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Business and Financial Conditions

DOUBTS about the lasting power of the recovery, fairly intense as recently as two months ago, seem to have lessened significantly. This is largely the consequence of the demonstrated willingness of consumers to spend relatively freely from incomes. Statistics confirm that retailers generally enjoyed a strong Christmas period, with the volume of sales in pretty much all lines equal to or better than expectations. Moreover, early indications are that, with allowance for seasonal differences, the good tone of the Christmas period has carried over into the beginning weeks of the new year.

This strength at retail means, of course, that orders ought to be going out in good volume to wholesalers and manufacturers, thereby sustaining the advance of production, employment, and incomes. Increasingly, thus, the expansion has become self-propelling. A brisk ordering pattern seems particularly likely because of the generally cautious inventory practices that have prevailed. Significantly, the inventories of retailers and wholesalers slipped in November just as the Christmas sales period was approaching.

Improvement in consumer buying clearly reflects a revival in consumer confidence. With the rise in the number of jobholders (by 1.7 million more than seasonal influences would explain since the bottom of the recession last March) and with an easing in inflation from the double-digit nightmare of 1974, consumers' spirits—and those of investors, too, as evidenced by the spectacular rise in stock prices—have perked up. Unless shattered by a new eruption of bad news on the inflation front, the positive shift in consumer attitudes and expectations should continue. That, in turn, should go a long

way toward reassuring businessmen that sales gains—and profits gains—will continue in 1976.

While recent statistics—including the official estimate of a continuing advance in "real" GNP in 1975's fourth quarter—have been mostly favorable, there have been a few exceptions. In particular, housing data (weak in December) and data on capital-spending intentions (showing that as of late autumn businessmen were being very cautious in planning 1976 investment activity) have provided reminders that some pockets of the economy are still relatively lackluster. There is nothing really very surprising about these readings, however. Housing's special disabilities are widely understood, and few analysts expect an early reemergence of robustness in home building. To be sure, a rise of only 5½% in business capital outlays in current-dollar terms in 1976 (which is what the November-December government survey revealed to be planned) would in fact be very disappointing. But progressive upward revision of investment plans is typical of the expansion phases of business cycles. With the recent improvement in retail sales, there is a decided likelihood that businessmen will raise their sights on capital spending. Indeed, some stirrings in the capital-goods area already are in evidence. The business-equipment component of the industrial production index rose during four of the last five months of 1975, reversing an earlier pattern of weakness.

Nosediving rates

Meanwhile, the trend of interest rates has taken a surprising turn. The cost of borrowed money has declined in a dramatic way, contrary to the widely held expectation that the combination of vigorous growth in GNP and slow growth in the monetary aggregates—both of which have occurred—inevitably would produce a substantial escalation in rates. Yields on 90-day Treasury bills have dropped below 5%—lower than their bottommost recession reading of this past June. Banks have trimmed their "prime" rates by almost two percentage points since last September. Bond markets have displayed a generally buoyant tone and bond prices, while volatile, have shown sizable net gains as compared with those of mid-December. Taking advantage of materially lower borrowing costs and strong investor appetites, a number of companies have stepped up the size of their bond-market borrowings. Money-market experts expect that such additions may raise January's corporate bond volume by $500 million. This increase in volume produced some backup in rates, but they remain far below month-ago levels.

The downtrend in interest rates can be traced, most importantly, to actions by Federal Reserve authorities in the direction of added ease. A more accommodative stance was reflected first in the key Federal funds rate—which by mid-January had dipped to 4¾%, down from the 5⅛%-5¼% range which had prevailed in the closing months of 1975—and was emphasized by the cut in the discount rate on January 16 from 6% to 5½%.

The willingness of the monetary authorities to move to a more accommodative posture, in the face of generally strong economic news, is widely attributed to the continuing sluggishness in the monetary aggregates. No one, in or out of government, seems to know exactly why the rise in the money supply (up only 2.2% at an annual rate in the fourth quarter) continues to elude the goal of the Federal Reserve (a targeted rise of 5% to 7½%). But the target remains elusive, and it seems unlikely that growth in the aggregates will exceed the Fed's target for some time to come.

NOTE: Data plotted weekly; latest plotting is for January 22.

A significant aspect of the recent decline in interest rates, which has received less attention than it deserves, is the implication of these lower rates both for the level of rates likely to prevail in 1976 and for the pace of economic expansion. Many of the more pessimistic appraisals of economic prospects for this year were, rightly or wrongly, based heavily on the assumption that expansion would be substantially slowed by significant advances of interest rates early in the year. Now, even those who feel the trend of rates from here on will be upward must realistically be assuming lower levels of rates than they were before. And, if they are logically consistent, they should be revising their economic projections upward to reflect this change.

Battle of the budget

Multiplying evidence that the recovery is gaining in solidity is especially welcome in view of the heightened political tension emerging in Washington. President Ford, in submitting his $394.2-billion budget for fiscal 1977, has renewed his plea of last October for tax cuts to be matched, dollar for dollar, with spending cuts. Congress has balked at such budget slashing, and sharp differences with the Administration over spending priorities are still very much evident. Principal among these is the clash over defense spending, with Congress determined to reduce arms outlays but at the same time determined to boost spending on domestic programs.

