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# Economic Planning in Theory and Practice

## The Experiences of Western European Countries

By Dr. Karlheinz Kleps, Berne

**This contribution summarises some of the most significant results of a detailed investigation made by the author. \* It deals with planning attempts made since the end of World War II in France, Belgium, Britain, Italy, Norway, Sweden and the Netherlands, the concept and policy of a social market economy in the Federal Republic of Germany, the long-term programmes conceived under the Marshall Plan, the "General Aims" of the High Authority of the European Coal and Steel Community, the Five Year Plan of the Euratom Commission and the programming of economic policy within the Common Market envisaged by the EEC Commission. The author has laid particular stress upon the quantitative and qualitative efficiency of such planning experiments.**

Since World War II there has been a constant increase in the number of countries in Western Europe where attempts have been made at an overall economic direction and co-ordination, of all decisions by means of so-called "outline planning", both in the public and private sectors of the economy. Because of this, a third group of planning countries has grown up, differing from the Eastern Bloc countries because of their democratic constitutions and from the developing countries because of their high degree of industrialisation.

### The Extent of Economic Planning in Western Europe

Whilst being described as a "neutral technique for the preparation of economic decisions", economic "outline planning", over and above its directive and co-ordinating functions, serves to replace a policy of reactive and often incoherent interventionism with prophylactic, constructive action.

Efforts to achieve such a "change of style in economic policy" date back to the immediate post-war period. In 1945/46, because of the influence exercised by the current situation and due to the experiences of the 'thirties, the Governments of France, Britain, the Netherlands and Norway were the first to decide to introduce national budgets covering one year and "outline plans" covering several years. It was expected that these new instruments would counter the generally anticipated post-war period of depression and achieve as speedily as possible the reconstruction of production plants destroyed during the war.

Very soon after, in autumn 1948, Sweden followed the example of these four countries—the first Western European countries to introduce planning. Contra-

riwise, the planning experiments introduced in Britain by Labour came to a temporary halt with the change of government in autumn 1951.

In the last few years meanwhile, Belgium and Italy have also decided in favour of a long-term "outline plan" or "programming"<sup>1</sup>, and Britain reverted to this system even under a Conservative Government. In Britain and in Belgium the impetus for planning originated in the tendency which appeared between 1948 and 1960 for GNP growth-rates to fall in the long term. In Italy the conversion to overall economic planning was due to the realisation that it was not possible, in the long run, to permit two different economic systems simultaneously, i.e. state planning in the South and a market economy in the North.

In recent years, sectional, regional and overall planning has become more common, even on a supra-national level and this has reached its peak in the preparation (now under way) of a programming system for the Common Market. Among the forerunners of this system of direction and co-ordination were the "General Aims" of the High Authority of the European Coal and Steel Community, published since 1956, and the Five Year Programmes introduced since 1958 by the European Atomic Energy Commission, as well as the national Long-term Programmes worked out within the ERP framework for the periods 1948/49—1952/53, as a condition of American economic aid.

Finally, if we consider that on many sides there is a demand for a concept of overall economic planning even in those countries which do not currently go in for planning, it can be seen that the general tendency is towards a situation where the fascination of planning takes an ever firmer hold. This tendency is the

\* Langfristige Wirtschaftspolitik in Westeuropa (Long-term Economic Policy in Western Europe). Contributions to Economic Policy Vol. 5, published by E. Tuchtfeldt, Freiburg im Breisgau, 1966.

<sup>1</sup> Theoretical attempts to differentiate between "planning" and "programming" have not so far been convincing, nor does practical experience reveal any difference. It should merely be said that the concept of "programming"—obviously for psychological reasons—is preferred where there is very outspoken criticism of state "outline planning" or "planification".

more conspicuous because it is, in general, countries with planned economies which have increasingly serious economic problems to contend with.

The reason why the fascination of planning is catching on in spite of this obvious contradiction is threefold: First, under the influence of planning ideas which—considered logically—are certainly attractive, the reality of planning is to a large extent neglected, in the same way as the significance of the ever varying sets of circumstances is overlooked. Secondly, scientific circles are often apt to give the impression that there is no longer any particular difficulty in solving satisfactorily the problems connected with prognosis. Refinements of method are often taken for improvements in prognostication. Thirdly, economic policy in countries which do not have planned economies has lacked conviction in recent years and this again has made planning appear more attractive.

