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LIMITATIONS TO ECONOMIC PLANNING

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The publicity given to the Russian Five Year Plan has tended to make the people of the United States "plan conscious." In "New Russia's Primer" the school children of the soviet republic are told: "In America they work without a plan. We have a plan." The American people have heard the shouting to this effect, and as a result of such propaganda, many in this country have come to the conclusion that up to the present time we have lived without planning, and are resolved that hereafter we shall plan. Planning as an expression has become a popular slogan, such as the expression "Make the world safe for democracy" during the world war. A large sector of our population are as emotionally excited about it as the flappers were about Rudolph Valentino not many years ago. It is well that we should pause and ask, What does it mean? What are its possibilities? What are its dangers and limitations?

Let us start by saying that the statements or inferences that up to the present time we have lived without planning are of course without foundation. Every rational human being plans, and in spite of the fact that psychologists find it easy to show that human beings are far from being completely rational (and certainly economists would readily agree that in this the psychologists are right), it is nevertheless true that a human being could hardly be considered a human being except in so far as he is to some degree rational, and accordingly practices some degree of planning. What is the meaning, therefore, of the cry from the housetops that we have not planned?

Within the past few years the term planning has come to be used in a new and somewhat technical meaning. It has reference to social economic planning, in a very particular manner. To find what is meant by planning in this new usage of the term we must examine the "plans" of those whose names are most widely associated with this new planning movement. As representative of the whole movement I shall make brief references to three plans, which have been very widely heralded. I think it is a fair statement to say that these three plans represent the new planning movement in its most favorable aspects. These are the Beard Plan, the Swope Plan, and the plan of the Chamber of Commerce of the United States.

In summarizing the Beard Plan, I shall quote briefly from that plan as presented by its author in the Forum Magazine of July 1931. "Besides being repugnant to reason the philosophy of laissez faire has been tried and has failed to fulfill its promises." "There will be established for the fundamental industries of the country--covering the prime necessities of food, clothing, and shelter--a small body charged with the function of coordinating these divisions of economy and working out the project of their inner relations--financial, operative, and distributive." "The Sherman and Clayton anti-trust acts will be repealed. All industries included in the National Economic Council and other industries not yet ripe for affiliation, but approaching a high degree of concentration, will be declared to be national public service enterprises, affected with a public interest, and subject to the principles of prudent investment and fair returns." "Each (industry) will be a syndicate of affiliated

corporations in the form of a holding company." "Let the President summon Congress in a special session to organize immediately two of the syndicates to be ultimately fitted into the general scheme,--one for Agriculture and one for Building Materials and Housing." "In each state the Syndicate will proceed to organize one or more agricultural corporations to establish corporate farming as above outlined on a large scale, in that way covering thousands of acres of public and private land with grand model enterprises." In this connection Beard "points with pride" to what has been done by "T. D. Campbell in Wyoming." There is to be a marketing syndicate to "open the direct routes between producers and consumers."

I shall quote no further from the Beard plan, but shall quote briefly with my approval from an article by Professor T. N. Carver which appeared in Current History in April 1932:

"Fundamentally there are only two economic systems possible, though there may be various mixtures of the two. These two systems are based on two ways of getting things done. One way is to offer a reward for what you want done; the other is to command some one to do it and punish him if he does not. Accordingly, one economic system is carried on by contract, the other by authority."

Returning now to the Beard Plan, the author of the plan leaves us in some doubt as to which of these two forces, individual initiative and contract, or authority is to be the dominating force in putting his plan into action. He condemns in most vigorous language the degree of laissez faire which yet remains in our economic system, yet as the first step in his plan he proposes to repeal the anti-trust laws. These anti-trust laws are the outstanding feature of our economic system for the purpose of putting some limits on laissez faire when laissez faire results in private planning by collusion or conspiracy operating to the detriment of the general welfare. He refers with praise to city planning, which is a kind of planning with which I am highly sympathetic, but he presents an outline of national economic planning which is of an entirely different genus than modern city planning. City planning covers either things done as public enterprises or prohibited to private enterprise. The Beard plan covers things to be carried out as private enterprises. His plan of considering practically all our economic life as a business vested with a public interest, with some regulating body to fix prices so as to allow a fair return on prudent investment is in my opinion fantastic and unworkable. Who can have the knowledge to fix the correct price under all conditions, and how is the whole scheme to be enforced? It would take practically all personal initiative out of our entire economic life.

