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## THE PRINCIPLE OF PLANNING AND THE INSTITUTION OF Laissez Faire

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There can be no secure peace in the world so long as its peoples are divided among absolute sovereignties. The divergencies of purpose among them will always cause irritations which sometimes must fail to stop short of the ultimate compromise of war. Sovereign nationalities function in a wider field than industries do; there is, for all that, a useful analogy between them. For industry is also organized in independent units which possess many of the attributes of nations. They have a purpose which they pursue with zeal and foresight; they may pursue it in all essentials, and provided they can reach agreement quietly among themselves, with no governance save of their own making. These purposes, being exclusive and single minded, and being carried out at the expense of competitors, frequently involve recourse to ultimate measures. These begin in the subtle fashions of diplomacy but often end in appeals to force.<sup>1</sup> All this is of the essence of *laissez faire*.

War in industry is just as ruinous as war among nations; and equally strenuous measures are taken to prevent it. The difficulty in the one case is precisely the difficulty in the other; so long as nations and industries are organized for conflict, wars will follow, and no elaboration of machinery for compromise will be altogether successful. There are vast, well-meaning endeavors being made in both fields which must necessarily be wasted. The disasters of recent years have caused us to ask again how the ancient paradox of business—conflict to produce order—can be resolved; the interest of the liberals among us in the institutions of the new Russia of the Soviets, spreading gradually among puzzled business men, has created wide popular interest in “planning” as a possible refuge from persistent insecurity; by many people it is now regarded as a kind of economic Geneva where all sorts of compromises may be had and where peace and prosperity may be insured.<sup>2</sup>

<sup>1</sup> We have a word in the United States which we apply somewhat indiscriminately to certain money-getting activities. We call them “rackets.” The term implies quick, easy, or questionable profits, something unethical by ordinary standards, perhaps not always outside the law, but not very far within it. The racketeer has come to mean one who makes money questionably and unfairly by appeals to violence to enforce his will. It is, however, not infrequently difficult to discriminate between what is a “racket” and what is simply “business.” There is a wide, shadowed area in which what is legal and what is governed by violence are not at all clear. And, in fact, the processes of the law are sometimes forms of pressure difficult to dissociate from violence, particularly when official corruption is involved. There is some business which is clearly not of the racket sort and some which clearly is. But all too often the origin and aims of more respectable businesses are illuminated by appeals to pressures, to the corruption of officials, even to violence.

<sup>2</sup> Cf. J. H. Rogers' comment on the price system and the Russian alternative in *America Weighs Her Gold*, 174 ff.

It is my belief that practically all of this represents an unconsidered adherence to a slogan, or perhaps a withdrawal from the hard lessons of depression years, and that it remains unrelated to a vast background of revision and reorganization among our institutions which would condition its functioning. Most of those who say so easily that this is our way out do not, I am convinced, understand that fundamental changes of attitude, new disciplines, revised legal structures, unaccustomed limitations on activity, are all necessary if we are to plan. This amounts, in fact, to the abandonment, finally, of *laissez faire*. It amounts, practically, to the abolition of "business."

This is what planning calls for. In spite of its drastic requirements it may be wanted by many people; most of us are not, however, entitled to the contemporary familiarity with which we toss about loaded phrases whose content is altogether unexplored. It is one thing to advocate a social change which is understood and wanted; it is quite another to consent to a movement whose implications are unexplored. These implications may change early consent to later and bitter opposition. This seems nearly certain to happen; the respectful assent which is commanded by the general proposals of the present is not to be counted on when action is required on more particular policies. For these will show quite clearly what sacrifices are required. Those who talk most about this sort of change are not contemplating sacrifice; they are expecting gains. But it would certainly be one of the characteristics of any planned economy that the few who fare so well as things are now, would be required to give up nearly all the exclusive perquisites they have come to consider theirs of right, and that these should be in some sense socialized. In a romantic, risky, adventurous economy the business of managing industry can be treated as a game; the spoils can be thought of as belonging to the victor as spoils have always belonged to victors. But a mature and rational economy which considered its purposes and sought reasonable ways to attain them would certainly not present many of the characteristics of the present—its violent contrasts of well-being, its irrational allotments of individual liberty, its unconsidered exploitation of human and natural resources. It is better that these things be recognized early rather than late.<sup>8</sup>

