

An Unassailable Case

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"The truth of the matter is that the free market mechanism has an amoral not a moral function, and the question of the rights of property and the distribution of wealth is a moral question outside the field of economics as such. Laissez faire should be neither debited nor credited with attributes it does not possess . . . This in no way weakens the case for a full free market economy; it only demonstrates that laissez faire alone is not enough.

— Editorial this issue

IF EVER the history of economic hallucinations comes to be written, the idea that governments possess the knowledge and power positively to determine the rate of economic growth through the technique of central economic planning will be revealed as one of the most widespread, tenacious and harmful of errors. In the long-term, experience will doubtless make this clear; in the interim, the damage likely to be done by it may be considerable, depending upon the scale on which the fallacy gains a hold over public opinion and the persistency of the designers and operators of the economic plan in the face of failure.

Some tragic cases immediately come to mind. The present parlous economic condition of India is attributable in no small degree to government planning which has led to massive misdirection of resources into grandiose schemes for capital investment, to the relative neglect of the primary task of food production, to the erosion of international reserves and the dependence of India each year upon the charitable whims of the West. In Russia, such planning has, since 1917, been enforced at untold cost in the shape of human freedom and now, after half a century of economic vicissitudes, Russia is generally recognised as a country still of low general standards of living.

In Western countries, with their better informed public opinion and free comment, matters are not likely to reach such a pass. Even here, however, wrong economic ideas may result in loss and disillusionment that were better avoided. And in Britain particularly, in my opinion, we are now in danger of economic decline not so much because of incompetent management, lazy workers, lethargic salesmen, unimaginative technologists or un-equipped scientists, but much more because successive

Governments have in recent years naively aspired to determine our general standard of living although lacking the knowledge or the competence to do so.

It is fortunate that this subject can now be discussed without reference to politics or personalities. It was a Labour Government which, in 1945, gave Britain its first peace-time experience of central economic planning; an experiment in which aims and methods were so grotesquely unrelated and the failure so complete that no one now ever refers to it. It was a Conservative Government which, in 1962, set out upon the second course of central planning, and no one, least of all those who initiated it, is prepared to claim it as a success. It is a Labour Government which is now engaged upon a third effort in the same direction, with new groups of planners, new committees and new words for very old ideas.

It is well to remember that it was not organised Labour in 1962 that was pressing most strongly for central planning; it was British businessmen through their Federations. It has been suggested that this melancholy record over the past twenty years in itself should relieve us of anxiety. Will not time itself quickly check these aberrations of thought? Where the impossible is being attempted, can any harm arise except to those foolish enough to waste their time on hopeless quests? I cannot help but feel that this attitude is escapist. For if, as I shall try to show later, central planning does positive harm, then the sooner it is checked the better. Beyond that, it is by no means certain that, in the future, the failure of central planning will so readily lead to its abandonment as in earlier days. Vested interests are now growing up around it. The careers of many public servants depend upon its continuance. Many economists have reached the conclusion that the only function of their science is to improve the methods by which governments can enlarge their activities and take a stronger grip upon the economy. The road back from central economic planning may not be so easy as in the past.

There is one thought that should be ever-present in any discussion of the part that the State can play in encouraging economic growth. It is the simple, central and, to my mind, unchallengeable fact that while the various forces and conditions which are more or less intimately associated with economic growth can be listed, yet there is not (and it may be there never can be) any adequate understanding of the exact way in which these forces act together to bring about the results observable after the event. Of course, it is known that the scale of investment, the rate of innovation, the level of knowledge, the skill

of the workman, the ability of the entrepreneur, the level of demand and many other major or minor factors will help to determine whether a country is to be rich or poor. But to assume that those who draw up such a list have thereby equipped themselves with the power systematically to determine or even sensibly to influence the rate of economic growth is as grave an over-simplification as it would be to list the different parts of the human body and then assume that the secret of human life itself had been revealed.

