The Planners and the Planned

ERNEST VAN DEN HAAG

I. *The Appeals of Planning*

WE ALL HAVE GOALS, more or less far-reaching, valued, compatible and explicit. If we behave rationally, i.e., economize, we try to attain our ends with the least expenditure of whatever else we value (means or alternative ends). To "plan" thus is to propose to behave rationally; in this sense, we all favor planning. However, to favor planning—to favor using appropriate means to achieve ends—is not to accept a particular plan, its ends, or it means. Above all, to favor planning our own lives is not to favor someone else, or the government, planning them for us.

The issue is not *whether* to plan, but *who* is to plan *what, for whom* and *with what powers.* Is the government a means to help individuals achieve their ends? Or must we ourselves be used as means to achieve the central planner's ends? If people were asked whether they prefer to be regarded as ends in themselves, or as means, few would favor central planning. But the issue is usually presented as though the central planners favored individual planning, and the individual planners favored chaos, inefficiency and anarchy.

Socialists often compare their blueprint—the plan—with capitalist reality. However, blueprints must be compared with blueprints and reality with reality. In such a comparison, capitalism does well.

Much of the appeal of planning rests on even simpler equivocations. Planning is often equated with "successful planning"—the planner's hopes are accepted as fulfillments. Now, the planned birds in the bush certainly sing more prettily than the birds caught in any real (capitalist) nets. But can they be caught? And will they sing as sweetly? Promises are easier to make than to keep—and plans are promises. In a democracy, unfounded claims can be checked on, and people may oust a government that promises without delivering. It is no accident that planning *seems* most successful in dictatorships. Full-scale central planning takes place nowhere else.

There are many additional grounds for the irrational appeal of planning. Man is not easily reconciled to the niggardliness of nature, which condemns him to work and to economize—to be rational; or to the conventions of his own society, which endow with prestige mainly those who rise above the average, and cause most people to feel deprived. This is bearable in an immobile society, but hard in a mobile society (such as ours) that asks everybody to rise above everybody else. Perhaps an age in which communication, and therewith competition (and, as a reaction, egalitarian sentiment) have become literally boundless, in which the world ceases to be divided into non-competing segments—an age which pushes us all into the same race—was bound to come up with a new redemptionism. "Planning" occupies the eschatological niche vacated by religion in the minds of many people. For when, with the industrial revolution, mankind bent its gaze from the heavens to earth, it did not give up its millenarian aspirations.

Chiliastic hopes merely were shortened and secularized: promises of material rise were found acceptable as redemption. "Planning" is among them, the more so because it promises the benefits of competition without the competitive race so many people are tired of. Yet economic competition among organizations can be replaced only by competition within them, which is likely to be more ferocious, and without escape for the defeated. If planning were to produce economic equality—a promise nowhere kept—we would compete directly for power and prestige, rather than indirectly, by means of money. Hardly an improvement.

Planning finally seems both "scientific" and commonsensical. It appears to make intelligible an economy which had become ever more complex and mysterious as markets widened and technology progressed. It places someone in charge of the economy, where no one seemed to be in charge. Without analysis—or worse, with insufficient analysis—the market seems "anarchic," even though the milk is on the doorstep every morning, whereas in a planned economy characteristically it is not.

There is also what may be called the puritan argument for planning, rationalized currently by Kenneth Galbraith: if we allow the market to produce what people want, trivial (sinful) things will be produced—too little education, too much beer. Galbraith knows, of course, that he intends planning to defeat the wishes of consumers and to impose his own. Self-righteous enough not to mind, he is not candid enough to tell his followers.

Originally, those who felt that the market produced the "wrong" things argued that unequal income led to the production of mink coats, or liquor, when babies needed milk. Yet the resources withdrawn from the production of "luxuries" could scarcely have increased the production of "necessities" by much. At best it is an argument for correcting the income distribution (by giving the mothers of babies more money which would permit more milk production and consumption) and not against the market mechanism that responds to it. For the market will simply produce what consumers are inclined and able to buy—milk or mink. It obeys votes cast in dollar ballots, far more accurately than politicians respond to constituents. Perhaps reapportionment (i.e., more votes to those who earn too little because of circumstances beyond their control) can be useful. But why abolish voting in favor of dictatorship—in favor of giving all the votes to the planners?

