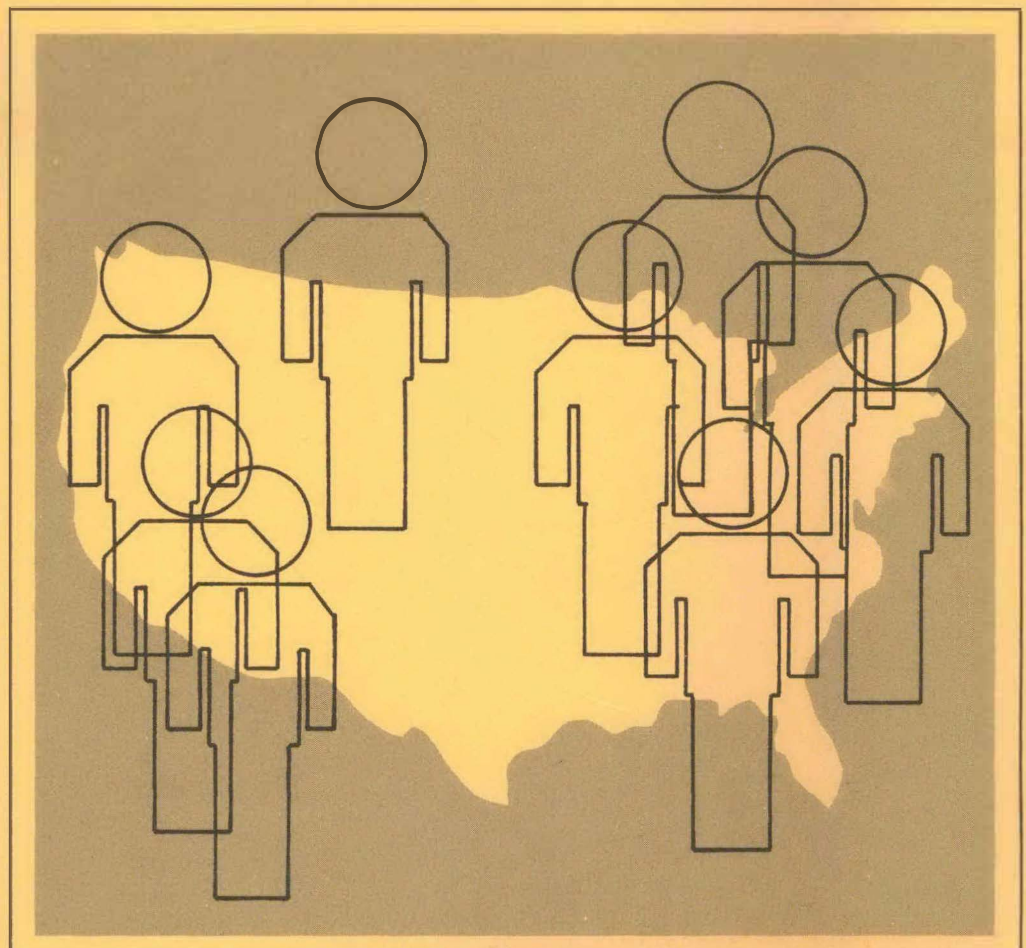
DOMESTIC AFFAIRS STUDIES

ECONOMIC PLANNING AND THE IMPROVEMENT OF ECONOMIC POLICY

Herbert Stein



THE AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH, established in 1943, is a publicly supported, nonpartisan research and educational organization. Its purpose is to assist policy makers, scholars, businessmen, the press and the public by providing objective analysis of national and international issues. Views expressed in the institute's publications are those of the authors and do not necessarily reflect the views of the staff, advisory panels, officers or trustees of AEI.

Institute publications take three major forms:

1. **Legislative Analyses**—balanced analyses of current proposals before the Congress, prepared with the help of specialists from the academic world and the fields of law and government.
2. **Studies**—in-depth studies and monographs about government programs and major national and international problems, written by independent scholars.
3. **Rational Debates, Meetings and Symposia**—proceedings of debates, discussions and conferences where eminent authorities with contrasting views discuss controversial issues.

ECONOMIC PLANNING AND THE IMPROVEMENT OF ECONOMIC POLICY

Herbert Stein

American Enterprise Institute for Public Policy Research
Washington, D. C.

Herbert Stein is A. Willis Robertson professor of economics, University of Virginia, and former chairman of the President's Council of Economic Advisers.

Domestic Affairs Study 38, September 1975

ISBN 0-8447-3183-8

Library of Congress Catalog Card No. 75-27396

Printed in the United States of America

CONTENTS

ECONOMIC PLANNING AND THE IMPROVEMENT OF ECONOMIC POLICY

Senator Jacob Javits, cosponsor with Senator Hubert Humphrey and others of the Balanced Growth and Economic Planning Act of 1975, has expressed the opinion that the bill has "opened a great national debate on the American economy and its future."[1] The idea of a great debate on the economy is appealing. It seems especially appropriate as we approach the bicentennial of the Declaration of Independence and of *The Wealth of Nations*, in an economy that is operating beyond the dreams of the Founding Fathers and beneath the contempt of many of our contemporaries.

However, the notion of a great debate, like the notion of economic planning itself, reflects a romantic, overrationalized view of how things get done in our economic and political system. It conjures up the picture of statesmen in knee breeches and powdered wigs, amateurs in economics, political science and philosophy, debating in classical rhetoric the proposition: Resolved, That Congress shall pass no law abridging freedom of contract among consenting adults. An electorate, all of whom have read The Great Books, then makes a decision which fixes the Constitution of the American economy for the next 200 years.

History does not work like that. A great debate requires great debaters, a great audience, and a great issue. This conjuncture may sometimes arise; it can hardly be summoned on order. Our economic

---

[1] Jacob K. Javits, "The Need for National Planning," *Wall Street Journal*, July 8, 1975, p. 14.

The Balanced Growth and Economic Planning Act of 1975 (S. 1795) was introduced into the Senate on May 21, 1975; an identical bill (H.R. 7678) was introduced into the House of Representatives on June 5, 1975. For the text of the bill and statements by its supporters, see *Congressional Record*, May 21, 1975, pp. S8831-8838.

system evolves gradually in response to emerging problems, which are usually felt most keenly by those with special interests, but the responses are made within the range of public understanding of the proper nature of the system. This understanding changes through time as a result of experience and discussion. The changes made are incremental, often described as only codifications, improvements, or minimum necessary extensions of what already has come into existence. They are not debated or accepted as radical transformations of the system.

Surely any prudent person would want change in the system to come about in this way. The system works so well, by comparison with anything else we have ever seen, that to make a great leap to something we have only imagined would be foolhardy. This is an especially necessary attitude for those who value freedom highly. Since change decided upon by the government process is almost certain to be change towards more government power, one must hope it will not come so rapidly as to outpace the efforts of private individuals to escape government control—efforts which are also going on.

The current proponents of national economic planning seem to recognize that there is little appetite in the country for what is seen as radical economic change. They describe today's economic situation in desperate language and describe the planning bill as being of historic importance. Yet, when pressed about the implications of the proposed planning system, they tend to belittle them, saying that it only would give more information, or ensure more coordination, or do better what is being done anyhow.

Discussion of the planning proposal is not going to bring about a fundamental change in thinking about the constitution of the American economic system, and adoption or rejection of the bill will not by itself fundamentally change the system. But this discussion and this action will *contribute,* along with hundreds of other steps, to a direction and degree of change that may be very significant in the next decade or two. In this context the planning issue deserves the most careful consideration we can give it.

Why the Current Interest?

The idea that the economy should be planned has had continuing appeal in the United States and elsewhere. In fact, nothing is more natural than to believe that the best way, or indeed the only way, to ensure that an economy will serve the national interest is to have the government identify the national interest, make a plan for achieving it, and enforce the plan. The notion that the spontaneous interaction of individuals is a way to organize an economic system that serves well the interests of its members is a sophisticated idea that has never been accepted by many people. That the American economy has been basically organized in the spontaneous, free-market way is less a reflection of deliberate choice by the majority of Americans than of failure to pay attention.

So there has always been an undercurrent of support for something called economic planning. Even Herbert Hoover, great individualist that he was, was also the Great Engineer, and something of a planner.

But planning, though it has great latent appeal, only surfaces from time to time as a serious issue. It arose during the Great Depression, and during the period of national concern about the shape of the postwar economy, and again in the early 1960s when the rest of the world seemed to be outstripping the United States economically.