In view of this situation, it becomes the more urgent to discuss the pros and cons of state outline planning. To find an answer we must start from the quantitative and qualitative efficiency of economic planning as practised in Western Europe since World War II.

#### Quantitative Efficiency of Planning

At the nub of the quantitative target system of economic planning are certain GNP growth-rates which have to be realised simultaneously with additional overall economic targets of full employment, monetary stability, the balancing of payments and a progressive income distribution. The dominant part played by growth-rates is explained by the economic development which has in every case preceded decisions to plan the economy, by the growing demands made by all sectors upon the national product and by the piecemeal methods used in this same planning.

Varying methods are used to break down the macro-economic aggregate figures. Whereas, in first plans, the break-down has, as a rule, been restricted to a few broad categories (in the first French plan there were seven, and seventeen in the first British Five Year Plan), subsequent plans are always broken down into a greater number of categories, both by sector and regionally or/and an increasing number of separate plans is prepared. The fourth French Plan (1962/1965)—contrary to what was asserted by the current Commissaire au Plan that it was “un plan de branches, et non un plan d'entreprises ou de produits” (a plan for sectors, not a plan for firms or products)<sup>2</sup>—already contained detailed targets for individual goods and performances.

Any statement about quantitative efficiency can be made in three different ways: first, by making a comparison with the economic development which took place before the plan was introduced; secondly, by making a comparison with economic development in

comparable countries with unplanned economies; thirdly, by means of a “Should Be/Is” comparison. These three methods lead to very different results which, in each case, should be treated with considerable reservation.

a) The target—which is tied up with planning decisions—of achieving a more rapid economic growth and thus an improvement in economic development has been met in the countries under consideration. Contrary to expectation, the effects of war were speedily overcome, the pre-war problem of unemployment was also solved in the first few post-war years and continuing economic growth set the scene for a general rise in the standard of living.

Any comparison with earlier economic development appears, therefore, to indicate the expediency of “outline planning”, with its anticipated quantitative successes, as far as full employment, a growing national product and a rise in general standards are concerned. This conclusion, however, is weakened by comparably high rates of inflation, tangible distortions of balance and sometimes considerable balance-of-payments difficulties which, in recent years, have forced the Governments of France, Britain, Italy and the Netherlands to take some very drastic measures to stabilise their economies.

Gross Domestic Product Growth-Rates<sup>1</sup> in 12 OECD Countries 1949-1965

Country	Average 1949—1959	1960	1961	1962	1963	1964 <sup>2</sup>	1965 <sup>2</sup>
Federal Rep. of Germany <sup>3</sup>	7.4 <sup>4</sup>	8.8	5.4	4.2	3.2	5.5	4.5
Austria	6.0	9.2	5.2	2.3	4.4	5.6	5.0
Italy	5.9	6.9	8.3	6.0	4.8	2.7	3.0
Switzerland	5.2	7.6	8.7	5.1	4.5	5.1	4.3
Holland	4.8 <sup>5</sup>	9.6	2.0	3.1	4.5	5.2	3.5
France	4.5	6.2	4.5	6.3	4.7	4.5	2.5
Canada	4.2	.	.	6.0	5.0	6.0	6.5
Norway	3.4	6.1	5.6	3.3	5.0	6.5	5.0
Sweden	3.4	4.0	5.8	3.5	3.3	6.2	4.0
USA	3.3	2.5	2.0	6.0	3.0	5.0	5.5
Belgium	3.0	5.2	3.2	3.9	4.0	5.0	3.5
Britain	2.4	4.6	3.3	0.2	2.9	4.5	2.0

<sup>1</sup> Expressed in factor costs of 1954 prices. <sup>2</sup> Provisional figures. <sup>3</sup> After 1960 these figures include the Saarland and West Berlin. <sup>4</sup> Average 1950-1959. <sup>5</sup> Based on 1953 prices.