If we turn from the irrational appeals of planning to its possible means, ends, and achievements, three kinds of "planning" may be distinguished.

II. *Planning for Economic Freedom*

Freedom permits individuals to plan for themselves, to choose their own ends and means. Concerning goods and services, a free market allows each person to reconcile his plans with those of everybody else. Prices indicate to all the value placed on whatever can be bought or sold. By paying heed to prices, individuals economize. So does society as a whole: *ceteris paribus* more of the less valued and less of the more valued resources are consumed directly, or used for production. And the goods most in demand are produced most often. In a free market, individuals, rationally striving to attain their own ends, provide each other with the goods and services most in demand at the least expense.

To last, freedom requires rules to avoid or resolve conflicts, to protect individuals from encroachment by others, and to regulate institutions—such as the free market—which make individual plans effective. Further, some public facilities—e.g., roads, parks, hospitals, police and fire protection—are needed to assist in carrying out private plans. The totality of such rules and institutions—the social order—is no more deliberately planned all at once than the totality of individual behavior. Yet, though evolved cumulatively and *ad hoc*, rational use of means to attain ends is intended by each rule. When the end of the social order is to make private planning—"the pursuit of happiness"—effective, it amounts to (public) planning for (private) freedom.

Unavoidably, in attempting to secure the rights and liberties of all, such public planning must limit the freedom of each member of society: to protect one person from undue coercion by another is to limit the freedom of the latter for the sake of the freedom of the former. To protect life and property, enforce contracts freely concluded, etc., central authorities must restrain, i.e., limit the freedom of those who would violate the rules established to achieve these ends.

But public planning *for* private freedom restricts individual liberty only to distribute it evenly and make it last—whereas public planning *against* private freedom diminishes individual power to increase the power of the government. Usually the government which plans for private freedom is dependent on the consent of the citizens who can legitimately install and oust it (democracy); while the government which plans against private freedom usually is independent of the ruled. The historical and empirical connection between political freedom (democracy) and economic freedom (the free market) is striking, though there be no logical entailment.

Honest men may disagree on whether a specific restraint imposed by the government will actually produce a net increase in the freedom of individuals. (Rules presumably made to prevent deception—seemingly a simple case—may lead to such disagreements.[1]) Freedom is hard to quantify; and its distribution is difficult to measure. In some cases a more equal distribution leads to a net decrease; in others, greater (or more equally distributed) freedom changes the quality of the values available. We must examine each measure and ask whether it promises a net gain of private freedom.

The framework in which market decisions (private plans) are formulated and carried out may include public action against private monopolies which threaten the freedom of the pricing process; or, more questionably, it may be modified by establishing public monopolies where the competitive pricing process cannot work efficiently (government regulations may lead to nearly equivalent results). Many such measures are needed to protect the freedom of the market, to keep it an efficient means to carry out private plans without mutual encroachment.

Unfortunately, governments often go beyond protecting the freedom of the market. When a group persuades the government that the effects of the free market are intolerably detrimental to it, public monopolies may be established, or public actions taken which lead to the results monopoly tries to achieve (as in agriculture); or private monopolies may be protected (as in the labor market). These last actions hinder and are meant to hinder the workings of a free market. However, they are not inspired by general and dogmatic hostility to it, or to freedom, but by fear of some specific effect, or by misapprehension. The remedy is education. Public planning for freedom will have public support only when most people are satisfied with the results of their private plans. If their plans are unwise and the results disappointing, or if general conditions (such as depression or inflation) defeat private plans, people will favor a government that promises to gratify their most urgent desires even at the risk of their freedom—of their ability to determine for themselves, individually, what their desires are and how and when they are satisfied.

