

# *Planning and Reason*

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IT IS CERTAINLY disappointing to realize the extent to which we are the playthings of fashion. Not only are women's clothing, our everyday speech, and our modes of recreation subject to its dominion, but more serious activities also are ruled by it or at least fall definitely under its influence. Such, at any rate, is notably the case with regard to economic policy and—though to a lesser degree—economic theory.

To prove this assertion it is sufficient to recall the vogue successively enjoyed by full employment, economic growth and, more recently, planning, as topics for study and discussion. It is true that science, and even to a greater extent politics, must focus their attention on the phenomena and problems of the real world, and that these change with the times. No doubt, too, scientific investigations are interrelated and even depend on one another or follow a certain progression. But even if all this is granted and taken into account, the fact remains that mere fashion, imitation, and popularity also play a predominant

role in bringing certain questions to the fore, in causing them to be considered and examined in preference to others, in disseminating certain theories or solutions, and in making them prevail over others in public opinion, at least for some time and quite apart from their scientific validity or lack of it.

But the parallel with the vagaries of fashion goes even further. What is presented today as the latest novelty, like a high or a low waistline, a daring or a modest neckline, and even see-through dresses and the miniskirt, is simply a copy or a revival of styles that were in vogue before the First World War, or during the Victorian Period, or in the years of the French Directory and its dandies (*les incroyables*), or in the most remote days of ancient Crete. The same observation applies to economic planning, which many economists (not to speak of politicians), regard as the latest scientific discovery and, of course, as the cure-all that will bring us unprecedented prosperity or perhaps open for us the doors of paradise.

The truth is completely different. The idea that the government should plan economic and social life is as old as speculative thought. Plato was already an out and out planner, as can be confirmed by recalling his admiration of Sparta and of military organization. In describing the latter, he insists that it be maintained in time of peace and applied to all kinds of affairs and to all persons, including women and children:

Now for expeditions of war much consideration and many laws are required; the great principle of all is that no one of either sex should be without a commander; nor should the mind of any one be accustomed to do anything, either in jest or earnest, of his own motion, but in war and in peace he should look to and follow his leader, even in the least things being under his guidance; for example, he should stand or move, or exercise, or wash, or take his meals, or get up in the night to keep guard and deliver messages when he is bidden; and in the hour of danger he should not pursue and not retreat except by order of his superior; and in a word, not teach the soul or accustom her to know or understand how to do anything apart from others. Of all soldiers the life shall be always and in all things as far as possible in common and together; there neither is nor ever will be a higher, or better, or more scientific principle than this for the attainment of salvation and victory in war. And we ought in time of peace from youth upwards to practice this habit of commanding others, and of being commanded by others; anarchy should have no place in the life of man or of the beasts who are subject to man.<sup>1</sup>

With few exceptions, the builders of utopias have been as authoritarian as the

Athenian philosopher I have just quoted at length. All of them have dreamt of reconstructing not only the social and economic system but human nature itself. In Thomas More, Francis Bacon, Harrington, and to a greater extent the socialists before Marx (whom the Red Prussian, as Schwarzchild calls him in his biography,<sup>2</sup> ridiculed and dismissed as utopian) we find detailed plans for regulating labor, production, and even consumption and the use of leisure time. Oscar Jaszi could consequently write more than thirty years ago that "present efforts toward a planned economy may be said to have a Saint-Simonian character."<sup>3</sup>

Marx showed great shrewdness in not attempting to describe the future society from an economic point of view. In this way he avoided the criticisms that would have undoubtedly exposed the weak points in his schemes, just as they had destroyed the fantasies of Saint-Simon, Fourier, and Cabet. At the same time he made it possible for each of his disciples to give free rein to his imagination and to shape utopia according to his own fancy. Lenin, on the contrary, flagrantly revealed his ignorance of economics when he declared that "the whole of society in the economic sphere will have become one office and one factory, with equal work and equal pay." His ideal was "to organize the whole national economy on the model of the post-office, but in such a way that technicians, inspectors and office employees will not receive a higher pay than the workers and that the whole organization will be under the directions of the armed proletariat."<sup>4</sup>

These as well as other precedents which I need not cite should convince us of the venerable antiquity of the idea of abolishing the market in order to replace it with the decrees and directives of public officials. What is capable of being more definitely established is the origin of the

modern renewal of interest in planning, as well as the use of the word "plan" with reference to economic affairs. Fortunately, this statement can be documented with complete certainty. In the course of the First World War each of the belligerents resorted to a variety of measures for the direction of the economy which became progressively more stringent. In Germany, possibly because of the blockade to which she was subjected, the organization that existed during the war came quite close to a planned economy. Once the conflict was over, the persistence of economic difficulties and the coming to power of a socialist government led to the concrete proposal made in a memorandum dated the 7th of May 1919, which was inspired by Walter Rathenau and drawn up by Wissell and Moellendorf, to the effect that the government should declare itself in favor of a compulsory planned economy (*Zwangswirtschaft* or *Planwirtschaft*).<sup>5</sup>

