repressive force, a state, is no longer necessary. The first act by virtue of which the state really constitutes itself the representative of the whole of society—the taking possession of the means of production in the name of society—this is, at the same time, its last independent act as a state. State interference in social relations becomes, in one domain after another, superfluous, and then withers away of itself. The government of persons is replaced by the administration of things and by the management of the processes of production. The state is not “abolished.” It withers away. This gives the measure of the value of the phrase “a free people’s state,” which can justifiably be used at times by agitators, but which is, in the final analysis, scientifically inadequate. It is on this basis that we should also evaluate the demands of the so-called anarchists for the immediate abolition of the state.

Lenin was very clear in his own mind that the state could not wither away in every sense of the word. There might be an end to parliamentary bodies and a great diminution of police activities, once the total planned society was operating, but there would still be a large bureaucracy. The aim, Lenin said, was “to organize the whole national economy on the lines of the postal service.” This was, briefly, his fundamental answer to the question “What will replace the smashed state machine?” Lenin’s answer seemed to him to be merely an extension of the conception of Marx who, in the *Communist Manifesto*, had said that the smashed state machine was to be replaced by “the proletariat organized as the ruling class.” The withering of the state, in short,

is not expected to mean the abolition of planning, but rather *the complete victory of planning*, and the supreme importance of those who, by vocation, are the central planners. Lenin called this "a gigantic replacement of certain institutions by other institutions of a fundamentally different order." The transformation predicted by Engels, said Lenin, is not a transformation from a state to *no state*, but rather from a "bourgeois democracy" to a "proletarian democracy," from the state to something which is effective in control, but is "no longer really the state."⁷

The theory of the withering away of the state is one which it is easy to misunderstand. The state withers away, when planning succeeds, says Lenin, not in the sense that there is no longer a large and powerful central organization, but in the sense that, "since the majority of the people *itself* suppresses its oppressors, a 'special force' for suppression is no longer necessary! In this sense the state begins to wither away."⁸ As a matter of fact, of course, all state systems, whether in Russia or elsewhere, tend to become larger. The number of employees is almost never reduced.

It is only when these general ideas about total planning are kept in mind that we can understand how the Soviet system operates in regard to education. Education, particularly scientific education, is highly valued, but, in the over-all plan, it is severely and rigorously rationed. Soviet citizens are not equal and are not meant to be equal in development or in rewards, though it is alleged that there is equality of opportunity. The educational process is intended to be one of self-selection, not dissimilar to that envisaged in Plato's *Republic*. But the central planning boards decide how many, in any given year, will be permitted to engage in university studies. Professor Kulski explains carefully why this limitation is enforced.

As Khrushchev often remarked, Soviet society shares with other European nations a certain contempt for manual labor and a high regard for mental work. Yet the Soviet government could not accommodate all the graduates on the campuses for good reasons: higher education had to be selective, and to limit the number of its

students in proportion to available faculty and facilities. Every society must channel a greater proportion of its young manpower to factories and agriculture. Moreover, a universal, secondary education delayed the coming of young people to the labor market; they usually graduated at the age of seventeen and started gainful work after their service in the Armed Forces. Yet one of the main problems in a nationalized economy is the amount of available manpower, for it fixes the upper limits of plan for economic expansion.⁹

The potential efficiency of such complete planning cannot be denied. Thus, in the present seven-year plan, there is the intention of setting up boarding schools for at least 2,000,000 students. Removed from the influences of their parents, the minds of these students can be molded more perfectly by state teachers and by youth organizations. In noncommunist states such undertakings are difficult to put into effect, but, when planning is total, there is no gap between intention and attempted execution. This is inevitable when the government is the sole employer "who determines the kind of job that a citizen performs as well as his salary or wages."¹⁰ All lives are planned implicitly, including those of poets and musicians. This is so because the government can decide whether or not a writer or the composer is to have his work published.

It is easy to see, then, that the Soviet system represents a far more radical innovation than it would if it were concerned merely with ownership. The nationalization of the means of production involves a radical shift in the power structure, especially in the eminence accorded to the central planning bodies. The system enables the Party machine to have a monopoly of power, for they have all but the legal attributes of ownership. Above all, it allows a few who are the new *elite* to seek to control the total lives of the masses. It is this gigantic object lesson which brings the intellectual issues into focus.

III

The whole concept of planning seems to depend on some form of determinism. This determinism is implicit in the be-

havioral approach to psychology and is illustrated in experiments on animals. The famous work of Pavlov in Russia has obviously influenced the entire communist concept of planning, the conviction being that the same principles which are applied to the lives of animals can be applied to the lives of men. It is sometimes asserted that the time will come when the conditioning of people will be so fully developed that they will do automatically what they are supposed to do. People will then act as harmoniously as the plan determines that they act. In the Utopia of central planning, thus so confidently sketched, nothing will be left to chance decision, and men will be treated with the same stimulus-and-response pattern that now obtains with plants and animals.

All of this sounds lovely, but it has at the heart of it a deep logical problem. There is no point in making plans unless causal determinism is true; yet, *if* causal determinism is true, the very basis of central planning is destroyed, because the government planner is himself determined. By a strange lapse of logic, the believer in causal determinism always excludes himself from the system which he is putting into effect. Since most believers in planning operate at the supposedly practical level, they tend to ignore these intellectual difficulties. But, provided planners for others try to be consistent, they are bound to be in trouble. If we accept the philosophy of determinism, then the planner himself is not free, and does not really plan, but only illustrates the causal determinism of which his action is a part. All that the planner can possibly do is to say that he is doing exactly what conditions force him to do, with no decision of his own, but, of course, no planner will actually settle for this in practice. He believes, for some unstated reason, that he is an exception to the rule he needs. Lenin's way out of the difficulty is by his conviction that a few men, the Vanguard, are, in fact, exceptions. But, if there are exceptions at all, the law of determinism is not a law, because it lacks universality.

The chief reason why we do not normally see this glaring inconsistency is that we emphasize nonhuman situations. The psychologist and the animals are so far apart in their levels of

being that the system seems to work. The botanist may reasonably be supposed to plan the growth of the tree, since his personal decision is outside the system of botanical life, but, once the determinist system is applied to human thoughts and actions, including moral actions, the situation is radically altered. The social worker, unless he is unusually sophisticated in the philosophical sense, tends to favor a determinist philosophy. This is so because he can plan a project, like that of slum clearance, and his belief in determinism gives him assurance that his experience will work effectively in altering the course of *other* human lives. If human actions follow inevitably from prior physical and social conditions, as he tends to suppose, then all that he needs to do is to arrange the conditions and await results. But this simple philosophy is shattered once the planner begins to see that, according to his own philosophy, the very effort to plan was, itself, determined by prior conditions.

The upshot is that, if his philosophy is true, the planner does not plan at all, but he is merely the passive performer of deeds which are materially necessitated. Either there is the reality of choice, in which case planning can never be complete, and the planner must face the fact that he cannot manipulate men's lives in the same way that he manipulates animal behavior, or there is no reality of choice, in which case the planner is himself a pawn. In either case strict planning is impossible. This is a serious dilemma, from which, strictly speaking, there is no logical escape. A system which leads to such a dilemma is necessarily suspect, for the chief method of philosophy is that of testing any proposition by noting where it leads. This is the method demonstrated in all of the Socratic dialogues of Plato.

The logical problem is the problem of consistency. Because this is a free country, a man who wants to believe in determinism is free to do so, but what he is not free to do is to eliminate himself from the doctrine he proposes. We can honor a believer in the manipulation of other men's lives, provided that he has the intellectual honesty to admit that what he calls his plan is itself not of his choosing. The philosophical issue is not determinism, therefore, but logical consistency.¹¹

IV

The dangers of planning, which planners often ignore, because they seem academic or overcomplicated, are ethical as well as logical. The chief ethical problem involved in planning is that which Berdyaev¹² has termed the dehumanization of man. The sober truth is that, in central planning, men are pawns. As planning becomes more central and more nearly complete, there is a strong tendency to forget that the ultimate units of any society are persons and that the order exists for their sakes. Unless this is kept in the consciousness of planners, the entire situation becomes impersonal; individual decisions on the part of the people really count for nothing. A development in this direction seems to be intrinsic to an ever growing bureaucracy. It is almost impossible, for example, to have any large-scale planning without some illustration of Parkinson's law. Bureaucratic control always has a tendency to increase, with the consequent loss of initiative on the part of the people. The danger comes subtly and appears even in the most beneficent of enterprises. Nearly all people believe in urban renewal, which has been going on in one form or another for at least 2,000 years, but the tendency now is for this to take on all of the dangers of bigness, so that within a year or two an urban renewal office may have a flock of employees, many of whom are engaged in servicing one another, and whose attitude toward the public is highly impersonal. It is an easy step for such an office to become the commander instead of the servant of the people.

The moral paradox of planning follows naturally from the fact that in human life there are *many* valid principles, rather than one. If it were possible, in handling a moral problem, to find out what *the* principle is and to follow it, the answer would be essentially simple. But this is seldom the case. The hard truth is that we have to be loyal to many ideals at once, and that some of these are inevitably in conflict with one another. In the example of urban renewal, it is a good principle to get rid of slums, but it is also a good principle to let people live where they want to

live; yet in many situations one of these principles, when applied, eliminates the operation of the other. The ultimate gains of urban renewal may be very great, but the temporary hardship may be terrible. Thus, in Providence, Rhode Island, some of the colored families have been forcibly moved as many as four times. It is not surprising if they think of themselves as pawns in the bureaucratic game.

It is suggested, sometimes, that the moral problem of planning can be handled, or at least minimized, by limiting central planning to public affairs, while the individual is allowed to do what he will with his own private life. One might suppose, on this basis, that each man has the right to sell his labor in any market in which he can be hired, but already this breaks down in many states, because men are not allowed to take certain employments if they have personal objections to joining the unions. One might suppose that manufacturers would have the right, in their own private businesses, to set prices as they like and take the consequent risk, but the government brings to bear all of its vast resources to compel submission to the will of the administration. There is great value in a plan to keep prices from becoming higher, but the price of compulsion may be an inordinate increase in central power which eventually cannot be challenged successfully by anybody.

It would be gratifying if we could make a clean distinction between public and private life, and we sometimes sound in our conversations as though this were possible, but the distinction is, increasingly, a blurred one. For example, is the putting up of an advertising billboard a public or a private matter? It is, of course, both. Should billboards be allowed in a good society? There are no neat methods of solving problems of this character such as the methods which can be used with slide rules. The blurring of the line between "public" and "private" has been brilliantly discussed by Harlan Cleveland in the Introduction to *The Ethics of Bigness: Scientific, Academic, Religious, Political and Military*. Here the former Assistant Secretary of State is able to show, on the one hand, that private business today always has a public aspect and that government always has a private aspect. Mr.

Cleveland quotes Frank Stanton, President of the Columbia Broadcasting System, as saying: "We are responsible for what appears on CBS. We accept that responsibility we are only obligated to do one thing, and that is to be responsible to the American people." On the other hand, our government farms out many of its tasks, especially in the defense department, and allows these to be conducted by private enterprise, yet without private risk-taking. One of the strangest developments of our planning of life is that the government today tends to be the initiative-taker and to provide an increasing number of industrial firms with the chief security they have. It is obvious that there are dangers in this, as well as gains.

V

The greatest assistance which the concept of planning now needs is the assistance which can be given from the clarification of our philosophy. We need to remember that, though external influences determine some of the conditions of a man's life, they do not determine his *response*. It is simply not true that man is a cog in a mechanism. Our strongest reason for knowing this is the empirical reason of our own consciousness, whereas all the arguments *for* mechanistic determinism are dogmatic speculations. When a man faces the fact that he is a *man*, and neither a machine merely nor an animal merely, he can hardly avoid coming to the famous conclusion about responsibility reached by Jean Paul Sartre.

The essential consequence is that man, being condemned to be free, carries the weight of the whole world on his shoulders; he is responsible for the world and for himself as a way of being. We are taking the word responsibility in its ordinary sense as consciousness (of) being the incontestable author of an event or of an object.¹³

Unless there is a deep and genuine sense in which men are free, all talk of responsibility is nonsense, but even the complete system of planning involves responsibility, for the planner professes to be responsible for his own decisions. This he cannot

be if it is not possible to act otherwise than the way in which he does act. The best that we can do, then, in our philosophical contribution to the problem, is to insist, first, on consistency, and second, to face resolutely what it means to be a person. If mankind is made up of a multitude of persons, each valuable in his own right, manipulation is never justified. The world of persons is always a world which lacks the fundamental simplicity that would be required for total planning.

Too often, when we speak of planning, we really think more in terms of the hive than in terms of the human community. It has been commonplace for social philosophy to look on animal society, and especially the society of ants and bees, as models for human society. If we want a society that is entirely orderly, the hive will undoubtedly be our ideal. In it, there is no revolt, no editorial criticism, no waste or competition, no individual initiative. The hive presents a completely co-operative economy in which there is no evidence of resistance and no individuation.

It is important to realize that our tendency to idealize the hive is a good example of what Professor Lovejoy has called "meta-physical pathos" or sheer sentimentality. The hive *is* harmonious, but at a tremendous price. Plato was right in the *Republic* in pointing out that one cannot have a good social order without a division of labor,¹⁴ but in the life of the hive the division of labor which makes things go smoothly is created to an absolute degree. Each member of the ideal community is reduced to a single function, and thus denied any conception of wholeness. The queen cannot feed herself and does no work, since she is limited to the procreative function. She does not even care for her own children. The greater part of this ideal community is made up of unprocreative females who build, nurse, get food, and fight enemies. The drones exist only as suitors to the queen.¹⁵

The result of such a division of labor is, of course, a clear smoothness of operation, but we must face the fact that it is not really a society at all, since it is merely an association of helpless pawns. The hive is really something like an organism in which the individual bees correspond to cells in a body rather than to true individuals. We understand the hive far better than was formerly possible, because a number of scientists are making

careful studies of the life of bees. The upshot is that the hive becomes less and less a valid ideal. We see one of the major dangers of central planning when we realize that it tries to do by intelligent effort what the bees do instinctively. The concept of the hive is almost as far removed from the ethical ideal for men as can be imagined.

In so far as a person is truly a philosopher, he does not give up a position merely because it has difficulties, but will look resolutely at the alternative difficulties before he makes his decision. Almost never do we find a perfect situation in which the ideals are singular and clear, but we must settle on some kind of solution which gives us as few of the evils as may be had. Our cherished hope is that it may be possible to move beyond both the evils of the thesis and the evils of the antithesis, into a third way, which is better than the usually recognized alternatives. This is our ideal hope in regard to planning. However vivid the dangers of planning may be, we must not accept the alternative of haphazard living. On the other hand, we must not accept total planning, because it would destroy what is most precious in human life, especially its individuation. The third way, the synthesis which we seek, is bound to be one in which we hold the principle of order and the principle of liberty in mutual tension, never abandoning either one. The tension may seem unfortunate, but it is good to remind ourselves that music cannot be played except on tight strings.

The good life will always be a life which is essentially risky, for we shall never have security. We shall never have complete order, and we shall never have complete freedom. This is so because we are men. Most of the dangers that we have mentioned are the dangers that are inherent in being persons. The level of the personal is a unique level, utterly different from the merely animal or the mechanical. It is a level in which there is the possibility of greatness and also the possibility of baseness. It is a level in which a man is tempted to manipulate his fellows and yet can realize, when he thinks seriously, that he ought not to do so. It is a level in which beings can plan, but never one in which they can plan completely. The ideal we seek is bound to be a compromise, because life itself has con-

trasting features that must be considered and included in any solution. Human life cannot be absolutely free, but our test of the value of a system is whether it *helps* men to be free. Only that planning is defensible which meets this standard.

NOTES

1. Alfred North Whitehead, *Adventures of Ideas* (New York: The Macmillan Company, 1933), p. 354.
2. The planning of the great highways has been far from perfect. Superfluous cloverleaf constructions have been ordered at fantastic expense, and there has been much corruption. Some of the greatest mistakes arise because the planners are too remote from the scene of operation.
3. Aristotle, *Nic. Ethics*, I, chap. 2.
4. Early Christian writers, such as Ambrose, in the Fourth Century, advocated a communist economic system, but they were not communist in the contemporary sense, since total planning was not envisaged. See A. O. Lovejoy, *Essays in the History of Ideas* (Baltimore: The Johns Hopkins Press, 1948), p. 302.
5. George Bernard Shaw, *The Intelligent Woman's Guide to Socialism and Capitalism* (Garden City, New York: Garden City Publishing Company, 1928), p. 8.
6. *The Foundations of Leninism*. This work appeared first in *Pravda* in April and May, 1924, and continued to be an official ideological guide throughout the Stalin years.
7. See Lenin's *State and Revolution*; *The Marxist Teaching on the State and the Tasks of the Proletariat in the Revolution*; *Essential Works of Marxism*, edited by Arthur P. Mendel (New York: Bantam Books, 1961), p. 133.
8. *Ibid.*, p. 133.
9. *The Ethic of Power*, edited by Harold Laswell and Harlan Cleveland (New York: Harper and Bros., 1962), p. 264.
10. *Ibid.*, p. 268.
11. For a fuller development of this theme, see my book *Philosophy of Religion* (New York: Harper and Bros., 1957), pp. 281, 282.
12. Nicholas Berdyaev, who was forced to leave Russia as a Christian rebel against dialectical materialism, wrote many books. The book in which he deals with the process of dehumanization most directly is *The Fate of Man in the Modern World*.
13. Jean-Paul Sartre, *Being and Nothingness: An Essay on Phenomenological Ontology*, trans. by Hazel E. Barnes (New York: Philosophical Library, 1956), p. 553.
14. *Republic* 11, 368.
15. For a brilliant treatment of the contrast between the hive and human life see Susanne Langer, *Philosophical Sketches* (Baltimore: The Johns Hopkins Press, 1962).

2

The Planners and the Planned

ERNEST VAN DEN HAAG

1. *The Appeals of Planning*

We all have goals, more or less far-reaching, valued, compatible and explicit. If we behave rationally, i.e., economize, we try to attain our ends with the least expenditure of whatever else we value (means or alternative ends). To "plan" thus is to propose to behave rationally; in this sense, we all favor planning. However, to favor planning—to favor using appropriate means to achieve ends—is not to accept a particular plan, its ends, or its means. Above all, to favor planning our own lives is not to favor letting someone else, or the government, plan them for us.

The issue is not *whether* to plan, but *who* is to plan *what*, *for whom*, and *with what powers*. Is the government a means to help individuals achieve their ends, or must we ourselves be used as means to achieve the central planner's end? If people were asked whether they prefer to be regarded as ends in themselves, or as means, few would favor central planning. But the issue is usually presented as if the central planners favored individual planning, and the individual planners favored chaos, inefficiency, and anarchy.

Socialists often compare their blueprint—the plan—with capitalist reality. However, blueprints must be compared with blueprints, and reality with reality. In such a comparison, capitalism does well.

Much of the appeal of planning rests on even simpler equivocations. Planning is often equated with "successful planning": the planner's hopes are accepted as fulfillments. Now, the planned birds in the bush certainly sing more prettily than the birds caught in any real (capitalist) nets. But can they be caught? And will they sing as sweetly? Promises are easier to make than to keep—and plans are promises. (Some, we shall see, are inherently impossible to keep.) In a democracy unfounded claims can be checked on, and people may oust a government that promises without delivering. It is no accident that planning takes place best, and *seems* most successful, in dictatorships. Full-scale central planning takes place nowhere else.

There are many additional grounds for the irrational appeal of planning. Man is not easily reconciled to the niggardliness of Nature, which condemns him to work and to economize—to be rational; or to the conventions of his own society, which endows with prestige mainly those who rise above the average, thus causing most people to feel deprived. This is bearable in an immobile society, but hard in a mobile society (such as ours) that asks everybody to rise above everybody else. Perhaps an age in which communication, and therewith competition (and, as a reaction, egalitarian sentiment) have become literally boundless, in which the world ceases to be divided into noncompeting segments—an age which pushes us all into the same race—was destined to turn to a new redemptionism. "Planning" occupies the eschatological niche vacated by religion in the minds of many people. For when, with the Industrial Revolution, mankind bent its gaze from the heavens to the earth, it did not give up its millenarian aspirations.

Chiliastic hopes were merely shortened and secularized: promises of material improvement were found acceptable as a way of redemption. "Planning" is among them, the more so because it promises the benefits of competition without the competitive race so many people are tired of. Yet economic competition among organizations can be replaced only by competition within them, which is likely to be more ferocious, and without escape for the defeated. Even if planning were to produce economic equality—

a promise nowhere kept—competition merely would contend directly for such matters as power and prestige, which might well be socially more dangerous, psychologically more troublesome, and economically less fruitful, than vying for wealth.

Planning, finally, seems both “scientific” and commonsensical. It appears to make intelligible an economy which had become even more complex and mysterious as markets widened and technology progressed. It promises remedies for every ill. It places someone in charge of the economy, where no one seemed to be in charge. The idea of automatic, invisible adjustments is hard to accept; and without analysis—or worse, with insufficient analysis—the market seems “anarchic,” even though the milk is on the doorstep every morning, whereas in a planned economy characteristically it is not.

There is also what may be called the puritanical argument for planning, rationalized currently by John K. Galbraith: If we allow the market to produce what people want, trivial (sinful) things will be produced—too little education, too much beer. Galbraith knows, of course, that he intends planning to defeat the wishes of consumers and to impose his own. He seems righteous enough not to mind, but not candid enough to tell his followers.

Originally, those who felt that the market produces the “wrong” things argued that unequal income led to the production of mink coats or liquor, when babies starved for lack of milk. It was not even then a good argument, for the resources withdrawn from the production of “luxuries” could scarcely have increased the production of “necessities” by much. The argument is no better now, when there certainly is no lack of milk. Moreover, it is at best an argument for correcting the income distribution (by giving the mothers of babies more money, which would permit more milk production and consumption), and not against the market mechanism that responds to it. For the market will simply produce what consumers are inclined and able to buy—milk or mink. It obeys votes cast in dollar ballots, and far more accurately so than politicians respond to constituents. Perhaps reapportionment (i.e., more votes to those who earn too little

because of circumstances beyond their control) can be useful. But why abolish voting and substitute dictatorship—i.e., giving all the votes to the planners?

If we turn from the irrational appeals of planning to its possible means, ends, and achievements, three kinds of “planning” may be distinguished.

2. *Planning for Economic Freedom*

Freedom permits individuals to plan for themselves, to choose their own ends and means. Concerning goods and services, a free market allows anybody to reconcile his plans with those of everybody else. Prices indicate to all the value placed on whatever can be bought or sold. By paying heed to prices, individuals economize. So does society as a whole: *Ceteris paribus*, more of the less valued and less of the more valued resources are consumed directly or used for production. And the goods most in demand are produced most often. In a free market, individuals, rationally striving to attain their own ends, provide one another with the goods and services most in demand at the least expense.

To last, freedom requires rules to avoid or resolve conflicts, to protect individuals from encroachment by others, and to regulate institutions—such as the free market—which make individual plans effective. Further, some public facilities—e.g., roads, parks, hospitals, police and fire protection—are needed to assist in carrying out private plans. The totality of such rules and institutions—the social order—is no more deliberately planned all at once than the totality of individual behavior. Yet, though evolved cumulatively and *ad hoc*, rational use of means to attain ends is intended by each rule. When the end of the social order is to make private planning—“the pursuit of happiness”—effective, it amounts to (public) planning for (private) freedom.

Unavoidably, in attempting to secure the rights and liberties of all, such public planning must limit the freedom of each member of society: to protect one person from undue coercion by another is to limit the freedom of the latter for the sake of the freedom of the former. To protect life and property, enforce

contracts freely concluded, etc., central authorities must restrain, i.e., limit the freedom of those who would violate the rules established to achieve these ends.

But public planning *for* private freedom restricts individual liberty only to distribute it evenly and make it last—whereas public planning *against* private freedom diminishes individual power to increase the power of the government. Usually the government which plans for private freedom is dependent on the consent of the citizens who can legitimately install and oust it (democracy); while the government which plans against private freedom usually is independent of the ruled. The historical and empirical connection between political freedom (democracy) and economic freedom (the free market) is striking, though there is no logical entailment.

Honest men may disagree on whether a specific restraint imposed by the government will actually produce a net increase in the freedom of individuals. (Rules presumably made to prevent deception—seemingly a simple case—may lead to such disagreements.¹) Freedom is hard to quantify, and its distribution is hard to measure. In some cases a more nearly equal distribution leads to a net decrease; in others greater (or more nearly equally distributed) freedom changes the quality of the values available. We must try, nonetheless, for a net gain in private freedom.

The framework in which market decisions (private plans) are formulated and carried out may include public action against private monopolies which threaten the freedom of the pricing process; or, more dubiously, it may be modified by establishing public monopolies where the competitive pricing process cannot work efficiently (government regulations may lead to nearly equivalent results). Many such measures are needed to protect the freedom of the market, to keep it an efficient means to carry out private plans without mutual encroachment.

Unfortunately, governments often go beyond protecting the freedom of the market. When a group persuades the government that the effects of the free market are intolerably detrimental to it, public monopolies may be installed, or public actions taken, which lead to the results monopoly tries to achieve (as in

agriculture); or private monopolies may be protected (as in the labor market). These last actions hinder and are meant to hinder the workings of a free market. However, they are not inspired by general and dogmatic hostility to it or to freedom, but by fear of some specific effect or by misapprehension. The remedy is education. Public planning for freedom will have public support only when most people are satisfied with the results of their private plans. If their plans were unwise and the results disappointing, or if general conditions (such as depression or inflation) defeat private plans, people will favor a government that promises to gratify their most urgent desires even at the risk of their freedom—of their ability to determine themselves, individually, what their desires are and how and when they are satisfied.

When economic deprivation is overwhelming, the risk to and the value of freedom are easily discounted. Public measures find favor that promise to mitigate or altogether frustrate the results of the price mechanism in a free market when, as in agriculture, technological developments require a major shift of workers or other major changes. The legal protection of labor unions has been the result of similar pressures. Thus, a government committed to planning for freedom often will act against it—though the action is bound to be inefficient and detrimental even to those meant to benefit from it. Such actions should be opposed; yet, though they reduce freedom, they should not be confused with government policies systematically hostile to freedom. Our agricultural and labor policies are wasteful and silly, but not “socialistic.”

Governments were created to satisfy public (indivisible) needs and were endowed with the power to legislate, tax, and spend. The power to regulate the creation of money was soon added. These powers can be abused: legislation and taxation can be used punitively, or to confiscate, or to unduly restrict freedom; government expenditure can be used to redistribute income in favor of persons or groups the government likes. The fiscal and monetary power of the government can be used to bring about inflation or depression.

An elaborate set of legal rules and economic customs has

been evolved to prevent abuses. To avoid inflation, balanced government budgets were prescribed, and the issuance of money was restricted, mainly by linking it to the amount of gold available. These traditional precautions against inflation are neither necessary nor sufficient; yet pragmatically they were probably the best available—in the past.

Until recently economists largely ignored, or defined away, depression. At most the prescription was to avoid inflation and thereby the depression which would follow in its wake—as punishment follows crime. Yet in some situations the anti-inflation rules have the effect of pro-depression rules. And we must prevent *both* inflation and depression. Unfortunately these two ends become alternatives, particularly when government policy supports labor unions sufficiently to bring about rising wage levels in full employment. (This, of course, is not an objection to full employment, though it may well be an objection to our present labor legislation.) Yet fiscal and monetary policies to maintain a reasonably stable price level and reasonably full employment are feasible and indispensable to private economic freedom. For inflation and depression defeat private planning; preventing them helps private planning (freedom). Furthermore, both inflation and depression in different ways undermine political support for freedom. To prevent them is to strengthen such support in the long run.

Fortunately, the fiscal and monetary policies needed to prevent inflation and depression require no restrictions on individual freedom: no socialization, no public works programs, no redistribution of income, no price ceiling or floors, no restrictions on production, no punitive or confiscatory taxes. A more deliberately rational use of the instruments the government already possesses—its taxing and its spending power—is all that is needed. The total effect of the tax level (and incidence) in reducing the expenditures of the taxed, and the total effect of public expenditure in increasing the expenditures of its recipients, must be considered: tax levels must be increased when less private expenditure is desired, decreased when more private expenditure is needed (the level of public expenditure remaining constant or moving

in the opposite direction). Similarly, the total effect of central-bank interest rates, open-market action, and credit regulation must be given consideration prior to any effects on treasury financing.

The government can adjust taxes and its own expenditures so that total expenditures amount to, but do not exceed, the sum needed to purchase, at current price levels, the aggregate of goods that can be produced with full employment. This leaves people free to produce and buy what they wish. The market can function. Private expenditure is most easily increased by tax reduction (and reduced by tax increases). When warranted, direct money subsidies to those who would not benefit from tax reduction, or who have special merits or needs, e.g., veterans, pensioners, or the young, can be given. But subsidies to *economic* groups—e.g., farmers—must be avoided, since such subsidies make their pursuits uneconomically attractive and distort the structure of the economy, i.e., interfere with market allocation. This is equally true of public works undertaken for the sake of creating jobs. Employment is best created by enabling people, not by enabling the government, to increase demand. And this is achieved by letting them keep more of their money.

This is not the place to expound the economic theory underlying the suggestion that the government so regulate its actions as to make sure of an appropriate rate of total expenditure. Let me note, however, that worries about “gold” or “the national debt” seem irrelevant once it is understood that money, which used to be in the first place a claim on gold, is better regarded as a claim on goods (the former is the legal, the latter the economic, essence of money). Therefore money should be issued in accordance with the production of goods—on which its value (equal to that of the goods for which it is exchanged) depends. Changes in the national debt mainly indicate changes in the rate of issuance, and nothing more. They are, therefore, as desirable as the former are, and have no independent relevance.

Far from restricting individual ability to plan, this policy increases freedom. It makes obsolete a number of safeguards against the working of the market that were erected by those

who felt they were placed at an intolerable disadvantage. Our only hope of getting rid of the disastrous, costly, and wasteful farm controls and subsidies lies in making sure that there are enough nonfarm jobs to absorb displaced farmers. If they are convinced of this, farmers, or their children, will insist less on being paid for producing goods that go into government storage because they are not demanded by the market. Our only hope of inducing people to see that many labor-union activities hinder economic progress and are detrimental to workers and to the public alike, lies in establishing that there is no need to create unproductive jobs, erect elaborate defenses against firing, provide for early retirement, lower production standards, etc. If employment is reasonably full, on a permanent basis, these defenses become obsolete. Moreover, employers, needing workers no less than workers need employment, will not require much union prompting to offer attractive working conditions. I do not underestimate the vested interest created by defenses against unemployment. Much work will have to be done to show that they are unnecessary and detrimental. But first they have to become permanently obsolete. Only then can we hope to reduce support for them. (Obsolescence, unfortunately, is a necessary but not a sufficient condition for getting rid of these anti-market defenses.)

So much to suggest, however sketchily, the kind of measures that are part of public planning for private freedom. I may mention that a number of divisible enterprises traditionally are undertaken publicly rather than privately and need not be. This goes for much of education, housing, transportation, agriculture, etc. But I must foresake dwelling on these matters.

3. *Planning against Economic Freedom (as a Means)*

A. "PRODUCTION FOR USE"?

The government may replace the free market by a central monopoly which determines what is to be produced, how, and by whom, and how the products (the rewards) are to be dis-

tributed. If the purpose of this central planning is to do what the market does, i.e., to provide individuals with the goods and services they desire, but to do so more efficiently than the market, we may call it "planning against economic freedom as a means." Most intellectuals think of "planning" along these lines.

Intelligence probably, knowledge certainly, does not become operative in one area through work in another. A great poet may be silly in making pronouncements on social and political matters—I know but few who have not been. So may a great physicist. It is remarkable testimony to the recent prestige of science that we credit the statesman's ignorance of physics much more readily than the physicist's ignorance of foreign policy or economics. But the evidence indicates that physicists (and other scientists) are about as rational and wise in political, social, and economic matters as politicians are in physics.

Albert Einstein (in "Socialist International Information"), a few months before his death, wrote: "The economic anarchy of capitalist society as it exists today is in my view the main cause of our evils. Production is carried on for profit, not for use." What do Einstein's widely accepted phrases mean?

1) Since profit and loss are powerful automatic co-ordinators of individual plans and lead to the most economic utilization of resources, the market system is not "anarchy," but an autonomous, automatic mechanism which co-ordinates the plans made by individuals. Central planning, in contrast, is heteronomous (depending on the government's decisions) and nonautomatic: adjustments do not take place impersonally by means of the market, but must be made "by hand" by the planners; finally, individuals outside the government cannot effectively plan; they are planned instead.

2) Production is carried out "for profit" under capitalism, but it does not follow that it is not carried out "for use." On the contrary, in the price system, profit (or loss) is the difference between the value of the input of resources and the value added (or lost) by using them to produce the output. If consumers regard the output as more useful to them than the resources that went into producing it, there is a profit; if the resources are

regarded as more useful, a loss. Producers shift production accordingly: they are led, *nolens volens*, by their profits, or losses, to produce what consumers regard as most useful. Thus, "production for profit" is a means to "production for use"—not an alternative. On the other hand, in "production for use," when usefulness is not indicated by profit, we must determine, in some nonarbitrary way, what goods, not the planners, but the public, would find most useful. So far this problem has not been solved in centrally planned economies, except by rather inefficient and halfhearted imitations of the market (e.g., in Yugoslavia).

3) Two factors probably contribute to the pejorative connotation that dogs "profit": that it involves a monetary gain; and that monetary gain is unequally and "unjustly" distributed among the population.

However, it does not seem that central planning could do away with either of these effects. Central planning cannot do without monetary rewards. Good performance would have to be rewarded by promotion—more money, power, and prestige. Central planning differs from a market economy not because the rewards differ, but because they would not be awarded by an objective market mechanism: instead promotion would depend on the subjective judgment of one's superiors. In a market system this is now the case only within a firm; and the subjective judgment is restrained and corrected because discontented employees have alternative opportunities (other firms or independence). These, to say the least, would be narrowed with central planning. However the "profit motive"—the incentive to perform for the sake of monetary reward—would have to be used in "planning." Only in a technical sense—as a return to the owners of capital—would profit disappear. Unequal monetary reward would remain. But since it would depend more on the favor of superiors and on bureaucratic intrigue, it would be likely to be more capricious and less economically rational: without becoming morally just, it would be economically less so; and the striving for it would be intensified.

Finally, without private ownership of the means of production, the income from property—and the portion of general income—

inequality it causes—disappears. (Income from property at present is only twenty per cent of all income. Much of it does not go to the wealthy; only half of it is inherited.) The income from property that goes to the wealthy is used mainly for reinvestment. No less income would have to be invested under central planning. Planners rather than owners would invest; power would be more concentrated. Income from property also raises the consumption standards of the present recipients. But the amount used for this is too negligible to raise the consumption standards of present nonrecipients if it were distributed to them. Hence, confiscation of the means of production would lead to a more unequal distribution of power but to no significant reduction of inequality in consumption standards. Thus, central planning could scarcely lead to a more nearly equal distribution of income than we have now, while differences in power and prestige would be greater. So far even the ratio of difference in consumption standards seems greater in the Soviet Union than in the United States.

B. MARX ON DISTRIBUTION

Except for his “Critique of the Gotha Program,” Marx spent little time on socialism and communism. He felt that blueprints of the future would be “utopian” and, in the main, analyzed capitalism, not socialism. This, Marx felt, would make him a scientist and entitle him to express his contempt for his “utopian” competitors. However, there is little doubt that he thought of socialism and communism as performing the same functions as a market economy, but more efficiently, and with a juster distribution of tasks and rewards. Yet Marx’s principles for distribution under socialism and communism do not improve matters. As a matter of fact, the Marxist-oriented economies have found it necessary to distribute rewards according to “capitalist” market criteria. For even when inefficiently and capriciously applied, these have proved far superior to forced labor—the only alternative available.

Marx believed that, as far as the distribution of income is

concerned, the future society would go through two stages. (Production would be a government monopoly in both stages, the means for it being owned and administered by the government.) The first, socialism, is to be characterized by everyone's "contributing to production according to his ability" and being "rewarded according to his contribution." Now, this may imply that everyone is to determine for himself what his contribution should be, and that he would be rewarded according to its quantity and to its scarcity (value) on the market. In this case, the slogan merely describes capitalist arrangements as far as income from services is concerned. (Individuals would not receive income from property.) If Marx meant something different (and it is hard to believe that he did not) the contribution of services—quantity and kind—would have to be determined by someone other than the contributor. The contribution, labor, would then have to be compulsory. And the reward for the contribution of services would have to be determined by something other than their scarcity. This too implies compulsion. For if the inducement of differential rewards adjusted by the market to attract the labor required is excluded, nothing but compulsion, the threat of punishment, could lead us to work where, when, and as much as is needed to satisfy us as consumers, or to satisfy a planning authority.

According to Marx, the second and final stage of the economy of the future, communism, is again to be characterized by people's contributing services "according to their ability." However, under communism people would be rewarded, not according to their contribution, but "according to their need." Here the link between services contributed and the reward held out for them is explicitly severed. For, clearly, you may need much and be able to contribute little, and vice versa. Whether your need is to be determined by some authority or by yourself, it is to be determined and satisfied independently of your contribution, which, therefore, would have to be elicited by something other than the monetary reward. This could only be coercion. We need not go further, nor need we call attention to the difficulties of

determining need and, on the other hand, of determining just who should make what contribution. (Marx specifically excluded equality, realizing that there are individual differences.)

It is clear enough that the Marxian scheme involves a return to serfdom—however unaware Marx may have been of this implication. To be sure, in a monastery, a kibbutz, or a family, neither money nor open coercion are used. The motive power, supported by informal social controls, is love for the idea and the community, its members and its leaders. But this system—which has disadvantages of its own—works, if at all, only within primary (face-to-face) groups; it cannot work in a large and mobile population.

Marx might have believed that his system is feasible without forced labor when production exceeds all possible wants. If that comes to pass, there is no scarcity and no economic problem left. But such fancies are not proposals for the solution of economic problems. They are refusals to face these problems, or disguises of the actual meaning of what is proposed.

C. HOW EFFICIENT CAN CENTRAL PLANNING BE?

Marx felt that central planning would be more efficient than the free market in organizing production. This was a *non sequitur* derived simply from the presumed inefficiency of the free market. For Marx never analyzed the specific problems that central planning would have to solve. Such an analysis casts great doubt on the efficiency of central planning.

In a planned economy outputs must be balanced with one another and with available resources through “plans” which are not automatically linked to one another, or to resources, by a price system which signals imbalances and induces the necessary adaptations. Each event that alters the quantity of resources available, or of the resources required, necessitates replanning and rebalancing of plans, theoretically for almost the entire economy. For, although output decisions are not automatically linked, outputs remain materially dependent on one another.

Centralization of output decisions in a planning authority could

insure properly balanced outputs if planners knew the quantity of productive resources available at the beginning of the planning period, the resources that become available during the planning period, the unforeseen requirements that might arise, and the quantity of resources actually needed to produce all the goods and services planned (productivity). While it may be possible to estimate these amounts, they cannot be foreseen accurately.

It is difficult to foresee in financial or physical terms the exact quantity of resources needed to build even a single factory. Building many factories does not overcome this difficulty. Resource requirements even for standardized outputs under reasonably standardized conditions are by no means easily calculated. And most outputs and output conditions are not standardized. Errors in estimating available and required resources may cumulate rather than compensate, particularly if the initial goals are altogether too high. Finally, even if all estimates are correct, plans may have to be changed while they are being carried out, owing to conditions over which even the most comprehensive planning system has no control. These include changes in the labor force, especially if one takes skills and location into account. Uncontrollable variations in the output of agricultural products also compel adjustments. Exigencies of foreign policy may change the quantity of resources available through imports or the amounts needed for export or for armament. Technological developments are not predictable even in a planned economy: expected improvements in productivity may not occur; or, even when they occur at the rate expected, they almost certainly will not take place just where they were anticipated. These unpredictable circumstances virtually insure a disparity between resources needed to meet output goals and resources available.

Further, planners must rely largely upon local managers to determine what resources are available and needed to produce any output; and managers have an almost inevitable incentive to overestimate their supply requirements, to underestimate capacity, and to hoard labor. The power, prestige, and income of plant managers depend to some extent upon the amount of resources in their charge. And by overestimating resource requirements,

they reduce the risk of underfulfilling their output goals and increase the chance of overfulfilling them. Finally, if they are not allocated the resources they requested, the plant managers reduce their personal responsibility for underfulfillment. (During the last war, when we asked producers to produce and sell at cost, plus an agreed-on rate of profit, our experience indicates quite similar inefficiencies, though less ingrained.)

Under central planning, the managers will tend to hoard workers and raw materials. Whenever they feel they will not be apprehended, they will tie up more resources than they actually need. Central planners try to counter this tendency to underutilization by independently estimating the resources required. They meet the same difficulties that confront Congressional committees in the United States when they attempt to determine the resources a governmental bureau must have to perform its functions. The planners may cut the manager's estimate of resources needed. But if he is left with less than he needs to produce the planned output, his underfulfillment may lead to underutilization of resources in plants which needed what he failed to deliver in order to reach their goals and to utilize their personnel fully. To avoid this, the central authority must allocate fewer resources to local managers than they ask for, but not fewer than they need to fulfill their goals.²

If these goals are set too low, there is underutilization. But if planners set goals that are too high, plans will become unbalanced because goals will be unevenly underfulfilled. The labor force in one factory will be geared to an output that cannot be achieved because another factory failed to deliver raw materials or parts. Resources which had been retained to be utilized with the planned but missing output will be idle. If the coal output goal is unrealistically high and is not fulfilled, the steel production goals, geared to it, also cannot be fulfilled. But if the size of the steel labor force is geared to this goal, it will not be fully utilized. Or, it will be used unproductively. This may occur even when the plant has the raw materials and parts it needs: workers in an automobile factory may go on producing cars which will be useless if no tires are available.

Managers who either have more resources hoarded than they actually need to begin with or have more resources than they can use in view of the failure of some other plan to fulfill its goals and deliver the necessary materials, may utilize hoarded resources to overfulfill some of their production goals. But they will rightly fear that such overfulfillments will lead to subsequent changes in the input-output ratios set by the central authority, making future hoarding more difficult. A temporary gain would lead to a permanent disadvantage. Hence few are likely to use their hoarded resources in this way.³ At any rate, though preferable to nonutilization, utilization of resources for overfulfillment of some goals also results in unbalanced outputs.⁴

Unemployment, i.e., nonutilization of human resources exists, but will normally be hidden in a planned economy. Workers remain on the payroll, working little, or at relatively unproductive tasks. The planned economy resembles the slave or feudal economy in not dismissing the workers it does not utilize. However, the major economic effect of unemployment—loss of output—is the same as under capitalism; ultimately there is a loss of real income. Moreover, in a planned economy the loss can be distributed more easily over the whole labor force. Hidden unemployment in a planned economy thus lowers average productivity, while unemployment in a capitalist economy does not directly affect productivity, since the unemployed are not defined as part of the labor input. In a planned economy we must therefore measure changes in hidden unemployment through changes in productivity, while constant hidden unemployment will appear as constant low productivity.⁵

4. *Planning against Economic Freedom (as an End)*

Central planning does not fulfill the Marxian promise: the "profit motive" can be replaced only by forced labor; and its substance—monetary incentive and inequality—remains although the legal form is changed; central planning, moreover, is not sufficient to redistribute income and not necessary to prevent business cycles; finally, central planning is less efficient by far than

the market system in utilizing resources. Planning against freedom is altogether irrational as a means to the end envisaged by Marx—a more efficient economy—and professed by all planners. Why is it a threat nonetheless? Certainly irrationality does not destroy a social phenomenon. However, it invites investigation of the sources of its social support—of its function. And if, instead of focusing on the ideas and ends professed by planners, we analyze what planning must amount to, on demonstrable theoretical grounds, the answer becomes obvious; and planning practices abound in illustrations of it.