The intellectual error that in the economic system are to be found certain key points at which governments can bring pressure to bear and thereby determine economic growth has led to much waste and confusion in recent years. For example, in many undeveloped, and in some not so undeveloped countries, public policy has been based on the principle that there was a well-established and reasonably reliable connection between the scale of investment and output, and that to increase the former might fairly confidently be expected to produce an expansion of the latter. But the work of Colin Clark and others has shown that the theory based on the capital-output ratio is something of a myth, that the ratio varies from time to time and from country to country, and that to press on with investment when other conditions are not favourable can be a potent cause of waste.

Great devotion, enormous energy and almost endless ingenuity have been shown by economists in recent years in their efforts to solve the riddle of economic growth. This is all to the good and does much credit to the profession, always provided it is recognised that, as in any other science, about 95 per cent of the hypotheses will prove to be without foundation. The standards of living of whole communities are too important to be entrusted to the latest untried ideas of back-room boys fascinated by the elegance of their latest economic models or to politicians feigning powers of controlling economic affairs.

This article, however, is mainly concerned with another device for stimulating economic growth. As employed in Britain in recent years it falls into three stages. First, some general rate of growth for the whole economy is fixed upon. Then the implications of this general growth are worked out; for example, what rate of growth of exports or imports is consistent with the general figure. Then, if it appears that some of the implications are not likely to be achieved, special efforts may be made to bring about at these points a better performance than would otherwise be expected.

Now at each one of these stages the government may make mistakes. It may fix upon a general rate of growth higher than is really attainable. (It must always fix upon a rate higher than it thinks could be attained in the absence of a central economic plan, otherwise there would be no point in going to the trouble of preparing such a plan.) Or it may make mistakes in working out the implications of the general rate; in which case its own actions may contribute to a surplus of some goods or lead to a shortage of others which, in itself, will endanger

the achievement of the general rate of growth. Or it may miscalculate the possibility of improving performance at the point where the implications seem to demand it, in which case once again the general rate will not be achieved. But errors at the second and third stages, although by no means to be ruled out, are perhaps less likely than at the first crucial stage and what happens at this stage can conveniently be studied in the light of experience in Britain since 1962 under first a Conservative and then a Labour Government.

When in 1962 the Conservative Government set forth its first five-year economic plan, it declared that this was centred on an annual average rate of growth in the economy of 4 per cent. Those most closely associated with the design and the carrying out of the plan declared that this procedure amounted to a revolution in thought, based upon what was described as the "dynamic concept of change." But, despite these sweeping claims, the nature, purpose and function of this figure of 4 per cent has always remained shrouded in mystery. What was meant by the figure? Was it an increase which it was thought would occur; or was hoped would occur; or was feared would not be achieved unless the Government itself engaged in these special measures? In the early days of 1962, the National Economic Development Council would go no further than to say that "the implications of a 4 per cent rate of growth should be studied." Later we were informed that "Britain's economic policy is geared to a 4 per cent rate of growth." Clearly, unless the choice of one figure rather than another was a wholly capricious act and the study of its implications a matter of idle curiosity, it ought to have been possible to describe the peculiar significance of this figure. But this was never done. In fact, it came to be widely accepted that this rate of growth could be achieved, would be achieved, and should be generally accepted by everybody in the community as what would occur.

The choice of the figure of 4 per cent seems to have been oddly arbitrary and unscientific. It represented a rate of growth half as fast again as that which had occurred in the United Kingdom in the 1950s, and twice as fast as the average for the first half of the century. Why then was a figure chosen which was so out of line with past experience? Could any new factors be pointed to which were likely to make history in these matters irrelevant? Nothing of that kind was indicated by the Government. A further mystery was that apparently it did not matter whether the central economic plan was wrong or right in this respect. For as the Director-General of NEDC put it:

"Deviations will occur and it does not reduce the value of forward assessments that market conditions may produce results different from those expected. An examination of the reasons for the difference between the result and the expectation can be of great value in helping to overcome difficulties."

The forward assessments must either have had some influence or no influence on the actions of people. If they had no influence, could there be any purpose in the

plan? If they had some influence, would the existence of an incorrect forward assessment not have tended to lead people to behave in a wrong way and thus have contributed to economic distortion?

In fact, as we now know, the 4 per cent increase was not achieved and had fallen into disrepute by the time the Conservative Party lost power. This plan had covered a period which had seen a most serious balance of payments crisis; yet the plan had given no indication that this was likely to happen.