Sources: United Nations: Economic Surveys of Europe, Geneva 1962 ff.; OECD: Economic Surveys 1964/65 and 1965/66; OECD: Economic Prospects for 1966, Paris, February 1966.

b) Because of the differing stages of development and varying sets of circumstances (economic and otherwise), it is extremely complicated to make a valid comparison with economic development in countries which do not have a planned economy. It is impossible to voice any opinion unless it can be generally established that the up-turn achieved by means of “outline planning” (compared with pre-war) has also occurred in countries without planned economies. This further weakens the (in part) positive impression of quantitative planning efficiency which is gained when the first method is applied.

<sup>2</sup> P. Massé: Les principes de la planification française (The Principles of French Planning), Weltwirtschaftliches Archiv, Vol. 82 (1964), Issue 1, p. 121 (Editor's emphasis).

c) In general, a comparison of the planned targets with figures actually realised is believed to be a relatively solid basis for judging quantitative planning efficiency. But under closer scrutiny this method also appears dubious.

Investigations show that the more and more differentiated planning targets were either: almost realised; or they fell far short of the target; or the targets were over-reached. Additionally, it must be said that, as a general rule, deviations from plan are aggravated by further breaking down the aggregate figures and by lengthening planning periods. But a third general finding is even more remarkable, i.e. that deviation from plan where the aggregate figures are comparable (e.g. public and private consumption; public and private investment) are greater in the public than in the private sector of the economy.

Hitherto these findings have held without exception, but it is difficult to make any evaluation, first because of the differing planning requirements and, secondly because of the degree of liability which is expressed in state planning policy, but not in the mainly differently phrased statements made by the planners.

By strict standards, where any deviation from targets is given an equally negative rating, all planning experiments to date would, without exception, have to be considered failures, although to different degrees. A priori, this would mean that it is possible to achieve a balanced economic development by means of a comprehensive system of targets and, equally, that any deviation from this target system must logically lead to an imbalance (bottleneck or excess capacity).

However, if such an uncompromising method is used to evaluate quantitative planning efficiency it will be objected that for the private sector "outline planning" is merely a signposting and indicative instrument. It would also mean not only that small shortfalls but also amounts in excess of target should be taken to mean that the plan had been fulfilled successfully for in such cases the plan is considered to have shown properly the direction of development and thus encouraged or accelerated economic activity in these sectors. In addition—so the argument goes—shortfalls are more or less compensated for by such achievements.

Those who are inclined to agree with these arguments and to lower their standards of planning accuracy will also have to admit that any further discussion of quantitative planning efficiency is useless. First, because this would lead to a fruitless discussion about what degree of deviation from plan is, in fact, acceptable and can be declared a success. Secondly, it would lead to an equally unsatisfactory and endless controversy about what deviations can be compensated for at any given time. For instance—to give a concrete example—it would be necessary to ask whether a 24% shortfall below target in the machine tool industry is better balanced by a 42% overfulfilment of a target for the chemical industry or by a

47% overfulfilment of the planned figure in the automobile industry.

It can be seen that the planners' arguments tend to force discussion of quantitative planning efficiency in a direction where any statement of opinion no longer appears objective.

Thus, in spite of a twenty-year period of experimentation and judging from its quantitative efficiency hitherto, economic outline planning—seen as a whole—appears somewhat unconvincing; it remains to be seen to what extent this type of planning can be justified by its qualitative merits.

### Qualitative Efficiency of Planning

The qualitative efficiency of planning practice to date is best pointed up by a comparison between the theses expounded by planners and the actual position at any given time:

1. The type of planning practices, recommended or demanded hitherto is everywhere described as *outline planning* and is restricted (or supposedly restricted) to macro-economic aggregate figures, to broad sectors of the economy (agriculture, power, communications, etc.), development areas and the social infrastructure.

In those countries of Western Europe which have gone over to planning and where two or more plans have already been prepared there has been, without exception, a progressive extension and simultaneous intensification of planning activity. This is expressed in two ways: first in the extension of the central plan and the increasing number of categories it contains; secondly, in the constantly rising number of separate plans. It is extremely doubtful whether planning systems developed in this way can really be described as "outline planning".