In this election year the normal divisions between branches of government, the clashes over policy, the rancor, inevitably will intensify. Were the economic recovery hesitant and faltering, there would be special reason to worry that Washington's policy bickering might threaten its survival. But, happily, the recovery seems to be proceeding so well that it probably will be able to take the policy battles and the stalemates in stride and keep moving ahead.

The New Confusion About "Planning"

The following article was written by F. A. Hayek, who received the Nobel Prize in economics in 1974. In the course of a career spanning more than half a century, Professor Hayek has taught at leading universities in Austria, the United States, England, and Germany. He has written on subjects ranging from capital theory to the relationship of the individual to the state. His Road to Serfdom, *published in 1944, is considered a classic treatment of the risks to freedom inherent in centralized planning.*

I

IT is a regrettable but undeniable fact that economics, more than other scientific disciplines, is liable to recurrent fashions and fads, the periodic reintrusion into professional discussion of popular superstitions which earlier generations of economists had successfully driven back into the circles of cranks and demagogues. Inflationism is one of these irrepressible themes which again and again attract some half-trained economists, and the advocacy of collectivist economic planning has become another since it first became popular under this name through its use by the Russian communists. The conception, originally developed by some of the organizers of the German war economy during World War I, was thoroughly discussed by economists in the 1920s and 1930s; and all those familiar with that discussion will agree that it greatly contributed to the clarification of concepts and that one ought today to be entitled to assume that no competent economist who lived through that discussion would ever again talk about the issue in terms of the vague and confused concepts initially bandied about.

Nobody is of course bound to accept what seemed then the conclusions of those discussions, which were very unfavorable to central planning: in any scientific discipline the discovery of new facts or new considerations may lead to the revision of conclusions arrived at in the past. But what one must expect from a professional economist of recognized standing is that he not talk as if those past discussions had never taken place, and that he not use expressions in the ambiguous and misleading senses which had been painfully eliminated in the course of the earlier discussion.

It is in this respect that the pronouncements of Professor Wassily Leontief, recently of Harvard University, in the course of the reopened debate on the subject are so bitterly disappointing. That a senior economist of international reputation should again use the term "planning" in all the ambiguity in which one would expect it to be used these days only by less responsible persons as a propaganda catchword, and that he should simply disregard the essential, if perhaps provisional, conclusions that emerged first from the discussion of central economic planning in the 1920s and 1930s and then from the no less intensive discussion of "indicative planning" more recently is wholly inexcusable. Although the statements with which I shall deal in this paper have been issued mostly on behalf of an "Initiative Committee for National Economic Planning," it would seem that for the economic argument embodied in those statements Professor Leontief must bear the principal responsibility. He is the visible prime mover of the Committee and he clearly is the economist among its spokesmen who has the most relevant background of professional work. His Co-Chairman, Mr. Leonard Woodcock, President of the United

Auto Workers, is not, of course, a professional economist and has publicly acknowledged that he did not start to think seriously about economic planning on the part of government until the oil embargo. Indeed, some of the comments he has made rather suggest that he has not thought much about it even now.

II

The worst confusion by which the new American agitation for "planning" is permeated, not excluding the various statements by Professor Leontief himself, was most naïvely expressed in the first sentence of a lead editorial in the February 23, 1975 issue of *The New York Times*. It asked "Why is planning considered a good thing for individuals and business but a bad thing for the national economy?"

It is almost unbelievable that at this date an honest seeker after truth should innocently become the victim of the equivocal use of the word planning and believe that the discussion about economic planning refers to the question of whether people should plan their affairs and not to the question of *who* should plan their affairs. In reply to this I can only repeat what more than thirty years ago I had, as I even then believed at unnecessary length, explained in a popular book:*

> " 'Planning' owes its popularity largely to the fact that everybody desires, of course, that we should handle our common problems as rationally as possible and that, in so doing, we should use as much foresight as we can command. In this sense everybody who is not a complete fatalist is a planner, every political act is (or ought to be) an act of planning, and there can be differences only between good and bad, between wise and foresighted and foolish and shortsighted planning. An economist, whose whole task is the study of how men actually do and how they might plan their affairs, is the last person who could object to planning in this general sense. But it is not in this sense that our enthusiasts for a planned society now employ this term, nor merely in this sense that we must plan if we want the distribution of income or wealth to conform to some particular standard. According to the modern planners, and for their purposes, it is not sufficient to design the most rational permanent framework within which the various activities would be conducted by different persons according to their individual plans. This liberal plan, according to them, is no plan—and it is, indeed, not a plan designed to satisfy particular views about who should have what. What our planners demand is a central direction of all economic activity according to a single plan, laying down how the resources of society should be 'consciously directed' to serve particular ends in a definite way.
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> "The dispute between the modern planners and their opponents is, therefore, *not* a dispute on whether we ought to choose intelligently between the various possible organizations of society; it is not a dispute on whether we ought to employ foresight and systematic thinking in planning our common affairs. It is a dispute about what is the best way of so doing. The question is whether for this purpose it is better that the holder of coercive power should confine himself in general to creating conditions under which the knowledge and initiative of individuals are given the best scope so that *they* can plan most successfully; or whether a rational utili-

*In Chapter III of *The Road to Serfdom*, The University of Chicago Press, pp. 34ff.

zation of our resources requires *central* direction and organization of all our activities according to some consciously constructed 'blueprint.' The socialists of all parties have appropriated the term 'planning' for planning of the latter type, and it is now generally accepted in this sense. But though this is meant to suggest that this is the only rational way of handling our affairs, it does not, of course, prove this. It remains the point on which the planners and the liberals disagree."

