I

Why Plan?

THE dispute between planning and *laisser-faire* is not a dispute between order and anarchy in economic life. All serious political thinkers, and not least the *laisser-faire* philosophers, start with the proposition that production and distribution must be controlled to the service of social ends. The point at issue is simply how much of this control may be invisible, and how much must be visible. The invisible control, extolled by the *laisser-faire* protagonists, is that which the market exercises; the visible control, favoured by the planners, is that which is organised by the state.

The control exercised by the market is none the less real and powerful because it is invisible. In a free economy production is controlled by demand. Capitalists cannot produce what they like; self-interest drives them to produce what they can sell, and that is determined by what people demand, and by how much they demand of it. Production for profit is thus, by 'the invisible hand', transmuted into production for use. By the same agency the distribution of income is controlled. Producers cannot charge what they like, for the forces of competition are ever driving prices down to the level of costs, and for ever driving capitalists to improve their efficiency. The free market is thus a powerful instrument of social control, which directs production to the service of demand, stimulates progress, and eliminates excessive earnings.

The case against the invisible control, in favour of state control, cannot proceed by way of blank denial. It is obvious that the invisible hand exists, and that its influence is beneficial. Neither can the case be founded, as some suppose, on attacking the self-interest which is the driving force of the market economy. For every economic system devised for ordinary human beings must have self interest as its driving force. This does not make an economic system anti-social. The purpose of such a system, indeed the very nature of an economic system, is the mechanism through which, by making what society needs most become what is most profitable to the individual, it transmutes individual self-interest into the public good. Even if the economic system were completely planned from the centre it would need a mechanism by which those who planned well, or executed their orders well, were rewarded above those who planned badly or were poor executants. No; the case against the market economy is not that it does not tend to promote the social good. The dispute is whether state control could not do better, either as an alternative, or as a supplement.

SOCIALISM AND THE STATE

In any comparison between the state and alternative social institutions which can serve the same purpose, the state starts, either with the dice loaded against it, if one is a liberal, so that it must do not just as well but much better if it is to be accepted; or with the dice loaded in its favour, if one is a fascist, so that it will be accepted unless it does much worse. Much of the current worship and denunciation of planning springs from these personal predispositions rather than from any objective consideration of particular merits.

The controversy over the role of the state is as old as human society, and so is its offshoot, the dispute about planning. We know of no society, in any place or time, in which the state has not played an active part in regulating production and distribution, or in which there have not been advocates of greater regulation and advocates of less. In our own day the advocates of greater regulation are more on the left, and the advocates of less are more on the right, but this has not always been so; the dispute about planning cuts right across left and right, and has nothing to do with the dispute about socialism.

As the pendulum swings, the powers of the state fluctuate between being too great and being too small. In 18th century England the state handicapped progress by regulating the economy excessively. The attack on the state was thus led by the progressives, and resisted by the conservatives. In the first half of the twentieth century the pendulum has been swinging the other way. The conservatives, who in the 18th century defended planning, now have to resist it; and the left, which was advocating *laisser-faire*, now has to denounce it. This is why in our day the left is associated with planning and the right with *laisser-faire*; but if we examine the basic philosophies of left and right in Britain we shall not find that either is fundamentally committed either for or against the state. Both are for and against the state according to circumstances.

Socialism, in particular, contrary to popular belief, is not committed either by its history or by its philosophy, to the glorification of the state or to the extension of its powers. On the contrary, the links of socialism are with liberalism and with anarchism, with their emphasis on individual freedom, and in opposition to the extended state. The nineteenth century socialists were not predominantly well disposed to the state, and in the blue prints of socialist society which they constructed the state receives frequently only a minor role. The state, for example, plays little part in the socialist schemes of Robert Owen, or William Morris or J. L. Bray. Marx, of course, tried to discredit all pre-Marxian socialists by dubbing them 'utopian'; but even Marx says little about the role of the state in the new socialist society, and that little is derogatory. It was Lenin, not Marx, who made 'the dictatorship of the proletariat' the central feature of Marxian socialism. Apart from Lenin, the only other important socialist in the nineteenth century whose socialism essentially involved a powerful state machine was Sidney Webb. The Fabian Society never wholly followed Webb in his glorification of the state even in his own day; and the leader of the next generation of Fabians, G. D. H. Cole, was a fervent exponent of Guild Socialism, a form of socialism in which the state has only a very attenuated role. For Fabians the last word on this subject was said not by Sidney but by Beatrice Webb, who wrote in 1894:

> How far, I wonder, will the collectivist principle carry us? The thinkers of fifty years ago believed as firmly in individualism as we believe in collectivism—probably more uncompromisingly; for the men and women of today distrust general principles even though they be prepared to use them. And yet it is easy to see now that the settled conviction of the individualists that government should be limited to keeping the ring clear for private individuals to fight in, was based on the experience of a one-sided and corrupt participation of the government in industrial organisation, and not on any

necessary characteristic of state action. Face to face with the government action of their own day they were to a large extent right. Is it not possible that it is the same with collectivism? Public administration is the alternative to private enterprise, and since private enterprise is corrupt and selfish we propose to supersede it by democratic control. But it is, on the face of it, as unlikely that the collectivist principle will apply all round as that the individualist principle would solve all the social problems of fifty years ago. I do not think that we Fabians believe in more than a limited application of the collectivist principle; though, as practical politicians we think that we are as yet nowhere near the margin of cultivation, that we can cultivate this principle vigorously for all that it is worth, in all directions without exhausting its vitality. But of one thing I feel certain. The controversy which seems to us now so full of significance and import will seem barren and useless to our great-grandchildren; they will be amazed that we fought so hard to establish one metaphysical position and to destroy another. (*Our Partnership*, pp. 117-8.)

Opposite views of other socialists could equally be quoted, for there is no single socialist view of the state or of the part that it should play. The fact is that it has been with socialists, as it has been with liberals and conservatives, that some are for extending the powers of the state, and some for reducing these powers. The Liberal Party, after all, once had a Cabinet that included Asquith, Winston Churchill and Lloyd George, with as diverse a collection of views on the state as one could find anywhere; and the Conservative Party now runs in harness Winston Churchill and R. A. Butler. The dispute on the role of the state is not a dispute between parties, but runs right through the parties themselves.

Socialists have rather lost their perspective of this, and have sometimes seemed to welcome every extension of state powers. Perhaps this is because the two most recent influences, Lenin and Webb, were both worshippers of the state. But some confusion is also due to misunderstanding the socialist attitude towards property. Socialism and nationalisation of property are now commonly identified, but this is as great an error as the identification of socialism and the extended state. Socialism is not, in the first instance, about property any more than it is about the state. Socialism is about equality. A passion for equality is the one thing that links all socialists; on all others they are divided. Because they are concerned about equality socialists have to be concerned about property, since the present system of property is the most important cause of inequality. But subject to the over-riding claims of equality, socialism is not committed to any one way of dealing with property, and property can be handled in many ways that are not inconsistent with socialism. For example it can be redistributed so that each family has the same amount; this is what is done after agrarian revolutions, and though it retains individual ownership of property it is not inconsistent with socialism, as Tito has recently reminded Stalin, so long as the distribution is just, and so long as there is enough land to go round without condemning each family to work on too small and uneconomic a unit. Redistribution of land is frowned on by socialists in overcrowded Europe, but it is the essence of socialistic objectives in the newer and less crowded parts of the world. Or, secondly, property can be handed over to the workers to be operated cooperatively, on a profit sharing basis; this, and not nationalisation, was the favourite of socialist writers in the 19th century. Even in the third alternative, where property is nationalised, the role of the state is not necessarily large; the state can hand industries over to public boards and tell them to get on with the job without any central planning at all, leaving it to the public trust to buy and sell in the market, and to be regulated by demand just as would any private firm. So long as these different ways of handling property are all based on equality we cannot say that one is more socialist than the others, for socialism is not a particular way of dealing with property; it is a demand for equality and social justice.

It is also a demand for individual liberty. In the dispute about the powers of the state the traditions of socialism are rooted in liberalism. The bias of socialists, in recent times, has come to be in favour of using the state in place of other social institutions, but this is only a recent growth. The real traditions of socialism are opposed to this. The liberal tradition is to hand nothing over to the state that cannot be done nearly as well by some other social institution. Socialists who cannot go as far as this should at least pause before assuming that every suggested extension of the state has the traditions of the socialist movement on its side.

THE MARKET ECONOMY

The object of this digression has been to prepare the ground for impartial consideration of the merits of visible and invisible controls. The dispute, we have seen, is not about objectives but about efficiency. The market economy tends to control production and distribution in the public interest; the question is whether planning could not do better, either as an alternative, or as a supplement.

Even the greatest worshipper of *laisser-faire* has never suggested that there should be no state. Everyone agrees that there are certain minimum functions for which it is absolutely essential. Adam Smith listed defence, justice, education and roads and communications. Economists following in his footsteps have expanded the list, and reduced it to general principles. Enshrined in the textbooks as beyond controversy, the state has duties in respect of (*a*) things which only the state can enforce (e.g. justice, defence); (*b*) things which diffuse benefits for which the beneficiaries cannot be charged (e.g. lighthouses); and (*c*) things in which the judgment of the state is superior to that of the citizens. This last is a growing category: the state now claims to know better than its citizens for how many years they should send their children to school, between what hours they should drink, what proportion of income should be saved, whether cheap housing is better than cheap cigarettes, and so on. Whether any particular case fits into one of these categories is frequently open to dispute, but the categories are well accepted as laying the absolute minimum of functions for the state.