Central planning is rational only when its purpose is to frustrate rather than to fulfill the wishes of consumers; to use the resources of the economy for purposes the planners, but not the public approve. Only to this end is central planning an appropriate means. And this is what central planning accomplishes. The low productivity (hidden unemployment) and the waste of resources endemic to central planning are a cost central planners pay for the achievement of their goals, or more precisely, for the frustration of market goals. This cost cannot be avoided short of returning to a market economy and accepting the different output goals which are inherent in the market mode of output determination. The dilemma of planned economies can be reformulated as follows.

If planning imposes production assortments different from those that would be set by a free market, an (illegal) profit can be made by departing from the plan. And the presence of such a profit possibility demonstrates that the planned uses of resources differ from market use (consumer wishes). Similarly, on the input side, a manager might reduce costs by procuring the factors he wants on his own, rather than using the factors and sources planned for him. (This possibility also may indicate planning errors.) Now, Soviet literature suggests that this happens frequently, even though it is illegal: managers ignore or reshape part of the plan to make illegal profits or to fulfill some output goals at the expense of others and reap the rewards and escape the punishment.⁶

Of course, if planners would allow managers to earn one reward for fulfilling the plan by producing a given assortment, quantity,

and quality of products, and a higher reward (not conditioned on the fulfillment of an output plan) for showing a profit, managers would have an incentive to produce efficiently, to reduce costs. This would go a long way toward solving the productivity problem that burdens planned economies. But where he has a choice—where he cannot reap both rewards (and this is the relevant case)—the manager would want to reap the higher reward. Since the rewards for fulfilling output plans would be subordinated to rewards for achieving the greatest price-cost difference, managers would have every economic incentive to violate and ignore output plans. Hence, if planned goals differ from market goals, the reward for fulfilling a plan must always exceed the efficiency (profit) reward, and thereby inefficiency (labor hoarding, etc.) is guaranteed. This is the case in the Soviet Union. It must be the case whenever planned goals differ from market goals.

On the other hand, if planned output goals were identical with those that would have emerged from an autonomous market, profit incentives even higher than incentives for output fulfillment would not tempt managers to frustrate the plan. (We neglect the problem of ascertaining market demands without a market. The only way to do so would be by abolishing central planning *de facto*, except for indivisible services or goods.) The highest profits might be found in achieving planned outputs in the planned manner. But if output goals, costs, and prices became identical with those that would have emerged from a free market, the plan would achieve clumsily what would have happened had there been no plan. One must conclude that planners have output goals (and need an incentive structure for their realization) which differ from those of a free market; otherwise planning would be pointless.

The advantage (to the planners, not to the planned) of replacing the automatic adjustment and transmission of individual plans with the slow and inefficient “manual” controls of central planning is to deprive consumers (the market) of their autonomy and impose the will of the planners. Largely, planners use their economic power to strengthen that part of the economy which

generates political power, domestically and abroad. Thus, central planning allocates a higher proportion of resources to investment than the market would, and a higher proportion of investment to militarily significant industries and products than people would voluntarily so allocate. A higher proportion of capital also goes to public consumption, relative to private consumption, than might be the case in a market economy. Besides, more resources are used to strengthen the prestige, the power, and the bureaucratic control of the government, and to carry out its social experiments, than would be allocated if producers and consumers could make their wishes felt through the market. The result is a wasteful and inefficient economy. All the same, the planned economy can outproduce an economy of similar resources in specific areas selected by the planners, simply because the planners can neglect areas of importance only to the planned.

NOTES

1. See Lowell Mason's convincing *The Language of Dissent* (Cleveland, 1959).
2. See Joseph S. Berliner, "The Informal Organization of the Soviet Firm," *Quarterly Journal of Economics*, August 1952, quoting former Soviet managers: "In planning you always try to order more than you need in case something happens" (p. 355), and there is a "widespread tendency of management to submit plans which are below actual capacity" (p. 349).
3. The presence and seriousness of this problem are illustrated by the following letter to the Editor, *Pravda*, April 16, 1953 (*Current Digest of the Soviet Press*, May 23, 1953, p. 33): "On the basis of results achieved in 1952, the rated capacity of the plant was recalculated and increased 11 per cent. The enterprise workers have undertaken to outdo this rated capacity ten per cent. . . . [but] the chief administration increased the plan for our plant. . . . we had to resort to rush tactics. Many enterprises which have large productive capacities but are working badly receive, as a rule, reduced quotas. [The chief administration does] shift assignments from backward plants to leading ones." The implication here is clearly that high productivity is penalized.
4. The problems here discussed occur frequently in the Soviet Union. Berliner speaks of the simulation of overfulfillment through production of an unplanned product-mix" (*op. cit.*, p. 356). Malenkov complained (*Current Digest of the Soviet Press*, November 8, 1952, p. 5): "Some enterprises produce secondary items above plan . . . while underfulfilling the program of important planned items." Ten years later the

Soviet Union, by means of a more rational arrangement of incentives, appears to have attempted to remedy this condition. See Professor Liberman's ideas (reported upon in the *New York Times*, October 14, 1962, and October 20, 1962). Liberman's ideas point in the right direction—toward a market economy. But central planning would have to be eliminated altogether to restore efficiency, and it seems unlikely that this will be done.

Berliner also mentions the "short tenure of office of plant directors" (p. 362), which is to prevent excessive mutual support among officials who know and trust each other. Certainly short tenure has the advantage of leading managers to be less afraid of increasing the normal output expected from a given input. But short tenure expectations also tempt managers to neglect long-run plant maintenance in favor of short-run exploitation. And, of course, frequent transfers reduce efficiency.

5. Again the Soviet Union illustrates this point. Malenkov (*Current Digest of the Soviet Press*, November 8, 1952, p. 5) complained also that many enterprises "failed to fulfill plans for increasing labor productivity" and accused ministries of determining "the number of workers without sufficient study of requirements," noting that "many enterprises . . . produce almost one-half of the month's program in the last ten days of the month," wherefore "full capacity is not used; there is overtime work and disruption of work in associated enterprises."

Malenkov's complaints are not new. Baykov noted that the first five-year plan ended with goals for machinery and electrical equipment overfulfilled (157 per cent) and goals for heavy metallurgy underfulfilled (67.7 per cent). (A. Baykov, *The Development of the Soviet Economic System*, Cambridge University Press, 1947, p. 166.) Productivity has consistently remained behind plan. Jasny notes, with regard to the fourth five-year plan (1946–50): "The goals for raising labor productivity, the key of the plan, failed almost completely . . . [although the Soviet economy had been] . . . devoting to investment a share of national income so large as to have no comparison with any other place or time." (Naum Jasny, *Quarterly Journal of Economics*, May, 1962.)

Belgrade dispatches to the *New York Times* stated on April 18, 1953: ". . . It was learned that the Government itself did not realize the extent of unemployment until recently. However, as a result of decentralizing many economic situations in keeping with the liberalization trend and establishing plants on a profit basis, the 'surpluses' in labor, said to have been 'hidden,' became evident." (*Ibid.*, March 27, 1953): ". . . the record unemployment total of 92,284, an advance of more than 20,000 in two months . . . unemployment first appeared when the basic revisions in Yugoslavia's economic principles were begun. In an effort to establish the economy on a competitive basis, business enterprises started examining their efficiency and dismissed 'redundant labor.' . . ."

6. Recently, attempts to legalize this practice have been discussed. See "Soviet Profit Plan Seeks to Spur Efficiency," *New York Times*, October 20, 1962.

3

The Contagion of Planning and the Total State

JAMES W. WIGGINS

I

The *ad hominem* argument is often considered to be in poor taste.¹ There may be justification occasionally for this attitude. There is, however, no such standardized objection to the examination of a category when individual persons with their individual properties are neither specified nor identified. It is difficult to analyze central planning, its contagion, and its outcomes without first giving some attention to the state and the properties of the species "planner."²

The central planner is confronted by his deep-seated insecurity and inflexibility. While he seems to be a proponent of social institutional change, he actually yearns for an unchanging stability, perhaps especially in the political *status quo*. His inflexibility is reflected in the compulsive perseverance of his planning. He is a strange complex of sophistication and innocent naïveté. This complex can be explained only by his suffering, which is public and perpetual. The loss of sophistication under the impact of suffering is a common reaction. Some people even under slight pain forget their own telephone number, but the planner may be so distracted that he forgets the implications of years of profes-

sional training. Unfortunately, there is no therapy yet known which can relieve the planner—not even planning.

Central planning is authoritarian. It should not be assumed that the central planner seeks to do ought but good. He realizes that, generalizing his own suffering, man suffers, and, inflating his own capacities, that man needs *his* help. It is perhaps the tragedy of the situation that this actor must perform, not on the childish stage of make-believe, but in a real world which is far more uncontrollable.

We may now consider some of the properties of this real world in which we must live, planner and planned alike. Configurations, patterns, and systems have been identified by man since misty prehistoric times. Patterns, systems, and chains form a basic stock in trade of human thought from systematic theology to sociology. The physicist, the chemist, the biologist, and, of course, the social scientist seek and describe systems. Since our present interest is primarily in the social sciences, we may examine three concepts of systems in the human social order. The patterning of cultural elements was emphasized by Ruth Benedict in a book which became a best seller in the United States.³ Since it has been so widely read, it is unnecessary to re-examine it at length. She reported that each society has its distinctive configuration of values, norms, techniques, and goals. Her analysis of dramatically distinctive patterns supported the proposition that each culture was a complete system whose co-ordinates were not capable of transformation into those of another system. Each culture is, from this point of view, a system in equilibrium. The parts of the system are interdependent and, in fact, are perceived as a *Gestalt*. The *Gestalt* is the ground against which the components of the cultural system gain such meaning as they have and, even more, their very existence as *discrete* phenomena. The configuration of a pattern is internally validated and may not be appraised legitimately on the basis of any external standard. The consequence of the acceptance of this conception is of the greatest significance for planning, since interference with the system has repercussions throughout it. The *logical* conclusion is that piecemeal planning can only be an exercise in futility.

Talcott Parsons, revered by some as the dean of sociologists, has also shown considerable interest in, and awareness of, the social system.⁴ While his analysis is sometimes criticized as being excessively obscure, it is reasonably clear that he emphasizes the interdependence of the components of the system in several ways. This interdependence is expressed through the society's parceling functions to the various substructures within it. For example, the functional problems which must be solved by each social system—(1) pattern maintenance and tension management, (2) adaptation, (3) goal attainment, and (4) integration—are not assigned entirely to specific substructures.⁵ They are, rather, spread in varying proportions to the various substructures. For example, each dependent subsection must perform some pattern-maintenance functions. This approach is reinforced by Melville J. Herskovits,⁶ following in the path of B. Malinowski. Somewhat earlier, Ralph Linton had developed a statement that emphasized both the internal coherence of the social system and the impossibility of even linguistic translation from one social system to another.⁷ Linton also pointed out that it is impossible for one person to know in its entirety even a single social system, and on this last point Linton referred, not to complex industrial civilizations, but to "simple" nonliterate bands.

Again, the logical outcome of central planning within the social system is more individual frustration and more social disturbance. If pattern maintenance, i.e., teaching the individual, is assigned to a number of structures within the system, a planned modification of the school "system" cannot even solve "school" problems.

There is another important system of interdependent parts within a particular delimited population. Using some language and many concepts borrowed from biology with an admixture of economic awareness, some sociologists have emphasized the importance of the ecological system. Beginning with the Park and Burgess' classic *Introduction to the Science of Sociology*,⁸ many social scientists have recognized the ecological system as a significant dimension of social life even though they would probably disdain the concept.⁹ This system is viewed as basically impersonal in contrast to the social system and, of course, as emphasizing

man-to-man transactions in relationship to the effective habitat. Regions, areas, urban complexes, metropolitan centers, and even open country neighborhoods have been analyzed in the effort to discover the ecological system—and its limits, which do not coincide with either areas of common culture or social systems. As a matter of fact, there is some reason to suppose that this finding is necessary, since the ecological system, emphasizing as it does sustenance relations, has been given considerable emphasis by Karl Marx and his latter-day enthusiasts. However monotonously, it must be suggested that the interdependence of the ecological system's parts and the sensitivity of the entire system to manipulation of its parts again promises frustration to the central planner.

II

It is never sufficient to rest with a logical analysis, no matter how strong the inferences, statistical or otherwise. When the Euclidean geometry was the only one available, it was assumed that *this* was the way to truth, but other geometries have appeared, and the possible geometries are infinite in number. So with logic. In examining the consequences of central planning, we must go beyond logical analysis. We must, however uncertain it may be, move to a consideration of the empirical results of central planning. Fortunately, man has had a considerable experience with this system, and the student can easily reach rather firm conclusions from this experience.

It is first necessary to discount the excuses, if we are to look at man's experience with central planning. It is commonly remarked that it is unfair to compare the "new" centrally planned societies with the "old" free-market societies. This is the first admission of abysmal weakness, but there are others. There are many cases of the central planner's plea of *nolo contendere*. This implicit admission of failure is supported by a variety of excuses, such as a late start, limited resources, earlier oppression, colonialism, and such.

To compare the totalitarian U.S.S.R. with the economically

mixed U.S.A. is fully justified. The weak argument that the United States has unusual resources is typically a result of historical innocence or a failure to understand the nature of resources. The lands of the United States are estimated to have supported an Indian population in 1492 slightly smaller than today's population of Cleveland, Ohio. But by 1960, the same lands were occupied by 179 million Americans, storing huge surpluses in warehouses. The Incas and the Aztecs had high civilizations, but, with no significant change in geography, their earlier territories are now inhabited by "undeveloped" peons. In the prehistoric period, the territory now California supported only the marginal society of acorn-eating Pomo Indians, and is now a leading state in the affluent society—the envy of many nations, and the standard against which the chief proponents of central planning even measure themselves.

III

The empirical analysis of central planning produces resistance of varying degrees of intensity.¹⁰ The unwillingness to examine the experience of the past, whether planned or unplanned, has itself been carefully examined by economist Ruth Shallcross. The thirties, in the United States, gave a considerable impetus to the idea of central planning, in spite of the fact that ". . . for . . . one hundred and fifty years . . . the American public had in fact fared very well with a free-market economy now said to be chaotic." And even J. K. Galbraith has admitted that the free market produced the "affluent" society. Unwilling to learn from history, the planner-ideologue is equally unlikely to evaluate or learn from the experience of his peers.

We may now examine a few analyses of central planning, ranging from major metropolitan areas to forced suburbanization in an African village. Following this survey, we will move to the center of central planning, behind the Iron Curtain, where sophisticated experts have been working for years. To what degree is planning successful in practice, and how contagious is it?

Beginning in the realm of essentially small-scale planning, we

may first examine Jane Jacobs' recent study, *The Death and Life of Great American Cities*.¹¹ Mrs. Jacobs was supported in her research by the Rockefeller Foundation, and, although she is a journalist rather than a scientist, her study identified many of the significant side effects of city planning. She makes a fervent and well-documented plea for untidiness in the urban center, suggesting that its untidiness is what makes it a viable community. The people's revolt against the neatness of the planner's designs is held to be a permanent bar to the successful reconstruction of urban life. As she describes the orthodox reformers and planners, she shows that they insist on the "average" and regard the "un-average" quantities as relatively inconsequential. They have, as she says, been trained to discount what is most vital. She continues, "Underlying the city planner's deep disrespect for the subject matter, underlying the jejune belief in the 'dark and forboding' irrationality or chaos of cities, lies a long-established misconception about the relationship of cities—and indeed of men—with the rest of nature." Here again, the childish thirst for a comprehensible order and the determination to enforce it appears clearly.

It might, of course, be argued that New York City, which is Mrs. Jacobs' home, has arterial hardening and too much inertia to be easily manipulated. We may, therefore, examine other accounts. Edward Banfield's study, *Government Project*, reports in detail the life and death of the Casa Grande experiment. The report begins with a foreword by Rexford G. Tugwell, noting that this is the history of a failure—one of many. Tugwell continues, "It was a noble failure, perhaps, but that nobility was small comfort to those who had hoped for its success."¹² Casa Grande was an experiment in rural resettlement. In Banfield's words:

This is an account of an attempt by one of the biggest, most efficient, and most democratic of governments—that of the United States—to remake the lives of a few of its citizens by establishing a co-operative farm at Casa Grande in the Arizona desert. These few citizens (at no time were there more than 57 families) were among the most desperately poor and disadvantaged in the nation. The government

made an elaborate effort to help them, an effort which was sustained for seven years, which involved the investment of more than \$1,000,000, and which required the almost constant attention of several officials.¹³

Sociologist Charles P. Loomis, who studied this and six other new resettlement communities, explained the consistent failure thus: ¹⁴

- (1) On all the new projects there were active forces which, on the one hand, tended toward community integration and, on the other hand, tended toward disintegration.
- (2) Indications are that in any community those families who are least mobile and participate most in the programs of the organized community agencies make the most stable type of settlers.
- (3) Uncertainty as to management policies vitally important to settlers and their families may lead to the circulation of misinformation and to unfounded dissatisfaction.
- (4) If the projects had discussion groups or other channels, through which reliable information might be obtained and made part of the thought processes of the settlers, community integration would be furthered.
- (5) The more the local groups shoulder the responsibilities of administration, the less reason they have to find fault with the resettling agency.
- (6) In resettling families, it is important that the officials endeavor to avert situations that might result in powerful in-groups capable of destroying community integration.

Continuing our comparative review of past experiences, we may examine Kurt Back's *Slums, Projects, and People*.¹⁵ Dr. Back was apparently sympathetic with the objectives of the relocation and public housing program which he studied. This did not, of course, interfere with the directness and accuracy of his reporting. As Back suggests, housing has been one of the high priority programs in government planning in Puerto Rico. By the early forties San Juan had the largest slum in the world, appropriately named, El Fanguito, "the little mudhole." After some years of remedial

measures (in 1954) 8,000 families were living in medium-rise apartment buildings, and units for 10,000 more families were being constructed. Perhaps with unintended understatement Back reports:

The program encountered its share of difficulty. There was considerable resistance among the slum dwellers to moving to the housing projects. When the destruction of El Fanguito began, large processions moved away carrying black flags, mourning for the destruction of their homes. Resistance of this kind had to be overcome at each new site, and relocation workers had to persuade residents to move into housing projects. Frequently the people from the cleared sites simply moved to other slums while newcomers moved into the new developments.¹⁶

The reasons for resistance were identified by the authorities in several categories. The slum dwellers who were being "planned" owned their slum shacks—and wished to continue to own them. The slum dwellers had tapped power lines and did not have to pay for utilities. In addition, they resisted the new idea of apartment buildings and especially the regulations in them. They wished to keep domestic animals in their apartments (not merely dogs and cats) and to operate family businesses in the dwellings. Since relocation produced a new concentration of low-income families, no one could employ anyone else. Back's final comment here is reminiscent of Jacobs' (above) about planning in New York City.

. . . . the slum gave its dwellers a sort of emotional and financial security. Well-known neighbors moved to assist in any emergencies and allowed credit to be established in the stores.¹⁷

Among the several detailed questions raised by Back was, "Do you prefer to stay here, or to move?"¹⁸ In response, two-thirds of the slum dwellers said they wished to move, but more than two-thirds of the total respondents said they were neither looking, nor had they been looking, for another place to live. Even more impressive is the report that although many slum dwellers said they wished to move, nine out of ten of the respondents, both in

slums and in projects, preferred their own solutions to living in a housing project.¹⁹ As if this does not nail down the point, more than half of the people who lived in slums denied that they were living in slums, and, more strangely (from the planner's point of view), people who said they lived in slums are more antagonistic to housing projects than those who do not believe they live in slums.²⁰

In his final comments, Back emphasizes the desire of the planners to put the Puerto Ricans in better housing, and eventually to "improve the general life style and living conditions."²¹ But the people are not ready for this change, and, as already shown, nine out of ten do not want it. It is of passing interest that the pattern of "aided self-help programs" is recommended as a possible alternative. So the planning of *Government Project* (above), which was a failure, is to be exported!

It is often taken for granted that, while modern Western peoples, such as those we have been considering, are not ready for the regimentation of central planning, there is no alternative for the undeveloped peoples. This theory is not only held by some planners, but is explicit in such policies as the highly publicized Alliance for Progress. While there may be a tacit assumption that the developed are people, and the undeveloped not people, the stated assumptions are that all people are alike in their potential. To conclude this section, we may examine the forced suburbanization of the slum dwellers of Lagos.

Lagos, the Federal capital of Nigeria, had large central slums which were embarrassing to those governmental officials who had accepted the values of the West. The condition of Lagos, said one official, was "humiliating to any person with a sense of national pride."²² Peter Marris noticed, during his stay in Lagos, that there was considerable crowding, but also reported "the vitality of these overcrowded lanes." It is perhaps unnecessary to note the similarity to Jane Jacobs' description of the life of overcrowded blocks in New York City.

The establishment of the Lagos Executive Development Board was followed by the first destruction of the slums, and by early 1959, some 6,000 people had been moved, £1,368,696 had been spent for compensation, and almost £90,000 awarded for hard-

ship.²³ Unfortunately, the homes which had been destroyed were not being replaced, and the 6,000 people were merely increasing housing densities elsewhere. And the resistance of the slum dwellers was, of course, nonsense: "The interests of (only) 200,000 residents should not be allowed to override the will of 35 million Nigerians."²⁴

The resettlement estate, at Suru Lere, was cleaner and more orderly than the slum. Those resettled there were not extremely grateful, even for the cleanliness. Marris summarizes the consequences of resettlement, describing the situation of a motor mechanic, an independent craftsman, who

had been a tenant in central Lagos for seven years before his home was pulled down. Slum clearance had halved his income, ruined his wife and sister's trade, forced him to sell his bicycle, his furniture, and dismiss his wife's servant, obliged him not to visit his relatives so often, and halved the support he could give his own and his wife's mother, apart from the many other members of his family who used to appeal to him, and whom he could no longer help. Now it threatened to leave him homeless. He was eighteen pounds in arrears of rent, and threatened with immediate notice to quit. He had even thought seriously of going abroad, out of reach of all his family responsibilities, in a last effort to recover his fortunes.²⁵

The Lagos experience is appropriately transitional to the next section of this paper, since many people of the slums were removed by the threat of forceful eviction, and to the plaudits of the local newspaper. All the studies examined above tend to support the conclusion, reached elsewhere, that, though "everybody" is for rebuilding cities,

. . . . most of the rebuilding under way and in prospect is being designed by people who don't like cities. They do not merely dislike the noise and the dirt and the congestion. They dislike the city's variety and concentration, its tension, its hustle and bustle. New development projects will be physically in the city, but in spirit they deny it—and the values that since the beginning of civilization have always been at the heart of great cities.²⁶

Or perhaps the best cities are those whose people are mainly bureaucrats, like Brasilia.

IV

It may be argued that, after all, the experiments viewed above are not a fair test. These planners themselves are essentially amateurs and merely seek to do a little good. The proper test, of course, is central planning which is well established, and totalitarian. To find real experts, it is necessary to go behind the Iron Curtain. Fortunately, in spite of great difficulties, we have some information from that source.

It is true, of course, that there has been some resistance to central planning, even in the U.S.S.R. Like the slum dwellers of Puerto Rico or Lagos, there were some Russians who were not forward-looking. Most of them have, apparently, been pacified. With remarkable efficiency the U.S.S.R. reduced the number of its consumers, reduced the number of births, and reduced objections to its regime at the same time. Peterson reports the results of several careful studies of the U.S.S.R. population of 1959, concluding:

In the Soviet Union the total population deficiency up to 1959 from both extraordinary deaths and nonbirths is of the order of 80 million or more: 25 million during the taking of power and the wrecking of the capitalist economy; another 10 million during the collectivization, denomadization, purge of the Party, and Russification of the 1930's; and 45 million during the war started by the Nazi-Soviet Friendship Pact. . . . Among cohorts aged 32 and over in 1959, there were only six males to every ten females, and the consequences for postwar marital and fertility patterns hardly need to be spelled out.²⁷

It would be a simple matter to list the failures of centrally planned societies to realize their targets. It would also be repetitious. In this survey of a few cases, there may be more to be learned from the planners' responses to failure and their explanations of failure than from the fact of failure. An easy illustration is reported by Alec Nove. The U.S.S.R. gave up its efforts to plan agriculture in 1955, having apparently found it futile. The consequence was that, from 1955, the state merely specified required

deliveries of agricultural commodities to the state itself.²⁸ So one consequence of recurrent failure of central planning is to abandon it. The ideological commitment is, however, too great to allow the abolition of the concept itself.

An extended and detailed analysis from Hungary could be a basis for broad generalization. Janos Kornai's *Overcentralization in Economic Administration*²⁹ is "saved" only by the reiteration of his commitment to the planning ideology. The modifications of central planning shown by him to be essential lead almost without exception to the abandonment of the whole idea. In his words, ". . . it is possible to bring about considerable changes in the 'economic mechanism' without at the same time affecting the essentially socialist character of the economic system."³⁰ Perhaps unnoticed is his statement, on the same page, that ". . . the *methods* in use in administering the economy . . . and the *forms of organization* of economic activity . . . [are] an interrelated organic whole." The reader may be forgiven a sense of confusion.

Kornai's description of the effects of plan instructions and incentives is highly relevant. Beginning with a critique of the planned "order of importance" in production, he complains that this not only states production goals, but also details procedural priorities. It does not work, but he further finds no economic justification for the system and says that it "naturally evokes measures designed to offset it."³¹ He then considers the fetish of 100 per cent, the point at which production premiums begin, and at which "moral approval" of the enterprise begins to appear. He finds that this fetish is not an accidental result of the inadequacies of top management, but is rather "a necessary consequence of the present economic mechanism which wishes to rely primarily on minutely detailed instructions in guiding the activities of enterprises."³² The resultant rigidity may satisfy some central planners—since it is certainly stable—but does little for economic production.

That central planning does little to change human nature is suggested by the critique of "speculation" within the plan. "It is possible to fulfill the indices [for premiums] in the [planned] . . . manner, but is also possible to fulfill them in various other

ways.”³³ The administrators concerned with “speculations” are “past masters in the art of juggling with index numbers.” Kornai says it is impossible to find one who does not juggle when pushed to it. He further complains that the managers constantly haggle over loosening or tightening the plans, since these jugglers know well that the low requirement guarantees a quick premium for 100 per cent. As we shall see below, N. S. Khrushchev was responsible for loosening the present Seven-Year Plan for the U.S.S.R.

With a sense of tragedy we note Kornai’s lament that there is a periodic unevenness of production. In a capitalist country this would be called something else.

In Hungary, an atmosphere of distrust developed during the period of 1949–53. The determined insistence on class struggle led to the conclusion that any mistake was a result of conscious enmity and was most noticeable among intellectuals. The intellectuals could not believe that central planning was an error; hence the paranoia. Kornai, again:

The tendency to blame the higher authorities at the centre for all failures and troubles will . . . be more pronounced the greater the degree of centralization. [This is one of the great political disadvantages of excessive centralization.] And when this happens, it is of no use for people at the centre to say: ‘You should not look to higher authorities for everything’—in the nature of the case, that is just what the managements of enterprises will do.³⁴

This reaction is, of course, supplemented by a variety of misleading information and by blame being laid on other enterprises and even on sabotage by the CIA.

The failure of the Soviet system of central economic planning has been notably documented by Warren Nutter,³⁵ but it has also been signaled by the apparent movement away from extreme centralism and by the projected reforms of the system itself. In 1956, A. I. Mikoyan said,

The Central Committee has fought implacably against bureaucratic centralism and for a full restoration of democratic centralism on Leninist lines: . . . [it has labored] to increase the power of local

soviets and enterprises; to draw the masses of the workers into far-reaching participation in the work of preparing and examining economic plans and to associate them more effectively with the process of finding solutions to questions relating to the direction of production; to reduce the size of the State administrative machine and to simplify it. . . .³⁶

While there are occasional efforts to conceal failure, the widespread discussion of reform vitiates these efforts. L. Yevenko recommends: "An analysis of plan fulfillment must not be formal, statistical in nature, presenting total results. It must be a *scientific, economic* analysis, which sums up the achievements and shortcomings of economic practice. . . ." ³⁷ That is to say. . . ? Weakness is compounded in the statement of N. S. Khrushchev to the Twenty-First Congress of the C.P.S.U.:

When the Seven-Year Plan was drawn up, it was borne in mind that it had to be a plan that could be carried out without overstrain. Why was this done? Because if we have a plan requiring great strain, there is always the possibility that some of its targets may not be reached, and that sufficient raw material, equipment, and other supplies may not be available to some branches of the economy; this may entail down time at factories, the plan may not be fully employed, and workers may stand idle—with all the attendant consequences. This, in the language of the economists, is disproportion.

The Seven-Year Plan is being so drawn up as to prevent this. Over-fulfillment of the plan will enable us to create additional stocks and accumulate additional funds. We shall thus have favorable conditions for the rhythmical operation of industrial establishments and better use of equipment.³⁸

Alec Nove gives a well-documented treatment of the trends toward reform in the Soviet system. His preliminary caution, that events move so swiftly that his analysis is inevitably out of date in detail, must be repeated here.³⁹ The chronicity of the inherent problems of central planning suggests, however, that even new tinkering will leave the problems untouched. Kornai, on the

basis of considerable experience, said that the easiest thing to do for a failing plan is to issue a more detailed plan—and this solution has been applied in multiple layers.

Nove identifies several probable reforms for the U.S.S.R., as alternatives to further centralization. First, he anticipates the elimination of “illogical” prices, which are, of course, all prices other than market prices. If “logical” prices are substituted, pricing will be done by the market rather than by central planners. A second reform is the expected measurement of output in “net” rather than “gross” terms. It may be remarkable to the uninitiated that this has not already been done. A third change may be the determination of production goals in response to purchaser demands rather than what consumers *ought* to demand. And fourth, we may expect an increasing use of market research to determine consumer preference.⁴⁰ Although history may not be logical, Nove suggested: “The logic of events seems to point to prices which reflect relative scarcities and fluctuate with consumer demand, but there is as yet little sign that such a view of the price mechanism will actually be adopted by the planners, since it is too suggestive of the so-called anarchy of the free market.”⁴¹

While inevitably moving in the Yugoslav direction, Soviet theoreticians attack Yugoslavia as revisionist. The present state of the Yugoslav system is something of an enigma. Nove concludes that neither the market nor the workers’ councils are as free in fact as in the Yugoslav model, while Hoffman and Neal refuse to evaluate by Western standards. They see Yugoslavian totalitarianism, but—with the *nolo contendere*—insist that these people are backward, poor, savage, and burning with religious-national hatred as a result of their earlier oppression.⁴² Ergo, they (the Yugoslavs) *must* be totalitarian.

V

The experience of central planning at which we have looked has been plagued by problems and by failures. Both results of planning have usually been met by the incorporation of additional details into the plans. The reconstruction of urban centers has

been buttressed by more and more plans to reduce the consequences of the earlier plans, and still more specific requirements are added from time to time. This may have desirable consequences, since, as William Johnson points out in another paper, the planning process is self-feeding. The hazards come from efforts to *realize* the plans, as we have seen in a variety of settings.

The usual response to failure is to admit that the details of the plan were not adequate, and that certain consequences were not properly anticipated. This produces the contagion of the planning process, which appears to be inherent in it. First, tinkering with an element of a system dislocates the other elements. Next, detailed arrangements must be made for the other elements. This occurs at least in the cultural system, the social system, or the ecological system. Thus the wise planner tends to begin with the most comprehensive plan possible, since he must get there eventually. The concern with "side effects" in chemotherapy is not significantly different from the concern over the urbanites displaced by urban renewal. It is important to keep in mind, however, that in the organism all effects are equally effects: the "side effect" is merely one of many effects, and the one of which the observer disapproves. It may be doubted that the organism itself differentiates among effects.

For reasons not yet clearly understood, even the repaired plans result in problems and in failure. So we must look further. It is not necessary to look far, since Karl Marx recognized (however partially) the more complicated problem, and one which is far more threatening to the central planner than a mere error in a crop estimate. Marx recognized clearly that one system, within which planning must occur, impinges on the others at various points. The partially shared co-ordinates of society, culture, and the ecological system require that shifts and relocations in one produce imbalance in one or both of the others. There is reason to believe that Marx saw clearly the action of the economic system on the three to which we have given attention, but did not equally recognize the quality of interaction, of reciprocal impacts, of the systems. It is clearly impossible to manipulate one system without being prepared for consequences, not only in other parts of the

same system, but also in unpredictable dislocations of the other systems. When economic manipulations modify the ecological system, both social system and cultural system suffer "shock." Both the late William F. Ogburn and Marx were right in recognizing this, but changes in the cultural system—even in standardized food choices—may have equal impact on the ecological system and the economic systems.

It should be recognized that not merely are the systems consequently moved from equilibrium. It may be more important that the movement of the co-ordinates of one system either increases the relationships between them or decreases them, and the problem of adjustment is an intersystem problem whose very adjustments intensify the problems whose solution is sought. As this is seen to be the case, contagion proliferates, and the totalitarian outcome is assured.

The ecological system, especially, has shown a long-term tendency to expand. Increasing numbers of different cultural and social systems have come into significant contact through participation in a common transactional system. Thus, the contagion of central planning must leap the boundaries of states, nations, and continents if uncontrolled changes in the ecological system are not to produce equally uncontrollable changes in the multiple other systems. Role performances in the families of Brazil and Assam are hindered or eased by American choices of beverages. Tea planters and coffee growers are fully aware of this and urge controls, *international controls*, of prices and production of these commodities. Add sugar, cotton, tobacco, and nuclear armaments.⁴³ So the consequent becomes not merely state planning, but international planning. Even if this is initiated only in one system, it cannot but disrupt the others treated here, many times multiplied. And the same contagious process, at the macrolevel, produces the international total state.

The considerations so far advanced merely prick the surface. Two other matters yet remain, and both are basic, perhaps ultimate. The first is a multitude of systems beyond those considered. The individual personality is merely one, and all of the biological systems and subsystems are yet to be considered, both in their

generality and their uniqueness. The central planner must take account of them in both their general and their unique aspects. He must be aware of the probability that manipulation of the "known" systems which do not share co-ordinates with other known systems may result in their doing so.

Finally, as an infinite number of lines may be drawn through a point, so an infinite number of systems may co-ordinate only in a particular person. All specific combinations of systems may be unique, and not only unpredictable, but incapable of communication. Two impossibilities thus present themselves. First, the impossibility of giving "instructions" to handle an infinity of systems in an infinity of combinations, and second, the impossibility of giving "instructions" for systems whose very existence is denied or merely unknown.

Central planning fails because the planner is a human, and thus cannot grasp or imagine or manipulate the infinite.⁴⁴ He cannot produce the stability he demands, the order and neatness he seeks, because, unless he himself is infinite, he can only dream of the possibility of an ordered universe; he cannot describe its properties.

This paper has not been designed to show that change is impossible, but rather that change is inevitable. The multitude of individual plans which do not bear fruit have a modest impact on the systems which co-ordinate in the individual, and his resilience usually allows a personal return to homeostasis without severely tearing the fabric of systems shared by others. His destiny lies within his own vision, and he can, within some limit, trim sail without destroying the human regatta. When the individual insists that his mistakes be duplicated by all mankind, the consequences are infinitely multiplied, and are infinitely dangerous to mankind.

NOTES

1. It is also considered to be in good taste. C. A. Ellwood suggested that a man's thought cannot be understood wholly apart from the character of his private biographical experiences. (*A History of Social Philosophy* [New York: Prentice-Hall, Inc., 1938], p. 359). Sir James Jeans said,

- "... the biography of every great thinker is the most important part of his philosophy." (*Physics and Philosophy* [New York: Harper & Bros., 1958], p. 23).
2. For this and the following paragraphs a considerable debt is owed to Edward A. Shils, "Authoritarianism: 'Right' and 'Left,'" Richard Christie and Marie Jahoda (ed.), *Studies in the Scope and Method of "The Authoritarian Personality"* (New York: The Free Press of Glencoe, Inc., 1954). It must be noted that this analysis refers to the "devoted" ideologue, but not necessarily to the opportunist who merely rides the bandwagon. Since contradictory "causes" for the appearance of the so-called "authoritarian personality" have been supported by research findings, and the properties of the personality seem unclear, the label is not here applied. See also I. A. Taylor, "Similarities in the Structure of Extreme Social Attitudes," *Psychological Monographs*, No. 489 (1960).
 3. *Patterns of Culture* (New York: Penguin Books, 1946).
 4. *The Social System* (New York: The Free Press of Glencoe, Inc., 1951), pp. 58-67.
 5. This grouping of functional problems was first developed by Robert F. Bales in *Interaction Process Analysis: A Method for the Study of Small Groups* (Addison-Wesley, 1949). It has been widely used since the original treatment.
 6. Melville J. Herskovits, *Man and His Works* (New York: Alfred A. Knopf, 1950), 233-236.
 7. Ralph Linton, *The Study of Man* (New York: D. Appleton-Century Company, 1936), pp. 253-270.
 8. University of Chicago Press, 1921.
 9. Otis Dudley Duncan, "From Social System to Ecosystem," *Sociological Inquiry*, XXXI, No. 2 (Spring, 1961), 140.
 10. It should be noted that all references here are to *central* planning. In fact, such processes as urban renewal are carried on by individual and groups even without the imposition of the central plan. The decision by a municipality or by a state that certain activities are restricted to specified areas may be wholly necessary, although even zoning may come to express merely a desire for tidiness, for expression of power, or for differential financial advantage. And even zoning seems contagious, almost self-feeding.
 11. New York: Random House, 1961, p. 443. See also The Editors of *Fortune*, *The Exploding Metropolis* (Doubleday Anchor Books, New York, 1957).
 12. The Free Press, Glencoe, Illinois, 1951, p. 11.
 13. *Ibid.*, p. 15.
 14. *Ibid.*, p. 226.
 15. Durham, N. C.: Duke University Press, 1962, pp. 8, 9. Also see Rexford Guy Tugwell, *The Stricken Land* (New York: Doubleday and Company, 1947).
 16. *Loc. cit.*
 17. *Ibid.*, p. 10.

18. *Ibid.*, pp. 55, 56.
19. *Ibid.*, p. 65.
20. *Ibid.*, p. 66.
21. *Ibid.*, p. 107.
22. Peter Marris, *Family and Social Change in an African City* (Evanston, Illinois: Northwestern University Press, 1962), p. vii.
23. *Ibid.*, p. 89.
24. *Ibid.*, p. 90.
25. *Ibid.*, p. 115. The situation of the American Indians is not treated in this paper, but the confusion, uncertainty, and conflict of objectives which have plagued Indian programs are all aired in Task Force on Indian Affairs, "Implementing Change through Government," *Human Organization*, XXI, No. 2 (Summer, 1962) 125-136. The entire issue is recommended.
26. The Editors of *Fortune*, *The Exploding Metropolis* (New York: Doubleday Anchor Books, 1957), p. vii.
27. William Petersen, *Population* (New York: The Macmillan Company, 1961), p. 453.
28. Alec Nove, *The Soviet Economy* (London, England: George Allen and Unwin, 1961), p. 87.
29. London, England: Oxford University Press, 1959, p. 1.
30. *Loc. cit.*
31. *Ibid.*, p. 126.
32. *Ibid.*, p. 129.
33. *Ibid.*, p. 132.
34. *Ibid.*, p. 211.
35. *The Growth of Industrial Production in the Soviet Union* (Princeton, N. J.: Princeton University Press), 1962.
36. The XXth Congress of the C.P.S.U. (B), pp. 342-3, Szikra, 1956, quoted by Kornai, *op. cit.*, p. 233.
37. *Planning in the U. S. S. R.* (Foreign Languages Publishing House, Moscow), p. 217. The disavowal of statistics does not reflect his inclusion of thirty-six statistical tables in his book.
38. *Ibid.*
39. The same warning appears in George W. Hoffman and Fred W. Neal, *Yugoslavia and the New Communism* (Twentieth Century Fund, New York, 1962), p. x.
40. Nove, *op. cit.*, pp. 236-239.
41. *Ibid.*
42. *Op. cit.*, p. 383.
43. For a well-balanced supporting case history, see American Enterprise Institute, Special Analysis, *The Proposed International Coffee Agreement*, Report No. 13, August 16, 1962. It is well worth careful study.
44. The proposed use of electronic data processing systems in the U. S. S. R. seems more promising to the uninitiated. It has been said that the computer adds the work of millions of morons to that of the operator, but this is hardly hopeful.

4

The Cybernetics of Competition: A Biologist's View of Society

GARRETT HARDIN

Science fiction depends heavily on the postulation of Martians, who are invariably assumed to be more advanced intellectually than we. The psychological reason for this assumption seems clear: the whole apocalyptic myth of the men from Mars fulfills needs that were earlier satisfied by the idea of an imminent Kingdom of Heaven. To the objective eye of an anthropologist, our fictional Martians are manifestly gods, and science fiction is a kind of theology.

The odd thing is that before another human lifetime has passed, we may have a chance to see what Martians are really like (if they exist). And if we do, will it be gods that we find, or something less than human? I predict the latter, on the grounds that we have not yet heard from them, as we should have if their technology were really more advanced than ours. If they exist, and if they trail us in knowledge, we shall then be faced with an interesting complex of problems. Should we educate them? Can we educate them? How?

In the past, in dealing with the backward peoples of the earth (a similar problem), we have given them the answers ready-made. But suppose for once we decide to give our backward brethren, not the answers, but the *questions*—and let them work out their own

answers? Suppose we expose the men from Mars to all the complexities of our technological situation and let them figure out the explanations?

This *Gedankenexperiment* is introduced for nontrivial reasons. Martians, faced with the riddle of our technology, would have a far harder time than we had in creating the underpinning of physical theory, even if they are as intelligent as we. Listening to the radio, would it occur to them that the intensity of electromagnetic radiation obeyed an inverse-square law? In the presence of an atomic explosion, how could they conceive of a conservation law? They might, of course. After all, we found the laws of nature. But in our search we were fortunate in this respect: most of the time, invention was only a very little ahead of theory; often it was even behind. We were able to discover theory because the world was simple. A theory-poor Martian confronted with our invention-rich world would have a much harder time discovering theory than we did.

Picture if you will a convention of Martians, reading scientific papers to one another, papers concerned with the theory of the Earth. One of them proposes a universal law of gravitation. Pandemonium breaks loose. In the absence of all knowledge about combustion, Newton's three laws of motion, electricity, magnetism, superconductivity, radioactivity, and all the rest, it would be all too easy for the Martian auditors to cite evidence to refute the idea of universal gravitation. Only a total complex of theory ("model") can be tested against a factual complex. If the elements of a theoretical construct are tested one by one against the complex world, they will, one by one, be "disproved." Probably our visitors from Mars could arrive at a workable theory only if we earthlings agreed to play Twenty Questions with them—to give them a nod of approval whenever they stumbled across a fruitful element of theory. (They would, of course, have to have faith in us; for how could they know that we were not merely playing tricks on them?)

The relation of our hypothetical Martians vis-à-vis the physical world is, I submit, *our* relation to the social world we have created. During a period of thousands of years, out of necessity and our unconscious, we have elaborated fantastically complex mechanisms

of social interaction, inventions so subtle and pervasive that much of the time we cannot even *see* them, much less explain them. In trying to discover or invent social theory, we are in the position of the Martians of our thought-experiment. We have too many facts and not enough theory. And there is no one to play Twenty Questions with us.