(The term "liberal" is of course used here and also in an earlier part of the quote in the classical English, not in the modern American, sense.)

I should, perhaps, explain that this was written in a book concerned with the moral and political consequences of economic planning, written ten years after the great discussion of the question of its economic efficiency or inefficiency to which I shall now have to turn. And I might, perhaps, also add that J. A. Schumpeter then accused me with respect to that book of "politeness to a fault" because I "hardly ever attributed to opponents anything beyond intellectual error."* I mention this as an apology in case that, on encountering the same empty phrases more than thirty years later, I should not be able to command quite the same patience and forbearance.

III

The great debate of the 1920s and 1930s turned mainly on the question of the justification of the socialist hopes of increasing productivity by substituting central planning for marketplace competition as the instrument for guiding economic activity. I don't think it can now be gainsaid by anybody who has studied these discussions that those hopes were shattered and that it came to be recognized that an attempt at centralized collectivist planning of a large economic system was on the contrary bound greatly to decrease productivity. Even the communist countries have to various degrees felt compelled to reintroduce competition in order to provide both incentives and a set of meaningful prices to guide resource use. We can deal with those older ideals of centralized planning fairly briefly since even the proponents of the schemes under discussion today disclaim that they aim at a system of planning of the kind in which a central authority commands what the individual enterprise is to do—although it must remain doubtful whether what they aim at can be achieved without this sort of regimentation.

We shall therefore content ourselves, so far as the efficiency argument for central direction is concerned, with stating very briefly why such an argument is erroneous.

The chief reason why we cannot hope by central direction to achieve anything like the efficiency in the use of resources which the market makes possible is that the economic order of any large society rests on a utilization of the knowledge of particular circumstances widely dispersed among thousands or millions of individuals. Of course, there always are many facts which the individual conductor of a business ought to know in order to be able to make the right decisions but which he can never know directly. But among the alternative possibilities for coping with these difficulties—either conveying to a central directing authority all the relevant information possessed by the different individuals, or communicating to the separate individuals as much as possible of the information relevant for their decisions—we have discovered a solution for the second task only: the market and the competitive determination of

*J. A. Schumpeter, *The Journal of Political Economy*, Volume 54, 1946, p. 269.

prices have provided a procedure by which it is possible to convey to the individual managers of productive units as much information in condensed form as they need in order to fit their plans into the order of the rest of the system. The alternative of having all the individual managers of businesses convey to a central planning authority the knowledge of particular facts which they possess is clearly impossible—simply because they never can know beforehand which of the many concrete circumstances about which they have knowledge or could find out might be of importance to the central planning authority.

We have come to understand that the market and the price mechanism provide in this sense a sort of discovery procedure which both makes the utilization of more facts possible than any other known system, and which provides the incentive for constant discovery of new facts which improve adaptation to the ever-changing circumstances of the world in which we live. Of course this adaptation is never as perfect as the mathematical models of market equilibrium suggest; but it is certainly much better than any which we know how to bring about by any other means. I believe there is substantive agreement on these points among serious students of these matters.

IV

But, curiously, one recently has begun to hear more and more frequently a new argument which inverts the historical role that the market and the price mechanism have played in maximizing order and efficiency in individual economies and in the world economy at large. It is contended that the market may have been an adequate mechanism of coordination under earlier, simpler conditions, but that in modern times economic systems have become so complex that we no longer can rely on the spontaneous forces of the market for the ordering of economic priorities but must resort instead to central planning or direction. Such an argument carries some superficial plausibility, but, on examination, turns out to be particularly silly. In fact, of course, the very complexity which the structure of modern economic systems has assumed provides the strongest argument against central planning. It is becoming progressively less and less imaginable that any one mind or planning authority could picture or survey the millions of connections between the ever more numerous interlocking separate activities which have become indispensable for the efficient use of modern technology and even the maintenance of the standard of life Western man has achieved.

That we have been able to achieve a reasonably high degree of order in our economic lives despite modern complexities is *only* because our affairs have been guided, not by central direction, but by the operations of the market and competition in securing the mutual adjustment of separate efforts. The market system functions because it is able to take account of millions of separate facts and desires, because it reaches with thousands of sensitive feelers into every nook and cranny of the economic world and feeds back the information acquired in coded form to a "public information board." What the marketplace and its prices give most particularly is a continuing updating of the ever changing relative scarcities of different commodities and services. In other words, the complexity of the structure required to produce the real income we are now able to provide for the masses of the Western world—which exceeds anything we can survey or picture in detail—could develop *only* because we did *not* attempt to plan it or subject it to any central direction,

but left it to be guided by a spontaneous ordering mechanism, or a self-generating order, as modern cybernetics calls it.