Strictly speaking, it is not possible to say that the economic planning of the Conservative Government failed, since, in the absence of any clear-cut idea of what purpose the plan was intended to serve, no obvious test of success or failure presents itself. But it can at least be said that the plan was abortive in the sense that it proved to be out of step with reality. If the plan had done no positive harm little more would need to be said about it. But, to my mind, the plan can be held to have been harmful, and to have contributed to the economic troubles of 1963 and 1964.

When the Labour Party came to power the Conservative economic plan was scrapped. New and more elaborate administrative machinery for economic planning was created. The Government declared its intention of issuing, as soon as possible, a new plan. But, subject to the one qualification mentioned below, no new plan has yet been presented to the public. The intention seems to be that a new final economic plan will be presented in the "late summer or the autumn." On these more recent events, therefore, it is possible only to make general comments.

The nation presumably is to be without a published plan for nearly a year, from October 1964 to the "late summer or autumn" of 1965. But if the country can carry on for such a long period without a plan, does this not throw doubt upon the need for it at all?

The qualification to be made to this first point is that, early in February 1965, Mr. Brown suggested that "we should aim at a 25 per cent growth in national product by the year 1970." At that time he deprecated the breaking down of this long-period figure into annual targets, but he did point out, what indeed is the simple arithmetic of the matter, that since 25 per cent in five years represents on average about 4½ per cent each year and since growth at the present time is running at less than 4 per cent, his figure of 25 per cent implied that towards the end of 1970 the annual rate of growth would be in excess of 4½ per cent.

One ominous reaction, which might well have been foreseen, of the use of this planning device is that the exercise may cease to be an effort rationally to examine the economic system and its potentialities and become more of a field for political manoeuvring. For if the Conservative Government offered the country a 4 per cent annual rate of increase, even though it failed in its aim, is it not likely that the public will regard the offer of anything less than 4 per cent by the present Government

as something of a confession of failure? Already cynical observers of the present scheme, who regard a 4 per cent rate of increase as beyond the national capacity, are beginning to feel a morbid fascination in watching what will happen when the party in power finds it politically impossible to withdraw from a position that is economically untenable. This is perhaps the most dispiriting consequence of this kind of economic experimentation. It is launched with the claim to be a revolutionary and more scientific approach to the handling of economic affairs and it gradually degenerates into the defence of myths and into political casuistry.

The moral to be drawn is not complicated; nor is it dependent upon complex and highly sophisticated economic analysis. It is simply that the cure for bad planning of this type is not better planning but no planning.

Of course, it will be objected that such an attitude is negative and outmoded, that not to accept economic planning is to reject a purposive and coherent design enabling men to be masters of their destiny, in favour of a neutralist, not to say nihilist, conception of the working of the economic machine. Nothing, however, could be further from the truth. Does anyone really believe that in Britain the period 1962-65, with its economic bolts from the blue and the babble of conflicting theories about the cause of economic growth, was one of purposive and coherent economic planning?

The People Will Pay

From The Scotsman, July 5.

ABERWICK TOWN COUNCILLOR has told the Minister of Land, Mr. Frederick Willey, about a land deal in the town in which it is claimed a firm has made a profit of £18,000 in two years.

Councillor A. E. Crosthwaite, Labour, has refused to expand on his question about land policy to the Minister, but according to Council minutes, in 1963, Bradley Brothers, of York, bought nine acres of land at the Cornhill Road from the town council at a district valuer's price of £2,350, to develop a private housing estate. Planning permission already existed. No development took place after several plans were turned down. Recently the nine acres were sold to Ivinson Greenwood Ltd., Carlisle, for a sum believed to be about £20,000 and they have now obtained approval of their plans for ninety-three houses, three shops and a public house.

Councillor R. H. Knox, the mayor, said yesterday: "We never expected the site to change hands like this. We sold it in good faith because we wanted private building encouraged. We turned down one plan because Bradley's wanted to pack 112 houses into the site. It does seem time the Government took action. Obviously the houses will now cost more to the buyers." He stressed that the local authority had been strictly controlled in the selling price by the district valuer, and added: "The deal afterwards was purely a private one, but we have no houses yet."