The present wave of interest in planning is stimulated chiefly by the fact that the economy is not performing well. We have been going through the most severe recession of the postwar period along with a serious inflation. This inevitably sets off a search for different ways of doing things. For the advocates of planning, the fact that the economy is not doing well is a large part of the argument for planning. For some of them, it is the sole and sufficient argument, despite the lack of any demonstration that planning is relevant to the current economic problem.

Beyond Keynesianism. Although, as we shall discuss further, the content of "economic planning" is exceedingly vague, most of its advocates would recognize that they are proposing something other than a better or different execution of fiscal and monetary policy to manage aggregate demand—which has been the staple of economic policy for the past generation. They are seeking to go "beyond" Keynesianism, and perhaps especially beyond the current brand of Keynesianism which is completely synthesized with monetarism. In this they are reopening an issue which was important in the 1930s but resolved or submerged subsequently.

During the 1930s there were two competing strands of thought among those who had positive programs for dealing with the acute economic problem. There were some who thought that what was needed, and essentially all that was needed, was a fiscal-monetary policy that would first expand and then stabilize aggregate demand. Others thought the difficulties were "structural," having to do with the real relations in the system and requiring more change in its internal organization. Supporters of the National Recovery Act, Agricultural Adjustment Administration, minimum wage, National Labor Relations Board, undistributed profits tax, and other New Deal measures fell in this latter camp. This issue was resolved in favor of the fiscal-monetary approach as Keynes swept the intellectuals, as World War II demonstrated what miracles demand expansion could deliver, and as the conservatives came to see that the threat to their values was not in fiscal-monetary policy but in radical structural "reform." Debate continued between Keynesians and anti-Keynesians, between fiscalists and monetarists, but this was a family quarrel among people who were generally on the same side of the larger issue.

There seem to be two reasons for the current push to get beyond demand-management policy. One is the perceived nature of the present economic problem, which makes that problem seem different from the problem with which Keynesian policy dealt. The combination of heavy unemployment with rapid inflation is an aspect of that but, oddly, the discussion of planning places little emphasis on this dilemma, and the proposal as usually described does not seem to aim at it. The aspect of the present situation which is most relevant to the planning proposal is "shortages." Whereas general fiscal and monetary policy were designed to deal with the failure of spontaneous forces to generate total demand equal to potential supply, a prime concern of present planners is the claimed failure of either private forces or public policies to bring forth supplies of particular products equal to the need or demand for them. Thus we have shortages, which make for inefficiency, slow growth, and possibly also inflation. The term "Balanced Growth" in the title of the Humphrey-Javits bill reveals the weight the bill's sponsors give to this consideration.

The worry about shortages is largely derived from the energy problem. Indeed, there is no other example of nearly comparable magnitude. Yet to cite the energy shortage as an example of a problem for which government planning is the solution is ironic, in two respects.

First, in the process of reconsidering its oil import policy the government conducted a study of the energy problem in 1970, on a large scale and involving competent, responsible people. The study did not identify the difficulties that were then three years off. It weighed the possibility of an effective oil cartel emerging and concluded that it was unlikely. This is not a criticism of the study. It does, however, indicate that the problem of foresight is not solved by telling a government agency to have foresight.

Second, almost two years have passed since the energy problem ceased to be a forecast and became an actuality. In that period the Administration has put forward many proposals for dealing with the problem. But we still do not have an energy policy, let alone a solution. The reason we have neither a policy nor a solution is not lack of planning. It is the belief that the shortage can be corrected while energy is kept cheap.

Aside from the shortage problem, the other reason for the drive to go beyond Keynesianism, of which the planning movement is a part, is that Keynesianism no longer serves the intellectual's needs. It no longer serves, as it once did, to mark him as free thinking, avant-garde, anti-establishment, and all those other qualities that intellectuals esteem. Keynesianism began losing its cachet when it was embraced by the business community. Probably the last straw was President Nixon's saying in 1971 that he was a Keynesian. After that, what assistant professor or editorial writer for an eastern newspaper would want to say that he was a Keynesian? They even began to discover that Keynes himself was a narrow, arrogant fellow, snobbish and elitist. Planning is not the farthest out of the post-Keynesian causes. It is just far enough out for a coalition of respectable professors and fashionable senators.

Foreign Experience as Precedent. On earlier occasions the planning movement in the United States has been inspired by examples of planning elsewhere. For a while, in the 1920s and 1930s, there were some who pointed to the Soviet model. However, the thoroughgoing compulsion involved in the Soviet plan has turned away most Americans. And if that were not enough, the continued Soviet food crises after almost sixty years of trying to increase farm output are a poor advertisement for Soviet-style planning.

In the 1960s many in the United States, including President John Kennedy, were fascinated by economic planning in democratic countries, especially France. The French seemed to have found the secret of planning without tears—or how to get everyone to do what the government wants them to do voluntarily, only by pointing the way. The spectacular growth of the Japanese economy also stimulated interest in Japan's planning system. But in the last ten years the glamor has gone from these foreign systems, too. The plans were discovered to be the frosting on cakes whose size and composition they did little to influence. They were not the important determinants or instruments of government economic policy and they neither guided private behavior nor even forecast it very well. Neither has there been evidence that planning enabled the French or Japanese to avoid the common problems of recession, inflation, shortages, pollution, urban congestion, or other evils to which planners direct their attention. Their long-range plans did not, for example, foresee the world energy problem.

The present U.S. planning movement does not draw its inspiration from foreign experience. Although the procedures envisaged are certainly influenced by foreign examples, the U.S. planners seek to disassociate themselves from the foreign models. This can be seen in the comments of Myron E. Sharpe, a leading member of the Initiative Committee for National Economic Planning. This committee, whose cochairmen are Wassily Leontief and Leonard Woodcock, is a private organization that includes businessmen, academicians, and others. It did much to generate interest in the subject of planning in 1975 and it assisted in the drafting of the Senate bill. Mr. Sharpe wrote:

> Some who like neat definitions have asked what kind of model we have in mind. [Apparently this is a finicky and unimportant question to the planners.] Is it indicative planning, like the French version? The fact is that the Initiative Committee didn't start with any foreign model at all, but tried to analyze American conditions and needs. Anyone who reads John Sheahan's article in the March/April issue of *Challenge* will see that French planning leaves much to be desired. The same can be said about Japanese planning, as one can learn by reading Ryutaro Komiya's article in the current issue. A planning commission that makes forecasts to which nobody pays attention is not what we have in mind. Nor do we have in mind a tug-of-war between planning technocrats, the Finance Minister, and the Prime Minister. Nor yet a summary of the investment intentions of all the businesses in the country. Nor a planning system that is boycotted by unions because they are aligned with opposition parties. Least of all do we have in mind a *pro forma* planning procedure that is rubber-stamped by parliament and actually negotiated by chairmen of the boards of the largest corporations.[2]

So the present surge of enthusiasm for planning in the United States arises not because of the success of foreign planning but

[2] M.E.S. [Myron E. Sharpe], "The Planning Bill," *Challenge*, May/June 1975, p. 7.

despite its failure. American planning is to be unlike any planning known anywhere up to now. This leaves open, of course, the question what it is to be like.

What Is Planning?

Careful consideration of the proposals for more economic planning is made almost impossibly difficult by the lack of any precise and agreed meaning for the term "economic planning." Its opponents sometimes talk as if it means converting the United States into the Gulag Archipelago. Its supporters sometimes seem to mean that the American economy should be run like a progressive kindergarten, in which the pupils reach a consensus each morning on what they will do that day—who will pour the lemonade and who will serve the cookies. But the first interpretation is not inevitable and the second is not possible.

At hearings before the Joint Economic Committee of the Congress on June 12, 1975, George Hagedorn pointed out this uncertainty and difference of opinion about what "planning" meant. In reply, Senator Humphrey said: "That is exactly the purpose of these hearings. . . . This is advisory and consultative and hopefully out of this dialogue and discussion . . . we will come down to a much more clear and precise understanding of exactly what we are talking about and what we mean."[3] It may seem odd that the advocates of rationality and foresight should be unable to give a clear picture of "exactly what we are talking about and what we mean." But it is really not. They do not have to. The label on their package, "planning," has great appeal and any specification of the contents would only make the whole less attractive.

There is another aspect of Senator Humphrey's answer to Mr. Hagedorn which reveals one of the two basic themes of the modern philosophy of planning. That aspect is confidence in talking as a way to solve problems. If we do not know what we mean by "planning" we will have a dialogue until we agree on what it is, at which point we will all like it. Similarly, if we do not know how many automobiles should be produced, for example, we will have talk among the persons "involved" until we agree on an answer.