The case against *laisser-faire* is much more formidable than this. It rests on the following counts.

First, under a *laisser-faire* system income is not fairly distributed; and as a corollary of this, less urgent goods are produced for wealthy people while the poor lack education, health, good food, decent houses and ordinary comforts which could be supplied instead. This is no longer denied. The price mechanism rewards people according to the scarcity of the resources (labour and property) that they possess, but it does not itself contain any mechanism for equalising the distribution of scarcities. For justice in distribution we have clearly to summon the forces of the state.

The second weakness is related; the market mechanism does not humanise the wage relation. This is not a simple issue. Employment for wages arises out of the fact that the workers do not own the instruments with which they work. Some socialists have wished to abolish this relation altogether by redistributing property to the workers, as is done in agrarian revolutions, to be worked either individually or in cooperative groups. Any other solution, whether it leaves property to capitalists or hands it over to the state, retains the wage relation, and can seek only to humanise it by guaranteeing the worker's rights, and by insisting on his sharing in decisions. Of course it is arguable that in perfect competition and in full employment employers would have to court labour, so that the price mechanism, rid of its imperfections, would ensure to labour protection of its rights. Perhaps it would, but the state is a much more certain protection.

This brings us to the third defect of the market economy, its instability. Private enterprise in the creation of money produces cycles, unemployment and misery. To be sure, state enterprise in the creation of money has had no better record; the case for private enterprise in this field rested for centuries on the unchallengeable ground that control by the state had always proved to be much worse. The present unanimity of British thinkers in favour of state control of money (there is no similar unanimity in the U.S.A.) is very recent, and due only to conviction that new secrets have been discovered which reverse the advantages in favour of the state.

Equally inadequate, on the fourth count, is the market's handling of foreign monies. The case that foreign trade is self-regulating was argued long and stoutly by the protagonists of *laisser-faire*, but the same advances in monetary theory have now finally exploded this myth. Foreign trade must be regulated by the state.

Fifthly, the market economy is ineffective in coping with major change. Where resources need to be moved in considerable degree, its methods are too slow and cruel. Scarcities are not quickly eliminated, with the result that a few persons receive abnormally large incomes at the public's expense, and that scarce commodities are unjustly distributed; and at the same time over-production is not quickly reduced, with the result that other persons suffer abnormally low incomes. State action to speed the mobility of resources is clearly needed.

6 Next, the market economy is wasteful. Competition induces producers to improve their techniques; but it also induces them to spend heavily on sales promotion, and to evade standardisation. But here the case is not so clear. The case for *laisser-faire* in the 18th and 19th centuries was the wastefulness and stupidity of bureaucratic operations; on the subject of waste we must clearly not proceed by simple generalisations.

This part of the case against the market economy is bound up with the final count, the fact that the merits of the market depend on the existence of competition, and that perfect competition is rare. It is clear that nothing in the market mechanism itself either establishes or maintains competition. Only state action can assure competition. In this, as in so much else, the market economy cannot function adequately without positive support from the state.

PLANNING BY DIRECTION

It has been possible to state the counts in this indictment of *laisser-faire* so briefly because they are now accepted by most serious political thinkers. There are no longer any believers in *laisser-faire*, except on the lunatic fringe. There are many who denounce planning in fierce language, and who appear by implication to be arguing for *laisser-faire*, but, on closer examination there are always a few pages in their books which give the game away. The truth is that we are all planners now.

That is not to say that we believe in all forms of planning or in complete central planning. *Laisser-faire* can be complete, or it can be modified by state action at many crucial points. Similarly planning can be complete, or it can be combined with a market economy in various degrees.

In fact, the central issue in the discussion of planning is not whether there shall be planning but what form it shall take, and in particular whether the state shall operate through the price mechanism or in supercession of it. Suppose, for example, that the government decides that, in the interests of children's health, the production of milk ought to be increased. No one questions that this is a reasonable sort of decision for the government to make. But there are many ways of fulfilling this plan, some more direct than others, and some more effective. It might pass a law making it illegal for those responsible for a child to give the child less than one pint of milk a day (just as it is illegal to give the child less than a stipulated amount of education). Or it might increase family allowances, and urge parents to spend the increase on extra milk. Or it might issue free milk tickets to each child, and refund the cost to milk retailers. Or it might purchase milk, and feed this to children in schools. These are measures it might take on the side of demand; they have their parallel on the side of supply. It might pay subsidies to milk producers, thus reducing the price and stimulating both consumption and production. It might set up its own state farms, and give the milk away. Or it might pass a law instructing each milk producer to increase his output by a stipulated amount. All these ways of fulfilling the milk plan are forms of planning, and of course a planner may reject some and accept others. The fundamental difference is between methods that achieve their result by persuasion and those that achieve it by command. Making milk cheaper is an inducement to extra consumption, and paying milk subsidies is an inducement to extra production; both are planning through the price mechanism. On the other hand, ordering people to purchase more milk or producers to produce more is planning by direction. The real choice we have to make is between planning by inducement, and planning by direction.