When economic deprivation is overwhelming, the value of freedom is easily discounted. Public measures find favor that promise to mitigate, or altogether frustrate, the results of the price mechanism in a free market when, as in agriculture, technological developments require a large shift of workers, or other major changes. The legal protection of labor unions has been the result of similar pressures. Thus, a government committed to planning for freedom often will act against it—though the action is bound to be inefficient and detrimental even to those meant to benefit from it. Such actions should be opposed; yet, though they reduce freedom, they should not be confused with government policies systematically hostile to freedom. Our agricultural and labor policies are wasteful and silly; but not "socialistic."

Governments were created to satisfy public (indivisible) needs and were endowed with the power to legislate, tax and spend. The power to regulate the creation of money was soon added. These powers can be abused: legislation and taxation can be used punitively, or to confiscate, or to unduly restrict freedom; government expenditure can be used to redistribute income in favor of persons or groups the government likes. The fiscal and monetary power of the government can be used to bring about inflation or depression.

An elaborate set of legal rules and economic customs has been evolved to prevent abuses. To avoid inflation, balanced government budgets were prescribed and the issuance of money was restricted, mainly by linking it to the amount of gold available. These traditional precautions against inflation are neither necessary nor sufficient; yet pragmatically they were probably the best available—in the past.

Until recently economists largely ignored, or defined away, depression. At most the prescription was to avoid inflation and thereby the depression which would follow in its wake—as punishment follows crime. Yet in some situations the anti-inflation rules have the effect of pro-depression rules. And we must prevent *both* inflation and depression. Unfortunately these two ends become alternatives, particularly when government policy supports labor unions sufficiently to bring about rising wage levels in full employment. (This, of course, is not an objection to full employment, though it may well be an objection to our present labor legislation.) Yet policies that maintain a reasonably stable price level and reasonably full employment are feasible. And since inflation and depression defeat private planning and undermine political support for freedom, preventing them helps private planning (freedom).

Fortunately, the fiscal and monetary policies needed to prevent inflation and depression require no restrictions of individual freedom: no socialization, no public works programs, no redistribution of income, no price ceilings or floors, no restrictions on production, no punitive or confiscatory taxes. A more deliberately rational use of the instruments the government already possesses—its taxing and its spending power and its central bank policies—is all that is needed.

The government can adjust taxes, and its own expenditure, so that total expenditure suffices, but does not exceed the sum needed to purchase, at current price levels, the aggregate of goods that can be produced at full employment. This leaves people free to produce and buy what they wish. The market can function. Private expenditure is most easily increased by tax reduction (and reduced by tax increases). When warranted, direct money subsidies to those who would not benefit from tax reduction, or have special merits, or needs, e.g., veterans, pensioners, or the young, can be given. But subsidies to *economic* groups—e.g., farmers—must be avoided since such subsidies make their pursuits uneconomically attractive and distort the structure of the economy, i.e., interfere with market allocation. This is equally true of public works undertaken for the sake of creating jobs. Employment is best created by enabling people, not by enabling the government, to increase demand. And this is achieved by letting them keep more of their money.

Far from restricting individual ability to plan, this policy increases freedom. It makes obsolete a number of safeguards against the working of the market, erected by those who felt they were placed at an intolerable disadvantage. Our only hope to get rid of the disastrous, costly, and wasteful farm controls and subsidies lies in making sure that there are enough non-farm jobs to absorb displaced farmers. If they are convinced of this, farmers, or their children, will insist less on being paid for producing goods that go into government storage because they are not demanded by the market. Our only hope to get people to see that many labor union activities hinder economic progress, and are detrimental to workers and to the public alike, lies in establishing that there is no need to create unproductive jobs, erect elaborate defenses against firing, provide for early retirement, and establish low production standards. If employment is reasonably full, on a permanent basis, these defenses become obsolete. Moreover, when employers need workers, no less than workers need employment, they will not require much union prompting to offer attractive working conditions. I do not underestimate the vested interest created by defenses against unemployment. Much work will have to be done to show that they are unnecessary and detrimental. But first they have to become permanently obsolete. Only then can we hope to reduce support for them. (Obsolescence, unfortunately, is a necessary, but not a sufficient condition for getting rid of these anti-market defenses.)

III. *Planning Against Economic Freedom (as a Means)*

"Production for Use?"