In Russia, after the period of so-called war communism and the N. E. P. or New Economic Policy to which Lenin turned with the purpose of repairing the damage the earlier policy had done and reestablishing a certain level of production, the new regime was forced to face the problem whose discussion Marx had forbidden, namely: What should be the structure of a socialist economy? The solution adopted, which must be recognized as the necessary consequence of the socialization of the means of production and of political control over the whole of social and economic life, consisted in the elaboration and acceptance of the First Five Year Plan or *Platileka* in 1928. Since then the outstanding feature of the Russian economy through a succession of plans has been the fact that it is a directed and planned economy. This is not the place to speak of its achievements (for instance in the matter of rockets and satellites, although after a period of Rus-

sian triumph and arrogance, the United States with its still fundamentally free economy, has driven ahead) or of its failures such as the notorious scarcity and poor quality of consumers' goods and the rationing of foodstuffs, beginning with wheat flour). But mention must be made of the growing realization on the part of Soviet economists and rulers that something is wrong with their system and of their desperate search for some substitute for the prices, economic calculation, and profits and losses of a market economy.<sup>6</sup>

Our investigation has shown that between socialism and planning there is a historical relation as undeniable as that between the setting of the sun and the darkness of the night. However, we can go farther. The truth is that socialism is inconceivable without planning. If private property is not respected, if there are no prices, if the market does not function, economic activity can only be regimented and compulsory.<sup>7</sup> Where the needs and desires of the consumers do not have the last word, it must perforce belong to the politicians and bureaucrats. In short, where there is socialism there must necessarily be planning.

But is the converse of this proposition necessarily true? May we declare that where there is planning we shall find socialism? Let us begin by clearing up some preliminary questions. If planning is general, centralized, and coercive, it is undeniable that we shall have a completely socialized economy, that is, a socialist regime. It will not matter that the external form of some institutions is allowed to persist, for instance the appearance of private property, because productive enterprises are not formally nationalized. Hitler and his followers did not expropriate them; yet it is indisputable that National Socialism was, in fact, a type of socialism. On the other hand, if planning is applied only to a specified

sector, the rest of the economy will continue to be governed by the market.

Centralization presents more difficulties. To begin with, let us note that the planning we are discussing is one in which in the last resort the government or political power enacts the plans and is responsible for putting them into effect. The fact that while preparing them it may pay heed to entrepreneurs and consumers, or that it may use them to supervise the plans and to make sure that they are complied with, is unimportant. If, on the other hand, private persons adopt the plans or even if, after they are approved by the government, their observance is voluntary, we shall not have left the domain of a market or consumer-oriented economy. In such a case, the plans will furnish information, will enlighten or advise; but, I repeat, the market will not have been suppressed or replaced as long as private individuals are truly free to follow the plans or to deviate from them.

However, the situation I have described is not the one that planners have in mind when they speak of decentralization. What they propose is that the plans should not be prepared by a single authority but that they should originate from several authorities or that these should participate in drawing them up, for instance local authorities or those in direct charge of a branch of the economy or even the managers of the different industrial and commercial enterprises. But this proposal does not touch on the fundamental question, namely: Who is to coordinate the different plans? And more important still, who is to decide what plans are to take priority over the plans? Economic goods are scarce. This is necessarily so *ex hypothesi*, that is, as a primary datum of every economic system, and not just by accident, as some of our public officials who are new to these problems seem to believe when they argue that certain controls or the prohibition of new industries

is justified by the "scarcity" of capital and other resources. The crucial economic problem thus consists in choosing among various possible courses of action. In this regard it is pertinent to recall that Robbins defines economics as the science which studies human behavior as a relationship between ends and scarce means which have alternative uses.<sup>8</sup> If we cannot have at the same time more food, more clothing, and more housing, who but a central power will be able to decide which of these is to have priority and how much we shall be allowed of each, always on the assumption that the decision is not to be left to society as a whole, that is, to the consumers by means of the ballots that they cast in a free market?

We still have to deal with the third feature that I mentioned, that is, to discuss whether it is possible for a planned economy not to be directed by command. In the last few years it has been the fashion to speak of non-mandatory or "indicative" planning and to invoke the example of France, where, it is said, plans are not backed by legal coercion but are fulfilled through incentives and other stimuli that induce entrepreneurs and investors to carry them out voluntarily.

It is a fact that up to now people have not been guillotined, put in prison, or fined if they have refused to adjust their actions to the French economic plan. But what is not correct is to say that the plan is merely indicative and not imperative. A thing is indicative when it indicates, that is, warns, points out, guides or advises. Imperative means something that rules, that is, enjoins, commands, demands, or obliges. Let us examine whether in France planning operates freely and without coercion.