The Nature of Theory

Popular writing commonly pictures the great scientist as an extremely critical person. There is much truth in this, but the contrary is also partly and significantly true. I know a chemist who frequently says to his graduate students, "Don't let a fact stand in the way of a good hypothesis." This is certainly dangerous advice, but, inasmuch as the speaker has won a Nobel Prize for his revolutionary chemical theories, we must assume that he knows something of the requirements for creativity. A good scientist should be a good critic part of the time, if he wants to discover new and surprising truths. Different occupations require different temperaments. In mentally reviewing a large roster of successful scientists, I am struck with the fact that it includes almost no men who were ever lawyers.

A good critic must be tough-minded, to use William James' term. Good lawyers are like other good critics. The successful developer of scientific theory, on the other hand, must be *tough-motivated*. A scientific theory, in its early stages at least, is incapable of explaining all the data it is confronted with. This fact may be illustrated by a joke that was standard in engineering circles for several generations: "The bumblebee doesn't have large enough wings to fly, but fortunately the bee doesn't know this, and so he flies anyway." This was a way of acknowledging that the theory of aerodynamics was inadequate to explain the facts. But engineers did not abandon their theory. Instead they retained it (because of its many successes) in the hope—indeed, in the *faith*—that it would one day be enlarged in such a way as to permit explaining the flight of the bumblebee. How scientists decide which theories to have faith in, and which not, is a problem

of great subtlety, which has been courageously attacked by Polanyi.¹

In the development of social theory we must follow the path that has proved successful in the natural sciences: we must be critical, but not too critical. We must be willing to *entertain* partial theories while we see whether they are capable of fruitful enlargement. In the early stages we must expect to be confronted with markedly different theoretical models. What is offered here is one biologist's concept of the foundations of social and economic theory. "What presumption!" social scientists may say. Admitted: but biology, as Warren Weaver has put it, is "the science of organized complexity"—and what is the social scene if not one of organized complexity? Some of the principles worked out in one field should be at least part of the theoretical structure of the other. Particularly relevant are the principles of *cybernetics*, the science of communication and control within organized systems. Let us see what some of these are, as they have been developed in the natural sciences, and how they may apply to the social sciences.

Positive Feedback

Money put out at compound interest and the unimpeded reproduction of any species of living organism are both examples of systems with positive feedback. Mathematically they are most conveniently represented by equations of the form

$$y = Ce^{bt} \quad [1]$$

where C represents the initial quantity (of money or organisms), y is the quantity after time t , e is the base of natural logarithms (2.71828 . . .), and b is a measure of the rate of increase—the greater the rate, the greater is b . (For example, if there is no increase at all, $b=0$; when the rate of increase is 10%, $b = .0953$.)

The exponential function just given may be graphed as shown in Fig. I. Notice that the curve rises ever more steeply with the passage of time. Money which is initially interest becomes princi-

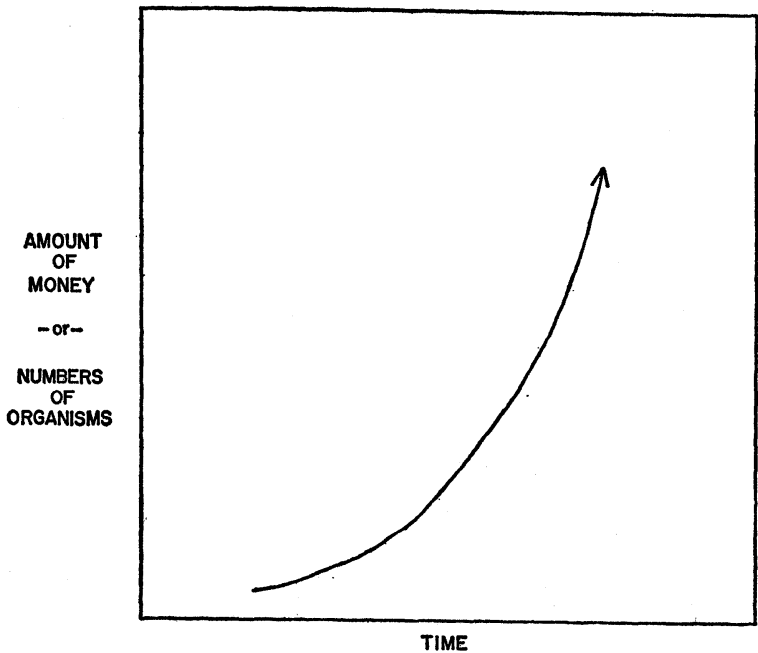


Fig. I THE RESULT OF POSITIVE FEEDBACK

pal-money, earning more interest-money. Children become parents and produce more children. Hence the use of the term "feedback." The output (part of it, at least) feeds back as input. When the exponent b is positive, we speak of positive feedback. To persist indefinitely, a species must be capable of positive feedback reproduction. To attract investment, a borrower must offer the same possibility for the sums invested.

The exponential equation can be represented by a family of curves, one curve for each value of b . But we can generalize the graph shown and say that, if we imagine a flexible abscissa—the time axis—one curve stands for all positive exponential functions. With elephants, the scale would read in decades; with bacteria, in minutes. Similarly with money at compound interest, we have only to stretch or contract the scale on the abscissa to make one curve fit all rates of interest.

In all cases, we should note this: The curve of unimpeded posi-

tive feedback "approaches infinity" with the passage of time. This is true no matter how slow the rate of reproduction, no matter how low the rate of interest. *But ours is a finite world.* Therefore it is clear that positive feedback is not tolerable as a permanent state of affairs. It can be tolerated only for short periods of time. In biology, no species can indefinitely increase in keeping with its potential, or soon all the world would be nothing but salmon, elephants, men, or whatever. In economics, no sum of interest can be allowed to earn compound interest except for very short periods of time. Suppose, for example, that the thirty pieces of silver which Judas earned by betraying Jesus had been put out at 3 per cent interest. If we assume these pieces of silver were silver dollars, the savings account would today amount to a bit more than 9×10^{14} dollars, or more than \$300,000 for every man, woman, and child on the face of the earth. Since the real economic wealth of the world is certainly much less than that amount, it would be quite impossible for Judas' heirs (all of us, I presume) to close out the account. The balance in the bankbook would be largely fictional.

A modern William Paley,² contemplating bank failures, embezzlements, business collapses, runaway inflation, and revolutions, might well argue that these catastrophes are examples of "design in Nature," for by their presence the impossible consequences of perpetual positive feedback are avoided. A professional economist would be more likely to suggest that we could achieve the same end by falling interest rates, which could fall to zero if need be. Historically, however, this more pleasant possibility has seldom, if ever, developed. Failures, inflation, and revolution have been the historically important counteractors of positive feedback.

In contemplating the implications of the exponential growth function, we see also a fundamental criticism of all forms of "growthmanship" (to use William H. Peterson's term). Plainly, the idea of continuous national growth is a dangerous myth. Recent public debate as to whether our economy should grow at a rate of one or two or three per cent annually deals with a question which is, in the time scale of human history, of only evanescent interest. Continuous economic growth of the order

of magnitude hoped for is possible only for a short period of time—a few centuries at most. If a political and economic unit can achieve enduring stability—and we do not know that it can—it could only be with *zero* per cent growth. Not a bit more. Not if growth is measured in material terms. (If growth is in nonmaterial terms, that is another, and far more interesting question.)

Negative Feedback

If a system that includes positive feedback is to possess stability, it must also include “negative feedback.” The meaning of this term can be made clear by considering an example from engineering.

The temperature of a room is kept constant by the combined operation of a furnace and a thermostat. The result is a cybernetic system which can be represented by a type of diagram previously introduced.³ As indicated in Fig. II, when the temperature rises, a bimetallic strip in the thermostat is distorted, thereby breaking an electric contact, thus turning off the furnace, and so lowering the temperature. On the other hand, a lowering of the temperature leads to a re-establishment of the electric contact, thereby starting the furnace, thus raising the temperature. The temperature of the room will thus fluctuate about the “set point” of the thermostat—and this is what we mean when we say “the temperature is held constant.” The variations do not exceed certain limits.

Now for an example from biology. In any natural setting, the population size of a given species is relatively constant, for long periods of time, usually thousands, or even millions of years. How this constancy is maintained is shown in Fig. III. If the population should increase above the “natural” population size—which we may call the “set point” of the population—various kinds of negative feedback will be brought into play. Shortage of food may lead to starvation. Fighting may lead to deaths or to interference with breeding. And so on. The result of all this will be more deaths, and perhaps fewer births, and the population will fall.

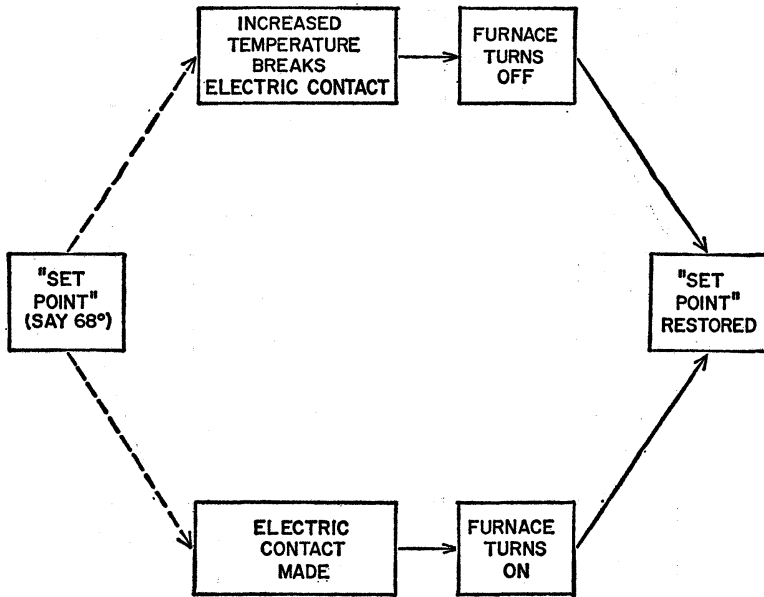


Fig. II CYBERNETIC EQUILIBRIUM MAINTAINED BY NEGATIVE FEEDBACK

The consequence of a decrease in population can be read from the diagram. Again we have a cybernetic scheme that produces fluctuations about a "set point." What determines the "set point" is not so easy to tell. That is, our knowledge of the interaction of the natural controls of population size is usually insufficient to enable us to *predict* what the "carrying capacity" of the land will be. We have to go into the field and measure it, determine it *ex post facto*. Nevertheless, we retain this model and regard our inability to make an *a priori* determination of the set point as an indication of deficiency in our knowledge, not in the model.

The cybernetic model can be carried over into economics, as shown in Fig. IV, which depicts the control of price in the Ricardian economic scheme. The well-known course of events can be read from the figure. Again we see that negative feedback produces stability about a "set point," which Ricardo called the "natural price." As with the biological example previously used, the meaning of "natural" can, in general, only be determined *ex*

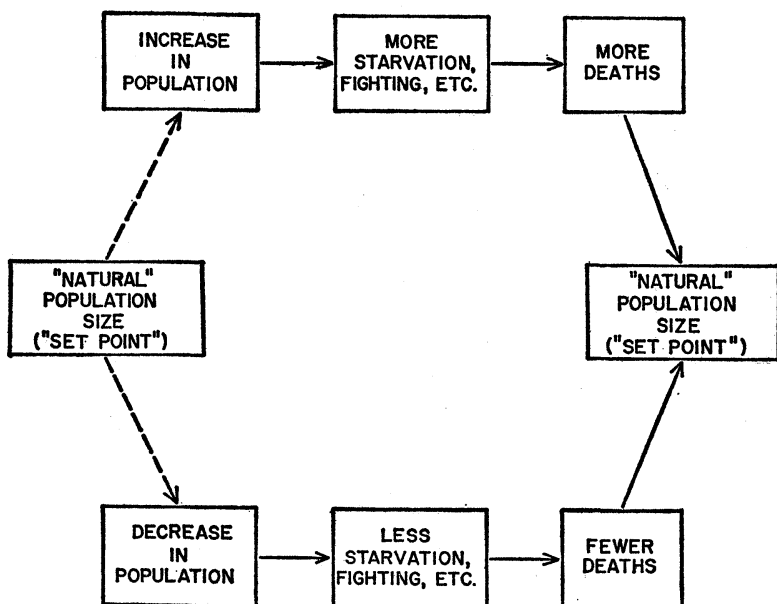


Fig. III CYBERNETIC MAINTENANCE OF POPULATION EQUILIBRIUM

post facto. That is why Adam Smith spoke of an "invisible hand."

An effective cybernetic system produces stability, i.e., fluctuations within limits, and this we esteem. A system that produces a stable temperature or a stable population or a stable price seems to us somehow *right*. When we examine any cybernetic system we discover that it is more or less wasteful. The thermostated room wastes heat; the natural population wastes lives; the economic system produces price wars and business bankruptcies. We may refine the controls and minimize the losses (of heat or of money for example), but a close examination of the system convinces us that there must always be some losses, waste in some sense. Since waste is natural, we tend to regard it, as we do all natural things, with a sort of religious feeling. We regard, and I think rightly, the acceptance of waste as a sign of maturity.

But because the mature person acknowledges the inevitability of some waste, it does not follow that he must be reconciled to any amount and kind of waste. In the first excitement of dis-

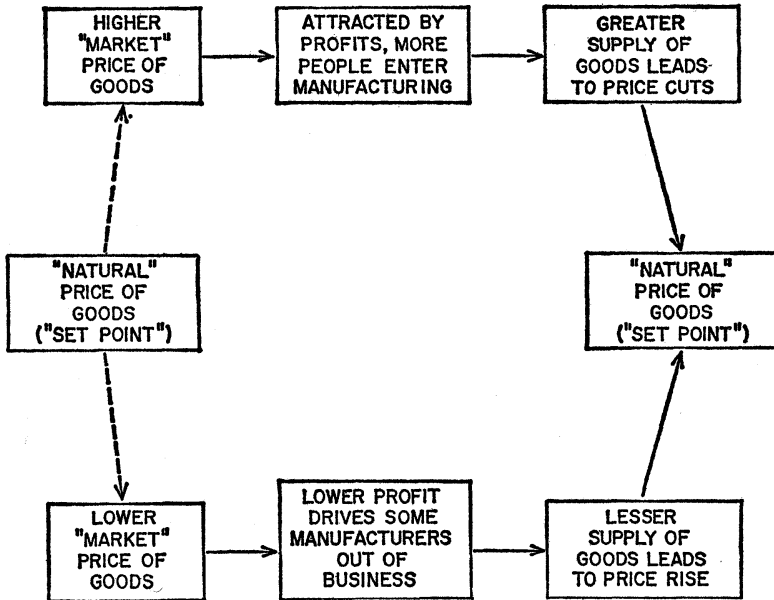


Fig. IV CYBERNETIC MAINTENANCE OF PRICE IN THE RICARDIAN MODEL

covering the beauties of economic cybernetics, David Ricardo quite naturally made this error. In speaking of the cybernetic system that stabilizes the population of laborers, Ricardo ⁴ wrote:

When the market price of labor is below its natural price, the condition of the labourers is most wretched: then poverty deprives them of those comforts which custom renders absolute necessities. It is only after their privations have reduced their number, or the demand for labour has increased, that the market price of labour will rise to its natural price. . . .

Attention should be called to the use of the word "natural" in this question. It would be antihistorical to expect Ricardo to speak of the "set point of labor," inasmuch as the term "set point" was not used for another century; but that is not the only criticism that can be made of the word "natural." Looking at the problem through the eyes of Stephen Potter,⁵ what do we see? Plainly, that an advocate is likely to use the word "natural" in order to insinuate approval of the "natural" thing into the mind of his

auditor. By so doing, the advocate frees himself of the necessity of developing a defensible argument for the "natural" thing—for who can disapprove of that which is *natural*?

This attack on the use of the word "natural" is more than a mere Potterian countercharge, as is clearly shown by the following defense given by Ricardo: ⁶

Labour, like all other things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and perpetuate their race, without either increase or diminution.

These then are the laws by which wages are regulated, and by which the happiness of far the greatest part of every community is governed. Like all other contracts, wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature.

This passage leaves no question in our mind that Ricardo identified the momentary state of things in his own time as "natural," and that all attempts to modify it further by new legislation were "unnatural," and hence improper in some deep sense. With rare exceptions, most of us post-Ricardians have been unwilling to accept this view. We will accept the starvation of field mice; but not that of human workers. Ricardo, at least on paper, accepted both. But—perhaps because of a delicate consideration of the feelings of others—he used a most elegant euphemism for the facts. "It is only after their privations have reduced their number," he wrote; and insisted that "wages should be left to the fair and free competition of the market." The market must be free, that we may enjoy the blessings of cybernetic stability. Most of us now think Ricardo's price is too high. We would rather lose some freedom and employ "unnatural" controls of the price of labor. The history of the labor movement since Ricardo's time may be regarded as one long struggle to substitute other forms of waste for the "natural" form which Ricardo, who was not a laborer, was willing to accept.

The Competitive Exclusion Principle

Perhaps more important than the humane argument just given against the Ricardian model is a theoretical argument which indicates that the cybernetic system he described is fundamentally unstable. Before we can discuss this matter, we need to introduce a biological principle known by various names but recently³ called the "competitive exclusion principle." The historical origin⁷ of this principle is complex; no one man can be given credit for it. In the last decade it has become increasingly clear that it is a basic axiom of biological theory; and it will be my argument here that it is basic also to sociological and economic theory. But first, let us develop the principle in an exclusively biological context.

Consider a situation in which two mobile species, X and Z , live in the same habitat and also live in the same "ecological niche," i.e., live exactly the same type of life. Species X multiplies according to this equation:

$$x = Ke^{ft} \quad [2]$$

where x is the number of individuals of species X at time t , e is the base of natural logarithms, K is a constant standing for the number of x at $t = 0$, and f is a constant determined by the "reproductive potential" of the species.

Species Z multiplies according to this equation:

$$Z = Le^{gt} \quad [3]$$

in which the constants have the same meaning as before (though, in the general case, with different values).

Suppose these two species are placed in the same universe to compete with each other. What will happen? Let us represent the ratio of the numbers of the two species, x/z , by a new variable, y . Then:

$$y = \frac{Ke^{ft}}{Le^{gt}} \quad [4]$$

Since K and L are both constants, they can be replaced by another constant, say C ; and, making use of a well-known law of exponents, we can write:

$$y = Ce^{ft - gt} = Ce^{(f - g)t} \quad [5]$$

But f and g are also constants, and can be replaced by another constant, say b , which gives us:

$$y = Ce^{bt} \quad [6]$$

which is, of course, our old friend equation [1] again, the equation of exponential growth. The constant b will be positive if species X is competitively superior, negative if it is species Z that multiplies faster.

In words, what does this mean? This: in a finite universe—and the organisms of our world know no other—where the total quantity of organisms of both kinds cannot exceed a certain number, a universe in which a fraction of one living organism is not possible, one species will necessarily replace the other species, completely, if the two species are “complete competitors,” i.e., live the same kind of life.

Only if $b = 0$, i.e., if the multiplication rates of the two species are *precisely* equal, will the two species be able to coexist. Precise, mathematical equality is clearly so unlikely that we can ignore this possibility completely. Instead we assert that *the coexistence of species cannot find its explanation in their competitive equality*. This truth has profound practical implications.

Have We Proved Too Much?

As was said earlier, it is characteristic of incomplete theory that it “proves too much,” i.e., it leads to predictions which are contrary to fact. This is what we find on our first assessment of the competitive exclusion principle. If we begin with the assumption that every species competes with all other species, we are forced to the conclusion that one species—the best of them all—should extinguish all other species. But there are at least a million

species in existence today. The variety seems to be fairly stable. How come?

There are many answers to this question. I will discuss here only some of the answers, choosing those that will prove suggestive when we later take up problems of the application of the exclusion principle to human affairs. The following factors may, in one situation or another, account for the coexistence of species.

Geographic isolation. Before man came along and mixed things up, the herbivores of Australia (e.g., kangaroos) did not compete with European herbivores (rabbits). Now Australians, desirous of retaining some of the aboriginal fauna, are trying desperately to prevent the working out of the exclusion principle.

Ecological isolation. English sparrows introduced into New England excluded the native bluebirds from the cities. But in very rural environments, bluebirds have, apparently, some competitive advantage over the sparrows, and there they survive today.

Ecological succession. It is not only true that environments select organisms; but in addition, organisms make new selective environments. The conditions produced by a winning species may put an end to its own success. Grape juice favors yeast cells more than all others; but, as the cells grow, they produce alcohol, which limits their growth and ultimately results in new predominant species, the vinegar bacteria. In the growth of forests, pine trees are often an intermediate stage, a "subclimax," being succeeded by the climax plants, the hardwoods trees, which out-compete the pines in growing up from seeds in the shade of the pine tree.

Lack of mobility. The universal application of the exclusion principle to plants is still a controversial issue, which cannot be resolved here. It may be that the lack of mobility, combined with certain advantages to being first on the spot, modify the outcome significantly. Although this explanation is questionable, it is a fact of observation that a pure stand of one kind of plants hardly ever occurs.

Interbreeding. If two competing populations are closely enough related genetically that they can interbreed, one group does not replace the other, but they simply merge. This does not end com-

petition; it merely changes its locus. The different genes of the formerly distinct groups now compete with each other, under the same rule of competitive exclusion.

Mutation. Continuing with the example just given, one gene never quite eliminates another because the process of mutation is constantly producing new genes. The gene for hemophilia, for example, is a very disadvantageous gene, but even if hemophiliacs never had children (which is almost true), there would always be some hemophiliacs in the population because about three eggs in every 100,000 produced by completely normal adult women will be mutants that develop into hemophilic sons.

The Cybernetics of Monopoly

We are now ready to take a second look at the Ricardian thesis. The model implicit in his writings may not unfairly be stated as follows. We conceive of a single product manufactured by a number of entrepreneurs, each of whom must, for simplicity in theory construction, be imagined to be engaged in the manufacture of this product only. Under these conditions, the Ricardian cybernetic scheme diagrammed in Fig. IV will prevail—but only for a while. History indicates that the number of entrepreneurs is subject to a long-term secular trend toward reduction. In the early days, there were many scores of manufacturers of automobiles in the United States; today there are less than a dozen. Ball point pens, transistors—every new product has followed the same evolution. The history of the oil industry (to name only one) clearly indicates that in the absence of societal interference with *laissez faire*, competition has a natural tendency to steadily decrease the number of competitors until only one is left, this one being the entrepreneur who is most efficient, who is able to produce the product at the lowest price. A simple extension of the competitive exclusion principle into economics shows that this must be so. If it is not so, then we must conclude that the free-enterprise system does not produce the lowest possible price, or, to put it differently, does not operate with the maximum efficiency.

And if a monopoly is produced, what then? Here is a question which Ricardo did not face. At first glance, one might say that the monopoly should be stable, because if it rises, new entrepreneurs would be attracted to the field and would lower the price. But it would be naive to expect this. We know that it is more difficult to start a business than to continue one, and consequently a monopolist can maintain a price considerably above the "natural price." Furthermore, a realistic model must include much more than we have indicated so far. We must consider the whole complex of phenomena that we include under the word "power." *Power is a process with positive feedback.* By innumerable stratagems a monopolist will try to manipulate the machinery of society in such a way as to ward off all threats to re-establish negative feedback and cybernetic equilibrium. And, as history shows, the monopolist in one field will seek to extend his power into others, without limit.

What has just been said about business monopolies applies equally to labor monopolies, *mutatis mutandis*. In so far as they meet with no opposition, there is little doubt that labor monopolies seek to produce an ever higher price for labor. At the same time, they protest the appearance of business monopolies. Contrariwise, unopposed businessmen seek to promote a free market in labor, while restricting it in their own field (by "Fair Trade" laws, for instance). It is not cynicism but simple honesty that forces us to acknowledge that Louis Veillot (1813-1883) was right when he said: "When I am the weaker, I ask you for liberty, because that is your principle; but when I am the stronger, I take liberty away from you, because that is my principle." In other words, such verbal devices as "principles," "liberty," and "fairness" are themselves competitive weapons. Each purely competitive agent, were he completely honest and frank, would say: "I demand a free market—but only for others." It is, in fact, a natural part of *my* competitive spirit to seek to remove from *my* field the natural competition on which the validity of the Ricardian scheme rests.

Some there are who will be depressed by this natural fact—perhaps because they like to be depressed. It is better, however,

to acknowledge its naturalness and see what we can do about controlling it. We do this by trying once more to enlarge the model of our theory. To do so, we acknowledge that we are *not only* unconscious "purely competitive agents," but that we are also capable of being conscious. We can predict the results of our own actions, as well as the actions of those opposed to us. We acknowledge that *words are actions*, actions designed to influence others. Because we can see that others resort to high-flown rhetoric when they want to influence us, we become suspicious of our own arguments. We operate under the basic and parsimonious rule of the Theory of Games,⁸ which says that we must impute to others intelligence equal to our own. Under these conditions we seek the *boundary conditions* within which the rule of laissez faire can produce stability.

The Limits of Laissez Faire

Laissez faire has a strong emotional appeal; it seems somehow right. Yet we have seen that, in the limit, the rule fails because of the positive feedback of power. Can we *rationalize* the rule of laissez faire by harmonizing it with boundary conditions?

I suggest that there is, in biology, a useful model already at hand.⁹ Consider the cybernetic system that controls the temperature of the human body, a system that is enough like that shown in Fig. II so that it need not be diagrammed here. This system works admirably. So well does it work that, for the most part, we can safely adopt a laissez-faire attitude toward our body temperature.

The system works without conscious control or planning. But only within limits. If the environmental stress is too great, temperature control fails. At the upper limit, too great a heat input raises the body temperature to the point where the physiological thermostat no longer functions. Then higher temperature produces greater metabolism, which produces more heat, which produces higher temperature, which—and there it is, positive feedback, leading to death, to destruction of the whole system. Similarly with abnormally low temperatures. The working of the

system is shown in Fig. V. There is a middle region in which a laissez-faire attitude toward control of the environment works perfectly; we call this middle region the *homeostatic plateau*. (The word "homeostatic" was coined by W. B. Cannon to indicate constancy-maintained-by-negative-feedback.) Beyond the homeostatic plateau, at either extreme, lies positive feedback and destruction. Plainly, our object in life must be to keep ourselves on the homeostatic plateau. And in so far as it is within our power to affect the design of a system, we would wish to extend the plateau as far as possible.

Is this not the model for all cybernetic systems, sociological and economic as well as biological, the model on which ethics must be based? The desire to maintain *absolute* constancy in any system must be recognized as deeply pathological. Engineering theory indicates that excessive restraints can produce instability. In psychiatry also, the desire for complete certainty is recognized as a most destructive compulsion. And in the history of nations,

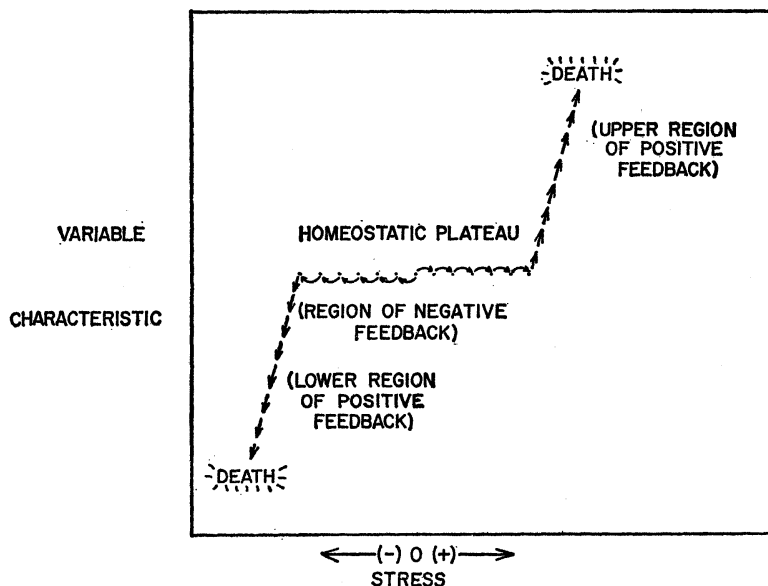


Fig. V THE CYBERNETICS INVOLVED IN THE SURVIVAL OF A SYSTEM

attempts to rigidly control all economic variables have uniformly led to chaos. The psychologically healthy human recognizes that fluctuations are unavoidable, that waste is normal, and that one should institute only such explicit controls as are required to keep each system on its homeostatic plateau. We must devise and use such controls as are needed to keep the social system on the homeostatic plateau. On this plateau—but not beyond it—freedom produces stability.

We can do this only if we explicitly give up certain superficially plausible objectives which are incompatible with stability. In the realm of economics, the most dangerous will-o'-the-wisp is the word "efficiency." Consider the classical Ricardian economic system. If we decide that all waste is bad, and that we must maximize efficiency, then we will stand admiringly by and watch the competitive exclusion principle work its way to its conclusion, leaving only one surviving entrepreneur, the most efficient. And then? Then we find that we have a tiger by the tail, that we have allowed the positive feedback of power to go so far that we may be unable to regain anything that deserves the name of freedom. It is suicidal to seek complete efficiency. The Greek Solon said, "Nothing in excess," to which we must add—*not even efficiency*. Whatever it is that we want to maximize, it cannot be efficiency. We can remain free only if we accept some waste.

How are we to keep a social system on its homeostatic plateau? By laws? Not in any simple way, for the effect of an action depends on the state of the system at the time it is applied. An act which is harmless when the system is well within its homeostatic boundaries may be quite destructive when the system is already stressed near one of its limits. *To promote the goal of stability, a law must take cognizance not only of the act but also of the state of the system at the time the act is performed.* In his effort to obtain the maximum individual freedom, it is to be expected, of course, that "economic man" will try to defend his actions in terms of some tradition-hallowed "absolute" principles that take no cognizance of the state of the system.

Consider this question: Should a man be allowed to make money and keep it? In the history of Western capitalism our first

approximation to an answer was an unqualified *yes*. But as we became aware that money is one means of achieving the positive feedback of power, we looked around for curbs. One of these is the graduated income tax, which most men would now defend as a reasonable brake to the positive feedback of economic power. Yet it can easily be attacked as being "unfair," and, in fact, has been so attacked many times. As late as 1954 (according to a press report) the industrialist Fred Maytag II, speaking to a meeting of the National Association of Manufacturers, issued this clarion call for action:

The hour is late, but not too late. There is no excuse for our hesitating any longer. With all the strength of equity and logic on our side, and with the urgent need for taking the tax shackles off economic progress, initiative is ours if we have the courage to take it.

One cannot but have a certain sympathy for the speaker. He is right when he says that the existing tax structure is contrary to "equity." But if discussion is to be carried on in terms of such abstractions, Mr. Maytag would find his opponents introducing the word "justice," and saying that this is more precious than equity. Rather than use such verbal bludgeons, let us think operationally in terms of the homeostatic plateau. We must think in terms of systems rather than individual acts. That this sort of thinking presents difficulties for the law is admitted; but it is clear also that we have made some progress in the solution of these difficulties; e.g., in the graduated income tax.

Indeed, the recognition of the relevance of the whole system in judging the desirability of an individual act can be traced to antiquity. One of the greatest of the technical social inventions of ancient Athens was that of *ostracism*, which was invented by Cleisthenes.¹⁰ It was a device aimed at stopping the positive feedback of power, a tool designed to maintain the political system on a homeostatic plateau. Recognition of the dangers of this positive feedback must surely be almost universal among practical men and produces the most diverse stratagems, many of which would seem quite paradoxical to one who was ignorant of the

positive feedback of power (as adolescents in our society often are). For instance, we are told¹¹ that "in the early history of the Church, bishops had to take two solemn oaths at the time of their ordination. The first oath was that they would discharge the duties of that office faithfully in the sight of God and man. The second oath was called the oath of 'Nolo episcopari'—'I don't want to be a bishop'" Those who frequent the university campuses of our own time will surely have noted that one of the best ways to achieve a deanship is to insist that one does not want to be a dean (but not too loudly!). Competition and the desire to limit power produce strange strategies.

The Persistence of Variety

An important part of the unfinished work of theoretical biology revolves around the question of variety: How are we to account for the variety of the living world? The competitive exclusion principle points always toward simplification; yet the world remains amazingly, delightfully complex.

The same problem exists in economics. Why do there continue to be so many competing units? The economist's problem is, I suspect, even farther from solution than the biologist's, but we can briefly list some of the social factors, which resemble those mentioned earlier in the biological discussion.

Geographic isolation. A less efficient company may be able to coexist with a more efficient one, if it is at a considerable distance, and if transportation charges are heavy, as they are, for instance, in the coal and steel industry. (It is interesting to note that major steelmakers of the United States two generations ago tried to negate this factor by enforcing the "Pittsburgh plus" system of pricing.)

Product differentiation. In biology, ecological differentiation is the necessary condition for coexistence; in economics, product differentiation¹² plays the same role. Patents, copyrights, and mere advertising gimmicks enable entrepreneurs partially to escape pure competition.

Mergers prevent extinction in economics in the same sense that interbreeding prevents extinction in biology.

In the social realm we have, in addition, various peculiarly human characteristics that contribute to the persistence of variety. Curiosity, envy, dislike of boredom, yearning for destruction are a few of the factors that work against the efficiency of the market and hence tend to perpetuate variety. We are a long way from understanding the economic system. It is, however, transparently clear that any satisfactory over-all theory of economics must include a large measure of psychology in it. The *homo oeconomicus* of classical theory is useful as a first approximation only.

The Idea of a System

One of the most important ideas in modern science is the idea of a *system*; and it is almost impossible to define. There are a number of good essays available on this subject.¹³ The many cybernetic systems of nature are connected in complex ways. So complex are they that we can seldom predict exactly what will happen when we introduce a new element into a system. By way of illustration consider the following examples from three different fields of biology.

Ecology. Charles Elton ¹⁴ tells the following history:

Some keen gardener, intent upon making Hawaii even more beautiful than before, introduced a plant called *Lantana camara*, which in its native home of Mexico causes no trouble to anybody. Meanwhile, someone else had also improved the amenities of the place by introducing turtledoves from China, which, unlike any of the native birds, fed eagerly upon the berries of *Lantana*. The combined effects of the vegetative powers of the plant and the spreading of seeds by the turtledoves were to make the *Lantana* multiply exceedingly and become a serious pest on the grazing country. Indian mynah birds were also introduced, and they too fed upon *Lantana* berries. After a few years the birds of both species had increased enormously in numbers. But there is another side to the story. Formerly the grasslands and young sugar-cane plantations had been ravaged yearly by vast numbers

of army worm caterpillars, but the mynahs also fed upon these caterpillars and succeeded to a large extent in keeping them in check, so that the outbreaks became less severe. About this time certain insects were introduced in order to try and check the spread of *Lantana*, and several of these (in particular a species of Agromyzid fly) did actually destroy so much seed that the *Lantana* began to decrease. As a result of this, the mynahs also began to decrease in numbers to such an extent that there began to occur again severe outbreaks of army worm caterpillars. It was then found that when the *Lantana* had been removed in many places, other introduced shrubs came in, some of which are even more difficult to eradicate than the original *Lantana*.

From this example (and scores of comparable ones are known) it is easy to see why it is so difficult to secure the permission of the United States Department of Agriculture to import any species of plant or animal. However, though we are very conservative as regards the introduction of biotic elements into our ecological systems, we show the most juvenile irresponsibility in our attitude toward new chemicals. To get rid of insects, we spray promiscuously with such potent poisons as malathione. As a result, we kill not only millions of insects, but also thousands of birds. Because birds are a great natural negative feedback for insect populations, using insecticides often causes a secondary *increase* in the numbers of insects later. We may refer to this as a "flareback"—thus verbally acknowledging our failure to think in terms of systems. We are only now beginning to see the magnitude of the problems we have created for ourselves by *unsystematic* thinking, for which belated insight we are significantly indebted to Rachel Carson's book, *Silent Spring*.¹⁵

Embryology. Beginning about 1960, a drug known as "thalidomide" became an increasing popular sedative in Europe. It seemed superior to all others in effectiveness and harmlessness. But by the end of 1961, a most painful disillusionment had set in. When taken during the early weeks of pregnancy, it frequently interfered with the development of the limb buds of the child, resulting in the birth of a child suffering from *phocomelia*—seal limbs, little flipperlike hands, without long arm bones. In addition, there were variable defects of the ears,

digestive tract, heart, and large blood vessels; strawberry marks were common.¹⁶ Only a minority of the children whose mothers took thalidomide during the first trimester developed phocomelia, but so widespread was the use of the drug that the number of cases produced in West Germany alone in two years' time probably exceeded 6,000. This experience contributed to a re-evaluation of the whole idea of therapy, particularly of newly pregnant women. The developing embryo is a set of cybernetic systems of the greatest complexity. Coupled with the high rate of change during the early weeks is a high sensitivity to foreign chemicals inserted into the system. To a growing extent, physicians are loathe to permit a newly pregnant woman to take any drug, if it can possibly be avoided.

When we think in terms of systems, we see that a fundamental misconception is embedded in the popular term "side effects" (as has been pointed out to me by James W. Wiggins). This phrase means roughly "effects which I had not foreseen—or do not want to think about." As concerns the basic mechanism, side effects no more deserve the adjective "side" than does the "principal" effect. It is hard to think in terms of systems, and we readily warp our language to protect ourselves from the necessity of doing so.

Genetics. When a new gene is discovered, it must be named; this is accomplished by naming it for some conspicuous effect it has on the organism. But when a very careful study is made, it is found that a mutant gene has, not one effect, but many. For example, close analysis of one mutant gene in the laboratory rat has shown¹⁷ no less than twenty-two well-defined effects, including effects on ribs, larynx, trachea, vertebrae, lungs, red blood cells, heart, teeth, and capillaries. Yet all these effects spring from a single chemical change in the genetic material of the fertilized egg. In the early days, geneticists often used the word "pleiotropy" to refer to the multiple effects of genes. Now it seems scarcely worthwhile to use this word because we are pretty sure that all genes are pleiotropic. The word "pleiotropy" is a fossil remnant of the days when geneticists failed to have a sufficient appreciation of the developing organism as a system.

Pleiotropy presents animal and plant breeders with one of

their most basic and persistent problems. The breeding performance of the St. Bernard dog will serve to illustrate the problem. Crosses between the St. Bernard and other breeds of dogs produce a large proportion of stillborn or lethally malformed puppies. The trouble lies in the pituitary gland, which is overactive. When we look closely at the adult St. Bernard we see that its abnormally large head and paws correspond to "acromegaly" in humans, a condition also caused by an overactive pituitary. The St. Bernard breed is, in fact, standardized around this abnormality. Why are not the causative genes more deleterious to the breed? Undoubtedly because there are other, "modifier" genes which alter the whole genetic system so that it can tolerate the effects of the "principal" genes. The production of a new breed built around some distinctive gene often takes a long time because the breeder must find, and breed for, a multitude of modifier genes which create a genetic system favorable to the principal gene. This work is almost entirely one of trial and error; along the way the breeder must put up with large losses in the way of unsuccessful systems of genes.

The Feasibility of Human Wishes

The dream of the philosopher's stone is old and well known, and has its counterpart in the ideas of skeleton keys and panaceas. Each of these images is of a single thing that solves all problems within a certain class. The dream of such cure-alls is largely a thing of the past. We now look askance at any one who sets out to find a philosopher's stone.

The mythology of our time is built more around the reciprocal dream—the dream of a highly specific agent *which will do only one thing*. It was this myth which guided Ehrlich in his search for disease-specific therapeutic agents. It is a modern myth. But as it is *our* myth, it is hard to see.

The moral of the myth can be put in various ways. One: Wishing won't make it so. Two: Every change has its price. Three (and this one I like the best): *We can never do merely one thing*. Wishing to kill insects, we may put an end to the singing of

birds. Wishing to "get there" faster, we insult our lungs with smog. Wishing to know what is happening everywhere in the world at once, we create an information overload to which the mind rebels, responding by a new and dangerous apathy.

Systems analysis points out in the clearest way the virtual irrelevance of good intentions in determining the consequences of altering a system. For a particularly clearcut example, consider the Pasteurian revolution—the application of bacteriology and sanitation to the control of disease. We embarked on this revolution because we wished to diminish loss of life by disease. We got our wish—but it looks now as though the price will be one of an ultimate increase in the amount of starvation in the world. We could have predicted this, had we taken the trouble, for Malthus came before Pasteur, and Malthus clearly described the cybernetic system that controls populations. The negative feedbacks Malthus saw were misery and vice—by which he meant disease, starvation, war, and (apparently) contraception. Whatever diminution in effect one of these feedbacks undergoes must be made up for by an increase in the others. War, it happens, is almost always a feeble demographic control; and contraception is not yet as powerful as it may become; so, unless we exert ourselves extraordinarily in the next decade, starvation will have to take over.

Suppose that, at the time Pasteur offered us his gift of bacteriology—and I use the name "Pasteur" in a symbolic sense to stand for a multitude of workers—suppose, at that time, that some astute systems analyst had drawn a Malthusian cybernetic diagram on the blackboard and had pointed out to us the consequences of accepting this gift. Should we have refused it? I cannot believe we should. If we were typically human, we should probably have simply called forth our considerable talent for denial and gone ahead, hoping for the best. (Which perhaps is what we actually did.)

But suppose we had been what we like to dream we are, completely rational and honest, and not given to denial? Should we then have rejected the gift of disease control? Possibly; but I think not. Is it not more likely that we should, instead, have looked

around for another gift to combine with this one to produce a new, stable system? That other gift is well known, of course: it is the one Margaret Sanger gave us, to speak symbolically again. It is a gift we are now in the process of accepting.

In terms of systems, we can give this analysis:

<i>System</i>	<i>Stability</i>
Malthusian	Yes
Pasteurian	No
Sangerian	Possibly
Pasteur-Sangerian	Yes

A systems analyst need not, when confronted with a new invention, reject it out of hand simply because "we can never do merely one thing." Rather, if he has the least spark of creativity in him he says, "We can never do merely one thing; *therefore we must do several* in order that we may bring into being a new stable system." Obviously in planning a new system he would have to examine many candidate-ideas, and re-examine our value system to determine what it is we really want to maximize. Not easy work, to say the least.

Is Planning Possible?

Some of the most excruciating questions of our time hinge on the feasibility of planning. Is good planning possible? Is it possible to devise a planned system that is at least as good as a free system? Can the free market be dispensed with without losing its very necessary virtues?

There is no dearth of literature supporting and condemning planning. I should like to take a different approach, adopt an agnostic attitude toward the principal question, and then ask a new one: If successful planning is possible, what are its preconditions? If we can see these clearly, we should be in a better position to answer the principal question. The major points at issue seem to me to be the following:

1. Can it be shown, before instituting a plan, that all signif-

icant factors have been taken account of? It is not easy to see what the nature of the proof would be; and in any case, the consequences of past planning attempts do not make us optimistic.

2. Are we sure that we can predict all possible interactions of factors, even when we have complete knowledge of them? This is not as disturbing a question now as it was in the past. Any system of equations that can be solved "in principle" can be turned over to computing machines, which are immensely faster, more patient, and more reliable than human beings; and all computing machines operate under the Magna Charta given them by A. M. Turing.¹⁸

3. Granted that we can predict a new and better stable system, can we also devise an acceptable transition? The many social systems known to historians and anthropologists represent so many points in space and time. The transitions from one to another are usually obscure; or, when known, involve great human suffering and immense wastage of human resources. In general, transitions seem more feasible for small populations than large—but will small populations ever again exist?

4. Can we take adequate account of the reflexive effort of knowledge and planning on the actions of the planned and the planners? I have argued elsewhere¹⁹ that a satisfactory theory of the social sciences must be based on the recognition of three classes of truth. No one, to my knowledge, has tackled this fundamental problem.

5. Can it be shown that programming in the light of the reflexive effect of knowledge does not lead to some sort of infinite regress? Only so, can solutions be achieved.