2. Collaboration between representatives of individual economic sectors and groups in the various planning and advisory forums is not considered only as a specific expression of the predominance of democratic principles even in economic life, but as a guarantee that such planning will be highly realistic.

Taking the first point of view, it should be stated that representatives of private industry who collaborate in planning and advisory forums are invited to do so at the suggestions of a governmental central planning authority (in France, for example, the Commissaire au Plan) and parliaments are not concerned in the selection procedure. Thus there is at least a possibility that the government will select only personalities of whom it approves and of whose basic concurrence there is no doubt. Whether, and to what extent, governments make use of this opportunity cannot be established in specific cases.

Narrow limitations are placed upon what would be the optimum degree of reality in planning. Even over

one-year periods, the investment targets set by, for instance, coal, iron and steel industries at the beginning of each year at the request of the High Authority often differ importantly from that investments that are, in fact, made. Even the general line of development is not always predicted correctly. In the monthly estimates made by entrepreneurs, for example (i.e. estimates relating to order figures), the accuracy quotient is not much more than 50%. With four or five-year planning periods the degree of uncertainty is very much greater. We make only marginal mention of the problem of predictions of intent by entrepreneurs.

3. The scientific basis of planning is to be assured by co-operation of scientists in the preparation of such plans.

Here, too, the possibilities are strictly limited. If it is held that the development of consumption and investment cannot be predicted with accuracy three months ahead but that the trend and the approximate degree of change can, this is very often not the case—as has been seen, for instance, from the predictions of the Dutch Centraal Planbureau—for estimates covering one year only. For periods of several years the uncertainty is very much greater, even using estimates worked out by scientific methods. The power estimates for the last years and the "General Aims" for steel have left very little doubt about the difficulty of giving any real scientific basis to long-term prognoses, or about the risks inherent in such predictions.

From these severely limited opportunities for prognosis it follows that the data contained in such plans—from the overall size of the GNP down to individual goods and services—must be regarded as the result of various compromises worked out between persons collaborating in drawing up the plan. The planners are deluded into assuming that such compromises may remain practicable throughout the four or five-year period.

4. The participation of representatives of individual sectors and groups of the economy in drawing up the plan is tied up with the belief that these people and the organisations they represent will be in accordance with the plan.

It has meanwhile become very apparent in France, Britain and Italy that this belief becomes wishful thinking as soon as one or another of the groups feels that it has not been given sufficient consideration (i.e. according to its own estimate of its importance)

in the formulation of the plan and the facilities it offers. All those who feel they have been prejudiced are, based on past experience, inclined to seize every opportunity to compensate themselves by other means and this must in every case lead to non-fulfilment of the plan. Equally, where the system of multi-lateral compromise is first infringed by one group, this means that all other groups are released from their obligation. Just by considering the limitations upon prognosis or the disorganisation of the plan caused by external economic influences we can see that it is wishful thinking to hope planning will achieve any general and permanent balance of interests.

5. In many cases the State is demanded to adhere strictly to the plan regardless of whether the legislature is involved in the preparation of the plan or not.

Prima facie, the fact that the State itself takes the decision to plan, decides the nature of the plan, exercises a decisive influence upon the preparation of the plan and thus gives evidence of its particular interest in the coordination of all economic decisions to be taken over the period in question underpins this claim. On the other hand, the close and reciprocal relations and interdependencies existing between the private and public sectors gainsay it. Deviations from one aspect of a plan (e.g. unforeseen increases in wages and salaries) entail unavoidable and corresponding divergences elsewhere. Over and above this, it must be considered that external factors have more influence upon economic decisions taken by the State than is the case in the private sector. Thus to claim that the State has an absolute duty to adhere to the plan, without allowing any "contingency fund" based on income and outgoings (i.e. not to allow exemptions from the plan) is unrealistic.

Neither of these points, however (economic interdependence and external influences) is sufficient to explain the unequal degree of divergence between state decisions and planning targets which is present in every country. This phenomenon can only be understood by considering the following aspects of planning.

