3 THE INFLUENCE OF CIRCUMSTANCES AND IDEAS ON THE NATURE AND INTENSITY OF PLANNING

NEED FOR PLANNING DEPENDENT ON CIRCUMSTANCES

One of the conclusions that can be drawn from the general analysis of Chapter 2 is that the impact of planning differs between countries with different structures and that, as a consequence, the extent of the need for planning will be different too. Clearly, planning will be most desirable if its influence is felt to be favorable. Having in mind the main characteristics of planning we may expect planning to have a larger positive impact on the economy in situations where (1) there is a more pronounced need for forecasts; (2) there is a more pronounced need to stick to some aims; or (3) there is a more pronounced need for coordination.

The need for each of these three elements will depend on the particular structure of the country considered as well as on the circumstances prevailing. Thus, forecasts will be more necessary and more useful for activities showing wide fluctuations in either price or production, which may be due to the length of the production process or to erratic influences on production as in agriculture. Evidently countries in which these factors are of relatively great importance will be more in need of forecasts and of planning than countries where these activities do not play a large part.

The necessity to stick to certain aims more energetically than otherwise imposes itself whenever there is a wide discrepancy between reality and aims. This may generally be the case in an emergency. Countries facing emergencies—war, natural disasters, or extreme suffering for other reasons, e.g. a very low level of income—will therefore need plans more than in other circumstances.

Finally, the need for a high degree of coordination will be obvious if the number of means of economic policy utilized is large. This condition, again, differs between countries and between situations in the same country. Generally speaking the communist countries, which favor interfering in a detailed way with economic activity, will have more need for coordination than will countries adhering to a policy of laissez-faire; countries in emergency situations may also find it necessary to use more means of economic policy and hence will be in need of more coordination. We are going to take up each of these cases in more detail.

NEED FOR FORECASTS

As already stated, forecasts will be more needed in activities showing particular characteristics and in countries where these activities are relatively important. The

characteristics include all factors making for wide fluctuations in volumes and prices. There are mainly three such factors.

The first is a long-lasting production process, implying that the time between the decision to produce and the moment the product becomes available is long, with a correspondingly greater chance of making erroneous decisions. Extended periods of production are found in agriculture and in building, both taken in the widest sense. Most of the common crops take from several months up to almost a year to grow. Coffee plants and rubber trees require some seven years before bearing fruit. Animals also usually require years to grow before contributing to the food supply. Building of houses often takes half a year; the construction of large factories or offices, or of dams and mining facilities may take several years. Shipbuilding often shows a production period of about a year. In machine building several months are required for larger units.

The second factor is *erratic changes* in production, mostly due to weather conditions and other natural forces. This is typical again for many crops as well as for fishing.

The third factor making for instability of markets is the longevity of products. The price of the services rendered by durable products depends not on the annual production but on the stock of these products; thus freight rates for shipping services depend on the tonnage of ships available, and housing rents on the stock of dwellings. Minor changes in demand may therefore severely affect the volume of production needed, since new production is only an addition to, not replacement for the stock already available.

Several of the markets mentioned are affected by more than one of the factors just enumerated, which makes them even more susceptible to fluctuations. The need for forecasts and plans is considerably larger in the sectors indicated than

in other sectors. This means that planning will be particularly useful in agriculture, fishing, building, and the metal industries and consequently in countries where these sectors play a significant role.

In addition to those mentioned, one sector not usually considered part of the production process in the narrower economic sense should be discussed—namely education. Here again we are confronted with a long-lasting process and a long-living product, both surpassing most of the time periods valid for the purely economic examples discussed. There is a very strong argument therefore in favor of the application of forecasts and plans in the group of activities comprising education.

IMPORTANCE OF AIMS

We have stated already that aims carry particular weight in an emergency, when the disparity between reality and plans is broad and the necessity to be aware of it is strong. The two typical examples are war and underdevelopment. In a sense, an underdeveloped country which has become aware of its bad situation will feel as if it is at war, the war against poverty and destitution.

A war economy is confronted with the problem of devoting as large a part of its productive resources as possible to the purpose of winning the war. This means that the "spots" in the economy where surplus consumption or investment occur have to be traced. The reorientation of production needed for this aim has to be carried out with considerable precision since the alternatives are either to liberate too few productive forces or to cause social trouble if some vital minima are not guaranteed. It is the growing tension between aims and the tendencies of the free economy which

makes it necessary to use planning procedures to an increasing extent. Accordingly war economies are usually moving in the direction of more and more planning.