V

Apart from such occasional flare-ups of old misunderstandings in lay circles, the efficiency argument for central economic planning has almost universally been abandoned. If central direction of all economic activity is still sometimes demanded by serious students, this is on the different and logical argument that only in this manner could the distribution of income and wealth between individuals and groups be made to conform to some preconceived moral standard. Apparently a good many idealist socialists would be prepared to tolerate a substantial sacrifice of material welfare if thereby what they regard as greater distributive or social justice could be achieved.

The objections to this demand for greater social justice, of course, must be and are of an entirely different character from those against the presumed greater efficiency of a planned system. There are two different fundamental objections to these demands, each of which seems to me to be decisive. The first is that no agreement exists (or appears even conceivable) about the kind of distribution that is desirable or morally demanded; the second is that whatever particular distributive scheme were to be aimed at could in fact be realized only in a strictly totalitarian order in which individuals would not be allowed to use their own knowledge for their own purposes but would have to work under orders on jobs assigned to them for purposes determined by government authority.

Freedom in the choice of activity as we know it is possible only if the reward to be expected from any job undertaken corresponds to the value the products will have to those fellow men to whom they actually are supplied. But this value often will unavoidably bear no relation whatever to the deserts, needs, or other claims of the producer. The belief in a society in which the remuneration of individuals is made to correspond to something called "social justice" is a chimera which is threatening to seduce modern democracy to accept a system that would involve a disastrous loss of personal freedom. George Orwell and others ought by now to have taught even the layman what to expect from a system of such kind.

VI

The new American advocates of planning will claim, however, that they know all this and that they never have advocated a system of central direction of individual economic activities and even have said so. Yet it is very doubtful whether what they do advocate would not in fact lead that way. They leave a great deal obscure and it is precisely this state of muddle which is the sure way to hell. To be sure, the statement of the Initiative Committee for National Economic Planning *(The Case for Planning)* says that: "It should be clear that the planning Office would not set specific goals for General Motors, General Electric, General Foods, or any other individual firm. But it would indicate the number of cars, the number of generators, and the quantity of frozen foods we are likely to require in, say, five years, and it would try to induce the relevant industries to act accordingly." But one cannot help wondering how that "inducement" of an "industry" would work if, as the Initiative Committee's statement at another point makes clear, the "means of influencing" the decisions of industry would include "selective credit controls, guid-

ance of basic capital flows, limits to the use of air, water and land, and *mandatory resource allocation* [italics added]."

Indeed, as one reads on, it becomes increasingly difficult to find out what precisely the authors of the statement mean by National Economic Planning. Nor, in spite of its magniloquent language, is the text of the proposed Balanced Growth and Economic Planning Act of 1975, inspired by the Committee and introduced in the Senate by Senators Humphrey, Jackson, Javits, McGovern and others, in this respect more revealing. While the bill is loquacious on the organization of a proposed Economic Planning Board, it is remarkably reticent on the methods and powers by which this body is to secure the execution of the "balanced economic growth plan" which it is to draw up. About the elaborateness of the proposed machinery there can be no doubt. But what it is to do, and even more important, what good it is to do, is difficult to discover.

Underlying some of these arguments for central economic planning appears to be the curious conception that it would be an advantage, enhancing orderliness and predictability, if the gross outline, a sort of skeleton, of the future distribution of resources between industries and firms could be laid down for a fairly long period. In other words, what is today one of the chief tasks of business, namely to guess as correctly as possible future developments in its particular concerns, would be handled in advance by government decision; only the details within this general framework would be handled by business. The hope apparently is thereby to increase the opportunity for managers of individual firms to make correct forecasts concerning the facts which will directly affect their activities. But the exact opposite would be the result of such planning: the uncertainty for managers would be greatly increased since the opportunity they would have to adapt to changes in their immediate environments (i.e., the quantities they would have to buy or sell and the prices at which they could do so) would depend on the "mandatory resource allocation," the "guidance of basic capital flows," etc., of the government planning office. For the manager of an individual firm, that halfway house between a completely planned system and a free market would indeed be the worst of all possible worlds, since his ability to make changes would become critically dependent on the red tape, delay, and unpredictability that are characteristic of bureaucratic decisions.

Implied in the argument for government planning of industrial and commercial activity is the belief that government (with an appropriately increased bureaucracy, of course) would be in a better position to predict the future needs of consumer goods, materials, and productive equipment than the individual firms. But is it really seriously contended that some government office (or, worse, some politically sensitive plan-making committee) would be more likely to foresee correctly the effects of future changes in tastes, the success of some new device or other technical innovation, changes in the scarcity of different raw materials, etc., on the amounts of some commodity that ought to be produced some years hence, than the producers or professional dealers of those things? Is it really likely that a National Planning Office would have a better judgment of "the number of cars, the number of generators, and the quantities of frozen foods we are likely to require in, say, five years," than Ford or General Motors, etc., and, even more important, would it even be desirable that various companies in an industry all act on the same guess? Is it not the very rationale of the meth-

od of competition that we allow those who have shown the greatest skill in forecasting to make preparations for the future?

