
ECONOMIC PLANNING

by

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Planning For Freedom

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Planning as a Synonym for Socialism

The term 'planning' is mostly used as a synonym for socialism, communism, and authoritarian and totalitarian economic management. Sometimes only the German pattern of socialism—Zwangswirtschaft—is called planning, while the term socialism proper is reserved for the Russian pattern of outright socialization and bureaucratic operation of all plants, shops, and farms. At any rate, planning in this sense means all-around planning by the government and enforcement of these plans by the police power. Planning in this sense means full government control of business. It is the antithesis of free enterprise, private initiative, private ownership of the means of production, market economy, and the price system. Planning and capitalism are utterly incompatible. Within a system of planning production is conducted according to the government's orders, not according to the plans of capitalists and entrepreneurs eager to profit by best filling the wants of the consumers.

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But the term planning is also used in a second sense. Lord Keynes, Sir Willjam Beveridge, Professor Hansen, and many other eminent men assert that they do not want to substitute totalitarian slavery for freedom. They declare that they are planning for a free society. They recommend a third system, which, as they say, is as far from socialism as it is from capitalism, which, as a third solution of the problem of society's economic organization, stands midway between the two other systems, and while retaining the advantages of both, avoids the disadvantages inherent in each.

Planning as a Synonym for Interventionism

These self-styled progressives are certainly mistaken when they pretend that their proposals are new and unheard of. The idea of this third solution is very old indeed, and the French have long since baptized it with a pertinent name; they call it *interventionism*. Hardly anybody can doubt that history will link the idea of social security, more closely than with the American New Deal and with Sir William Beveridge, with the memory of Bismarck whom our fathers did not precisely describe as a liberal. All the essential ideas of present-day interventionist progressivism were neatly expounded by the supreme brain-trusters of imperial Germany, Professors Schmoller and Wagner, who at the same time urged their Kaiser to invade and to conquer the Americans. Far be it from me to condemn any idea only on account of its not being new. But as the progressives slander all their opponents as old-fashioned, orthodox, and reactionary, it is expedient to observe that it would be more appropriate to speak of the clash of two orthodoxies; the Bismarck orthodoxy versus the Jefferson orthodoxy.

What Interventionism or Mixed Economy Means

Before entering into an investigation of the interventionist system of a mixed economy two points must be clarified:

First: If within a society based on private ownership of the means of production some of these means are owned and operated

by the government or by municipalities, this still does not make for a mixed system which would combine socialism and private ownership. As long as only certain individual enterprises are publicly controlled, the characteristics of the market economy determining economic activity remain essentially unimpaired. The publicly owned enterprises, too, as buyers of raw materials, semi-finished goods, and labor and as sellers of goods and services must fit into the mechanism of the market economy. They are subject to the law of the market; they have to strive after profits or, at least, to avoid losses. When it is attempted to mitigate or to eliminate this dependence by covering the losses of such enterprises with subsidies out of public funds, the only result is a shifting of this dependence somewhere else. This is because the means for the subsidies have to be raised somewhere. They may be raised by collecting taxes. But the burden of such taxes has its effects on the public, not on the government collecting the tax. It is the market, and not the revenue department, which decides upon whom the tax falls and how it affects production and consumption. The market and its inescapable law are supreme.

Free Labor

Second: There are two different patterns for the realization of socialism. The one pattern—we may call it the Marxian or Russian pattern—is purely bureaucratic. All economic enterprises are departments of the government just as the administration of the army and the navy or the postal system. Every single plant, shop, or farm, stands in the same relation to the superior central organization as does a post office to the office of the Postmaster General. The whole nation forms one single labor army with compulsory service; the commander of this army is the chief of state.

The second pattern—we may call it the German or Zwangswirtschaft system—differs from the first one in that it, seemingly and nominally, maintains private ownership of the means of production, entrepreneurship, and market exchange. So-called entrepreneurs do the buying and selling, pay the workers, contract debts and pay interest and amortization. But they are no longer entre-

preneurs. In Nazi Germany they are called shop managers or *Betriebsfuehrer*. The government tells these seeming entrepreneurs what and how to produce, at what prices and from whom to buy, at which prices and to whom to sell. The government decrees at what wages laborers should work and to whom and under what terms the capitalists should entrust their funds. Market exchange is but a sham. As all prices, wages, and interest rates are fixed by the authority, they are prices, wages, and interest rates in appearance only; in fact they are merely quantitative terms in the authoritarian orders determining each citizen's income, consumption, and standard of living. The authority, not the consumers, directs production. The central board of production management is supreme; all citizens are nothing else but civil servants. This is socialism, with the outward appearance of capitalism. Some labels of the capitalistic market economy are retained, but they signify here something entirely different from what they mean in the market economy.

It is necessary to point out this fact to prevent a confusion of socialism and interventionism. The system of hampered market economy or interventionism differs from socialism by the very fact that it is still market economy. The authority seeks to influence the market by the intervention of its coercive power, but it does not want to eliminate the market altogether. It desires that production and consumption should develop along lines different from those prescribed by the unhindered market, and it wants to achieve its aim by injecting into the working of the market orders, commands, and prohibitions for whose enforcement the police power and its apparatus of coercion and compulsion stand ready. But these are isolated interventions; their authors assert that they do not plan to combine these measures into a completely integrated system which regulates all prices, wages, and interest rates, and which thus places full control of production and consumption in the hands of the authorities.