Complete planning by direction is just as much ruled out as is complete *laisser-faire*. To begin with, it cannot be applied to consumption. The Government knows better than the citizen how he should spend his income in certain spheres; we all admit this, but they are limited spheres. Bye and large the citizen demands freedom of choice in consumption; freedom to spend his money as he pleases. Rationing is abhorred, except in emergency, and so is payment of wages in kind. There must, therefore, be money, and a consumers' market. This is a severe limitation on planning, for it means that the results of planning are tested in the consumers' market. If, for example, too many resources are devoted to investment, a general shortage shows up in the consumers' market, and even if there is no general shortage, there will be particular shortages unless the balance of production is just right. Freedom of choice in consumption therefore exerts pressure for free adjustment of production to demand. The government may plan demand, by taking steps to secure a just distribution of income, but once it has done this the pressure is all against trying to plan production by direction when consumption is free.

Secondly, the worker demands freedom to choose his own job. This means that there must be a labour market, as well as a consumers' market, and that the social task of getting labour into the right jobs in the right proportions must be achieved not by direction but by inducement. This also is a big limitation on planning, for plans which can only be fulfilled by moving labour by direction are bound to fail.

There must be a market for the consumer, and there must be a market for labour. That leaves the markets for enterprise, capital and raw materials in the balance. The manager of a firm (private, cooperative or state trust) has to be able to sell what he produces, and has to attract labour by inducement. Should he be free to adjust himself in markets for enterprise, capital and raw materials, or should he produce what he is directed to produce with resources that are allocated to him?

There is nothing in the case for planning which requires the choice of methods that put industrial managers into a straight jacket. There is, we have seen, a formidable case for regulating markets in many ways, and with many objects in view, but nothing in this case calls for issuing directions to managers which diminish their freedom to adjust production to the market forces of supply and demand.

There is, on the other hand, a formidable case against planning by direction, and in favour of using the market.

In the first place, the central planner, who issues the directions, cannot hope to see and provide for all the consequences of his actions. The economic system is exceedingly complex. If you plan to increase the output of watches you must at the same time plan to increase the output of everything complementary to watches, i.e. everything used with watches or in making watches, and to reduce the output of all substitutes for watches and the constituents of substitutes. Now no single person can make a complete list of all the complements and substitutes of watches, or decide what will be all the economic effects of having more watches. And even if he could make a list for watches, he would need, also to make a separate list for each of the complements and substitutes, each of which has to be planned, and again separate lists for each of their complements and substitutes, and so on. It is because of this complexity that the fulfilment of plans by direction is always so unsatisfactory. Thousands of engines are produced, but they have to be stored through shortage of ball bearings or of screws. In planning by direction the result is always a shortage of some things, and a surplus of others. Planning through the market (e.g. the state placing an order for watches, or paying a subsidy) handles all this better because, in any sphere that is affected by the decision to have more watches, the flow of money and the adjustment of prices acts as a 'governor', turning on or off automatically without any central direction.

Secondly, and for the same reason, planning by direction has to be inflexible. Once the planners have made the thousands of calculations that are necessary to fit the plan together, and have issued their directions, any demand that any of the figures be revised is bound to be resisted. The plan once made must be adhered to simply because you cannot alter any part of it without altering the whole, and altering the whole is too elaborate a job to be done frequently. The price mechanism can adjust itself from day to day, the flow of money alters, and prices and production respond; but the economy planned by direction is inflexible.

The third defect follows from these two. As the plan proceeds fulfilment is bound to be imperfect—even if the plan was perfect when it was made, conditions change. Firm X has been given a permit to buy coal; but there has been a strike, or an accident, or bad weather, and it cannot get its allocation of coal. It therefore wants to buy oil, but the oil has all been allocated, and a complete reallocation of oil is too big a job to undertake at short notice. So firm X must close, or it must buy an allocation of oil from some other firm whose need for oil is not so urgent. This has had, in most centrally planned economies, the curious consequence that the plan works smoothly only because it is supplemented by black markets in which firms can adjust themselves to changing conditions. However, given adequate stocks, a centrally planned economy could carry its mistakes without interrupting production, just as in a market economy it is mainly the existence of stocks that acts as a buffer for the numerous errors made by private entrepreneurs. The main reason why centrally planned economies work always in an atmosphere of scarcity and of hit and miss, is that central planners usually forget how important it is to plan for an adequate holding of stocks, but this error is not itself inherent in central planning.