The other basic theme is confidence in the ability to answer questions by scientific, objective methods. The relation between these themes raises some of the main questions about planning. How

[3] *Notes from the Joint Economic Committee*, vol. 1, no. 19, July 1, 1975, p. 2.

far is it possible to answer economic and social questions by talk, and how far by science? How likely is it that the two methods will give the same or consistent answers, and what happens to planning if they do not? But for the time being the proponents of planning are still in the stage of willingness to talk about what we mean by it.

Possible Meanings. Critics of planning have paid more attention to the definition of planning. They have had to, for the same reason that the planners have not had to. Since they are in the position of not accepting something as intuitively appealing as "planning," they are forced to spell out the characteristics of that process so that they can then specify what they find to be objectionable.

A good classification of what might be meant by "planning" is given by Vera Lutz in her study *Central Planning for the Market Economy*, which is one of the best works on the subject:

> Any discussion of comparative economic systems must keep in mind that the terms "central economic planning" and "planned economy" have both in recent times been applied to differing concepts which still need to be kept apart. The first term, sometimes replaced by the second, is used to refer to three distinct things:
>
> a. a system of *integral* planning from the centre, implying that all economic operations are centrally "guided," "coordinated," or "directed" by a "National Plan";
>
> b. a system of *partial* planning from the centre, entailing measures of government intervention for purposes of modifying specific aspects of the pattern of production, consumption, or distribution;
>
> c. the government's programme for the public sector of the economy, or what M. Massé calls the "Plan of the State" as distinct from the "National Plan" of which it would constitute only a part.
>
> The second term is used in still a further sense:
>
> d. to denote that every economy is "planned" in the sense that the various economic agents (government departments, local authorities, public enterprises, private firms, households, etc.) almost all engage individually in some sort of forward planning or "programming" of their activities.[4]

Planning as Ad Hoc Intervention. Insofar as the leaders of the present move for economic planning in the United States have given hints

[4] Vera Lutz, *Central Planning for the Market Economy* (London: Longmans, 1969), p. 17.

about what they have in mind, different ones seem to have different ideas. Senator Javits emphasizes his desire to see certain important but specific and limited policies of government changed. Replying to the charge that "planning" would interfere with consumers' freedom of choice he says: "What is lost in the obfuscation on this issue is that the Swedes can make the same choices, but also get a national health care scheme and a safe environment." To the argument that "planning" would reduce efficiency, he says: "It just may be that one source of our current economic difficulty is too great a concern with 'efficiency' in government. In the name of efficiency millions of Americans would be consigned to the scrap heap of endemic unemployment in order to try to shave some mathematical fractions from the rate of inflation." [5]

Achievement of the objectives that Senator Javits seeks—a national health care scheme, more rigorous environmental regulations, a different choice in balancing inflation against unemployment—does not require "planning" in the sense of any different decision-making process or any qualitatively different relation between the government and the private sector. All that is required is that the President and a majority of the Congress should agree with Senator Javits on matters about which they have up to now disagreed. Something called "planning" is neither necessary nor sufficient for that.

Senator Javits's main interest, at least as expressed in the article cited, is in category (b) of the Lutz classification—"measures of government intervention for purposes of modifying specific aspects of the pattern of production, consumption or distribution." I do not propose to discuss planning in this sense. There are and will be cases of specific government intervention. Each such case involves a number of considerations that are peculiar to it. To discuss all possible interventions, or even any large number of them, in terms of their own specific features, would be far beyond the limits of this paper and this author. It would, moreover, not deal with the distinctive feature of the planning proposal being considered here—which is a comprehensive system for intervention or at least for deciding where and how to intervene.

Planning as Improved Decision Making. Related to the identification of all government interventions as "planning" is the tendency to identify any improvement in the government decision-making process as "planning." This identification often seems to run in both directions. "Planning," without further specification, is assumed to yield

[5] "The Need for National Planning," p. 14.

better decisions, and anything that is suggested to improve decisions is immediately labelled "planning." To be concerned with improving decisions is to be labelled a "planner."

This easy slide from "planning" in the sense of the application of intelligence, foresight and information to any decision to "economic planning" in the sense of the control or guidance of economic decisions by a comprehensive, centrally determined program is a source of great confusion. Witness a discussion that occurred in the same hearings of the JEC already cited on the subject of the troubles of real estate investment trusts (REITs): Mr. Leif Olsen, senior vice president, First National City Bank of New York, said that some of these troubles were due to tax incentives given by the government. Congressman Henry Reuss moved from there to the conclusion that the troubles were due to lack of planning—"I am darned if I can figure out who made the plan on that"—and that they would have been prevented by planning—"And would not an overall planning agency have marked out the implications of this, and so perhaps have induced the Congress and the banking industry and the REITs industry to build more intelligently?" But there is no reason to think that the errors of the REITs could have been avoided by a decision made in the context of a plan for the economy as a whole. Nor is there any reason to think that if the Department of the Treasury and the Department of Housing and Urban Development and the Federal Reserve Board and the Federal Home Loan Bank Board and the House Ways and Means Committee and the Senate Finance Committee and the Congress and the White House made a mistake about REITs, an "overall planning agency" would not have made the same mistake.[6]

Improving the government's decision-making process is important and I will return to that subject. However, it is only confusing to define that as identical with "planning." One of the main questions about "planning" is whether it does in fact improve decision making, and there may be other steps not included within "planning" that would be helpful to that end.

Planning as Comprehensive, Centralized Guidance. I shall mean by economic planning here either concept (a) or concept (c) of the Lutz classification, that is, either the formulation of a comprehensive, centralized plan by which the whole economy is to be guided or the formulation of such a plan for guiding the totality of government

[6] Quotations are from *Notes from the Joint Economic Committee*, p. 18.

actions. Each of these kinds of planning, or some combination of them, would be consistent with the proposed legislation. Which of these, or what combination, the sponsors have in mind is unclear. Senator Humphrey's repeated references to the need for coordination of government policy, to the government's left hand not knowing what the right hand is doing, and so on, suggest a great interest in planning to guide government in doing the kind of thing it does now without planning. However, he also expresses interest in guiding what has heretofore been the private sector and, indeed, makes no distinction between planning for the public sector and planning for the private sector. In general, statements originating with the Initiative Committee for National Economic Planning place more emphasis on planning for the private sector. Myron Sharpe has described the kind of planning the Initiative Committee has in mind as follows:

> This kind of planning consists neither in making elaborate forecasts spiced with wishful thinking, nor in giving detailed orders to businesses about how to run their affairs. The detailed decisions about purchases, sales, production, employment, prices, and investment remain private. All the virtues of decentralized decision-making are kept intact. Undoubtedly many sectors of the economy which are in a state of good health, where projections look favorable, will not call for any planning action at all. But in a modern industrial economy, a collection of private decisions does not necessarily guarantee that private and social needs are met automatically. The purpose of planning is to provide, where it is lacking, the mechanism to relate needs to available labor, plant, and materials. The plan is a guide to the market.[7]

This description of planning includes no limitation in principle on government intervention in the private sector. The only limitation is pragmatic. The government will not interfere, there will be no "planning action," when the private sector spontaneously conforms to the plan—in other words, when the sector is in "good health" and the "projections look favorable." In such cases the "detailed" decisions will be left private. Conceivably such a planning system could involve little intervention in the private economy, if the standards of "good health" and projections looking "favorable" are permissively interpreted so that the conditions justifying "planning action" are quite exceptional. But the system described here obviously

[7] "The Planning Bill," p. 7.

amounts to giving a blank check whose magnitude will depend on who fills in the numbers.

The basic fact is that the proponents of planning have told us little about what they mean: What are the objectives at which the plan should aim? What activities would be planned—governmental only or private also? In what detail would the plan be drawn? By what instruments would it be carried out or enforced on the private sector? They have, however, proposed a bill which does specify certain procedures. While the bill is vague on all the key substantive issues, it is nevertheless possible to speculate about the consequences of instituting those procedures. We turn, then, to a description and discussion of this bill, S.1795.

Provisions of the Proposed Balanced Growth and Economic Planning Act of 1975

The bill provides for an Economic Planning Board in the Executive Office of the President, composed of three members "of diverse backgrounds and experience" appointed by the President with the advice and consent of the Senate. This board would be responsible for preparing the Plan every two years, measuring achievement, and monitoring activities of federal agencies for consistency with the Plan. The bill does not specify the size of the board's staff, but an explanation by Myron Sharpe suggests that the board might have about 500 employees and an annual budget of $50 million.[8] This would make it about equal in size to the Office of Management and Budget. It would have ten times as many people and thirty times as much money as the Council of Economic Advisers.