Only Method of Permanently Raising Wage Rates for All

The fundamental principle of those truly liberal economists who are nowadays generally abused as orthodox, reactionaries, and economic royalists, is this: *There are no means by which the general standard of living can be raised other than by accelerating the increase of capital as compared with population.* All that good government can do to improve the material well-being of the masses is to establish and to preserve an institutional setting in which there are no obstacles to the progressive accumulation of new capital and its utilization for the improvement of technical methods of production. *The only means to increase a nation's welfare is to increase and to improve the output of products. The only means to raise wage rates permanently for all those eager to earn wages is to raise the productivity of labor by increasing the per-head quota of capital invested and improving the methods of production.* Hence, the liberals conclude that the economic policy best fitted to serve the interests of all strata of a nation is free trade both in domestic business and in international relations.

The interventionists, on the contrary, believe that government has the power to improve the masses' standard of living partly at the expense of the capitalists and entrepreneurs, partly at no expense at all. They recommend the restriction of profits and the equalization of incomes and fortunes by confiscatory taxation, the lowering of the rate of interest by an easy money policy of credit expansion and the raising of the workers' standard of living by the enforcement of minimum wage rates. They advocate lavish government spending. They are, curiously enough, at the same time in favor of low prices for consumers' goods and of high prices for agricultural products.

The liberal economists, that is, those disparaged as orthodox, do not deny that some of these measures can, in the short run, improve the lot of some groups of the population. But, they say, in the long run they must produce effects which, from the point of view of the government and the supporters of its policies, are less desirable than the previous state of affairs they wanted to alter.

These measures are, therefore, when judged from the point of view of their own advocates, contrary to purpose.

Interventionism the Cause of Depression

It is true, many people believe that economic policy should not bother at all about long-run consequences. They quote a dictum of Lord Keynes: "In the long run we are all dead." I do not question the truth of this statement; I even consider it as the only correct declaration of the neo-British Cambridge school. But the conclusions drawn from this truism are entirely fallacious. *The exact diagnosis of the economic evils of our age is: we have outlived the short-run and are suffering from the long-run consequences of policies which did not take them into consideration.* The interventionists have silenced the warning voices of the economists. But things developed precisely as these much abused orthodox scholars had predicted. Depression is the aftermath of credit expansion; mass unemployment prolonged year after year is the inextricable effect of attempts to keep wage rates above the level which the unhampered market would have fixed. *All those evils which the progressives interpret as evidence of the failure of capitalism are the necessary outcome of allegedly social interference with the market.* It is true that many authors who advocated these measures and many statesmen and politicians who executed them were impelled by good intentions and wanted to make people more prosperous. But the means chosen for the attainment of the ends aimed at were inappropriate. However good intentions may be, they can never render unsuitable means any more suitable.

It must be emphasized that we are discussing means and measures, not ends. The matter at issue is not whether the policies advocated by the self-styled progressives are to be recommended or condemned from any arbitrary preconceived point of view. The essential problem is whether such policies can really attain the ends aimed at.

It is beside the mark to confuse the debate by referring to accidental and irrelevant matters. It is useless to divert attention from the main problem by vilifying capitalists and entrepreneurs

and by glorifying the virtues of the common man. Precisely because the common man is worthy of all consideration, it is necessary to avoid policies detrimental to his welfare.

The market economy is an integrated system of intertwined factors that mutually condition and determine one another. The social apparatus of coercion and compulsion, i.e., the state, certainly has the might to interfere with the market. The government or agencies in which the government, either by legal privilege or by indulgence, has vested the power to apply violent pressure with impunity, are in a position to decree that certain market phenomena are illegal. But such measures do not bring about the results which the interfering power wants to attain. They not only render conditions more unsatisfactory for the interfering authority. They disintegrate the market system altogether, they paralyze its operation, they bring about chaos.

If one considers the working of the market system as unsatisfactory, one must try to substitute another system for it. This is what the socialists aim at. But socialism is not the subject matter of this meeting's discussion. I was invited to deal with interventionism, i.e., with various measures designed to improve the operation of the market system, not to abolish it altogether. And what I contend is that such measures must needs bring about results which from the point of view of their supporters are more undesirable than the previous state of affairs they wanted to alter.

Even Marx Condemned Interventionism

Karl Marx did not believe that government or trade union interference with the market can attain the beneficial ends expected. Marx and his consistent followers condemned all such measures in their frank language as reformist nonsense, capitalist fraud, and petty-bourgeois idiocy. They called the supporters of such measures reactionaries. Clemenceau was right when he said: "One is always a reactionary in somebody's opinion."

Karl Marx declared that under capitalism all material goods and likewise labor are commodities, and that socialism will abolish the commodity character both of material goods and of labor.

The notion "commodity character" is peculiar to the Marxian doctrine; it was not used before. Its meaning is that goods and labor are negotiated on markets, are sold and bought on the basis of their value. According to Marx the commodity character of labor is implied in the very existence of the wages system. It can disappear only at the "higher stage" of communism as a consequence of the disappearance of the wages system and of payment of wage rates. Marx would have ridiculed the endeavors to abolish the commodity character of labor by an international treaty and the establishment of an International Labor Office and by national legislation and the allocation of money to various national bureaus. I mention these things only in order to show that the progressives are utterly mistaken in referring to Marx and the doctrine of the commodity character of labor in their fight against the economists whom they call reactionary.

