

# THE MIRAGE OF STATE PLANNING

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WE ALL KNOW that for maximum efficiency in our personal lives we must plan, that is, use as much foresight, judgment and ingenuity as we can command, and we expect that good judgment and foresight will be used by the government when it is responsible for planning.

The politician, however, uses the term planning to describe something specific, and relies for its approval on the public's sympathy for the more general meaning of the term. He then erroneously asserts that most people are in favour of planning.

Planning, as used by the politician, means that the government should plan how resources are used and in what proportions incomes should be distributed. At best, this method of economic organisation means a market system grossly distorted and regulated by government edict, and at worst, an economy centrally directed in all its aspects.

Basically, Britain still has a market system—distorted it is true, but a market system nonetheless. The groping around in the planning wilderness may be said to have started with the National Economic Development Council in 1961, but in fact it began many years before. At first there was probably no intention to plan the economy comprehensively—only to intervene in one or two isolated sectors in order to achieve specific government objectives. Slowly, however, piecemeal legislation extended government intervention throughout the economy, until now there is hardly a part of it that is not influenced by the government in one way or another.

The road to planning was made much easier by such measures as the Education Act of 1870; the social legislation of the Liberal governments, 1906-16; the McKenna duties; the tariffs and protection of the 1930s; the marketing boards; exchange control; the Town and Country Planning Acts and nationalisation. But above all, planning was given its greatest impetus by the neglect of successive governments to solve the land problem at the time that the case for free trade had been won. The enormous advantages from free trade were vitiated to a large degree by the unfair sharing out of the spoils, which had its foundation in the private monopoly of land.

The market system can operate properly and fairly only on the basis of a just land tenure system. But the reforms in the early part of this century neglected the cause of our problems and turned instead against the market system and towards a system of government control of the economy. The solution at that time would have

been simple—the provision of a legal and institutional framework within which competition and the free market could operate against the background of a just system of land tenure.

Fundamentally, the answer is no different today, although the policy may well be more difficult to implement because many established institutions have arisen as a result of the distortions created by government.

Despite the country's experience at the hands of the planners during the past years, the vogue for planning persists. However, there are some heartening signs that arguments for the market economy are attracting more attention.

A recent contribution to free market thought is George Polanyi's *Planning in Britain; the experience of the 1960s\**. This book is a devastating critique of economic planning by an economist who is personally familiar with planning in a nationalised industry. His view is that the planning experiment in Britain has been a complete failure not because of the type of planning used but because of inherent defects in planning itself.

Mr. Polanyi traces what he calls the escalation of planning from the establishment of the advisory body, the Council on Prices, Productivity and Incomes in 1957, leading to the semi-official National Economic Development Council set up in 1961, through to the official National Plan of 1965. He points out that each step leads inevitably to the next, involving more government intervention, and that as failures in planning mount up the government will be compelled to exercise more and more control over the day to day running of the economy in order to attain its objectives. Already there is some indication of the truth of this in the call by some politicians for "planning with teeth."

Mr. Polanyi does not content himself with a purely destructive analysis of planning theory and practice, but mentions, albeit briefly, alternative policies. Although land reform does not feature in his reckoning, his other suggestions are worthy of note: "By abolishing tariffs, freeing the exchange rate of the £, eliminating excess demand (ending inflation?), resolutely attacking, instead of officially fostering, obstacles to competition within the economy—to name but a few key measures—one could radically improve the nation's capacity for economic growth."

\**Planning in Britain: the experience of the 1960s*, by George Polanyi. Research Monograph 11. Institute of Economic Affairs Ltd. 12s. 0d.

This well-documented chronicle showing the steady growth of planning is almost frightening when one realises how many intelligent and successful men in politics, industry, the professions and the academic world were "taken in" by the fad for economic planning.