In the preparation and review of the Plan, the board would be assisted by an Advisory Committee on Economic Planning, consisting of twelve private citizens appointed, four each, by the President, the speaker of the House, and the president of the Senate. The members would be persons from business, labor and the public at large who are competent to give advice on "the views and opinions of broad segments of the public."

The Plan, having been prepared by the board, would then be reviewed and revised by a Council on Economic Planning, which would consist of all members of the Cabinet, the chairman of the Federal Reserve Board, the chairman of the Council of Economic Advisers, the director of the Office of Management and Budget, the

[8] Ibid., p. 6.

administrator of the Federal Energy Administration, the chairman of the Advisory Committee on Economic Planning, and the chairman of the Economic Planning Board, who would also be chairman of the Council on Economic Planning. The Plan would be transmitted from the council to the President, who would submit it to the Congress along with a report explaining the Plan and its rationale and comparing past results with the previous Plan.

The Plan, called in the act the Balanced Economic Growth Plan, is the heart of the proposal, and its description in the bill should therefore be quoted in full:

> The Plan shall—
>
> (1) establish economic objectives for a period to be determined by the Board, paying particular attention to the attainment of the goals of full employment, price stability, balanced economic growth, an equitable distribution of income, the efficient utilization of both private and public resources, balanced regional and urban development, stable international relations, and meeting essential national needs in transportation, energy, agriculture, raw materials, housing, education, public services, and research and development;
>
> (2) identify the resources required for achieving the economic objectives of the Plan by forecasting the level of production and investment by major industrial, agricultural, and other sectors, the levels of State, local, and Federal Government economic activity, and relevant international economic activity, for the duration of the Plan; and
>
> (3) recommend legislative and administrative actions necessary or desirable to achieve the objectives of the Plan, including recommendations with respect to money supply growth, the Federal budget, credit needs, interest rates, taxes and subsidies, antitrust and merger policy, changes in industrial structure and regulation, international trade, and other policies and programs of economic significance.

Upon submission to the Congress, the Plan would be referred to the Joint Economic Committee. Within sixty days after the President submitted the Plan, every committee of the Congress, including the recently created Senate and House Budget Committees, would be required to report to the Joint Economic Committee on aspects of the Plan relevant to its jurisdiction. The JEC would also hold hearings and receive opinions on the Plan from the governors of the states. Within 105 days after the Plan had been submitted to the Congress, the Joint Economic Committee would report to the two Houses a concurrent resolution approving or disapproving the Plan, in whole or in part, and recommending such modifications as the committee might deem appropriate. The Congress would be required to act on this concurrent resolution not more than fifteen days later. Upon adoption of such a resolution (if one were adopted), it would be transmitted to the President, along with reports on the Plan from any committee of either House.

After the President received the concurrent resolution on the Plan, he could make any changes he considered appropriate in any part of the Plan not approved by Congress, and then would publish the revised Plan, with the resolution and all relevant documents. If Congress disapproved the whole Plan, the President would be required to submit a revised one within thirty days, after which Congress would have another thirty days to approve or disapprove the revised Plan, in whole or in part.

At this stage in the process the situation would be this: There would be a Plan which had been approved in its entirety by the Congress, rejected in its entirety by the Congress, not acted upon (in the sense that no concurrent resolution had been adopted) or approved in part and disapproved in part. On some points there might be two Plans—the one submitted by the President and the one revised by the concurrent resolution. Whatever the congressional action might have been, no law would have been enacted, and no one would be bound by anything—with one exception: the planning bill provides that the President and the Economic Planning Board may not take any action under the act to implement any part of the Plan which has not been approved or has been disapproved by the Congress.

This last-mentioned provision refers to a section of the bill on executive branch implementation of the Plan. Under that section, the President must take appropriate actions to

> insure that the departments and agencies of the executive branch will carry out their programs and activities in such a manner as to further the objectives of the Plan, and to encourage State and local governments and the private sector to carry out their programs and activities in such a manner as to further the objectives of the Plan.

Also, when the Economic Planning Board decided that any federal department or agency had proposed any budget, legislation, rule or regulation, or undertaken any action, which might significantly affect the achievement of the goals and objectives of an approved Plan, it could require the department or agency to submit a statement on the consistency of its behavior with the Plan.

The Economic Planning Board would contain a Division of Economic Information, authorized to obtain available information from federal agencies and disseminate it for the use of public and private decision makers. At the time of submission of the first Plan, this division would also submit to Congress a report on the availability of information for the planning process along with recommendations for improving the information gathering process. The Joint Economic Committee would receive expert assistance from a new Division of Balanced Growth and Economic Planning to be established within the Congressional Budget Office (not the Joint Economic Committee staff).

Will It Fly? The most obvious thing to say about the bill is that it probably will not be enacted and, if it were enacted, it probably would not work. It would not work in the sense that, if enacted, it would not be carried out in a way that substantially altered the course of events. The reason is not that the procedures would impair freedom, efficiency, and growth, although it is true that they would. The reason is that the bill runs violently counter to the existing distribution of power within the government.

If the bill were enacted and taken literally, the chairman of the Economic Planning Board and the chairman of the Joint Economic Committee would become two of the most powerful persons in the federal government, gaining ascendancy over people whose present strength derives from acts of Congress, tradition and practice, and constituencies in the country. In the executive branch, the board would take over, or supersede, many of the functions of the Office of Management and Budget. It would demote the secretary of the Treasury from his leading role in organizing the formulation of major economic policy. It would expose all executive departments and agencies to more detailed, continuous supervision from the Executive Office than they have had except in times of emergency.

This preeminence of the board would presumably extend also to agencies now considered "independent." For example, the Federal Reserve Board would be brought fully into the planning system. Its chairman would be a member of the Council on Economic Planning. It is worth remembering that, when price and wage controls were instituted in 1971 and a Cost of Living Council was created to guide policy in the emergency situation, the chairman of the Federal Reserve Board declined to be a member of that council, taking instead the role of adviser in order to make clear his independence. The planning bill specifies that the Plan should include recommendations with respect to money supply growth. Presumably, then, after Congress approved this part of the Plan, the President would be directed to take actions to ensure that the planned money growth was achieved. Thus, just a few words in the bill would upset a balanced relationship between the executive and the Federal Reserve Board that has been carefully nurtured over decades. Other "independent" agencies, such as the regulatory commissions, are not specifically mentioned in the bill but are apparently not excluded from the process of formulating and implementing the Plan.

On the congressional side, the shift of power could be equally drastic. All of the other committees would be required to report to the Joint Economic Committee, which would then make recommendations to the Congress on matters which the other committees—Ways and Means, Finance, Banking, Interior, Agriculture, the new Budget Committees, et cetera—regard as primarily their business. The bill makes no provision for implementing the Plan in the legislative branch, for trying to ensure that congressional action is consistent with the Plan, probably because most of the Congress would consider the effort to do so as highly presumptuous. Still, the Congress would probably prefer not to authorize one of its committees to make recommendations which it might want to ignore.

Thus, it seems likely that the bill will not pass or, if passed, will become what Myron Sharpe says the planners do not have in mind, a procedure for making forecasts to which nobody pays attention.

Some Historical Precedents. There are, of course, changes in the distribution of power within the government from time to time. But these usually occur over long periods or temporarily in emergencies. The influence of the Office of Management and Budget is an example of slow growth. It was almost twenty years after the executive budget was introduced before the Bureau of the Budget was moved from the Treasury to the Executive Office of the President. Thereafter it accumulated power gradually, much of it in the last fifteen years. The accretion of power did not precede but followed the recognition of the need for strengthening the coordinating capacity of the Executive Office. The new Budget Committees of the Congress are another example of the possibility of changing the locus of power. But they were established about thirty years after a first attempt to reform congressional budgetary procedure. Moreover, they drew power from only a few existing committees, not from all of them. And it still remains to be seen whether, in fact, the new procedure will discipline the Appropriations Committees of the two Houses and their various subcommittees.

During World War II overall economic planning and control bodies were created which subordinated the regular agencies—the War Production Board, the Office of Economic Stabilization, and the Office of War Mobilization and Reconversion. These were extreme measures, accepted, not always readily, in an emergency, and they were temporary. In 1971, in what was then considered another emergency, an overall economic policy body was set up to mobilize the federal agencies in a fight against inflation. That was the Cost of Living Council. It was set up when everyone, from the President down, recognized the primacy of the anti-inflation objective and accepted a certain diversion from normal relationships on that account. Moreover, the power of the Cost of Living Council was legitimized by the fact that its chairman was also the secretary of the Treasury and, during part of its life, also the special assistant to the President for economic affairs.