National planning can be thought of—in a technical rather than a political sense—merely as normal extension and development of the kind of planning which is a familiar feature of contemporary business. It is not as a technical problem that the idea gives us pause; it is that the implications for other institutions, which we may suddenly see too late, are likely to cause us finally to hesitate and to turn aside from the severe

<sup>8</sup> Mr. Ford Hinrichs has called attention to the mutually exclusive nature of some of the objectives simultaneously entertained by many of our business leaders who praise the idea of planning. *The Atlantic Monthly*, July, 1931.

logic of events. We have many illustrations of the extension of central office control over numerous units of the same industry, and even over various units of different industries which contribute to one product, such as motors, tires, telephones, or radios.<sup>4</sup> Even here technology has outrun institutional change. As Mr. Person puts it: "In the face of an integrating technology the government has attempted to preserve primitive forms of competition." And, although so inevitable a movement could not be stopped, it could be hampered and distorted. We might have had some such form of organization as the German cartel system if we had not set out so determinedly, forty years and more ago, to enforce competition.<sup>5</sup> Instead, we have curious contrasts in procedure and strange monstrosities of form which can be understood only by reference to uneven and intermittent official displeasures. Our industrial structures are reminiscent of weeds grown in the dark, and even those new coordinative features, which have grown in the somewhat brighter twilight of mere suspicion, present strange and unnatural features to be understood only by admission that the functions they profess to be organized for are less important than those which are hidden and unprofessed.

Still, there are a few industries which are wholly integrated or nearly so; and there are many others where integration has gone much further than anyone is prepared to admit. The difficulty with such illegal or extralegal development is that it teaches conspiratorial management; its leaders come to view the government and the public as fair objects of exploitation since their own natural functions are so unjustly repressed. This is important for our purpose because it has led business to represent itself as in some ways much more innocent and immature than it is; and at the same time has prevented the growth, in full light, of technical means of control. Trade associations—to illustrate—are permitted a certain liberty in "business activities"; but "observe that while those things which they may do tend to promote uniformity in details of productive technology and commercial practices, it is those things which they are not permitted to do which are essential to stabilization of an industry"<sup>6</sup>—es-

<sup>4</sup> Cf. Mr. Willard Thorp's familiar census monograph, *The Integration of Industrial Operation* (1924); also his contribution to *Recent Economic Changes*, "The Changing Structure of Industry" (1929). There are numerous relevant passages in the monograph prepared for the World Social Economic Congress by Mr. H. S. Person and published as Document 1 of Section 11 (1931).

<sup>5</sup> It is possible that not the cartel but the integrated, single-ownership enterprise might more readily develop in America. Mr. Domeratzky has shown the difficulties which attend the cartel organization; he appears to feel, after much consideration, that the cartel is rather a temporary device between small enterprise and industrial monopoly, not particularly well suited to other purposes than the limitation of production and the allocation of markets. Mr. Domeratzky develops these ideas in "Cartels and the Business Crisis," in *Foreign Affairs* for October, 1931, pp. 34 ff., as well as in earlier writings.

<sup>6</sup> H. S. Person, "Scientific Management as a Philosophy and the Technique of Progressive Industrial Stabilization," World Social and Economic Congress, 1931, Document 1, Section 11, p. 42.

sential, also, it might be said, to developing such a scheme of "practice" as belongs properly to successful permanent control. We have, at once, illuminating public examples of successful planning, and a hidden development, on a vast scale, of techniques which ought to be brought into the open. But we have enough evidence to make it clear that no technical difficulty bars the way to national planning. What deficiencies follow from its hitherto partly underground growth will quickly enough be remedied under different auspices.