Let us now refer briefly to the Swope Plan and that of the Chamber of Commerce of the United States. In The Survey of March 1, 1932, Mr. Swope is quoted as follows:

"Granted freedom from the present restraints of the anti-trust laws what industry would endeavor to do would be to prevent over-production, and would regard as an unfair competitor any member of such trade association who, knowing the consuming power of the public and the stocks on hand in the possession of all members of the association, regardless of these facts built up a large inventory, which later must be sold at reduced prices, quite regardless of cost. Such practices are unfair to the competitors themselves and highly unfair to the labor employed; and such prices below cost for a brief period are of no lasting benefit to the consuming public."

The gist of the plan of the Chamber of Commerce of the United States is presented in the first of a series of propositions submitted to be balloted

on by local chambers. That proposition is, "The anti-trust laws should be modified so as to make clear that the laws permit agreements increasing the possibilities of keeping production related to consumption."

The Swope and the Chamber of Commerce plans are based on the same fundamental idea; viz., the permitting of industrial agreements to restrict production in order to uphold prices.

The essence of all the plans is an enormous extension of the principle of monopoly in our economic life. Though the Chamber of Commerce Plan proposes to restrict production to consumption, it must be recognized that consumption depends on price, and that the innocent looking proposal to regulate production to consumption means in effect to restrict production to what can be sold at prices considered to be fair by a privileged monopoly group.

That sort of planning may be in the interests of the privileged few engaged in these privileged industries, which would thus be protected from the competition of those who are thus denied an opportunity to work in these industries. But several important principles should not be overlooked: (1) Monopoly and restriction of output practiced by some economic groups operates to the detriment of other groups. It holds up prices in the privileged industries, and throws more labor into the competitive industries. This results in more production and still lower prices in the competitive industries. It is a fact that at least in part because this very unjustifiable practice is already so widely in vogue that farm products are selling at less than 60 per cent of 1909 to 1914 prices, while railroad labor is receiving over 230 per cent (in wages per hour) of 1909 to 1914 prices, freight rates are 145 per cent of the 1909-1914 level, and farm machinery is selling for more than double 1909-1914 prices. The rigidity thus introduced into our economic system is delaying recovery from the present depression. (2) Universal monopoly through universal restriction of production cannot promote the general welfare. (3) Our present troubles are not due to general over-production, but to unbalanced or maladjusted production, which will not be removed by stronger monopolistic influences in privileged groups, though this is disguised under the word planning. (4) Universal planning (monopoly) is inconsistent with freedom of action on the part of the individual, which is the distinguishing feature of a competitive order of society. Universal monopoly necessitates the adoption of some sort of socialistic or communistic system. (5) Agriculture will remain competitive even though industry becomes monopolistic by "planning," and will be "squeezed" by such monopoly worse than it is now.

I believe in planning, but I do not believe in allowing the popular catch word "planning" to place even a greater injustice upon those economic classes which are already receiving the least economic justice at the present time.

We are not yet ready for a static economic society, which is what much of the proposed economic planning appears to visualize.

There is no group of supermen able to plan the whole economic life of our 125,000,000 people. Intelligent social planning must keep the door to individual opportunity open. It must not permit the few to plan to conspire against the welfare of the many, which would be the result of much of the proposed planning. Planning as we have always planned can advantageously be developed. We have always planned, but often we have planned unwisely. We will continue to make mistakes in our planning. In my opinion the adoption of the major recommendations of our most widely advertised plans would be a most serious mistake.