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Planning, Theory of

Planning, in a majority of theoretical works, as well as in the vernacular, has usually been taken to imply an attempt to improve future outcomes through deliberation in the present. The call for planning, whether emanating from the viscera or derived from some theoretical argument, has usually been based on the thesis that unfettered markets follow a blind course that can be improved by collective deliberation over the choice of future outcomes. Whether the failures of markets are couched in terms of Marxian forces of history or neoclassical incomplete futures markets, the conclusion is that society would gain by using institutions that directly force it to confront the future. Thus Marxist and neoclassical views are similar in the sense that they identify failures of the market and suggest an expanded role for government.

A thoroughly distinct, although not inconsistent, approach has arisen within the institutionalist camp (Gruchy, 1984, 1987). Planning in this conception is prompted not only by dissatisfaction with unfettered markets, but also by the perceived failures of existing policy mechanisms, particularly when these mechanisms are viewed within the larger democratic context. Hence planning involves a change in the techniques of governmental decision making and in the processes of democracy, as well as an increase in the scope of government activity. Planning ensures that the policy process is neither fixated on the short term, nor controlled by powerful, and narrow, economic interests. In this view, planning is seen as a future-oriented instrument of the democratic process.

We adumbrate below the theory underlying three distinct conceptions of planning, which represent pure types among a host of alternatives. We also reflect upon the interactions of theory and practice, commenting on the practical planning experiences that seem to conform most closely to each of the theoretical models.

Indicative planning

In the 1950s, planning rose to a position of popularity and prominence in France, under the tutelage of Jean Monnet. Whether as a result or not – and opinions greatly vary – the French economy was very successful at that time. Hence there was much interest in the conceptual basis for French planning. The planning process was a consultative and forecasting exercise

that had seemed to evolve quite independently of any existing underpinning in economic theory. For economists, then, there arose the challenge of searching for an abstract justification for this exercise, one that was rooted in economic theory. Pierre Masse, an economist and planning commissioner, gave this search its strongest impetus. His theoretical line has been followed by legions of neoclassical theoreticians in the ensuing years.

The basic notion underlying the theory of indicative planning is that economic agents are uncertain about the future actions of other agents, that this uncertainty can be reduced, and that the market does not reduce uncertainty to an optimal degree. Since the reduction of uncertainty – or, equivalently, information creation – is a public good, there exists a market failure argument for planning. Some type of public forecasting procedure might improve economic efficiency. If this procedure is combined with consultation between the main actors in the economy, one can view the process as a substitute for the non-existent futures markets beloved by general equilibrium theorists.

This line of argument has been pursued with much eagerness by neoclassical economists. Indeed, the informational problems of markets are now at the centre of neoclassical inquiry and it seems that an informational market failure argument for planning is at least as sound as the rather comparable public goods justification for government provision of national defence.

In a clear example of the gulf between the development of theory and the world of practice, the French were becoming disenchanted with planning while indicative planning theory was reaching new heights. Planning in France is now relatively neglected and seems unlikely to rise again to its former position of prominence. Similar sorts of planning exercises have been carried out in other countries, for example, Japan, the UK and the former Yugoslavia. However, little new theory was used to justify the exercises and little was developed in parallel with them. (See Brada and Estlin, 1990, for a review of the theory and practice of indicative planning from a neoclassical perspective.)

Democratic-coordinative planning

For the conception of planning most closely associated with the institutionalist view, one begins with the premise that the market does not conform to the self-regulating ideal popular in textbook economic models. Government intervention already occurs in capitalist economies for myriad reasons. Moreover, the sheer size of modern businesses ensures that they can have undue influence on government policy. From the viewpoint of institutionalists, then, the power held by modern corporations provides as much reason to engage in planning as does the uncertainty emphasized by advocates of the indicative approach.