6. Can the calculations be carried out fast enough? Modern calculating machines, with their basic operations measured in microseconds, are marvelously speedy. But the number of operations required may be astronomical, and the 3.1557×10^7 seconds available in each year may not be enough.

7. Can we persuade men to accept change? A casual survey of important reforms effected in the recent past,²⁰ shows that each of them took about 75 to 100 years for completion. It is a general impression (and a correct one, I think) that the speed at which

social problems *appear* is now accelerating. But is there any indication that the rate of solution is also accelerating? We seem to need some basic reform in people's reaction to proposed changes. Would this demand a new sort of faith? And in what? Science? Truth? Humanism?

8. Will any plan we adopt have adequate self-correcting mechanisms built into it? It is one of the virtues of a market economy that any error in judgment as to what people want is soon corrected. Fluctuations in price *communicate* needs to the managers. But in a planned economy, it has been often noted, planners who make errors are likely to interfere deliberately with the free flow of information, in order to save their skins. Can a planned system include uncloggable channels of information?

Such seem to me to be the principal difficulties in the way of planning. Whether they will ultimately prove insuperable, who can say? But for the foreseeable future, I suggest there is much to be said for this analysis ²¹ by Kenneth Boulding:

. . . . I believe the market, when it works well, is a true instrument of redemption, though a humble one, not only for individuals but for society. It gives the individual a sense of being wanted and gives him an opportunity of serving without servility. It gives society the opportunity of co-ordinating immensely diverse activities without coercion. The "hidden hand" of Adam Smith is not a fiction.

There are forces operating in society, as there are within the human organism, which make for health. The doctor is merely the co-operator with these great forces in the body. The doctor of society—who is equally necessary—must also be a humble co-operator with the great forces of ecological interaction, which often restore a society to health in spite of his medications. It is precisely this "anarchy" which Professor Niebuhr deplores that saves us, in both the human and the social organism. If we really established conscious control over the heartbeat and the white blood cells, how long would we last? Health is achieved by the co-operation of consciousness with a largely unconscious physiological process. Self-consciousness is not always an aid to health, either in the individual or in society.

The problem of planning will not soon be disposed of, but perhaps some false issues can be avoided if we make a distinc-

tion between planning and designing. By *planning* I mean here what I think most people have in mind, the making of rather detailed, rather rigid plans. The word *designing* I would like to reserve for much looser, less detailed specifications of cybernetic systems which include negative feedbacks, self-correcting controls. The classical market economy is such a design. Kenneth Boulding when he speaks of "... the market, *when it works well* ..." is, I believe, implicitly referring to the biologist's model of homeostasis shown in Fig. IV. The classical market should not be called *natural*, for it is a truly human invention, however unconsciously made. It is not universal. It has been modified continually as men have groped toward better solutions. I would submit that the proper role for conscious action is the ethical evaluation of many possible homeostatic systems, the selection of the best *possible* one, and the refinement of its design so as to make the homeostatic plateau as broad as it can be, thus maximizing both social stability and human freedom.

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5

Central Planning and the Limits of Social Control

HELMUT SCHOECK

Almost by definition a truly central planner must be able to delegate numerous functions to remote individuals. He must be able to count on reasonably faithful adherence to instructions and orders conceived by him for the sake of the plan. No matter what technological improvements—such as electronic communications—are being used, essentially this problem remains one of basic social control. This is a process which, if successful, allows, without wasteful and costly physical and perpetual pushing and watching, a small group of men to control and direct a larger number for ends conceived by the minority. (There are instances, of course, where social controls are instituted by a majority for a minority, but even here the majority will delegate that control function to a group with fewer members than the total membership of the minority to be controlled.)

For the purposes of this essay we should also avoid confusing organization with central planning. Sometimes the advocates of “dynamic” (i.e., pushing) central planning try to take credit for their notion from human collective successes that appear to have resulted from planning. We would hold that the United States of America was never planned to be the richest nation on earth, but that its central document, the Constitution, as an organiza-

tional chart, provided, for the taking by individuals and groups, a political, organizational, and eventually also geographical setting capable of releasing unplanned efforts toward that end.

First let us examine the nature of social controls relevant to the problem of central planning. Obviously, most members of the human species acquire characteristics that fit them for planned long-range effort. We all possess traits required for taking part in plans, both as planners and performers. In antiquity, for instance, it would not have been possible for any ruler or city government to dispatch missions and armies across the seas and lands, and expect them to carry out the assignment and return to their native grounds, unless human beings could be trusted to follow a plan even though the ultimate enforcer of the scheme could not be present all the time.

The entire history of civilization in itself, especially prior to world-wide electronic communications, once we pause to reflect, is a most astounding testimony to the efficacy of social control irrespective of time and distance. Why could a ruler ages ago send men and ships on their way without undue fear of losing control? He simply counted on a few known traits of human nature. They did not necessarily belong to the most charming attributes of man, although our better selves may have played a part too. Loyalty to the ruler or to one's parents and friends may have been active sometimes. More frequently, perhaps, it was vanity and ambition. Instead of "going native" on a distant island and seeking the idyllic life, the explorer and his crew might find it a stronger incentive to return home, mission accomplished, and bathe in the glory bestowed upon them in their own society. Some explorers were under specific orders to "produce," and they had to fear penalties. Many former efforts at planned exploratory missions, however, were open-ended orders quite different, say, from a five-year plan.

Perhaps it is a most telling sign of basic differences between absolute systems of political rule in former times and the present Communist nations that in the past governments rarely required hostages before dispatching men abroad. (In the more distant past, of course, men dispatched from a civilized nation had fewer

attractive places in the world to which defection would have been sufficiently tempting.) Today's Communist societies, as far as we know, are the first major social systems which depend on careful screening and the securing of hostages from a man's family before giving him a travel-exit visa or letting him go on a government-sponsored mission abroad. In view of the Marxist contempt for the idea of a constant human nature, it is an ironic proof of a universal human nature that the Communist state can count, most of the time, on a man's return from abroad as long as members of his kinship group remain at home. Just how close must a human relationship be before the hostage system becomes operative? Usually, regardless of time in history, it includes spouse, child and parent, possibly sibling. Not even the National Socialist and Fascist regimes made the issuance of passports and exit visas dependent upon the assurance that close members of the applicant's family would remain inside Germany or Italy for the duration of the trip. This small, but in itself momentous, observation throws some light on what might be wrong with the Communist systems and their perpetual failure to obtain some of the social controls for planning that were available to former autocratic systems of government.

To return to the original premise, we can say that man without question is eminently well prepared to become a functioning part in a planned mission. He has the memory span, the status-consciousness, the range of loyalty and intelligence to receive instructions and carry them out almost for an indefinite time period regardless of intervening events. Certainly the success of complicated, far-flung military ventures over the ages supports this statement. The social controls used for directing men on distant, or at any rate unsupervised, missions and tasks, rely, of course, on the penal law as well as on sufficient incentives.

Originally, central planning was not really an elaborated and major part of Marxist theory. Karl Marx and his immediate followers, of course, predicted that a state of order would succeed the "chaos" of capitalism, but they did not care to show how central planning was to do this job. Only when wartime emergency planning from 1914 to 1918 got under way, and often happened

to be in the hands of socialistically inclined cabinet ministers, did socialism and central planning merge into a single doctrine. It has been noted that most of the schemes, as well as the semantics used to sell them, started by the Socialists in Britain after 1945 were superficial imitations of military operations.

But perpetual economic planning and military emergency planning cannot be equated. Controls which work in one setting will fail in the other. The threat of a court-martial may deter or keep in line most soldiers, although never all, but even capital punishment for crimes against the planned economy—as Germany during the last war and Soviet Russia again today show—fails to maintain universal loyalty to the economic plan and its requirements. And if one were to model the economy even closer after the military establishment, it is certain that the resulting inflexibility in the execution of the plan would hasten its failure.

Yet it should also be mentioned that even the most successful and best-planned great military operations were not without social controls that failed. A book about the Normandy invasion, published in 1962, tells of paratroopers dropped in the wrong areas who then refused to follow orders. Unlike the planned economy, which has to heed principles of economics if it wants to last for years, the military operation can ignore economics temporarily. It can include in the plan a saturation principle, allowing for certain functions to fail while still reaching the over-all goal within a specified number of days or weeks. (Advertising campaigns in a free market, by the way, can be conducted similarly.) Money and men were not as much an object in the liberation of Europe as resources and labor would be in the planned economy. A military plan, e.g., an invasion, can be *seen* to succeed or fail within a reasonable span of time. It is measured by an all-or-nothing standard. The five-year plan does not allow such a simple yardstick.

The next important point, however, is this: Meaningful, successful planning of human effort requires a breakdown or re-interpretation of social control at crucial moments. We do not live and operate in a fully predictable universe in which individuals who are completely and indefinitely subject to social control can help a plan succeed. Hardly any human enterprise ever can be

predicted, calculated, and designed to the last detail in complete anticipation of the future environment in which the action will have to take place. Again the example from military operations offers us a comparison. For instance, some military experts in Switzerland in recent years, going over the record of World War II, have noted in their publications a significant difference between the Soviet Russian military doctrine and the Western. Once cut off from headquarters or having run into a situation not contained in the initial order, the Soviet soldier, officer, or military unit, no matter what its size, almost invariably froze. The safest action was no action. In contrast, non-Russian military instruction, including even the rather authoritarian German system, always included approximately this instruction to the individual military man: "When cut off from headquarters or when the situation no longer seems congruous with the original order, it is your responsibility to put yourself in the shoes of your absent commander, survey the tactical and strategic situation, and act intelligently in terms of your dynamic assessment of this new situation." Apparently such a safeguard against death by blind obedience to social control is hardly conceivable to Soviet military doctrine. It is not hard to see why. The planned society in which everything is interpreted in line with an inexorable and scientifically predictable course of events cannot easily educate the kind of person who would be amenable to an open-end order.¹

So far we have obtained three principles: (1) Man is undoubtedly fit to be part of a plan; (2) any plan with a perfectly obedient team is most likely to be doomed; and, finally, (3) a social system strongly committed to centralized planning is less likely to allow the personality type to emerge that would be willing to risk *ad hoc* corrections in a plan in response to unforeseen events. Even a cursory reading of the official Soviet speeches and admonitions regarding the failure of agriculture in recent years provides sufficient documentation on this point. In the same sentence Khrushchev can condemn the Soviet farmer for (a) not having followed orders explicitly, and for (b) having failed to use his own judgment when the orders obviously did not fit the local environment and conditions.

Empirically we know, of course, that, by and large, individuals, even in the Soviet Union, will begin to deviate from a plan once its commandment has become obviously self-defeating, impossible to fulfill, or otherwise too demanding. Again, we have simply a safety valve built into the social system.

However, whether or not the individual deviation from a central plan will promote the over-all accomplishment of the plan or merely the welfare and protection of the individual has much to do with the over-all social system in which the planning takes place. A political-social system in which the boss can survive physically and politically an admitted error will benefit more from the initiative and corrections on the part of rank-and-file members than a system in which authority, because it lacks democratic legitimacy, tries to rest on the infallibility principle. As so many times in human affairs, those systems that want to stake everything on central planning are intrinsically those which can least afford it.²

Any system of social controls needs a legal test of compliance. The trustworthiness of this system of justice may be questionable in some societies, but even a rather ruthless totalitarian and collectivist state must seek the semblance of a rule by law instead of by arbitrary officials. In other words, central planning cannot do without a network of fairly fixed yardsticks against which the compliance of individual actors can be measured. This is necessary, if for no other reason, to obtain enthusiasm and loyalty from the target of social control: unless he can, in the performance of his assigned duties, see approximately how well he is doing in terms of the part of the plan revealed to him, he is not likely to carry on at a high level of efficiency. He will spend most of his time and energies securing alibis.

Democratic societies with a highly developed sense of fair play and equal protection under law also require explicit and incorruptible legal signposts for the fulfillment of a plan. Usually there will be contractual agreements. But in a free society, where jobs may be changed easily, the man working under a plan will suffer at least somewhat less anguish and anxiety than his opposite

number in a totalitarian state when the deadline for plan fulfillment approaches and his output is still short of the goal.

Relative freedom from ultimate punishment for error or for just plain shortcomings due to physical circumstances are in themselves, as we now see, economic assets. This freedom, or the feeling and knowledge of this freedom from excessive fear, permits the individual performers in a social system to allocate more of their talents and time to task-specific activities instead of diverting them to alibi-securing, ego-centered chores.

These are over-all assessments of the situation in free and less free societies. Of course, there will always be executives in free societies who work under a plan, and who, for personal reasons or because of an unreasonable authority system, will fall into anxiety and become panicky. And we can assume that the rulers of a Communist society occasionally want so strongly to accomplish a task that at least for a time they will increase incentives and creativity among the workers by promising some kind of amnesty in case of failure or delays. But the difference still is that the beneficiary of such top-level amnesty in the Soviet Union or in Red China has no absolute legal or contractual guarantee that the promise of amnesty will be honored. The top boss may have a change of mind, may need an excuse for himself, or may be succeeded by a man who owes his new position in part to the promise of dishonoring all commitments made by his predecessor.

In the last analysis, the interdependence between formal, legally circumscribed attainment-markers for the phases of a plan and the possibility of planning in the first place, contains reasons for the inherent weakness of planning as such. Sociologists, especially students of industrial work performance or, for instance, of staff behavior in hospitals, have uncovered overwhelming evidence showing that human beings are incredibly successful and ingenious in evading instructions or bending orders to their particular needs without formally violating the legal or contractual requirements.

In order to remain generally applicable, the formal rule cannot be brought down to the concrete level of any single operation. Consequently, it is extremely difficult to make a case against the

individual's noncompliance unless the enforcing agency wants to appear vindictive and arbitrary, thus undermining the future acceptance and success of the planned effort. Again, the official acknowledgments in Soviet publications of frequent noncompliance with central orders, rules, and quota assignments represent more evidence than we need. Some forty years of Communist attempts to create the perfect cog for the planned society have failed to eradicate individual whim, quest for private gain, ingenuity, and evasiveness. Thus, more recently, the bluntest and crudest tool of social control, the threat of capital punishment, had to be reinstated.

The more coercive and authoritarian the planning scheme, the more evasion and noncompliance it will encounter.³ The more disposed a government, whether authoritarian or democratically elected, is to stake all on one or a few central plans, the more formal and strict it will have to be about the plan itself. The more central and comprehensive for a particular economic or social area the planning is going to be, the more it will evoke the basic difficulties shown in our analysis.

It is a somewhat different story when the planning is done through systems which can reward individual initiative and ingenuity all along the path of the plan, and, more importantly, which cannot and do not have to punish with absolute sanctions willful or involuntary failure on the part of any participant in the plan. This is one reason why in some areas of human effort private and voluntary planning has succeeded in remarkable accomplishments. The much cited nonsocialistic economic planning in France of the past few years is, in truth, more in the nature of large-scale market research with findings made public. The plan encourages. It does not hold out punishment. (French planners, though, do try to produce specific growth rates in certain sectors by offering capital at cheap rates to industries willing to commit themselves.) As of 1964, however, serious questions about the success of the French "planifications" have already been raised. By contrast, truly central planning means that the government monopolizes an entire area of life and assigns targets and performance criteria for everyone active in it.

It does happen, of course, that even in a free society a governmental or supranational planning board and its implementing agencies will try to arrogate to itself certain sanctions which we usually expect to find in nonfree societies. The various coercive instruments of central planning are not entirely absent from the past and current history of politics in the West. Legalistic entrapment of entrepreneurs, differential taxation and import duties, invidious publicity through strategic prosecutions are some of the means of such social control.

Let us now look at the chronic weakness in the front line of a social-control system which cannot afford to cut apron strings. Beginning with a certain size, every human society contains organizations, social systems, institutions of various kinds which, in order to perform certain social-control functions, have to rely on front-line personnel that will be in direct and continuous contact with the individuals or groups to be supervised or controlled. We have these relationships, for instance, between foremen and workers, guards and prisoners, priests and parishioners, lieutenants or sergeants and enlisted men. Another example is the local military government in occupied territories. In all these cases, the center of control, headquarters, bishop, management, the warden's office in a prison, etc., must rely on the distant and, in terms of social proximity, most immediate agent of social control to perform in line with instructions and expectations from headquarters and with a minimum of compromise, sympathy, and deference to the one to be controlled. But we also know that people everywhere, on either side of a fence or front line, can make life for each other more miserable than necessary, if they so wish. Consequently, in any such situation we usually can detect milder or stronger symptoms of fraternization, of compromise. The patient, the prisoner, the worker, the member of a congregation, the host government to an ambassador—all can succeed in diminishing the status of the most immediate agent of social control with his own headquarters or higher authority if they try long enough, hard enough. The prison guard who is constantly provoked into using his ultimate disciplinary weapons, the ambassador who has often to resort to diplomatic sanctions, the priest who has to

threaten excommunication every other Sunday from his pulpit cannot really continue performing their functions indefinitely. They know this, and the audiences, or subject populations, know it as well. Even during the Civil War in America, and especially during World War I in Europe, it was found that the soldiers of both sides, when opposite each other along a front line for a time long enough, or in certain circumstances, began to conclude their own temporary truce with exchange favors, the promises not to shoot, etc.

We have here a genuine and probably unsolvable dilemma of social-control processes. If I am the central authority, I cannot send out someone to be the distant agent of social control without expecting him to have some communication with the ones to be controlled. But my very permission to him to have communication is the beginning of a process which will undermine the authority I have delegated to him.

All social interaction produces some assimilation, even across lines of culture. If a central authority has hundreds of front-line agents of social control, the principle of the least effort⁴ compels it to prefer those agents who will have to check back most infrequently and about whose conduct headquarters will hear little from those to be controlled. This fact, produced by the limited time available to any single man in a central position within twenty-four hours, in turn, will cost him some power of social control because it diminishes the lines of communication between the distant agent of social control and his authorizing agency.

Thus, it may be possible to derive from the principle of the least effort and the basic span of attention available to an individual a theory of the limitations on any social-control system ever to be arranged.

Substituting an electronic computer system for the human central watchdog will hardly be a solution to the planner's dilemma. It is quite common today to dismiss skepticism about utopian experiments by mentioning the newly developed, fantastically efficient and omniscient electronic machines. One of the more optimistic recent authors writing on "The Computer Revolution"⁵ describes applications of computers ranging from

selecting corn hybrids to distinguishing the sounds of submarines from those of fishes. It is possible to construct computers which have the inherent ability to "learn from past history." They improve their power to discriminate as a result of experiences with previous responses whose feedback indicated a correct definition of the situation by the computer. Some computers can control complex chemical manufacturing processes.⁶

Why could not such a machine or complex of machines eventually plan, supervise, control, evaluate, and replan, let us say, the entire agricultural production of a country? Weather statistics from many decades, current and predicted weather data, information concerning the effectiveness of fertilizers, and a thousand other items might be stored in such a system, and the orders to the remaining humans out in the field would come over teletype from a nonhuman, almost errorproof, unbribable electronic brain. If this works for a single chemical plant, why not also for agriculture, transport, and steelmaking?

Again, my point is that to some extent such a system probably will work within a free society. It can handle, for example, the planning of the output of a diversified line of automobiles in response to a multitude of consumer choices expressed to their local dealers. Here, as long as the electronic system plans and co-ordinates the manufacturing and distribution process, perhaps even including initial investment decisions, it operates mostly in response to decisions which in themselves are not part of a master plan. The computer merely leads to a more economical and rational allocation of resources. Minor errors or breakdowns of the system will not have serious consequences of a psychological or political nature.

The situation, however, is different the moment such a central electronic brain has been delegated the function of coercive, politically infallible planning. In this case the recipient of messages from the system, as soon as he fears that the local conditions will not permit him to satisfy the anticipation for his performance stored in the machine, will have every interest to foul up the machine. Some fifteen years ago college students discovered a way of cheating the electronic grading machine

on examinations (for instance, by coming to class with a sleeve wetted in a solution capable of making the entire examination sheet a conductor for electricity instead of just the places marked).⁷ And in 1961, a New York stock brokerage executive embezzled large sums by means of a few well-calculated extra holes in punch cards. Had he not confessed prematurely, a conviction would have been impossible, and had he not made a minor human error, the fraud might have gone on indefinitely.

In 1961–62 there were numerous reports in Soviet newspapers about very ingenious evasions and tricks played on the planned economy. Some of these economic crimes—now subject to capital punishment—involved the concerted effort of fifty and more people in several echelons. It is therefore doubtful whether the human central planner and supervisor in the infallible society can solve the basic problem outlined here by the installation of electronic gear; the more elaborate and mandatory the planning in the infallible society, the more will countervailing powers and antisystemic ingenuities come into play, regardless of the sophistication of control tools.

Moreover, unlike a human planner, who can decree that his memory is infallible regarding the details of a plan, a machine cannot brandish a party card. Its data, its conclusions, etc., can be challenged. Thus, the central planner again needs a supervisor and a defender of his electronic gear. This puts him back to the dilemma he faced before the installation of control by computers.

Richard T. LaPiere (*A Theory of Social Control*, 1954) has shown in numerous analyses that the basic social controls available to man and the basic forms of compliance and evasion have not changed since antiquity. Deep in their hearts today's planners know this too. Most discussions of decisive central planning, therefore, even today—in spite of all experiences to the contrary—end on a utopian note of hope. We cannot improve our tools of social control because the better the instruments of social control, the more self-defeating they become. What is left? Remaking people so that they will fit the tools of planning?

Some thirty years ago, Karl Mannheim tried to rescue the notion of planning, in the face of totalitarian planned societies,

by introducing the slogan of "Planning for Freedom." It would be the state's task to bring about a new personality type whose life could be planned without his being aware and therefore resentful of social controls. Mannheim had an honest moment when he asked and did not really try to answer: "But who shall plan the planner?"

In 1959, Eugene V. Rostow, Dean of Yale's Law School, published a tome with the title *Planning for Freedom*. He does not mention Mannheim as the originator of this semantic deception. But Rostow, for our time, tries to do what Mannheim did for the thirties and forties: to make central coercive planning—mostly through legal restrictions—once more respectable in the face of the failures and consequences of planning in communist and socialist countries. He thinks that there is good and bad coercive government planning, but planning there must be.

Planning by a modern government is inescapable because a capitalist economy doesn't keep itself at high levels of employment, nor can it accomplish unaided certain other economic goals of the community.

And there are no institutions, apart from those of government, to carry out the essential preliminary function of planning The issue is not whether to plan, but what to plan and how to plan.⁸

If a label is necessary for the concept of planning outlined here, it might be identified as Planning for Freedom.⁹

Professor Rostow is unhappy to find even enlightened segments of the American public still attacking planning as "collectivism" or as "creeping socialism." He is happy that the "Committee for Economic Development" has been won over to this notion of planning for freedom, but the editors of *Fortune*, to his dismay, still do not see the light.

Toward the end of his book, Rostow had to admit:

If we reread the reformers of seventy or eighty years ago, we find that most of their objections to the injustices of American society have been met, in whole or in large part.¹⁰

But this is no discouragement to a good planner. There is so much left to bring under the jurisdiction of the Federal Government:

There are social problems of intense difficulty to resolve the linked mysteries of crime and family patterns, the improved organization of medical care. The future of the cities presents a major challenge.

. . . . the challenges which are emerging in many areas of social study and social action should provide ample work [for planners?] for many years.¹¹

“The challenges which are emerging in many areas of social study”: This phrase deserves closer interpretation. The extension of central planning increasingly receives justification, its “legitimation”—and its presumed actual executability—from a certain kind of statistics and social research. Honest research and statistics conscious of their limitations, of course, are not in dispute. We are threatened by incongruous or deceptive statistics and carefully segmentalized research. In an age of computers and scientism it seems probable that socialism in its various forms will no longer try to win through sentimental, nostalgic ideologies and ideals but through the production and manipulation of research data and the presentation of “compelling” statistics.

In 1961, officials in the United States Federal Government seemed to have adopted, with less insight than Mannheim possessed, the idea of planning a new generation of farmers who would be amenable to planned agriculture. According to *The Wall Street Journal* (October 2, 1961) and other publications, the Kennedy Administration planners at that time abandoned hopes of a revolution in government management of agriculture. Federal officials now feel that what they view as truly effective controls on farm production must await a gradual “re-education” of public, Congressional, and farm opinion. “These officials believe the chief farmer opposition to tighter controls comes from older farmers who aren’t enthusiastic even about present controls. *Eventually, the planners figure, most farms will be operated by*

younger, less independent-minded farmers who will be willing to accept higher controls in return for the promise of income protection." (Italics ours.)¹²

In addition to farmers, the old folks in general have received a special place in the planner's heart. And yet, ironically, here too, a gerontologist at Cornell University, in 1958, pointed out that the present generation of aged may not yet be "ready" for the planner, but the next one may well be.

Wayne E. Thompson writes:

Evidence from the Cornell studies seems to show that the present generation of oldsters are more widely capable of managing their own lives than would be indicated by the proliferation of counseling programs, aids to self-help, advice to the "age-lorn," and organized activity programs for older people. Self-reliance such as this may not be the case with future generations, since the youngsters of today are fed liberal doses of the values of "playing it cool," of heeding one's peers in "other-directed" manner, in short, of being "well-adjusted." Moreover, for those who are not "well-adjusted," professional help and advice springs eternal. Given this orientation, personal resilience may come to be relatively lacking, and then systematically "helping people to help themselves" may be more squarely to the point—assuming there remains someone to help the helpers!"

In short, even today it is recognized that we lack the social controls to bend people to the plans made for them. Not just in the U.S.S.R. or in India but in the United States also the utopian element still plays a role: if not this generation, maybe the next one will somehow provide the personality type with which and for which the scheme will succeed.

It may be that overconfidence in the possibilities, the potential of central planning, in part, stems from a misunderstanding of man's apparent willingness and fitness to take part in grand plans. The erection of the Empire State Building as well as the Normandy invasion required planning and compliant individuals. Men do well under a plan and its controls if the *Gestalt* to be accomplished makes sense, is not too distant, and offers rewards as well as challenges for different levels of skill. But this is quite different from a superimposed, infallible political philosophy which would urge on us an engineered society.

NOTES

1. See the excellent Swiss book by Rolf R. Bigler, *Der einsame Soldat* [The Lone Soldier], *Eine soziologische Deutung der militärischen Organisation* (Frauenfeld: Verlag Huber & Co., 1963). The book contains an extensive bibliography. Our statement applies to formal Soviet units, not necessarily to more independent guerrilla units. The segmental success of science and technology in the U.S.S.R. cannot be used to weaken our argument here, because there are sufficient examples of underdeveloped or manipulated areas of Soviet science, e. g., the field of genetics, where Lysenkoism has been in and out of favor erratically in recent years.
2. To some extent, of course, the Soviet Union has, as have other communist countries, institutionalized local and even central self-criticism. But this has not removed the basic commitment to the possibility and desirability of the infallibility principle, nor can such a political system ever give assurance of amnesty to the one who admits his errors. See *Value and Plan, Economic Calculation and Organization in Eastern Europe*, ed. by Gregory Grossman (University of California Press, 1960), especially the chapter by Michael Kaser on the reorganization of Soviet industry.
3. It is even impossible to plan procedures in a maximum security prison with much success. See Gresham M. Sykes, *The Society of Captives* (1957). And when the penal law becomes too severe, it may be impossible to find informers to inform or juries to convict.
4. Cf. George Zipf, *The Principle of the Least Effort* (1949).
5. Edmund C. Berkeley, *The Computer Revolution* (New York: Doubleday & Co., 1962).
6. The Soviets expect great things from computers: "The use of high-speed electronic computers for economic analysis, economic information, and accounting is one of the effective ways of raising the scientific level of economic planning." I. Yevenko, *Planning in the U.S.S.R.* (Moscow, 1961), p. 245.
7. According to a report to the *New York Times* by Theodore Shabad, dated Moscow, February 17, 1962, the Soviet Government discovered large-scale fraud in tests taken for college admission in Russia. Some Russian parents paid as much as \$4,000 to \$18,000 to the ring, whose members then took the college entrance examinations for the sons of their clients. Human nature seems to be very similar everywhere.
8. Rostow, *op. cit.*, pp. 23 f.
9. *Loc. cit.*, p. 28.
10. *Loc. cit.*, p. 379.
11. *Loc. cit.*, p. 380.
12. It should be noted that these are the hopes of planners. There was considerable evidence in 1962 and 1963 that especially the young farmers vote against government restrictions.

6

A Criminologist's View of the Economic Planner's Weapon

GERHARD O. W. MUELLER

When, about a year ago, I had occasion to pay a visit behind the Iron Curtain, ostensibly to view an East German international flower festival, nothing—not even the red carnations—impressed me as much as the activity on the parking lot in front of the public gardens.

The parking lot was of the size found next to every ordinary American supermarket, but it was neither paved nor divided into square areas to mark off the individual parking places. Instead, a staff of busy attendants—pardon, parking officials of the government, with official caps and armbands—regulated the influx and outflow, as well as the presence, of perhaps sixty or seventy automobiles. There were basically two types of attendants, the menial and the supervisory personnel. Although to every arriving motorist it was perfectly plain that the logical thing would be expected of him, namely, to park his automobile next to the car which had just been parked, nothing would have been as arrogant and defiant as to do just that without the direction of authority.

Immediately upon arrival, each car was subject to state control, so to speak, and had to follow the gesticulations, instructions,

shouts, grunts, and whistles of the state, symbolized by the insignia on the attendant's cap. Not that the attendant said: "Two left turns; park your car next to the last one in the row." No, the attendant marched along the car, giving detailed instructions on when to turn the wheels and in which direction—sharply or not so sharply—and when to step on the brakes. "No, that is not quite right. You are too close. Start the motor again. All right, now in reverse, pull back, more, more, slow, hold it, now turn the wheel to the right, not so much! Now forward, slowly, turn left, a bit more, more, slow, ho-o-o-ld it! Turn off the motor. No, don't leave the key in the ignition. Lock the doors. No, we are not responsible for stolen goods, but things don't get stolen here anyway. Everybody has enough. There is no need for stealing. There is no unemployment here. You know, everybody is busy. Everybody has a job. The fee is two marks." The supervisor had supervised the maneuver—and lecture—from a little distance. He seemed pleased with the result.

What an ideal society! And what a superb way to solve the unemployment problem. One only has to look at all of humanity as consisting of three types of people: (1) those who do the work, i.e., those with the know-how and the equipment to do it; (2) those who regulate the doing of the work, i.e., those who need not know how to do it, and who do not need any equipment; and (3) those who supervise the regulators. In this third group, for simplicity's sake, I wish to include those who supervise the supervisors, as well as the supervisors of the supervisory supervisors and those who dream up new regulations which need supervisors, etc., etc. The echelon of supervisors and regulators can be expanded until full employment in the nation is reached. Naturally, the cost is borne entirely by those who do the work with the know-how to do it and who, in my example, are also largely those who own the machinery. More particularly, there are two types of revenue resulting from such a supervised regulation: (1) the revenue levied as a charge for the "benefit" of being regulated, and (2)—often much more lucrative—exactions levied upon the regulated class for infractions of the regulations.¹ The ideal state of affairs is reached when revenues (1) plus (2) exceed the cost of (a) inven-

tion of the regulation, plus (b) administration of the regulation, plus (c) supervision of the administration of the regulation, all without financially burdening the regulated activity to such an extent that it would stop entirely and thus dry out both revenue sources.

The nations behind the Iron Curtain are not doing very well in this respect, for they do not enjoy maximum revenue collection, either because they have already surpassed the maximum revenue/regulation coefficient, or because they have imposed hindering regulations prematurely, i.e., before the regulated activity reached such dimensions as to justify the imposition of extensive regulation with maximum revenue results. *Per contra*, we in the democratic part of the world, until recently, had not reached the maximum revenue/regulation coefficient, for activity (meaning here always "productive activity") increased extraordinarily during the last one hundred years, while regulation—with its revenue aspects—had not fully reached the point of the maximum revenue/regulation coefficient, i.e., the point at which "activity" would not diminish while regulation reached the point at which the largest possible amount of revenue could be produced. (According to some authorities, we have reached the point, at least in some spheres of life.)

There is some reason to believe that we can top the socialist countries by working toward a sliding maximum regulation/revenue coefficient, i.e., the type of revenue-producing regulation which will permit some growth of activity, and thus increase the revenue return. Of course, in a way, this is nothing but an ordinary tax consideration which is constantly the subject of governmental planning. But the consciously included regulation aspect—that, I submit, is something relatively novel, at least to us in the United States; for regulation produces not only revenue, but also jobs. There is a potential of an incredible number of jobs! The United States stands at the very threshold of an enormous expansion of the job market, because a vast expansion of regulatory activity is imaginable. Portrait photographers still operate without license numbers (to be printed on every portrait), issued by the State Portrait Photographers' Licensing Bureau, and the picture post-

card industry is completely unsupervised (although most such picture postcards are being sent in interstate commerce), to name but two of a million avenues of expansion. I should mention, however, that on the local level, ward-political exigencies have long resulted in the creation of such jobs as sidewalk inspectors, poultry inspectors, elevator inspectors, and night-club inspectors. No training or schooling whatsoever is necessary for such occupations, and unskilled labor can be utilized.

This satirical introduction to a very serious topic is not intended to slight issues of the first magnitude. Nor, I hope, will any regulator or inspector regard my prefatory remarks as a personal affront. Indeed, no scientifically established evidence is available to prove my satirical points—true though they may be. The crux of the matter simply is this: There is strong reason to believe that the penal law—i.e., regulatory law—is being abused for purposes which it cannot and should not serve, particularly for the accomplishment of economic policy. This current practice, of world-wide dimensions, is the more nefarious since we are sailing on an uncharted sea. The interrelationship between a nation's economy and its penal law—and this means regulatory law—is hardly known.

This is not to say that the interrelationship between crime and the economy has not been the subject of scientific or other inquiry. Quite the contrary. There was a time when most, if not all, criminality was traced—in quasi-scientific terms—to economic conditions. Simply by way of example, Sullivan, in 1902, traced ninety per cent of all criminality to the abolition of the apprentice system, instigated by trade unions for selfish reasons, i.e., to reduce the number of learned tradesmen and thus to increase wages, resulting in an an increasing proletariat of unskilled and crime-prone juveniles.² Bonger, in 1916, based an entire criminological theory on the economic conditions of capitalist society.³ Indeed, such was the creed of Communist criminology until recently, when it was believed that the crime problem would be overcome by communism, in the wake of the abolition of private ownership and with it the capitalist incentive to acquire wealth.⁴ Furthermore, the Federal Bureau of Investigation's Annual Uni-

form Crime Reports do relate crime to the nation's economy, by expressing the national monetary loss through crime (and criminal law enforcement) in terms of a percentage of gross national product which, in recent years, has come close to the ten per cent mark annually. The economic-loss-through-crime alarm, incidentally, is not at all a new device, for it was used in England almost two hundred years ago to propagate the establishment of a professional police force.⁵

Thus, while there has been no lack of effort to relate crime to the economy—however tentative and unscientific such efforts may have been—there has been a dearth of inquiries into the direct relationship between the economy and the use of the penal sanction, i.e., the criminal law. Put broadly, the question then is: What is and what should be the relationship between criminal law and the economy? A multitude of variations of that question are conceivable: Should the criminal law be used to stimulate, regulate, restrict, etc., the economy? Is the criminal sanction effective in stimulating, regulating, or restricting economic activity? How effective is it?⁶

I suppose that it would be fair to begin with a variety of assumptions, one of which is essential for the purpose of developing my hypothesis: Businessmen are interested in obtaining maximum benefits from the production and marketing of their goods and services. This assumption has several implications: Businessmen will endeavor to market a product which will not disappoint the consumer, because they wish to retain the patronage of the consumer—with further profit in mind—and because they seek to avoid injury, in order to escape the payment of damages for conceivable harm done, for these, in turn would cut down on profits.⁷ It would also be fair to assume that in every society, every human being, in whatever activity, will employ the imagination with which he may be endowed to chart his own future course of conduct in such a manner as to obtain from his efforts the maximum benefit consistent with a minimum of detriment; but this is really just a variation of the first assumption.⁸

However, as just phrased, it would mean that businessmen not only would attempt to find loopholes in existing law in order to

increase their profits,⁹ but might engage in conduct disappointing or even harmful to some consumers, as long as profits are increased by a quasi-gambling disposition on the part of the consumers, i.e., a willingness, despite some risks, to consume the product.¹⁰ To go one step further, businessmen might even be willing to violate the law, if such violations do not result in costs larger than the profits that the violation itself may produce.¹¹ Under such circumstances, the government, it would seem, is entitled to intervene in order to decrease the danger to those whose mandate it carries, and these include consumers as well as producers.

We can recapitulate, then, that there may be two types of governmental tampering, by means of the penal law, with the otherwise unbridled activity of persons who work toward economic gain: (1) a parasitic type of tampering, by which the government, leechlike, draws needed lifeblood from the economy, and (2) a reluctant curbing of economic activity for the purpose of protecting the entire citizenry from the danger inherent in unbridled economic experiments with the trust, credulity, and confidence of the citizenry. I am omitting a frequently alleged third type of tampering by penal law with a free economy, namely, that of increasing economic activity. This third type is an impossibility *ex hypothesis*, since we have already assumed that each operator is endeavoring to reap maximal returns from his exertion of effort. Greater returns require greater efforts, whether through costlier manpower or costlier machinery. But if the stimulus is there already, it does not have to be created by the government.

Obviously, there are all kinds of gradations between my two categories of interference, and experience tells us that a policy of reluctant regulation may well turn into a parasitic tampering, along the lines of Parkinson's law.¹²

If we proceed on the assumption that a certain type and a certain amount of governmental interference in the economic activities of otherwise free enterprise is both extant and necessary, the question then necessarily arises: How is this regulation to be accomplished?

The answer to the question requires a prefatory warning: Lane found that "for the discussion of men's responses to govern-

mental regulation, attitudes towards authority might seem to be among the most important of all phases of emotional life." ¹³ Upon that he builds his demand that "government and business should jointly seek to build respect for law—even distasteful law enforced by a repugnant administration."¹⁴ Alas, here is the problem. Lane demands the virtually impossible—though with good motives and for justifiable ends. A repugnant administration of regulation will breed contempt for law and invite evasion and *sub rosa* violation, and a distasteful law will create aversion, repugnance, and disrespect. Conversely, compliance with law is directly linked to the moral soundness of a law. In short, it "is a question of the closeness of the law to the moral judgments of the businessmen who must live within it."¹⁵

Sutherland, in his attempt to construct a theory of "white-collar crime" on the basis of 980 decisions of which only 16 per cent were rendered in criminal courts, as well as on the basis of some actual and fictional biographies, asserts that penal "laws for the regulation of business," across the board are "rooted in moral sentiment," ¹⁶ but admits to the very low moral esteem in which most of these laws are held by the general public. More realistically, the American Law Institute, in its Model Penal Code, has denied most of the regulatory offenses a basis in the moral structure by reducing them to the grade of a violation, i.e., *not* a criminal offense, as long as the government need not prove any awareness of moral or legal wrongdoing—which is the case with many of the regulatory offenses. In short, the echo reflects the call. Contemptuous governmental attitudes toward business, as shown by the resort to laws which are not linked to moral standards, are not likely to produce desirable responses. This, then, leads us to our question of how the regulation is to be accomplished.

First, there is the need for respectful and accommodating, rather than contemptuous, attitudes by the government toward the group of those regulated. This requires an example: The Fourth Amendment to the Constitution of the United States prohibits unreasonable searches and seizures and, in effect, authorizes the issuance of search and seizure warrants only upon the establishment of

probable cause of the commission of the crime and the presence of evidence of such crime at a designated place, all to be demonstrated to a magistrate, under oath.¹⁷ In short, sworn testimony before a judge, gravely implicating a citizen in serious criminal conduct, is necessary before the agents of the state may enter the citizen's premises in order to search for and seize evidence of crime. With these standards in mind, let us examine a bill currently before Congress which would authorize governmental agents, upon presenting their credentials and a written notice, to enter any establishment (including a vehicle) "in which food, drugs, devices, or cosmetics are manufactured, processed, packed, or held . . . or to enter any consulting laboratory . . . and . . . to inspect . . . all things therein (including records, files, papers, processes, controls, and facilities) . . . *bearing on violations or potential violations of this Act.*"¹⁸

Quite apart from the fact that this proposed provision is completely in opposition to the Constitutional mandate, it reflects precisely that kind of arrogant and contemptuous attitude toward an essentially law-abiding industry¹⁹ which is potentially detrimental to the effective execution of the regulatory purpose. For in effect, by the provisions of this Act, the government has announced to the food industry: Your conduct is so lawless as to justify our assumption that you are constantly engaged in the commission of crime, and the presumption is so overwhelming that we need not go before a magistrate for the presentation of evidence under oath, showing probable cause in support of such an assumption.

Who can doubt the response of the food industry to such an incredible (and quite discriminatory) insult? Any conceivable basis for friendly relations between government and industry, as a prerequisite for effective regulation, is thereby destroyed, no matter how intelligent and friendly may be the regulatory agency which is charged with the administration of such a nefarious law (and the FDA, which would have to administer the law in question, has the highest possible reputation!).

Second, there is the question of the employment of laws which are linked to moral standards, or which are anchored in the con-

sciousness of propriety of those who are regulated. The case is rare in which a law would command those regulated thereby to do an outright immoral act, but laws sanctioning governmental immorality are quite numerous, as I have frequently demonstrated in regard to the absolute-liability penal laws, which punish the innocent and the guilty, the careful and the careless violator equally.²⁰

Moreover, laws violative of the basic creeds of a society do come dangerously close to being immoral. In the case of the United States of America, laws in contradiction of the basic propositions which led to the fight for independence in the first place, and to our Constitution in the second, probably are the next worst thing to being immoral, and if not quite that, they are at least "un-American" and thus are likely to produce contempt on the part of those regulated. By way of example, the existing Federal Food, Drug, and Cosmetic Act is utterly violative of the American creed of "government by laws, rather than men,"²¹ meaning the whim of discretion-invested officials, by vesting in the Secretary of Health, Education and Welfare the power to promulgate regulations fixing reasonable standards (violation of which leads to criminal punishment) *whenever in his judgment such action will promote honesty and fair dealing in the interest of consumers.*²²

We may continue to pray that our government may be blessed with men of honesty, skill, intelligence, and integrity, so that the enormous discretions granted by the Act will not be abused. But it is certain that the framers of the Constitution envisaged a government in which there would be no need for that type of prayer. *Quaere*, whether this law, and the regulations issued under it, are the subject of cheerful compliance on the part of the regulated, or whether they are not the very incentive for efforts to find loopholes and means of evasion, which then create the need for further regulations, and so on *ad infinitum*.

What is the alternative? The alternative is a law, as envisaged by the Constitution, agreed upon by the people, in Congress assembled, which clearly directs itself against clear and present dangers. Just as even potential murderers will admit that murder

(at least if they are the intended victims) should be discouraged by the threat of punishment, I suppose that even potential sellers of oleomargarine will admit that the fraudulent sale of oleomargarine, labeled as butter, should be discouraged by the threat of penalties. Thus, many industry organizations in the past have supported the Food and Drug Administration in its demand for further and tighter laws for the protection of the public, and such support was withdrawn only when the government, in 1962, asked for blanket powers which are completely unrelated to any specific dangerous practices. And this leads us to the most important point in our inquiry, namely, the rational employment of the criminal sanction as a social tool. As soon as we reject the continued abuse of the criminal law as an antiunemployment or a revenue-raising device, this question of the most rational determination of human conduct arises.

The criminal law is a source of energy capable of producing certain effects, if properly employed. The power of such energy is potentially measurable, though no specific scientific effort to measure it has ever been undertaken. But we do know something about the strength of the energy, through chance observation. Thus, when, in 1944, the Nazi occupiers dismissed or arrested the entire Danish police force, the rate of burglaries increased ten times.²³ Hence, we know that the Danish criminal law, as existing and enforced prior to that fateful day in 1944, probably had a strength ten times that which existed after that same day.