Minimum Wage Rates Bring About Mass Unemployment

What these old orthodox economists said was this: A permanent rise in wage rates for all people eager to earn wages is only possible as far as the per-head quota of capital invested and concomitantly the productivity of labor increases. It does not benefit the people if minimum wage rates are fixed at a level above that which the unhampered market would have fixed. It does not matter whether this tampering with wage rates is done by government decree or by labor union pressure and compulsion. In either case, the outcome is pernicious to the welfare of a great section of the population.

On an unhampered labor market wage rates are fixed by the interplay of demand and supply, at a level at which all those eager to work can finally find jobs. *On a free labor market unemployment is temporary only and never affects more than a small fraction of the people. There prevails a continuous tendency for unemployment to disappear.* But if wage rates are raised by the interference of government or unions above this level, things change. As long as only one part of labor is unionized, the wage rise enforced

by the unions does not lead to unemployment, but to an increased supply of labor in those branches of business where there are no efficient unions or no unions at all. The workers who lost their jobs as a consequence of union policy enter the market of the free branches and cause wages to drop in these branches. The corollary of the rise in wages for organized workers is a drop in wages for unorganized workers. But if fixing of wage rates above the potential market level becomes general, workers losing their jobs cannot find employment in other branches. They remain unemployed. Unemployment emerges as a mass phenomenon prolonged year after year.

Such were the teachings of these orthodox economists. Nobody succeeded in refuting them. It was much easier to abuse their authors. Hundreds of treatises, monographs, and pamphlets sneered at them and called them names. Novelists, playwrights, politicians, joined the chorus. But the truth has its own way. It works and produces effects even if party programs and textbooks refuse to acknowledge it as truth. Events have proved the correctness of the predictions of the orthodox economists. The world faces the tremendous problem of mass unemployment.

It is vain to talk about employment and unemployment without precise reference to a definite rate of wages. *The inherent tendency of capitalist evolution is to raise real wage rates steadily.* This outcome is the effect of the progressive accumulation of capital by means of which technological methods of production are improved. Whenever the accumulation of additional capital stops, this tendency comes to a standstill. If capital consumption is substituted for an increase of capital available, real wage rates must drop temporarily until the checks to a further increase in capital are removed. The malinvestment, i.e., the squandering of capital that is the most characteristic feature of credit expansion and the orgy of the fictitious boom it produces, the confiscation of profits and fortunes, wars and revolutions, are such checks. It is a sad fact that they temporarily lower the masses' standard of living. But these sad facts cannot be brushed away by wishful thinking. There are no other means to remove them than those recommended by the orthodox economists: a sound money policy, thrift in public

expenditures, international cooperation for safeguarding durable peace, economic freedom.

Traditional Labor Union Policies Harmful to the Worker

The remedies suggested by the unorthodox doctrinaires are futile. Their application makes things worse, not better.

There are well-intentioned men who exhort union leaders to make only moderate use of their powers. But these exhortations are vain because their authors do not realize that the evils they want to avoid are not due to lack of moderation in the wage policies of the unions. They are the necessary outcome of the whole economic philosophy underlying union activities with regard to wage rates. It is not my task to inquire what good effects unions could possibly bring about in other fields, for instance in education, professional training, and so on. I deal only with their wage policies. The essence of these policies is to prevent the unemployed from finding jobs by underbidding union rates. This policy splits the whole potential labor force into two classes: the employed who earn wages higher than those they would have earned on an unhampered labor market, and the unemployed who do not earn anything at all. In the early thirties money wage rates in this country dropped less than the cost of living. Hourly real wage rates increased in the midst of a catastrophic spread of unemployment. For many of those employed the depression meant a rise in the standard of living, while the unemployed were victimized. The repetition of such conditions can only be avoided by entirely discarding the idea that union compulsion and coercion can benefit all those eager to work and to earn wages. What is needed is not lame warnings. One must convince the workers that *the traditional union policies do not serve the interests of all, but only those of one group*. While in individual bargaining the unemployed virtually have a voice, they are excluded in collective bargaining. The union officers do not care about the fate of non-members and especially not about that of beginners eager to enter their industry.

Union rates are fixed at a level at which a considerable part of available manpower remains unemployed. Mass unemployment is not a proof of the failure of capitalism, but the proof of the failure of traditional union methods.

The same considerations apply to the determination of wage rates by government agencies or by arbitration. If the decision of the government or the arbitrator fixes wage rates at the market level, it is superfluous. If it fixes wage rates at a higher level, it produces mass unemployment.

The fashionable panacea suggested, lavish public spending, is no less futile. If the government provides the funds required by taxing the citizens or by borrowing from the public, it abolishes on the one hand as many jobs as it creates on the other. If government spending is financed by borrowing from commercial banks, it means credit expansion and inflation. Then the prices of all commodities and services must rise, whatever the government does to prevent this outcome.

If in the course of an inflation the rise in commodity prices exceeds the rise in nominal wage rates, unemployment will drop. But what makes unemployment shrink is precisely the fact that real wage rates are falling. Lord Keynes recommends credit expansion because he believes that the wage earners will acquiesce in this outcome; he believes that "a gradual and automatic lowering of real wage rates as a result of rising prices" would not be so strongly resisted by labor as an attempt to lower money wage rates. It is very unlikely that this will happen. Public opinion is fully aware of the changes in purchasing power and watches with burning interest the movements of the index of commodity prices and of cost of living. The substance of all discussions concerning wage rates is real wage rates, not nominal wage rates. There is no prospect of outsmarting the unions by such tricks.