VII

In some sections of the statements made by the new advocates of "planning" it becomes clear, however, that they are thinking mainly of another kind of planning, one which also has been thoroughly examined in the past in a discussion of which its present protagonists show as little awareness as of any other of the earlier scientific examinations of the problem. They show indeed a curious tendency to reject with disdain any suggestion that other peoples' experiences are relevant and insist, in Professor Leontief's words, that "America cannot import a planning system from abroad. Countries differ in their planning methods because the countries themselves differ. We should want and expect a distinctive American style."*

The earlier extensive discussion of these problems, from which the American proponents of that other sort of planning ought to have profited, took place chiefly in France in the early 1960s under the heading of "indicative planning." This conception had for a short while attracted much attention until it was decently buried after a thorough discussion at the Congress of French Speaking Economists in 1964 had revealed all the confusion and contradictions involved in it.** There is no excuse whatever for ignorance of the upshot of these discussions which are clearly expounded in an excellent book in English by Dr. Vera Lutz.***

The whole idea of "indicative planning," it turned out, rests on a curious combination, or rather confusion, of actions—making a prediction and setting a target. It was conceived that somehow a forecast of the quantities of the different commodities and services that will be produced would assist in determining the respective quantities which ought to be produced. The plan is conceived as a forecast by government at the achievement of which industry is to aim.

This sort of self-fulfilling prophecy may at first appear plausible, but on reflection it turns out, at least so far as a market economy based on competition is concerned, to be an absurdity. There is absolutely no reason at all to assume that announcement of a target will make it likely that the aggregates of output named in it will actually be realized by the efforts of a number of producers acting in competition. Nor is there any reason to think that the government, or anybody else, is in a better position than are individual managers acting as they now do to determine beforehand appropriate quantities of different outputs of different industries so that supplies and demands will match.

It is at this point that it becomes clear that the present revival of the planning idea in the United States is inspired by the input-output representations developed by Professor Leontief, and rests entirely, I am sorry to say, on a colossal overestimation by its author of what this technique can achieve. Before the Joint Economic Committee,* Professor Leontief is reported to have explained that: "First of all, getting information is a passive activity. It does not tell anybody what to do. Presenting a picture of

*Quoted by Jack Friedman in *The New York Times* of May 18, 1975.

**See particularly the contributions of Daniel Villey and Maurice Allais to the *Congrès des économistes de langue Francaise*, May 1964.

***Vera Lutz, *Central Planning for the Market Economy. An Analysis of the French Theory and Experience*. London, 1969. There is also a briefer earlier statement by Dr. Lutz, *French Planning*, Washington, 1965.

**Notes from the Joint Economic Committee*, Congress of the United States, Volume I, No. 19, July 1, 1975, p. 10.

how good a situation could be if everything is geared nicely is not a dictation."

What Professor Leontief has in mind is clearly the technique of input-output tables which he himself has developed and which show in an instructive manner how, during some period in the past, various quantities of the products of different main branches of productive activity were used up by other branches. How the production of the tens of thousands of different things which are needed to produce a much smaller but still very large number of final products is determined by the market process is a matter of infinite complexity; and how order is brought about by a spontaneous mechanism which we do not fully understand is best illustrated by the very fact that we needed a Professor Leontief to give us even a very rough outline of the gross categories of commodities that in the past have passed from certain main groups of industries to others. One can understand that Professor Leontief wishes to refine and extend that technique and to construct input-output tables not for a few dozen but for a few thousand main classes of products. But the idea that such broad-outline information about what has happened in the past should be of significant help in deciding what ought to happen in the future is absurd. Even if we could get and organize information about the tens of thousands of different commodities actually produced in a specific past period, it would tell us about just one of an infinite number of possible input combinations that could produce a particular array of final products. It would tell us nothing at all about whether that specific combination of inputs or any other combination would be economical under changed conditions.

The source of belief in the value of input-output representations is the wholly wrong idea that the efficient use of resources is determined mainly by technological and not by economic considerations. That belief is evident in the fact that the advocates of planning visualize a team of a few hundred technical experts (perhaps 500 of them, as we learn from one of their spokesmen, at the cost of fifty million dollars a year*)—most of them scientists and engineers rather than economists—working on planning for either the White House or Congress.**

VIII

This, I am afraid, betrays a complete lack of understanding of how in the complex order of a great society the efficient use of resources can alone be determined. There is no need, to take a very simple example, for a particular quantity of a particular raw material in order to make a particular quantity of tarpaulins. In a situation in which the buyers of tarpaulins are indifferent to the raw material from which they are made, output can be maximized by choosing among hemp, flax, jute, cotton, nylon, etc., that material which costs least—that is, that which we can obtain for this purpose at the least sacrifice of other desirable products. That we can substitute one material for another in this and thousands of other cases (most of which in practice involve much greater complexities) is due to the circumstance that in a competitive market the relative prices of materials will enable us to determine readily how much more of one material than of another can be acquired at any given expenditure level.

There is, therefore, without a knowledge of prices, no possibility for determining from statistics of the past how much of different materials will be wanted in the future. And statis-

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**Challenge*, May-June 1975, p. 6.

***The New York Times*, February 28, 1975, "Diverse Group Advocates Economic Planning for U.S."

tics of the past help us little to predict what prices will be and therefore what quantities will be needed of different commodities. It is therefore difficult to see what possible purpose would be served if it were announced beforehand what quantities of the different main classes of goods ought to be produced during a certain period of the future.

