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NO TALENT FOR PLANNING

Remarks by

Henry C. Wallich

Member, Board of Governors of the Federal Reserve System

at the

session on

"The Case For and Against National Economic Planning"

Annual Meetings of the

American Economic Association

in

Dallas, Texas

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To question planning is like questioning common sense. We all plan as individuals. Why then fail to make the fullest use of this commonsensical procedure at the national level?

We are not likely to settle this issue in the abstract. Theory tells us that under ideal conditions planning can generate efficient solutions to economic problems. Theory also tells us that under certain conditions markets can fail to provide efficient solutions to the economic problem. In the United States the role of planning, except in war time, has been limited largely to patching up what are perceived to be market failures. In my remarks today I would like to develop the thesis that aside from judgments concerning the

The views expressed herein are my own and do not necessarily reflect those of the Board of Governors or the Board's staff.

efficiency of an ideal planning process this limited role for planning in the U.S. economy is partly accounted for by the fact that our political process and our national character make planning especially difficult.

In particular, I would like to draw upon the planning experience of the two economies that perhaps have been most successful in the postwar period -- Germany and Japan. The Germans, who operated a tightly planned economy during most of the 1930's, backed away very deliberately from that system after the war. This is not to say that there are no traces of public planning in the German economy. A systematic and orderly people would have a hard time not engaging in such activities to some degree. But the ideology and, in good measure, the reality have been market oriented. One is tempted to attribute this decision in good part to the historic association of central planning with an obnoxious political regime. But it is worth noting that the Germans explain their preference for the market not only in terms of insurance against a political relapse, but quite specifically also on the grounds of the favorable performance characteristics of the market system. The results achieved, as we know, do not contradict that view.

Japan, despite the small size of its public sector, can be regarded as a country where public planning plays a very considerable role. Whether we think of the policy of doubling GNP in 10 years, or of the pervasive influence of the Ministry of Industry and Foreign Trade (MITI), or of the deliberate means employed by the Ministry of Finance

and the Bank of Japan in channeling financial flows, the ubiquitous role of the public planner is very apparent. By methods very different from those of Germany, a postwar economic performance even more impressive has thus been realized.

As in Germany, the political context of the Japanese orientation toward public planning is important. In this case, however, it is not Japan's political history, but its political process that is the key to understanding Japan's planning. Students of the Japanese way of life refer to Japan as a consent society. That is to say, the predominant mode of group decision making, both public and private, is through consensus rather than confrontation or competition. The interest and opinions of all parties are taken into account. A great effort is made to avoid overruling or outvoting anybody. This pattern seems to prevail both in private corporations and in the bureaucracy. The process often is slow, conveying to the outsider an impression of hesitancy and indecision. But once everybody has signed off on a decision, action is general and forceful.

The environment in which Japan found itself after World War II has favored effective planning for rapid growth. One must suppose that, even if market forces had been allowed to hold sway unmitigated by public planning, Japan would have found itself moving rapidly in the direction of big industrial power status. What the Japanese did was to accelerate considerably this nearly inevitable trend. This tendency to plan along the grain of market forces, rather than against it, seems

to have been characteristic of Japan's public policies in both the real and the financial sector. Thus, during the postwar period, the Japanese technique of group decision-making and the economic opportunities which Japan encountered helped to make economic planning effective.

For the United States, the salient facts of the matter seem to be that neither our political processes nor the general condition of the country favor effective public planning. Compared to the highly structured and closely knit world of Japan, ours is wide open. As contrasted with the principle of consent in Japan, our public decision-making proceeds by competition and confrontation. It is a familiar dictum, of course, that politics is the art of compromise. But compromise, in the American framework, often comes only after bruising battles, and it need not carry any further than the point where one side manages to get 51 per cent of the vote. The winner takes all; the loser's consent is not solicited.

This, I submit, is a process that makes effective public planning difficult. Confrontation, the effort to achieve a majority, absence of a need to consult the wishes of the minority, suggest severe strains. In the effort to assemble a majority, the competing sides are compelled to make extreme promises. Expectations are likely to be created that exceed possibilities of fulfillment. Demands made on resources tend to exceed the supply. The hallmark of a planned economy under a decision-making system such as ours is likely to be excess demand.

Inflationary propensities of this kind are likely to be enhanced by the technology of planning. Efficiency, getting the biggest bang for a buck, is bound to be the dominant motivation of competent technicians. Good technocrats abhor waste. But a free economy requires a degree of slack, some unutilized supply elasticity, if prices are not to be always rising. Directing a larger share of productive capacity toward planned activities in the American environment, therefore, is likely to lead, first to inflation and later on, perhaps even to price and wage controls.

Other features of our political life tend to enhance these propensities. Our political framework has a very short time horizon. All members of the House, one-third of the Senate, face re-election every two years, the President every four. By most international comparisons, these are short periods. Our public attention span also seems to be short. A review of our rapidly shifting public concerns over the last 15 years readily documents this -- with growth, the environment, consumerism, energy independence and others following and often superseding one another. When the time span during which a national goal can command nationwide attention falls short of the time required to install the corresponding technology, planning, as opposed to more flexible private decision-making processes, in response to rapidly shifting goals will produce disorder and waste.

Finally, and once more in contrast to postwar Japan, the United States today confronts a set of circumstances not conducive to effective economic planning. In Japan, planning essentially was for production. Resources were withheld from consumption and channeled into productive investment. Consumption was allowed to take care of itself as income grew rapidly.

Planning in the United States, I suspect, would be principally for use. Ours has always been a high consumption and low investment economy, in comparison to other leading industrial countries. Today, if I read the signs right, consumption even more than in the past outranks production as a national concern.

Production does not rank high in our national scale of values. It is pretty much taken for granted, as concepts like "post-industrial" and maybe "post-economic" society indicate. Our principal concerns are with the old, the young, the unemployed, the welfare recipients, the sick, the consumer -- all of them having in common that they are non-producers. The producer pays.

His job of producing, moreover, is made more difficult by rapidly mounting regulations favoring the environment, health and safety, and a variety of other highly desirable and most worthwhile purposes, all of which have in common the unfortunate feature that they burden the producer. The adversary role in which he is cast is matched by the diminished public esteem in which business is held.

The picture of "Japan, Inc.," the intimacy between government and business in France and Germany, contrasts distinctly with the business-government relationship prevailing in the United States.

These circumstances support my hypothesis that planning in the United States would be oriented more toward use than toward production. This orientation would enhance the tendency toward excess demand, with the ensuing probable consequences of inflation and controls.

In summary, proposals for planning in the United States seem to me to propose the wrong thing in the wrong country at the wrong time. Given the American way of making group decisions, given our excessive emphasis on short-run objectives that shift frequently, and given the unsympathetic treatment meted out to the producer, I see little good coming from intensified public planning. It is not surprising that, until recently at least, Americans have tended to favor the free market as a solution to the problem of deciding what is to be produced. The market turns competition into a constructive force while in politics it becomes a divisive one. The market avoids confrontation by substituting anonymous decision-making by the consumer. Private processes of profit and utility maximization help to reconcile competing and shifting objectives with technological and financial limitations.

Market processes, rather than planning, have been appropriate to the American environment, except in wartime. Other countries may be better suited for the application of planning techniques. In the United States, an effort at comprehensive planning is likely to lead to severe

political conflict, to excessive demands upon the economy, and to inefficient use of resources as divergent and shifting demands fail to be reconciled.

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