However, political forecasting is about as unreliable as economic forecasting. Despite the probabilities against it, there is always a chance that something like the proposed Balanced Growth and Economic Planning Act may pass, if not in 1975 then at some other time, and that a serious attempt would be made to apply it. Therefore it is necessary to consider what the implications of this would be.

Goals and Objectives

The nature and implication of the planning process would depend, more than anything else, on the goals and objectives set for it. It is one thing to say that the government has certain goals and instruments, derived from past legislation, community sentiment, or other sources, and that we want to acquire more information and look farther ahead in order to rationalize the process by which these instruments are to be used to achieve our goals. It is quite a different thing to say that we now want to discover new goals and then develop the instruments with which to achieve them. The more the process is one of creating goals, the more ambitious these goals are, and the more they depart from the spontaneous outcome of market forces, the more "planning" will lead to government intervention and force.

Vagueness of Goals in the Bill. The bill does not start with any operational specification of the goals which are to be more effectively achieved by improved procedures which might be called planning.

The proposed planning process is to include the identification of goals, and the bill and the discussion of it are silent about whether this means only to recognize the goals we have or to declare new goals. The bill seems to list goals, but what it really does is list a number of areas or subjects about which the government might have goals. It does not tell what the goals are.

The goals listed are things like "full employment, price stability, balanced economic growth, an equitable distribution of income, the efficient utilization of both private and public resources," et cetera. These are not goals from which one can deduce any necessary policies. It is not only that they are expressed without quantities, whereas the policy question is almost always one of how much. They are not even described qualitatively in a way that indicates what kind of thing the planner is supposed to be looking for and aiming the plan at. For example, what is "balanced growth," a goal of such importance that it is named in the title of the bill? Is that simply rapid economic growth, with the word rapid replaced by balanced as a sop to the generation that does not think growth is such a great thing after all? Does it mean sustainable growth, or would that be too much of a concession to the conservatives who are always warning that rapid expansions will not be sustainable? Does it imply some particular pattern of output and, if so, what? What kind of thing is meant by "equitable distribution of income"? One in which everyone gets the value of his product, or his just deserts, or 3 percent more than he got last year? Or is it a more equal distribution, or one with fewer people in poverty, or fewer people "obscenely" rich, to use a favorite current adverb? Similar questions can be asked about the other goals mentioned in the bill.

Recognizing that the goals mentioned are not useful as a starting point for planning, the bill relies upon another concept, "economic objectives," which are to be the operational content of the goals. These objectives are to be determined in the planning process. That is, the developers of the economic Plan not only are to devise a program for achieving objectives specified for them by legislation, but also are directed to specify objectives with respect to employment, the price level, growth, income distribution, and other categories.

Planning as a Way of Creating Goals. Why is the proposed act so vague in describing the goals to which the planning would be directed? The argument for planning is that the present "unplanned" public and private processes fail to meet the goals of the nation or of the American people. Why then does not the bill state the goals that the planning process is to achieve? Perhaps it is haste, or loose drafting. But another explanation, at least as plausible, is that a proposal which specifies goals in the fields mentioned could not possibly be passed. Suppose the bill said that the goals were 4 percent unemployment, 3 percent inflation, business plant and equipment expenditure equal to 15 percent of gross national product, the poorest fifth of the population earning 15 percent of the national income, et cetera. Could this be enacted? Probably not. In the course of the debate, it would become clear that the American people did not share the goals of the planners and were unwilling to pay the costs, financial and other, of achieving them.

The proposed planning system is an invitation for the planners to invent goals that the American people do not have, or at least do not have in a form that can be a starting point for planning. It is probably true that the American people do have an interest in "balanced economic growth, an equitable distribution of income, the efficient utilization of both private and public resources" and the other goals listed in the bill. But that interest may be satisfied by the outcomes that emerge from spontaneous private processes, requiring government intervention only in exceptional cases. If this is the nature of the goals, they do not, by definition, require government plans and policies to achieve them.

This dilemma was illustrated by the attempts to draft a Report on National Growth Policy, something the Administration is now required to do every two years. It was clear from the legislation requiring this report that national growth policy meant policy about the geographical location of people and economic activity. However, a great deal of thought turned up no better objective for the location of people and for economic activity than that people should live and work where they wanted, given their own tastes and the opportunities afforded by the market. This naturally provided little basis for recommending new government programs.

The bill, of course, implies that the economic Plan should specify objectives in fairly precise, substantive, and probably quantitative terms, and not as conditions arising from the market process. If the objectives were not specified in those terms it would be hard to make sense of the other provisions of the bill which call for action to achieve the objectives.

Can Goals Be Created? Whether the processes set forth in the bill can create objectives that will serve to control government policy and guide government action is a question. The example of the Employment Act of 1946 is sometimes used to show the effectiveness of the declaration of a goal. However, the goal of avoiding mass unemployment evolved in the course of a decade of bitter experience during the 1930s. It was not invented by a government agency and a congressional committee. There are, it should be noted, a number of examples of efforts to identify or develop national goals that have proved to be sterile, because the goals did not emanate from needs felt by the public. One of these efforts was the work of the Commission on National Goals set up by President Dwight Eisenhower. Another was the work of the National Goals Research Staff, set up by President Richard Nixon in 1969 with the intention of producing a report every year on the 4th of July. The first report, published in 1970, was so remote from anyone's interest that it was also the last. Even a quite specific goal enshrined in legislation can be inoperative if it does not reflect a real interest. This was the case with the goal contained in the Housing Act of 1968, namely, that 20 million housing units should be built in a decade.

The Escalation of Goals. Nevertheless, it is not certain that the goal-setting process would be entirely vain or harmless. If the proposed act were adopted, and if some government officials, especially members of Congress, retained an interest in it, there might be a continuing effort to specify goals. Goals legitimized by the process of the act would not be conclusive for either executive or congressional policy, but they would have some influence in debate.

There would also be a tendency for goals to escalate as a result of the political process. Whatever goals the President proposed, there would be a great temptation for others, in and out of Congress, to bid higher by demanding or offering more ambitious goals—3 percent unemployment rather than 4 percent, 5 percent growth rather than 4 percent, Ph.Ds for all rather than BAs for all. The temptation or pressure for the Administration to get into this competition would be hard to resist. The escalation would be natural because the setting of the goal would not necessarily require any immediate action to achieve it. But once set, the goal would exercise an influence on policy decisions relating to it. It would become an argument for the expenditures or regulations necessary to achieve it.

Forecasting the Private Sector

The implications of the Plan for the relations between government and the private sector would be largely determined by the meaning of the rather mysterious Section 208 (a) (2), which says that the Plan shall "identify the resources required for achieving the economic objectives of the Plan by forecasting the level of production and investment by major industrial, agricultural, and other sectors. . . ."

The Use of Forecasts. Presumably what is intended is a forecast of what production and investment would be, by major sectors, if the objectives of the Plan were met. Otherwise the forecast would not identify the resources required by the Plan. But even if the forecast assumed that the Plan was achieved, most of the forecast production would not be a requirement of the Plan. That is, unless the objectives of the Plan were exceptionally comprehensive and specific, there would be few, if any, major sectors of the economy whose production would be largely absorbed by the Plan's objectives. Even in wartime there were only very few industries in which explicitly recognized national objectives took most of the production.

It is hard to see what the use of this forecast would be. If the forecast was both an estimate of requirements and a forecast of production, assumed to be equal, there would be no possibility of a gap and no need for any policy. If the forecast was really an estimate of requirements, no policy could be deduced from it without also having an estimate of supply, and if it was a forecast of supply no policy could be deduced without an independent estimate of requirements.

The Self-Fulfilling Forecast. A possible exception to this argument is that the forecast might be basically a forecast of requirements, and would turn out to be a forecast of supply also only because the forecast was made and published. It would be the publication of the forecast which brought supply into line with requirements. Producers in industry A, seeing the forecast production of their own industry and the forecast production of industries B, C, and D which were its customers, would plan to produce the forecast volume of output.

This feature is an element of the French planning process and explains its name, "indicative planning." It might be expected to be more effective in France than here since French policy is more tolerant than American of agreement among firms to divide up an agreed level of production. But even there the gaps between plan and forecast are large. The forecasting record of the federal government here is not so impressive that private industry is likely to regard the forecasts by themselves as compelling evidence of what the market will be. In fact, the federal government now publishes both short-run and long-run forecasts of production, employment, and related variables, in great industrial detail. The long-run forecasts, made in the Department of Labor, are done by the input-output method developed by Professor Wassily Leontief, one of the leaders of the planning movement in the United States today. It is hard to see any influence of these forecasts on economic activity in the United States. The planners do not refer to them, and apparently do not regard them as bringing about consistency in the pattern of production.