Even if it were possible, however, to say beforehand for every kind of commodity (or variety of a commodity) how much of it ought to be produced some years hence, it is difficult to see how this should lead the individual enterprises to produce just those amounts which together correspond to the desired quota—except, indeed, on the assumption that it is desired that the different firms should conspire together to produce an output of a certain size (presumably that must be profitable to them). This, in fact, is the ideal which clearly guided the French advocates of "indicative planning." And one cannot help feeling sometimes that the new American advocates of planning have become the innocent dupes of some aspiring cartelists.

The whole idea of "guiding" private industry by announcing beforehand what quantities of different goods firms ought to produce over a long period of the future is a muddle from beginning to end, wholly ineffective and misleading if left without sanctions constraining industry to do what it is predicted that it will do, destructive of the competitive market and free enterprise, and leading by its inherent logic straight to a socialist system. It seems to have attracted all those who since the era of the New Deal have hankered for a revival of President Franklin D. Roosevelt's National Resources Planning Board. Indeed, Professor Leontief has specifically couched his proposal in that way,* thereby apparently hoping to give it an aura of progressiveness. Yet, to the economist aware of the serious discussions of these problems during the last forty years these, far from being progressive, are antiquated ideas, completely out of date and in conflict with all that we have learned about the problems involved.

IX

There is, however, yet another undercurrent discernible in the present demands for planning which indeed expresses a very legitimate dissatisfaction with prominent features of our economic life. This involves the hope for a kind of planning which would be highly desirable but which is not only wholly impossible politically in present conditions but also in direct conflict with the other demands for planning. The hope is for government to plan its own activities ahead for long periods, announce and commit itself to the execution of these plans, and thereby make government action more predictable. It would indeed be a great boon for industry if it could know a few years in advance what the government is likely to do. But this is, of course, wholly irreconcilable with the established use of economic measures for vote-catching purposes. Such an idea is even more irreconcilable with demands that government interfere with the activities of private enterprise to make them conform more closely to some plan government has made. The current agitation in the United States for a broad new planning initiative explicitly includes, in most of its variants, an indictment of government for its failure to think

*W. Leontief, "For a National Economic Planning Board," *The New York Times,* March 14, 1974. Indeed the most familiar figures among the signatories of the statement of the Initiative Committee for National Economic Planning—Chester Bowles, John K. Galbraith, L. H. Keyserling, Gunnar Myrdal, Robert R. Nathan, and Arthur Schlesinger, Jr.—seem to be men who long for a new N.R.A. and who in any other country would be called socialists, but in the U.S. call themselves liberals.

out its policies for the longer future. But the legitimacy of that indictment is not a justification for the demand that the same government which so notoriously fails to plan its own affairs should be entrusted with the planning of business.

X

The Balanced Growth and Economic Planning Act of 1975—popularly known after its chief sponsors as the Humphrey-Javits bill—is a decidedly curious product, both as to parentage and other matters. The so-called Coordinator of the Initiative Committee for National Economic Planning—Myron Sharpe, editor of *Challenge*—claims that the bill was originally drafted by members of the Initiative Committee and that the final draft is the "joint product of the Initiative Committee and the original Senate sponsors."* Senator Javits, however, is on record as wanting to make it clear that the sponsors of the bill "aren't an instrument for the Committee for National Economic Planning" and that the Committee's definitive statement "isn't applicable to our bill."** Senator Humphrey, for his part, has offered reassurance that no coerciveness would be involved. "I can categorically state," he has said, "that it is not the intent of the authors of this bill or of the bill itself, and there is not a single word or phrase in this bill which could be used to expand the government's control over the economy."*** Indeed the much touted National Planning Bill turns out to be an instrument for an undisclosed purpose. It proposes to create an enormous bureaucratic machinery for planning, but its chief sponsor, while constantly using the magic word planning, admittedly has no idea of what he means by it: Senator Humphrey explained the purpose of the Joint Economic Committee's Hearings on the bill last June by saying: "This is advisory and consultative, and hopefully out of this dialogue and discussion . . . we will come down to a much more clear and precise understanding of exactly what we are talking about and what we mean."*

It is difficult for an outsider to understand how, after introducing so ill-considered and irresponsible a piece of legislation—which promises merely an empty machinery with no stated purpose, which will perhaps give us input-output tables for a few hundred commodities that will be of no conceivable use to anybody except some future economic historian, but which may incidentally be used to enforce the disclosure of various sorts of information that would be exceedingly useful to a future authoritarian government—Senator Humphrey should be able to boast that it is his "single most important piece of legislation."** Somebody as innocent of American politics as this writer might suspect that the Senator from Minnesota is the unwitting tool of some other, presumably collectivist, wire pullers who want to use the machinery thus created for aims they prefer not to disclose. But when one rereads the accounts of how the campaign for national planning has evolved in the articles of the editor of the magazine *Challenge,* whose hand one seems to recognize also in several of the other statements supporting the plan, one feels reassured that nothing more sinister than sheer intellectual muddle is at work.