To the inflexibility and errors of planning by direction we must add its tendency to be procrustean. It is hard enough to step up the output of watches if there is only one kind of watch; if there are two kinds of watch it is more than twice as hard, and it gets progressively harder the more different types of watch there are. Central planners in consequence are always tempted to excessive standardisation, not because they think that standardisation is good for the public, but because it simplifies their job. Standardisation is frequently an engine of progress; but it is also frequently the enemy of happiness, and in foreign trade it is in many lines fatal to success.

Related to this is the stifling effect of direction on enterprise, and this is a consideration of the utmost importance in a country like the United Kingdom. This is a country which lives by foreign trade. We built up this trade by being first in the field of mass production of standard commodities. But today other nations are as good as we are at this game, if not better, and we can hold our own only if we are constantly in the vanguard pioneering new ideas; inventing new goods and processes, trying them out on the market, adjusting rapidly in accordance with consumer reaction, and so on. None of this can be foreseen, and so none of this can be planned from the centre. The future of the country depends on bold and free entrepreneurship; on people with new ideas being free to back them against all opposition, to get what resources of capital, labour and raw materials they need without bureaucratic hindrance, and to test out the market for themselves. Any form of planning which prevents this permanently, or for long periods, will be the ruin of Great Britain.

And finally, the more one tries to overcome the difficulties of planning by direction, the more costly planning becomes in terms of resources. We cannot plan without knowledge, so we must have elaborate censuses, numerous forms and an array of clerks. We cannot issue thousands of licences rapidly without thousands of clerks. The better we try to plan, the more planners we need. The Soviet Census returns over 800,000 'economists', who are mostly administrative staff connected with planning. The price mechanism does the same job without this army of economists, who are thus released for useful work in the mines and the potato fields. To be sure, the market economy also has its army of hangers-on, who contribute to profit making rather than to production—its contact men, sales promoters, stockbrokers and the like, but they are not as essential to it as are the planners to planning.

On account of its complexity, planning by direction does not increase, but on the contrary diminishes democratic control. A plan cannot be made by 'the people' or by parliament or by the cabinet; it has to be made by officials, because it consists of thousands of details fitted together. Its results are embodied in thousands of administrative orders and decisions, of which parliament and ministers can have only the briefest knowledge, and which provide innumerable opportunities for corrupting the public service. The more we direct from the centre the less the control that is possible. When the government is doing only a few things we can keep an eye on it, but when it is doing everything it cannot even keep an eye on itself.

We said a moment ago that it is by little more than the swing of the pendulum that in these days it is the left that chiefly advocates more planning. It is therefore no surprise to find that the case against planning by direction and for using the market economy has been forcibly put by the arch-communist Leon Trotsky, who himself experienced the failure of excessive direction in the period of War Communism in Soviet Russia. This is what he says:

> If there existed the universal mind that projected itself into the scientific fancy of Laplace; a mind that would register simultaneously all the processes of nature and of society, that could measure the dynamics of their motion, that could forecast the results of their inter-reactions, such a mind, of course, could *a priori* draw up a faultless and exhaustive economic plan, beginning with the number of hectares of wheat and down to the last button for a vest. In truth, the bureaucracy often conceives that just such a mind is at its disposal; that is why it so easily frees itself from the control of the

market and of Soviet democracy. . . . The innumerable living participants of the economy, State as well as private, collective as well as individual, must give notice of their needs and of their relative strength not only through the statistical determination of plan commissions but by the direct pressure of supply and demand. The plan is checked, and, to a considerable measure, realised through the market. . . . Economic accounting is unthinkable without market relations. (*Soviet Economy in Danger*, pp. 29-30, 33; quoted in Lerner, A.P., *The Economics of Control*, pp. 62, 64.)

PLANNING THROUGH THE MARKET

The obvious moral of all this is that our aim should be to preserve free markets wherever possible. The manager of an industrial establishment, whether private or public, should be left free to adjust his concern to market conditions; to make what he can sell, and to make it with whatever combination of resources he can most cheaply buy. This does not mean that he will be free from control; on the contrary, he is the servant of the market, which controls everything that he does. Neither does it limit the scope of planning. For the state can do all the planning it wants by controlling in its turn the market which controls the entrepreneur. The state can plan as much as it wants, but it should plan not by direction but by manipulating the market.