In a situation of underdevelopment a similar problem arises. All surplus consumption and investment must now be mobilized in order to foster development. Again, considerable precision will be necessary in order not to delay development on the one hand and to maintain some minimum acceptable consumption on the other hand. The tension between aims and the tendencies of free production will be felt the more intensively the stronger the wish to develop. In communist countries this wish has been particularly strong because of the feeling that they were involved in severe competition with capitalist economies or even in a struggle for their political life. In the other developing countries the desire to advance has only recently started to become very strong and it may in the near future also lead to heavy tensions. The necessity of planning is generally felt in these nations.

As a third example we may add the situation which prevailed during the Great Depression. In the beginning, shortly after the 1929 crisis, the situation was not immediately perceived as an emergency. As the decline in production continued and began to surpass what had been empirically observed, with unemployment in industrial countries rising to about 30 per cent of the labor force, the feeling of being in an emergency increased. Step by step the dramatic difference between reality and what should be an aim for any decent society became clearer, and the corresponding need for planned measures of an anticyclical nature became a living issue. It took some time for this need to be recognized by governments and parliaments because of the prevailing doctrinaire approach, which held that the free forces of the economy would remedy the emergency.

NECESSITY OF COORDINATION

The larger the number of instruments of economic policy applied, the stronger the necessity will be to coordinate their use. The alternative is the development of contradictory action by the various agencies involved. A large number of instruments may be applied either because the situation requires them or because of a preconceived preference for such a policy. The situation requires the use of many instruments if the tension between aims and reality is strong; we have already discussed this situation. Thus, war circumstances as well as a state of extreme poverty, whether in an underdeveloped country or in a deep depression, require more coordination of measures of economic policy than do more normal circumstances.

There may be a stronger necessity for coordination in larger countries than in smaller, just as there is such a necessity in larger enterprises as compared to smaller. It may even be that a more highly developed country—since it constitutes a larger country in the sense of having a larger production than a less developed country—will also require more coordination. A counteracting factor seems to be, however, that parallel with higher development private initiative also becomes stronger and more can be left to the private sector than in a less developed country. Many of the forces at work have not yet been fully explored and intensive research activities are going on in the field we cover in this chapter. Our conclusions can only be tentative and provisional.

Preferences concerning the number of instruments of economic policy to be used differ according to the theories adhered to by different schools of economic thought. Economists and politicians deeply impressed by the automatic forces of a free economy will prefer the use of a small number

of instruments. The theories they adhere to are of an approximative character only and later theories have been developed on the basis of exceptions which have been experienced and thought through. Thus it has gradually been discovered, from practice and from further theoretical analysis, that the assumptions on which the theories of laissez-faire were based do not apply to important types of activities. More elaborate theories now make it appear logical to use an increased number of instruments of economic policy. Among those in favor of using a larger number of instruments are socialists and communists, whose preoccupation with a redistribution of income and a quicker rate of development, respectively, has led them to this preference.

POSSIBILITIES OF PLANNING

Whether or not planning will be or must be applied in a country will also depend on the possibilities there are to carry out effective planning activities. These possibilities may be termed the "supply side" as distinct from the "demand side" discussed in the preceding four sections. The possibilities depend on: (1) the technical competence and integrity of the administration; (2) the level of literacy and the civic spirit of the business community and the population at large; and (3) the availability of data.

Clearly the CPB as well as the agencies with which it must cooperate need a certain minimum number of technicians in order to perform the tasks described in Chapter 1. Also a minimum standard of integrity is required for the administration as a whole to insure that the general interest will prevail over group and personal interests.

Similarly the execution of a planned policy does require the cooperation, at different levels, of the business community and the population at large. With insufficient under-

standing of the government's policy even the best policy may not succeed. Even in highly developed countries it may well happen that, for instance, an anticyclical policy fails because private investors "go on strike." Finally, the activities described in Chapter 1 require a considerable quantity of statistics and other information not always available.

Deficiencies of any of the types discussed can to some extent be compensated for by foreign aid resources. This is true particularly with respect to technicians. It is true in another sense for the availability of data: in the absence of data on the country concerned the planners may use international comparisons from which to estimate figures for the country in question.