I have chosen the example of burglary because it is a crime which involves relatively little psychopathology (in the sense of mental abnormality), as distinguished, e.g., from homicide, in which psychopathology plays a greater role. Regulatory offenses are more like burglary than murder, because they too are rarely the result of psychopathology. Indeed, Thorstein Veblen wrote: "The ideal pecuniary man is like the ideal delinquent in his unscrupulous conversion of goods and persons to his own ends, and in a callous disregard of the feelings and wishes of others and of the remoter effects of his actions, but he is unlike him in possessing a keener sense of status, and in working more far-

sightedly to a remoter end." ²⁴ It stands to reason, then, that if the energy of the penal law is rationally directed at a clearly perceived evil, it is likely to be perhaps ten times as effective in eradicating that evil than the forces at work in the absence of such a penal law (like personal vigilance, etc.). But the achievement of such results would require concentrated effort in following up every complaint and in prosecuting every probable cause.

Current regulatory penal law, on the other hand, rests on a different theory, namely, that of selective, sporadic enforcement, following broad, inquisitorial investigations of the surveillance type, under laws phrased in broad language so as to cover offensive as well as inoffensive conduct. Now, if penal law is an energy, or a force in the nature of an energy, the physical laws governing energy should be applicable. The law which comes to mind immediately is the inverse square law, e.g., of optics, according to which the energy, e.g., light, diminishes with the inverse square of the distance between the energy source (the light bulb) radiating (in all directions) and the object (illuminated). The source of radiating energy, which sends the energy in all directions, is analogous to the type of regulatory penal law which sends its vague prohibitions and threats in all directions.²⁵ The strength of such a law, analogously, is likely to diminish with the inverse square of the distance between the law, i.e., the enforceable and enforced penal prohibition, and the object it is designed to protect, e.g., human health.

The energy dissipation under the inverse square law must be contrasted with the energy retention resulting from directed energy. Thus, if the space-distribution effect of a light bulb is linearly directed, through prisms, mirrors, or lenses, into light rays of parallel flow, no energy dissipation (other than through natural obstacles, like air, etc.) takes place, and at every point along the ray, regardless of distance from the source, the same strength of light can be measured. Might it not be similar with the energy of the penal law in the regulatory field? If the energy of the penal law is concentrated, beamlike, rather than sent abroad in all directions, the effect at the receiving end is likely to be as strong as at the origin of the energy,²⁶ with some dissipation resulting

only from loss through those natural obstacles which, despite our best efforts, we cannot remove entirely, like human failures at the energy source or psychopathological weaknesses at the receiving end. If this be so, we can draw a number of conclusions, partially by way of summary:

1. Penal law, especially regulatory penal law, to be maximally effective, cannot be directed at fancied social evils in general, but must be directed specifically at clearly discernible, clearly described, otherwise not removable, evils threatening society.
2. If directed in a beamlike fashion at basically rational, responsive recipients, especially the business community, the coercive power of the threat of a penal sanction, corresponding to the inverse square law of physics, is likely to suffer no losses other than those arising from human obstacles at the emitting end, at the receiving end, or in between.
3. The obstacles at the receiving end, which in the case of some other crimes result from psychopathological weaknesses, are minimal in the sphere of economic regulatory offenses, most of which are of a predatory nature. Those which result from antigovernment or antiregulation animus²⁷ can be kept to a minimum by confining the regulations to those which are commonly agreed upon as necessary, or at least by removing those regulations which bear no reasonable relation to specifically needed protections.
4. The obstacles at the emitting end can be kept to a minimum by highly selective governmental personnel policies, and by restricting regulatory legislation and enforcement to laws dealing with evils lying in the sphere of the morally reprehensible; because this will reduce temptations on the part of enforcement personnel to tamper with conduct in the sphere in which tampering finds the least resistance, i.e., the morally neutral sphere.
5. The obstacles "in between" are of least significance in regulatory-penal law, despite the fact that most economic regulatory-penal law purports to exist for the protection of the health and welfare of the people "in between." The

man in the street demands wholesome food and reasonable prices and, on the whole, cares little about who does what in order to bring about fulfillment of his wishes. The legislatures, in classifying regulatory offenses as at most petty forms of criminality, probably represent these public attitudes accurately. This does not mean, however, that the penal law has no place in the regulatory sphere. Quite to the contrary, I hope it has been shown that in the regulatory sphere the penal law has a greater chance of success than in any other sphere of human conduct, if used sparingly and with sophistication.

Some day, we should test the hypothesis of the inverse square law through comparative studies of states with opposite legislative approaches.²⁸ It might even be possible to conduct a controlled and scientifically conceived study of regulations of a given industry under old (i.e., current) conditions and, following legislation, under the modern conditions here posited.²⁹ But even if such a study should never come to pass, it is submitted that, on principle, the path leading to a better future is that here outlined, rather than the trodden, crooked tracks of the past.

NOTES

1. By way of example, in 1954, traffic fines in New York City produced over \$6,000,000 in revenue (*New York Times*, Dec. 14, 1955, p. 35, col. 4). When, in 1955, a traffic judge ruled that henceforth the prosecution would have to prove the guilt of traffic offenders, the United Press reported: "City Hall Panics," frightened by the possible loss of a major revenue source (*New York Times*, Dec. 15, 1955, p. 39, col. 8).

The revenue aspects of overweight fines imposed on truckers were superbly highlighted by *Tank Truck Rentals, Inc. v. Commissioner of Internal Revenue*, 356 U. S. 30 (1958).

2. Sullivan, "The Salvation of Juvenile Delinquents," *Albany Law Journal*, 127 (1902).
3. William A. Bonger, *Criminality and Economic Condition* (Boston; Little, Brown and Company, 1916).
4. ". . . With the elimination of imperialistic conditions, and with the transition to socialism, criminality will lose its material bases. New socialistic conditions will arise in which there are no inner contradictions, which necessarily would create socially dangerous actions." Deutsches

Institut für Rechtswissenschaft, *Lehrbuch des Strafrechts* (Berlin-East: Zentralverlag, 1957), pp. 177-178. One year later the official doctrine was changed. The 1958 Basic Principles of the Criminal Legislation of the U.S.S.R., forty-one years after the Revolution, returned to "the protection of persons and of the rights of the citizens including property." "Punishment . . . makes its reappearance." J. M. van Bemmelen, Introduction to Feldbrugge and Szirmay, *The Federal Criminal Law of the Soviet Union* (Leiden: A. W. Sijthoff, 1959), p. 6.

5. Leon Radzinowicz, *A History of English Criminal Law* (New York: Macmillan Co., 1956), Vol. II, pp. 388 *et seq.*
6. Questions phrased so broadly would encompass two types of "economic" penal laws: First, there is the use of the penal sanction directed against broadly outlined trade and industrial aims and methods, across the board, regardless of the type of industry involved, e.g., the antitrust laws; second, specific practices of specific industries, for the purpose of protecting the health and welfare of consumers and other affected persons, may be the subject of penal regulations. This paper is restricted to the laws of the second sort, regardless of the specificity (or, more generally, the lack thereof) with which the legislative aim is stated.
7. The latter assumption, obviously, is applicable only to a mature society, in which legal remedies for injury done to complainants are a reality.
8. "The corporation probably comes closer to the 'economic man' and to 'pure reason' than any other person or any other organization. The executives and directors not only have explicit and consistent objectives of maximum pecuniary gain but also have research and accounting departments by which precise determination of results is facilitated, and have discussions of policies by directors with diverse abilities and diverse interests, so that the sentiments of one person are cancelled by those of another." Edwin H. Sutherland, *White Collar Crime* (New York: Dryden Press, 1949), p. 229.
9. Robert E. Lane speaks of "a propensity to probe the law's farthest limits." See Lane, "Why Businessmen Violate the Law," *Journal of Criminal Law, Criminology and Police Science*, XLIV (1953), 151, 155.
10. Suppose a bottling company is confronted with the following choice: (1) Installation of new machinery with electronic detection devices to reject bottles containing alien substances will cost the company \$100,000 annually for twenty years in amortization; (2) retention of old machinery, without foolproof detection devices, will continue to cost the company \$50,000 in damage actions by consumers suffering from nausea from alien matter found in 1/1,000,000 of all bottles. Question: Will installation of the new machinery increase the reputation of the product to such an extent that additional purchases will bring in at least an additional \$50,000 in profits? Or, put differently, if the previous purchasers be regarded as nausea-gamblers, will elimination of the gamble bring in an additional \$50,000 in profits?
11. It has been noted that certain motor carriers may consciously violate the weight-limitation statutes as long as, by the law of averages, the profit from overweight carriage exceeds the loss through fines and

resulting delays. *Tank Truck Rentals, Inc. v. Commissioner of Internal Revenue*, 356 U. S. 30 (1958).

12. C. N. Parkinson, *Parkinson's Law* (Boston: Houghton, Mifflin, 1957).
13. Lane, *supra* n. 9, at 162.
14. *Id.* at 165.
15. *Id.* at 154, citing M. B. Clinard, *The Black Market* (New York: Rinehart and Co., 1952), p. 298.
16. Sutherland, *op. cit. supra*, n. 8, at 45.
17. See Max De Berry and G. O. W. Mueller, "Pending Peril and the Right to Search Dwellings," *West Virginia Law Review*, LVIII (1956), 219.
18. H.R. 11581, 87th Congress, 2nd Session (1962) in amendment of the Federal Food, Drug and Cosmetic Act, emphasis mine. In the entire history of the United States no bill has ever been passed which would grant the government blanket powers to enter premises and seize evidence of crime for use in criminal prosecutions.

This is not the place to point to possible and quite effective substitutes for inquisitorial power. Nobody has demonstrated the need for such enormous encroachments. But even if the need could be established, our Constitution has precluded that approach. The bill was enacted into law after completion of the manuscript. 76 Stat. 780 (1962).

19. This is contested by Sutherland, *op. cit. supra*, n. 8, on the basis of a well-conceived but incredibly naive study. Speaking of big business in general, after study of the food and drug industry and a few others in particular, he writes: "Among the seventy largest industrial and mercantile corporations in the United States, 97.1 per cent were found to be recidivists, in the sense of having two or more adverse decisions." (*Id.* at 218.) As pointed out already, only 16 per cent of these were adverse decisions of the criminal courts, the others consisting of consent decrees, civil judgments, cease and desist orders, etc. If this be considered, it follows that the number of instances of recidivism would be reduced to 16 per cent of Sutherland's figures. Even then, however, Sutherland's statistics show that "60 per cent of the seventy larger corporations have been convicted in criminal courts and have an average of approximately four convictions each. In many states, persons with four convictions are defined as 'habitual criminals.' The frequency of these convictions of large corporations under criminal jurisdictions might be sufficient to demonstrate the fallacy in the conventional theories that crime is due to poverty or to the personal and social pathologies connected with poverty." (*Id.* at 25). With due respect, nothing at all like this has been established. Sutherland overlooked the fact that he was concentrating on corporate liability, and this means vicarious liability. Corporate criminality requires no stockholders' or board of directors' vote in order to lead to punishability. The act of a single officer or employee may lead to liability on the part of the corporation. Even if the liability were restricted to the conduct of directors (and it is not), Sutherland would possibly have to distribute the number of average convictions, i.e., four, not among 42 large corporations, but among perhaps 420 directors, in

which case each director may have violated the law 0.4 times. This would hardly constitute habitual criminality on the part of those through whom the corporation acts. But even this overlooks the fact that Sutherland failed to prove—and indeed it is impossible to prove—that regulatory offenses in general constitute orthodox criminality. Conduct which leads to criminality regardless of care and in the absence of criminal intention, recklessness, or negligence, simply is not criminal in the orthodox sense. Thus, Sutherland's giant effort to prove that white-collar crime is organized crime, and that all business establishments are constantly and habitually engaged in white-collar crime, was, and was bound to be, a failure.

20. The Federal Food, Drug and Cosmetic Act, already mentioned, and to be mentioned again, is a leading example, but only one of many. In general, see my articles "Equal Injustice under Law," X (1) *Challenge*, 6 (1961); "How to Increase Traffic Fatalities: A Useful Guide for Modern Legislators and Traffic Courts," *Columbia Law Review*, LX (1960); "On Common Law Mens Rea," *Minnesota Law Review*, XLII (1958), 1043.
21. See, e.g., Preamble to the Massachusetts Constitution (1779), *Massachusetts General Laws Annotated*, I (1958), 5.
22. *United States Code*, XXI (1958), 341.
23. Johs Andenaes, "General Prevention—Illusion or Reality?" *Journal of Criminal Law, Criminology and Police Science*, XLIII (1952), 186–87.
24. Thorstein Veblen, *The Theory of the Leisure Class* (New York: Viking Press, 1912), p. 237. But Veblen underestimated the strong self-regulatory force of the factor of public acceptance, without which business cannot succeed.
25. An example from a sphere of regulated conduct with which every reader is likely to be familiar will demonstrate the point. Consider the prohibition of "reckless driving." I would call this a "radiating" prohibition which purports to be effective in stimulating every driver's behavior at every moment in every respect. For lack of a specific point of attack this prohibition loses its force at the receiving end. Contrast this with a "beamed" prohibition, directed at specific points of attack: Do not cross the double line; do not make a left turn from the right lane; etc. There is no guesswork connected with such a prohibition, and the driver is bound to be aware of it whenever the specifically envisaged situation arises.
26. See note 25, *supra*.
27. Lane, *supra* n. 8, at 162, found little general antiregulation animus, though some specific animus.
28. See Beutel's recent studies along these lines: Frederick Beutel, *Some Potentialities of Experimental Jurisprudence as a New Branch of Social Science*, University of Nebraska Press (1957).
29. Moore and Callahan made attempts—ill-fated though they were—along these lines over a generation ago. Underhill Moore and Callahan, "Law and Learning Theory, A Study in Legal Control," *Yale Law Journal*, LIII (1943), 1.

7

Federal Aid for Urban Renewal: Help or Hindrance?

THOMAS F. JOHNSON

In recent years there has been ever more discussion, attempted explanation, and debate concerning the array of problems facing our urban communities. All too often the approach to a solution to the particular local problem of the movement involves appeal to a higher level of government. It frequently seems that if only the city, town, or locality could obtain some State or Federal help (primarily financial), progress could be made toward a solution. And it does not seem to matter whether the problem pertains to schools and public buildings, water systems, sewage disposal and other community facilities, roads and streets, mass transit systems, low-income housing and slum clearance, or other public welfare activities. The States, although providing considerable financial aid to local governments, seem to face somewhat the same problem as the localities with respect to receipts and expenditures. To all, the national level of government appears as the most promising source for appeal.

And there is no lack of response. Federal aid to lower governmental units has been rising rapidly. For instance, last year Federal funds were provided for the first time to help meet "the pressing needs for mass transportation in our urban centers."

We shall consider here one aid program of the national govern-

ment—that dealing with urban renewal—in terms of its impact upon urban blight and slums. We shall also examine its consequences for certain local governmental and private activities.

We might begin by attempting to define what is meant by the term “urban renewal.” Evidently, considerable confusion has arisen in public discussions concerning this term. The words “urban renewal” were seldom, if ever, heard before the enactment of the Housing Act of 1949, when the national government embarked upon a broad and far-reaching new postwar program for dealing with the rapidly developing “crisis” in the life of our nation’s urban communities. This was not an entirely new national problem. The Federal Government had been engaged in public-works programs for slum clearance and low-rent public housing from the depression days of the early 1930’s. But this new legislation, together with its further enlargement and refinement in the 1954 Housing Act and subsequent housing legislation, offered opportunities for direction and stimulation, from the national level, of a wide range of local activities involving urban planning, zoning, the formulation of code requirements, and the exercise of local police powers (not the least of which was the expanded use of local condemnation powers to acquire privately owned properties for later resale to other private parties for redevelopment and generally private use).¹

Urban renewal, in its broad sense, is a process of city or urban self-regeneration—and as such it is a continuous process. A city is a dynamic and changing institution. Land-use patterns are constantly shifting in response to changes in demand and cost conditions. For example, space previously occupied by several small stores may be occupied by an office building. A higher use has supplanted a lower use; that is, as a result of change, it now is economically desirable for the office building, but uneconomic for the smaller stores, to occupy that particular space. Similarly, residential structures may give way to those of a commercial and industrial nature. Changes of this type are a vital part of urban renewal because the reallocation of resources is necessarily a continuing process in any dynamic and changing situation.

Further, since towns and cities are the result of cumulative

effort over time, various parts and structures at any given time will be obsolete and worn out, or rapidly approaching such a condition. Almost every American city contains sizable "blighted" areas. So, "urban renewal" in the broad sense pertains to the rebuilding, rehabilitating, and renewing of structures and installations and to changing land uses. These are largely in response to multitudinous, private, market-oriented decisions.²

While few will quarrel with this broad definition, many probably will not consider it adequate, and there are quite marked contrasts among various schools of thought concerning the extent or limits of governmental action, particularly that of the national government, in stimulating and often forcing such changes. While the above-mentioned broad concept conveys little, if anything, about the role of government in normal urban renewal activities, Federal Housing authorities, upon passage of the Housing Act of 1949, envisioned a "comprehensive attack" upon slums and blight "for the first time in our history." The attack was to be made by local communities, it was explained, with the Federal Government providing "the leverage that cities have long needed to get their redevelopment programs going."³

The Federal urban renewal program is based on certain assumptions. Its proponents believe that the nation's general welfare and the national interest require a marked speed-up in the elimination of blighted areas and substandard housing. They insist on changing and rearranging large parts of cities and urban communities⁴ and assert that such changes will not occur or cannot be effectively brought about unless public agencies take a leading role. While this does include the acquiring and clearing of large "blighted" areas for private redevelopment, it is also believed that local government and the States lacked the financial resources to undertake any substantial proportion of such activities. Thus, according to these assumptions, help from the national government is necessary through subsidy as well as direction.

Subsidy is provided by means of loans and grants-in-aid (Federal grants equal two-thirds or more of net costs); direction is exercised through requirements for urban renewal project approval⁵

and requirements embodied in the "workable program" concept,⁶ approval of which, at the national level, is a prerequisite for Federal aid.

Federal aid for urban renewal projects, of course, is given directly only to local public agencies established under State and local laws and authorized to receive such aid and to carry out the various activities involved in the contemplated program. Hundreds of such local agencies have been established to comply with this requirement; and for its part, the national government has established an Urban Renewal Administration (as part of the Housing and Home Finance Agency) with administrative divisions and regional field offices to carry out its functions in the program. Any community wishing to qualify for Federal assistance must first develop and have approved by the Federal Housing and Home Finance Agency Administrator its plans for a "workable program" and then clear its specific project plans through the pertinent regional as well as Washington offices. The latest annual report (1960) of the Housing and Home Finance Agency (which includes the report of the Urban Renewal Administration) lists the following ten means of Federal assistance to local agencies:

Urban planning assistance grants

Grants for community renewal programs

Planning advances

Temporary and definitive loans for urban renewal projects

Grants for urban renewal projects

Relocation assistance to persons and businesses in urban renewal areas

The Urban Renewal Service

Demonstration grants

Special mortgage insurance by the Federal Housing Administration under Section 220 of the National Housing Act to promote new construction or rehabilitation of dwellings in urban renewal project areas

Special mortgage insurance by FHA under Section 221 of the National Housing Act to promote new or rehabilitated low-cost housing for families displaced by urban renewal or other governmental action.⁷

According to the same report, 475 communities, located in 43 states, the District of Columbia, Puerto Rico, and the Virgin Islands, and ranging in population from 749 to 7,781,984, had taken advantage of some of these aids or were in the process of doing so by having projects federally approved. Operating statistics since 1949 are somewhat as follows:

870 projects had been approved since 1949; 41 had been completed.

Many projects have been under way for some years.

Approximately \$1.9 billion of Federal aid had been committed, the great part of which had not been disbursed.

About 141,000 dwelling units had been demolished, with perhaps 25,000 new and rehabilitated units completed.

Approximately 114,000 families had been relocated from project areas.

Hundreds of local governmental agencies supported by special legislation and liberal subsidy have been working with a number of Federal agencies for a period of over ten years to accomplish these results.⁸

For the sake of gaining perspective, how do these operating statistics compare with estimates of the size of the job to be done?

Considered primarily from the standpoint of housing, the President's Advisory Committee on Government Housing Policies and Programs in 1953 estimated that 6.8 million substandard dwelling units needed rehabilitation or replacement. Upon the basis of available operating statistics, we estimated in our study that a program of this magnitude would cost the Federal and local governments nearly \$48 billion, exclusive of the costs of new construction and rehabilitation and, further, that even assuming a fourfold rate of increase in the momentum of the program, the task might still require as much as ninety years to complete.⁹

The results of Federal action, to date, make one curious about the "marked speed-up" in clearing blighted areas so necessary to the national welfare.

Local vs. Federal Government Resources

One of the assumptions behind the need for a national program was that local and State governments lacked the resources to initiate and carry out effective action, with the implicit and often explicit conclusions that Federal financial aid therefore was necessary. "Local governments simply do not have the resources available to them to assume a greater share of the financial burden for urban renewal."¹⁰ This sums up the situation in the view of many.

When one thinks of the vast outlays our State and local governments have had to make in the last decade or so to meet the growing needs for schools, roads, and other public facilities, and notes the frequently almost frantic search for additional revenues, considerable sympathy for this point of view is engendered. Yet a little reflection and inquiry casts doubt upon its validity. For one thing, State and local tax receipts have been rising faster than those of the Federal Government. In the last half of the decade of the 1950's (1955-1959) State and local tax revenues rose at over twice the rate of those of the Federal Government (38 per cent as against less than 17 per cent) and in dollars by nearly the same amount (\$8.9 billion for State and local; \$9.7 billion for Federal.)¹¹ Local tax receipts have increased more than those of the States during this period, but even State tax receipts have risen much faster than those of the Federal Government.

Of course, these total figures do not tell the whole story since, for one thing, they do not indicate changes for specific localities. But they do throw doubt upon the notion that State and local governments lack revenue sources and are unable to meet their responsibilities. The States and localities with few exceptions can levy taxes upon all income, wealth, and transactions within their jurisdictions. The localities, primarily, have the property tax, which Freeman in his study on school finances pointed out was capable of generating substantial amounts of additional revenue.¹² The Committee for Economic Development has estimated the

value of tangible real estate in the cities at more than \$500 billion. Professor Colin Clark, in his study *Growthmanship*,¹³ substantiates this by pointing out that "in most countries the order of magnitude of the stock of residential capital is equal to about one year's national product." This wealth is located largely in the cities and urban communities, and the major part of it consists of residential structures. It and additions to it are subject to taxation.

From the standpoint of the financial ability of the Federal Government, it is worth noting that the Federal administrative budget has shown a deficit in four of the last five fiscal years and almost certainly will again in fiscal 1963—and these deficits have been substantial. The net deficit for the fiscal years 1958–1962 was \$25 billion.¹⁴ The public debt rose nearly \$19.5 billion during this period,¹⁵ and Congress has been forced to consider increases in the debt ceiling at increasingly frequent intervals.

The Federal Government is operating under severe fiscal pressures. Defense requirements and related programs are not only unlikely to shrink but are likely to grow. The rising costs of burgeoning domestic programs of all kinds also are putting increased demands upon Federal revenues—revenues already limited or scarce in relation to demands being placed upon them.

Moreover, Federal aid to State and local governments has been rising rapidly, most of it in the form of outright grants-in-aid. From slightly over \$3 billion as recently as 1955, such aid had risen to over \$7.5 billion by 1961. This latter amounted to nearly ten per cent of net Federal budget receipts.

Shifting a major part of the costs of urban renewal activities to the Federal government is a device by which it appears that many localities hope to obtain funds ostensibly from someone else and, hence, ostensibly to the advantage of the locality.¹⁶ The vast, amorphous Federal budget facilitates this belief or hope, and, in turn, local opposition to expenditures for marginal and sub-marginal purposes is weakened. Where public moneys are deemed necessary, cities can tap the resources within their jurisdictions to finance urban renewal programs. States can tap the resources within their borders. The fundamental problem which faces

these governmental units is that of securing public support for these programs. The more intimately related government revenue-expenditure proposals are, the more likely the public is to make decisions which closely reflect the public scale of value preferences. Generally, the voters have shown a remarkable willingness to surrender their money to government. Current complaints by city (and other) governments that they have inadequate revenues and lack adequate sources of revenue in reality indicate a collective judgment on the part of the electorate concerned as to the scope and amount of resources that should be devoted to public functions.

Perhaps this is getting close to the crux of the matter; for there are few, if any, economic criteria used in determining the particular need for governmental aid for urban renewal or for determining urban renewal project areas. Almost invariably, cost estimates have to be increased at later stages of project execution, and original estimates are little more than guesswork. There is no clear concept of anticipated benefits or their evaluation.¹⁷ This is not surprising when consideration is given to the way in which specific project areas are selected and the number of varying and conflicting interests that are involved. The prospect of outside funds becoming available sharply alters the cost-benefit arithmetic of both local officials and private interests.

Those concerned with city planning see opportunities to accomplish sizable objectives in terms of rearrangement of streets, public facilities, and land uses. Others, concerned with the public finances, envision rebuilt areas as more productive revenue sources. Private property owners see enhanced property values and often perhaps the chance to dispose of properties in deteriorating areas at increased prices. Nearby merchants or businessmen may contemplate increased trade from upgraded neighborhoods. Each group expects to benefit with minimal local costs. Total and actual costs remain vague because of the difficulties in grasping the relation of national receipts and expenditures to the specific instance. Thus, the employment of subsidies changes the allocation of resources from what it might be in terms of market decisions. Project areas and the proposed plans for redevelopment are

decided upon for numerous reasons—but hardly upon consideration of efficient use of resources. This may or may not occur, but the use of substantial subsidies to make most projects feasible raises considerable doubts.

Federal Actions and the National Welfare

Another of the assumptions behind the need for Federal action is that the national welfare requires an acceleration of the removal of urban blight and substandard housing. I shall leave to those in more closely associated disciplines analysis and judgments of the human problems involved in neighborhood destruction and the relocation of families and small businesses. A sizable literature is being produced, however, on what some have described as the "Achilles heel" of large-scale, governmental urban renewal activities.¹⁸

We know that in many project areas which have been razed it has been difficult to trace the movements of a large number of the former inhabitants, and many seem to have "disappeared." This has led some observers to point out that new slums and blight may be resulting, or that "the slums are being chased around town."

It can be effectively argued that the regulations, requirements, and hope of financial aid from the central government actually disrupt and slow down the normal processes of rehabilitation and renewal.

Indeed, sometimes the pressure for *planning* urban renewal has tended to displace urban renewal itself. The Federal urban renewal program involves a minimum of two and often four Federal agencies, as well as local redevelopment authorities, plus various commissions and departments of local government. It is a complex and time-consuming operation. Instances are reported of areas in which private initiative is ready to undertake urban renewal action, but which lie dormant, awaiting the outcome of the deliberations of government, which may be years away.

Emphasis on obtaining Federal funds for local urban renewal activities has tended to replace emphasis upon urban renewal

activities themselves. In some instances, the local public agency has had Federal funds earmarked for one project and then moved on toward the same objective in a second, third, or fourth project, meanwhile setting aside the first project because of lack of staff personnel to execute it or because of other difficulties arising in execution. Former United States Housing Administrator Norman P. Mason pointed this up in 1959. He asserted: "In some areas, the planners seem to like to keep on planning, and so rebuilding gets delayed." He also stated: "What too many local governments are grasping for are more Federal grants, more and more of the United States taxpayers' dollars."¹⁹ Instead of getting on with the job of urban renewal, municipal governments in many instances give the appearance of concentrating on efforts to secure Federal moneys.

Further, the requirements for obtaining Federal grants often exert distorting effects upon local budgets and operations. To fulfill its one-third requirement of net project cost, in order to obtain the other two-thirds by way of Federal grant, a locality may be forced to make expenditures (to qualify as aid in kind or to provide local cash grants) or to obligate funds quite otherwise than if the local authorities were not seeking the Federal aid.²⁰ This limits its financial flexibility and perhaps leads to less useful expenditures of local funds than might otherwise occur.²¹

In the closely related low-rent public housing program, the requirements for receipt of Federal grants specify the type of local organization which shall administer them. Often these requirements complicate operations and efficient functioning of local government. Benson and McClelland, in their study on grant-in-aid programs, point out that conditions attached to Federal grants for public housing have had disintegrating effects upon local government.²² They build a convincing case for utilizing consolidated or "block" grants to local governments which would cover broad categories of functions and leave to the locality concerned the decisions as to allocations of such funds within these categories. This should strengthen local governmental responsibility and initiative.

Private Efforts

In light of the urgency with which Federal and other governmental action is proposed in order to meet urban problems, one begins to wonder how our cities and towns came to be built in the first instance, and what their inhabitants are doing to help themselves. Actually, Americans have been improving their housing and living conditions steadily over the last half century, and at a particularly rapid pace since World War II. Over 80 per cent of all housing units for which census data (1960) indicated the condition met the requirements of standard quality, as defined by the Bureau of the Census. This compared with 63 per cent as recently as 1950.²³ In 1960, only three million units out of a total of over 58 million were classified as dilapidated—that is, not providing safe and adequate shelter. The greater part of substandard housing (of which there were 10–11 million units in 1960)²⁴ is in rural and semirural areas, with the older sections of cities also having substantial amounts.

The boom in private new construction which has characterized practically the entire postwar period has undoubtedly been a prime force in upgrading the housing supply (nearly seven-eighths as many new nonfarm housing units were built between 1950 and 1960 as in the preceding thirty years, including the housing boom of the 1920's). However, since the increase in housing supply during this time was somewhat less than the volume of new building, it is obvious that part of the upgrading (and decline in substandard units) was achieved by elimination. But it seems safe to conclude that a large part of the improvement was the result of rapidly increasing private expenditures for repair, improvement, renovation, and modernization. Such expenditures have been estimated to have about doubled since the mid-1950's and in 1960 were thought to be in the range of \$18–\$20 billion. Private market forces have compiled an impressive record in the last decade, and there seems little reason to doubt further progress in the 1960's.

Naturally, the older parts of cities and towns, densely built up, have little room and need for new construction. But the data on improvement in housing indicate significant results even here. And it is in these areas that local public effort can be a strong reinforcement to private efforts (in terms of code enforcement, property taxation, zoning, and good municipal housekeeping). For it is becoming increasingly evident that urban renewal is predominantly dependent upon private actions—and local government has the role of creating the climate where such market-oriented action can thrive.²⁵ This is not the case where large areas are subject to lengthy periods of uncertainty while the locality negotiates Federal help in revamping them. Years frequently elapse during such negotiations, and property owners and residents despair while the local government itself hesitates to do anything toward maintenance or to encourage or enforce private efforts directed toward maintenance and improvement. After a while in such a state, a point of no return is definitely reached—due in no small part to government action (or inaction) which was intended to improve urban communities and the public welfare. Often the heavy hand of government stifles the very forces it must rely upon to accomplish desired results.

There is growing criticism of much of the current planning for our cities. The large, monolithic, high-rise housing projects, particularly for low-income groups, the more “efficient” layouts of streets and blocks, the parks and malls, although often fulfilling the planners’ dreams, may not really contribute to the vitality of modern cities or make them more desirable places in which to work and live. Some even argue, and with considerable force, that such changes actually contribute to many of the evils they are supposed to cure, and if carried far enough will deaden and destroy our cities. Perhaps, then, we should rethink some of the current premises behind city improvement. This, in turn, may lead to a reconsideration or reorientation of present programs for demolishing and rebuilding large urban areas.

NOTES

1. This was upheld by the United States Supreme Court in the case of *Berman v. Parker*, 348 U. S. 26 (1954).
2. In cities and urban areas these private decisions involving property and land uses are circumscribed by various legal restrictions whose objectives are mutual protection for the common good. These restrictions seek to insure minimum standards of safety and health and to prevent one or a few property owners or landowners from jeopardizing the use and enjoyment by others of their own properties.
3. Housing and Home Finance Agency, *A Handbook of Information on Provisions of the Housing Act of 1949*, p. 1.
4. For an appraisal of some of the effects of large-scale redevelopment and housing projects, as well as an excellent analysis of how a city "works" and functions, see Jane Jacobs, *The Death and Life of Great American Cities* (New York: Random House, 1961). See especially chap. 22, "The Kind of Problem a City Is," pp. 429-448, which deals with city planning.
5. For example, nonresidential clearance areas generally must be converted to predominantly residential use.
6. Literally, this simply requires a plan of action on the part of the community for undertaking measures to achieve urban renewal program objectives. For discussion of the elements in a "workable program," see Thomas F. Johnson, James R. Morris, and Joseph G. Butts, *Renewing America's Cities* (Washington: The Institute for Social Science Research, 1962), p. 52.
7. Housing and Home Finance Agency, *14th Annual Report* (Washington, D. C. 1960), p. 284. A description of each of the means of assistance is included in the report.
8. The great difference between the large number of projects approved and the few completed is accounted for by the categories "advanced planning" and "execution." "Advanced planning" is a description of the paper work and preliminary approvals, whereas "execution" means the beginning of condemnation and demolition. "Execution" can take many months before individual parcels of land are acquired, cleared, and assembled for offer to prospective purchasers.
9. Johnson, Morris, and Butts, *op. cit.*, pp. 68-69. Lawrence H. Bloomberg, Howard G. Brunzman, and A. Benjamin Handler, "Urban Redevelopment," in J. Frederic Dewhurst and Associates, *America's Needs and Resources, A New Survey* (New York: The Twentieth Century Fund, 1955), estimated that urban renewal activities would cost from \$85.5-\$91.3 billion in 1950 prices, where emphasis was primarily on housing and related facilities. Further, these estimates were for a limited program only, that of redeveloping residential neighborhoods. The Committee for Economic Development in 1960 adjusted these figures for changes in costs to \$100-\$125 billion and assumed that three-fourths or more of the total outlay would be private capital expenditures.

10. United States House of Representatives, Subcommittee on Housing; Committee on Banking and Currency, *Hearings, Housing Act of 1959*, 86th Congress, 1st Session (1959), p. 431.
11. United States Bureau of the Census, *Statistical Abstract of the United States* (Washington, D.C.: United States Government Printing Office, 1961), p. 403.
12. Roger A. Freeman, *Taxes for the Schools* (Washington, D. C.: The Institute for Social Science Research, 1960). He believes that rapidly growing national wealth, the prospect of nearly half a trillion dollars' worth of new private construction in the 1960's, continued rise in real estate values, and improvements in assessment administration, suggest that the property tax can well remain a major source of local revenue. He goes on to state: "... it has proven a stable producer in times of war and depression, and a viable and expandable source in prosperous years." This tax is most important to local autonomy alone. "Home rule and local autonomy can be preserved only if local governments have a substantial independent source of income, and if local residents can decide the level at which they want to tax themselves. There's no substitute for the property tax. If it is permitted to decline, it will pull local government down in its fall."
13. *Hobart Paper No. 10* (London: Institute of Economic Affairs, 1961).
14. *Economic Indicators*, June, 1962 (Washington, D. C.: United States Government Printing Office, 1962).
15. State and local governments also increased their debts substantially (from 1955-1959 by \$19.8 billion). But their total debt was still less than one-quarter of the Federal debt.
16. There seem to be substantial redistribution effects connected with national grants to State and local governments. According to a study by the Tax Foundation in 1961, in which an effort was made to correlate Federal grants to State and local governments and the estimated burden of such grants on a State-by-State basis, Federal grants to State and local governments in some thirty-five States exceeded Federal tax receipts from those States. The study estimates, for example, that for every dollar of Federal aid received by Mississippi, the Federal tax burden was only 25¢. At the other extreme, Delaware is shown to have paid into the Federal Treasury \$2.48 for every dollar received in Federal aid; for New York and Connecticut, it was about \$1.93. See Memorandum, *Allocation of the Federal Tax Burden*, Tax Foundation, Inc. (February, 1962).
17. "The striking fact about the present program, and also about many of the proposals for extending that program, is the utter lack of a relevant criterion for expenditures. How much should be invested in urban renewal? How does one determine whether projects are really worth while? Does the present program attempt to 'correct' the allocation of resources, or does it simply result in further misallocation? There seems to have been little or no serious effort to find answers to these questions." Otto A. Davis and Andrew B. Winston, "The Economics of Urban Re-

newal," *Law and Contemporary Problems* (Durham, N. C.: Duke University School of Law, Winter, 1961), p. 113.

18. See for example, Martin Millsbaugh, "Problems and Opportunities of Relocation," *Law and Contemporary Problems*, *op. cit.*, p. 6, and also Kurt W. Back, *Slums, Projects, and People: Social-Psychological Problems of Relocation in Puerto Rico* (Durham, N. C.: Duke University Press, 1962).
19. Quoted in *The Sunday Star* (Washington), September 27, 1959.
20. An interesting story along this line involving the little Texas town of Mercedes was reported in *The Wall Street Journal*, June 26, 1962. It seems the town managed to win Federal approval for a \$1.7 million urban renewal program. Under the matching-grant formula, Mercedes had to put up \$600,000 to get \$1.1 million of Federal funds; but, in order to raise its \$600,000 share, construction of a new school was postponed until its cost could be credited to the urban renewal project as aid in kind, and the town appropriated \$35,000 for a new park and \$61,000 for street improvements, and then sold \$200,000 in municipal bonds. Thus, by extra spending of \$296,000, most of it borrowed, Mercedes captured \$1.1 million from the Federal government.
21. Of course, from the local governing officials' view, the Federal grant may result in so altering the cost and expected benefit relationships that such use of funds does represent a bargain and the best use of available funds. Obviously, this cannot be so for the country as a whole, when total costs must be considered, but such grants of funds do upset rational judgments.
22. George C. S. Benson and Harold F. McClelland, *Consolidated Grants: A Means of Maintaining Fiscal Responsibility* (Washington, D. C.: American Enterprise Association, 1961).
23. Little of this over-all improvement in the housing stock can be credited to public housing programs for low-income occupants, since there were less than half a million public housing dwelling units by the end of 1960.
24. Substandard units include those classified as dilapidated as well as units not meeting all criteria for standard quality, such as hot and cold running water, etc.
25. This has been emphasized on numerous occasions by those involved in the Federal program as well as those interested primarily in private efforts.

Obviously good housing and clean cities providing desirable living and working places are basically the result of private actions and local governmental measures to aid and encourage private efforts of maintenance and renewal. Essentially, the local governmental measures reduce to providing good municipal "housekeeping" services, enactment and enforcement of adequate zoning, building, and housing codes (especially as the latter applies to housing occupancy), and effective, efficient property taxation. Unless local interests are desirous of having a clean city, free of substandard housing, it will not come into being—no matter how much Federal money is obtained.

8

Money, the State, and Modern Mercantilism

MURRAY N. ROTHBARD

Money is the nerve center of any economy above the most primitive level. An economy consists of a vast and intricate network of two-person exchanges, and money constitutes one side of every exchange. Money is the medium by which producers of goods and services (sold for money) proceed to become consumers of goods and services (bought for money). If any one person or organization manages to obtain control over the supply of money—over its quality, its quantity, or its use—he or it has thereby taken a long step toward complete control of the entire economic system. Similarly, it is difficult to see how complete economic control could be achieved *without* domination of the supply of money.

1. *Money on the Free Market*

In the purely free market, no one person or group can have control over money. Money arises, on the free market, when one or more commodities, in particularly intense demand and possessing such other qualities as durability, portability, and divisibility, are chosen by individuals to serve as media of exchange. Once a

commodity begins to be used as a medium, the process accelerates as this makes the good all the more valuable, until it finally comes to be used as a *general* medium for exchanges—as a *money*. Over the centuries of civilization, gold and silver have been the leading commodities to be thus established as moneys. On the free market, then, money arises as another—and highly important—use for a commodity on the market; in the civilized era, these chosen commodities have been gold and silver.¹

On the free market, a person can obtain money in only three ways: (a) by producing a good or service and exchanging it (“selling it”) for the money-commodity; (b) by someone else’s free gift; or (c) by producing the money-commodity itself. However (b) will not be dominant in the economy, and, at any rate, it reduces to the other two methods, since at some point backward in time the gift process must come to an end. But a good will not be chosen on the market as money unless it is in long-lasting and great demand, and it cannot be in such demand unless it is relatively scarce. Therefore, route (c) for the acquisition of money involves the complicated production of a scarce commodity; in the case of gold and silver, it means finding new reserves of ore and extracting them from the ground. All businesses, all industries on the market tend, in the long run, to yield about the same rate of return; if not, then capital and resources will flow out of the more poorly earning and into the better-earning industry until rates of return are equalized. Consequently, the gold-mining business will not provide any particularly lasting bonanza on the market; it will tend to earn about the same rate of return as other industries. There will then be no *a priori* inducement to enter the gold- or silver-mining industry as compared to any other industry. Furthermore, gold and silver are so durable that the proportion of new gold or silver mined each year will generally be small compared to the existing stock.

The overwhelmingly important route to obtaining money on the market, then, will be route (a), the sale of goods and services for someone else’s stock of money. No one will be able to obtain money unless he produces goods or services for exchange or enters the gold-mining business. Apart from voluntary gifts, he

will receive gold or silver in proportion to the value that other exchangers put on his services to them.

It should be evident that, in the free-market economy, no one person or group will be able to control any aspect of society's money. All money is extracted from the ground by private individuals, and there is no issue of currency by the state. The total supply of money is determined by the state of natural resources and by people freely and voluntarily entering the gold- or silver-mining business. How much money each person gets is determined solely by every individual's free and voluntary decision concerning how much he will buy and sell, or not buy and sell, of any given product or service. The aggregate result of these individual choices determines a person's total sales and income. A free and uncontrolled money, and a free and uncontrolled market, go hand in hand.

And yet, curiously enough, so far has the world gone from a truly free money that even the most "conservative" economists, often champions of the free market in other areas, do not even contemplate a return to free-market money. Milton Friedman and the economists of the "Chicago School" advocate, indeed, a totally fiat paper money, manufactured by government, and cut loose entirely from any vestigial connection with gold and silver. The United States Chamber of Commerce, in its textbook on economics, simply concedes: "Money is what the government says it is."² But surely the future of the free market is in danger when control over the vital supply of money is thus granted permanently to government.

2. *Money and the State*

In the laissez-faire revolution of the nineteenth century, money was one of the crucial areas in which this revolution scarcely made headway. Government retained not only a mintage monopoly, legal tender laws, and the power to fix arbitrary exchange rates between gold and silver, but, particularly important, its Central Bank, and thereby its virtual control over the banking system. Since the liabilities of the banking system, nominally

redeemable in gold or silver, increasingly became the bulk of each country's money supply, governmental protection and domination of the banking system loomed as an ever more vital question.

Having relinquished little of its monetary control in the nineteenth century, the state has, in the twentieth, moved to take over absolute control of the monetary system, seizing its subjects' gold and silver, and preventing them from using these commodities as their money. In this way, in most countries, the state has arrogated to itself a compulsory monopoly of monetary issue; the "paper" standard, which forms the nation's money, and on which the government-controlled and manipulated banking system issues its liabilities, is *government-issued paper*.