But even if Lord Keynes' assumption were correct, no good could come from such a deception. Great conflicts of ideas must be solved by straight and frank methods; they cannot be solved by artifices and makeshifts. What is needed is not to throw dust into the eyes of the workers, but to convince them. They themselves must realize that the traditional union methods do not

serve their interests. They themselves must abandon of their own accord policies that harm both them and all other people.

The Social Function of Profit and Loss

What those planning for freedom do not comprehend is that *the market with its prices is the steering mechanism of the free enterprise system. Flexibility of commodity prices, wage rates and interest rates is instrumental in adapting production to the changing conditions and needs of the consumers and in discarding backward technological methods.* If these adjustments are not brought about by the interplay of the forces operating on the market, they must be enforced by government orders. This means full government control, the Nazi *Zwangswirtschaft*. There is no middle way. The attempts to keep commodity prices rigid, to raise wage rates and to lower interest rates ad libitum only paralyze the system. They create a state of affairs which does not satisfy anybody. They must be either abandoned by a return to freedom of the market, or they must be completed by pure and undisguised socialism.

The inequality of income and fortunes is essential in capitalism. The progressives consider profits as objectionable. The very existence of profits is in their eyes a proof that wage rates could be raised without harm to anybody else than idle parasites. They speak of profit without dealing with its corollary, loss. Profit and loss are the instruments by means of which the consumers keep a tight rein on all entrepreneurial activities. A profitable enterprise tends to expand, an unprofitable one tends to shrink. The elimination of profit renders production rigid and abolishes the consumers' sovereignty. This will happen not because the enterprisers are mean and greedy, and lack these monkish virtues of self-sacrifice which the planners ascribe to all other people. In the absence of profits the entrepreneurs would not learn what the wants of the consumers are, and if they were to guess, they would not have the means to adjust and to expand their plants accordingly. Profits and loss withdraw the material factors of production from the hands of the inefficient and convey them into the hands of the more efficient. It is their social function to make a

man the more influential in the conduct of business the better he succeeds in producing commodities for which people scramble.

It is therefore beyond the point to apply to profits the yardstick of personal merit or happiness. Of course, Mr. X. would probably be as happy with 10 millions as with 100 millions. From a metaphysical point of view, it is certainly inexplicable why Mr. X. should make 2 millions a year, while the Chief Justice or the nation's foremost philosophers and poets make much less. But the question is not about Mr. X; it is about the consumers. Would the consumers be better and more cheaply supplied if the law were to prevent the most efficient entrepreneurs from expanding the sphere of their activities? The answer is clearly in the negative. If the present tax rates had been in effect from the beginning of our century, many who are millionaires today would live under more modest circumstances. But all those new branches of industry which supply the masses with articles unheard of before would operate, if at all, on a much smaller scale, and their products would be beyond the reach of the common man.

The market system makes all men in their capacity as producers responsible to the consumer. This dependence is direct with entrepreneurs, capitalists, farmers, and professional men, and indirect with people working for salaries and wages. The economic system of the division of labor, in which everybody provides for his own needs by serving other people, cannot operate if there is no factor adjusting the producers' efforts to the wishes of those for whom they produce. If the market is not allowed to steer the whole economic apparatus, the government must do it.

A Free Market Economy Best Serves the Common Man

The socialist plans are absolutely wrong and unrealizable. This is another subject. But the socialist writers are at least clear-sighted enough to see that simply to paralyze the market system results in nothing but chaos. When they favor such acts of sabotage and destruction, they do so because they believe that the chaos brought about will pave the way for socialism. But *those*

who pretend that they want to preserve freedom, while they are eager to fix prices, wage rates, and interest rates at a level different from that of the market, delude themselves. There is no other alternative to totalitarian slavery than liberty. There is no other planning for freedom and general welfare than to let the market system work. There is no other means to attain full employment, rising real wage rates and a high standard of living for the common man than private initiative and free enterprise.

The Return to "Enlightened Despotism"

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BY

RUFUS S. TUCKER

Mr. von Hayek in his very able and timely book, *The Road to Serfdom*, maintains that socialism and its less radical manifestation, government planning, inevitably lead to serfdom, citing the examples of Germany, Italy and Russia. The word "serfdom" is not literally correct, since that institution historically included an hereditary factor and a residential one. Under serfdom the son of a farm laborer or tenant was bound to continue as such on the farm where his father had been. Under modern totalitarianism heredity would not in theory determine one's economic position, although both in Germany and Russia there have been exceptions to this rule, and workers would certainly be transferred from place to place in accordance with the decrees of the State. However, the seniority rules now imposed on wage earners make voluntary transference from job to job very difficult, and the loans to farmers to assist them in buying their farms have the effect of tying them to one place for twenty years, on penalty of losing their life's savings. But the modern totalitarianism resembles the medieval serfdom in the essential point, which is that the individual's economic activities are not determined by his own choice but by authority. The word "serfdom", therefore,

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is a sufficiently close description of totalitarianism. The question is, therefore, does government planning of the sort now rife in Britain and the United States inevitably lead to totalitarianism?

Of course human activities require a certain amount of planning. Every individual or business must plan and the government also must plan its own legitimate activities. These legitimate activities may include without any danger the provision of information for individuals to aid them in their planning. But when the government attempts to suppress other sources of information and other than the official interpretation of the information supplied, or to draw up a master plan and use pressure to force individuals to conform to it, we are beyond the only meaning of planning that is consistent with free enterprise and individual liberty, except, of course, during war, when all laws, including those of economics, are silent. Modern planners whether of the Communist, Nazi, Fascist, Socialist or New Deal variety have gone far beyond that point.