Planning, then, has several goals. First, there is a need to keep policy makers focused on the long term in the face of the pressure to concentrate on short-term stability. Thus, according to Allan Gruchy (1987), the policy process should become anticipatory, not purely reactive. Second, government decisions must be rescued from the baneful influence of large interest groups and must reflect in a more egalitarian way the needs of the whole society. By placing policy decisions within the democratic process, planning procedures will ensure that those decisions reflect a broad conception of society's welfare. It is argued that in an open, deliberative process the making of government policy can come much closer to a democratic ideal than seems to be the case at present.

This conception of planning, which I will call democratic-coordinative, has been an object of economists' attention since the days of the Great Depression. Indeed, it was during the Depression and under the important influence of institutionalists, particularly Wesley Mitchell and Rexford Tugwell, that economic planning first became an accepted idea in the United States. (Since those times, the degree of public acceptance has waxed and waned with the fortunes of the economy itself.) In postwar years in the United States, institutionalists such as J.K. Galbraith (1973) and Allan Gruchy have served to develop the idea of planning and keep it on the economists' agenda.

Within the democratic-coordinative conception of planning, there have always been two distinct approaches. The first, emphasizing the consultative and democratic aspects, has focused upon the processes of planning. It has therefore been more closely aligned with the institutionalist school. However, according to Gruchy (1984, p. 184), institutionalist proposals for national economic planning have not been elaborated in great detail. The second has focused more on the technocratic aspects of the exercise and has been more closely associated with neoclassical economists. In the second approach, there has been concern with the development of macro-models of the economy, the use of these models in policy choices, and the optimal choice of policy instruments. The names particularly associated with such techniques are Jan Tinbergen, Henri Theil and Leif Johansen.

The Dutch planning exercises in the immediate postwar years are perhaps the best known implementation of democratic-coordinative planning. These exercises achieved renown among economists because of the extent to which sophisticated theory was developed within the context of the planning process. In the 1950s, the results produced by technicians probably had considerable influence on Dutch policy choices. The technical approach facilitated the removal of the policy process from parliamentary supervision, something that was helpful to government officials because of the extreme divisiveness of Dutch politics. Therefore, in the instance in which theory was

most influential, the planning exercises had, at best, an uneasy relationship with democratic process.

Command planning

A thoroughly distinct set of planning episodes has been associated with the implementation of command planning in the Soviet Union, China, Eastern Europe and many allied third world countries. If there was a theoretical force behind the advocacy of such planning, it was primarily antipathy towards the market, rather than any concrete conception of the nature of planning. Hence, given the need to create an economic mechanism that supplanted the market, the creation of the structures of the command economy related little on theory. (The experience of wartime planning in imperial Germany may have been the most important influence.) The theory of command planning was created *ex post*, essentially as a description of existing procedure.

In practice, the planning that was pursued by such entities as Gosplan in the USSR focused on the short run. The name attached to its theoretical representation – material balance planning – indicated its limited goals. Material balance planning focused on the construction of inter-industry input balances for the short run. Orientation towards the future was only embodied in this methodology through the imposition of some growth priorities, decided within an unarticulated political mechanism. The tenor of the material balance approach is aptly summarized by the term commonly used by Soviet planners – 'from the achieved level' – implying that plan calculations are always based on small adjustments to existing outcomes. The term summarizes a whole methodology that is the best theoretical statement of the nature of planning as implemented in the post war years in the countries formerly in the Soviet bloc. For a description of this approach and an evolutionary perspective on its effects, see Murrell (1990), where it is argued that the central-planning agencies did a passable job on short-run resource allocation, but that the real failure of command planning was in the absence of attention to the long run.

In its realization, command planning bore little relation to the type of process envisioned in the theories constructed by planning's strongest advocates. Socialist theorists saw planning as an attempt to rescue society from the blind forces of history, from a perceived directionless market. For such theorists, the purpose of planning was not to control day-to-day economic decisions, but rather to ensure that those decisions were consistent with a development path reflecting the needs of society. (The writings of Michal Kalecki are most instructive here.) But command bureaucracies seemed less able than the market to address long-term needs.