Thus if it wishes firms to make more of the sorts of goods that the poor buy and less of the sorts of goods that the rich buy, there is no need for a cumbersome machinery of allocations and controls. It can increase the taxation of the rich, and reduce the taxation of the poor; or it can subsidise the goods it wishes to encourage, and tax those it wishes to discourage. If it wishes to increase the production of wheat at the expense of other agricultural products there is no need for a multitude of forms, clerks and agricultural committees to fix a wheat acreage for each of 350,000 farms; it has only to raise its guaranteed price for wheat, or to increase its wheat subsidy. If it wishes to encourage exports at the expense of home consumption it need not give each firm an export allocation; it can take money out of the home market by increasing taxation, or it can alter the foreign exchange rate, or it can increase the purchase tax on goods sold in the home market, or it can pay subsidies on exports. And if it wishes to promote capital formation at the expense of consumption it can, on the one hand, either subsidise investment or make investments itself, and on the other hand, it can simultaneously discourage consumption by taxation. In every case there is the choice between direction and inducement, and in every case inducement brings the same final result, without the costs of bureaucratic control.

Fundamentally, where planning parts company with *laisser-faire* is not in rejecting the market economy controlled by demand, but in arguing that demand itself is not sacred, but something that should be manipulated by the state. Once this is realised there is no need for planners to cling to cumbersome types of planning when they have at hand methods that can make planning work as smoothly as *laisser-faire* and with far superior results.

What makes it impossible to rely exclusively on planning by manipulating market demand is the immobility of resources. This kind of planning relies on inducement to bring about a supply large enough to meet market demand. Suppose, for example, that it is desired to increase the consumption of milk and that the method chosen is to distribute free milk in schools. The total demand for milk is thus increased, and its price tends to rise. If a small rise in price is sufficient to induce a large flow of resources into milk production, supply will keep pace with demand, and no further action will be required. But if it is not, there will be either a large increase in the price of milk, or a shortage for ordinary consumers, and in either of these cases further action will be demanded, either to keep the price at a reasonable level, or to allocate the limited supplies fairly, or both.

Since, therefore, the real cause of the trouble is the immobility of resources, it follows that the most important measures to be adopted are those which augment the supply. Price control and rationing may also be necessary, but since they are only necessary until such time as the supply can be augmented, they are subsidiary to measures that augment supply, and the efficiency of planning is to be judged not by the excellence of the system of rationing and price controls, but by the speed with which shortages are eliminated and price controls and rationing rendered unnecessary.

This is one of the weakest spots in contemporary planning. Governments are usually so fully occupied in enforcing measures to ensure fair distribution of commodities in short supply that they forget the prior importance of taking steps to eliminate the shortage. Their error, however, is no greater than that of the anti-planners, whose arguments always tacitly assume away the immobility of resources. In their system the market itself will equilibrate demand and supply overnight, so that interference with prices is bound to be mischievous. But the truth is that while as a general principle it is best to operate through the market, temporary shortages will always emerge, and they may demand drastic measures of two kinds—measures to spread supplies equitably, and measures to augment supplies.

PRICE CONTROL

The first distinction which has to be made is between general shortages and particular shortages. A general shortage of goods in an economy is a monetary phenomenon, due to monetary inflation, and the appropriate remedy for it is not general price controls but disinflation. As we shall see in Chapter III, inflation damages an economy in so many ways that the proper way to deal with it is not to try to treat its symptoms, with such measures as price controls, but to eliminate the root cause. In wartime disinflation is difficult because the government is not able to control its budget; but in peacetime it can control its budget, and through its budget the total flow of money, and this is much easier to do than it is effectively to operate general price controls, with rationing, and without black markets. Price control is defensible only when it is particular, and not when it is general.

A particular shortage is distinguished from general shortage by the shortage in one part of the economy being balanced by over-abundance elsewhere. The particular shortage causes prices to rise; suppliers receive an abnormal amount of money, and make abnormal profits. This extra money, if the total quantity of money is just right, must come from other parts of the economy, where suppliers must be suffering abnormal losses. Unless the shortage in some parts is balanced by over abundance in others, the shortage is not particular but general, and the remedy is not price control but disinflation.

If the shortage is particular, and the commodity is essential, then its price may have to be controlled. If the commodity is not essential, there is no need to control its price; the high price will encourage consumers to economise on it, which they can do easily because it is not essential, and which is what they ought to do. If it is an essential consumer good its price must be controlled, otherwise the poor will suffer hardship. Of course when we eliminate poverty by distributive measures ensuring a just distribution of income this argument will lose its force; but, in the meantime, essential consumer goods in short supply must be price controlled. If the commodity is an essential raw material or producer goods its price must again be controlled, lest it enter into other prices at all stages of the economy with a snowball effect. This argument, too, is easily overdone. If money is firmly in control the rise of some prices should not be able to promote a general rise in the price level, for the abnormal flow of money in one direction will be balanced by abnormal losses and downward pressure on prices elsewhere.