Perhaps a good workable definition of "planning" for the purposes of the present discussion would be: "Systematic interference by the government with the processes of production and consumption, with the object of increasing the national income." This would exclude governmental activities for the purpose of national defense or the enforcement of the community's moral standards, or in areas not accessible to private enterprise.

As the phrase, "planned economy", is generally used by its advocates, it means the direction of all or a large part of the nation's important economic activities by the government or by some organization controlled by the government and endowed with quasi-governmental powers. Since any body that controlled the economic activities of the nation and had in addition the powers already possessed by government would be able to control the total of human activities, "planned economy" as outlined by its leading advocates is merely a modification of totalitarianism, phrased in language not so shocking to the ears of free men as the language of Communism and Fascism. In 1935 President Roosevelt publicly stated that fact when he said: "In 34 months we have built up new instruments of public power. In the hands

of a people's government this power is wholesome and proper, but in the hands of political puppets, of an economic autocracy, such power would provide shackles for the liberties of the people." But what are the President's appointees if they are not political puppets, and how can the vast agglomeration of governmental bodies for the control and financing of all industry and agriculture be regarded as anything but an economic autocracy? Their funds are provided for them out of taxes or loans collected forcibly from the people. They have succeeded in many cases in destroying the power of the Courts to review their decisions; and individuals affected by their decisions, even when the Courts are theoretically available, can obtain no redress because of the expense and delay involved, and if they attempt to do so are subject to persecution and defamation from all the henchmen of the new order and their supporters in the press and on the platform. A notable example at the present time is the controversy over Bretton Woods, in which sincere advocates of an intelligent foreign financial policy are accused of selfish motives and branded, paradoxically, as being at the same time isolationists and international bankers; and for many years we have seen sincere opponents of the fascistic tendencies of the Administration falsely condemned as Fascists.

Planning Requires a Powerful Centralized Government

Planning is universally admitted to require centralized direction, equipped to act more promptly and vigorously than parliamentary or other forms of representative government have shown themselves able to act in the past. Hence planning, even when competently and honestly carried out, is the antithesis of democracy, as we have in America understood and admired the term. But experience shows that it has usually been either incompetent or dishonest. Planning is advocated by persons with academic and theoretical backgrounds, as a means of improving the general welfare. It is advocated by persons of a certain moralistic disposition, who like to see everything done in an orderly manner

and are appalled by the irregularities and unpredictabilities of free enterprise; and by warm-hearted idealists who like to think that the ills of the world can be instantly and permanently cured by some easy formula; and by congenital meddlers — the Lady Bountiful type — who get a warm glow of satisfaction from the feeling that they are controlling the lives of other people for their victims' own good. These more or less idealistic groups are assisted by office-seeking politicians, self-seeking pressure groups, and notoriety-seeking publicists. Being human, they would make as many mistakes as private businessmen, even if the job were no harder than running a private business. But the job is infinitely harder, although many persons seem to be unable to realize it. When a private businessman makes a mistake he either finds it out pretty quickly and corrects it, or else the sheriff and the receiver in bankruptcy correct it for him. But when a governmental planner makes a mistake all he has to do is to persuade the voters that his critics are scoundrels, and then he can go on repeating his mistakes for another term of office and paying for them with other people's money; and if he uses that money to lengthen his term or to increase his power can he be blamed for it? That is only what dictators and tyrants have done regularly since the dawn of history. Is it fair to expect every president to be a Washington?

Lord Acton once remarked that "All power corrupts, and absolute power corrupts absolutely." If the word "corrupt" is used in the narrow sense of financial corruption or corruption of personal morals, that is not universally true. But power does corrupt judgment and respect for the opinions and rights of others. It removes men from the opportunity of discussing matters with their equals, and causes them to be surrounded by special pleaders, flatterers, and yes-men. Even when unpleasant facts cannot be blandly overlooked, power leads men to adopt the dangerous doctrine that the end justifies the means, and to do evil that good may result. And if sometimes we find that the evil is done to those whom they hate, and the good results only to the dictators and their partisans, that is only natural and comparatively unimportant.

Economic Planning by Governments Is Not New

The idea of governmental planning for the economy is not new. On the contrary, it was taken for granted during the most of recorded history. Free private enterprise was unthinkable in most countries during the greater part of ancient and medieval times.

In the eighteenth century all economic activities in Europe, outside of Britain and Holland, were narrowly circumscribed by law or tradition. All governments were despotic, though usually well-intentioned. The thinking men of the time were continually devising schemes to improve the lot of their fellow men and many of these schemes were tried out by many governments. Most of these schemes were startlingly like those that have recently been discovered by our pink intelligentsia, and by the large recent crops of Ph.D's in economics who obtained their licenses to pose as experts on governmental and business activities without ever having had any business experience and without apparently ever having studied economic history or political science. It would seem that the only device for promoting prosperity that was not tried out in the 18th century, although it was discussed under the name of *laissez-faire*, was the scheme of free enterprise.

