

11

Economic Planning

The British economy in the war had been planned. National defence had required that resource allocation should be governed by social priorities and not uncoordinated search. Britain had become accustomed to ration books, regional licenses and price controls. The Soviet Union had shown at Stalingrad what a central plan and quantitative targets could accomplish. Looking backward to look forward, there was also the trauma of the Great Depression. There was the fear that without hands-on intervention the West would once again lapse into recession and worse.

By 1945 the hostilities in Europe were over. Britain was embarking on a major project of economic and social reconstruction under the leadership of its new Labour majority. Meade, still in the Economic Section, must have welcomed the new climate of statism that would not leave the five giants of monopoly, irrationality, waste, inequity and spillovers to the invisible hand that had done as little for the war as it had for the slump.

11.1 To Plan or Not to Plan

The future is unknown. Every nation, like every individual, wants to access the knowledge that is stored in history's crystal ball. Where the prediction is not the same as the philosopher's Good Society, each individual, each nation, will be tempted to interfere with the flow because *Homo sapiens* thinks he is clever enough to shape his own environment.

Planning is anticipation and it is action. That is the definition. By itself, however, it is not a single blueprint but a range of possibilities. The market plus the constable on the one hand, the regimented Red Army on the other, it is all a matter of degree. As Lionel Robbins said, 'the issue is not between *a* plan and *no* plan, it is between different types of plan' (Robbins 1937: 6). There are laws, regulations, forecasts and databases in every country. They could be called a plan.

In the wartime civil service, Meade had been asked for position papers on 'Prices and Output Policy of State Enterprise' and 'The Socialisation of Industries'. The politicians were looking ahead to nationalisation and new mechanisms. Meade advised them that rigid Russian Gosplan was too prescriptive, too structured to guide them in their transition from war to peace, but that the anarchic free market would be no better able to ensure efficiency and equity in the proportions prescribed by the democratic consensus.

In 1948, Meade, just returned to academic life, published *Planning and the Price System*. Subtitled *The Liberal-Socialist Solution*, its theme was that politics and economics each had a unique contribution to make. Its author described it as 'an attempt to sketch the principles of a middle way which no country has as yet fully attempted' (PPM, 1). It appeared at a time when the Cold War Manicheans were dividing the world into American Enterprise and Iron Plan. Its message was that the truth is the mix. Richard Kahn, in his 16-page review (Kahn 1949), complained that it was muddle without the middle and that it left him hungry for more. He said that he could not see what Meade actually wanted the planners to do.

Meade, Kahn decided, was a principled liberal but also a problem-solver who had grasped that markets could fail. Meade, Kahn said, knew 'that liberal principles may often have to give way to socialist principles' (Kahn 1949: 1). It made sense but it was all in Marshall. Sometimes the

nation trusts to exchange and sometimes it turns to authority. It was Marshall's message and Meade's message but it was not in dispute. Meade, following Marshall, said that political economy is the science of mix and match. Kahn, wanting more, felt that there ought to have been less complacency and more thrust in Meade's short book.

The theme of 'to plan or not to plan' dominated British political economy in the early and mid-1940s. Not only was there *Planning and the Price System*, there were Durbin's *Politics of Democratic Socialism* (1940), Strachey's *Theory and Practice of Socialism* (1940), Hayek's *Road to Serfdom* (1944), Robbins's *Economic Problem in Peace and War* (1947), Harrod's *Are These Hardships Necessary?* (1947) and Henderson's *Uses and Abuses of Economic Planning* (1947).

In 1947 there was Oliver Franks's *Central Planning and Control in War and Peace*. Meade reviewed it in 1948 in a paper for *Economica* entitled 'Planning without Prices'. He saw it as an exercise in headcounting that had missed out the essential contribution of market valuation. Franks had spent the Churchill years at the Ministry of Supply. He had become convinced that wartime successes had shown conclusively that good controllers could deliver good outcomes: 'It is at once the task and the miracle of statesmanship to translate them into terms which have meaning and inspiration to ordinary men in ordinary circumstances' (Franks 1947: 37).

Meade's reaction was that wartime battlefields should not be extrapolated into peacetime progress. Even a Great Engineer like Churchill, fluent as he was in the language of Spitfires and flak, could not quantify the subjective sensations of the separable citizens. Only ordinary people proceeding through decentralised negotiation could do that. Robbins was right: 'Good government is no substitute for self-government' (Robbins 1947: 86).