Effective price control depends on quality control. Price control cannot work at all unless the article or service whose price is being controlled can be described in exact specifications, otherwise suppliers effectively escape control by reducing quality. To lay down specifications is most difficult where the commodity is a service, such as restaurant service or retailing, but it is also difficult wherever the commodity varies widely in quality. Control then demands specifying a standard article (e.g. 'utility') or service (e.g. standard meal), and compelling suppliers to supply this exclusively or in the main. This is seldom wholly satisfactory, and cannot in any case be done if no suitable standards can be framed.

Finally, price control leaves demand in excess of supply, so there will be shortages, queues and black markets unless demand is cut down to the level of supply. This can be done by taxation or by rationing. Rationing may take many forms. Each person may be given a definite weekly quota, as of sugar. Or the commodity may be put 'on points' with other scarce commodities, and each person may be given a quota of points to allocate between these commodities as he chooses. Or the ration may be varied in quantity according to each individual case, as is done with petrol or raw materials, where priorities are established. Rationing is easier to administer if it is fair to give everyone an equal share than it is where priorities have to be established and each case considered separately, and in the latter event the administrative task may be most burdensome and costly. All this is avoided if the demand is reduced to the level of supply simply by placing a tax on the commodity. This is the best way to ration commodities that are not very essential, and it can also be applied to essential commodities if part of the proceeds of the tax is paid out to deserving classes who would otherwise be unfairly deprived of their share of the commodity by the imposition of the tax—this can be done easily if the classes are recognisable, by increasing allowances such as pensions, children's allowances or social insurance benefits, by appropriate adjustments of taxation, or by subsidy. The choice between administrative rationing and taxation must be made in each case on its particular merits, but there is no doubt that some form of rationing should almost always accompany price control.

So much for price control and demand. At the same time price control has also important effects on supply, which are often neglected, but which make it a dangerous instrument to use. For example, the state may wish the poor to be able to get bread at a price much below its cost of production. If it then fixes the price of bread at this low level, and does nothing else, the consequence is that the producers of bread turn to something else, and the supply of bread is reduced. Similarly, rent control is making it so unprofitable to keep working class houses in a state of repair at the high level of building costs that exists today, that many landlords are abandoning their property, and the supply of well-maintained houses available to the poor is thus contracted. Whenever a price is fixed below the market rate, the supply is thereby curtailed, and if the state does not desire the supply to be curtailed it has the obligation to accompany price control with offsetting measures restoring and increasing the inducement to supply. Price control of bread must be accompanied and offset by a subsidy to wheat. Rent control has had to be offset by subsidies to new building, and is proving harmful without subsidies toward repairs.

There is here an important distinction between controlling inducements to a whole class of persons, and controlling inducements only to some of the opportunities open to that class. If entrepreneurs as a class have their incomes halved, whatever their enterprise, the supply of entrepreneurship may diminish much or little, or may even increase; we cannot be sure. But if entrepreneurship is penalised in the bread industry but not elsewhere, or in the letting of houses but not elsewhere we can be quite certain what will happen; entrepreneurs will move from penalised into unpenalised industries and supplies in the former will contract. Thus must we distinguish between general controls and particular controls; the latter are far more dangerous than the former. Since the state is usually tempted to control essentials and to leave inessentials uncontrolled, the result of state control is frequently to reduce the supply of essentials and to expand the inessential. The way out is to make certain that any control which diminishes inducement is paralleled and offset by other action designed to maintain the inducement to supply.

Price control is thus a delicate instrument, easily misused; and when misused it frustrates the objectives of planning by diminishing instead of increasing the supplies of essential commodities, and by causing what is available to be badly distributed and therefore wasted. Price control should seldom be used alone; it should almost always be accompanied by rationing and by measures to augment supplies as speedily as possible, and because the enforcement of all this is cumbersome, price control should be used reluctantly and abandoned as soon as is feasible. Alas, price control is the most popular weapon of states, the most misused, and the one whose misuse has done most to bring planning into disrepute.

Governments who play with price control, without having the determination to do all that is needed for its successful use, get their economies into a mess. Inducements are distorted, and resources tend to flow to the inessential industries which are uncontrolled. Then we are treated to a spectacle that can only be called planning by exhortation. 'Targets' are published for essential industries, and Ministers make speeches urging capitalists and workers to move in the right directions. These speeches and targets, as extensive British experience in the last three years has proved, are almost wholly useless. One can plan by direction alone, or by inducement alone, but one cannot plan by exhortation alone, when the major result of one's actions is to make the inducements work in the opposite direction. Nearly all the planning done in this country in the last three years, with its apparatus of targets and speeches, has been of this character, and that is why all the targets have been unfulfilled, and why the very word 'target' has become a laughing stock. This is not planning, but merely pretending to plan. Planning is a serious business; what makes planning is not the targets, which merely express what we would like to see happen, but the action that is taken to achieve these targets. And the major source of error has been the use of price controls without the offsetting measures for inducement, which (with machinery for allocation and for enforcement) should always accompany price control.