There is no mystery in the fact that the state clung to its control of money even while temporarily relinquishing its grip on other areas of the economy. For one thing, as we have seen, control over a nation's money is a prerequisite for dictation over the rest of the economy. Another reason for the state's vital interest in money is that only through such control can it break the production-income nexus of the free market. We have seen that, on the free market, the only way to obtain money is to produce and sell goods or services to those who wish to buy; thus, the only way to acquire money from other people is to provide them with services which they desire. But there is only one way to break the requirement of producing desired goods and services to obtain money; and that is to gain control of the means of *creating* money. If one can create new money simply and easily, then one can enter the market to consume goods and services without first having to produce any oneself. On the market, private individuals cannot do this, as this constitutes the crime of "counterfeiting." The state, however, has the unique attribute of being able to perform actions which would be considered criminal on the part of private individuals ("taxation" as against "robbery"; "war" as against "murder"; "inflation" as against "counterfeiting"). If the state controls the money supply, then it can create new money and use it to increase its own expenditures on goods and services, as well as the expenditures of its favored, subsidized groups in society. The "legalized counterfeiting" of "monetary

issue" enables the state to break the production-monetary income chain to its own advantage. Necessarily, this also means a loss to the actual producers in society, who must yield resources to the bidding of those who come to the market place equipped with this newly issued money. This is why "inflation"—the increase of paper money or bank liabilities—is a hidden and therefore particularly insidious form of taxation. Being hidden, an inflation of money is not likely to arouse the opposition that may be stirred by taxation. And since monetary inflation is hidden even while its *consequence* in rising prices becomes generally evident, the government can join the public in denouncing rising prices, while conveniently overlooking its own total responsibility. Indeed, it may go further: it may denounce any and all groups in the population, whose selling prices all naturally rise during an inflation, for wickedly *causing* the price rise. Foreigners, speculators, businessmen (big or small), laborers, whichever scapegoats may be convenient, are denounced, and then the government may go on to use these very attacks as an excuse for extending its controls and dictates over these and other groups in society.

In short, the state may obtain its revenues—may break the production-income link of the market—in two ways. It may impose taxation, which is overt, evidently coercive, and likely to stir opposition if pressed too hard. Or, on the other hand, it may obtain control of the monetary system and then create new money to spend for itself or to use for rewarding its favored groups. This latter inflationary process is, moreover, hidden and subtle, and thus not likely to arouse the general public. Indeed, the state can further turn inflation to its own advantage by taking the lead in denouncing those groups in the population whom it happens to oppose, for causing inflation, and may then use this as an excuse to extend its own power over them and over society. The state then emerges before the public, not as an annoying predator heavily taxing the public, but as society's noble and diligent protector against "inflation."

We see now the high irony in the doctrine that the state should "protect society against inflation" or "stabilize the price level." For inflation is the health of the state; it is the natural tendency

of the state; and it is largely to enable it to inflate for its own benefit that the state is so eager and determined to secure its absolute control over the monetary mechanism.³ Any group, in fact, given the exclusive power to create new money may be expected to use it for its own advantage—and the state is surely no exception. It is curious how differently persons' motives are analyzed and judged when they are private individuals and when they are members of the state apparatus. When a man enters business or joins the labor force, few people assume that his prime motivation is the public weal rather than private profit or income; nor are they shocked that this is so. And yet, while personal gain is considered the natural motive in private enterprise, the moment a man enters the state apparatus, he is assumed to be motivated solely by altruistic striving for the "public good," and any other motivation is considered "corrupt." Perhaps this is because the public realizes instinctively that, on the free market, private gain is earned by serving others, so that the private gain of one is consistent with, and indeed advances, the private gain of all. The public may also instinctively feel, on the other hand, that the state apparatus earns its gains only *at the expense of* others. In contrast to the harmony of interests on the market, there is inherent conflict of interest implied in state actions. Therefore, to believe that state officials confiscate and rule the property of others for their own private gain would be intolerable. To cloak state actions in morally and aesthetically respectable forms, then, the public must believe that these actions are motivated by zeal for the "common good." Let the public see the absurdity of these assumptions, and instead view the state as a group of people battenning off the production of others, and they are much more likely to see the state as a natural inflator than as an ideal instrument for "stabilizing the price level."

3. *Central Banking*

No institution is more necessary for state control and manipulation of a modern economy than the Central Bank, and no institution is more venerated by all. Most conservative economists

believe themselves to be daring when they advocate independence of the Central Bank from the Treasury—a vain pretense that an organ of the state like the Central Bank can somehow be transformed into a wise and beneficent institution, “above politics.” The wisdom of Federal Reserve manipulation of the American economy, for example, goes virtually unchallenged. The Chamber of Commerce, for one, has no doubts:

It is an important function of the central banking authorities to determine the proper size of the money supply for the effective functioning of the economy and to try to pursue policies which will keep the money supply from either being over- or under-expanded.

During recession and depression periods, the Federal Reserve should lower reserve requirements, buy United States Government securities, and lower rediscount rates. This will provide commercial banks with excess reserves and tend to increase the supply of money. During periods of prosperity and in the latter stages of recovery, the Federal Reserve should pursue the opposite of its depression policies: namely, it should raise reserve requirements, sell United States Government bonds, and raise rediscount rates. This puts a definite curb on the amount of credit which can be created and can act as a lever to prevent a boom from getting out of hand and can curb rising prices.

The power to prevent inflation (and to some extent deflation) unquestionably is now at hand in the United States Treasury and the Federal Reserve System. Enlightened public support on the side of reasonable price stability is indispensable to strengthen the hand of these monetary authorities.⁴

It is a generally accepted myth that the Federal Reserve System—as in the case of other central banks—was established to stabilize the economy and check inflation. Actually, it was designed to *promote* inflation under the aegis of the central government. Individual banks by themselves, not artificially bolstered by central banks, have a tendency to collapse before they can inflate very far: either from each expanding bank's losing cash (gold or paper) to other banks, or from runs on the banks. The central bank can

make sure that all banks expand together, can furnish needed reserves to banks throughout the country, and lend to banks in trouble, and can thereby bring about a much greater, and centrally co-ordinated expansion of the money supply.⁵

In contrast to the conservative economists who concede and even glory in absolute Federal Reserve dictation over our money is the perceptive and unequivocating article of Oscar B. Johannsen. Beginning with a critique of a report by the Economic Policy Commission of the American Bankers' Association, Mr. Johannsen continues:

. . . . the Commission apparently accepts without question the fundamental principle that money, banking and credit revolve around the state and that the state must, therefore, control monetary affairs through political action. . . . It is no more a function of the state to regulate money and banking than it is a function of the state to regulate growing and marketing of onions. . . . In keeping with the trend to intervene in the social sciences, the state has, to the limit that it could, gathered money, banking, and credit together into one centralized banking system controlled by itself. But a governmentally centralized banking system is a socialized banking system, as the essence of socialism is the control and direction by the government of that which should be private enterprise. . . .

It should be apparent now that with the inception of the Federal Reserve System, America adopted a system dealing with a phase of private enterprise totally different from that under which most other businesses are conducted. Manufacturing, mining, trade are carried on by private individuals all seeking to make a profit with the customer as king. No arbitrary commission or group of men or bureaucrats determines who shall make cars, what cars shall be made, what prices shall be asked. . . . This is all done by private individuals, and they are guided by King Customer, who directs them by buying or not buying. Unfortunately, in banking, which has as its principal raw material the most important of all commodities—money—we have adopted socialism. This is an alarming fact upon which private enterprise cannot look with equanimity, as a socialized banking system is the precursor of socialism in all business.⁶

4. *Inflationism and Mercantilism in America:
Five Case Studies in Historical Revision*

If inflation is the health of the state, how and why has government generated inflation in the history of the United States? The following "case studies" illustrate this process, as well as the important connection between inflation and centralized state control of the economy. They illustrate also the connection of inflation with "mercantilism"—the use of economic regulation and intervention by the state to create special privileges for a favored group of merchants or businessmen. Until very recently, conservative as well as left-wing historians accepted the neo-Marxian myth that struggles over inflation and hard money in America have all been "class struggles" of the farmers and workers ("debtor classes") in favor of inflation, as against merchant-creditors on behalf of hard money. The case studies indicate how recent historical scholarship has refuted this widely accepted thesis.

A. THE MASSACHUSETTS LAND BANK OF 1740

The inflationist paper money scheme, the Massachusetts Land Bank of 1740, has, since its inception, been regarded by historians as a plan instituted by a mass of small farmer-debtors, over the opposition of the merchant-creditors of Boston. This stereotype was first coined by the contemporary opponents of the plan, who dismissed the proponents as "plebians"; it was then systematized by such conservative economic historians as Andrew M. Davis, writing at a time when agrarian Populist inflationism was a threat to sound finance, and then taken over by neo-Marxist Beardian historians in the 1930's, to become ensconced in the history textbooks. Actually, as Dr. Billias has shown in an important paper, the major proponents of the plan were as wealthy and as connected with business as its opponents; it should no longer be forgotten that merchants are debtors too, and that the chief advocates of a land bank "were all businessmen, politicians, or professional men residing in Boston"; the leading proponent of the plan was John

Colman, a prominent Boston merchant, and the founder of the Massachusetts Land Bank. Colman, indeed, tried to stir up support among the farmers by promising them that the resulting inflation would raise the prices of farm products. Businessmen were particularly eager for inflation after 1720, because after that date the Massachusetts government adopted a policy of granting unsettled frontier land to speculators, who then sold these lands to the actual settlers at far higher prices. Expanded bank credit was wanted to finance business speculation in government land grants and to raise land prices. Joined with inflation was another mercantilist feature: subsidy to home manufacturing, through permitting repayment of bank debt in certain specified manufactured commodities.⁷

B. NICHOLAS BIDDLE, PLANNER AND CENTRAL BANKER

The famous Bank War between Andrew Jackson and the Second Bank of the United States has also suffered grievous misinterpretation by historians. Once again, Jackson has been considered as a wild-eyed agrarian inflationist, out to wreck conservative "sound finance," as represented by Nicholas Biddle, head of the Bank. Here, again, this interpretation began with Jackson's contemporaneous enemies, was forged amidst conservative battles with agrarian Populists in the late nineteenth century, and then was adopted—with heroes and villains, of course, reversed—by the neo-Marxist historians of the 1920's and 1930's. Actually, as recent historians have pointed out, the true ancestor of the New Deal was not Andrew Jackson, but his opponents, including Nicholas Biddle. Biddle, son of a leading merchant of Philadelphia, enthusiastically embraced the mercantilist "American System" of the Whigs. Biddle's mercantilist views emerge clearly from the eulogistic biography by Professor Govan. Govan writes:

Biddle's study of political economy led him to reject the doctrines of the classical liberals. . . . He had seen too clearly during the course of the War of 1812 and its aftermath how business activity responded to the expansion and contraction of the money supply to

believe that economic activity was governed by natural laws with which men interfered at their peril. He advocated a protective tariff for national reasons, primarily to free the country from economic domination by England. . . . Wages and profits of workers and factory owners could be maintained at higher levels than in the world outside, and farmers and merchants would receive recompense in the large and constantly increasing home market. . . . Internal improvements and a national bank were essential elements in such a program. The construction of roads and canals and the improvements of rivers and harbors would facilitate the movement of goods and people, and the Bank of the United States, by providing a uniform currency and regulating the rates of domestic exchange, would similarly facilitate the pecuniary aspects of these same transactions.

No single mind created this concept of a predominantly private economy which was directed, supported, and controlled in the public interest by responsible national authorities. Its origin was in the state papers of Alexander Hamilton. . . .⁸

C. STEPHEN COLWELL, CONSERVATIVE SOCIALIST

The neglected mercantilistic affinities of conservatism and socialism have never been better illustrated than in the case of a leading protectionist ideologue of the first half of the nineteenth century, Stephen Colwell.⁹ Colwell was a leading Pennsylvania ironmaster, and also prominent in railroad investments. Iron manufacture, of course, was always a leading beneficiary of the protective tariff, and of bank credit expansion as well.¹⁰ In a series of articles during the 1840's in the *Presbyterian Biblical Repository* and *Princeton Review*, Colwell "attempted to weld together in the name of Christianity the proslavery, the high-tariff, pro-bank, and antidemocratic forces of the nation."¹¹ Colwell fulminated against the "moneyed power" (commerce), which "must be regulated by a judicious tariff or it will consult its own greedy interest, regardless of the sufferings it imposes on labor in the process"; the laborer, "crushed, starved, and cast aside by. . . bitter competition," is a worse "slave" than the slave in the South.¹² In fact, the slave benefits from slavery, and would benefit still more from high tariffs. A wise and proper protective tariff would also

enable men to fix prices not cheaply, but with reference to the quantity of labor expended on the product. Laissez faire was denounced by Colwell as abstract, and as emphasizing selfishness and materialism rather than religion, morals, history, and the well-being of the whole man. The laissez-faire theorists, in fact, wickedly placed the "claims of free trade" higher than the "claims of labor," which included the protection and discipline of the slave system.¹³ Colwell also wrote that: "The government alone can survey the whole field of national industry and ascertain the condition of all the laborers. . . . how many are suffering from the influx of foreign products." In the 1850's Colwell concentrated on denunciation of hard money and on a call for a central bank to regulate the currency and for inconvertible paper money. In fact, under Colwell's scheme, banks would not have to redeem their notes, being obligated only to receive their *own* notes in repayments of debt. Colwell denied that his contemplated inflation would increase prices greatly: the quantity theory of money was the product of "theorists" and was disproved by statistics. And anyway, high prices, even if they do ensue, are beneficial, especially if joined with a high tariff to insure that foreign competition will not disturb the idyll of high prices and high wages. Colwell denounced the extant banking system, with notes payable in specie, as "falsely predicated upon the assumption that whenever our importers, in consequence of having overtraded, must meet a heavily adverse balance, the business community as a whole should be denied its usual bank accommodation."¹⁴

D. INFLATION AND PROTECTION IN THE RECONSTRUCTION PERIOD

Another myth that has permeated the ranks of historians until very recently is the neo-Marxist Beard-Beale concept of the Reconstruction period as the exploitation of the defeated South by the "rising capitalist class" of the North. The "exploitation" was supposed to have been imposed largely through sound money and the protective tariff. Here again, historians were guilty of reading back ideological and political conditions that obtained only after 1890. In fact, as a few historians have recently demonstrated, the

Northern capitalists were split in their opinion of the Reconstruction program, and the Radical Republicans themselves were split on the issues of sound money and the tariff. Of the two famous leaders of the Radicals, Senator Charles Sumner favored hard money and free trade; while Representative Thaddeus Stevens, Pennsylvania ironmaster, favored protection and the greenbacks. Indeed, once again, the Pennsylvania iron and steel industry was in the forefront of the battle for protection and for greenback inflationism. The Pennsylvanians realized that, in a period of inconvertible greenback money, inflation—and the consequent depreciation of greenbacks compared with gold and foreign exchange—was the *equivalent* of a protective tariff, in its artificial cheapening of American exports and making dear of American imports. Representative William D. ("Pig Iron") Kelley of Pennsylvania was another leading devotee of greenback inflation and a protective tariff.

The Pennsylvania iron and steel interests feared the lower-cost competition of Great Britain. They were joined in backing protection and greenbacks by the marginal Pennsylvania coal industry, which feared the import of low-cost Nova Scotia coal, and by stock speculators such as Henry Clews, who desired inflationary credit for the financing of stock speculation and the raising of stock prices. Neither were the wealthy mercantilist partisans above the use of anticapitalist rhetoric. Stephen Colwell was again active in the cause. And Representative Daniel J. Morrell, a leading iron manufacturer from Pennsylvania, attacked the hard-money forces as "enemies of the workingman" and as "money men, who wish to give their money more power over labor and its products."¹⁵ Joseph Wharton, of the Bethlehem Iron Company, accused the hard-money Treasury policy of resuming specie payment as being engineered "by our English enemies."¹⁶ The cause of protection and inflation was also persistently backed by the American Iron and Steel Association, the Union Meeting of American Ironmasters, the American Industrial League (composed largely of Pennsylvania ironmasters) and its organ *Industrial Bulletin*, as well as the magazines *The American Manufacturer* (Pittsburgh) and *Iron Age*.

One of the leading advocates of cheap money during this period

was the prominent banker, Jay Cooke. Cooke, a recipient of government land grants in his railroad ventures, benefited from inflation and credit expansion that drove up the price of land. Cooke, incidentally, had been a driving force behind the creation of the National Banking System during the Civil War, an innovation which brought Federal control over the banking system for the first time since Jackson's abolition of the Second Bank of the United States. Cooke was hired by the North to be the leading underwriter of government bonds, and he thereupon worked for the establishment of a national banking system whose reserves would rest on government bonds, thus forcing the banks to invest heavily in (Cooke's) bonds.¹⁷

E. PAUL WARBURG, THE ACCEPTANCE MARKET AND THE FEDERAL RESERVE SYSTEM

From its inception, the Federal Reserve System, curiously enough, set out to *create* a market for acceptance paper, a form of credit that scarcely existed in this country (in contrast to Europe). It was uneconomical in the United States, where credit channels preferred single-name promissory notes. And yet, the "Fed" granted an enormous subsidy to the acceptance market by standing ready to buy any acceptances offered by the market, and at a specially favorable price, cheaper than the Fed's ordinary rediscounts. This policy of unconditional support and subsidy of the acceptance market proved disastrous in the boom of the late 1920's, several times preventing the Fed from halting its expansion of credit. During the late 1920's the Fed, purchasing acceptances in this way directly from private acceptance banks, came to hold almost half of the bankers' acceptances outstanding in the country.¹⁸ Furthermore, the Fed confined its generous subsidy policy to a few large acceptance houses. It refused to buy acceptances directly from business, insisting on purchasing them from intermediary acceptance houses, and from only those with a capital of over \$1 million. It also heavily granted a few large dealers "repurchase agreements"—the option to buy back the acceptances at the current price.

What was the reason for this absurd policy, which proved highly

inflationary, failed in the ultimate attempt to create a permanent, widespread acceptance market, and constituted a flagrant form of subsidy and special privilege to the major acceptance banks? Perhaps the reason centers around the leading role played in the creation of the Federal Reserve System by Paul M. Warburg, one of the System's founders. Warburg came from Germany to become a partner in the investment banking house of Kuhn, Loeb, and Co., and promptly carried on a campaign to bring the rather dubious blessings of central banking to the backward United States.

Paul Warburg was influential in founding the Federal Reserve System. After the war and during the 1920's, Warburg continued to be chairman of the highly influential Federal Advisory Council, a statutory group of bankers advising the Federal Reserve System. Interestingly enough, Warburg also became one of the nation's leading acceptance bankers, thus benefiting greatly from the System he helped to found and whose course he helped to set. Warburg was Chairman of the Board of the International Acceptance Bank of New York, the world's largest acceptance bank, was a director of the important Westinghouse Acceptance Bank and of several other acceptance houses, and was chief founder and Chairman of the Executive Committee of the American Acceptance Council, a trade association organized in 1919. To write of Warburg's influence is not far-fetched speculation, for he himself boasted of his success in persuading the Fed to loosen eligibility rules for purchase of acceptances and to establish the Fed's very policy of buying all acceptances offered at a subsidized rate.¹⁹ Furthermore, Warburg had a considerable influence on Benjamin Strong, head of the Federal Reserve Bank of New York, which, in these years, virtually set Fed policy.²⁰

In these case studies, we have seen that inflationism and state control of the monetary system have, in many critical periods of American history, been proposed and established, not by "workers and farmers," nor even by disaffected intellectuals, but by groups of merchants, manufacturers, and other businessmen eager to acquire special privilege, to use the state for their own advantage—in short, by men who were essentially modern mercantilists.

This mercantilist drive has played a much greater role in the general movement toward statism and central planning than is generally recognized.

NOTES

1. Professor Mises has demonstrated that money can originate *only* in this way—as a commodity on the free market—and that it cannot originate by government fiat. See Ludwig von Mises, *The Theory of Money and Credit* (2nd ed.; New Haven: Yale University Press, 1953), pp. 97–123. For a further discussion, see Murray N. Rothbard, *Man, Economy, and State* (Princeton: D. Van Nostrand Co., Inc., 1962), I, 231–37. Also see Rothbard, “The Case for a 100 Per Cent Gold Dollar,” in Leland B. Yeager, ed., *In Search of a Monetary Constitution* (Cambridge: Harvard University Press, 1962).
2. Economic Research Department, Chamber of Commerce of the United States, *The Mystery of Money* (Washington: Chamber of Commerce, 1953), p. 1.
3. All manner of groups, at any given time or place, may become favorites or allies of the state: business, farm, labor, religious groups, etc. The point is (1) that *any* group may try to use the state apparatus as a way of obtaining for itself wealth or power; and (2) that the full-time rulers of the state will try to secure subsidized allies among the public.
4. *The Mystery of Money*, p. 17; Economic Research Department, Chamber of Commerce of the United States, *Control of the Money Supply* (Washington: Chamber of Commerce, 1953), pp. 15, 21. Also note the enthusiasm for Federal Reserve control by leading members of the gold-standard group, The Economists’ National Committee on Monetary Policy. Cf. the remarks of Professors Niehaus, Wiegand, and Spahr, in James Washington Bell and Walter Earl Spahr, eds., *A Proper Monetary and Banking System for the United States* (New York: Ronald Press, 1960), pp. 51, 106, 165.
5. For an excellent discussion of the inflationary nature of the Federal Reserve System, as well as its further inflationary policies and their disastrous consequences, see C. A. Phillips, T. F. McManus, and R. W. Nelson, *Banking and the Business Cycle* (New York: Macmillan, 1937), pp. 21 ff. Also see O. K. Burrell, “The Coming Crisis in External Convertibility in U. S. Gold,” *The Commercial and Financial Chronicle* (April 23, 1959), p. 5.
6. Oscar B. Johannsen, “Advocates Unrestricted Private Control over Money and Banking,” *The Commercial and Financial Chronicle* (June 12, 1958), p. 2622.
7. George Athan Billias, *The Massachusetts Land Bankers of 1740*, University of Maine Bulletin, April, 1959.
8. Thomas Payne Govan, *Nicholas Biddle: Nationalist and Public Banker*,

- 1786-1844 (Chicago: University of Chicago Press, 1959), pp. 70-71. Also see pp. 50, 65.
9. For an illuminating discussion of Colwell, see Joseph Dorfman, *The Economic Mind in American Civilization* (New York: Viking Press, 1946), II, 809-26.
 10. The first prominent political leader of the organized protectionist movement in America, Representative Henry Baldwin, was a leading Pittsburgh iron manufacturer. Baldwin, indeed, was dubbed the "Father of the American System." See Murray N. Rothbard, *The Panic of 1819: Reactions and Policies* (New York: Columbia University Press, 1962), pp. 164 ff.
 11. Dorfman, *op. cit.*, p. 811.
 12. *Ibid.*, pp. 811-12.
 13. Cf. Stephen Colwell, *The Claims of Labor and Their Precedence to the Claims of Free Trade* (1861).
 14. Harry E. Miller, *Banking Theories in the United States Before 1860* (Cambridge: Harvard Press, 1927), p. 138. Cf. *ibid.* pp. 135-38.
 15. Robert P. Sharkey, *Money, Class, and Party* (Baltimore: Johns Hopkins Press, 1959), p. 159 n.
 16. Irwin Unger, "Business Men and Specie Resumption," *Political Science Quarterly*, March, 1959, p. 53.
 17. Sharkey, *op. cit.*, pp. 245 ff. For other works of recent historical revision on this topic, see, in addition to Unger, *op. cit.*, pp. 46-70; Stanley Coben, "Northeastern Business and Radical Reconstruction: a Re-examination," *Mississippi Valley Historical Review*, June, 1959, pp. 67-90; Irwin Unger, "Review of Robert P. Sharkey, *Money, Class, and Party*," *Political Science Quarterly*, June, 1960; and Julius Grodinsky, "Review of Robert P. Sharkey, *Money, Class, and Party*," *Mississippi Valley Historical Review*, June, 1960.
 18. See Charles O. Hardy, *Credit Policies of the Federal Reserve System* (Washington: Brookings Institution, 1932), pp. 243-63. Dr. Hardy was certainly correct in concluding that "nothing has been gained by forcing the acceptance form of credit into uses in which it cannot compete on its own merits." *Ibid.*, p. 263.
 19. In a presidential address by Warburg before the American Acceptance Council, January 19, 1923. Paul M. Warburg, *The Federal Reserve System* (New York: The Macmillan Co., 1930), II, 822.
 20. Strong assumed his post only at the insistence of Warburg and Henry Davison of J. P. Morgan and Co., his former employer. Cf. Lester V. Chandler, *Benjamin Strong, Central Banker* (Washington: Brookings Institution, 1958), p. 39. Chandler, a eulogizer of Strong, finds that a "major interest of Strong and many of his colleagues, especially Paul Warburg [*italics mine*], during the 1914-17 period was in promoting the creation and use of dollar acceptances—especially bankers' acceptances" *Ibid.*, p. 86. Cf. *ibid.*, pp. 91 ff. For a critical treatment see Lawrence E. Clark, *Central Banking under the Federal Reserve System* (New York: Macmillan, 1935), pp. 242-48, 376-78.

9

Steel Price Administration: Myth and Reality

WILLIAM H. PETERSON

1. *Introduction: Means' Thesis and its Setting*

Steel is a bellwether. And as steel goes, so goes inflation. These two variations on a theme have been much bandied about and apparently much believed. The belief, coupled with the durable if dubious doctrine of administered prices, has made steel pricing one of the most studied and most controversial phenomena in the American economy today. Steel prices, along with other "administered" prices, were the subject of a three-year investigation by the Kefauver Committee beginning in July, 1957.

This paper seeks to focus attention on issues and problems in the steel pricing controversy and to evaluate steel pricing policy in the light of the theory of administered prices and of what Gardiner C. Means calls "administrative inflation," especially as detailed in Dr. Means' new book, *Pricing Power and the Public Interest: A Study Based on Steel*.¹ Another goal of the paper is to point up some of the background and motivation of government interventionism and possible planning.

The extraordinary events in the steel pricing controversy reached a climax in the spring of 1962, when the United States Steel Corporation, followed by a number of other large steel companies, including Bethlehem, Republic, Jones & Laughlin,

National, and Youngstown, increased product prices by some \$6 a ton, only to rescind the increase seventy-two hours later, the increase having immediately incurred Presidential wrath. In his press conference on April 11, 1962, President Kennedy saw the action by United States Steel and other leading steel corporations as a "wholly unjustifiable and irresponsible defiance of the public interest." The steel executives involved were excoriated for their "pursuit of private power and profit exceed[ing] their sense of public responsibility" and for "their utter contempt for the interest of 185 million Americans."² The heat did not abate. For even though the steel companies backed down, top steel executives have had to answer the Kefauver Committee—again—this time to explain their pricing behavior of April, 1962.

It is in this setting that the Means study of steel pricing should be viewed. Dr. Means, a Washington, D. C., economic consultant and co-author with Adolf A. Berle, Jr. of *The Modern Corporation and Private Property*,³ has updated and greatly expanded the ideas he presented to the Kefauver Committee in 1957 and, earlier, to the United States Senate in 1935.⁴

In his steel pricing study Dr. Means reiterates the Berle-Means thesis concerning the separation of ownership and control in the modern corporation and contends that administered prices constitute a major cause of inflation, especially the inflation since 1953. His definition of administered prices has not changed since he introduced the idea more than a quarter of a century ago:⁵

An administered price . . . is a price which is set by administrative action and held constant for a period of time. We have an administered price when a company maintains a posted price at which it will make sales or simply has its own prices at which buyers may purchase or not as they wish.

He further holds that the inflexibility of administered prices prevents the operation of Say's Law and accounts for wide swings in business activity—a theory he intends to pursue more fully in a later volume.⁶ In *Pricing Power and the Public Interest*, Dr. Means is of the belief that America's largest corporations have grown to

such size and power—that is, they have reached such a degree of dominance in industrial production—that they are no longer restricted by the traditional rigors of competitive supply and demand pricing. Instead, under pricing power, they are presumably able to administer their prices so as to optimize the probability of achieving the rate of profits desired, limited only by the fear of firms attracted by higher profits entering their industry. Following up this argument, Dr. Means concludes: ⁷

... the general conclusion one can reach is that when a big business enterprise has a substantial degree of pricing power, the profit drive itself cannot be expected to be an effective instrument for achieving the public interest. Under this drive, prices are likely to be in excess of a reasonable relation to costs; income division is likely to be inequitable and the conflicts between labor and management intensified; optimum use of resources is not likely to be approximated; and economic growth is likely to be delayed because a premium rate of return must be in prospect before the capital outlay required for new products and improved techniques will be undertaken.

Thus pricing power is the big problem in modern political economy, says Dr. Means. Since such pricing power does not seem to be in the public interest, it may not even be "legitimate." ⁸ Pricing power stems from the fact, argues Dr. Means, that today some one hundred thirty big corporations account for nearly half of the manufacturing output in the United States; and while these firms do compete, they do not compete enough to equate supply and demand in steel or in other concentrated industries. Writes Dr. Means: ⁹

Administered steel prices are set for periods of time and revised from time to time. At times, demand at the prices set may far exceed supply, so that the filling of some orders has to be postponed and some go unfilled. At other times, supply may be greatly in excess of demand, and efficient productive capacity may be idle. Only by chance is supply just equal to demand at the current price. And an excess of demand over supply or the reverse does not necessarily bring a change in price. Steel prices are not, and under modern conditions cannot be, set by the classical law.

Dr. Means says that under classical competition prices were "automatically right." Then, market forces "determined prices and assured their legitimacy." The opposite of an administered price is a "market price, a price that fluctuates with supply and demand as these forces are felt in the market."¹⁰ But market prices disappear in the presence of pricing power. And today "we cannot hope for a healthy, vigorous economy unless we can be sure that in the presence of the economic power wielded by large-scale enterprise, prices will be 'right.'"¹¹

But administered prices are definitely not right by the Means standard. In his case study of steel, prices are said to be excessive, uniform, and highly inflationary, and little of the blame can be traced to the steel unions or to the government's monetary and fiscal policies. Writes Dr. Means:¹²

On the whole one must conclude that responsibility for the big increase in steel prices after 1953 rests primarily with steel management. It used its pricing power to widen profit margins and increase the profit at any given rate of operation. Only to a much smaller extent does responsibility rest with labor. The crux of the matter is management's power to administer prices and the post-1953 rise in steel prices is a clear example of its use.

Dr. Means provides an answer in his book to the problem of pricing power. He contends pricing power can no longer be entrusted to big business. He further contends that antitrust application has proved ineffectual in bringing about "right" prices, and that government utility-type regulation of prices and companies would kill off competition, which he sees as socially desirable.

Accordingly, Dr. Means recommends passage of an "Economic Performance Act," in which Congress would establish the new legal category of "collective enterprise." The category could apply whenever it was determined that a company possessed "unregulated pricing power of sufficient magnitude to affect the corporation with a substantial public interest."¹³ Dr. Means suggests any manufacturing corporation controlling assets of "say, a half billion dollars or more [would be] presumptively a collective enter-

prise.”¹⁴ The dividing line between collective enterprise and private enterprise would be pragmatically adjusted as “experience indicated the need.”¹⁵ Legally, the collective enterprise would stand halfway between the legal category of the regulated public utility and the legal category of the unregulated private enterprise. Over the collective enterprises would be a governmental semijudicial commission.

The Economic Performance Act would seek voluntary conformance with the law on the part of big business and would provide corporate management with “incentives to favor the shift from profits to economic performance by granting the privilege of special tax treatment for bonuses based on economic performance.”¹⁶ Economic performance would be a matter of pricing in terms of target rates of return on capital that are “reasonably” related to the cost of capital—such cost estimates to be filed with the United States Treasury.¹⁷

How would the Means solution fit the steel industry? Dr. Means thinks that initially three top steel companies—United States Steel, Bethlehem, and Republic—could logically be designated as collective enterprises by the commission. Then¹⁸

... United States Steel, as the natural price leader, could be expected to recalculate the base rates which, in the light of its costs, would yield the new target rate when operations were at an average ratio to capacity. The steel prices arrived at on this basis would undoubtedly be somewhat lower than the current prices and, if set by United States Steel, would also be initially adopted by the other two of the big three and by most of the rest of the industry.

At any rate, it is the entire Means thesis from diagnosis to prescription which forms the basis for this paper.

2. *Background of the Steel Price Controversy*

In July, 1957, the Kefauver Committee opened its hearings on administered prices and their relationship to inflation, with special emphasis on the steel, automobile, and drug industries. In his opening statement, Chairman Kefauver said:¹⁹

The facts are that we do have on a widespread scale both the giant corporation and administered prices. The reality is that within a broad area of the economy prices are set, not automatically by the unseen hand of competition, as are the prices of wheat and hogs, but by the conscious and deliberate action of corporation managers who have the power to set prices at alternative levels.

The chief economist for the Kefauver Committee, John M. Blair, has long been identified as a believer in the theory of administered prices. In 1938 Dr. Blair wrote: ²⁰

Most inflexible prices are inflexible because they are in one way or another determined by administrative control. . . . We must study the phenomenon of price-setting by corporate monopoly, realizing in so doing that the larger is the percentage of our prices which are fixed by corporate monopoly as against the forces of competition, the higher will our price level probably tend to be, and the smaller will be the chances for any marked increase in real labor income to take place.

The theme of administered prices and inflation has also received attention from another Congressional committee, the Joint Economic Committee, as may be seen in *Study Paper No. 2*, "Steel and the Postwar Inflation," by Otto Eckstein and Gary Fromm. In their paper, Drs. Eckstein and Fromm of Harvard University reach, through input-output analysis, a finding quite similar to that of Dr. Means, and they conclude that the impact of steel price increases from 1950 to 1959 has been highly inflationary. Indeed, they somehow maintain: ²¹

If steel prices had behaved like other industrial prices, the total wholesale price index would have risen by 40 per cent less over the last decade and less by 52 per cent since 1953. Finished-goods prices would have risen less by 23 and 38 per cent, respectively.

Such reasoning, plus that of Dr. Means, along with the publicity attendant on the Kefauver Hearings, led to Congressional consideration of price notification legislation, in particular S. 215, a bill

introduced in 1959 by Senator O'Mahoney requiring, according to its preamble, "that corporations, in industries so heavily concentrated that monopoly or the threat of monopoly is present, file advance notice and make public justification before effectuating price increases."²² The bill would have applied to the eight largest firms in any industry if they produced 50 per cent or more of a product and had assets in excess of \$10 million. The Federal Trade Commission and the Antitrust Division were to be empowered under the bill to hold public hearings on proposed price increases and report on their justification. The bill, whose provisions amounted to indirect Federal price controls over American manufacturing, failed of passage.

The tempo of the steel pricing controversy accelerated in the summer and fall of 1961 when a number of influential United States Senators took the Senate floor on August 22 and warned the steel industry against any increase in prices in view of the final installment of the pay increases provided by the January, 1960, wage settlement going into effect on October 1, 1961. Senator Albert Gore, for example, spoke of the possibilities of breaking up the large steel companies, and, "if all else fails, steel prices can be brought under utility-type regulations."²³ Senator Mike Monroney likened the steel industry to a "cartel system" of administered prices outside the range of effective competition.²⁴ Senator Joseph Clark bemoaned the loss of "thousands upon thousands" of jobs in steel and alleged that steel prices had been administered upward as operating rates were going down.²⁵ Senator Paul Douglas presented charts saying that the United States Steel Corporation could break even with operations as low as 28 or 30 per cent of capacity or even lower.²⁶

The Congressional agitation culminated in President Kennedy's open letter of September 6, 1961, to the heads of the twelve largest steel companies. President Kennedy wrote that "price stability in steel is essential if we are to maintain the economic vitality necessary to face confidently the trials and crises of our perilous world." The President called upon the steel companies not to raise prices even though employment costs were about to rise. President Kennedy contended that without a price increase steel profits

after August 1 would still be adequate—"7 to 9 per cent on net worth after taxes if the rate of operations is around 70 per cent, 10 to 12 per cent if the operating rate is 80 per cent, and 13 to 15 per cent if the operating rate is at 90 per cent." ²⁷

In reply, Mr. Roger Blough, chairman of the board of United States Steel, wrote an open letter to the President on September 13, 1961, in which he said that he shared the President's concern about inflation but could see no causes of inflation past, present, or future in the levels of steel prices or steel profits.²⁸

In January, 1962, President Kennedy announced "guidelines" for noninflationary wage-rate increases in his *Economic Report to the Congress*. The guidelines have no effect in law; companies and unions are presumably free to accept or reject them. The President's Council of Economic Advisers, which prepared the guidelines, maintained that the decisive element was productivity. Said the Council: ²⁹ "The general guide for noninflationary wage behavior is that the rate of increase in wage rates (including fringe benefits) in each industry be equal to the trend rate of over-all productivity increase."

In the early months of 1962, collective bargaining negotiations between the steel industry and the United Steelworkers began, broke off, resumed at the behest of the White House, and were concluded with the signing of a two-year contract which left wage rates unchanged for the first year, but subject to reopening for the second year, and furnished increased fringe benefits at an estimated cost of from ten to twelve cents an hour for the first year alone. The increase was within the Administration's "guidelines." Still, the increase, hailed by the President as "noninflationary," raised steel employment costs, already at about \$3.99 per hour and the highest of any major United States manufacturing industry, about 2½ per cent per annum. The 1960 contract, signed after a 116-day strike, had required annual increases in employment costs of 3½ to 3¾ per cent per annum. Before the 1960 contract, as far back as 1940, steel prices showed evidence of cost-push inflation with employment costs increasing at an average of about 7½ per cent compounded per year and prices about 5 per cent per year. Since 1955, not surprisingly, a profit squeeze has been in effect for the industry.

On April 10, 1962, the United States Steel Corporation increased its prices by an average of $31\frac{1}{2}$ per cent or some \$6 per ton. Leslie B. Worthington, president of United States Steel, explained the action as a "partial catch-up adjustment" to compensate for increases in employment costs since 1958, the last time prices had been raised, although the price advance did not cover the increase in employment costs effective with the new contract on July 1, 1962. Quite a few observers of the action complained that even if United States Steel was right on the price increase, it was wrong in its public relations, for neither the Administration nor the public was prepared for the increase.

The rest is history.

3. *Critique: Administered Prices*

Gardiner C. Means' *Pricing Power and the Public Interest* is Louis D. Brandeis' "curse of bigness" of a half-century ago all over again. In a nutshell, the major Means premise is the breakdown of effective competition in big business. And so his thesis is: Bigness equals administered prices, administered prices equals administrative inflation, and administrative inflation requires a restructuring of United States manufacturing, beginning with the steel industry.

The literature is already replete with contributions quite damaging to the Means doctrine of administered prices. Dr. Rufus S. Tucker, for example, dealt the doctrine a serious blow in his articles in the *American Economic Review*³⁰ and the *Journal of Marketing*.³¹ In his *Journal of Marketing* article, Dr. Tucker concluded, on the basis of statistics compiled by the National Resources Committee during the 1930's, that there was no association whatever between concentration in the manufacturing industries and the rigidity of prices of manufactured products.³²

Again, Alfred C. Neal, now president of the Committee for Economic Development, wrote in his book-length study, *Industrial Concentration and Price Inflexibility*:³³

The supposed relationship between depression drop in price and concentration has been tested and found wanting. Likewise, the explana-

tion of the price-quantity relationship in terms of concentration appears to be unsubstantiated by the facts, although an inverse price-quantity relationship cannot be denied. In fact, one must be excused for wondering why so much ink has been spilled in debating these issues when there has been so little theoretical presumption in favor of the conclusions under dispute. There is, perhaps, much truth in Du Brul's remark that if Mr. Means' thesis had not been useful as a tool of politics, it would have died an early death.

Similarly, in T. N. E. C. *Monograph No. 27*, Willard L. Thorp and Walter F. Crowder found no apparent connection between concentration and price inflexibility in the 1,807 samples of manufactured products for which comparable classification existed at the time of the Census of Manufactures for 1929, 1933, and 1937. They wrote: ³⁴

Concentration in the control of production of the products does not appear to be associated with any particular and unique price or quantity behavior in either the cyclical downswing from 1929 to 1933 or in the upswing from 1933 to 1937. Products with high concentration ratios and products with low concentration ratios experienced strikingly similar changes in price and quantity.

And as the vital Means premise of a close relationship between concentration and price inflexibility has been severely undermined by critics, so too has the important Means premise of a tight relationship between changes in production and changes in prices been undermined. For example, Saul Nelson and Walter G. Keim in T. N. E. C. *Monograph No. 1* reached the following conclusions: ³⁵

When the relationship between prices and production declines during recession is examined commodity by commodity, no strikingly consistent trend is revealed. . . .

- (1) Considering all the commodities together, there is some tendency for small declines in price to be connected with large declines in production, and vice versa. . . .
- (2) For nondurable goods alone there is a similar broad tendency. . . .

- (3) For durable goods and semidurable goods considered separately, there is little if any evidence of such a relationship. . . .
- (4) There was a marked tendency for increasing durability to be associated with smaller declines in price and greater curtailments of production. . . .

Again, in 1939, Dr. Jules Backman's examination of price data similar to those used by Dr. Means concluded that no simple and clear-cut relationship prevailed between specific commodity prices and production changes. If anything, said Dr. Backman, the postponable nature of durable goods demand provides a more logical explanation for the production behavior of many goods than does the extent of price decline.³⁶

Notwithstanding the weight of academic and business opinion arrayed against the doctrine of administered prices, the Administration and certain influential members of Congress have not taken kindly to industrial price administrators, especially in the steel industry.³⁷

Perhaps the first irony to be noted in this development is that the government itself is a price administrator par excellence, but there is not a scintilla of criticism in the Means book on this score. Yet the government administers utility and natural gas prices, and taxi, railroad, bus, and airline fares. It administers tax schedules, postal rates, and the salary schedules of civil servants. It administers the prices of publications issued by the United States Government Printing Office, including one on administered prices. It requires retailers to follow specified minimum prices under the "fair trade" laws. It places a floor under the price of labor through the minimum wage laws; and it further aims at increasing the price of labor through the Ford-Bacon and Walsh-Healy Acts and through practically all other labor laws. Similarly, through the Robinson-Patman law, it restricts industry price-cutting. The government's tariffs, import quotas, farm policy, and stockpiling programs also appear to be aimed at administering or propping prices in one way or another.

Indeed, at the very same time President Kennedy was applying pressure against the steel companies to rescind their price increase

of steel by some 31½ per cent, he was calling for a 25 per cent increase in the price of first class postage, using much the same justification for the postal increase as the steel companies had used for the steel increase—namely, to cover costs.

Thus, government policy on prices is, broadly, to keep them up (save for the possible exception of the price of money—i. e., interest rates). In wartime, of course, it is to keep prices down.

Another basic Means contention lies in his view that competition in big business is anemic, that it is competition among the few, that the very existence of administered prices is proof that what he calls “administrative competition” is ineffectual. All this must be news to industrial executives who must fend off competition every day.

As noted above, scholars have already abundantly demonstrated the weak underpinnings of Means’ conceptualization of administered prices. His conceptualization of competition in concentrated industries, however, is another matter. Scholars have not displayed much unanimity in their views of competition—a spectrum which ranges from the monopolistic, oligopolistic, imperfect competition school of Chamberlin³⁸ and Robinson³⁹ to the laissez-faire competition school of von Mises⁴⁰ and Rothbard.⁴¹ As Fritz Machlup has pungently noted, the professional jargon of competition employs such adjectives as:⁴²

. . . . fair, sharp, keen, fierce, brutal, unfair, destructive, ruinous, and cutthroat competition, [and] economists have added . . . free, atomistic, pure, perfect, effective, unrestricted, simple, complete, homogeneous, rigorous, unmitigated, restrained, restricted, limited, incomplete, modified, cautious, considerate, co-operative, intermediate, hybrid, monopolistic, imperfect, heterogeneous, friendly, civilized, oligopolistic, controlled, regulated, discriminatory, predatory, potential, and workable competition.