**Challenge,* May-June 1975, p. 3.

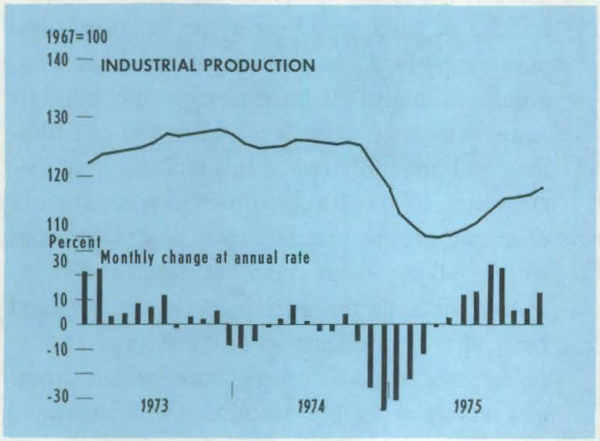
***Daily Report for Executives,* published by The Bureau of National Affairs, Inc., June 11, 1975, p. A 11.

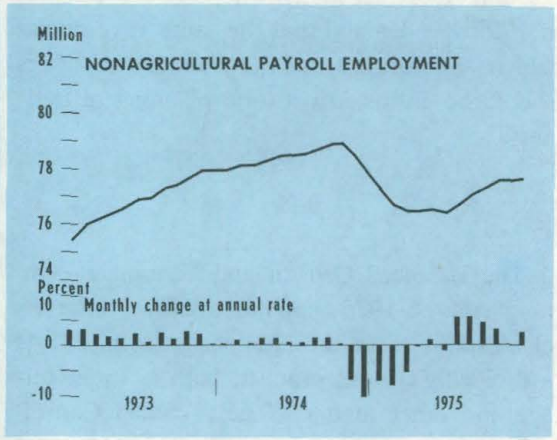
****Notes from the Joint Economic Committee,* U.S. Congress, Volume I, No. 19, p. 19.

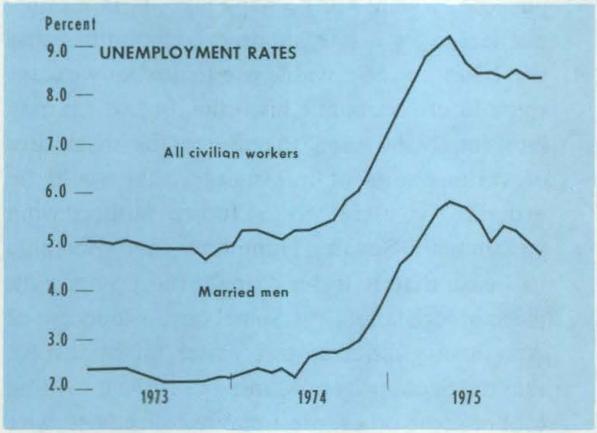
**Ibid.,* p. 2.

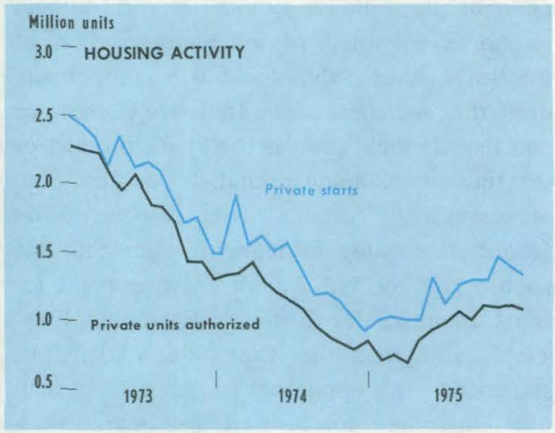
***"Planning Economic Policy," *Challenge,* March-April 1975, p. 21.