Dean Swift, in *Gulliver's Travels* (1726), wrote a very amusing satire on some of the bright ideas current in his time. Sober historians record the tragic fate of France when in 1720 the king was persuaded by John Law that the unlimited issue of bank notes would make the nation prosperous. Specialists in the literature of economic theory are acquainted with the doctrines of Bernard de Mandeville, who declared that spending was the key to prosperity, that individual thrift was harmful to society, and extravagance and spending for vicious purposes made money circulate and increased the purchasing power of the people. How like this sounds to the present-day attacks on saving, and the Keynesian doctrine that government spending increases the national income, even if the spending is for the purpose of building pyramids or digging holes in order to fill them up again.

Specialists in public finance recall also the theory of Dr.

Richard Price (1771), who declared that a national debt need not be a burden, because a properly devised sinking fund would pay it off automatically without pain to the taxpayers. That theory was eagerly accepted by most of the finance ministers of that day, except our own Alexander Hamilton. Perhaps Dr. Price's theory was as intellectually respectable as the modern one that a national debt need not be a burden because the principal need not be paid and we owe the interest to ourselves.

“Scientific” Planning by Eighteenth Century Despots

Governmental planning on a pseudo-scientific basis reached its apex in the latter half of the eighteenth century, the era of the so-called “enlightened despots”. Frederick II of Prussia, Catherine of Russia, Joseph II of the Holy Roman Empire, Charles III of Naples and Spain, Peter Leopold of Tuscany, and Joseph I of Portugal all attempted to reform and regulate the economic structures of their respective nations in accordance with the idealistic aspirations of the leading thinkers of the time, and with the aid of highly trained economists, statisticians, and experts in administration. In fact, the science of statistics was invented as an aid to such efforts; courses in statistics and cameralistics, the science of governmental regulation, were offered in the universities. Many of the publicists of that era held up China as the model of efficient government, just as many modern planners hold up Russia, and probably for the same reason, that they knew very little about actual conditions in the country they took for a model.

The group of theories that these statesmen took for their guide is generally known as mercantilism. What were the results of their activities? The least altruistic and most skeptical of the lot—Frederick of Prussia—left Prussia stronger and perhaps more prosperous, and left a highly-trained and capable civil service for the use of Bismarck and Hitler. Catherine of Russia, starting in as an idealist, became embittered by her failures and undid some of her own reforms. She also left a legacy of autocracy and governmental control of business to her successors to the present time.

The emperor Joseph II, probably the most sincere and idealistic of them all, and assisted by the most highly trained bureaucrats, strove diligently for ten years to combine the welfare state with the authoritarian state, but his planned economy failed to make Austria strong or its people prosperous. The other despots mentioned accomplished some temporary good, but their governments were all swept away by the French revolution or the conquests of Napoleon.

All of the eighteenth century planners had inherited a tradition of despotism. They and most of the thinkers of the time, outside of England and Holland, took for granted that despotism was essential for efficient national planning. In England the situation was complicated by the happy genius of the British for inconsistency; the government and the leading thinkers favored planning, but the people were instinctively opposed to controls. The survivals of medieval and Elizabethan regulations were badly enforced, and new regulations were blocked. I suspect that it was more than a coincidence that the common man was better off in England and Holland than in any of the planned economies, and that England was the country that made the most progress in industry and commerce in the eighteenth century. The cotton textile industry, especially, where the industrial revolution originated, was free from regulation, and clothing for the masses was cheaper in England than anywhere else in Europe.

George III Was a Planner

Although England was comparatively free from national planning in the home island, the colonial policy of George III was a good example of it. In full accordance with the prevailing sentiment of acknowledged experts, George III attempted to regulate the commerce and industry of the American colonies. In order to strengthen the British Empire and promote the welfare of his subjects, as he thought, he forbade the colonies to set up iron manufacturers, or to produce textiles for export, or to settle West of the Appalachians, or to sell certain products except to England, or to sell other products anywhere except in England,

or to trade in their own ships with the West Indies or any country of Northern Europe. These regulations were not intended as acts of oppression against the colonists; they were intended to promote the military strength and economic welfare of the empire. They resulted, as you all know, in the loss of the colonies and the establishment of a new nation, which adopted for itself a constitution intended to prevent its own government from repeating the mistakes of George III, and permeated by a wholesome dread of centralized power.

A modern might conceivably remark that the experience of the eighteenth century has no bearing on our present situation, because, first, despotism is not essential for national planning, and second, our would-be planners are more intelligent and have more knowledge of economic principles. Both of these claims I deny.

I will not on this occasion elaborate the proof that effective governmental planning of a nation's economic activities is inconsistent with political freedom, or what Americans have known as democracy. Mr. von Hayek has done a good piece of work on that. Mr. von Mises, I believe, has done even a better one, for American readers. And the words and actions of many of the planners themselves show that if they have their way the ten articles of the Bill of Rights will be whittled down to two: the right to vote for the party in power, and the right to receive a job (nature unspecified) from the party in power. The ninth and tenth articles of the Bill of Rights have already been completely destroyed, the first, fourth, fifth, sixth, seventh and eighth have been repeatedly violated by officials and cut down by court decisions. And of course the federal government has usurped many functions that were reserved by the Constitution for the states.

Let us not be deceived by soothing words of the planners and their hypocritical or unintelligent protestations of belief in free enterprise. On September 14, 1936, Hitler said: "Germany will guard jealousy the principle of private enterprise. I will never permit bureaucratization of German industry. I am convinced that there must be competition to bring the best to the top. Of course, whenever private interests clash with the interests of the

nation, the good of the community must come before profits to the individual." A careful reader of Beveridge's "Full Employment in a Free Society" will discover how little freedom would be left if his proposals were put into effect.