Indicative, or co-operative, planning has been accepted by industry and by all political parties. The Labour Party discarded its ideas of coercive planning, which had been "holy writ" for many years, despite the failure of the late 1940s, and embraced instead ideas of planning involving co-operation with industry. The Liberal Party espoused indicative planning, but not without opposition from its own ranks, and still thinks that its own planning will be better than that of the other parties. The Conservative Party, paternalist as ever, was ready enough to adopt the policy of economic planning, but, as Mr. Polanyi points out, the personal outlook of the Prime Minister of the time, Mr. Harold Macmillan, made it that much easier. In two books in the 1930s, Mr. Macmillan had argued for the abandonment of free enterprise and the introduction of a system of economic planning. The establishment of NEDC in 1961 was in line with the proposals which he had made twenty-five years earlier.

On introducing the new body to the House of Commons, Mr. Selwyn Lloyd said: "... the time has come to establish new and more effective machinery for the co-ordination of plans and forecasts for the main sectors of our economy. There is a need to study centrally the plans and prospects of our main industries, to correlate them with each other and with the Government's plans for the public sector, and to see how in the aggregate they contribute to, and fit in with, the prospects for the economy as a whole, including the vital external balance of payments."

The National Economic Development Council in fact came to undertake more than just a study, and instead provided the targets for the economic growth of Britain. But, as Mr. Polanyi points out, the target of a four per cent annual growth rate, which came to be associated with NEDC, was at first only a figure, arbitrarily selected to test a hypothesis, and "had no more scientific foundation than is implied in the aim of selecting a 'reasonably ambitious' figure which would concentrate attention on the problem of faster growth." So much for "scientific" planning.

The National Plan, conceived at the general election of 1964, born in September 1965, and laid to rest in July 1966, fares no better under Mr. Polanyi's analysis. "In retrospect, the most striking feature of the phase of 'official' planning . . . is that it reproduced so closely the earlier phase under NEDC."

This failure, however, has its dangers. The planners have failed to achieve their ends by persuasion and exhortation, and the way is open to more direct control of the economy. For example, Dr. Thomas Balogh, one of Mr. Wilson's economic experts, is quoted by Mr. Polanyi as saying "statutory powers will therefore be desirable to avoid misbehaviour by a recalcitrant minor-

ity." Mr. Wilson has also made his position on planning clear; it should be "quite ruthless in discrimination."

Discrimination was also one of Dr. Balogh's proposals, especially in the field of taxation. Those firms that complied with government plans would receive tax concessions and easier access to capital, while the ultimate sanction against those firms that did not comply with government wishes would be public ownership. Dr. Balogh is quoted by Mr. Polanyi as having even more sanctions in his armoury: "controls on buildings; a check on unwanted investment; licensing of investment projects; import controls; price control and control of profit margins; stabilisation of food prices by government schemes for bulk purchase and import of selected 'basic' supplies." All this presents a horrifying prospect, but it is more realisable now than at any time in our peacetime history.

In chronicling the record of the failure of economic planning, Mr. Polanyi says: "The outcome of the planning experiment which was to have achieved a radical improvement in the rate of growth of the economy was the continuance, virtually unchanged, of the existing rate of growth."

Comparisons of actual growth with forecast growth in specific industries and in the economy as a whole give no confidence that there is any value in indicative planning. Even in the monopolistic nationalised industries, where one would have thought the chances of accurate forecasting were better than in competitive industry, the figures were wildly out.

Mr. Polanyi argues that "the sum total of the practical effect of indicative planning in raising the growth rate of national wealth and removing the obstacle to growth



presented by balance of payments crises has so far been precisely nil; and is expected by informed opinion to continue to be nil."

In a revealing chapter on the doctrine of planning, Mr. Polanyi details the catastrophic failure of centralised planning in the U.S.S.R. and shows how today the Russian economy has its foundations in a market system, however grossly distorted.

Having followed Mr. Polanyi's account through to the end, one is reminded of that perceptive statement of Adam Smith, some two hundred years ago: "The statesman who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be entrusted to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it."