MOBILITY

The most important thing to do to a shortage is to eliminate it. This is not the only thing to do. In the interim prices may have to be controlled, specifications issued, and supplies rationed. But all these are necessary only for so long as the shortage lasts, and are subsidiary to eliminating the shortage by augmenting supply. The quality and success of planning are to be measured not by the excellence of price and rationing controls, but by the speed with which shortages are eliminated, and by the effectiveness of the measures taken towards that end.

If the quantity of money is right there cannot be a general shortage of goods, and particular shortages must be balanced by the existence of surplus supplies of other goods. The existence of shortages is then a clear sign that productive resources are in the wrong places, and what we have to do is to get them correctly allocated between industries.

This is no easy job, as we shall see in Chapter VI. The best way to tackle it is by inducement; i.e. by raising the earnings in industries that are short of resources relatively to earnings in other industries. But inducement may work only over a long period, and only by means of sharp fluctuations in earnings—a sharp rise followed by a fall to normal levels, for example. Sometimes there are acceptable forms of direction which can be applied to end the shortage, e.g. by controlling raw materials, labour recruitment, or capital installations in ways that restrict less essential industries; but, especially where the maldistribution of labour is the principal problem, at other times we can rely only on the slow working of inducement, and then the shortage and the controls it makes necessary will last for some time.

It is here that planning by direction and planning by inducement meet. In a normally working economic system the state should be able to do nearly all the planning it wants by manipulating the market, and especially through the budget, which is the principal instrument of planning. Through the budget the state fixes the quantity of money in circulation, and thus determines whether there shall be inflation, deflation or the right balance. Through the budget it redistributes income, decides how much equality there shall be, and thus controls demand and supply and production. These general controls it supplements, again through the budget, by stimulating or retarding particular industries and services, either by buying itself, or by taxes and subsidies. The budget is not the only instrument available for planning, but it is the most important, the most powerful, and the most embracing. Perhaps in some other countries where the machinery for assessing and collecting taxes is very inadequate, and where corruption is rife in the Treasury, the budget is not powerful enough for planning. But in such countries the whole administrative machine is likely to be unsuitable for planning, and other weapons of planning fare no better than the budget. In Britain, however, it is not only the case that the arts of public finance are highly developed. But it is also important that while the citizen of Britain responds fairly well to fiscal demands, he hates other forms of control that involve direction, rationing or other dependence on administrative decision; and this is added reason for planning through the budget as much as possible, and relegating other forms of control to a subsidiary position.

But this kind of planning takes us as far as inducement will take us and no further. If there are big changes in demand or supply, and if resources are not mobile, it will have to be supplemented by direction. At the outbreak of a war, and at the end of a war, an economic system is not working normally. The movements required are large, and a whole network of controls is needed to cope with them. Similarly, a big change in the foreign trade position of a country calls for shifts of resources which cannot be accomplished rapidly, and which necessarily subject an economy for a long period to widespread controls. As conditions become normal it should be possible to dispense with such controls; if the opportunity has really been taken to spread resources correctly between industries the shortages should disappear. If conditions were to become stationary, all physical and price controls should disappear, and the budget remain the single instrument of planning. But of course conditions do not become stationary, and it is not desirable that they should. In normal conditions the budget will be the principal instrument of planning, but because of immobilities it will have to be supplemented by controls in all those parts of the economy where there is marked disequilibrium between demand and supply. The issue is not whether to plan or not to plan. It is simply how far planning can be done through the budget, and how much extra control we must have. This will be elaborated further in the chapters that follow.

CONCLUSION

It may be useful to summarise the conclusions of this chapter.

(1) The issue between planning and *laisser-faire* is whether we can use the visible controls of state action to improve on the invisible social controls exercised by the market.

(2) This is an issue that must be argued; there is no *a priori* case for using the state in place of other social institutions that serve the same purpose.

(3) The argument produces a formidable list of defects in the market, which state action is required to eliminate.

(4) The state can use different forms of planning to achieve the same purposes; planning by direction is much inferior to planning by inducement.

(5) In planning by inducement the state manipulates the market to secure its objectives.

(6) Manipulating demand is not enough because resources move too slowly in response to inducements. Other controls are also needed temporarily.

(7) Price control and rationing are frequently necessary in the interest of equity, but they do not solve the fundamental problem, which is to get productive resources correctly allocated.

(8) The principal objective of planning by direction should be to overcome immobilities, and the speed with which this is achieved is the true measure of the quality of planning.

(9) The main instrument of planning is the budget, but this may need to be supplemented by planning by direction wherever there is marked disequilibrium between demand and supply.