The real barriers are all of another sort. Compared with them, the difficulties of co-ordination within industry are as nothing. In spite of our elaborate efforts of suppression there are highly integrated industrial organizations of vast size; if repressive efforts should cease, such working groups would spread quickly enough everywhere. The question is whether, up to this point, anything much more would have been gained. Perhaps some further economies would result both from more efficient management and from suppression of competitive wastes. But the essential problems would not have been solved. The paradoxes which face us would remain as unresolved as they were when Carlyle or Ruskin denounced the world which contained them or when Marx or George offered their hypotheses of cause and cure. All the essential conflicts would survive.<sup>7</sup>

It is impossible to pursue a discussion of planning beyond the most elementary considerations without raising the question of motive. Most economists, even today, believe that Adam Smith laid his finger on a profound truth when he said that not benevolent feelings but rather self-interest actuated the butchers and bakers of this world; most of them believe, furthermore, that this self-interestedness requires an economy in which profit is the reward for characteristic virtue and lack of it the penalty of sin. This belief must appear, from even an amateurish contact with modern psychology, to be so obviously an instance of wishful borrowing, as to give its persistence something of a stubborn and determined air.<sup>8</sup> For persons with the usual intellectual contacts of our time to go

<sup>7</sup> Only if we actually reach this point shall we discover lessons in contemporary Russian practice. But many observers are recording carefully the experience there which may later on be of assistance to us. Cf. for instance, my "Experimental Control in Russian Industry," *The Political Science Quarterly*, June, 1928. Also Hinrichs and Brown, "The Planned Economy of Soviet Russia," *The Political Science Quarterly*, September, 1931.

<sup>8</sup> There have been some strenuous attacks on the economists' naïve view of human nature. Cf. Carleton H. Parker, "Economic Motives," *American Economic Review*, *Sup. 1*, 1918, p. 212 (later published in *The Casual Laborer and Other Essays*, 1920); Paul H. Douglas, "The Reality of Non-Commercial Incentives in Economic Life," published in *The Trend of Economics*, 1924; A. J. Snow, "Psychology in Economic Theory," *Journal of Political Economy*, August, 1924, "An Approach to the Psychology of Motives," *American Economic Review*, *Sup. 1*, 1925, and the first chapter of his book *Psychology in Business Relations*; R. G. Tugwell, "Human Nature and Economic Theory," *Journal of Political Economy*, XXX, 317, and "Human Nature and Social Economy," *Journal of Philosophy*, XXVII, 449; Charles Horton Cooley, *Human Nature and the Social Order*.

on harboring these views, there has to be some violent rationalization. Surely they must be aware of the growing average size of our industrial organizations; and from this it is a simple conclusion that fewer persons all the time are profit-receivers in any direct sense. Surely they must be aware of the growing separation of ownership and control;<sup>9</sup> and from this it seems a fairly simple inference that since profits go only to owners, control is effectively separated from its assumed motive. As a matter of fact, how many railway men, steel workers, or even central office employees, have any stake in company earnings? We know that there are almost none; and that this is true from workman to superintendent in most industries. Yet in defiance of such well-known and obviously relevant facts we go on treating motives quite as though our knowledge of men and of industry had been derived from a few eighteenth century books rather than from any contemporary knowledge of the world and of men. The truth is that if industry could not run without this incentive it would have stopped running long ago.

It is even arguable that profits, instead of furnishing an indispensable actuating principle, tend to inject into industry many of those elements of uncertainty which we as economists unanimously deplore. For, being at the disposal of directorates largely divorced from productive operations, they are set aside as surplus reserves. These are intended as dividend insurance, though the intention may not result in accomplishment. But at the same time, they clearly produce insecurity everywhere else.<sup>10</sup> They are optimistically used for creating overcapacity in every profitable line; they are injected into money market operations in such ways as to contribute to inflation; they are used, most absurdly of all, as investments in the securities of other industries.<sup>11</sup>

<sup>9</sup> How serious and extensive this separation has come to be is just being revealed. Mr. W. Z. Ripley has referred to the problem. But the most extensive exposé is that of Mr. Gardiner Means in "The Separation of Ownership and Control in American Industry," *The Quarterly Journal of Economics*, XLVI, 68-100, November, 1931. Mr. Means is of the opinion that separation has gone so far that identification of ownership and management is no longer a tenable working concept. One of his most interesting exhibits is that of the Pennsylvania Railroad Company. "Not a single director or officer held as much as one-tenth of one percent of the total stock. The combined holdings of all the directors could not have amounted to more than seven-tenths of one percent and were presumably very much less." Where is the profit incentive to enterprise here? There is none, obviously, which is directly connected with the Railroad. There may be speculative profits from being a director; but that is another matter and is scarcely concerned with management, even remotely.