When do we have coercion? And when, on the contrary, do we have freedom? The fact is that both words are linked indissolubly, because freedom is the absence of

coercion. And since the latter term refers to a more concrete concept, in order to know when there is freedom, it is indispensable to determine when coercion is present:

[This] occurs when one man's actions are made to serve another man's will, not for his own but for the other's purpose. It is not that the coerced does not choose at all. . . . Coercion implies, however, that I still choose but that my mind is made someone else's tool,<sup>9</sup> because the alternatives before me have been so manipulated that the conduct that the coercer wants me to choose becomes for me the least painful one. . . . Coercion implies both the threat of inflicting harm and the intention thereby to bring about certain conduct.<sup>10</sup>

In the arsenal of measures that French planning puts into play, only building permits, which may be refused when the enterprise to be established or expanded does not fit in with the approved plans, represent a weapon having legal force behind it. All the others are tax incentives or financial inducements. They may assume the following forms:

- exemption from taxes on dividends in the case of shares issued to increase capital when the investment programs conform to the Plan;

- exemption from the transfer tax on real estate bought for programs of regional development or for industrial mergers according to the Plan;

- nonpayment of the registry tax in order to favor the concentration of firms when this is judged to be insufficient;

- degressive depreciation rates for machinery in accordance with the Plan's directives;

- preferential depreciation rates for firms engaged in export trade;

- loans for the purpose of helping firms to reorganize;

- bonuses for machinery in order to favor industrialization and to increase em-

- ployment in the underdeveloped areas of France;

- reduction in interest charges on certain loans to firms;

- loans at a lower rate than that current in the market;

- guaranty by the government of certain loans; promise of participation in financing the inventories of certain firms;

- commitment to extend financial support to firms that obligate themselves to invest in research and production programs previously agreed upon;

- approval of large private loans;

- priority in the calendar of bond issues in excess of one million new francs;

- priority and discrimination among businessmen seeking loans, so as to allow the National Credit Council to make a selection among them in accordance with the objectives of the Plan.<sup>11</sup>

In the case of building permits, which are denied when the new plant or its expansion are not located within the region that the authorities wish to develop, it is obvious that what we are confronted with is not a mere recommendation but an undoubted case of compulsion. In the others that I have listed, it cannot be denied that the manufacturer or merchant involved can pay all the taxes or write off his machinery at the rates in general force or finance with his own means the expansion of his factory or pay interest at the rates prevailing in the market or forego the help of credit or wait for his turn in other matters.

But will he be able to compete, will he survive competition on these conditions? I agree that it is not the same to say, "if you do not do this, I shall employ physical violence against you," as it is to say, "if you do not do it, I shall not grant you a certain advantage." But what coercive means will be more powerful and effective against a businessman, that of spending some days

in jail or of paying a fine, or that of being deprived of advantages which, depending upon conditions in the branch of business in which he is engaged, the harshness of the competition, and the general economic situation, can determine that his business does not expand or is not modernized, may not distribute dividends, or may even be displaced by those who enjoy official favors and assistance? If something is decisive for my existence or for the preservation of what I consider most valuable, there is no doubt that it will exert coercion on my will, deprive me of my freedom, and convert me into a mere instrument for the realization of the purposes of other men.<sup>12</sup> This is the case of the lover who is prevented from seeing his beloved, of the addict deprived of alcohol or of the drug that he has the habit of using, or of the believer prohibited from practicing his religion. In very many instances it will also be the situation of the manufacturer or merchant who is denied the exemptions, priorities, and other advantages that would enable his business to compete on equal terms with those who submit to official planning. This is the reason why it seems to me that to describe this species of planning as indicative and to add, as is done in the propaganda with which it is enveloped, that it is free and democratic amounts to forgetting the meaning of these words.

The conclusion forced on us is that economic planning involves a socialized economy. The extent of socialization will depend on the generality, centralization, and coerciveness of the planning in question. We can now answer the question that we set ourselves earlier. Where there is planning we do not necessarily find a socialist regime, but a step has already been taken in that direction. The nation that chooses to subject its whole economy to obligatory plans by public authorities (necessarily a single plan in the final resort, as I have

shown) has bought a ticket, probably a one-way ticket, to socialism. And let it not be objected that some oases or patches of free economic activity may be left: we also find them in the USSR (and incidentally their yield attains a great importance, especially in farm produce) but despite this we do not hesitate to call the Russian system a socialist or communist one in the aggregate.<sup>13</sup>

If my conclusion is correct (and I fear that the only merit of the foregoing laborious exposition is that of establishing the truth of what is self-evident), how can we explain this insistence on planning, how are we to understand this modern rebirth of the very old idea that "in war and peace, one should look to and follow his leader, even in the least things being under his guidance," instead of following the admonition of Saint Paul to "stand fast therefore in the liberty wherewith Christ hath made us free and be not entangled again with the yoke of bondage"?<sup>14</sup>

There is no doubt that some people advocate economic planning as a sort of Trojan horse for socialism. In the face of the unconcealable failure of the latter, not only on the social and moral planes, but in regard to production and a rise in the standard of living of the masses, what better tactic than to declare oneself in favor of something that will open the door to collectivism by means of a word in itself neutral from an ideological point of view and yet which sounds both technical and important? In other cases the two factors I have described in a recent publication concur, namely, ignorance or incomprehension, and lack of integrity and firmness.<sup>15</sup> In other words, besides some few men who know what they want and where they are going, there are multitudes who do not know what it is all about or who cannot understand the issues being debated; and scarcely less numerous are those who do not

care or who believe that they will save themselves somehow or perhaps even turn out to benefit. All this explains, to my way of thinking, the reasons and motives for the currently prevailing vogue for planning whose analysis is the objective of this article.