In 1948 there was John Jewkes's *Ordeal by Planning*. Jewkes had devoted his war to working not with physical but with economic magnitudes in, like Meade, the Economic Section. His recollection of what quantitative regimentation had meant was less rosy than that of Franks. Jewkes dismissed central planning as 'blunt fumbling' built on the 'fallacy' that a few 'Supreme Planners' would be able to make socially sensitive choices for the masses whom they would come to dominate: 'The modern planning movement sets out, with good will and noble intentions, to control things and invariably ends up by controlling men' (Jewkes 1948:

vii, 9, 87, 208). Planning starts as Athens and finishes as Sparta. It is 'bitterness and ruin' (Jewkes 1948: 9). Morally and economically, it is bound to fail.

Jewkes had warned that that the road to serfdom was paved with well-intentioned controllers like Franks. Meade shared his fear that 'planned production for the public good' (PPM, 3) could turn malign if it were carried too far. What Meade expected was that wise leaders would have the skill to avoid an unwelcome excess while at the same time being able to correct a market failure.

Consensus was his witness. Government intervention since the late 1930s had brought about 'a quiet but complete social revolution' (PPM, 36). There was a widespread preference for more of the same. As always, a balance would have to be struck between collective action and individual liberty. That, Meade said in 1948, is 'the great economic issue which now confronts us' (PPM, v). Of course it was. Only a Hayek, however, would say that prudent interventionism had to be rejected because the alternative would necessarily be something worse.

11.2 The Indicative Plan

It is anticipation and it is action. In *Planning and the Price Mechanism* Meade was calling for 'a large measure of state foresight and intervention' (PPM, v). Central guidance would operate through 'foresight' and 'influence'. It would not replace the price mechanism but rather improve the sensitivity of the market's response.

Already in the 1930s, in the *Introduction to Economic Analysis* in 1936 and in a New Fabian Research pamphlet two years before, Meade had proposed centralisation and guidance through a National Investment Board (NIB). The NIB would coordinate the budgets of all levels of government and of the nationalised corporations. It would assist the public sector to plan capital expenditures three to five years in advance (EAP, 45). It would be backed up by a Supreme Economic Authority (an SEA). The SEA would harmonise the policies of the budgetary authorities, the central bank and of the NIB itself. It would add an extra layer of knowledge.

Large private industries should supply information about their forward planning to the Board. They should make their forecasts on the assumption of full employment. Meade did not regard the anticipation of good times as unrealistic even in the bad times of 1934. Monetary and fiscal fine-tuning would guarantee the businesses a safety net and a stable level of demand. They could put their trust in the State to fulfil its part of the social contract.

In 1970, in a series of special lectures given at the University of Manchester, Meade made clear that central planning remained an essential part of the modern mixed economy. In 1970 in *The Theory of Indicative Planning* (incorporated in 1971 into Part III of *The Controlled Economy*) Meade built on his earlier ideas for an SEA or an NIB. Parastatal organisations like the Commissariat Général du Plan in France and the National Economic Development Council in the United Kingdom were demonstrating that overview and coordination were able to deal successfully with Marxism's anarchy of markets. Indicative planning was up to the job.

Businesses trade on the basis of hunch, guess and gamble because the future is not yet a fact: 'All concerned are faced with an uncertain future' (CE, 149). Prediction is incomplete. No profit-seeker at the start of the race can be sure that he will not end up a loss-maker at the end. The market is the natural habitat for 'excessive optimism', 'false price expectations', 'false dynamic expectations' (CE, 5). Mismatched scenarios shift scarce resources into wasteful blind alleys.

Indicative planning is not insurance against error and regret. It does, however, make available to the market players a large-pool overview that fills the gaps in their own one-dimensional forecasts: 'The whole purpose of such an Indicative Plan is to improve information Less mistakes are made in present economic decisions due to faulty expectations' (GE, 457). There will be fewer bottlenecks. There will be lower transaction costs. There will be smaller imbalances between supply and demand.

The plan itself moves private expectations in the direction of an integrated whole: 'If all individual plans are to be simultaneously fulfilled they must in the first instance be consistent' (Meade 1968: 378). Galbraith's corporate plans do not chart a scaled-up course. Meade's indicative plan puts the individual companies in touch with the world outside. It ensures that 'the many independent decision-making units

may have a better and more consistent set of views about what future conditions will be like' (LEE, 22). It is as if they all shared their information in some hypothetical Albert Hall (CE, 156). Knowledge is power.