Consider the application of the administered price concept to Dr. Means’ selected industry—steel. What concerns Dr. Means is that the price of steel is seemingly unresponsive to shifts in demand, for when the operating capacity falls because of lower demand—say, from 75 to 50 per cent of rated capacity—Dr. Means

assumes that prices should also fall in accordance with the theory that a lower demand would lead to lower prices. To an extent, and quite an extent, steel prices do fall in the form of price shadings, discounts, additional services, freight absorption, and the like; and when demand is vigorous these various shadings disappear. But Dr. Means is quite correct in his observation that prices do not fluctuate very much in the short run, as does, say, the price of wheat at the Chicago Board of Trade. The result, says Dr. Means, is neither competition nor monopoly; it is "administrative competition."⁴³

Too, Dr. Means apparently believes that the theoretical capacity to produce steel is synonymous with the actual supply of steel. But capacity and supply are two different things. The fact is that the supply of steel or any other commodity is simply a schedule of quantities offered for sale at different prices. Shifts in demand, then, are matched by shifts in supply; demand and supply are indeed in balance. In fact, much steel production is on a "to order" basis—the product actually sold before it is produced, perfectly synchronizing supply and demand.

And is competition a function of corporate size and numbers? In terms of numbers, the American automotive industry has decreased from hundreds of producers to five. During this time of decrease there has been *pari passu* a large expansion in the scale of operation of the surviving producers. But it is inaccurate to assume, as Dr. Means implicitly does, that there are but five automotive producers competing for sales in the United States, or that there are but a dozen large steel producers competing in the United States market. For, especially in the last few years, it has been evident that General Motors and other American auto producers must compete against Volkswagen, Fiat, Renault, and some forty other foreign car producers; and United States Steel and the other American steel producers must contend with the Steel Company of Wales, Phoenix-Rheinrohr of West Germany, Fuji Iron and Steel of Japan, as well as many other foreign steel producers.

In fact, according to the American Iron and Steel Institute, the volume of foreign steel mill product imports has exceeded equiv-

alent United States exports for the past few consecutive years. In 1961, for example, such imports amounted to 3.1 million net tons, exports to less than 2 million tons. Yet for the previous half century the United States had been a net steel exporter.

Yet Dr. Means persists in referring to competition in the American steel industry as gray, as "administrative competition," as competition marked by difficulty of entry. True, entry is difficult, but not impossible. United States Steel's share of the market in the six decades of its existence had slipped from 60 per cent in 1901 to less than 30 per cent in 1961. Today there are more than 275 individual steel companies with plants located in 300 communities in 35 states engaged in the production and finishing of steel. Around one-third of these companies make raw steel necessary to fabricate their finished products. The other two-thirds are involved in the further processing of semiprocessed steel made by others. For example, there are 64 makers of hot rolled bars, 59 makers of wire and wire products, 48 makers of stainless steel, 43 of cold finished bars, 24 of cold rolled sheet, and 16 of heavy structural steel.⁴⁴

Too, Dr. Means seems to have overlooked the importance of nonprice competition and to have minimized the substantial price competition in steel which does exist. While he is conscious of price changes in steel over the short and long run, not one of his charts measures quality changes. Quality competition, as Professor Lawrence Abbott has noted,⁴⁵ is an important element of modern competition, frequently providing more value at a uniform market price. Greater value can also spring from more service provided by a seller—swifter delivery perhaps, tighter guarantees, better servicing, etc. But steel prices have also been subject to change as cost-cutting led to price-cutting, a trend somewhat obscured since the end of World War II by the decrease in purchasing power of the dollar, the wage-push inflation, the generally higher quality of finished steel products, and the exhaustion of high-grade iron ore in the Mesabi Range.

Among United States steel producers, there appears to have been a constant search for ways to produce steel more efficiently. American steel companies have participated in the discovery and

development of new sources of high-grade iron ore, notably in South America, Canada, and Africa, while concurrently researching new techniques of concentrating and beneficiating lower-grade iron ores such as the taconites in the Mesabi.

Other techniques resulting in greater efficiency and lower costs have been devised. Furnace size, for example, was 29 per cent larger in 1960 than in the 1947-49 period in terms of average annual capacity in tons of pig iron per furnace. Headway has been made in lowering the amount of coke required per ton of iron produced. The dominant position of coke in steel manufacture could be superseded if experimental work now going forward with natural gas and heavy fuel oil proves successful. Too, quite a few producers have installed oxygen facilities to accelerate the steel-making process. At the finished product end, combinations of steel with other materials have opened a number of new markets. Porcelain-enameled steel, for one, is becoming a major building component; aluminized steel has been used for smoke and other exhaust stacks. For the canning industry, the steel industry has innovated a new, thinner tinplate that provides lighter-weight cans at lower cost.

With all this, competition from other materials has forged ahead. Aluminum cans are now in wide use for frozen citrus fruit concentrates, motor oils, and beer. Also competing against steel are plastics—from bottle caps to complete bottles. One-way glass bottles for beer and soft drinks are also competing for the can market. There is also new rayon adhesive tape designed to replace steel strapping. Fiberglass has appeared in a variety of uses that were formerly monopolized by steel—auto bodies, for example. Prestressed concrete has made gains in construction, again at the expense of steel. Aluminum, too, as a structural element has made its appearance in bridges and other applications.

At the same time, steel has fought back to retain markets and to win new ones. One winning method has been the improvement of steel. Steels have been improved in strength, weldability, and greater resistance to impact and abrasion. Stainless steel has become an important design material in such items as flatware and building panels. Today's steel pipe, with its greater strength and

larger diameter, transmits 60 per cent more gas than equal tonnage ten years ago. Again, new A-36 structural carbon steel carries a yield point 9 per cent higher than that of A-7 grade, which was standard for many years, an improvement which will result in important savings in construction costs of buildings and bridges.⁴⁶

This brief review of competitive moves by and against steel producers does not seem to bear out the weak "administrative competition" Dr. Means finds in the steel industry. Perhaps Dr. Means' definition of an industry is too narrow. Indeed, in the final analysis, perhaps an industry ought to be defined as "who competes with whom." Thus, telephones, telegraph, the postal system, television, radio, newspapers, magazines, etc., could be lumped into the communications industry. Oil, hydroelectricity, natural gas, bituminous coal, and atomic energy could be lumped into the energy industry. Steel, aluminum, paperboard, prestressed concrete, fiberglass, plastics, etc., could be lumped into the structural materials industry. Each one of these materials has had a powerful competitive impact on steel, causing structural shifts in steel demand (or, rather, demands, for there are separate demands for steel rails, bars, sheet, stainless, etc.) and upsetting the textbook definition sometimes accorded the "oligopolistic" steel industry. In sum, degree of concentration of an industry seems to be at least in part the degree of definitional scope accorded an industry. The wider the definition, the greater the number of producers to be found in an industry, and vice versa.

Finally, on the subject of administered prices, it can be noted that administered prices have always been important, long before they were noted by Dr. Means in the 1930's. Indeed, with the tempo of a modern economy and the speed of modern communications, perhaps the administered price phenomenon, in terms of infrequency of price changes, is in a declining trend. Dr. Means himself has conceded that administered prices were known in Adam Smith's time but argued they were unimportant factors "in the largely agricultural economy and were never taken into account in classical economic theory."⁴⁷ Dr. Tucker questioned this contention in his 1938 article, previously referred to. In it, he pointed out that Dr. Means had made no comparison between

price movements in the Great Depression with those of previous depressions, and that if he had "he would have found that rigid prices always existed; that to a very large degree they were characteristic of the same articles of which they are now characteristic, and that there is very strong reason to believe that a hundred years ago, when John Stuart Mill was writing his *Principles of Political Economy*, rigid prices were proportionally more numerous and more important to the consumer than now. . . ." ⁴⁸

In sum, this supplementary critique of administered prices concludes that (a) the concept of administered prices is not sustained by the evidence, (b) "administrative competition" is far more vigorous than Dr. Means assumes, (c) the real price administrator in our economy is not so much the United States Steel Corporation or other big businesses as it is the United States Government, and (d) administered prices have long been part of the American industrial economy in particular and capitalistic economies in general.

4. *Critique: Administrative Inflation*

Dr. Means' contention of an "administrative inflation" for the period of 1953 through 1959—as opposed to a wage-push inflation or a purely monetary inflation—has already been ably dealt with by Jules Backman,⁴⁹ George J. Stigler,⁵⁰ and Horace J. DePodwin and Richard T. Selden,⁵¹ and Walter D. Fackler and Padraic P. Frucht.⁵² Not one of these students of inflation could find much merit in the idea that inflation was simply a matter of an upward administration of prices by sellers in concentrated industries.

So if Dr. Means' theory of administered prices lacks sufficient evidence to warrant its acceptance, his concept of administrative inflation has even less evidence to substantiate it. His major point in support of administrative inflation is that the big increase in steel prices since 1953 has been a matter of widening profit margins—an abuse of pricing power and a boost to inflation. His basic proof for this contention lies in his profit margin data spanning two selected points: 1953 against what Dr. Means calls "fiscal 1959." ⁵³

The two years do not appear to be quite comparable, however. In selecting 1953, he ignores the fact that for part of that year, steel prices were still subject to price ceilings imposed during the Korean War. This is not all. Bradford B. Smith, United States Steel Corporation economist, notes that if the years of the Great Depression and those when wartime price controls were in effect are omitted from profit margin calculations, there have been only three years in United States Steel's entire history when its income as a per cent of sales was as low as it was in 1953.⁵⁴ About the other selected year, Mr. Smith writes: ⁵⁵

. . . . for his "fiscal 1959"—the twelve months ending June 30, 1959—this was the period when steel customers were rebuilding inventories from the 1958 recession and frantically enlarging them against the long steel industry strike that occurred in the latter half of 1959. By this device Dr. Means gathered into a selected twelve months' period about three-quarters of the profits earned for the full two years involved. He thus got a big figure to compare with his selected little figure.

The profit margin comparison between 1953 and "fiscal 1959" is further weakened by Dr. Means' arbitrary selection of a period within a broad inflationary period, eliminating what he calls the "war inflations" of World War II and the Korean War. Mr. Smith noted the industry price and cost data for the entire inflationary movement of prices from 1940 to 1960 supplied by the American Iron and Steel Institute. The dollar figures on a per-ton-shipped basis are as follows:⁵⁶

	1940	1960	Increase
Employment Costs	26	81	55
Purchases (Including Int.) . . .	33	89	56
Depreciation	4	10	6
Taxes	4	15	11
Profits	6	12	6
Sales	<u>\$ 73</u>	<u>\$207</u>	<u>\$134</u>

These figures indicate an increase in sales per ton of \$134 against an increase in profits of \$6. To blame the latter for the

former does not make much sense, nor does blaming profit margins, which shifted from about 8 per cent of sales in 1940 to slightly less than 6 per cent in 1960. In fact, despite the steel industry's vaunted pricing power, steel ranked but 33rd among 41 manufacturing industries in 1961 in terms of profit yields.

Again, if steel producers can administer prices to assure higher profit margins, we should expect to find higher yields on investments in the noncompetitive steel industry than in, say, the highly competitive supermarket industry. We do not. Steel returns on investment have long run about 10 per cent under the returns on investment in supermarkets.⁵⁷ And if steel is a bellwether, and if, as steel goes, so goes inflation, then an increase in steel would pyramid prices inexorably throughout the economy. Not so. In June, 1962, for example, wholesale prices of refrigerators were some 22 per cent lower than they were in 1957. Yet in that same month, enameling sheet, delivered, was priced at \$10 a ton more, and some stainless trim at \$18 or \$20 a ton higher.⁵⁸ Perhaps more disturbing to Dr. Means' position has been a rash of administrative deflation. In July, 1962, United States Steel announced a 5 per cent cut in line pipe following downward revisions of prices of secondary steel sheet; Alleghany Ludlum cut the price of stainless steel plate; and Republic lowered prices on some other steel products.

The blame for the inflation of steel prices, it must be concluded, must be assigned elsewhere, to the monetization of debt, for one (demand-pull inflation), and to the power of the steel unions, for another (cost-push inflation).

Dr. Means' concept of "administrative inflation," in fact, under analysis seems little else but cost-push inflation; and he concedes, perhaps inadvertently, that unless the price administrators are bailed out of their overpricing by the government's handy provision of a monetary expansion, recession and unemployment would follow.⁵⁹ In short, the market furnishes its own sharp discipline to price administrators who deviate from equilibrium prices between demand and supply. Dr. Means practically admits as much.

5. Critique: Dr. Means' Solution

If Dr. Means has misconstrued the nature of inflation and pricing behavior in steel and other concentrated industries, he has misconstrued even more the nature of the free-enterprise system in advocating the measures involved in his proposed "Economic Performance Act."

To reinforce the case for this proposed law, Dr. Means charges that the profit drive can no longer be entrusted to big business, that profits and the public interest, like oil and water, do not mix. Indeed, in introducing his chapter, "The Profit Drive and the Public Interest,"⁶⁰ he quotes Commodore Vanderbilt's alleged statement, "The public be damned." So he reaches the belief that big business is too essential to the public interest to be thought of as *private* enterprise; it must be viewed as collective enterprise.⁶¹ Collective enterprises would be legally created out of "those collective manufacturing corporations whose pricing power is found to be vested with a substantial public interest."⁶²

In criticism, it must be noted that Dr. Means' collective enterprise solution rides roughshod over the property rights of the corporate stockholders. Recalcitrant stockholders who might attempt to persuade management not to convert to the collective enterprise category would be coerced through a specially imposed excess profits tax,⁶³ a proposal which does not seem too far removed from expropriation.

Dr. Means defends this proposal by quoting from Berle and Means in 1932 to the effect that in employing professional managers to operate their companies, stockholders "have surrendered the right that the corporation should be operated in their sole interest."⁶⁴

But this line of reasoning ignores the basic premise of the free-enterprise system that all corporations are chartered precisely because they are in the public interest and not in the "sole interest" of the stockholders. Every enterprise, incorporated and unincorporated, profit and nonprofit, is affected with a public interest, from the nursery school to the great university, from the newsstand operator to the large industrial corporation.

In this regard, it seems propitious to re-examine the public-private interest discussion of Adam Smith: ⁶⁵

As every individual endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.

But such reasoning is missing from Dr. Means' rationale, and his proposal for restructuring big business in America falls into the same error as did the United States Supreme Court in *Munn v. Illinois* in 1876. Then the Court argued that grain storage prices charged by elevator operators could be regulated by the State of Illinois, because when a business man "devotes his property to a use in which the public has an interest, he, in effect, grants to the public an interest in that use, and must submit to be controlled by the public for the common good." ⁶⁶

Under this reasoning, virtually all private pricing could be brought under government controls, inasmuch as every business is affected with a public interest.

To sum up, Dr. Means' book is based on a false syllogism. His premises of administered prices, administrative competition, and administrative inflation lack supporting proof. His solution—which could be characterized as too extreme, too arbitrary, too unfair, and too tenuous—is simply unnecessary. He plays into the hands of planners and interventionists, ignoring the Parkinsonian inclinations of government. For example, his critical margin of corporate size (a half billion dollars in assets) would inexorably be lowered with time; corporate estimates of capital costs

would be continually challenged by the United States Treasury, with the usual red tape, agitation, and litigation.

Dr. Means appears to be trying to supplement the rule of the market with the rule of bureaucracy and administrative regulation—a dubious supplement. He appears to be trying a new variant of an old battle cry—production for use, and not for profit.

NOTES

1. New York: Harper & Bros., 1962.
2. *New York Times*, April 12, 1962.
3. New York: Macmillan Co., 1932.
4. *Hearings before the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, United States Senate* (Washington, D. C.: U. S. Government Printing Office, 1957), Part I, pp. 74–125 (hereafter referred to as *Administered Price Hearings*); and Gardiner C. Means, "Industrial Prices and Their Relative Inflexibility," *Senate Document No. 13* (Washington, D. C.: U. S. Government Printing Office, January 17, 1935).
5. *Ibid.*, *Senate Document No. 13*, p. 1.
6. Means, *op. cit.*, p. xx. See also Alvin H. Hansen, *Economic Issues of the 1960's* (New York: McGraw-Hill Book Co., Inc., 1960), p. 13: "Since the end of the Second World War the general buoyancy of demand has eased off on three occasions—1949, 1954, and 1958. In my judgment it is primarily at these recession points that administered prices enter the picture."
7. Means, *op. cit.*, pp. 274–275.
8. Means, *op. cit.*, p. 9. On this page, Dr. Means quotes with obvious approval a statement of A. A. Berle, Jr.'s: "Concentrated economic power . . . raises at once the question of 'legitimacy.'" From *Power without Property* (New York: Harcourt, Brace and Co., 1959), p. 98.
9. Means, *op. cit.*, pp. 10–11.
10. *Administered Price Hearings*, Part I, p. 75.
11. Means, *op. cit.*, pp. 10–11.
12. *Ibid.*, p. 150.
13. *Ibid.*, pp. 297–298.
14. *Ibid.*, p. 298.
15. *Ibid.*, p. 300.
16. *Ibid.*, pp. 300–301.
17. *Ibid.*, p. 297.
18. *Ibid.*, pp. 316–317.
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 22. S. 215, 86th Congress, 1st Session.
 23. *Congressional Record—Senate*, August 22, 1961, p. 15588.
 24. *Ibid.*, p. 15591.
 25. *Ibid.*, p. 15590.
 26. *Ibid.*, p. 15588.
 27. *New York Times*, September 7, 1961.
 28. *Ibid.*, September 14, 1961.
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 32. *Ibid.*, p. 360.
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60. *Ibid.*, p. 264.
61. *Ibid.*, p. xix.
62. *Ibid.*, p. 297.
63. *Ibid.*, p. 312.
64. *Ibid.*, p. 310; also Berle and Means, *op. cit.*, p. 355.
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10

State Interventionism and Democracy in Latin America

WILLIAM S. STOKES

The elite members of the upper middle-classes which govern everywhere in Latin America and the talented, traveled, cultured intellectuals who represent their views tend to repudiate capitalism in favor of state interventionism, without concerning themselves seriously with the question whether individual liberty and the representative republic will be jeopardized thereby.

The conditioning impact of hundreds of years of experience with mercantilism explains in part the attitudes and values which prevail today in Latin America with respect to economic matters and the relationships between economic and political systems. As Heckscher makes clear, mercantilism was an economic theory that was designed to enhance the power of the state. It was carried into effect either by (1) the government's directing the economy of the nation in such a way as to further the political and military ends or objectives of the state, or (2) creating a reservoir of economic resources that could be drawn upon to further political and military ends. The origin of the "policy of provisions" (*abastos*) Heckscher associates with Spain. The mercantilists "idealized the state," and therefore believed that the individual should be "subordinated to the state unconditionally."¹

The evidence suggests that both Spain and Portugal began their domination of the New World by establishing a system of mercantilism, which grew stronger until just prior to the wars of independence. The characteristic features of this system were centralized economic direction and monopolistic control of all major aspects of the economic life of the New World. Both countries established a monopoly of trade to the exclusion of foreign nations, although their efforts were nullified in part by persistent smuggling. They licensed a privileged group of merchants to do the bidding of the central government and protected them by tariffs, bounties, subsidies, restrictions on immigration and imports, navigation acts, and concessions. Spain, for example, centralized administrative control of the government's monopolistic position through the *Casa de Contratación* (India House), the *Consulado* of Sevilla (a form of merchant guild), a convoy system, and a series of privileged ports (Sevilla-Cádiz in Spain; Cartagena, Portobelo and Vera Cruz in America). The government reserved for itself monopolies over mercury, salt, pepper, corrosive sublimate, gunpowder, playing cards, stamped paper, even snow. Manufacturing and industrial development in the New World were subject to restraint, direction, and control. Both Spain and Portugal were divided into *latifundios* (large estates) by the time of the discovery and conquest of the New World. The rural masses obtained land or the use of it from the nobility in exchange for services or tribute in money or products. Portugal immediately established a land tenure system in Brazil based on great estates. Although conditions were different in the Spanish colonies, and the methods of land tenure which were adopted were different, by the end of the colonial period a system of large estates was as firmly established as in Brazil.

The guild system was, of course, well established by the time Spain and Portugal conquered and colonized the New World. According to Cabanellas, the guild or corporative system originated in Greek associations called *etairias* and *eranos* and later in Roman associations called *sodalitates* and *collegias*. As the Iberian Peninsula was a province in the Roman Empire, the methods of organizing workers which the Mediterranean cultures developed

undoubtedly had an influence. The German and Anglo-Saxon guilds were somewhat similar to the Roman *collegias*. The guilds were headed by officials who were called *rewars* in England, *consules* in Italy, *baillis* or *juries* in France, and *veedores* or *mayorales* in Spain.

The Spanish guild or corporation (*gremio*) exercised well-defined functions. It: (1) limited competition; (2) fixed prices; (3) regulated the market; (4) controlled the conditions of employment; and (5) provided for fairs and other trading centers.

The *gremios* enjoyed exclusive jurisdiction over the professions, arts, and industries, but they were not independent entities. They derived their powers from public authority, and they were subject to municipal tutelage. Indeed, the local councils (*ayuntamientos* or *cabildos*) enacted codes which regulated manufacturing and commerce in detailed fashion. From about the fifteenth century on, however, the increased power of the monarch began to result in the restriction of local government and hence served to introduce a more centralized kind of political control over the *gremios*.

The basic philosophy of the *gremio* was that it should have absolute, complete, monopolistic power to determine the conditions of employment for everyone from apprentice to master workman. Indeed, no one was permitted to work at all except under the conditions established by the *gremios*. It was a system of "closed" shop. Advancement in the hierarchy was from apprentice to journeyman to master workman, and each step was regulated minutely. Once a master had his own shop, he was not permitted to expand his business without the express permission of the *gremio*, nor could he use capital acquired by saving, inheritance, marriage, etc., to purchase other industries or businesses. The *gremio* made the processes of manufacturing identical for all producers down to the last detail. This included the number and type of tools that could be used, the hours of work, salary, cost of materials, and specific methods of manufacturing each product. The *gremio* defined technical innovation as unfair competition (*competencia desleal*). No master was permitted to introduce a single change or improvement in manufacture, even if it could be shown that his idea would reduce costs. The object, of course,

was to guarantee security and protection to each apprentice, journeyman, and master. Each shop was protected from competition from all other shops and also from foreign producers. The regulations of the *gremios* were enforced by inspections and unannounced visits by officials of the *gremios* or the municipality, and violations were punished swiftly and severely. The effect of the *gremios* in the Iberian peninsula and in the New World was to stifle individual initiative and enterprise, retard technical innovation, produce a relatively static economic system in which standards of living improved very slowly, and contribute to the inculcation of the idea of centralized, monopolistic authority as a principle of organization.²

It took the leadership of the Iberian countries several hundred years to become aware of the bankruptcy of mercantilism. Some attempt was made in the eighteenth century to liberalize trade. Spain created a series of monopoly trading companies—the Honduras Company in 1714; Caracas Company in 1728; Havana Company in 1740; Santo Domingo Company in 1757; other companies later—in an effort to improve the situation. The reforms, however, were modifications of mercantilism rather than shifts to economic liberalism, and they did not have enough of an effect to arrest the independence movement of the nineteenth century.³

The economic system of mercantilism of the Iberian countries was wedded to a centralized political system. By the late fifteenth and early sixteenth centuries, when the New World was discovered and the period of colonization began, monarchy and centralization had clearly triumphed over ancient tendencies toward representation and decentralization. The kings defied or ignored the *cortes* or parliaments of Castile, Aragon, Valencia, and Catalonia and established royal-controlled councils to take their place. The Spanish monarchy created a Council of the Indies with executive, legislative, and judicial authority to govern its possessions in the New World. Even greater over-all centralization developed in the eighteenth century, when the monarchy created ministries which governed the colonies directly. As mercantilism greatly increased the number and types of functions exercised by the state, the power of the state to intervene, direct, and control

the activities of individuals and groups correspondingly increased. By the end of the colonial period, the Ministry of the Indies, working closely with the monarch, achieved maximum development of centralization and state power. A centralized, absolutistic, hierarchical system was imposed on each of the political divisions of the New World.

The only place in which the techniques of democratic government might be learned was in the town, in particular the *cabildo abierto*, or open town meeting. Authorities disagree as to how "democratic" local government was during the colonial period, as distinguished scholars such as Ots y Capdequí, Bayle, Konetzke, and others make clear.⁴ Some things seem certain, however: (1) the monarchy was opposed to local autonomy, self-government, and representative procedures and instituted various governmental measures, such as creation of *corregimientos*, to suppress such developments; (2) municipal public offices were bought and sold on the open market like produce; and (3) the *cabildos abiertos* were not "open" in a democratic sense. Only the most important citizens were invited to attend them, and the powers they had were modest, especially after the *intendencia* system was established in the middle of the eighteenth century.⁵

Donald M. Dozer, distinguished historian of Latin American affairs, provides an excellent summary of the economic and political heritage of Hispanic culture:

Both the native Indian regimes in New Spain and Peru and the Hispanic imperial regime which succeeded them were totalitarian and monolithic with respect to private enterprise and activity. The Spanish government was inflexible, authoritarian, and highly centralized. It was operated by an army of bureaucrats which included not only soldiers, but also clergy, tax collectors, royal inspectors, inspectors of inspectors, and a host of other officials. Under the old Spanish monarchy the Crown exercised juridical sovereignty over private wealth and regulated the life of his subjects under an elaborate set of protective doctrines. The conquistadores who carved out new empires for Spain and Portugal in the Western Hemisphere looked to the Crown for authority and support for their explorations and colonizations. The new lands were claimed as the private estate of the

sovereign, and their resources were considered to be subject to distribution and use only by the ruler. Business operations were carried on under the grant of privileges or concessions (*fueros*) by the government, and in general they were handled as exclusive monopolies abhorring the idea of individual enterprise and free competition. The authority of the state, closely allied as it was with that of the Church, was the greatest single factor in the life of the Spanish and Portuguese colonists in America. The continuance down to our own day of the old Spanish theory that title to all subsoil resources is vested in the national government, which was used to justify the expropriation of foreign oil companies by the Mexican government in the late 1930's, is only one example of the superior claims of government in Latin America over private wealth.

Acceptance of the supreme and overriding power of the state, then, is the inheritance of Latin America. The Roman law and its derivative, the Napoleonic Code, which form the basis for the legal system of Latin America, exalt the authority of the state. Despite the successful resistance of the Latin Americans to Spain, Portugal, and France in their wars of independence, the tradition of governmental absolutism and centralized authority of the state as the decisive factor in human life, which Philip II, Pombal, and Napoleon exemplified, casts its long shadows over modern Latin America—not only as an idea but also as a basis for action.⁶

Neomercantilism and State Interventionism in Republican Latin America

"Mercantilism in Latin America has never died," George Wythe wrote in his outstanding work on industry in Latin America in 1945.⁷ The Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee reported in 1962 bold manifestations of state interventionism in Latin America, uninhibited by "fiscal myths." The Report provides appropriate illustrations of Latin American governments which have sought to "get their countries moving" through deficit financing, usually incurred through operating deficits and investment programs of state enterprises. In fairness, the Report also suggests that the consequences of state interventionism and deficit financing as a tool of economic development have been chronic

inflation (Argentina: 1943–100, cost of living index; 1958–1,610; cost of living rising 30–50% per year in Brazil, etc.), severe balance-of-payments controls, depleted foreign exchange reserves, and “deterioration of . . . industrial plant. . . .”⁸

The idea that centralized control by the government over the property and resources of a nation will accomplish the ends of rapid industrialization, modernization of agriculture, and the achievement of welfare is found in most of the modern-day constitutions, beginning with the Constitution of Querétaro of Mexico of 1917. Among the subjects included in virtually all recent constitutions are the social functions of property, state ownership of subsoil rights, rights of expropriation, planning, social security, many kinds of material welfare for everyone from the unborn to the aged, regulation and direction of the economy by the state, and government assistance to labor.⁹ Many aspects of state interventionism are to be found in the volumes of recent laws expressing economic nationalism. In the field of trade and commerce, the devices, techniques, or policies which most Latin American governments have used continuously or from time to time from the 1930's to the present include: centralized, executive control over the raising and lowering of tariffs; foreign-exchange control centralized in some government agency supplemented by a mass of clearing agreements, payments agreements, compensation agreements, and regulatory procedures; import quotas; national monopolies, such as the Chilean Nitrate and Iodine Sales Corporation or more recently the IAPI Corporation in Argentina, or the government corporations monopolizing oil in Mexico, Brazil, and Argentina; export subsidies; price fixing; barter agreements; and cartels. I have elsewhere discussed state interventionism briefly through selected case studies¹⁰ and in detail in connection with Bolivia.¹¹

Some of the words and phrases that have a positive connotation among governing groups and intellectuals in almost all parts of Latin America are: “fomento” or “fomentar” (government as the initiator and director of the allocations of resources and distribution of goods and services); “planificación” or “economía planificada” (planning, planned economy); “dirigismo” (“direc-

tionism"); "intervencionismo" (interventionism), and "el estado intervencionista" (the interventionist state).

The great ideological and political movements in Latin America in recent decades have all been collectivistic in varying degrees in the economic aspects of their philosophy and program—the Mexican Revolution, the Cuban Revolution (under the *auténticos* mainly, from 1933 to 1952); the Castro Revolution in Cuba (1959 to the present); the Guatemalan Revolution (1944–1954); the "Revolución Nacional" under the MNR in Bolivia (especially from 1952 to the present); *justicialismo* in Argentina; the *estado novo* in Brazil; *aprismo* in Peru; *Acción Democrática* in Venezuela; *Liberación Nacional* in Costa Rica; etc.¹²

The *pensadores*—poets, novelists, essayists, artists, intellectuals, professional people, especially those who describe themselves as economists—have become increasingly antagonistic toward private initiative and enterprise and increasingly sympathetic toward state interventionism or collectivism. It cannot be argued that the values and principles of economic liberalism were hidden from them when the Latin American countries achieved independence. Since the *pensadores* are educated, cultured people, frequently with a knowledge of several languages, such an argument could be advanced with even less justification today. The Peruvian José Baquijano y Carillo and the Venezuelan Juan Francisco de León were distinguished men, whose support of liberalism had at least intellectual influence late in the colonial period and in the early years of independence. Juan Gustavo Courcelle-Seneuil, the renowned French professor, taught economic liberalism for many years at the University of Chile and advocated the principles of free enterprise when he was an adviser to the Chilean government in 1855–1863. At least nineteen Mexican thinkers or men in public life openly supported all or most of the principles of economic liberalism since independence.¹³ Other illustrations could, of course, be cited.

As we examine the literature of economic theory in Latin America in the nineteenth and twentieth centuries, we cannot help but be impressed with the many accurate descriptions of the principles of economic liberalism. However, it is true that Latin

American authors seldom describe capitalism in detail. Usually all one can find is a paragraph or a page or two. Even when an author devotes an entire book to a study of liberalism, there are likely to be only a few pages on economic liberalism.¹⁴

Very probably many Latin American thinkers have an elementary and superficial understanding of what the principles of economic liberalism mean in practice. This impression is based in part on the failure of Latin American scholars to produce detailed case studies of the nature and operation of capitalism. It is based more, however, on the discussions with Latin American intellectuals as to what they understood in a practical sense by modern-day capitalism or, more broadly, economic liberalism. In almost every such conversation two things stood out: (1) with reference to their own countries they indicated that they thought capitalism was in effect when only one principle of this economic system—the private ownership of capital—was operative; in practically every instance of alleged capitalism called to the author's attention, the owners of land, factory, or mine had an arrangement with the government—concession, monopoly, or subsidy—which permitted them to operate without competition; (2) with reference to the United States, practically all Latin American intellectuals admit that an economic revolution has taken place in a short period of time in which all social classes have shared. All admit readily that the United States, even after the limitations on economic freedom which have taken place since the 1930's, is the world's most conspicuous example of a free-enterprise economy. But when one inquires why and how this economic revolution has taken place, almost never, in the author's experience, has the capitalistic system been given any substantial credit. The most common explanation given for the material success of the United States is that America is a rich country and wealth is simply available for the taking. Although the above generalizations are supported by evidence, a recent phenomenon should be noted and watched carefully. In several of the Latin American countries, especially the larger ones, such as Mexico, Argentina, Brazil, and Chile, small groups of scholars dedicated to the study and analysis of economic liberalism are emerging. They are inviting speakers

from the United States and Europe to deliver lectures in their countries on the system of private initiative and enterprise, and they have begun a program of publication to express support for their ideas and opposition to state planning, socialism, or any form of collectivism.

It is easy to compile an immense bibliography of literature that opposes private initiative and enterprise and favors state interventionism. Although I referred to more than fifty such works in a study published in 1957,¹⁵ literally hundreds more could easily have been cited. Latin American intellectuals and political leaders who repudiate capitalism and support state interventionism for the most part ignore the critics of collectivism. Ludwig von Mises, in a series of profound analyses beginning in 1920, sought to prove that the socialist theoreticians proposed to abolish the price system and the competitive market without being able to devise a rational substitute that was economic.¹⁶ If there is a logical refutation of Dr. Mises' position, his critics, such as D. H. Dickinson, Maurice Dobb, Oskar Lange, Abba P. Lerner, and Fred M. Taylor, have not, in the author's opinion, provided it. Mises can be said to have killed socialism in an intellectual sense. However, a sample of some hundreds of sources on Latin American economics and economic thinking reveals very few serious mentions of Mises. There are some exceptions, of course. Roberto T. Alemann devotes ten pages out of 252 to a summarization of Mises' thinking in his book *Economic Systems* (*Sistemas económicos*), published in Argentina in 1953, and in addition refers to Mises on eighteen other occasions. On the other hand, Dr. Luis Roque Gondra, the famous professor of political economy at the University of Buenos Aires, mentions Mises only once in 700 pages in his book, *Course on Political and Social Economy* (1946). Other writers, such as Hayek, Jewkes, Anderson, Stocking, Watkins, Cassel, Lloste-Lachaume, and Lacour-Gayet, who have criticized state interventionism, are seldom quoted in the works of the Latin American *pensadores*.¹⁷

The General Theory of Employment, Interest and Money, Lord Keynes' famous treatise which was published in 1936, became known and widely quoted in Latin America almost immediately

as a source for ways by which economic change might be achieved rapidly. What many Latin American writers found in Keynes was the following: The reason for inadequate production is inadequate consumption. As private enterprise does not supply enough goods and services at low enough prices to raise the material standards of living of the masses rapidly, it becomes the duty of the state to correct the failure. This the state can do easily and quickly by increasing the purchasing power of the people through state spending. The state should spend on public works and also on the creation of new enterprises. When the state spends, employment for a number of people immediately results. The newly employed workers have purchasing power they did not have before which they spend, and the recipients spend, and these recipients spend, and so on, multiplying the original "good" at stages along the way. If the state does not have the money to spend in the amounts needed to accomplish the rapid economic development such spending is believed to be able to produce, it is then the duty of the state to embark on deficit financing. The state should borrow wherever possible, and if this fails, print paper money. However inaccurate, even distorted, this interpretation of what Lord Keynes was trying to say might be, many Latin American writers and men in public life have apparently believed it. Some, of course, have dealt in a more sophisticated way with the "multiplier" (the idea that investment outlay increases spending power beyond the original amount) and the "accelerator" (the contention that a rise in consumption expenditure induces fresh investment) and the relations between the two. Might not such views, if implemented, lead to inflation, which might produce harmful or even disastrous consequences? Latin American writers have not often concerned themselves with such possibilities. Even great works on the consequences of inflation, such as Constantino Bresciani-Turroni's study of the German inflation of 1914-1923, are seldom quoted. When the German inflation finally ended, there were 92.8 trillion paper marks in circulation. The inflation had destroyed whole social classes and probably contributed to the Nazi dictatorship of Hitler that followed.¹⁸ When the author mentioned the German experience to Latin American intellectuals, he was frequently

given the reply that the German inflation was undoubtedly harmful to certain groups but that "a little inflation is a good thing."

Writers who have taken the position that the traditional laws of economics have to be considered in development programs are largely ignored. In 1955 and 1961, the author asked many Latin American scholars and men in public life what they thought of works like Nurkse's *Problems of Capital Formation in Underdeveloped Countries* and Lewis' *Aspects of Industrialization*.¹⁹ The response was largely ignorance of the books and distaste for the ideas when they were outlined.

Latin American intellectuals who advocate state interventionism seldom show concern for the effect their proposals might have on political liberty and the representative republic in their countries. For example, in 1945, Professor Antonio Manero read a paper on industrial development in Mexico. He stated that economic liberalism was impossible for Mexico, and he recommended state planning. A round-table discussion followed. Twelve men spoke on the paper, some of them more than once. Not a single speaker raised the question whether the limitations on economic freedom which Professor Manero proposed might result in limitations on political freedom. Quite the contrary was the case. There was general agreement that economic planning was useful and desirable.²⁰ Occasionally Latin American writers, like Anibal Pinto S.C., will state casually and without evidence that although planning and dictatorship have gone along together in the past, this is not "essential."²¹ The Marxist planners always proclaim that they want socialism and democracy. Marxists, of course, use "democracy" and "dictatorship" synonymously. This is confusing in itself, but they hide their meaning in other ways. Hernán Siles Zuazo, former President of Bolivia under the "Revolución Nacional," states that he wants democratic, not totalitarian planning.²² Lipschutz asserts that he wants democratic, not Fascist planning.²³ Poblete Troncoso wants socialism and democracy, but a "disciplined," not an "undisciplined" democracy.²⁴ Some Marxists are less cautious. César Jobet declares bluntly that he is opposed to parliamentary democracy.²⁵ Waiss admits that in his democracy, the conservative enemies of socialism must be "vio-

lently removed.”²⁶ If there is anything in political theory which seems certain, it is that Marxism-Leninism cannot tolerate freedom of speech, free party organization, or free parliamentary procedures.

*State Interventionism and the Representative Republic:
Concluding Remarks*

In a remarkable but little-known study of the relationship between economic and political systems, Willis Ballinger found that, “whenever in history a free government has emerged, the economic life of a people, politically free, has been invariably organized in a system essentially capitalistic in its nature.” The Ballinger thesis also argues that “. . . whenever in history despotism has existed, the economic life of the people has been invariably organized in a system which is not capitalistic. This constant association of democracy and capitalism could not have been accidental. It indicates clearly that it is only in a capitalistic economic system that political freedom can exist.”²⁷ The difficulty is that Ballinger attempts to cover political and economic systems over a span of about 2,500 years. It is questionable whether sufficient evidence is available to establish a causal relationship between capitalism and representative democracy as he insists. However, just as political democracy makes each individual citizen “the guardian of his own interest,” as Lord Acton phrased it, so in capitalism the individual is the guardian of his own interest. Without even investigating the evidence, it is logical to expect that democracy and capitalism would go hand in hand. And scholarship has produced some illustrations in support of the Ballinger thesis.²⁸ Furthermore, Ballinger is not alone among scholars in arguing that freedom is indivisible, at least in so far as economic and political systems are concerned.

It can be argued that it is the attitudes and values that individuals hold which determine their personal, group, and institutional behavior, regardless of the laws or structures of society. Although producing and distributing systems undoubtedly contribute greatly to the development of such attitudes and values,

there are other conditioning elements in an individual's life that also have an impact. Some of these include historical tradition, the nature of the existing political system with which the individual comes into contact, and the influence of such social institutions as the class system, family, church, and education. It would be unwise to deny the possibility, in theory at least, that the planned economy and the representative republic are compatible. Learned and virtuous men in such British and European movements as that of the Fabians and Social Democrats have so argued.

However, the empirical evidence of the affinity of collectivism for dictatorship is provided by the events of recent history. The most perfectly developed system of socialism of modern times is that of the Soviet Union, where practically all the means of production are owned and operated by the state. Their economic system of socialism is in partnership with a political system of dictatorship which has used individual assassination, mass starvation, group killings, terror, labor dragooning, thought control, censorship, distortion, and misrepresentation of the factual events of history, control over the movement of citizens within and without the country, partial suppression of religion, and the like as methods of government. It is difficult to think of any important political liberty which the Soviet dictatorship under socialism has not seen fit to abolish or emasculate. Other economic systems that reached a high level of socialism or state planning in recent decades include Fascist Italy, Nazi Germany, and Japan. In each instance the system of planned economy was coupled with political dictatorship. In Latin America, the country which achieved the largest degree of state interventionism, planning, and socialism—prior to Castro's Cuba—was Argentina under General Perón and *justicialismo*. The evidence is overwhelming that the General believed dictatorship indispensable for the achievement of the "gains" he envisioned for his *descamisados*. Other Latin American countries, such as Guatemala (1944–1954) and Cuba (1959 to the present) found it necessary or at least desirable to combine political dictatorship with socialism. Those countries which have made a beginning toward planned economic

systems, such as Italy, France, Spain, England, the Scandinavian countries, and the United States to some extent, have been forced immediately to limit economic liberty. State interventionism has not yet proceeded far enough in any of these countries (except Spain) to jeopardize political freedom or the representative republic; but if the Ballinger thesis possesses any merit, there will be a gradual loss of political liberty as an inevitable accompaniment of the gradual increase of state control over the economic system.

At the heart of all the great political ideologies in Latin America in recent decades is the insistence that the government can better provide, through nationalization of the means of production or by direction, regulation, control, and planning of the economy, material standards of living significantly higher than those to which the masses of the people have been accustomed in the past. Those who agree with Lord Acton that when ". . . a single definite object is made the supreme end of the state," the state becomes "inevitably absolute,"²⁹ must conclude that the possibilities for individual liberty and freedom, whether expressed in economic or political areas, are becoming fewer in Latin America. The author has discussed the possible consequences to individual liberty of various of the political ideologies current in Latin America with many Latin American thinkers. Their response sometimes is that the price of restriction of individualism and liberty is not too high if economic standards can be raised. Others take the position that once the state has accomplished its objectives in the economic field, it can then reduce its functions and restore a greater degree of liberty for each individual to develop and express his talents and abilities as he sees fit. This is an optimistic prediction of the willingness of men to relinquish power once they have attained it—an expectation that many of us cannot share.

It cannot be denied that individuals in many parts of the world are "looking up" more and more to central governments to solve their problems for them. The clock can be turned back, as the case study of West Germany (and other European countries) demonstrates. Indeed, socialism in Western Europe is now

contained and definitely on the defensive in terms of ideas and political action. However, the trend in the emergent and underdeveloped states is still in the direction of expanding the functions, power, and authority of the centralized state. One of the great issues of our time concerns the point at which state interventionism begins to drain the vitality of the representative republic. As one analysis of the four federal republics of Latin America suggests, virtually all the "bold new powers" that the "liberals" of both the Republican and the Democratic parties in the United States desire to permit the central authorities to absorb have already been conferred upon the state in Latin America. Virtually without exception, the consequences have been *contraproducente* (the reverse of expectations) and sometimes disastrous to both political liberty and economic well-being.³⁰ As politics is an art, and not a science, the negative consequences of state interventionism in Latin America might not necessarily be visited on the United States if we embarked upon similar policies and programs. On the other hand, some instruction might ensue from examination of the experience of the Latin American countries. The problem can be viewed from the opposite side. The United States has committed itself to the expenditure of some billions of dollars in Latin America through the *Alianza para el progreso*. In return for these billions, the Latin Americans must accept a certain degree of tutelage. The responsibility for guiding their behavior is very great indeed, for it is possible that our recommendations might result in dictatorship and the planned society rather than the representative republic and private initiative and enterprise. A Congressional committee recently returning from South America perceived the dilemma and reported: "Every time we encourage reliance on centralized planning we risk playing into Soviet hands, by showing a distrust of our own characteristic national method and encouraging the technique of our ideological competitors."³¹ If there is anything to the idea that liberty is indivisible, the *Alianza* should allocate its billions in such a way as to encourage the values of the free, humane society in all fields—social, economic, and political. This could be done if the United States

were to take Latin America seriously, for the first time I am afraid, and mobilize our talent from government, business, journalism, the churches, and the institutions of higher learning for the purpose of achieving the objective.