Nevertheless, one would be remiss and inept not to take into account one cause in particular for the popularity of the idea that planning should apply to economic action. Reason, intelligence, is man's distinctive characteristic and his pride. What can be more natural, therefore, than to try to subject all phenomena to the action of reason? In contrast, economic phenomena appear to us as formless and disorderly. Economic problems are difficult and intractable; the results of our actions are uncertain and often unforeseen. Let us, then, make reason rule; let us submit economic action to well-thought-out, well-designed plans. In this way we shall not only resolve our difficulties and insure that our efforts will lead to the attainment of the goals and ideals we set ourselves, but we shall satisfy an imperative of our human condition.

It is impossible to deny either the force and daring or the attractiveness of this conception. To begin with, it takes its place within one of the most powerful and seductive movements in human thought, that form of rationalism which began with Bacon and Descartes and which aspires to extend not only our knowledge but our power and command over nature and social life. Needless to say, I am not referring to rationalism in the proper sense of the word, namely, to the proposition that man is a rational being and that his acts are guided by reason,<sup>16</sup> but to the exaggerated version of this doctrine which believes that reason can make man all-knowing and all-powerful. But here I shall yield the floor to Ortega y Gasset, the modern philosopher who has best studied this question:

Intoxicated by the power of ideas man ends by believing that he possesses an almost divine faculty, which could reveal to him once and for all the ultimate essence of all things. This faculty must be independent of experience, since owing to its constant changes experience could alter such a revelation. Descartes called his faculty *raison* or *pure intellection*, and Kant named it even more precisely "pure reason."

"Pure reason" is not simply intelligence but an extreme form of its functioning. . . . Pure reason . . . is intelligence left to itself and setting up from within itself marvelous schemes with sublime exactness and rigor. Instead of trying to enter into contact with things, it disregards them entirely. . . . Since it operates without paying attention to anything except its own self, it does not find it difficult to impart the utmost perfection to its creations. Thus, in political and social matters it purports to have discovered a civic structure and a legal order that are perfect and definitive, and the only ones worthy of the name. This pure use of the intellect, this thinking *more geometrico*, is usually called rationalism, but it would be more enlightening to designate it as radicalism.<sup>17</sup>

Descartes' physics and philosophy were the first manifestations of a new spiritual state. . . . Mistrust and contempt of everything spontaneous and immediate. Enthusiasm for all the constructions of reason.<sup>18</sup>

A strange disdain for reality comes over men. Turning their backs on it, they fall in love with ideas as such. They become so enthusiastic about the perfection of their geometric designs that they forget that in the final analysis the purpose of an idea is to coincide with the reality it refers to.

The rationalist wants the social body to conform, at whatever cost, to the scheme forged by pure reason. . . . A realistic policy, which would not aspire

to have an idea triumph as such, seemed immoral. . . .

Now, an idea forged with no other purpose than to make it perfect as an idea, whatever its lack of correspondence with reality, is precisely what we describe as utopian. Radicalism, rationalism, thinking *more geometrico*, are forms of utopianism . . . while politics is realization. How could the utopian spirit not be in contradiction with politics?<sup>19</sup>

I shall examine later whether the preceding ideas are applicable to the subject of planning. But I wish to make it clear before proceeding that my quoting them does not imply the adoption of an antirationalist or vitalist philosophy. As Mises has pointed out, "as far as man is able to attain cognition, he must rely upon reason. . . . There is neither an irrational mode of cognition nor a science of irrationality."<sup>20</sup> And Ortega has taken care "to come . . . out against the confusions and misinterpretations" of his way of thinking. "My ideology is not directed against reason," he has declared, "since it admits no other means of theoretical understanding than reason: it is directed only against rationalism" in the sense that he attributes to this term as shown in my extended quotations from the works of this illustrious Spanish thinker.

Since it is impossible to go on repeating his teachings, let me add that in the essay from which the foregoing sentences are taken, Ortega makes clear beyond any doubt "the true role of reason." "And whatever goes beyond this," he insists, "degenerates into rationalism."<sup>21</sup>

What rationalism adds to the proper exercise of reason is an unwarranted assumption and peculiar form of blindness. The blindness consists in refusing to see the irrationalities to which, as we have remarked, the pure use of reason gives rise. The unwarranted assumption that characterizes rationalism con-

sists in believing that things—whether real or ideal—will behave in accordance with our ideas.

The inmost secret of the rationalist spirit . . . lies in the fact that, contrary to appearances, rationalism is not properly a contemplative but rather an imperative attitude. Instead of standing before the world and receiving it in our minds as it is . . . this spirit imposes on it a certain mode of being, takes command of it and does violence to it. . . . To think is no longer to see, but to legislate, to command. . . . The role of reason is not to understand reality, to form in our minds copies of things as they are, but "to create models" according to which things are to conduct themselves. Rationalism tends always and everywhere to invert the mission of intellect, causing it not to form *ideas* of things but to build *ideals* to which things *must* adjust themselves. . . . In the end rationalism reveals its true intention, which consists, rather than in being a theory, in rising in rebellion and becoming a practical interference with reality with the object of transforming it into the imaginary gold of what it *ought to be*. Rationalism is consequently the modern "philosopher's stone."<sup>22</sup>