Forecasts as Requirements. The forecast would undoubtedly be more influential if there were a general understanding that the government would enforce conformity with it. Then private businesses would give more weight to the forecast as an indication of what was going to happen. It seems extremely likely that the forecasting process would move in this direction. For some industries at least, the forecast would be regarded as a statement of requirements which it is the function of the planning process to meet. The subsection of the bill which calls for the forecast is followed by one which requires the Plan to recommend legislative and administrative actions necessary or desirable to achieve the Plan's objectives. At another point the President is directed to take appropriate actions to "encourage State and local governments and the private sector to carry out their programs and activities in such a manner as to further the objectives of the Plan."

For all its ambiguities, it seems reasonable to interpret the bill as calling for a specification of private activities that would be consistent with the Plan and for government measures, whether of law, regulation, or encouragement, to bring about conformity. How far this would go, how widespread the government's activity in managing private production and investment would be, how detailed, and with what combination of sanctions and "voluntarism," cannot be told from the bill. The outcome would depend largely on the attitudes of the people in the Administration and in the Congress who would be interpreting and executing the act, and of the public at large.

One very likely outcome would be that an important barrier to selective interventions in the economy would have been removed. There have been repeated suggestions, for example, that the government should allocate credit, or that it should give differential tax credits for essential investment or, more recently, that it should allocate energy to its highest uses. A contrary argument has always been that the government does not know the essential purposes to which credit, or tax privileges, or energy should be directed. The forecasts made in the Plan would not change that situation but would seem to have done so. Under the Plan, there would be a pattern of private production and investment, validated by the government, which could guide selective credit, tax, or allocation policy. In fact, it would be hard to explain why the forecasts were made if not for that purpose.

Democracy and Freedom in the Plan

The modern planning movement, reacting against Soviet-style planning, emphasizes its desire to preserve freedom by relying on democratic and voluntary processes. However, both the democracy and the voluntariness of the processes proposed are illusory, and the democracy, even if real, would be no assurance of freedom.

Can Everyone Plan at Once? The bill's approach to democracy is to get "everyone" involved, both in and out of the federal government. In the executive branch, the Plan developed by the Economic Planning Board would be reviewed and approved by a council of seventeen people including all members of the Cabinet and some other officers. In the Congress, every committee would be invited to submit views, and the final decision to approve or disapprove would be made by the whole Congress.

That a council of seventeen Cabinet-level officials could review the proposed Plan substantively is improbable. Each member of the council would have competence and responsibility for only a small fraction of the information, analysis, forecasting and policy proposals contained in the Plan. Cabinet members do not typically engage in serious discussion of "their" problems with others who have neither competence nor responsibility. And each member respects the jurisdiction of the others, in the expectation of reciprocal respect. Many recent experiences with inclusive Cabinet-level committees formed to discuss and recommend economic policy have shown how ineffective such committees are. The relation of the cabinet members to the Plan would almost certainly be trilateral, as their relation to the budget is. The Cabinet member would negotiate his part of the Plan with the Economic Planning Board, and have a right of recourse to the President in case of major disagreement.

To expect the committees of Congress to report on the aspects of the Plan which concern them within sixty days of its receipt, is unrealistic. Even if all the committees took their responsibility to report to the Joint Economic Committee seriously, which for jurisdictional reasons they might not do, they could not agree on a position in so complicated an area within the allotted time, or even a much longer time. Certainly, the two Houses could not have a useful debate on the whole Plan and reach a decision, except a decision to pass, in the fifteen days provided. A congressional decision would have to be the product of staff efforts, backed by strong party leadership.

The bill seeks to make the planning process still more democratic by bringing forces outside the federal government into it. These forces include state and local governments, which would comment on the Plan and participate voluntarily in its implementation. This raises no particular questions other than of competence and feasibility; these governments are at least selected by some democratic, constitutional method. A more serious question is raised by the provision for participation of private citizens in both the development and execution of the Plan. No doubt there are many private people who could give expert advice on the Plan. However, the Advisory Committee and its subcommittees that would be established by the act are envisaged not as expert bodies but as representatives of the views and opinions of broad segments of the public. Typically, and inevitably, such committees are composed of officials, often not democratically chosen, and representatives of organizations that have designated themselves as spokesmen of this or that segment of the public. For example, in dozens of such committees it has never been possible to find any representative of "workers" except an officer of a union—this in a country where the large majority of workers are not organized—and surely there must be many consumers who do not regard Ralph Nader as their representative. Committees of private citizens may be less representative than our duly elected government officials, and influence given to advisory committees may make the whole process less, rather than more, democratic.

The fact is that comprehensive, detailed, "scientific" economic planning is an inherently undemocratic process. Because of its technical complexity, its demanding time schedule, and the difficulty of finding consensus, it cannot be done in a town meeting.

Democratic Coercion. In any case, the question of whether a planning process is democratic is quite different from the question of its effect on individual freedom. A plan that is coercive, even if adopted by a quite deliberate and informed choice of a majority of the people, will coerce at least a minority in ways with which they do not agree. And since the planning process spelled out in the proposed act is complex and has numerous requirements, even the majority that approved the Plan as a whole might be involuntarily coerced in some respects. The argument for freedom is not an argument for coercion by the majority. It is an argument for minimizing coercion.

Advocates of planning maintain that their proposals are voluntary, not coercive. However, it is hard to be sure. The bill as such would give the federal government no power it does not now have over private citizens. However, it calls upon the government to spell out goals, including goals which do not now exist, and to recommend legislative and administrative actions to achieve those goals. Once the goals have been legitimized, the way would be opened to give the government powers necessary to achieve them. The bill contains no inhibitions against this. It does not even contain the common ritual language about achieving the goals of the act by means consistent with the free enterprise system.

Discussion of the coerciveness of planning is often confused by the notion that government action is coercive only if it imposes the possibility of fine or imprisonment. In that light, systems which provide tax benefits, or allocate credit, or give preferences in government procurement, and so on, to individuals or businesses that conform to a plan are considered noncoercive. That is a mistake. As Gustavo Velasco asked:

> 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 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? [9]

In other words, if the government can make a private citizen an offer he cannot refuse, it can exercise coercion. If the Balanced Economic Growth Plan led to increasing use of these "conventional" instruments of government policy, as seems likely, it would increase coercion. Even the provision of the bill which directs the President to "encourage" the private sector to act in a way that is consistent with the Plan could be coercive since it involves a relation between the President of the United States and enterprises that are heavily dependent on good relations with the government and a favorable public image.

[9] Gustavo Velasco, "Planning and Reason," *Modern Age*, Fall 1974, pp. 394-395.

What Can We Expect?

The bill, like the discussion of planning in general, is too vague to tell us just what would happen if it were to become law. Even if it were much more precise and specific than it is, the outcome would be hard to predict, because it would depend inevitably on the understandings and wishes of those who manage it and upon its evolution in the future.

Nevertheless, some speculation may be offered about the direction in which the process would move if the bill were passed and a serious effort made to operate within its spirit.

(1) Goals for government policy that do not now exist, or more ambitious goals than now exist, would be increasingly advanced. These goals would represent the views of the politicized experts who would run the Economic Planning Board, the relevant congressional staffs, and the staffs of the private national organizations that would constitute the advisory layer. The goals would not determine policy. But they would lead policy in the direction of more government spending and more government controls to achieve the added goals.

(2) Management of the existing economic instruments of government would be increasingly supervised by the Executive Office, to the derogation of the departments and agencies, and would be addressed to the central goals, rather than to the more limited objectives which may have originally led to the creation of the instruments.

(3) Estimates would be made of required production and investment in some "key" sectors of the economy (meaning sectors in which the firms are large, because it is easiest for government to deal with them) and these requirements would be compared with forecasts. The government would try to correct the deficiencies that the comparison revealed. Initially it would do this by talking to the firms involved, but increasingly it would rely on incentives of various kinds to achieve the results.

(4) The high-pressure goals for employment, growth, and public services would cause more and more inflation, leading to repeated efforts at income policies, which would seem more congenial to the system as it became more planned. However, the incomes policies would yield no durable results.