6. Believers in "outline planning" continually emphasise that this is not binding upon the private sector of the economy. For this sector, data contained in the plan are only intended as an indication of which use can be made in planning individual industries—or not.



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In view of the comparatively much greater number of decision-makers in the private sector, it would be obvious to assume, if such planning is really not binding for them, that their deviations would be correspondingly greater, even using comparable aggregate figures. However, this is not the case in all countries with planned economies for reasons which show that both the allegedly indicative character of the plan vis-à-vis the private sector and the assertion that the French Plan is not a "plan de produits" are pure deception:

a) In France, meanwhile, a comprehensive and extremely differential arsenal of economic devices has been developed, stretching from conferment of the ribbon of the Legion d'Honneur, through a great variety of subsidies, fixed prices and wage ceilings, to State credit handouts and credit control. All these are used to guide private decisions in whatever direction the State considers desirable. Nevertheless it is sometimes believed that there are considerable differences between planning practice in the Eastern bloc and in France, since in the former orders are given by the State and in the latter they are not. One cannot help wondering, however, whether the granting or withholding of facilities to raise funds on the capital market, the granting or otherwise of subsidies, etc., are any less effective than a straightforward "directive from above".

b) In the Netherlands— as long as unemployment was relatively high and apart from the State influence on import prices and a differential system of subsidies mainly in favour of exporting industries—the decisive factor influencing the approximate fulfilment of Government targets has been, in the main, the State wages policy. But since a stage of full and even overemployment has been reached previous State policy in wages has become ineffective. For this reason, discussions are being held in Holland both about the use of drastic stabilisation methods and on new and more effective methods of enforcing a State prices and incomes policy.

c) In Norway State manipulation of import prices, a comprehensive system of price and income subsidies and State control of the wages structure were the main methods with which the Social Democratic Government, until its defeat in September 1965, was trying to guide the behaviour of decision-makers in the private sector.<sup>3)</sup>

d) In Britain the State "Prices and Incomes Policy" is regarded as the nub of the planning policy introduced by the Labour Government.

e) In Belgium and Italy there has recently been discussion about an effective State incomes policy since these countries have met with difficulties in implementing their plans.<sup>4)</sup>

<sup>3</sup> See Karlheinz Kleps: *Wirtschaftsplanung in Norwegen* (Economic Planning in Norway: *Hamburger Jahrbuch für Wirtschafts- und Gesellschaftspolitik*, 10th Year (1965); published by H.-D. Ortlieb and B. Molitor, Tübingen 1965, p. 186 ff.

<sup>4</sup> The opportunities and limitations of State prices and incomes policies as a method of overcoming problems of inflation are to be investigated in a later contribution by the author.

Hitherto all these and other similar measures which are used to implement planning in the private sector but are not mentioned in the "indicative outline plans" have been in each case, either only partly successful or have failed as to their quantitative efficiency; this is mainly because provisions contained in various international agreements do not allow the degree of control over foreign trade required by such a plan and also because the degree of difference within the economy is too great, as are the numbers of private decision-makers, compared with the breakdown of the plan, to be able to exercise State control without allowing loopholes.

Thus—with the exception of Sweden<sup>5)</sup>—whilst the general tendency is for State influence on the behaviour of private decision-makers (not least the unions) to increase with "indicative outline planning" and for effective co-ordination to be achieved in this sector, it is apparent that State authorities are not prepared to subordinate their freedom of action to any plan.

7. Whereas French planning, for example, is described by its enthusiasts as a "créateur de simplicité", the EEC Commission recommends the joint programming which it advocates as an instrument, not the least of whose services will be to reduce State intervention.

Leaving aside the programming for the Common Market which is still in a preparatory stage, the economic development of every country which is supposedly aiming at reducing State intervention by means of "outline planning" (with the exception of Sweden) is precisely the opposite. In this respect, countries with planned economies are not basically very different from the other Western industrial countries, but, on the one hand, in this connection it is a question of comparing the planners' theses with current reality, on the other hand, there is also an unmistakable and relatively strong increase of interventionism in countries with planned economies. Even if there are differences of degree, this holds for the Netherlands and Norway just as much as for France, where there is an even more rapid degree of escalation as far as intervention is concerned. The British system of planning and the contemplated "Prices and Incomes Policy" lead us to anticipate a similar development there.