I am reluctant to "take the floor," as it were, after the impression which the clear-sighted thinker and extraordinary prose writer whom I have been quoting must have made on you. But we must go on with our task if we are to profit from his insights and to reach a conclusion with regard to the claim of planning that it is protected by the prestigious mantle of reason. However, before we can proceed, a doubt arises: Are not economic phenomena an example of rational activity? And is it not precisely Professor Ludwig von Mises, the great continuator of the Austrian School whom I have quoted several times, who has emphasized the rational character of human action, of which economic behavior is only

a part or manifestation? Does he not go so far as to assert that "human action is necessarily always rational," so that "the term 'rational action' is pleonastic and must be rejected as such"?<sup>23</sup> Therefore, are not the critiques of rationalism out of place and even somewhat strange when applied to a type of conduct, and therefore to the science that studies it, that one has begun by proclaiming to be eminently rational? And if we descend to the level of popular versions of economics and the ideas of its enemies (because it is a fact that there are people who prefer that it did not exist or who try to propagate a false picture of this science and to discredit it), do we not find a complete mythology of "economic man," that is, of a cold and calculating being, a sort of thinking machine, who would act only from material and monetary motives?<sup>24</sup>

A few simple remarks, I believe, will suffice to refute this possible line of attack. When economic theory and Mises in the first place say that human action is rational, what is meant is that it is motivated and that it pursues a certain end. In other words, a human action is undertaken from some cause (a want, a state of uneasiness) and for an end (to fulfill the need that was felt or at least to substitute a state of lesser uneasiness). Consequently, there is no such thing as irrational behavior, and the opposite of human action is the reflex movements of our bodily organs and our instincts insofar as they cannot be controlled by human will. And from what has been said we can reach a clear conclusion, namely, that to postulate of human action, and therefore of economic activity, that it is rational by no means implies the assertion that it is always and necessarily reasonable and even less that one must approve of it from other points of view, for instance, those of ethics, esthetics, propriety, etc.<sup>25</sup>

Taking up the fundamental question: from the fact that economic actions are rational it in no way follows that so-called planning is the optimum way of performing them. And I say "so-called" because what is in question is not whether we should make plans for what concerns us, but whether public officials and civil servants should prevent us from planning and force us to follow plans which they consider superior to ours. To put it in a different way: economic planning does not consist in the contention that we should act with foresight, nor does it limit itself to recommending to our attention the plans prepared by the government, or to advocating that public entities plan their tasks in a better way; planning is always, necessarily, according to the ideas of those in favor of it, planning by public authorities for private persons, that is, general, central, and coercive planning.

As Hayek points out in a passage that I shall repeat in spite of its length:

That we should think out beforehand what we are going to do, that a sensible ordering of our lives demands that we should have a clear conception of our aims before we start acting, seems so obvious that it appears difficult to believe that the demand for planning should ever be so wrong. All economic activity, in particular, is planning decisions about the use of resources for all the competing ends. It would, therefore, seem particularly absurd for an economist to oppose "planning" in this general sense of the word.<sup>26</sup>

But just as I have done, he immediately makes it clear that it is not in this broad sense that the advocates of planning employ this term "but that the economic activities of all should be centrally directed according to a single plan laid down by a central authority."<sup>27</sup> The dilemma is not whether "to plan or not to plan" as implied

in the title of the book by Barbara Wootton;<sup>28</sup> the problem does not consist in using our intelligence in the one case and in proceeding thoughtlessly, at haphazard, in the other. The real option is between a planned economy and a market economy. In other words, we must choose between socialism, on the one hand, because it is not possible to plan economic life without doing away with private property and without suppressing the other freedoms, and a free, voluntary or open society, since all these objectives serve to characterize and describe it.

In order to pose the problem correctly, I return to my argument: the fact that planning presupposes or requires the use of reason on the part of the planners does not prove that it is superior to a market economy, as we now call it, or a system of natural liberty, as Adam Smith baptized it;<sup>29</sup> because, as we have seen, all economic activity, including that dealing with our own affairs, is rational in the sense that we always choose consciously instead of mechanically or instinctively. Naturally I must at this point expect that the well-worn objections against a free economic order will once more be brought forth and that it will be attacked as blind and even as the "anarchy of production" and chaotic. The answer that they deserve is that this kind of stricture is due primarily to incomprehension and ignorance. That a certain social order should not be apparent by itself and originate from deliberate design, but that it should need to be discovered and explained, does not indicate that it does not exist or that it is an inferior order. What characterizes science is precisely that it allows us to perceive and understand what our senses do not reveal to us by themselves alone. To mention the most common example, science has taught us that the earth is round and not flat. Nonetheless, even after the photographs

taken in outer space which confirm that it is a sphere, we read in the newspapers that there is a group of men in England who persist in believing that our planet is flat.