(5) Uncertainties about government policy increasingly would depress private investment, requiring more and more government incentives to stimulate it. At some point the government would become unwilling to pay private businesses to do what it could order

them to do. The system of incentives would yield to the system of command.

(6) So the economy would become more inflationary, less free, and less efficient. Meanwhile, the unemployment problem would not have been solved, because we would not have ended the rise of inflationary expectations which make full employment impossible without intolerably accelerating inflation. And we would not have solved the problem of shortages because we would have suppressed the free movement of prices which, by attracting production and discouraging use, would help to cure shortages.

Passage of the bill would not lead us rapidly and irreversibly to the end of this line. There would still be opportunities to turn back. Other countries have started in this direction and then stopped, or converted their planning into an academic exercise. However, even if the bill does not determine that we go all the way, the road down which it would point us seems clear.

Improving Economic Policy

Current interest in planning starts from the propositions that the economy has not been performing as well as it might and that a change of economic policy would help it to perform better. To reject the planning proposals as solutions for our economic problems is not to deny these propositions. Neither should the advocates of planning deny that, whether or not the government takes on new functions in relation to the economy, better execution of its conventional functions would be helpful. Thus, it should be possible to agree on the need to improve the making of government economic policy, despite disagreements about the planning issue.

There are two different things that might be meant by the statement that the economy has not been performing well and that economic policy needs to be improved. One is that the economy is not coming as close as it might to the goals that everyone or almost everyone recognizes, such as high employment and price stability, and that policy needs to be aimed more effectively at those goals. The other is that particular goals are not being achieved because they are not sufficiently recognized and that economic policy needs to be directed to them more forcefully.

It is the first of these meanings that is used here. What is implied is technical deficiencies in the decision-making process. The nature of the deficiencies is clear. There is not enough information. The "science" of economics does not know enough about how the economy works. The organization of government does not bring all the relevant considerations to bear. The public does not understand the choices well enough to support effective decisions.

These deficiencies will not be quickly reduced and will never be fully overcome. The difficulties are great. But some improvement is possible and the stakes are sufficiently great to call for a major effort.

Improving Economic Statistics. A good place to start is the improvement of economic statistics, because it is a precondition for many other things and because there should be little ideological problem about it. One constructive feature of the Humphrey-Javits bill is its provision for a report on getting more and better statistical information on the economy. It should be noted, however, there have already been a number of reports, and they, together with recent experience, tell much about where the needs are.

There are several recent examples of possible errors in the making of economic policy resulting from inadequate statistics. At the end of 1965 the Johnson Administration was probably more resistant to the tightening of monetary policy than it would have been if it had known accurately how fast the economy was rising. In late 1972 and early 1973 both fiscal and monetary policy might have been more restrictive if the extent of shortages in key industries had been appreciated. In 1974 policy might have shifted to a less restrictive posture earlier if the true amount of inventory accumulation had been known. In the middle of 1975 uncertainty in prescribing economic policy was increased by the fact that statistics from household surveys showed employment rising rapidly and statistics from employers' reports showed it rising slowly. These are only the most obvious cases, where subsequent revisions of statistics, or contradictions between sets of statistics, revealed that the truth was not known. There is probably another layer of errors where we never did learn the truth.

The basic need is to appropriate more money for the collection of economic statistics. In relation to the size and complexity of the American economy and the value of even a small improvement in its performance, the function of gathering economic information is run on a shoestring. Moreover, within the statistics budgets that are available, great emphasis is placed on regional or industrial statistics that are useful to particular firms in the private sector, somewhat to the disregard of the national statistics required for making economic policy. The needs of national economic policy should be better represented in the statistics budget. One way to achieve this would be to authorize the appropriation of some funds for statistics to the Council of Economic Advisers—which could decide which statistics would be most useful and seek appropriations for them. Presumably the council would allocate the funds to other agencies to do the collection and tabulation.

It is beyond the capacity of this paper to suggest the priority to be given to particular additions to or improvements in the flow of economic statistics. However, some illustrations may be offered:

(1) Better inventory statistics, including statistics in physical units and more relevant prices for deflating dollar amounts.

(2) More reliable figures on the money supply, which would require more frequent reporting from non-member banks.

(3) Reconciliation of employment statistics from the survey of households and from the reports of establishments.

(4) More information on the characteristics of the unemployed, including the conditions of work they seek.

(5) Wholesale price statistics based on transactions prices rather than list prices.

(6) Indices of wage rates derived directly from weighted rates rather than from manipulations of the earnings data.

However, for the moment, identification of subjects is secondary to the need for a substantial increase in the federal budget for economic statistics. As a first step this budget, now about $300 million a year, should be doubled.

One step beyond the improvement of statistics relating to the past is the improvement of estimates of future developments where they seem to result from simple mechanical relationships. Estimates of federal revenue are an example. Revenues depend, of course, on the level of economic activity, and revenue estimates will be wrong when estimates of economic activity are wrong. However, there have been large errors from time to time which cannot be explained in that way. Crop estimates are another example. Also, there is no effort at present to derive systematic estimates of future state and local financial transactions from budget data. These and similar questions have been neglected because their importance has not been sufficiently appreciated.

Another area in which information is deficient is economic conditions, prospects and policies in other countries. This information is important not only because of its implications for our own economy but also because officials of the U.S. government are increasingly involved in discussing the policies of other countries with their economic officers, and for this they need to be better informed. A number of agencies—the Departments of State, Treasury, and Commerce, the Federal Reserve Board, and the Central Intelligence Agency—do collect and analyze information in this field. None of their efforts is very intensive, and there is little cooperation, consultation, or confrontation among them. These activities should be coordinated and intensified to meet the needs of policy officials.

Can the Progress of Economics Be Stimulated? When we get beyond information that describes the surface of the economy to the understanding of the underlying relations in the system, the problem becomes enormously more difficult. This is the area where economists should be able to help us, but the unfortunate fact is that economists know too little about many aspects of these relations that are critical for economic policy. That is not to say, as is sometimes implied, that economists do not know anything or that someone other than economists, "practical men," knows better about these matters. Both of these ideas are false. But any economist would agree that we do not know many things that would be extremely useful to know.

A few of the most obvious examples may be cited. We do not know, within a wide range of possibilities, what the effect of changing the rate of growth of the money supply will be on the level of economic activity. We do not know the same thing about changing the level of taxation, or of federal spending, or of the deficit. Does reducing the exchange rate improve the balance of payments, by how much, and over how long a period? One can turn to seemingly less complicated questions. Who pays the corporate profits tax? Does an increase in government mortgage purchases increase residential construction?

Probably the most important question about which our ignorance has lately come to the fore is the relation between real output and inflation. There are many theories about that, all hotly debated, and none of them has prevented great errors of forecasting over the past decade.

Perhaps nothing can be done about this. The questions are obviously difficult and it may not be possible to force the learning process. However, the way in which economic research is conducted in this country may not be the best way for answering the questions which are both fundamental and policy-directed. The present system, carried out mainly in universities, is decentralized, individualistic, competitive, not to say combative, and largely devoted to the manipulation of available data rather than the collection of useful information.

Even the major research institutions are essentially computer centers and cafeterias for individual scholars.

Probably most, or even almost all, of economic study should go on in this way. But the federal government might make a contribution to organizing some of it, or a larger part of the total, differently. Three possibilities suggest themselves.

(1) There could be a National Endowment for Economics, like the National Endowment for the Humanities, with the endowment coming from the federal government. It would have a governing body of leading economists who are nonpolitical or, if they cannot be found, with balanced political attachments. This body should not merely respond to incoming requests for money. It should choose problems and select substantial teams to work on those problems continuously over a period.

(2) There could be a Federal Economics Institute, consisting of scholars, some permanent, some transient, working on questions that arise out of the policy-making process.

(3) There could be a National College of Economics, on the model of the National War College or the Industrial College of the Armed Forces, which are now being merged. The college would have some permanent staff doing research and teaching. It would have a body of economists passing through, each person spending a year, who would participate in the research and receive some training. Most of these "students" would be economists in the federal government, but some might be accepted from states and localities and from nonprofit institutions.

Again, in thinking about these possibilities, one must be on guard against expectations that a new entity could deliver on order answers to questions with which economists have been struggling unsuccessfully for decades. But the success of existing methods has not been so great as to discourage a new approach.

Organization of Federal Decision Making. Organizing the agencies of the federal government to make decisions in a way that takes account of all the relevant general and special interests and information is a perennial problem. In the field of broad strategic economic policy which is mainly under consideration here, the problem in the executive branch is less one of mechanisms than of personalities. The number of people who need to be involved is not large; the question is how they relate to each other.