THE GOVERNMENT MAY replace the free market by a central monoply which determines what is to be produced, how and by whom, and how the products (the rewards) are to be distributed. If the purpose of this central planning is to do what the market does, i.e., to provide individuals with the goods and services they desire, but to do so more efficiently than the market, we may call it "planning against economic freedom as a means." Most intellectuals think of "planning" along these lines.[2]

Albert Einstein (in "Socialist International Information"), a few months before his death, wrote: "The economic anarchy of capitalist society as it exists today is in my view the main cause of our evils. Production is carried on for profit, not for use."

What do Einstein's widely accepted phrases mean?

1) Since profit and loss are powerful automatic coordinators of individual plans and lead to the most economic utilization of resources, the market system is not "anarchy," but an autonomous, automatic mechanism which coordinates the plans made by individuals. Central planning, in contrast, is heteronomous (depending on the government's decisions) and nonautomatic: adjustments do not take place impersonally by means of the market but must be made "by hand" by the planners; finally, individuals outside the government cannot effectively plan; they are planned instead.

2) Production is carried out "for profit" under capitalism; but it does not follow that it is not carried out "for use." On the contrary, in the price system, profit (or loss) is the difference between the value of the input of resources and the value added (or lost) by using them to produce the output. If consumers regard the output as more useful to them than the resources that went into producing it, there is a profit; if the resources are regarded as more useful, a loss. Producers shift production accordingly: they are led *nolens volens* by their profits, or losses, to produce what consumers regard as most useful. Thus "production for profit" is a means to "production for use"—not an alternative. On the other hand, in "production for use," when usefulness is not indicated by profit, we must determine, in some non-arbitrary way, what goods, not the planners, but the public would find most useful. So far this problem has not been solved in centrally planned economies, except by rather inefficient and halfhearted imitations of the market (e.g., in Yugoslavia).

3) Two factors probably contribute to the pejorative connotation that dogs "profit": it involves a monetary gain; and that monetary gain is unequally and "unjustly" distributed among the population. However, it does not seem that central planning could do away with either of these effects.

Central planning cannot do without monetary rewards. Good performance would have to be rewarded by promotion—more money, power and prestige. Central planning differs from a market economy not because the rewards differ, but because they would not be awarded by an objective market mechanism: instead promotion would depend on the subjective judgment of one's superiors. In a market system this is now the case only within a firm; and the subjective judgment is restrained and corrected because discontented employees have alternative opportunities (other firms or independence). These, to say the least, would be narrowed with central planning. However the "profit motive"—the incentive to perform for the sake of monetary reward—would have to be used in "planning." Only in a technical sense—as a return to the owners of capital—would profit disappear. Unequal monetary reward would remain. Since it would depend more on the favor of superiors and on bureaucratic intrigue, it is likely to be more capricious; without becoming morally just, monetary reward would be economically less rational, and the striving for it would be intensified.

Finally, without private ownership of means of production, the income from property—and the portion of general income-inequality it causes—disappears. (Income from property at present is only 20 per cent of all income. Much of it does not go to the wealthy; only half of it is inherited.) The income from property that goes to the wealthy is used mainly for reinvestments. No less income would have to be invested under central planning. Planners rather than owners would invest—power would be more concentrated. Income from property also raises the consumption standards of the present recipients. But the amount used for this is too negligible to raise the consumption standards of present non-recipients if it were distributed to them. Hence confiscation of means of production would lead to a more unequal distribution of power but to no significant reduction of other inequalities.

Marx on Distribution

In his "Critique of the Gotha Program," Marx spent little time on socialism and communism. He felt that blueprints of the future would be "utopian" and, in the main, he analyzed capitalism, not socialism. This, Marx felt, would make him a scientist and entitle him to contempt for his "utopian" competitiors. However, there is little doubt that he thought of socialism and communism as performing the same functions as a market economy more efficiently, and with a more just distribution of tasks and rewards. Yet Marx' principles for distribution under socialism and communism do not improve matters. As a matter of fact, the Marxist-oriented economies have found it necessary to distribute rewards according to "capitalist" market criteria. For even when inefficiently and capriciously applied, these have proved far superior to forced labor—the only alternative available.