One can assert that there are two possible kinds of social order, both rational insofar as they are the result of human action, but profoundly different because one is the deliberate product of the intelligence and the will of one or of a few men, whereas the other has been formed gradually, over a period of time, through the interaction of all the members of a social group or of the greater part of them, and, what is even more important, without a prior, specified purpose.<sup>30</sup> The order of production and distribution which we call the market economy belongs in the second category. A priori, only false rationalism—the variety that believes that the mind of a planner of economic life, with his statistics and equations, and after him the mind of the ruler who must finally approve the plans and order that they be put into effect, are superior to the preferences and the combined knowledge of millions of consumers and producers—can pretend that this spontaneous and self-generating order is inferior to the other conceivable economic order, that is, to an economy of command and compulsion and, in the final instance, to a collectivist organization of society.<sup>31</sup>

The results of the liberal economic order are before us for all to see. They were described by Karl Marx in 1848 in such glowing terms as have seldom been surpassed, in spite of his hatred of the system to which he gave the name "capitalist" so as to discredit and attack it.<sup>32</sup> Capitalism has multiplied the population of the world since the last part of the eighteenth century, it has made it possible for the masses to enjoy a standard of living and amenities which were not achieved by the emperors and satraps of the ancient world or even by the most powerful monarchs in the era before

the industrial revolution, such as Charles the Fifth or Louis the Fourteenth, and it now offers us the serious and firm prospect of eliminating poverty all over the world, as it has already done in the United States, Canada, West Germany, and other countries.<sup>33</sup> Incidentally, I must remark that if in the so-called underdeveloped world there continue to exist conditions of extreme poverty and millions of its inhabitants lead a subhuman life, this is not due to a free economy but precisely to its absence. More particularly, those countries have refused until now, and some of them persist in refusing, to create the political and social framework necessary for the operation of a market economy and to put it into effect. On the contrary, to a lesser or greater extent we find that they lack peace, internal order, material and judicial security, and a respected and effective legal system. Finally and to be frank about it, many of them do not have the will to work, to save, and to undergo the other sacrifices demanded by the capitalist economic order.<sup>34</sup>

Capitalism is not a project for the future or a promise or a utopia like a planned economy. It is an economic system that is well known and that has been tried. As Röpke once said:

This free-market economic order that guarantees us the freedom to develop our personal traits, the rule of law, parliamentary democracy, and human dignity, is simultaneously and almost miraculously an economic order that not only promises but has proved to be immensely superior in the field of material productivity to the other order, the socialist one, which carries with it the death of freedom and of human dignity.<sup>35</sup>

Lawyers have the rule that the burden of proof, the *onus probandi*, falls on him who asserts and not on him who denies. Even in religious matters a maxim counsels us

to allow *in dubiis, libertas*, whereas planning is essentially restrictive and prohibitive.<sup>36</sup> Consequently, it remains for economic planning, the order that pretends to be superior to capitalism or the system of liberty, to furnish proof that it will actually work, that it will bring us prosperity instead of scarcity, and that it will not destroy the rule of law, democracy, and freedom.

This proof economic planning will never be able to provide. In my opinion, the fundamental reason is the same that condemns socialism to perpetual and hopeless failure, namely, the impossibility of economic calculation in a community in which private property, prices, and profits and losses do not exist.<sup>37</sup> It is true that as long as planning is not complete, rather than socialism we shall have some form of interventionism that to a greater or lesser extent deprives entrepreneurs and investors of their powers of decision, falsifies the signals constituted by prices and profits, and disorganizes and paralyzes the market. But as soon as planning comprises the greater part of economic life, as happens in Russia and China, we shall find fully applicable the argument, unrefuted until now, that has demonstrated that socialism—and, we shall now add, its alter ego, planning—“is an inferior system of organization, lacking in rationality and not only characterized by perpetual bottlenecks, a tremendous waste of resources, the production of what is not wanted and the failure to produce what is needed, but also unable to correct, and what is still worse, even to learn the mistakes that it makes.”<sup>38</sup>

In speaking about lack of rationality, I am obviously using the word as synonymous with “reasonable,” meaning in accordance with reason, and consequently intelligent, wellfounded, sensible. But is it not a striking paradox that the new order, which planners began by proclaiming that

it would bring about the reign of reason, should turn out to be less reasonable than the former, despised system of freedom? The explanation for this is a simple one and is to be found in the teachings of Ortega y Gasset, which I therefore presented as fully as I did. This is not a philosophical study, and I am not competent to expound on the limits of reason. Neither am I trying to dethrone it, because we have nothing with which to replace it, because it is our distinctive and most prized characteristic, because thanks to reason mankind has emerged from its original condition of want, and because if we use it properly we may hope that this imperfect world, which we find unacceptable in so many respects, will come nearer to being the prosperous, peaceful, and just one that we long for. But we serve reason when we discover and obey its limitations; not when, inflated with

pride, we think that one man's mind can encompass the whole world and that willing it so suffices to remake *ex novo* the institutions which are the result of the combined efforts of uncounted generations. As my late lamented friend Daniel Villey wrote in one of his essays: "Nothing seems so unreasonable as to desire to rationalize everything. Nothing is so repugnant to reason as to pretend to subject everything to it."<sup>39</sup>

Economic planning is necessarily the planning of all social life, that is to say, the planning of man.<sup>40</sup> Under it we cease to be free beings, persons, and are changed into mere instruments, into pawns in a chess game<sup>41</sup> in which the planner in power moves and sacrifices us according to his convenience and his whims. That is why planning is not only contrary to reason and harmful from an economic point of view, but essentially antihuman, because it destroys man's freedom and dignity.<sup>42</sup>

<sup>1</sup>Laws, Book XII, in *The Dialogues of Plato*, translated into English by B. Jowett (New York: Random House, 1937), Vol. II, pp. 677-678.

