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SOME PHASES OF SOCIAL ECONOMIC PLANNING

by

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SOME PHASES OF SOCIAL ECONOMIC PLANNING

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Two years ago, before the so-called "new deal" started, I presented a paper on "The Limitations of Social Economic Planning." That paper was partly in the nature of a forecast and now that many activities have been carried on in the name of planning, I want to reread some paragraphs from that paper with the wording changed, so as to eliminate the forecasts and apply the meaning to the past and present activities.

"The terms social and economic were combined in that and in this paper to designate the type of economic planning that has as its purpose general social welfare. Economic planning by classes or groups within society for their own rather than general welfare sometimes is very un-social in character and purpose and for contrast can be designated as private economic planning.

"Social economic planning is primarily a problem of balancing and compromising selfish interests of individuals and groups so as to secure a larger, more stable, and a better distributed income for all the members of that society.

"Private economic planning is planning by individuals or groups to satisfy their own selfish interests. The most important characteristic of private planning is that a larger income can be obtained by two somewhat opposite methods; (1) by plans to increase the income by operating more efficiently and (2) by plans that will get more in exchange for the products sold. For short I called these two methods of accomplishing the objectives 'producing more and cheaper' and 'extracting more from others.'

"A producer soon finds that as an individual his planning is limited almost entirely to how to 'produce more and cheaper.' He finds that he is almost helpless in 'extracting more from others' and therefore he joins cooperative associations, leagues for tariff protection, or signs codes and marketing agreements.

"These organizations neglect planning of how to produce 'more and cheaper' and concentrate their efforts on how to 'extract more from others.' The best way to get 'more from others' is to exercise some degree of monopoly control and to produce less.

"Much of the so-called economic planning for agriculture is un-social in character because it does not try to harmonize and balance the conflicting self-interests of agricultural and nonagricultural groups. Instead it forces or bribes farmers into the A.A.A. This governmental agency concentrates its efforts on monopolistic limitation of agricultural production so as to 'extract more' from the urban population. The excuse is that the agriculture has been depressed and exploited by the other groups and

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this type of planning will even things up. The effect on total social income does not seem to be considered.

"Most of the economic planning for other industries that is being tried is of this same unsocial character. It implies the regulation of production by each industry so that it may 'extract more from others' and get what it considers fair returns to itself, not what other industries or consumers can afford to pay. The objective seems to be to stabilize the value of past investments instead of adjusting such values to changing conditions. In order to do this the leaders suspended the anti-trust laws, or legal safeguard against organized selfish interest operating contrary to social welfare. Perhaps these laws needed some modification, but the principle of preventing selfish groups from 'extracting more from others' is a necessary part of social economic planning and therefore these laws should be reinstated until something better both in theory and practice can be instituted to take their place.

"The creation of new and larger codified industrial groups has not eliminated selfish interests but private planning by such groups has almost eliminated competition between members of the groups which was our old economic safeguard for preventing monopolistic practices. This necessitates a more rigid control by the central government than was implied in our anti-trust laws. Income taxes could be used to confiscate monopoly gains, but there would still be a social loss in letting these groups temporarily extract unreasonable profits by limiting production. The social loss is equal the amount of physical goods not produced or destroyed.

"The cause and effect relationship between the great number of variables involved in economic planning is like a multiple correlation problem with the number of interdependent variables increasing with the size and complexity of society and the degree of control of social planning attempted.

"The very complexity of the problem limits the degree of planning feasible in a nation as large as the United States. The best that can be done is to try to control what appears to be a few of the most important variables at a given time and hope for good results. If this doesn't work right, try controlling some other variables or the same variables in different directions.

"One of the chief limitations to social economic planning is the difficulty of getting even socially minded men without any selfish interest or pet theories to agree on what are the facts, what should be done to increase human welfare, and how to do it.

"Social economic planning may apply to either or both production and distribution but we have always expected our system of production to function as a system of distribution because production and distribution of income are closely interrelated; however, they are tied to each other in such a way that the connecting link sometimes keeps them together and sometimes holds them apart. Both may move up or down together, or for any subgroups, income may be pushed up by pulling production down. To remedy the evils from the lack of any other system of distribution, so many subgroups have tried to push up their incomes by price agreements and curtailment of production that there is not much left besides unemployment. Can

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we improve this sad state of affairs and create a new system of distribution by social economic planning of production alone?