NOTES

1. Eli F. Heckscher (trans. from the German by Mendel Shapiro), *Mercantilism* (London: George Allen and Unwin, Ltd., 1935), pp. 31, 40-41, 88-90, 118, 158, 165-167, 283, 320, 327, 338-339.
2. On the guild system in Hispanic culture, see: Guillermo Cabanellas, *Derecho sindical y corporativo* (Buenos Aires: Editorial Atalaya, 1946), pp. 19-24, 44-65; Manuel Carrera Stampa, *Los gremios mexicanos* (Mexico, D.F.: E.D.I.A.P.S.A., 1954), pp. 9-80, 131-149, 161-202, 224-295; Luis A. Despontin, *El derecho del trabajo. Su evolución en América* (Buenos Aires: Editorial Bibliográfica Argentina, 1947), pp. 299-325; Arthur Ramos, *Las poblaciones del Brasil* (Mexico, D.F.: Fondo de Cultura Económica, 1944), p. 177. On Catholic views of the corporative system, see: Carlos Mario Londoño, *Economía social colombiana* (Bogotá: Imprenta Nacional, 1953), pp. 194-215; Vernon L. Fluharty, *Dance of the Millions* (Pittsburgh: University of Pittsburgh Press, 1957), pp. 125-126, 245; J. V. Freitas Marcondes, *A Sociological Study of the First Brazilian Legislation Relating to Rural Labor Unions* (M.A., University of Florida, 1953), pp. 51-52, 64-66; Robert E. Quirk, *The Mexican Revolution and the Catholic Church, 1910-1929: An Ideological Study* (Ph.D., Harvard University, 1950), *passim*; Sarah Elizabeth Roberts, *A History of Trade Unionism in Latin America* (Ph. D., George Washington University, 1948), pp. 35-36, 65, 179; Alceu Amoroso Lima, *O problema do trabalho* (Rio de Janeiro: AGIR, 1947), p. 287; Alfonso López Aparicio, *El movimiento obrero en México* (Mexico, D.F.: Editorial Jus, 1952), pp. 128-129; Salvador M. Dana Montañón, *Justicia social y reforma constitucional* (Santa Fé, Argentina: Instituto de Investigaciones Jurídico-Políticas de la Universidad del Litoral, 1948), p. 237.
3. Donald M. Dozer, *Latin America* (New York: Henry Holt, 1962), *passim*.
4. José M. Ots y Capdequí, "El régimen municipal en el Nuevo Reino de Granada durante el siglo XVIII," Universidad Nacional de Colombia (Bogotá: enero-marzo, 1946), pp. 75-111; Constantino Bayle, *Los cabildos seculares en la América española* (Madrid: Sapiencia, S.A. de Ediciones, 1952), p. 814; Richard Konetzke, *Colección de documentos para la historia de la formación social de Hispanoamérica: 1493-1810* (Madrid: Instituto Balmes de Sociología, 1953), I, 669; Konetzke, "Estado y sociedad en las Indias," *Estudios Americanos* (Sevilla: enero, 1951), pp. 33-58.
5. John H. Parry, *The Sale of Public Office in the Spanish Indies under the Hapsburgs* (Berkeley and Los Angeles: University of California Press, 1953), p. 71; John Preston Moore, *The Cabildo under the Hapsburgs; A*

- Study of the Origins and Powers of the Town Council in the Viceroyalty of Peru, 1530-1700* (Durham, North Carolina: Duke University Press, 1954), p. 309; W. W. Pierson, "Some Reflections on the *Cabildo* as an American Institution," *Hispanic American Historical Review*, November, 1922, pp. 573-596; C. E. Castañeda, "The Corregidor in Spanish Colonial Administration," *Hispanic American Historical Review*, November, 1929, pp. 446-470; Lillian E. Fisher, "The Intendant System in Spanish America," *Hispanic American Historical Review*, February, 1928, pp. 3-13; Alfonso López Michelsen, *La stirpe calvinista de nuestras instituciones* (Bogotá: Universidad Nacional de Colombia, 1947), p. 97.
6. Donald M. Dozer, *Are We Good Neighbors?* (Gainesville: University of Florida Press, 1959), pp. 275-276.
 7. George Wythe, *Industry in Latin America* (New York: Columbia University Press, 1945), p. 65.
 8. Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee, *Economic Policies and Programs in South America* (Washington, D.C.: U.S. Government Printing Office, 1962), pp. 35-48.
 9. An adequate short appraisal of this kind of constitutional development by a scholar (Marxist) who approves of it is Moisés Poblete Troncoso, "The Social Content of Latin American Constitutions," *Social Forces*, October, 1942, pp. 100-106.
 10. William S. Stokes, *Latin American Politics* (New York: Thomas Y. Crowell Company, 1959), chapter on Industry.
 11. Helmut Schoeck and James W. Wiggins, *The New Argument in Economics* (Princeton, N. J.: D. Van Nostrand Co., 1963), "The *Contraproductente* Consequences of the Foreign Aid Program in Bolivia," pp. 145-184.
 12. Some able studies of Costa Rica, with emphasis on *Liberación Nacional*, have recently appeared: James L. Busey, *Notes on Costa Rican Democracy* (Boulder: University of Colorado Press, 1962), p. 84; Busey, "Contemporary Political Movements of Central America," *Proceedings of the Eighth Annual Regional Conference of the Rocky Mountain Council for Latin American Studies* (April 13 and 14, 1961), p. 15; Charles W. Anderson, "Central American Political Parties: A Functional Approach," *Western Political Quarterly*, March, 1962, pp. 125-139.
 13. Jesús Silva Herzog, *El pensamiento económico en México* (Mexico, D.F.: Fondo de Cultura Económica, 1947), pp. 39, 49, 52, 60, 67, 76, 81, 90, 98, 107, 115, 117, 121, 126, 137, 149, 152, 171, 179, 181.
 14. Francisco Ayala, *El problema del liberalismo* (Mexico, D.F.: Fondo de Cultura Económica, 1941). Pp. 31, 37, 39, 41, 94 contain only a few paragraphs on economic liberalism.
 15. William S. Stokes, "Economic Anti-Americanism in Latin America," *Inter-American Economic Affairs*, Winter, 1957, pp. 20-22.
 16. Among other works, see: Ludwig von Mises, *Human Action* (Cambridge: Yale University Press, 1949), p. 889; *Socialism* (Yale University Press, 1951), p. 599; and *The Anti-Capitalistic Mentality* (Princeton, N.J.: D. Van Nostrand Company, 1956).
 17. See: Friedrich A. Hayek, *The Road to Serfdom* (Chicago: The Univer-

- sity of Chicago Press, 1944), p. 248; Hayek, *Individualism and Economic Order* (Chicago: The University of Chicago Press, 1948), p. 272; John Jewkes, *Ordeal by Planning* (New York: The Macmillan Company, 1948), p. 248; Benjamin M. Anderson, *Economics and the Public Welfare* (New York: D. Van Nostrand Company, 1949), p. 602; George W. Stocking and Myron W. Watkins, *Cartels or Competition?* (New York: The Twentieth Century Fund, 1948), p. 516; Gustav Cassel, *From Protectionism through Planned Economy to Dictatorship* (London: Cobden-Sanderson, 1934), p. 26; Pierre Lloste-Lachume, *Réhabilitation du libéralisme* (Paris: Éditions SÉDIF, 1950), p. 320; Jacques Lacour-Gayet, *Vingt ans de capitalisme d'état* (Paris: Éditions SPID, 1951), p. 302.
18. Constantino Bresciani-Turroni, *The Economics of Inflation* (London: George Allen and Unwin, Ltd., 1937). See especially pp. 5, 23, 286, 398, 400-402.
 19. Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries* (Oxford: Basil Blackwell, 1953), p. 163; William Arthur Lewis, *Aspects of Industrialization* (Cairo: National Bank of Egypt, 1953), p. 41.
 20. Antonio Manero, "El fomento industrial de Mexico," *Memoria del Segundo Congreso Mexicano de Ciencias Sociales* (Mexico, D.F.: Artes Gráficas del Estado, 1946), pp. 171-293.
 21. Anibal Pinto S.C., *Hacia nuestra independencia económica* (Santiago de Chile: Editorial del Pacifico S.A., 1953), p. 52.
 22. Hernán Siles Zuazo, "Hacia la planificación de la economía boliviana," *Revista de la Facultad de Economía y Finanzas* (Oruro, Bolivia, julio-diciembre de 1954), pp. 39-40.
 23. Alejandro Lipschutz, *El indoamericanismo y el problema racial en las Américas* (Santiago de Chile: Editorial Nascimento, segunda edición, 1944), pp. 459-460.
 24. Moisés Poblete Troncoso, *El standard de vida de las poblaciones de América* (Santiago de Chile: Prensas de la Universidad de Chile, 1942), pp. 288-289.
 25. Julio César Jobet, *Ensayo crítico del desarrollo económico-social de Chile* (Santiago de Chile: Editorial Universitaria, S.A., 1955), pp. 24-25.
 26. Oscar Waiss, *Nacionalismo y socialismo en América Latina* (Santiago de Chile: Prensa Latinoamericana, S.A., 1954), pp. 149-151.
 27. Willis J. Ballinger, *By Vote of the People* (New York: Charles Scribner's Sons, 1946), p. 8.
 28. For example, see the three-volume study (1,799 pages) of Michail Rostovtzeff, *The Social and Economic History of the Hellenistic World* (1941) as reviewed in detail by the distinguished Italian thinker and statesman Luigi Einaudi in *Greatness and Decline of Planned Economy in the Hellenistic World* (Berne: A. Francke, 1950), p. 48. This is the account of what happened when the Ptolemies of Egypt established and administered a planned economy. By the third century B.C., the Ptolemies were operating a centralized plan for agriculture and industry. The central government told the farmer what he could plant, what seed he could use, and how to prepare and care for the soil. Inspectors from the

central government compelled him to do what he was told and in addition supervised the harvesting of his crops. The central government monopolized and regulated minutely the distribution of agricultural products, such as vegetable oils. Egypt had price control and rationing. The administrators fixed the prices for oil so high that a forty per cent import duty had to be imposed to keep out foreign competition. Other state monopolies existed in flax, beer, salt, saltpeter, alum, leather, and scents. The monopoly in paper was partial, but the private sector was strictly supervised by the government.

The evidence indicates that the Ptolemies did not seek to impose misery on their subjects. They sought, instead, to do them good. The economic and political effects of the planned economy were disastrous, however. The Kings, the native subjects, and the Greek conquerors all suffered. The peasants reacted to the planned economy with decreased initiative, slowdowns, strikes, smuggling, and black-market activities. The government answered with spies, punishment, terror, and finally wholesale expropriation of properties. Many persons left their farms or employment and fled to the desert to become brigands or sought escape from the tyranny in the asylum of the temples. The Greeks Hellenized a few Egyptians, but gradually lost their own initiative and creativeness. The planned economy ended in poverty and dictatorship.

29. John Emerich Edward Dalberg-Acton, *Essays on Freedom and Power* (Glencoe, Illinois: The Free Press, 1948), pp. 36, 40, 130, 163, 184.
30. William S. Stokes, "The Centralized Federal Republics of Latin America," *Essays on Federalism* (Institute for Studies in Federalism, 1962), *passim*.
31. Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee, *op. cit.*, p. 25.

II

Economic Planning in Great Britain: Pretense and Reality

A. A. SHENFIELD

Every British schoolboy has learned that in 1894 Sir William Harcourt, then Chancellor of the Exchequer, said, "We are all socialists now." This was in the Britain which had conspicuously resisted all attempts of French or German socialism to penetrate it; in which early native socialist ideas had died; which had low and only faintly progressive taxation; which had none of the new-fangled Bismarckian state-provided social services; which had no state or state-assisted universities and only the beginnings of a state system of primary education; which had no knowledge of, and would have mightily resisted if the need had arisen, any kind of conscious economic interventionism or *dirigisme*; in which the very air breathed a spirit of individual independence and freedom; and in which a strong national pride and cohesion itself largely rested on the fact that the state was not regarded as synonymous with the nation.

Sir William was not deliberately "talking through his hat." The occasion of his now famous statement was the commencement of the taxation of inheritance. Death duties had arrived, and within two generations they were to become a most powerful

engine of attack on private property. However, it is unlikely that he foresaw this. That in the Britain of 1894—so different from the Imperial Germany which was the center of socialism and yet itself had a far more liberal economy than the West has known in our times—he could talk of socialism illustrates the range and mutability of situations, actions and policies that may conceivably be called socialist.

So too is it with economic planning. We are nearly all economic planners now. If anticartel or antimonopoly legislation qualifies as a form of planning, as it may logically well do,¹ a majority of the champions of the free economy is probably to be found in the ranks of the planners.

The difficulty with the definition of economic planning is not merely that it may range from, say, antitrust legislation at the one extreme to the work of a Gosplan at the other, but also that its practice always differs from its theory or intention. We may, if we wish, exclude antitrust legislation and any other state action designed to preserve the decentralization of economic initiative from our definition of planning, reserving it, according to general practice, solely for those forms of state action that are intended to centralize initiative; and still we are left with a range of policy and theory that analysis must find excessively slippery. No field of action is more affected by sham, double-talk, and unconscious inconsistency than that of economic planning; and the vagueness of the concept of planning is a source of great strength to the planner. For no sooner is the impracticability, or perhaps simply the muddle, of one notion of planning exposed, than the planner slides away to the embrace of another notion. The characteristic of this kind of planner—and he is easily in the majority—is not that he has a plan, but that he feels in his bones that only the state can produce economic order, balance, or stability. Hence, the failure of any particular plan does not abash him; for he is not really committed to any particular plan or type of plan. If he were, he might be forced at some stage to review his belief in economic planning; as he is not, his belief survives all mishaps. At the same time, the belief in the power of the state to deal with economic ills is so strong and widespread that

even those who are normally skeptical of economic planning may be ready to turn to it when economic setbacks occur.

Consider, for example, how in Great Britain the idea of economic planning has lived to fight again after its debacle of 1945-51. It illustrates both the power of belief in economic planning to persist without clear blueprints for planning, and the possibility of drawing to its support some of those who are normally likely to be against it.

The Labor Party has for many years proclaimed itself to be the party of economic planning. In fact, not merely has it never produced a blueprint for planning, but even when it was in power and believed itself to be planning the economy, it never produced anything more than a succession of expedients which resembled one another only in that they all confined, hobbled and undermined the processes of the market. During the War the government had operated some kind of plan of centralized economic initiative, but it was a plan of the crudest kind. Manpower, materials, and manufactured goods needed for the war came first; all others came second. Only the basic needs of the civilian population qualified for the first category. Hence, no one expected, and patriotism would have stilled the expectation if it has arisen, that the government should produce a fine adjustment of resources to the innumerable and ever changing desires of the people. As for the planning of war matériel and personnel itself, no one outside the government was able to tell how crude it was except when some striking shortage of arms or men displayed itself; and even then the explanation could appear to be the limits to our total resources as much as the failure to plan them accurately. Hence, wartime economic planning, though in some sense a genuine exercise in the centralization of initiative, could proceed without breakdown mainly by the use of the simple devices of prohibition, rationing, and arbitrary pricing.

This was the system which the Labor Government inherited in 1945 and which gladdened its heart. For it had the appearance of planning without, in the circumstances of peace, having the reality; and this suited the Labor Party admirably and would

do so now if it were in power. The reason is that Labor thinks of itself as a master planner only when it is in the mood to contrast its belief in concepts of order, science, social engineering, and the like with the alleged chaos of the market economy. In another mood it regards itself as pragmatic, commonsensical, ready to compromise, and tender to individual rights, in the best Anglo-Saxon tradition. In a third mood it sees itself as a moral party, the champion of fairness, unselfishness, and compassion. And then, over and above these contrasting facets of the image which it gives itself, it is, in action, very largely a mere coalition of labor unions. Hence, it finds a system of prohibition, rationing, and arbitrary pricing ideal. That the state issues the commands makes it feel that it is planning. That the commands are in reality unplanned and unco-ordinated makes it feel that it is pragmatic and commonsensical. That the commands impose rationing and below-market pricing for basic goods makes it feel itself to be the morally elevated protector of the poor and the scourge of the moneyed classes (in the tradition of the expulsion of the money-changers from the Temple, and the medieval "just price": it especially applies in the case of "cheap money," i.e., the below-market pricing and rationing of capital). And that the commands have these three characteristics enables them in practice to be shaped to the down-to-earth desires of the pressure groups of the party, namely, the labor unions. These contradictions leave the Labor politician unruffled. Since he wants economic planning, he believes that everything he does must be economic planning.

Thus, the Labor Government in the main simply continued the economic planning of wartime. Indeed, so little did it really seek to fashion a delicate and complex plan of control for the whole economy that when it added the nationalization of certain industries to the system inherited from the War, it actually took steps to ensure that their operations would not be co-ordinated. The nationalized industries' boards were not made answerable to Parliament, and in practice the cabinet ministers relished nothing less than determining the boards' policies, and so they avoided doing so. That these industries thus became in-

dependent empires caused Labor no disquiet; for this suited yet another Labor attitude, which is incompatible with effective planning, namely, that once the pursuit of private profit is exorcised from production, distribution, and exchange, the root of all economic evils has been extirpated.² Why plan à la Russe when the true cause of chaos has been removed?

Rationing and physical controls could not work either for progress or for equity; and in a nation that remembered freedom, they could not even be made to appear to work. Elected to dismantle them, the Conservatives, with at first the most gingerly steps but gradually realizing that they had the people behind them, in due course gathered the courage to get rid of the controls.³ One thing the Conservatives did fairly quickly. They freed themselves from the illusions of "cheap money" (probably the most damaging because the most basic and most pervasive of the controls), and began to allow the rate of interest to take its place as a regulator of the economy. Before long they came to view it as the regulator-in-chief. It is true that they failed, and have failed to this day, to reduce to any significant extent the relative size of the public sector of the economy, but the private sector was at least freed from the straitjacket of wartime and post-war Labor controls.

Now, however, the Conservative Government has proclaimed a new-found belief in some form of economic planning, and it has set up a National Economic Development Council to devise policies for this purpose. It has followed this with an announcement of intention to set up a National Incomes Commission to co-ordinate the development of the main categories of income. Does this mean that Conservatives have lost faith in the virtues of free enterprise? Do they believe that the free pricing system is incapable of co-ordinating the activities of independent enterprises, and that some form of compulsion at the center (in place of the manipulation of interest rates) is therefore necessary? Are they tacitly admitting that there is some merit after all in their opponents' views? Are they once again, as they have sometimes done in the past and have often been accused of doing, stealing their opponents' trousers?

The answer is at first sight surprising. It is that there is no doubt at all that the Conservatives remain genuinely opposed to anything that can be called economic planning of an authoritarian kind and hence to the enforced centralization of economic initiative. What, then, is their purpose in proclaiming what appears to be a new policy? Is it possible that they can believe in the voluntary centralization of economic initiative? If their statements mean anything at all, they apparently do.

To understand this, we must appreciate the one great failure that has nagged and perplexed them since 1955. From 1951 to 1955 they became more and more obviously a great improvement upon their Labor predecessors. Then, in 1955, the British balance of payments fell again into crisis, as it had done in 1947, 1949, and 1951, under Labor, and since then the weakness of sterling has appeared to be endemic. In order from time to time to stem the outflow of funds and to stimulate exports, the government has attempted to restrict the home market by the use of high interest rates (and by various other methods of a rather more *dirigiste* character). From this has resulted the much attacked and derided "stop-and-go" course of events. The government hoped that the "stop" periods would be short and the "go" periods would be long, but the reverse has been the case. Thus it is that the rate of growth of the British economy has appeared to be so unsatisfactory in comparison with that of other leading Western European countries (though not in comparison with that of the United States, which fact is usually ignored by the government's critics). During the "go" periods, our growth rate has been excellent, but the "stop" periods have reduced the average rate to a level that has puzzled and depressed the nation, and perhaps has even begun to shame it.

The basic cause of our troubles has been clear. It has been the combination of a strong tendency to rising costs with our vulnerability, as bankers to a large part of the world and custodians of one of the two great international currencies, to fluctuations in confidence in sterling. Our vulnerability to fluctuations in confidence in sterling we must expect, for it is the price which has to be paid for many great advantages. The problem thus

resolves itself into that of containing costs, so that our power to meet competitors in external markets is not undermined.

During the first half of the nineteen fifties, the view that our inflation was caused by the pull of demand, and therefore could be controlled by restraint in the creation of money and credit, tended to prevail. During the second half, however, the view that the inflation was a cost-push phenomenon, and especially a wage cost-push phenomenon, gained strength, and it now almost certainly prevails over the former view. Hence, policy has tended to concern itself with the containment of wage pressure. Those in authority have tended to conclude that it is safe, though not necessarily desirable, for wage costs to rise faster than labor productivity if a fall in other costs enables prices to remain stable; or that it may be safe, though again not necessarily desirable, if the net effect is a rise in prices, as long as the rise does not exceed that of our competitors' prices. Both of these hypothetical limits of safety, however, have been transgressed, and so our cost situation has led us from time to time into dangerous competitive weakness.

The plain man's way of dealing with such a situation is to try to persuade organized labor to keep its demands below what its power can obtain, and to ask business to limit its profits, or at least its distribution of profits, below the level that would, in the absence of such exhortation, result. The government has been attracted by this kind of approach, though its objections to the compulsory planning of incomes has prevented it from going beyond exhortation. In a more sophisticated form this kind of exhortation becomes, or leads to, a national wages policy, such as has to some extent been put into effect in Sweden and the Netherlands, or perhaps to a national incomes policy. However, proposals for a national wages policy have been consistently rejected by the labor unions, without whose participation a national incomes policy is also, of course, impossible. The government therefore first attempted to tackle the problem by an essay in public education, which it hoped would impel the unions to become more accommodating. It set up the Council of Prices, Productivity and Incomes (which came to be popularly

known as the "Three Wise Men"). This Council delivered itself of some analyses of, and homilies upon, the relations between incomes, productivity, and prices, but these had little effect upon the public mind and almost certainly none whatever upon that of the unions. Whereas other interested bodies and individuals gave evidence to the Council, the unions boycotted it from the beginning.

The lingering and menacing balance-of-payments difficulties of 1961-62, which produced another "stop" period and hence the arrest, for the time being, of economic growth (as measured by the statistical indices), induced the government to attempt something apparently more fundamental. This is why it has established the "National Economic Development Council" (popularly known as Neddy), and it is the tasks of this Council and its staff which have been popularly described as "economic planning." The "National Incomes Commission" (popularly known as Nicky) has not yet ⁴ seen the light of day, and it is by no means certain that it ever will. The Council, presided over by the Chancellor of the Exchequer, contains representatives of industrial management and of the labor unions, together with a few independents. The staff is headed by Sir Robert Shone, who was until recently an executive member of the Iron and Steel Board. The Iron and Steel Industry is the only major privately owned industry that is at present subject to some form of central economic control. This is a legacy of Labor's nationalization of the industry; for, when the Conservatives denationalized it, they judged it desirable to retain some measure of central control in order to safeguard what was popularly regarded as the public interest. Hence, the appointment of Sir Robert Shone as head of the staff of the National Economic Development Council apparently strengthens and supports the view that the purpose of the new scheme is some kind of genuine, though voluntary, planning for the centralization of economic initiative.

However, there have, in fact, been three ideas at work in this development. First, there has been the view that the acceleration of economic growth calls for the making of forward projections and programs for the various sectors of industry and for their co-ordina-

tion at the center. Here the apparent success of the Monnet Plan ⁵ in France has been a powerful force of propulsion. If this has succeeded in France, a growing number of people have said, why not in Britain?

Secondly, there has been the view that economic growth has been retarded by numerous impediments which have been allowed to obtrude themselves on the economic scene, and that therefore the acceleration of growth requires the removal of these impediments. The main enemies here are seen to be restrictive practices. As the restrictive practices of monopolies and cartels have been heavily attacked by the two Acts of Parliament of 1948 and 1956, it is obvious that by far the most important restrictive practices are those of organized labor, which flourish luxuriantly and are subject to no control at all. However, one must walk delicately where labor's restrictive practices are about, especially in a body which contains representatives of the unions, as the National Economic Development Council does. Hence, those who have restrictive practices in mind as an impediment to growth tend to fasten attention upon institutional obstacles to change or to entrepreneurial vigor, for it appears possible to identify and attack some quite bulky obstacles of this kind without raising the hackles of organized labor. Indeed, the danger obviously is that a hue and cry may be raised against institutional obstacles to managerial efficiency in the hope of stimulating growth which in fact can be achieved only if labor's restrictive practices are at the same time weakened or removed. The belief in the desirability of attacking the problem of growth by the removal of impediments is to some extent inspired by the success of M. Jacques Rueff ⁶ in blowing cobwebs away from the French economy, but it has not succeeded in impressing the Rueff image upon the public mind as much as the first idea (that of the co-ordination of projections and programs) has done with the Monnet image. Among even the educated public, for every person who has heard of Rueff, ten have heard of Monnet.

Thirdly, there remains the idea of simply getting organized management and labor together in order to hammer out a national wages or incomes policy—whether there is a Monnet Plan or not,

and whether there is a Rueff program for the removal of impediments or the blowing away of cobwebs or not. There is no doubt that this was originally intended to be part of the work of Neddy, but if Nicky is established and if it obtains the co-operation of the labor unions, which is unlikely, it will clearly have to take this over. Without the co-operation of the unions, Nicky will have to content itself with trying to influence the opinions of arbitrators and the public generally on the reasonableness of wage demands and settlements.

The second and third ideas underlying the establishment of the Council do not call for lengthy consideration for the purpose of a review of the revival of economic planning. A Rueff program, resolutely applied, would, without doubt, propel the British economy smartly forward. Fresh air and a searching light are likely to clear away a great deal that holds us back. There are indeed institutional and conventional impediments to growth among us, and their removal would be likely to give our economy an *élan* such as it has perhaps not had for some generations.

Unfortunately, a full-scale Rueff program cannot be produced by the new Council, except at a price that would be much too high. The most important impediments to growth by far are, as we have seen, the restrictive practices of organized labor. These consist not solely of the established and recognized union rules relating to job demarcation, to the intake of apprentices and other recruits, to the manning of new machinery, and the like. They consist also, and perhaps in a more potent form, of the pervasive attitudes of labor in favor of concerted limitation of effort, of solidarity against the management, of persecution of the nonconformist worker. The new Council includes in its membership a strong contingent from the unions. Even if these representatives agreed to the dissolution of labor's restrictive practices, there is little reason to believe that labor would in fact change its ways. One of the most important features of modern unionism in Britain is that its leaders are largely incapable of effective leadership in matters of this kind.

However, there is no hope whatsoever that the labor representatives on the Council will agree to the trimming of their restrictive

practices by one jot or tittle except on terms that would more than nullify any benefits that might arise therefrom. First, though some of the union leaders realize the harm done to their members, and still more to the members of other unions, by some of these practices, they have no stomach for a fight with their less enlightened colleagues or with their own rank and file. Secondly, no union leader believes *all* these practices to be harmful, and a majority probably believes that most of them are entirely equitable and even conducive to economic progress. Thirdly, even those who might be prepared to bargain away a cherished rule here or there would do so only in return for government intervention that would shackle private enterprise. Dividend limitation enforceable by law would be the least part of the price. Any really significant concession would be offered only in exchange for economic planning as the Labor Party understands it (which, as we have seen, lacks the coherence of any genuine planning but is poisonous enough to private enterprise). Hence, the discussion of impediments to growth will quickly leave the subject of labor's restrictive practices, if these are taken up at all, and will occupy itself with the improvement of management, with the production of scientists and technicians, with the training of workers (in so far as union rules are not affected) and similar subjects. This may do some good, but if it were all that the Council produced, the greater part of the public would conclude that the mountain, having been in labor, was delivered of no more than the proverbial mouse. This alone would ensure that the Council would devote itself much more to a Monnet program than to a Rueff program.

A simple program for a national wages or incomes policy would run into exactly the same difficulties as a Rueff program, but in a sharpened and heightened form; and in addition there are theoretical difficulties about a national wages or incomes policy that do not concern the Rueff type of policy.

A national wages policy runs counter to the most deep-seated attitudes of British unions. Even when the Labor Government, in difficulty with the inflation that could not be hidden or disguised by its controls, requested the unions to exercise restraint, they did not or could not do so. As allies, sponsors, and financial

backers of the Labor Government, they took up an apparent posture of restraint, but it meant little in practice. In the eyes of each individual union it cannot make sense to bargain for less than it can obtain, unless there is a strict and effective co-ordination of all the unions' bargains; and the only body that might organize such co-ordination, the T.U.C., has neither the power nor the will for such a task. It is indeed extremely unlikely that restraint would be acceptable to some unions even if there were effective co-ordination. For the only attraction of such co-ordination to individual unions is that it keeps wage differentials rigid, and differentials are more important to many workers than absolute wage levels. But to the union that is at the head of the queue just when the axe of wage restraint falls, the preservation of differentials is at that moment an affront; for the unions that were ahead of it in the queue will have succeeded in widening the differentials between its members and theirs before the axe fell. In any case, policies of wage restraint rest upon the supposition that the cause of the inflation that they are to contain is "cost-push," which is at least debatable;⁷ and they also assume that restraint in collective bargaining will somehow produce restraint in the myriad individual bargains that are free to be made above the collective level, despite full employment and acute shortages of particular grades and skills.

Hence, even if we ignore the question of its logic or internal consistency, we have to conclude that a national wages policy would not be accepted, or if accepted would not be put into effect, by the unions unless they could wave before their members so splendid and glorious a prize that all their doubts and natural urges would be stilled. Such a prize could not be less than the submission of private industry to the full range of interferences which unions believe to be just. Not, of course, that this would mean anything that could genuinely be called socialism or economic planning. There is insufficient consistency in union thinking or feeling for that. But it would mean submission to such a measure of cross-grained control and intervention as would transform the character of private industry.

For these reasons neither the removal of impediments to

growth nor the search for a national wages or incomes policy is likely to grip the attention of the new planners seriously or effectively for long. Only forward projections and programs—the Monnet aspects of their work—are likely to offer them an apparently rewarding task for some considerable time ahead. In any case, the theory of the national wages policy is itself dubious. This receives little popular attention because the practical difficulties of obtaining agreement to the policy are so great that the public is disinclined to apply its mind seriously to the question of its logic. In fact, in Sweden and the Netherlands the policy has failed, as is well known, to prevent inflation or to keep its rate below that of comparable countries without national wages policies, though they have no doubt reduced the incidence of open conflict in individual industries and factories. National wages policies are an interesting example of the hazards of relying for action upon macroeconomic calculations. One can no doubt make estimates of past changes in the productivity of the total labor force that are not wildly inaccurate, and to apply the productivity figures of one period to the wages of the next may not be seriously misleading if the periods are not too long. But a formula applying productivity figures for the whole labor force cannot allow each individual worker or group of workers to be paid according to his or their productivity; indeed, it must prevent it. Since the formula is certain to be applied in such a way that no categories of worker suffer a fall in money wages per hour, day, or week, and since bargaining in individual cases remains possible—indeed, under full employment, inevitable—for rates above the agreed levels, inflation remains unconquered.

Before we examine the Council's prospects in the Monnet field, we must return to the influences that have led to its establishment. To the convinced champion of economic planning, the removal of impediments to growth and the containment of wage-cost inflation are largely irrelevancies. Growth requires targets. For how else can it be planned and the success of policies producing it be measured?

There are two particular influences at work here that deserve some notice in passing. First, there is the upsurge of what is aptly

called "growthmanship," that is, the belief that growth must come first, that it is the solvent of all economic problems and the proper aim of all economic policy. Popular thinking about economic affairs has always been the plaything of fashion and its catchwords, and today the master catchword is "growth." This is why the nation has come to be puzzled, depressed, and perhaps shamed by its growth record. But it is worth noting that the shame, if any, is of a contrived character. People do not normally worry about the growth record of other countries. Very few citizens are concerned to make or consider a comparison between the GNP of some other nation and that of their own, or between their rates of increase. If they are broadly content with the way things go in their own country, the superior rate of growth of some other country will receive no more than casual attention. The reason why people have become increasingly worried about the British rate of growth is that the measures producing the "stop" periods have produced great discontent, and it is in the fertile ground of this discontent that criticisms and complaints founded on comparisons with the growth rates of other countries take root and flourish.

In short, like other economic fads and fashions, growthmanship fits easily into the armory of those who have an axe to grind. Of course, like other economic fads and fashions, it is also founded on misunderstanding and faulty analysis. For the growthman, progress requires that at all times and in all circumstances the statistical quantity of goods and services produced must be rising (for the most naive it is the statistical quantity of goods only that matters). The balance of the economy and the stability of its framework do not matter. Misinvestment and production for unwanted ends go into the hotchpot with all else; if they count statistically, they count for the addict of growth. That in due course they may lead to decline leaves him unruffled. Having declared himself for growth, he is sure that growth can always be engineered. When he finds that his pot of statistical growth can be kept boiling only by inflation, he concludes that inflation is not such a bad thing after all. But growth by inflation not only leads to an abyss. It also produces less and less growth for more and more inflation.

What merits our closer attention is the second of the two particular influences which have helped to shape public opinion in this field. It is the argument that, as the rise in wage costs is the root of our competitive weakness and hence of our balance-of-payments difficulties, and as it is impossible to resist the pressure of organized labor in the modern world, the way out is to keep the economy growing faster than labor's claims. Labor has become accustomed to a rise in wage rates, or perhaps in earnings (it is never clear which the champions of this line of thinking have in mind), of two to three per cent per annum. Therefore, we must keep the economy growing by, say, four per cent per annum. Thus, we shall be saved, and by a good margin. The increase in productivity will more than make good the rise in the payment to labor, and so our cost situation will no longer hobble our progress and efficiency.

This argument is reminiscent of one of Keynes' less fortunate inspirations. Expansion in a state of mass unemployment required a fall in real wage rates; but labor would resist reductions in money rates; therefore, the fall in real rates was to be engineered by a rise in prices. Events have shown that organized labor is not as short-sighted as Keynes appears to have thought it to be. On the contrary, the rise in prices has been seized upon as a cogent argument for quite disproportionate rises in money wages. Those who seek to deceive organized labor have no easy task. So too with the idea of inducing the economy to grow at such a rate as always to be a pace ahead of the demands of labor. Is one to believe that labor will not notice how the cake grows? Or that it will not see that, since its own slice is not growing as fast as the cake itself, other people's slices will be growing at an outstanding rate? The question needs only to be posed to be answered.

If there are no other changes in the economy, that is to say, if full employment and a readiness to inflate the volume of currency and credit remain the order of the day, labor's demands will exceed the availability of resources to meet them for precisely the same reasons as they do now. The only glimmer of reason in this kind of proposition, which has gained remarkably wide currency despite its emptiness, is the fact that the machinery of col-

lective bargaining has occasionally caused the unions to fail to grasp the full opportunities of a passing excessive demand for their members' services. In short, the labor monopolist is sometimes prevented by the cumbersomeness of the machinery which he uses from extracting from the traffic the full amount of what it will bear. This is a slender foundation for the proposition that he will allow himself to be kept permanently from charging what the traffic will bear as long as the traffic will give him the increases that he has hitherto become accustomed to.

Of course, as one would expect, those who advance this proposition are not really concerned with producing a theory to reconcile monopolistic labor organization with price stability. What they are really concerned with is belaboring the government when it imposes measures of restriction in the defense of sterling. Then it is that they argue that, by thwarting growth, restriction makes it harder, not easier, to deal with labor; or that by reason of the effect of reduced output on overhead cost in some prominent industries it becomes harder, not easier, to contain the upward pressure of unit costs. Their watchword is "always the accelerator, never the brake." They either do not believe or do not care that their maxim would have produced the repeated devaluation of sterling. They ignore the causes of inflation and, like the simpler-minded "growthmen," do not really wish to arrest it (even though they advocate a policy of growth for that purpose), for at bottom they too do not believe inflation to be half so bad as it is painted.

We are now in a position to return to the Council's prospects in the field of projections and programs. The theory here is that firms fashion their forward programs in the light of what they expect the development of their markets and supplies will be and of what their competitors will do; that at present the expansion plans of individual firms tend to be based on what is rather easily foreseeable in a slow-growing economy where even slow growth is often interrupted; but that when each firm knows that if it raises its sights other firms will do likewise, the whole economy may be raised to higher levels. Thus, growth will be accelerated if firms get together to make projections for the future

and to produce programs for expansion in harness with one another. Though this would be a species of economic planning, it would not involve or depend upon the use of physical controls, but would rely upon the free co-operation of individual firms, for each of which the projections would be intended to provide new data for the better development of its own business. The government would itself be a party to these projections and programs in so far as the public sector was concerned, as well as, of course, providing the staff and machinery for the co-ordination of the projection-making in the private sector.

The Council has commenced boldly with a bench mark of four per cent compound growth per annum, which is about twice the average rate of the past decade. However, it has to face certain difficulties.

First, projection and program-making involve forecasting.⁸ The record of collective economic forecasting is no augury for success. In Britain, for example, wildly erratic forecasts have been made in recent years of coal demand, of energy demand generally, and of atomic energy costs, with dire results for the fate of the investment of a large part of the nation's resources. And these were cases where an immense amount of statistical information was available and where, on the whole, forecasting was free from the complications of foreign trade. Consider, therefore, how hazardous it must be to rely on forecasts of raw material supplies and prices, or of exports of particular groups of commodities. Of course it is an old, familiar, and well-tested part of the case for the unplanned economy that errors of forecasting normally tend to be random and hence largely to offset one another. To harness together the projections of the various sectors of industry is to take the risk of committing all industry to the hazards of non-random error.

Secondly, there is the obstacle of restrictive practices legislation. The Restrictive Trade Practices Act, 1956, prohibits agreements among firms on production, sales, prices and terms of trading. How are firms and whole industries to make projections together without contravening the Act? The projections must deal with

production in a manner that seems inescapably to have to amount to agreement, even if prices can be dealt with differently. In public discussion on the Council this problem has so far received no attention.

But these difficulties are not the most fundamental. The question that must be asked goes to the root of the theory of projection and program-making, namely, what reason is there to expect that concerted expansion by firms or sectors of industry that would otherwise act independently will produce an acceleration of growth that can safely be sustained? In an open economy like that of Britain, which is so inextricably intertwined with that of the rest of the world, it is hard to see how either theory or experience can offer an encouraging answer. The student of the trade cycle of the days before 1939 may indeed have the uncomfortable feeling that the projections are a repeat of an old bad film. Were not booms and slumps connected with waves of optimism and pessimism? Was not the boom, by definition, a case of overexpansion founded on the expectation of each firm that others would also expand, the expectation being suddenly falsified by some apparent change in external circumstances? Are the expectations that will be engendered by the projections likely to be any safer from falsification?

Thus, the grounds for hope of success for the work of the Council are slender. The great danger is that when its failure to solve the baffling problems before it becomes apparent, the cry will arise for what will be called "real" economic planning, that is, co-ordination by force from the center of political power. But this too will meet with great resistance and will be rejected, unless the Council's failure coincides with a collapse of the economy of "great depression" dimensions. For, in truth, neither of the two great political parties wants such "real" planning. Both seek the pretense of planning, not the reality; the Labor Party, for the reasons that have been discussed above; the Conservative Party, because its deeper beliefs are libertarian. Why, then, do the Conservatives for the moment seek even the pretense of planning? Because in part they pine for leadership, and in part they wish to display the appearance of leadership.

This is the Achilles heel of the half-free economy of our time. Its course does not appear to be firm. Its craft appears to be rudderless. Its helmsmen appear to be without grip. If the weather is fine, it makes enough progress to win a grudging allegiance; but if the weather turns rough, the cry arises for leadership. It is this leadership that planning offers. That the planners set up targets for growth suggests that the course is now firm. That the targets are ambitious suggests that the planners are men of vision. And that the targets co-ordinate the various sectors of the economy suggests that there is grip at the center. Thus, planning in the half-free economy is a species of magic. It has the power of magic over men's minds; and it has the inability of magic to master men's problems.

The people are right to demand leadership. The tragedy is that only planning appears to offer it to them. Yet there was a time when economic freedom appeared to have all the *élan*; and when planning, in the form of mercantilism, made way for it. If the champions of economic freedom regained the posture of leadership, they would be astonished at the magnitude of the success they would achieve. But this they cannot do unless they really choose, and are seen to choose, the free economy in place of the half-free.

NOTES

1. As the free market produces an orderly system—indeed, one that is a good deal more orderly than any planned system—economic freedom is sometimes itself described as a “plan.” This, however, is not the sense in which antimonopoly legislation is said here possibly to qualify as a form of economic planning. If such legislation is regarded, as its champions have traditionally suggested, as merely part of the legal framework of the free market, then it is not planning in the sense used here. Unfortunately, it is possible to argue that antimonopoly legislation drags the state in practice into forms of intervention that differ fundamentally from merely holding the ring for the free market, even though its champions do not see it this way. To the extent that this is a true description of the character of antimonopoly legislation, it may qualify as a species of economic planning.
2. One of the more amusing examples of the Labor Party's inability to bring itself up to date is its continued harping upon “the means of production, distribution, and exchange.” This harks back to the day when economists distinguished for expository purposes between these

- three apparently different types of economic activity. The distinction is a bad one even for purposes of exposition and was long ago dropped by competent economists. The Labor Party finds it even more difficult to change its language than to change its ideas.
3. Even the Labor Government in its last stages got rid of a considerable number of wartime controls and actually boasted of the bonfire that it had made of them. These were the controls that were most obviously irksome to the individual citizen, but they were not the most fundamental.
 4. Since this was written (October 8, 1962) a chairman has been appointed for Nicky. It will therefore be established, but whether it will succeed in finding work to do is still uncertain.
 5. Operated since 1947 by the *Commissariat au Plan* which was organized by M. Jean Monnet. The *Commissariat* is now headed by M. Pierre Masse, who is M. Monnet's first successor.
 6. The work was done under the leadership of M. Rueff by what came to be known as the Rueff-Armand Committee. The interesting feature of Rueff's success is that it was not until he had done his work, General de Gaulle had introduced political stability, and the franc had been devalued (in 1958), that all the fuss was made outside France about the virtues of the Monnet Plan. The credit for the progress-cum-stability of the French economy since 1958 is taken from those who have earned it and handed by propaganda to Monnet.
 7. Most of the arguments for the "cost-push" theory of inflation merely show that the expansion of the flow of money and credit has tended to keep pace with the upward movement of costs, thus enabling costs to be covered without the emergence of unemployment. Of course, this is not enough. To justify the "cost-push" theory, it is necessary to show that there is something inherent in the system of money or credit creation that must produce this result.
 8. A vogue has arisen, following the development of input-output analysis, for elaborate computations of the relationships that would arise among the various sectors of industry if a hypothetical growth rate were postulated for the whole economy or for any part of it. This will, of course, be part of the Council's projection-making process, but it cannot of itself give the Council the answers that it seeks. It is not enough to postulate a rate of growth. It is necessary to forecast accurately the external data without which the postulated rate of growth can be no more than a baseless hope.

These computations are being carried out to a background of high expectations and impressive propaganda by the University of Cambridge Department of Applied Economics ("A Computable Model of Economic Growth," Chapman and Hall for Cambridge University Department of Applied Economics). This is now being advertised to, and swallowed by, the educated but inexpert public as the new and truly scientific economics. There is no likelihood that it will fulfill the hopes which it has aroused. There is hardly a limit to the nonsense which this kind of "scientism" produces. Thus, Professor Maurice Kendall believes that

we are now on the threshold of the discovery of the laws governing the movements of mass economic magnitudes, and that we can seize their control if we will only devote more resources to the statistical work required (*see* "New Prospects in Economic Analysis," M. G. Kendall: Stamp Memorial Lecture, 1960). This is what happens when macro-economics gets into the hands of those who do not understand what economics is really about.

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