Marx believed that as far as the distribution of income is concerned, the future society would go through two stages. (Production would be a government monopoly in both stages, the means for it being owned and administered by the government.) The first, socialism, is to be characterized by everyone's "contributing to production according to his ability" and being "rewarded according to his contribution." Now, this may imply that everyone is to determine for himself what his contribution should be and that he would be rewarded according to its quantity and to its scarcity (value) on the market. In this case the slogan merely describes capitalist arrangements as far as income from services is concerned. (Individuals would not receive income from property.) If Marx meant something different (and it is difficult to believe that he did not) the contribution of services—quantity and kind—would have to be determined by someone other than the contributor. The contribution, labor, would then have to be compulsory. And the reward for the contribution of services would have to be determined by something other than scarcity. This too implies compulsion, for if the inducement of differential rewards, adjusted by the market to attract the labor required, is excluded, nothing but compulsion, the threat of punishment, could lead us to work where, when, and as much as is needed to satisfy us as consumers, or to satisfy a planning authority.

According to Marx, the second and final stage of the economy of the future, communism, is again to be characterized by people contributing services "according to their ability." However, under communism people would be rewarded not according to their contribution but "according to their need." Here the link between services contributed and reward held out for them is explicitly severed. For, clearly, you may need much and be able to contribute little, and vice versa. Whether your need is to be determined by some authority or by yourself, it is to be determined and satisfied independently of your contribution, which, therefore, would have to be elicited by something other than the monetary reward. This could only be coercion. We need not go further, nor need we call attention to the difficulties of determining need and, on the other hand, of determining just who should make what contribution. (Marx specifically excluded equality, realizing that there are individual differences.)

It is clear enough that the Marxian scheme involves a return to serfdom—however unaware Marx may have been of this implication. To be sure, in a monastery, a kibbutz, or a family, neither money nor open coercion are used. The motive-power, supported by informal social controls, is love for the idea and the community, its members and its leaders. But this system—which has disadvantages of its own—works, if at all, only within primary (face-to-face) groups; it cannot work in a large and mobile population.

Marx might have believed his system to be feasible without forced labor when production exceeds all possible wants. If that came to pass, there would be no scarcity and no economic problem left. But such fancies are not proposals toward the solution of economic problems. They are refusals to face it, or disguises of the actual meaning of what is proposed.

How Efficient Can Central Planning Be?

Marx felt that central planning would be more efficient than the free market in organizing production. This was a *non sequitur*, derived simply from the presumed inefficiency of the free market. For Marx never analyzed the specific problems that central planning would have to solve. Such an analysis casts great doubt on the efficiency of central planning.

In a planned economy outputs must be balanced with each other and with available resources through "plans" which are not automatically linked to each other, or to resources, by a price system which signals imbalances and induces the necessary adaptations. Each event that alters the quantity of resources available, or of the resources required, necessitates replanning and rebalancing of plans, theoretically for almost the entire economy. For, although output decisions are not automatically linked, outputs remain materially dependent on each other.

Centralization of output decisions in a planning authority could insure properly balanced outputs if planners knew the quantity of productive resources available at the beginning of the planning period, the resources that become available during the planning period, the unforeseen requirements that might arise, and the amount of resources actually needed to produce all the goods and services planned (productivity). While it may be possible to estimate these amounts, they cannot be foreseen accurately.

It is difficult to foresee in financial or physical terms the exact quantity of resources needed to build even a single factory. Building many factories does not overcome this difficulty. Resource requirements, even for standardized outputs under reasonably standardized conditions, are by no means easily calculated—and most outputs and output conditions are not standardized. Errors in estimating available and required resources may cumulate rather than compensate, particularly if the initial goals are altogether too high. Finally, even if all estimates are correct, plans may have to be changed while they are being carried out, owing to conditions over which even the most comprehensive planning system has no control. These include changes in the labor force, especially if one takes skills and location into account. Uncontrollable variations in the output of agricultural products also compel adjustments. Exigencies of foreign policy may change the amount of resources available through imports, or the amounts needed for export, or for armament. Technological developments are not predictable even in a planned economy: expected improvements in productivity may not occur; or even when they occur at the rate expected, they almost certainly will not take place just where they were anticipated. These unpredictable circumstances virtually insure a disparity between resources needed to meet output goals and resources available.