8. Its supporters believe that, as a directional and coordinating device, economic outline planning ensures a more rational State economic policy.

There is no objective critique which helps to prove convincingly that this thesis is right or wrong, but actual development tendencies hitherto give some grounds for doubt, also about rationalisation argument.

9. The reference to the often lengthy periods of fruition of private investments

<sup>5</sup> See also Karlheinz Kleps: *Langfristige Wirtschafts- und Sozialplanung in Schweden* (Long-term Economic and Social Planning in Sweden): *Hamburger Jahrbuch für Wirtschafts- und Gesellschaftspolitik*, 11th Year (1966), published by H.-D. Ortlieb and B. Molitor, Tübingen, 1966, p. 60 ff.

is one of the arguments in favour of outline planning extending over a period of several years being used as a guiding and co-ordinating device also in the private sector.

Apart from the fact that private investors often need to look much further ahead than a four or five-year planning period, no outline plan covering several years has yet been prepared which, a year later, seemed anything more than a doubtful basis for justifying State intervention in the private sector, more than an object for academic discussion or even more than a myth (France!). This is the basis of the idea of "progressive" (rolling) planning which has been evolved in Sweden so that a planning period of several years can be revised either at intervals of one year or when unforeseen and serious disruptions of plan occur; this allows the plan period to be amended correspondingly. However, since it is more difficult for entrepreneurs to base their prognoses upon such general figures and since the necessity for revision increases as aggregate figures are further broken down, it is difficult to see what useful indications this type of "progressive" planning will offer where decisions on private investment are concerned.

10. In general, it is argued by its supporters and by those responsible for planning that outline planning for periods of several years is a method of intensifying competition although scarcely anyone of them omits to express his personal conviction of the superiority of the market economy system.

The contrast between such pronouncements and actual planning practice—which is all we are concerned with—is so great that no more detailed explanation is generally given of how competition is intensified by planning. Only in France has it been candidly stated in various quarters that what is intended is not so much to intensify competition between domestic firms as to intensify the international competitiveness of the French economy.

Not even the EEC Commission appears to have any very clear idea as yet of the competitive efficiency of the joint programming it is aiming for. Although the Commission stresses that particular emphasis be placed upon the maintenance and encouragement of competition; but apart from such general statements, it has not yet succeeded in removing the contradictions contained in its recommendations of July 1963.

In these recommendations both "medium-term" programming and national outline planning are suggested as methods for improving the general market information and for overcoming obstacles in the way of small and medium-sized firms which are not in a position, as are their more important competitors, to maintain their own research departments or to commission scientific institutes to make forward-looking investigations (market research). When the joint programme is announced this would achieve a certain balance of information and would thus give smaller and medium-sized firms the chance to reach rational decisions so that competition becomes stronger.

But the same source also states—apparently because it recognises the danger of undesirable anticipations connected with the publication of official prognoses and programmes—that the programme to be published should contain only data referring to aggregate figures for the whole economy and its broader economic sectors (agriculture, power, communications, infrastructure). Detailed prognoses should remain secret.

It is obvious that overall targets will not really satisfy the hunger of smaller and medium-sized firms for information and prognoses. Such targets are more inclined to prejudice them still further, although most probably this also happens when authorities decide to publish detailed data as well. For large firms have a very much better chance of evaluating such informations for their own planning than do smaller and medium-sized firms.

The publication of data in connection with a plan must therefore be considered a failure as a method for strengthening competition. Particularly on oligopolistic markets, the result is rather the opposite, particularly since the certainly latent inclinations towards market agreements are increased by the publication of detailed targets. For instance, if, in a branch where there are few competitors a certain rise in turnover is indicated and if the State is aiming to achieve its targets of the plan, the inclination of firms on that market to divide it up amongst themselves will be the greater.

This obvious miscalculation or underestimation of the negative competitive efficiency inherent in central plans covering the private sector of the economy derives from a basic attitude which is hard to reconcile with the almost universally expressed conviction that competition is of the utmost significance for economic development.



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