<sup>2</sup>*The Red Prussian: The Life and Legend of Karl Marx*, Leopold Schwarzschild (New York: Charles Scribner's Sons, 1947).

<sup>3</sup>On the relation between socialism and Saint-Simon, one can consult the book with that title by Alvin W. Gouldner (Yellow Springs, Ohio: the Antioch Press, 1958).

<sup>4</sup>*State and Revolution* (New York, 1917), pp. 83-84.

<sup>5</sup>Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (London: Jonathan Cape, 1951), p. 257.

<sup>6</sup>S. Kabysh/Andrey Babich, *The Debate on Soviet Economic Planning* (Munich: Institute for the Study of the U.S.S.R., December, 1964). See also Margaret Miller *et al.*, *Communist Economy under Change* (London: The Institute of Economic Affairs, 1963).

<sup>7</sup>In his notable essay "An Economist Looks at Planning," reproduced in *Gold, Unemployment and Capitalism*, T. E. Gregory writes that one can conceive of a species of socialism in which different state enterprises would compete against one another, but that "in practice socialism involves planning" (London: P. S. King and Son, 1933), p. 284.

<sup>8</sup>*An Essay on the Nature and Significance of Economic Science* (London: Macmillan and Co., 1940), p. 16.

<sup>9</sup>Although, as has happened in many other cases, the words are not found verbatim in the texts, commentators summarized the opinion of the Roman jurists in the maxim *Voluntas coacta, voluntas est* (*Glossa ad leg.* 21, par. 5, *Dig. Quod metus causa*).

<sup>10</sup>F. A. Hayek. *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960). pp. 133-134.

<sup>11</sup>I take this enumeration from an unpublished work by Professor Louis Rougier entitled "Le Plan Indicatif." See also *Planning in France*, by John and Anne-Marie Hackett (London: George Allen and Unwin, Lt., 1963); *French Planning*, by Vera Lutz (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1965), and *Central Planning for the Market Economy*, also by Vera Lutz (London: Longmans, Green and Co., 1968). Another recent book is *Economic Planning and Policies in Britain, France and Germany*, by Denton, Forsyth and MacLennan (London: George Allen and Unwin, 1969).

<sup>12</sup>Compare with Hayek's previously mentioned book, especially chapters 1 and 9. It is not at all easy to define the concept of coercion with pre-

cision, as one can see from reading it, as well as from the brief discussion between Hamowy and Hayek in the *New Individualist Review*, Vol. 1, numbers 1 and 2.

<sup>12</sup>This can be confirmed in several of the studies published by the Institute for the Study of the U.S.S.R., in Munich, mentioned in note 6.

<sup>13</sup>Epistle to the Galatians, 5, 1.

<sup>14</sup>*Bibliografía de la Libertad* (Mexico: Editorial Humanidades, 1964), pp. 19 to 23.

<sup>15</sup>Ludwig von Mises, *Theory and History* (New Haven: Yale University Press, 1957), p. 269.

<sup>16</sup>*El Ocaso de las Revoluciones*, Complete works, Madrid, Vol. III, pp. 214 and 215. I have not had the time to investigate what sense he attributed to them, but it is interesting to learn that Pascal opposed the *esprit de finesse* to the *esprit de géométrie*. See Pascal in *Diccionario de Filosofía*, Ferrater Mora (Buenos Aires: Editorial Sudamericana, 1965), Vol. II, p. 374.

<sup>17</sup>The Modern Theme, Harper Torchbooks (New York: Harper and Burthuis), pp. 33-34.

<sup>18</sup>*El Ocaso de las Revoluciones*, Vol. III, pp. 216, 218 and 219.

<sup>19</sup>*Human Action* (New Haven: Yale University Press, 1963), p. 89.

<sup>20</sup>*Ni Vitalismo Ni Racionalismo*, Complete works, Vol. III, p. 277.

<sup>21</sup>Complete works, Vol. III, pp. 278, 279 and 280.

<sup>22</sup>*Human Action*, p. 18.

<sup>23</sup>Robbins, *op. cit.*, p. 24; Mises, *op. cit.*, pp. 94 to 96; *Man, Economy and State*, Murray N. Rothbard (New York: D. Van Nostrand Company, 1962), Vol. I, p. 63.

<sup>24</sup>Since "rational" and "reasonable" are frequently used as synonyms, Rothbard has avoided using the former term in spite of agreeing with Mises, so as not to have to enter into explanations similar to mine.

<sup>25</sup>"Kinds of Rationalism," in the *Studies in Philosophy, Politics and Economics* (Chicago: University of Chicago Press, 1967), p. 82.