Further, planners must rely largely upon local managers to determine what resources are available and needed to produce any output; and managers have an almost inevitable incentive to overestimate their supply requirements, to underestimate capacity, and to hoard labor. The power, prestige, and income of plant managers depend to some extent upon the amount of resources in their charge. And by overestimating resource requirements, the managers reduce the risk of underfulfilling their output goals and increase the chance of overfulfilling them. Finally, if they are not allocated the resources they requested, they reduce their personal responsibility for underfulfillment. (During the last war we asked producers to produce and sell at cost plus an agreed rate of profit; our experience indicates quite similar inefficiencies, though less ingrained.)

Under central planning the managers will tend to hoard workers and raw materials. Whenever they feel they will not be apprehended, they will tie up more resources than they actually need. Central planners try to counter this tendency to underutilization by independently estimating the resources required. They meet the same difficulties that confront Congressional committees in the United States when they attempt to determine the resources a governmental bureau must have to perform its functions. The planners may cut the manager's estimate of resources needed. But if he is left with less than he needs to produce the planned output, his underfulfillment may lead to underutilization of resources in plants which needed what he failed to deliver in order to reach their goals and to utilize their personnel fully. To avoid this the central authority must allocate less resources to local managers than they ask for, but not less than they need to fulfill their goals.[3]

If goals are too low there is underutilization. But if planners set goals that are too high, plans will become unbalanced because goals will be unevenly underfulfilled. The labor force in one factory will be geared to an output that cannot be achieved because another factory failed to deliver raw materials or parts. Resources which had been retained to be utilized with the planned, but missing, output will be idle. If the coal goal is unrealistically high and is not fulfilled, the steel goals, geared to it, also cannot be fulfilled. But if the size of the steel labor force is geared to this goal, it will not be fully utilized or it will be used unproductively. This may occur even when the plant has the raw materials and parts it needs: workers in an automobile factory may go on producing cars which will be useless if no tires are available.

Managers who either have more resources hoarded than they actually need to begin with, or have more resources than they can use in view of the failure of some other plan to fulfill its goals and deliver the necessary materials, may utilize hoarded resources to overfulfill some of their goals. But they will rightly fear that such overfulfillments will lead to subsequent changes in the input-output ratios set by the central authority, making future hoarding more difficult. A temporary gain would lead to a permanent disadvantage. Hence few are likely to use their hoarded resources in this way.[4] At any rate, though preferable to nonutilization, utilization of resources for overfulfillment of some goals also results in unbalanced outputs.[5]

Unemployment, i.e., non-utilization of human resources, exists; but it will normally be hidden in a planned economy. Workers remain on the payroll, working little, or at relatively unproductive tasks. The planned economy resembles the slave or feudal economy in not dismissing the workers it does not utilize. However, the major economic effect of unemployment—loss of output—is the same as under capitalism; ultimately there is a loss of real income, which is distributed over the whole labor force. While unemployment in a capitalist economy does not directly affect productivity, since the unemployed are not defined as part of the labor input, in a planned economy we must measure changes in hidden unemployment through changes in productivity, while constant hidden unemployment will appear as constant low productivity.[6]

IV. *Planning Against Economic Freedom (as an End)*

CENTRAL PLANNING does not fulfill the Marxian promise: the "profit motive" can be replaced only by forced labor; and its substance—monetary incentive and inequality—remains, although the legal form be changed; central planning moreover is not sufficient to redistribute income and not necessary to prevent business cycles; finally, central planning is far less efficient than the market system in utilizing resources. Planning against freedom is altogether irrational as a means to the ends envisaged by Marx—a more efficient economy—and professed by all planners. Why is it a threat nonetheless? Certainly irrationality does not destroy a social phenomenon. However, it invites investigation of the sources of its social support—of its function. And if instead of focusing on the ideas and ends professed by planners, we analyze what planning must amount to, on demonstrable theoretical grounds, the answer becomes obvious; and planning practices abound in illustrations of it.