Certain operational principles seem clear. First, economic policy cannot be made by a cabinet-size committee. Second, economic policy should not be made by the President in private consultation with just one leading official, such as the secretary of the Treasury. This approach does not sufficiently inform the President of his options. Also it risks the great danger of policy lurching from side to side because there are not enough people around to ensure that someone will remind of the need for stability and caution. Third, the President should not make economic policy by seeking advice separately from a variety of officials. This leaves him to choose among them without the benefit of observing their exchange with each other.

The system which has developed in recent years, and which has generally worked well when adhered to, has been for the President to receive advice from a small group of people who talk with each other enough to winnow the options and issues down to the essentials with which the President must deal, but not enough to submerge differences of analysis and opinion. The core of this group is a foursome—the secretary of the Treasury, the director of OMB, the chairman of the CEA, and the President's special assistant for economic affairs. This group is then enlarged to include representatives of other agencies that are relevant to the question under discussion—the Federal Reserve Board, the Departments of State or Agriculture, the Federal Energy Administration, et cetera. The system does not work well if it is dominated by one member with particular departmental interests, if the members are not open with each other, or if the members try to make end runs into the Oval Office. Only the insistence of the President and the character of the members can prevent those things from happening.

On the congressional side, a trend of deteriorating capacity to participate in the making of economic policy has been at least temporarily halted by two events. One is the institution of new budget procedures which permit the Congress to make deliberate decisions about the overall size of the budget and the deficit, with the assistance of qualified analysis. The other is the new procedure under which the chairman of the Board of Governors of the Federal Reserve System will report periodically on the board's targets for monetary policy to the banking committees of the two Houses, and do so in a way that encourages the committees to take some responsibility.

Both of these ventures are still experimental, and even if they prove successful they will not cover the whole range of possible congressional involvement in economics. The basic problem is that most members of Congress regard economic policy as the President's responsibility and their function as being either to condemn it or to bless it. Perhaps this means that economic policy has become too complicated, too detailed, and too fast-moving for Congress. But that is probably not the whole story. If Congress wanted to play a more constructive role, it could do so and it would find the machinery to assist it.

One possibility would be to restore the Joint Economic Committee to its intended function. The idea embodied in the Employment Act of 1946 was that the Joint Economic Committee should serve the advisory role for the Congress that the Council of Economic Advisers serves for the President. It is a useful idea. There have been some outstanding examples of the committee's performing in that capacity, such as the work led by Senator Paul Douglas on monetary policy. But in recent years the committee has become more and more a studio for brief television appearances for a few members. Probably this is because no one in Congress had been paying attention to its more serious work, and the situation would change if the rest of the Congress welcomed its advice.

Finally, the quality of economic policy will depend upon the public's understanding. It should be no surprise, although it often seems to be, that public policy in a democracy operates within the limits of what the public believes and will demand or tolerate. If, on some occasions during the past decade, government was too quick to pump up the economy when there was a recession, or relied too much on price and wage controls, public attitudes had much to do with those mistakes. There is now encouraging evidence that a decade of mounting inflation has helped to improve public understanding in those regards. But it must be our endeavor to advance understanding by less painful means. How to do that is a difficult subject, beyond the scope of this paper, except to recognize the responsibility it places on everyone who communicates to the public.

Cover and book design: Pat Taylor

SELECTED 1975 PUBLICATIONS

THE NATURAL GAS SHORTAGE AND THE CONGRESS, Patricia E. Starratt (68 pages, $3.00)

OBSCENITY: THE COURT, THE CONGRESS AND THE PRESIDENT'S COMMISSION, Lane V. Sunderland (127 pages, $3.00)

PERFORMANCE OF THE FEDERAL ENERGY OFFICE, Richard B. Mancke (25 pages, $1.50)

GOVERNMENT-MANDATED PRICE INCREASES: A NEGLECTED ASPECT OF INFLATION, Murray L. Weidenbaum (112 pages, $3.00)

ELECTORAL REFORM AND VOTER PARTICIPATION, Kevin P. Phillips and Paul H. Blackman (135 pages, $3.00)

PERSPECTIVES ON FEDERAL TRANSPORTATION POLICY, edited by James C. Miller III (218 pages, cloth $8.50, paper $4.50)

ARAB-AMERICAN RELATIONS IN THE PERSIAN GULF, Emile A. Nakhleh (82 pages, $3.00)

FOOD STAMPS AND NUTRITION, Kenneth W. Clarkson (85 pages, $3.00)

BRITAIN AT THE POLLS: THE PARLIAMENTARY ELECTIONS OF 1974, edited by Howard R. Penniman (256 pages, $3.00)

STATE-LOCAL FINANCES IN THE LAST HALF OF THE 1970s, David J. Ott, Attiat F. Ott, James A. Maxwell, J. Richard Aronson (105 pages, $3.00)

U.S.-SOVIET DETENTE: PAST AND FUTURE, Vladimir Petrov (60 pages, $3.00)

THE PHENOMENON OF WORLDWIDE INFLATION, edited by David I. Meiselman and Arthur B. Laffer (218 pages, cloth $8.50, paper $4.00)

REGISTERING VOTERS BY MAIL, Richard G. Smolka in association with Jack E. Rossotti (85 pages, $3.00)

PRICE CONTROLS AND THE NATURAL GAS SHORTAGE, Paul W. MacAvoy and Robert S. Pindyck (81 pages, $3.00)

THE EXPECTED RETURN FROM PHARMACEUTICAL RESEARCH, David Schwartzman (57 pages, $3.00)

PUBLIC EMPLOYMENT PROGRAMS, Alan Fechter (40 pages, $2.50)

DRUG DEVELOPMENT AND MARKETING, edited by Robert B. Helms (300 pages, cloth $9.00, paper $4.00)

WORLD FOOD PROBLEMS AND PROSPECTS, D. Gale Johnson (83 pages, $3.00)

HEALTH INSURANCE: WHAT SHOULD BE THE FEDERAL ROLE? moderated by Melvin R. Laird (42 pages, $2.00)

THE 1976 BUDGET: SHORT-RUN STABILIZATION POLICY AND THE LONG-RUN BUDGET OUTLOOK, David J. Ott and Attiat F. Ott (38 pages, $2.50)

INDUSTRIAL CONCENTRATION AND INFLATION, Steven Lustgarten (55 pages, $3.00)

CORRECTING TAXES FOR INFLATION, William Fellner, Kenneth W. Clarkson and John H. Moore (47 pages, $2.50)

NUCLEAR THREAT IN THE MIDDLE EAST, Robert J. Pranger and Dale R. Tahtinen (57 pages, $3.00)

POLITICAL ELITES IN THE MIDDLE EAST, edited by George Lenczowski (227 pages, cloth $9.50, paper $3.50)

REDISTRIBUTION AND THE WELFARE SYSTEM, Edgar K. Browning (131 pages, $3.00)

REGULATION AND DRUG DEVELOPMENT, William M. Wardell and Louis Lasagna (181 pages, $3.50)

THE NORTHEAST RAILROAD PROBLEM, George W. Hilton (59 pages, $3.00)

FRANCE AT THE POLLS: THE PRESIDENTIAL ELECTION OF 1974, edited by Howard R. Penniman (324 pages, $4.50)

Discounts: 25 to 99 copies—20%; 100 to 299 copies—30%;
300 to 499 copies—40%; 500 and over—50%

Economic Planning and the Improvement of **Economic Policy** by Herbert Stein considers what economic planning in the United States might be, and what some of its leading advocates intend. It analyzes the proposed Balanced Growth and Economic Planning Act of 1975, appraising its possible implications for the goals of economic policy and for the relations between the government and the private sector. The author discusses whether planning as envisaged by its present proponents can be democratic and consistent with freedom, and he projects what may be the consequences of an effort to carry out the apparent intent of the proposed act. Then, recognizing the need to improve government economic policy, Dr. Stein offers suggestions for doing this by improving available information, advancing understanding of economic relationships, and strengthening government organization for making economic decisions.

Herbert Stein is A. Willis Robertson professor of economics at the University of Virginia and an adjunct scholar of the American Enterprise Institute. Formerly director of research of the Committee for Economic Development, a fellow of the Center for Advanced Study in the Behavioral Sciences, and a senior fellow of the Brookings Institution, he has also served as a member and chairman of the President's Council of Economic Advisers. Dr. Stein is the author of *The Fiscal Revolution in America* (1969) and numerous other works.

$2.00

American Enterprise Institute for Public Policy Research
1150 Seventeenth Street, N.W., Washington, D. C. 20036