Training and education are other means of achieving the required qualities of both administration and population; but these processes often take a long time. This is particularly true when large numbers of people have to be educated, since there will always be a section of inert and less intelligent people.

All the aspects discussed are relative in that, with only part of the conditions met, a planned policy does not necessarily become impossible but will be of lower quality than is desirable.

DIFFERENCES IN THE DEGREE OF PLANNING

We may sum up the consequences of our analysis by an attempt to indicate in what countries and under what conditions there are reasons to expect a relatively high degree of planning activity. We have explained that the advantages to be expected from planning are more visible if a number of characteristics, discussed in the preceding sections, are operating. It will be clear that several of these characteristics apply to developing countries which have become anx-

ious to accelerate their growth. They usually have an important sector of unstable markets (agriculture, building, education), they feel a considerable tension between reality and aims, and they need coordination among the relatively large number of instruments of economic policy to be used.

Developed countries in normal circumstances have fewer reasons to apply planning intensively. However, anticyclical policies, income redistribution, and education are among the areas that they might judge amenable to planning; and they do have agricultural production also, if to a lesser extent. Under circumstances of war or natural disaster as well as under the threat of a deep depression they will inevitably intensify their planning activities.

Between countries otherwise in the same situation there will be differences resulting from preferences for a more or a less complicated economic policy. Countries with a strong socialist influence are in favor of more planning and countries with a dominant capitalist or conservative influence are likely to favor less planning.

In the *international community* we observe increasing consciousness of the need for supranational authorities and a clearly formulated policy. As a consequence of this process a stronger need for planning at the international level will also be felt. An attempt to formulate aims will certainly reveal a formidable tension between any set of reasonable aims for an international community and reality.

TODAY'S MOST SERIOUS CONTROVERSY

The controversy between communist and non-communist countries is the most dangerous controversy to-day, since the protagonists represent the two most powerful poles of armament. The controversy is a complex one and usually stated in different terms by the two opposed parties.

The West considers the most important aspect to be the political system, that is, in Western terms, the conflict between parliamentary democracy and totalitarianism. The East formulates as the most important aspect the socioeconomic system; it considers itself to be socialist and the others capitalist. Intimately connected with this contrast is the degree of planning applied. The controversy also encompasses other elements normally present in international controversies.

It is not within the scope of this study to deal with the conflict as a whole. In view of its importance an analysis of the nature of the controversy on policy and planning is worthwhile, however, and fits perfectly within the framework of this book. More precisely, it is important to find out to what extent the disagreements on economic policy and planning are due to differences in the nature of the countries concerned, to what extent to differences in preconceived ideas or doctrines, and to what extent they fall within the realm of differences in scientific approach, which are open to objective discussion.

No doubt part of the difference in emphasis on state interference and the corresponding variations in the extent of planning advocated are due to dissimilar circumstances. We have already discussed the impact of circumstances on the degree of planning. Even the most developed communist countries are less developed than most Western countries, although the difference is quickly diminishing. Most Western economists and governments today agree that there is more scope for state activity and planning in developing than in developed countries. It may even be added, although this falls outside our subject, that political democracy in the Western sense can be more easily applied in a developed than in a developing country.

Preconceived ideas do play a considerable role in the con-

troversy. These refer, in the economist's language, to two elements. Some of them reflect different attitudes toward social welfare functions in the minds of Western and communist rulers. Other elements can only be called doctrinaire in that they are based on, scientifically speaking, unjustified simplifications and generalizations of economic theories.

There remain differences of opinion which can be considered normal in regard to any subject as long as sufficient data or analysis or both are not available; as already stated, these are open to objective discussion.

DOCTRINAIRE VIEWS

We are going to discuss doctrinaire views first. They are rather common in political thinking. Partly this springs from the necessity to use simplified models in discussions in which large sections of public opinion are involved. For the same reason the models used are lagging far behind the development of scientific thinking.

Doctrinaire thinking may do considerable damage. First, it may sharpen differences in outlook unnecessarily. Next, when applied to reality it may cause trouble in the economy. In fact, it is not in the interest of any policy maker if his ideas are out of step with reality: in order to reach his aims he will take the wrong measures or he will take measures in the wrong order of magnitude. It is obviously in the interest of the authorities actually in charge of economic policy to know reality as accurately as possible.