Central planning is rational only when its purpose is to frustrate rather than to fulfill the wishes of consumers; to use the resources of the economy for purposes the planners, but not the public, approve. Only to this end is central planning an appropriate means. And this is what central planning accomplishes. The low productivity (hidden unemployment) and the waste of resources endemic to central planning are a cost central planners pay for the achievement of their goals, or more precisely, for the frustration of market goals. This cost cannot be avoided short of returning to a market economy and accepting the different output goals which are inherent in the market mode of output determination. The dilemma of planned economies can be formulated as follows.

If planning imposes production assortments different from those that would be set by a free market, an (illegal) profit can be made by departing from the plan. And the presence of such a profit possibility demonstrates that the planned uses of resources differ from market use (consumer wishes). Similarly, on the input side, a manager might reduce costs by procuring the factors he wants on his own, rather than using the factors and sources planned for him. (This possibility also may indicate planning errors.) Soviet literature suggests that this happens frequently though it is illegal: managers ignore or reshape part of the plan to make illegal profits; or to fulfill some output goals at the expense of others and get the rewards and escape the punishment.[7]

Of course, if planners would allow managers to earn one reward for fulfilling the plan by producing a given assortment, quantity and quality of products, and a higher reward (not conditioned on output plan fulfillment) for showing a profit, managers would have an incentive to produce efficiently, to reduce costs. This would go a long way toward solving the productivity problem that burdens planned economies. But where he has a choice—where he cannot reap both rewards (and this is the relevant case), the manager would want to reap the higher reward. Since output plan fulfillment rewards would be subordinated to rewards for achieving the greatest price-cost difference, managers would have every economic incentive to violate and ignore output plans. Hence, if planned goals differ from market goals, the plan fulfillment reward must always exceed the efficiency (profit) reward, and thereby inefficiency (labor hoarding, etc.) is guaranteed. This is the case in the Soviet Union. It must be the case whenever planned goals differ from market goals.

On the other hand, if planned output goals were identical with those that would have emerged from an autonomous market, profit incentives even higher than output fulfillment incentive would not tempt managers to frustrate the plan. (We neglect the problem of ascertaining market demands without a market. The only way to do it would be by abolishing central planning *de facto,* except for indivisible services or goods.) The highest profits might be found in achieving planned outputs in the planned manner. But if output goals, costs and prices became identical with those that would have emerged from a free market, the plan would achieve cumbersomely what would have happened had there been no plan. One must conclude that planners have output goals (and need an incentive structure for their realization) which differ from those of a free market; else planning would be pointless.

The advantage (to the planners, not to the planned) of replacing the automatic adjustment and transmission of individual plans with the slow and inefficient "manual" controls of central planning is to deprive the consumers of their autonomy and impose the will of the planners. Planners use their economic power largely to strengthen that part of the economy which generates political power, domestically and abroad. Thus, central planning allocates a higher proportion of resources to investment than the market would, and a higher proportion of investment to militarily significant industries and products than people would voluntarily so allocate. A higher proportion of capital also goes to public consumption, relative to private consumption, than might be the case in a market economy. Further, more resources are used to strengthen the prestige, the power, and the bureaucratic control of the government, and to carry out its social experiments, than would be allocated if producers and consumers could make their wishes felt through the market. The result is a wasteful and inefficient economy. All the same, the planned economy can outproduce an economy of similar resources in specific areas selected by the planners, simply because the planners can neglect areas of importance only to the planned.

[1]*See* Lowell Mason's convincing *The Language of Dissent,* Cleveland, 1959.

[2]Intelligence probably, knowledge certainly, do not become operative in one area through work in another. A great poet may be silly on social and political matters—I know but few who have not been. So may a great physicist. It is remarkable testimony to the recent prestige of science that we credit the statesman's ignorance of physics much more readily than the physicist's ignorance of foreign policy or economics. But the evidence indicates that physicists (and other scientists) are about as rational and wise in political, social and economic matters as politicians are in physics.