"The basic assumption behind most of the so-called economic planning is that since production and distribution of incomes are linked together, careful planning of the production program will automatically correct or improve or create a better functioning system of distribution. No doubt there are some possibilities for improvement along this line, but the interrelation between all of the variables connected with production are so great that meddling with some of them usually makes matters worse. Very likely more progress could be made by placing the emphasis on planning the distribution of income.

"Due to the complexity of the problem, the inability of anyone or a committee of planners to fully understand and know how to manipulate the various forces to secure that indefinite thing called welfare, social economic planning tends to become limited to negative rather than positive action. By positive action I mean plans to increase welfare by making better utilization of resources so as to produce more with less effort. By negative action I mean the placing of checks, curbs, and restrictions on private planning to prevent the incomes of society from decreasing.

"Social economic planning of production is limited in a positive way to aiding groups by such methods as research and extension which help the individuals to 'produce more and cheaper', and in a negative way to preventing groups from 'extracting more from others.' Social economic planning of distribution also has positive and negative aspects. So far we have hardly scratched the surface of the negative aspects of planning distribution to prevent a concentration of wealth and income. Or income and inheritance taxes (partly ineffective from tax exemption) have not been and are not high enough to prevent unsocial accumulations of capital and control of resources. In a positive way society has done a little in the distribution of free lower education and semi-free higher education, but not much with recreation and health. We hardly recognize the biological needs of human beings as a basis for distribution except for a little C.W.A. and F.E.R.A. charity. Yet we fully recognize property rights and values by such acts as loans to banks, railroads, and farmers.

"I am in favor of a different type of income taxation not only for the purpose of financing the routine of government but one that recognizes welfare and distributes part of the income of society to human beings who deserve it. I am using the term deserve to mean a little more than just biological needs. I would not stop with just a dole to the starving unemployed. I'd include compensations to all producers who now as producers really need what they call surplus control. For example, instead of helping the cotton producers to extract more from the rest of society by plowing under cotton, let them sell all the cotton that can be sold at any price and then tax society and donate to the producers that need help. Call it a bonus, bounty, or what not. This would result in a much smaller social loss and it would be just as easy, if not easier, to adjust cotton acreage to demand by manipulating the amount of the relief funds than it is under the present schemes.

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"This illustration should not be interpreted to mean that it is wrong for the cotton producers or any other group to organize and limit productions or marketings so as to control what they call surpluses. Such control, however, must be considered as private economic planning to satisfy their own selfish interests and not social economic planning for the welfare of everybody. Let us hope that social economic planning may at least supplement private planning and increase social welfare."

This ends the quotations from my paper read two years ago. I have not changed my mind at all. I am still in favor of social economic planning, but I am more convinced than ever that we must recognize the distinction I have tried to make between private and social economic planning.

Up to the present time very little social economic planning has been tried by the Administration. It has been busy playing around with the most dangerous type of private planning. The individual producers have been forced into organizations to eliminate competition between members by monopolistic control so that the industry as a unit can get more from others by giving less in exchange.

A more dangerous type of competition has been substituted for the old kind of competition which was hard on the individual producers but usually good for society because it increased production. The new competition between codified groups results in less goods for all members of society.

For example, homes are not being built because codes have forced material costs up to near the boom year levels while wages and incomes have lagged so far behind that poor consumers cannot pay the codified prices for food and clothing and still have funds for building homes. The food producers, cotton farmers, textile mills, lumber and hardware manufacturers cannot all get a large share of a smaller consumer's income and therefore they all get less while the poor laborer who depends on construction for employment gets nothing but a little charity relief which he does not want. He wants work.

Of course, there are many other factors that affect the building industry, such as interest rates which are still 7 and 8 per cent to the borrower who can get any funds even at such high rates. Selfish interests permitted the creation of a home loan bank to loan themselves cheap money and funds for refinancing doubtful mortgages but they have fought against any laws that would make cheap money available to the people who want to build homes. A revival of construction would help agriculture more than the whole A.A.A. by giving more people some money to spend for agricultural products.