Typical examples of doctrinaire views on economic relationships can be found at both ends of the political arena. The theories of the Manchester school are as one-sided as are Marxian theories. In more modern terms, it is as wrong to assume that external economies and increasing returns do not exist as to assume that all individual decisions of pro-

ducers and consumers have to be controlled by central authorities. We may also speak of doctrinaire views on economic policy when national autonomy is always given preference over international decisions.

While the examples so far quoted refer to broad principles of economic policy adhered to by some political parties or some governments, there are also illustrations of a more restricted character. Examples in the communist world are the preference for the "most advanced" technology, and for heavy industry, or their way of handling the cost of capital as a production factor. Examples in the Western world are the preference for monetary policies, the preference—within this field—for fixed rates of exchange, or the preference for a "free" wage policy.

DIFFERENCES IN SOCIAL WELFARE FUNCTION

Some of the controversies between communist policies and Western policies may be expressed in terms of the weight given to the interests of the various social groups constituting society and to the components of well-being. No very precise statements can be made and the distance between slogans and reality must be kept in mind. The simple slogans are that communist regimes are interested in the well-being of those who work and not of those who own the means of production, whereas Western regimes are interested in the well-being of all citizens. The comparative weights given to the various groups of workers in communist countries and to the segments of the population in Western countries are difficult to ascertain. Some economists even deny the possibility of defining them. With respect to the claim that Western society gives equal weight to all, since everybody has the

same voting rights, it should be borne in mind that there is a difference in outlook between the people and the members of the national legislature and that there are many informal influences making for a concentration of decisions in relatively few hands. The weights given to the interests of different citizens still tend to be higher for higher incomes. The same is true for the weights given to the interests of different countries.¹

An example of the difference in priorities given to the elements of well-being is the weight attached to various types of freedom. Some Western countries or groups inside these countries reject some types of intervention because of an a priori very high weight assigned to consumer sovereignty.

Two tendencies will help, however, to diminish the divergence in social welfare functions which is basic to the policies of the two opposing groups of countries. On the one hand, the situation in the communist countries tends to make every citizen an active participant in the production process and hence to wipe out the difference between the working population and the total population. On the other hand, tax systems and systems of social insurance, as well as education, make for an ever increasing equality among the groups of the population in Western countries, and for a decreasing weight given to the interests of the owners of the means of production in large enterprises. The owners of the means of production in small enterprises are practically always workers as

^{1.} This may be illustrated by the theory of international trade. The equations for the exchange of goods between countries under a regime of balance of payments equilibrium on current account can be derived from the maximization of an international utility function provided that weights given to each country's utility are inversely proportional to marginal utility for each country. Cf. H. Uzawa, "Prices of the Factors of Production in International Trade," Econometrica, 27 (1959), 460.

well as owners. We believe therefore that the weights given to the interests of the various groups of the population are tending to become similar in the two types of countries.

DIFFERENCES OPEN TO ARGUMENT

There remain a number of differences in outlook which need not be called doctrinaire or do not find their origin in opposing social welfare concepts, but can be analyzed with the help of objective data and arguments. Their role seems to be an expanding one, partly as a consequence of new developments in theory and in policies on both sides of the iron curtain. Both East and West have changed considerably. Communist regimes have adjusted to a series of new experiences in production, policies, and theoretical discussions. In the Soviet Union, wage systems have been changed, cost calculations and consequent views on international trade as well as on investment priorities have been altered, the organization of planning has changed, and the price and incentive systems in agriculture are in continual development. In the developed countries of the West the application of planning devices has spread enormously, it has become generally accepted that unstable markets need permanent regulation, and education is increasingly being made available to the lower-income groups of the population.

Economic systems and economic thinking are becoming less different in these two major areas of the world. Gradually a number of problems are becoming objects of scientific or practical argument between the technicians on both sides. The appraisal of investments and the choice of technology, methods of planning interrelated industrial outputs, methods of estimating consumer demand, methods of stimulating productivity, methods of education and of selection of students

are examples of problems that have entered this phase. It may soon become possible to discuss whether price fixation and the degree of freedom to be given to factory management or farmers are optimal or not in the two competing systems. It may also become a debatable issue whether private ownership of means of production in small-scale enterprises is not more efficient than state ownership. Both sides may continue to learn from experience and from each other. We must encourage this approach and try to make contributions. Our next chapter may be seen as an attempt to do so.