[3]*See* Joseph S. Berliner, "The Informal Organization of the Soviet Firm," *Quarterly Journal of Economics,* August 1952, quoting former Soviet managers: "In planning you always try to order more than you need in case something happens" (p. 355), and there is a "widespread tendency of management to submit plans which are below actual capacity" (p. 349).

[4]The presence and seriousness of this problem are illustrated by the following letter to the Editor (*Pravda,* April 16, 1953). *See Current Digest of the Soviet Press,* May 23, 1953, p. 33: "On the basis of results achieved in 1952 the rated capacity of the plant was recalculated and increased 11 per cent. The enterprise workers have undertaken to outdo this rated capacity ten per cent... [but] the chief administration increased the plan for our plant.... we had to resort to rush tactics. Many enterprises which have large productive capacities but are working badly receive, as a rule, reduced quotas. [The chief administration does] shift assignments from backward plants to leading ones." The implication here is clearly that high productivity is penalized.

[5]The problems here discussed occur frequently in the Soviet Union. Berliner speaks of the simulation of overfulfillment through production of an "unplanned product-mix" (*op. cit.* p. 356). Malenkov complained (*see Current Digest of the Soviet Press,* November 8, 1952, p. 5): "Some enterprises produce secondary items above plan . . . while underfulfilling the program of important planned items."

Ten years later the Soviet Union, by means of a more rational arrangement of incentives, appears to attempt to remedy this condition. *See* Professor Liberman's ideas (reported upon in the *New York Times,* October 14, 1962 and October 20, 1962.) Liberman's ideas point in the right direction—toward a market economy. But central planning would have to be eliminated altogether to restore efficiency, and it seems unlikely that this will be done.

Berliner also mentions the "short tenure of office of plant directors" (p. 362) which is to prevent excessive mutual support among officials who know and trust each other. Certainly short tenure has the advantage of leading managers to be less afraid of increasing the normal output expected from a given input. But short tenure expectations also tempt managers to neglect long-run plant maintenance in favor of short run exploitation. And, of course, frequent transfers reduce efficiency.

[6]Again the Soviet Union illustrates this point. Malenkov (*see Current Digest of the Soviet Press,* November 8, 1952, p. 5) complained also that many enterprises "failed to fulfill plans for increasing labor productivity" and accused ministries of determining "the number of workers without sufficient study of requirements," noting that "many enterprises... produce almost one-half of the month's program in the last ten days of the month," wherefore "full capacity is not used; there is overtime work and disruption of work in associated enterprises."

Malenkov's complaints are not new. Baykov noted that the first five-year plan ended with goals for machinery and electrical equipment overfulfilled (157 per cent) and goals for heavy metallurgy underfulfilled (67.7 per cent). (A. Baykov, *The Development of the Soviet Economic System,* Cambridge University Press, 1947, p. 166) Productivity has consistently remained behind plan. Jasny notes, with regard to the fourth five-year plan (1946-50): "The goals for raising labor productivity, the key of the plan, failed almost completely... [although the Soviet economy had been]... devoting to investment a share of national income so large as to have no comparison with any other place or time." (Naum Jasny, *Quarterly Journal of Economics,* May 1962.)

Belgrade dispatches to the *New York Times* stated on April 18, 1953: "...It was learned that the Government itself did not realize the extent of unemployment until recently. However, as a result of decentralizing many economic situations in keeping with the liberalization trend and establishing plants on a profit basis, the 'surpluses' in labor, said to have been 'hidden,' became evident." (*ib,* March 27, 1953): ". . . the record unemployment total of 92,284, an advance of more than 20,000 in two months.... unemployment first appeared when the basic revisions in Yugoslavia's economic principles were begun. In an effort to establish the economy on a competitive basis, business enterprises started examining their efficiency and dismissed 'redundant labor'..."

[7]Recently, attempts to legalize this practice have been discussed. *See* "Soviet Profit Plan Seeks to Spur Efficiency," *New York Times,* October 20, 1962.