There is a curious relation between command planning and neoclassical theory. The creation of a static central plan and the design of incentives for socialist managers are neoclassical problems par excellence. All the usual optimization techniques, with their rationality assumptions, become useful for such problems. Thus there is an enormous literature in the West relevant to central planning, and, indeed, Soviet mathematical economists published much material in this vein. Hence there are myriad articles in both Soviet and Western journals on iterative schemes for constructing optimal plans, on managerial incentive structures, on optimal long-run plans and on a host of other technical aspects of planning. This has led some to suggest that neoclassical economics is really the economics of socialism, while institutional and evolutionary theories in their many forms provide the economics of capitalism.

This last point is exhibited by the socialist controversy, the debate in the 1930s and 1940s between neoclassicals and Austrians, particularly von Mises and Hayek, on the workability of socialism. In this debate, it was neoclassicals who argued for the viability of a (market) socialist economy. The Austrians persistently raised the problems of information processing that would confront a socialist regime and the informational benefits of capitalist markets (Murrell, 1983). In a slightly updated form, the same approach has been used to criticize those types of national economic planning that are applicable in a capitalist economy (Lavoie, 1985). However, in that context, the Austrian arguments are less than convincing, since they hardly touch upon the issues raised by the proponents of indicative and democratic-coordinative planning: the informational problems of markets and the behaviour of the state in a modern economy.

Hybrids

The three modes of planning identified above are pure types. In practice, planning schemes have combined elements of two or more of these modes. For reasons of space, there is no possibility of describing these hybrids here. Particularly prominent is development planning, which can be loosely viewed as a form of democratic-coordinative planning (focusing perhaps more on the coordinative aspect) implemented when the state undertakes a large amount of industrial investment. Also Hungary's reforms prompted inquiry into the types of planning that would be suitable for a market-socialist society, without any insightful conclusions.

The missing element: a theory of planning institutions

The theory of command planning has not risen above narrow technical questions concerning the calculation of a central plan that replaces the market in its capacity as the allocator of resources, but, in this narrowness,

theory tracked the reality of planning in the Soviet bloc reasonably well. The theory of command planning provided no suggestion on how to design planning institutions that would implement the long-term goals of the advocates of planning.

In the theories of indicative and democratic-coordinative planning, the planning process itself was viewed as a neutral element that provided far-sighted analyses reflecting the democratic process. In these conceptions, planners were removed from power. This too mirrored reality. Unfortunately, the consequence was that, apart from some prominent, but brief, interludes, planning had a fairly limited significance in market economies.

The progress of planning in the last four decades mirrors a problem at the heart of planning theory. Planning, as viewed by its strongest advocates, would be most consistently brought to fruition by an institution that is removed from daily concerns and whose power is not rooted in narrow economic interests. However, when that institution has real power over the allocation of resources, as in the former USSR, it seems to have been forced by exigencies to focus on the short term and its decisions have been dominated by narrow economic interests. When that institution is removed from daily economic concerns, it has been largely ignored, as has been the case in most implementations of planning in developed capitalist economies.

Planning theory has almost completely ignored the design of the institutional base of planning itself. There has been little theoretical deliberation on how to construct a truly democratic, future-oriented institution, a planning body, that can produce and implement economic policy, even by institutionalists (Gruchy, 1984, p. 184). If theory is ever going to be a force in the implementation of planning in a manner envisaged by the visionaries of planning, theorists need to reflect on matters of institutional creation and design. Theorists will have to show how to construct a body that is neutral in economic policy matters in the same way that Western courts are neutral in the production and implementation of commercial law. Given the rudimentary state of our knowledge on the way the legal system of capitalist economies developed and how the legal structure came to exercise power in a neutral manner, one cannot hold out great hopes for swift theoretical advances in the design of planning institutions. As for so many of society's mechanisms, chance events, which mutate existing institutions, will be more likely to show us the way to a workable set of planning arrangements than will the deliberations of theorists.