Modern Plans Are Essentially Like Those of the Eighteenth Century

Now for the second point: Are the proposals of today's planners sounder than those of the planners of two hundred years ago? No, for in important respects they are essentially the same, and where they differ the difference is often for the worse.

The over-all objectives were practically the same—to increase the nation's prosperity. The mercantilists talked more about wealth and were more outspoken about military strength; the moderns prefer to talk about income, and emphasize its distribution as well as its amount. Both groups place the interest of society or of the state above those of the individual, or at least insist that the proper way to benefit the individual is to benefit the society of which he is a part, and that his own efforts to better himself unless carefully controlled will be either futile or detrimental to others.

In general the means recommended are the same, ranging from education and propaganda through loans, subsidies, and discriminating taxes, to fines and jail sentences and deprivation of means of livelihood. In Russia they have freely employed capital punishment and exile, and although our American planners have not yet advocated such drastic measures, they have as a rule found it easy to excuse the Russian procedure. These objectives and means were and are carried out and used by large numbers of highly-trained experts in well-paid nonelective government positions with security of tenure and pensions upon retirement.

Coming down to specific points: The mercantilists desired a large population, fully employed, and for that reason favored the immigration of able-bodied workers. Modern planners say less about population as such, though emphasizing the necessity of reducing the death rate and perhaps increasing the birth rate.

They are silent on the immigration of able-bodied workers, although apparently most members of the American planners' coterie favor free admission of persons seeking refuge here from the European planners and the consequences of their activities. They are vigorously outspoken in favor of full employment, setting up a goal of more jobs than there will be workers.

The mercantilists insisted on an adequate supply of home-grown food. They tried to increase the product of agriculture. Some modern planners have tried to reduce the supply of food coming to market, so as to maintain or increase farmers' profits. The contrast between these views is not, I think, flattering to the modern planners.

Both groups advocate control of the location of industry, the nature and amount of the output, the conditions of work. Both are highly conscious of the danger of overproduction, and plan for export outlets to take care of the surplus product, as well as for direct limitations on output.

Both favor and try to stimulate exports as a means of maintaining a high level of employment or high price levels. They resort to very complicated tariffs and commercial treaties to further that end. They are unwilling to admit imports that might threaten the volume of domestic employment. To avoid the necessity of taking such imports, the mercantilists favored imports of gold or silver, hoping thereby to maintain prices and profits and also to have a reserve to help in case of future wars; the modern planners at present scoff at gold and advocate gifts to foreigners, and large credits for long periods, frequently on flimsy security. Only twelve years ago, however, they raised the price of gold in order to stimulate exports and raise the level of domestic commodity prices, but the result instead was to bring about an enormous import of gold, and a stimulus to gold mining all over the world. Whereas the eighteenth century planners had learned from experience the advantages of a currency fixed in value, modern planners willingly resort to changes in the value of their currencies in order to promote their political or social policies. In fact, the British at Bretton Woods refused to abandon their right to devalue their currency at will, for that reason.

The mercantilists' desire for gold imports was partly because of their desire to build up a treasury reserve against emergencies. Many modern planners, on the other hand, favor building up a government debt, which is, of course, an easier thing to do.

According to the mercantilists taxation should be used not only as a means of obtaining revenue, but also to penalize or encourage certain types of activity. They tried to avoid taxes that would reduce production. The modern planners believe in incentive taxation, but they also wish to redistribute income, and to avoid taxes that might reduce consumption.

The mercantilists aimed at a balanced budget as an ideal, and welcomed surpluses. Modern planners usually give lip service to a balanced budget, but have much to say about the stimulating effects of deficits.

The mercantilists took for granted that government expenditures should be for useful purposes. They spent large sums on roads, canals, and other public works. The modern planners favor public works, but they are not limited to productive expenditures; the Keynesian multiplier works according to schedule, even if the government expenditures, politely called investments, are for leaf-raking or the destruction of German and Japanese industrial plants. The mercantilists controlled wage rates, usually trying to hold them down, either that the goods produced by laborers might compete in price with foreign products, or that the laborers should not live too luxuriously. Modern planners control wage rates, usually trying to raise them in times of peace, and to hold them down in time of war, in so far as that can be done without losing too many workingmen's votes. They also control profits and salaries and interest and rents, in order that wage earners may live more luxuriously and the recipients of other forms of income less so.

The mercantilists controlled prices of specific commodities while in general working for a gradually rising price level by stimulating the circulation of money. So do the moderns.

The mercantilists controlled the quality of goods, ostensibly to protect consumers. The result was to hamper innovation and reduce consumers' choice. The same holds true now.

These experiments in mercantilist planning have been summarized by Eli F. Heckscher as follows: "The contempt of mercantilists for religion and ethics, their desire to subject individuals to the state, their belief in a somewhat mechanical social causation without belief in a preestablished harmony, made them even more ruthless in their insistence upon setting aside all sorts of time-honored customs and human needs and presented a strong contrast to the fundamentally humanitarian attitudes which followed. Moreover, in this respect as in most others the ability of mercantilist statesmen to achieve what was required by their programs was very limited; and their attempts at directing economic life without violence remained mostly on paper. In practice they had recourse to almost all the time-honored methods of coercion."