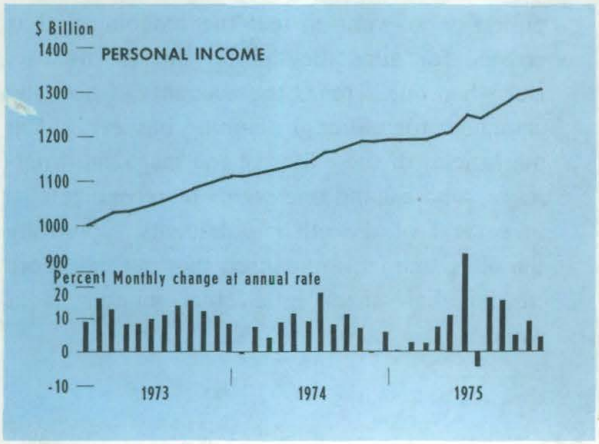
ECONOMIC INDICATORS

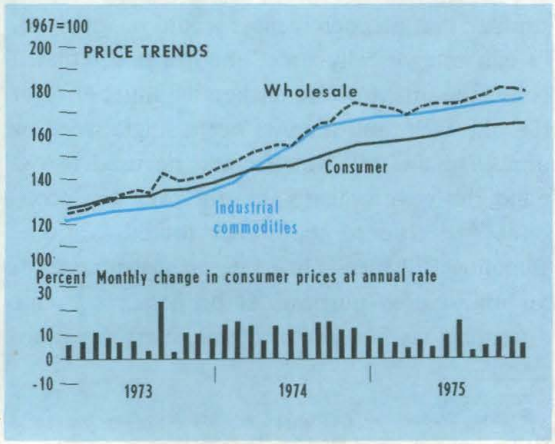






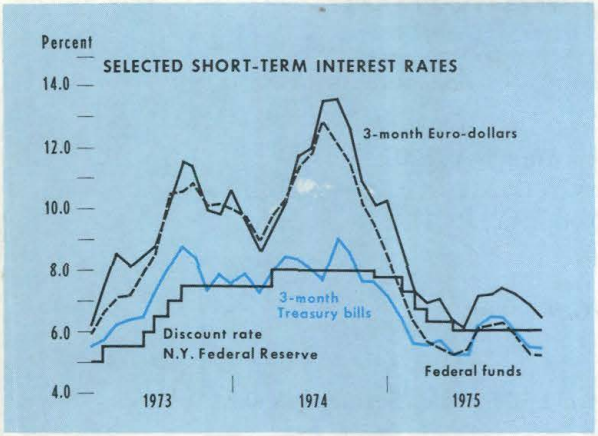


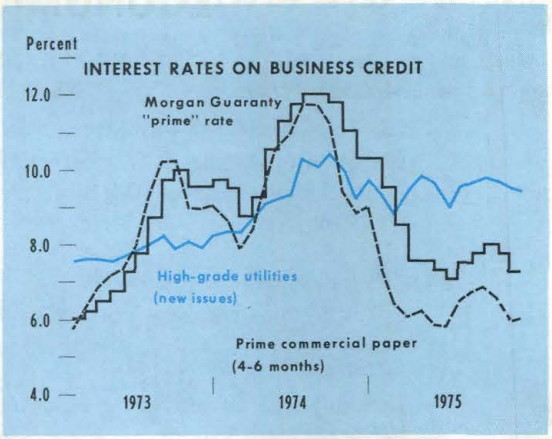


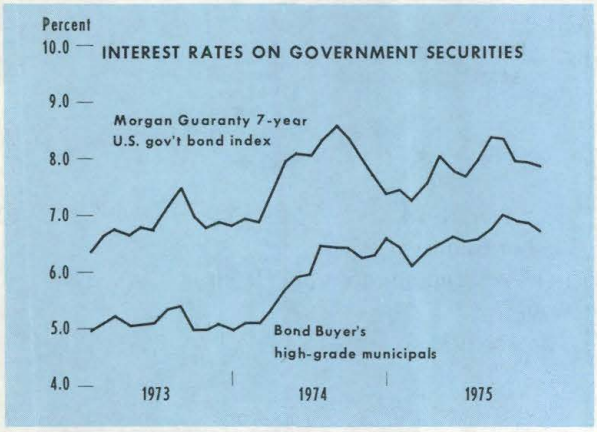


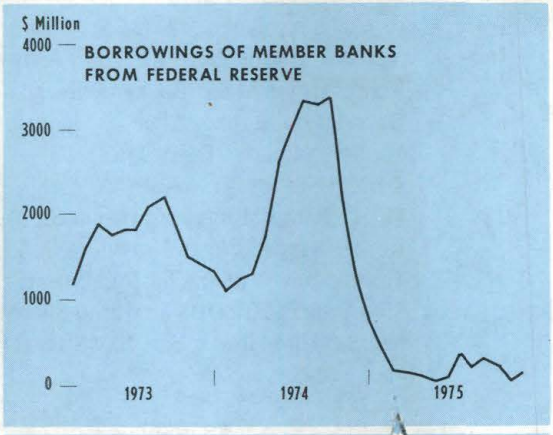
NOTE: Latest plotting in each chart is for the month of December. All data are seasonally adjusted.

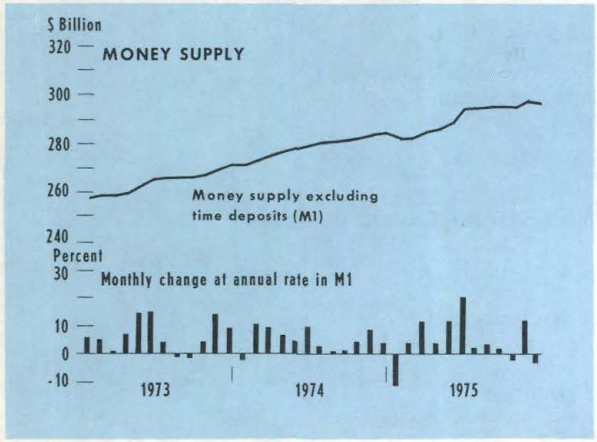
MONETARY INDICATORS

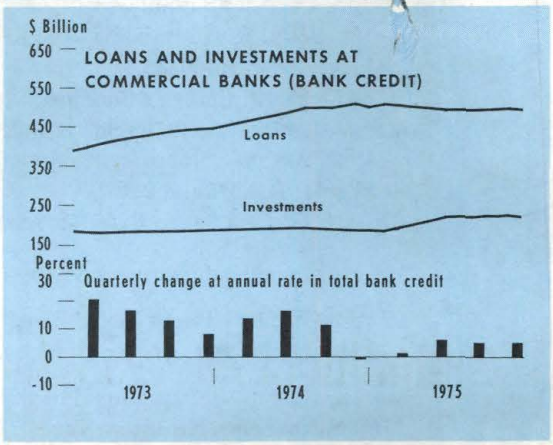












NOTE: Latest plotting in each chart is for the month of December. All data except interest rates are seasonally adjusted. Morgan Guaranty lowered its "prime" rate to 7% effective January 12 and to 6¾% effective January 19.

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