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See also:

Galbraith, John Kenneth; Gruchy, Allan Garfield; Hayek, Friedrich A.; Information Theory in Economics; Kalecki, Michal; Market, Institutional View of the; Planning, National Economic; Spontaneous Order; Uncertainty.

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Polanyi, Karl

Karl Polanyi was born in Hungary in 1886 and died in North America in 1964. He was one of many emigrants from Central European fascism who enriched British and American intellectual development in the mid-twentieth century. Polanyi observed in the uprooting of his personal life the cataclysm that a poorly instituted economy can provoke (Stanfield, 1986, ch.1). His central interest became the problem of lives and livelihood: the relation of community life to the way in which the community makes its living, the place of economy in society. He studied early economic systems to provide perspective and depth for his analysis of market capitalism and his dissent from its characteristic economic thought. Though considerations of space restrict what follows to a review of this analysis and dissent, the reader is encouraged not to neglect the important work on early economic systems (Dalton, 1968; and Polanyi, 1977; Stanfield, 1986, ch.3).

On market capitalism

The nature and evolution of market capitalism is the focal point for placing the modern economy in society (Polanyi, 1944). Polanyi's analysis is based on the distinction between embedded and disembedded economies. He argued, generally speaking, that pre-capitalist societies had no separate economic sphere with a distinct and explicit set of motives and functions. Instead, economic activity was motivated by the individual's general social location and interest, and acquisitive self-interest was negatively sanctioned by the fabric of religious, familial and political life.

In sharp contrast, economic interests in modern society appear distinct and predominant in the determination of an individual's social location and interest. The motive of gain operating through the institutional complex of

the market mechanism has been promoted to a pillar institution, and this, for Polanyi, constituted the peculiar nature of nineteenth-century market capitalism. This is the disembedded economy: an autonomous sphere of human activity, motivated by greed or the threat of hunger and self-governed through a system of price-making markets. For Polanyi, this concept of a self-regulating market economy is dangerously utopian because it neglects the primacy of society and leaves social life open to disruption by the disturbances of an uncontrolled market process. Economic or material provisioning is an integral part of social reproduction. The inherent instability and insecurity of the self-regulating market threatens that reproduction. The market mentality also generates character traits which undermine social cohesion. The bargaining mentality of securing maximum advantage for oneself is fundamental to the operation of a market economy and must be inculcated by socialization and acculturation if the market economy is to operate upon a set of rational relative prices. Yet this mentality cannot fail to erode social bonds and generate pessimism, distrust and cynicism.

The impossibility of a self-regulating market economy is shown in the inconsistency of such an arrangement with the continuation of a functioning social order. The market process enforces continuous economic adjustment to reallocate resources to better uses. This incessant economic change necessarily disrupts and displaces existing political, social and cultural patterns. The friendships, family ties and civic roots of the working class are no match for the necessity of relocation to secure employment or career advance. Naturally or historically significant sites or human emotional attachments cannot stand in the way of pecuniary success and progress. The incessant change in the means of earning a livelihood uproots and degrades the lives to be lived.

But this is only one side of the story. Polanyi pointed to the other side with his concept of the *double movement*: the effort to establish a self-regulating market economy was necessarily accompanied by a contrary effort to protect society from the disruption which otherwise would have occurred. The protective response is very diverse. Governments have intervened to protect labour with legislation regulating child and women labour, working conditions, workday lengths and subsequent income maintenance programmes. Legislation was enacted on land use planning, resource conservation, pollution control and modern comprehensive environmental protection. Central banking, capital market regulations and aggregate demand management have been introduced in an effort to stabilize the macroeconomy. Regulatory agencies exist to ensure consumer product safety and service standards for those providing care for the young and old. Trade unions and other voluntary associations, such as civic, historical preservation, or naturalist societies, play a major role. Even the modern corporation can be viewed as part of the