Mistakes will still be made. All of economic life is by its nature exposed to 'residual uncertainty': 'Every economic decision-maker must make allowance for the unexpected' (CE, 210). Market-clearing prices and equilibrium quantities cannot be known until after the bygone has been sunk. *Ex ante* is not *ex post*. New entrepreneurs introduce new products, employ new technology and service new clients in 'new and unforeseen conditions' (CE, 7). A year is a long time in business.

The plan itself can prove a misleading focus. The future is unknowable. The statistics might be wrong. Alternative scenarios can be built upon different assumptions. Mismatched forecasts pass forward a disequilibrium base. The plan must be revised in the light of repercussions and cumulative contingencies. It means that the businesses have to rethink their future anew: 'This is the problem of optimum dynamic control' (CE, 227).

Indicative planning is not perfect. Applied economics is the science of the second-best. What Meade asserted is that, with all their defects, the input-output tables, the surveys of productive potential and the added-up forecasts could nonetheless be regarded as a public good that streamlines the *tâtonnement*. If grassroots expectations extrapolated from past experience were fully rational, there would be no need for a central plan. Because they are not, there is a market void that must be filled by public-sector synchronisation. There is no other way. An indicative plan is essential for 'large structural changes to the economy' (IR, 15). Every supporter of money-making capitalism should be strongly in favour of the indicative plan.

11.3 The Control Plan

Separate from the indicative plan is the 'control plan' (CE, 225). The indicative plan diffuses the statistics and suggests the probabilities. That is all: 'No individual producer or consumer, seller or buyer is required by the central authority to conform to the plan in any particular' (CE, 475). The 'whole purpose' (CE, 475) of an indicative plan is to put such facts as can be known in the public domain.

The control plan, moderately directive and moderately leaderly, is different. Some economists call it an imperative plan; Meade does not. The control plan he has in mind operates through laws and incentives. No one abuses the monopoly of force to shoot troublesome dissenters or send them to Siberia. Even wage-fixing by statute involves 'a degree of governmental control which I myself would find very distasteful' (CP I, 359). People who do not want to be pushed around by Big Labour and Big Business do not want to be pushed around by Big Brother who knows better than his fellow citizens what is in the nation's authentic best interest.

Gosplan by command, undemocratic and totalitarian, must be rejected out-of-hand: 'There is little case for a central economic plan' (SE, 235). Not only does it violate the moral principle of respect for persons, it fails to justify itself through a great leap forward in well-being. Excessive restrictions would cause 'an undesirable reaction against the whole idea of state planning' (CP I, 285). Meade's control plan would be more acceptable. 'Properly used', it would be fully in keeping with the social values of 'freedom, efficiency and equity' (PPM, 9) that enjoy near-unanimous support. The control plan would 'so influence the working of the price mechanism that certain major objectives of full employment, stability, equity, freedom and the like are achieved' (PPM, v). Most people most of the time would agree with that.

A control plan has the function of 'promoting activity in particular directions' (CP I, 271). Crucially, these will be the directions which ordinary people, broadly speaking, would have selected for themselves. Full employment and the containment of inflation are not the goals of an Establishment *Apparat* alone. They are the people's goals. It is legitimation by acclamation that gives them their moral force.

A control plan for that reason cannot deviate too far from the median will. That is its greatest strength but also its greatest weakness. With the democracy comes the *déjà vu*. The control plan to Meade is effectively the familiar arsenal of policy instruments dressed up with a fancy name.

The planners should use an adjustable parity to shield the internal balance from a disequilibrium on international account (CE, 229, 234). They should manipulate their interest rates, tax rates, public spending and budget balance in such a way as to game total demand away from an

excess or a shortfall. They should rely upon a Board and an arbitrator to limit pay settlements on average to the productivity norm.

The planners should appoint a Competition Commission to counter-vail the power of the conspiracies in restraint of trade. They should nationalise the natural monopolies in order to ensure that the ability to overcharge is not abused. They should attract new industries to declining regions. They should pay for education, retraining and the relocation of surplus manpower. They should supply essential infrastructure like roads, railways and the power grid. Without the network the social matrix would be missing vital parts.

The planners should tax noxious spillovers and subsidise constructive externalities. Since the definition of a neighbourhood effect extends to misaligned presuppositions and hit-and-miss reactions, it would be entirely in keeping with the charter of a control plan for incentives to be provided to broad sectors like agriculture or steel. Such incentives would 'ensure that the available resources are used in the desired proportions between these major uses' (CP I, 269).