The Failure of Planning Caused the Rise of Liberalism

These experiments in national planning were so unsatisfactory that the political philosophers and the general public of the following decades turned away from that ideal in the direction of laissez-faire; and under the comparatively free systems of the nineteenth century the population and wealth of Europe expanded to an unprecedented degree. The liberal movement of the nineteenth century consisted mainly of getting rid of government controls and enlarging the liberties of the individual citizen. By a paradoxical process of semantics the name "liberal" is now claimed by a group that is striving to narrow the liberties of the individual citizen and restore a system like that against which the original liberals revolted.

This nation started out with a philosophy of political and economic liberalism and adhered to it in the main for 140 years, with highly beneficial results, although there were occasional lapses and detours onto the road of totalitarianism. The protective tariff was a manifestation of economic planning, in which sectional and other selfish interests played a large part. Many states played with state banks, railways, and canals, which they dropped after getting their fingers burned. After the Civil War a strong party advocated greenbacks, a form of managed currency intended to

reduce the burden of both public and private debts. But the modern trend toward centralized nation-wide planning received its impetus from the first World War and was made possible in this country by the Federal Reserve Act and the income-tax amendment.

The Recent Depression Was Caused by Planning

It is no accident that the depression after 1929 was the longest in modern history, and also the one in which governments made the most vigorous attempts to prevent readjustments of prices and wages. It was also preceded by a boom that, more than any previous peacetime boom in history, was based on credit provided by government-controlled banks that were managed by persons confident of their ability as economic planners.

The Federal Reserve Act was intended, reasonably enough, to improve the banking system by reducing seasonal fluctuations in interest rates, removing obstacles to the flow of funds from state to state, reducing the dependence of banks on the stock exchange, and improving the quality of bank supervision. Its powers were extended during the war to help finance the government. After the war the Reserve Board took upon itself the task of smoothing out the business cycle, by means of changing discount rates and open-market operations. Its success in minimizing the depressions of 1924 and 1927 was widely acclaimed by economists here and abroad, and led directly to the extraordinary booms in real estate and stocks which in turn made inevitable the extraordinary collapse of values in 1929.

It is said that the chief instigator of the open-market operations was wise enough to suggest restraints before the crash came, but, if so, he was not wise enough to foresee that restraints, or the withdrawing of favors once given to politically influential groups, are among the rarest and most difficult of political phenomena.

The Federal Reserve easy-money policy was assisted by repeated pronouncements by the President and the Secretary of the Treasury, reassuring the public that prosperity was here to stay. Foreign loans were floated on an immense scale; they were attrac-

tive to investors because they promised higher rates of return than could be obtained from domestic securities. They were also urged, not only by the persons directly interested in arranging them, but also by public-spirited internationalists and academicians, as a means toward international peace and prosperity, and as a means of maintaining the volume of exports, especially agricultural exports.

Alongside the Federal Reserve System there was built up in the twenties a set of government lending agencies (Federal Land Banks, Intermediate Credit Banks), intended to save farmers from the results of their unwise speculation in farm lands during and immediately following the war, and to prolong the agony of farmers on marginal farms. As a result many marginal farms were kept in cultivation and many unwise mortgages were maintained or incurred, and when the demand for farm products fell off after 1929 the collapse in farm prices and losses to farmers were much greater than they would have been without this well-meant but ill-judged assistance.

The planners in England were following similar policies. By keeping interest rates artificially low the Bank of England drove British capital into illiquid investments in foreign markets, while at the same time foreign capital, largely belonging to banks, was invested in London in highly liquid forms. As a result, when the crash came and foreign bankers withdrew their funds from London the British devalued their currency. In plain language, the nation went bankrupt. Bad financial practices have occurred in both London and New York on many previous occasions, but this time they were more disastrous, because they were the result of national policies deliberately undertaken as a result of an economic plan.

Each Step Leads to Another

I need not go into the developments since 1932. If the Republicans chastised us with whips, the New Dealers have chastised us with scorpions. There are, however, two points that should be borne in mind: one, that the measures I have mentioned in

the eighteenth century and in the 1920's were not merely practical expedients grasped upon by harassed politicians, but were logical steps in carrying out national policies in accordance with what was supposed to be the best opinion of economists. They were real examples of economic planning. Second, that each step leads to another and longer one; powers once granted require enlargement; palliatives applied at one place cause eruptions elsewhere; a two billion dollar deficit leads to a forty billion dollar one; a two per cent tax on large incomes develops into a 90 per cent tax; special favors must be met by extending similar favors to the complainants; critics must be silenced; nonconformists made to conform; Congress must be brought into public contempt if it tries to assert its rights and perform its duties; and the public must be kept soothed by more and more high-sounding promises.

Mr. Robert Frost, in his recent poem, "A Masque of Reason", makes a character say: "I hate a tendency; the minute you get on one it seems to start right off accelerating." That generalization certainly applies to governmental economic planning.

Yes, we are on the road to serfdom, and farther along than most of us realize. It is a downhill road and the further we proceed the faster we travel. It does not lead to a bright future, but circles around to the land of darkness from which our ancestors came. But if enough of us consult our maps and compasses and consider the accounts of previous travellers on that road, we can still turn back from it and resume once more our march along the highway of individual liberty, progress, and prosperity. *We can once more recognize the dignity of the human individual and restore to him the right to pursue his own ideal of happiness in his own way, subject only to the rights of other individuals to do the same, and free from the coercion, benevolent or otherwise, of those who set themselves up to be at first our guardians and then our masters.*