<sup>26</sup>*Loc. cit.* This is so evident that there is no point in trying to prove it. "Planning, in the modern jargon, involves governmental control of production in some form or other," wrote Robbins in a book in which he anticipated future developments and which can still be read with great profit in spite of its having been published in 1937, *Economic Planning and International Order* (London: Macmillan and Co.), p. 7. In contrast with this view, and besides the contention that planning can be merely indicative, we now find the term used in a wider sense. Thus Tinbergen says that "we will not use the word 'planning' in the meaning of a particular order or policy, such as a command order with detailed intervention." But if one reads the whole article which he contributed to the recent *International Encyclopedia of the Social Sciences*, it becomes

apparent that, although presented in temperate terms and in the trappings of science, the planning to which he refers does not differ from others and is in the final analysis of the kind that led Saint-Simon to predict that those who did not obey his proposed planning boards would be "treated like cattle." *Planning, Economic, Western Europe* (The Macmillan Company and the Free Press, 1968), Vol. 12, p. 103; and Hayek, *The Road to Serfdom* (Chicago: University of Chicago, Press, 1944), p. 24.

<sup>27</sup>The exact name of the book is *Plan or No Plan*.

<sup>28</sup>*An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Random House, Inc., 1937), p. 651.

<sup>29</sup>Hayek, "Kinds of Order in Society," in *New Individualist Review*, Vol. 3, number 2, p. 3; and some of the other books and articles of this fecund thinker, especially those included in the work mentioned in note 26.

<sup>30</sup>"There is somebody wiser than any of us, and that is everybody." Napoleon, in *The Viking Book of Aphorisms* (New York, 1962), p. 327.

<sup>31</sup>"Manifesto of the Communist Party," in *Introduction to Contemporary Civilization in the West* (New York: Columbia University Press, 1948), pp. 419-420.

<sup>32</sup>The word "poverty" does not have a univocal meaning. It means at least three different things, namely: economic insufficiency, that is, lack of what in a given country, at a certain moment, is considered necessary for living adequately; economic dependency; and economic inequality. Poverty in the United States in the first sense of the word is not poverty in India or in several Latin-American countries. A proof of this and of the relative and social character of poverty as insufficiency (a fact that prevents us from establishing an absolute concept of poverty, according to which, for instance, a person would be poor if he did not have a certain number of calories, proteins, etc., per day in his diet) is that poverty is considered officially to exist in the United States when a family comprising husband, wife, and two children receives an income of less than \$3,412 per year. In further confirmation I may add that, by a determination of the federal government, 1,600,000 more poor persons were created in August of 1969, when it was decided that the line at which poverty begins should be raised to \$3,555. See *Poverty-Definition and Perspective* by Rose Friedmann (Washington: American Enterprise Institute, 1965); and from a different point of view, "La Miseria y la Pobreza" in *No Puede Existir una Doctrina Social Cristiana*, Alberto G. Salceda (Mexico: Club de la Libertad, undated edition).

<sup>33</sup>Gustavo R. Velasco, "The Indispensable Task of Government," lecture given on April 30, 1968, before the Technological Institute at Monterrey.

<sup>35</sup>*Seis Conferencias sobre Política Económica* (Mexico: Instituto de Investigaciones Sociales y Económicas, no date), p. 12.

<sup>36</sup>The complete aphorism is the well-known one: *in necessariis, unitas; in dubiis, libertas; in omnibus, caritas*. It has been attributed to Saint Augustine, Melancthon and Rupertus Meldenius according to the *Diccionario de Citas* by Goicoechea Romano (Madrid: Editorial Labor, 1953). I am inclined to believe that the learned Spanish researcher Gallegos Rocafull is correct in holding that its author was Saint Vincent of Lerins because he specifies the work and place where it occurs: *La Doctrina Política del P. Francisco Suárez* (Mexico: Editorial Jus, 1948), p. 21.

<sup>37</sup>The literature pro and con on economic calculation under socialism is very abundant. I therefore confine myself to mentioning the works by Mises cited in notes 5 and 25; the book by Rothbard also mentioned in note 25; and a novel entitled *The Great Idea*, by Henry Hazlitt (New York: Appleton-Century-Crofts, Inc., 1951), where one can find one of the clearest explanations of this question and one of the most vigorous refutations of economic planning. In an article published this year Paul Craig Roberts reaches the conclusion that "a result of decades of efforts at central planning has been to establish that for an industrial economy there is no viable alternative

to the market." "The Polycentric Soviet Economy," in *The Journal of Law and Economics*, April 1969, p. 179.

<sup>38</sup>Gustavo R. Velasco, "El Socialismo, el Intervencionismo y el Sistema de la Libertad," in *Deliberaciones sobre la Libertad* (Buenos Aires: Centro de Estudios sobre la Libertad, 1961), p. 44.

<sup>39</sup>"Marché et Plan," in *Revue D'Economie Politique*, May, 1964, p. 20.

<sup>40</sup>Panfilo Gentile, *La Idea Liberal*, UTEHA (Mexico, 1961), pp. 76 and following.

<sup>41</sup>In the end, the study of economic planning leaves one with the conviction of its being so unfounded and outlandish that the following words of John Jewkes do not appear at all exaggerated: "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 central planning will be revealed as one of the most widespread, tenacious and harmful of errors." "The Perils of Planning," in *The Three Banks Review*, June, 1965. On the attempts at planning in Great Britain, see *The New Ordeal by Planning* by the same author (New York: Macmillan, 1968); *The National Plan* by John Brunner (London: Institute of Economic Affairs, 1965); and *Planning in Britain: The Experience of the 1960's* by George Polanyi, edited by the same Institute, 1967.