A grant or concession is not, however, an edict or decree. The indicative plan coordinates the autonomous and the atomistic through the diffusion of intelligence. The control plan coordinates the devolved and the decentralised through subsidised credit and a local exemption. It is levers and temptations, the carrot but not the stick. When all is said and done, if the steel industry still refuses to meet its targets, then there is not much the planners can do to dovetail the disparate who want the freedom to make their own mistakes.

The targets are derived from revealed preference. The control plan proceeds on the basis that sovereign citizens are able to arbitrage the marginal utility of all the goods and services in their choice-set. So long as the citizens are rational and informed, the planners are obliged to follow the will of their masters: 'In the majority of commodities consumers should retain their freedom of choice' (EAP, 123). In the majority of cases the individual should be allowed to choose for himself. The State should limit itself to ensuring that the sovereign citizens are in a position to pursue the objectives that they have set themselves.

In the majority of cases the control plan follows the will of the people. In a minority of cases the planners are obliged to take a lead. It all comes

down to informed consent. Patients suffer from information asymmetry. Parents underestimate the returns from schooling. Where bottom-up lacks the knowledge to decide 'how his need may best be satisfied' (EAP, 122), then the choice must be delegated to sage old Sir who knows best: 'It may be agreed in principle that in these circumstances the state should intervene' (EAP, 121).

At the very least the State should disseminate the facts. Consumer sovereignty is not infringed where ordinary people are given unbiased information about tobacco, alcohol and sugar. The guidance need not stop there. The State might tax and subsidise in order to protect backsliders from their own weaker self. The State might defend the rights of the fringe against the tyranny of the consensus. The State might protect the intertemporal capital of future cohorts who have not revealed a preference. Explicit or implicit, State paternalism can enter into the determination of Meade's control plan. Perhaps Plato was correct after all and we do need benevolent guardians. Meade, however, always treats cases like these as the exceptions. The philosopher rulers, because they know best, can suggest and persuade. Normally, however, even a control plan must take its lead from the people.

The control plan makes the citizens better off in their own estimation. Always, however, 'it will still be necessary to use the price mechanism as a guide to efficiency' (LEE, 23). Supply and demand know better than the ration books the difference between scarcity and glut. Planning is pricing. It can never be quantitative controls.

Quantitative controls confuse the signals. They are 'clumsy, inefficient and wasteful' (PPM, 7). They throttle private initiative. They are unable to link up the alternatives and the substitutes at the margin: 'It is the miracle of a properly working pricing system that it will answer all these questions simultaneously' (PPM, 8). No computer in the world can solve all these equations simultaneously: 'Money and the pricing system are among the greatest social inventions of mankind' (PPM, 9).

Physical controls fail because they lack a common standard. Bricks cannot be compared with apples, nor next-bests quantified. Plan presupposes price: 'In fact, "planning *and* the price mechanism", not "planning *or* the price mechanism", should be a central theme of every modern economist's work' (Meade 1968: 392). *Fiat* or *diktat*, fit-for-purpose numbers cannot

be plucked out of the air. One hand washes the other. It is the only way. As Lionel Robbins puts it: 'To plan without the guidance of a price system will be planning without a measure' (Robbins 1937: 206).

Quantitative controls are costly to administer and an invitation to abuse. They foster 'spivvery and corruption' (PPM, 9). They lead to black markets. They encourage the backhanders of the 'License Raj'. They invade personal space where an 'anonymous official' employed by the 'Servile State' (PPM, 6) limits the importation of books, restricts travel abroad and denies the workers a free choice of job. It all sums up to 'an insidious threat to public morality' (PPM, 7). It can best be dealt with by demobilising the bureaucracy and putting the ordinary individual back in.

If economic planning means detailed controls and rigid prices, micro-managed to the level of industries and occupations, then, Meade declared, 'I am certainly no planner' (PPM, v). If, however, it means coordination through the diffusion of information reinforced by guidelines legitimated by consensus, then planning is no more than a fancy name for what everyone already knows.

Kahn when he said he was confused only thought he was confused because he was expecting too much. He thought that a book on planning would put the emphasis on a battlefield commander shouting orders to his troops. He felt he was being fobbed off with 'competition, free enterprise and the free market determination of prices and output' (PPM, vi). He was half wrong but not completely wrong. Economic planning to Meade was no more than economic policy. It was moderate intervention displaced along the middle ground in the direction of a more satisfactory mix.

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