Consumers' councils were created in the N.R.A. and the A.A.A. to protect the consumers but these organizations were given almost no powers. We have heard very little about the consumer's organization in the N.R.A. since the socially-minded college professor resigned. The consumers' council in the A.A.A. is mainly a statistical organization. It publishes a bi-weekly bulletin which, aside from its price data, is primarily a propaganda sheet to justify the activities of the A.A.A. and is in no sense an expression of consumer point of view.

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However, consumers have less representation than is on most of the control committees or boards organized for each commodity or industry. To be a success consumers and the government should have at least one-half of the total vote or power in each case with the other half divided between producers and laborers. Under the present arrangements producers and labor have almost a free hand except that agricultural labor is not only the forgotten man but the excluded man coming under neither the N.R.A. or the A.A.A. Labor and capital both want higher prices and larger incomes for themselves so they cooperate to fleece the consumers and then stage a fight between themselves over the spoils.

In theory the N.R.A. was to increase employment and purchasing power by reducing hours of work and increasing wages. In practice it is difficult to say if it has accomplished any good. By making comparison with the month of March in 1933 when all banks were closed for nearly two weeks, great improvement can be shown, but most of this came before June when the N.R.A. codes really started. If we make comparison with 1931, the second year of the depression, we find that industrial production, wholesale prices, and factory employment are about up to the level of that year, but factory pay rolls are 15 per cent less. Construction now, in spite of all the talk about public works, is only half of what it was in 1931 and only a third of what it was before the depression. If we make comparison to other countries we find that the depression was a little worse in the United States but if we make comparison to 1928-29 instead of the low points, we find that they are as well off or better in spite of the N.R.A. However, it may be possible to show that corporation profits under the codes rose many fold from the low point, and it is quite well known that corporations were permitted to satisfy their selfish interests and pass on all increased costs plus unwarranted profits to consumers so that many are again paying regular and extra dividends.

The A.A.A. is based on some very peculiar theories and assumptions. I shall state some of these briefly:

(1) Farmers are assumed to have had lower incomes than comparable classes between 1920 and 1929 and since. The best facts I can find, as published in my article on "Wealth, Income and Living" in Journal of Farm Economics, July, 1933, show that this is not true.

(2) That 1910-14, the highest point ever reached in farm prices before the War is to be considered normal. Some of you may have read about the "High Cost of Living," The Country Life Commission, and other activities arising from the evils that existed then. However, those conditions are now assumed to be normal and desirable.

(3) That production should be adjusted to demand as measured by prices. If the consumers are unemployed and have low incomes and cannot afford to pay the prices desired by the private planning agencies, then the consumers are to be taxed and the funds used to pay the farmers for producing less so as to bring production in line with effective demand, disregarding human needs for food and clothing.

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(4) That by taxing purchasing power away from consumers and donating it to the farmers, they will buy so many more goods that employment in cities will be greatly increased.

Wouldn't employment be greater if consumers spent their incomes direct instead of having the farmers turn a large share of it over to the wealthy in interest payments?

Of course it was hoped that some of the funds extracted from others to be given to farmers would come out of retail, wholesale, transportation and processing margins. However, with smaller quantities to handle the necessary margins become larger and the unnecessary margins also tend to increase.

These processing taxes result in quadruple taxation of consumers. First by the taxes as taxes, second by higher prices, third by smaller quantities, and fourth by the fact that the retail sales taxes of many states tax the tax and the higher prices already imposed upon the consumer. No wonder many of us find it hard to make ends meet and almost impossible to continue making voluntary contributions to charity.

These two major activities of the "New Deal", the N.R.A. and the A.A.A. contain practically nothing that can be in any sense considered social economic planning. They are both large scale private planning by selfish interests and, unless controlled by laws, rules and regulations more powerful than the old anti-trust laws, will tend to do more harm than good.

A few of the other activities of the "New Deal" contain some characteristics of social economic planning, but on the whole they are financed by unsocial methods which tend to nullify the effects.

The most humane piece of proposed legislation which attempts to safeguard public health by establishing better pure food and drug laws has not been able to get by the selfish interests that would poison and fleece the consumers for the sake of money profits.

