

A CRITIQUE OF ECONOMIC PLANNING

ECONOMIC PLANNING is one of those seductive phrases which win respect for the idea by the very name. It convinces because of an implied analogy with planning in architecture or in other branches of technology. The analogy passes for an argument, and so begs the question.

It is true that no one builds a structure of any size or importance without a plan. Plans were made when building was merely an empirical art, and many edifices of the Middle Ages survive to testify to their success. Nowadays such plans are based upon scientific knowledge of a much more elaborate order, and without the theory and data relating to strength of materials it would be impossible to erect such a work as the Forth bridge.

Technical and Economic Problems

Such planning is an essential and powerful instrument of modern industry. It is important, however, to observe the conditions within which it functions and the purposes it serves. The object to be attained is predetermined and fixed within certain limits. The means of attaining it are also known. Given the task of building the Sydney Harbour bridge, the engineer knows precisely what he has to do and the capacity of the materials he can use. He is able to predict exactly the result of what he plans to do.

In economic questions the matter is quite different. The manufacturer can plan to produce a certain output of a certain commodity. The technological problem is similar, but superimposed upon it is an economic problem. He has to estimate the cost of production based upon his knowledge of the current prices of labour and materials and the best estimate he can make of the probable variation of these during the period of production. That estimate may be falsified by events over which the manufacturer has no control.

His plan is also based upon an anticipation of the price at which he can sell the article he will produce. This price also is in no way under his control. He may be guided by experience, but all kinds of changes may take place which he cannot foresee.

The difference between the technical and the economic problem arises from the fact that economic science is not an exactly quantitative science like physics or chemistry. Although the general results of certain broad lines of policy may be predicted, the details of individual cases depend upon factors so numerous and complex, that no one could assemble all the data or wield a calculus capable of handling them.

This does not mean that the conduct of individual enterprises is not to be planned as far as possible. So far as they are successful they are planned upon the basis of empirical knowledge.

National Planning

The idea of economic planning is much wider than that. It is that the whole production of the country shall be planned by one single central authority.

Here a whole series of questions arises. Who is to make the plan? How is it to be

carried out? What are the ends it must serve?

The last question is the most important. According to the degree of freedom which exists in society, men consult their own interests in economic transactions. They buy what they like to satisfy their own desires, and not to comply with what someone else thinks that they ought to desire.

Labour, Materials and Prices

Now it is certainly conceivable that, in a totalitarian society where all the activities of the population are subjugated to the will of a small group, that group could determine (within the limits settled by the natural resources of the country, its accumulated capital and its man-power) how much should be produced of every article which that group determines to produce. This is in itself by no means a simple task. It involves a precise and detailed knowledge of the whole productive mechanism. The production of every single item must be co-ordinated with that of every other because so many of them require the same kind of materials or of labour, and the plan would break down if the right quantity of materials were not produced and the right amount of labour available at every stage in the productive process.

In a free economy this adjustment is arrived at through the working of the market. Dealers in materials of all kinds are buying or selling with a view not merely to immediate needs, but with an eye also to the demand which is anticipated during certain future periods. The rise and fall of price reacts upon the demand, and a continuous rearrangement takes place. This mechanism is extremely sensitive to change, because men's livings depend upon it and errors can and do result in loss to specific individuals.

State-Planned Production

It is, however, quite possible to conceive that the state could create an organization which could collect the necessary data, make a self-consistent plan, and carry it through to completion. It does not follow that that plan would necessarily produce as much as the free functioning of individuals in a free economy. The plan should not merely be adequate to produce the result required, it should also produce that result in the most economical fashion and without leaving any resources unutilized. In many branches of production there are alternative means of making a given kind of article; there may be differing materials, differing methods of organizing the production, differing kinds of labour. The state plan must ensure not that the best means of producing some few articles is adopted, but that the best combination is made of the various alternative methods of producing all articles. This means that the possibilities are enormously multiplied, because the number of ways in which a number of things can be combined is a very large multiple of the numbers of things themselves. The technical competence of those who frame the plan must, therefore, be of a high order, and the more so the more centralized the control, because the smaller the number of persons

making the decision the wider must be their knowledge of all the relative facts. On the other hand the more decentralized the bodies making the decision the more likely it is that they will be competent within a certain field of production, but the more probable it is that the totality of the plan will be inconsistent.