The truth in securities and stock exchange control bills are negative forms of social planning. They only attempt to prevent selfish interests from fleecing the public by the same old methods. Chances are that new methods and loop holes in the law will be found.

The C.C.C., C.W.A., and F.E.R.A. are forms of charity by which funds are borrowed from wealthy by tax exempt securities and split between grafters and the needy. But when do interest and principal payments start and who pays? The government cannot continue indefinitely by borrowing.

The T.V.A., the subsistence homesteads and the purchase of sub-marginal land may be steps in the right direction, but are on too small a scale to accomplish much in solving our major problems, and why should the government have to pay borrowed money for worthless land?

The purchase of silver is mainly soft soap to hush up the selfish silver interests. The devaluation of the dollar was a cowardly act to

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create fake revival while it lasted by avoiding the real problems and issues. This procedure might be repeated three or four times more before the bubble would burst. The monetary experiments, including loans to banks, railroads, farmers, and production control to raise prices, must all be grouped together as attempts to maintain past property values. Credit needs of farmers are stressed and falling land values deplored even though less than one-third of the farmers own their farms, nearly half rent from absentee landlords and a fourth from mortgage holders. Not much is said about corporations, but the N.R.A. has been a great help to them in maintaining unwarranted capital structures on which they must earn profits. It takes quite a stretch of imagination to find anything that looks like social welfare in rules and regulations that require efficient textile machinery to stand idle a fourth of the time, when a large per cent of the population is poorly clothed and Japan runs her mills over time and grabs the worlds markets.

Sooner or later social economic planning will be necessary. Human life, health and right to work will have to be placed above property rights and past dollar values. Welfare depends on abundance of goods and services while property values which are now so sacred depend on scarcity.

Most of the present activities called planning recognize that the fundamental problem is the distribution of income among members of society. But so far only large scale private planning has been attempted. These private plans try to increase income to favored groups by controlling production and extracting more from others instead of creating more income for everybody. Large scale private planning by selfish interests can never take the place of social economic planning, and such private planning does not become social in character by the simple process of creating government agencies sponsored by the same selfish interests to legalize the extraction of "more from others."

Do you realize that less than one-eighth of one per cent of the population get more than two-thirds of all the dividends paid by all corporations to individuals. That this same small group also gets most of the interest paid. That income from property in the form of dividends, rents, interest and royalties amounts to approximately one-third of the total national income and accrues to a very small percentage of the population, which really owns the property, or the still smaller percentage that controls most of the wealth of the country. So far practically nothing has been done to correct this maldistribution of wealth and income which is so skewed that to plot it on ordinary graph paper with the incomes of laborers and farmers about an inch above the zero or base line would require a strip of paper over a quarter of a mile in length and even then the largest individual incomes would fall beyond the end of the paper.

Equal distribution of wealth and income or communism would be disastrous but the present inequality is even more dangerous because if it is not checked and corrected it will lead to a complete breakdown of our economic system and to Fascism, Communism, or what have you to substitute for common sense and social justice.

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So far the activities called planning have concentrated the wealth and future incomes more than before the depression. Nearly ten billion of tax exempt bonds have been issued. Many of the old middle or lower classes have used up their small savings while the farmer and home owners have lost their equity and even if the property has been refinanced by the government, the holders of the government bonds are the real owners.

The President in his speeches has promised to do something about "driving the money changers from the temple" but so far he has only mortgaged the temple to them. The revenue act passed by Congress may plug up a few loop holes by which the rich escaped paying even a share of the taxes, but it does practically nothing about bringing about a redistribution of wealth and income on a more equitable basis which would make it possible for those American institutions which we glorify in songs and political speeches to survive.

Since the first draft of this paper was written, modifications have started in the N.R.A. and the President has delivered messages to Congress which indicate that we can expect legislation next year which will be more social in character and which will provide for more positive planning for social welfare. But he apparently hopes to do this by voluntary contribution and not by better distribution of incomes. Such legislation may not pass because the selfish interests that benefit from private planning are now better organized than ever before and will fight anything that may mean more income and security for the common people.