Satisfying the Consumer : According to Needs ?

So far we have sketched only the simplest part of the task and much more might be said about it. Let us assume that a plan has been framed which can be implemented and which, if implemented, would produce the quantities of goods which it has been predetermined shall be produced. Let us assume that these goods have been produced. How are they to be distributed? The communist answer is (but it is not so in practice) to each according to his needs. If this means according to what each individual feels himself to need (and not what someone else thinks he ought to need), then the question is insoluble. There is no means of assessing people's needs. They are entirely personal and subjective. In a free market where buying and selling is allowed, people procure within the limits of the resources they can command as complete a satisfaction of their needs as possible, because each individual makes an assessment of the relative importance of his own needs in laying out the means of exchange at his disposal; but that is a very different thing from attempting to weigh the needs of A against those of B.

An Equal Share to Everyone ?

The easiest solution of the problem of distributing the product is to give each individual in the community an equal share of every kind of article produced. This solution is purely physical, taking no account of value or desire. It immediately raises a number of problems. Evidently a literal interpretation of this plan of distribution would result in many people receiving things which were perfectly useless to them. Non-smokers do not want tobacco, nor do bachelors need babies' feeding bottles. A literal interpretation would result in many articles being made which were wasted. Even a fairly minute classification would result in a large number of persons being supplied with articles they did not want. The objections need not be elaborated.

Another method of dealing with the problem of distribution is to give each member of the population a certain number of vouchers (perhaps nominally money) which they can exchange for the goods produced under the plan. This is in effect a system of rationing. If the vouchers are not transferable, it differs little in substance from the former scheme. If they are transferable, it is evident that a traffic in the vouchers will arise by means of which people will adjust their requirements as best they can between each other.

Distribution by Money ?

This brings us to a further alternative under which instead of being given vouchers for specific articles people will be given so much money. The amount of money will be sufficient to purchase

the commodities to be distributed at the prices placed upon them, but the citizen will be free to spend his money as he pleases. In this case it will soon appear whether the prices fixed by the planning authority have been so determined that the monetary demand at those prices exactly exhausts the supply which the planning authority has to offer of each article. If it does, the planning authority has made a remarkable achievement. If it does not, the demand for certain articles will out-run the supply. Those who go first to the shops of the planning authority will have their demand satisfied, those who go last will get nothing of certain articles. To prevent this, the planning authority will be forced back to the device of rationing, or else it will have queues at its shops for some articles, for which a black market will arise, while other articles will be left on its hands. It is, of course, open to anyone to imagine that a planning authority can be found with sufficient omniscience to prevent this result; but it is difficult to see any solid grounds for believing in the probability of it.

Planned Work and Planned Wages

All of these plans of distribution depend in any case upon the solution of the problem of how labour is to be remunerated. The first one assumes that remuneration will be more or less equal irrespective of the character and value of the work done. Such a plan implies a direct allocation by the planning authority of the work to be done by each individual, a strict regimentation of the whole working population and the application of compulsion to see that each does the task allotted to him. That such a method would make for either efficiency in production or for contentment and happiness is hard to imagine.

If, however, an attempt is made to allocate income in proportion to the value of work done, another problem of enormous difficulty arises. How is that valuation to be made? One can only think that it is related to the value placed by the planning authority in advance upon the commodities which are being produced and will eventually be distributed. As we have seen, those values are highly unlikely to be such as would be fixed by the demand of consumers in a free market. There thus arises a double difficulty in allocating payment for work done.

The Function of a Free Market

Economic planning, if that means the operation by the state of the whole industry of a country, is therefore a task of an entirely different order to that involved in planning an architectural work or any similar technological project. The analogy which makes it at first sight attractive is inexact and delusive. On every occasion where a free market would put a different price upon an article the plan is immediately brought into question as having failed to give the maximum satisfaction from the resources at the disposal of society. Moreover the economic employment of land, labour and capital implies certain norms of valuation of these agents of production, without which they would certainly in part be wasted, and it is extremely difficult to see any means of solving this problem of valuation satisfactorily outside a free market.

LORD WEDGWOOD ON INDIA

LORD WEDGWOOD of Barlaston, making his maiden speech in the House of Lords, 3rd February, said:—

"I want to emphasize the question of granting land to the people who have served. Let them have land to go back to. We want that for stability as much as anything else. Think of a peasant population owning their own land. We read in Goethe that Faust came at last to peasants living on their own land, on land which they had made, free men; and when he finds that community he decides that it was worth preserving even at the cost of his soul and exclaims: 'Verweile doch, du bist so schön.' And he goes down to hell. If you want stability—and surely your Lordships want stability in the world as a whole, and particularly for India—if you want stability, look back at our own history. What was it that perpetuated the Reformation in this country? Preaching? No; it had something to do with it. It was the land, got out of the hands of the abbeys into the hands of certain people. Thenceforth we could not go back to Rome! Such was Henry VIII's wise policy. Or take the French Revolution. What was it that saved the French Revolution from reaction? The church

lands again, the sale of the *assignats*. All the people bought little bits of land, going cheap. The peasantry of France became free with their own land. After that France could not go back to the feudal system. The same applies to India. There, too, if we could get the land into the hands of the peasants, the peasantry would not be so desperately poor as they are to-day. By methods such as these you can change the relation between Britain and India. Give Indians something to fight for, prove to them that we are trustworthy, and the handing over of the land to these fighting peasants will be an outward and visible sign that our word is not merely to be trusted, but is to be trusted better than that of some other folk.

"Is it all hopeless? Can this House of Lords not do something to break down this colour bar which is destroying the finest and best Empire the world has ever known? I would appeal to the spiritual Peers. This is a moral question. We are not asking anybody to kill Germans. We want to kill the colour bar, anti-Semitism, race hatred, false pride. Is there no hope? 'Lord, take not Thy mercy from us. But take away our pride'."

NEED FOR RATE ON SITE VALUES

Local Government Service, March issue, published the following letter from F. C. R. Douglas, M.P., Chairman of the Finance Committee, London County Council, replying to Lady Shena Simon's advocacy of a local income tax, which had appeared in a previous issue of that journal:

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It is somewhat surprising to find the idea of a local income tax revived in these days when income tax and surtax now reach on the highest slices of income a rate of 19s. 6d. in the pound. One cannot believe that the Chancellor of the Exchequer would allow local authorities to impinge on this source of national taxation.

With all its faults the present system of rating works efficiently. The arrears at the end of a year are frequently less than five per cent of the total collection. In the case of income tax, the possibilities of dispute and delay are so large that the arrears are inevitably much heavier.

It is a significant fact that all over the English-speaking world, and in many other countries some form of tax on immovable property forms the basis of local taxation.

The real criticism of our system in this country is that it draws no distinction between the land and the buildings and improvements placed upon it. In so far as the rate falls on the structure, it is distinctly a penalty upon the making of improvements and the provision of new accommodation. In so far as it falls on the land value, it merely takes for the common fund an unearned income which owes its existence to the activities of the community generally and to the public services in particular. Moreover, as the basis of valuation under our system is the actual use made of the land and as rates are not paid in respect of unoccupied property, it follows that valuable unused land pays nothing, and valuable but badly developed land pays little. This encourages specula-

tion and helps to keep the price of land at an unnaturally high level, with consequences we are all familiar with when the local authority desires to buy land.

Many local authorities in this country, including the London County Council, Glasgow, Cardiff, Newcastle-on-Tyne, and others have from time to time declared themselves in favour of transferring part at least of the rate burden to site values. The rating of site values has been in operation for long periods by local authorities in New Zealand, Australia, South Africa, Denmark, and elsewhere.

There is a large measure of agreement that if town planning is to be carried out effectively there should be a general valuation of land throughout the country. It is most desirable that such a valuation should show the value of sites apart from the buildings and improvements, and if it is linked with a rate on site values one can expect that such a valuation would be much nearer to reality than the extremely artificial values which are arrived at in proceedings for compulsory purchase as those have hitherto been conducted.

These reasons could be elaborated, and others given, to show the desirability and urgency of site value rating as part of our plans of reconstruction. Some of the arguments are contained in the Memorandum on Town Planning and Land Values submitted by the Land Values Group of Members of Parliament to the Uthwatt Committee, of which I would gladly send a copy to any of your readers who are interested.

"We find the inhabitants of this earth divided into two great masses: the peasant paymasters—spade in hand, original imperial producers of turnips; and waiting on them all round, a crowd of polite persons modestly expectant of turnips, for some—too often theoretical—service."—JOHN RUSKIN.