<sup>10</sup> Profits which are insured can hardly be useful as motives. Businesses by setting up these accounts seek to make certain that this reward will be paid whether or not the activity for which it is paid is carried out. This is only one more instance of the many to be discovered in actual business practice which contradict the claims made for profits as universally necessary motives.

<sup>11</sup> Surely the word "absurd" is not too strong. For a business to use its earnings to secure future earnings, not by increasing its own productivity, but by seeking to get dividends from other businesses, is to reduce profit-making to something less social, even, than entrepreneur business. Why should the allocation of our capital resources be at the disposal of enterprises which use them as a form of insurance for their own future profits, and, as a means to this, allocate capital to other enterprises? It would be difficult to devise a mechanism less relevant to the social purpose of capital.

If profits are really the actuating motive in modern enterprise, why is it that so great a proportion of them go to those who have no share in the control of operations; and why is it that industry continues to run even when those who run it have no major stake in its gains? But, most important of all, if profits are so important to our system, why do we allow them to be used in such ways as not only to destroy the source of future earnings, but to create unemployment and hardship amongst millions of people whose only contact with them in any form has been through reading about them in the newspapers?

It is clear that this institution does not, in any real sense, actuate our productive equipment. Furthermore its malign influence is reasonably obvious. Why is it, then, that we protect and argue for it with a violence and persistence out of all proportion to the gains we may expect? Because, it seems to me, we are not genuinely interested in security, order, or rationality. Profits, in the sense in which we use the term, belong to a speculative age, one in which huge gambles are taken, and in which the rewards for success may be outstanding.<sup>12</sup> When we speak of them as motives, we do not mean that the hope of making 4 per cent induces us to undertake an operation; we mean that we hope for some fabulous story-book success. These vast gambling operations are closer to the spirit of American business even yet, with all the hard lessons we have had, than are the contrasting ideas which have to do with constructive restraint and social control. In fact our business men have only a rudimentary conception of industry as a social function, as carrying a heavy responsibility of provision. Industry is thought of rather as a field for adventure, in which the creation of goods is a minor matter. Who among our millions of Wall Street amateurs hopes merely for dividends on his investment? Or who thinks of the securities he buys and sells as having anything to do with an economic function?

The truth is that profits persuade us to speculate; they induce us to allocate funds where we believe the future price situation will be favorable; they therefore have a considerable effect on the distribution of capital among various enterprises—an effect which seems clearly enough inefficient so that other methods might easily be better; but they have little effect in actually inducing or in supporting productive enterprises. All this appears merely from examination of the evidence available to us as economists; if we look into the evidence from the field of psychology, one of the first things we discover is that this main supporting generalization—that the only effective motive for enterprise is money-getting—appears in the psychologists' works as a standard humorous reference to the psychological ideas of laymen.<sup>13</sup>

<sup>12</sup> Cf. the discussion of this matter in Mr. John Dewey's *Human Nature and Conduct* (p. 217 ff.).

<sup>13</sup> In Charles Horton Cooley's *Sociological Theory and Social Research* there is an old essay of his on "Personal Competition" which contains some trenchant remarks

It would be untrue to maintain that profits do not supply one kind of motive for economic activity. Business, as we know it, is perhaps chiefly interested in them. This is to emphasize, however, the speculative rather than the disciplined aspects of production. To say that this is one of the institutions which will have to be abandoned if planning is to become socially effective, is to make a sharp distinction among the effects to be expected from dependence upon alternative motives. There is no doubt that the hope of great gains induces enterprise of a sort; and if these are disestablished, a certain kind of enterprise will disappear. The question is whether we cannot well afford to dispense with it. It seems credible that we can. Industries now mature can be seen to operate without it; and new ones might be created and might grow from sheer workman-like proclivities and without the hope of speculative gains.

As we look back at our present system from some time in the future it will be much clearer to us what kind of activities actually were induced by this incentive. At present it is possible to suspect that the decay of the gain-getting motive as an inducement to productive enterprise may have been accompanied by its transfer to essentially antisocial activities. Corporation officers pay too little attention to their duties and too much to the ticker-tape; inside rings exploit the businesses under their control; market cornering and supply limitation become favorite methods of gain-getting. All these and a thousand other activities have far less to do with the productivity of our system than is implied in our easy explanation that gains are the reward for initiative and enterprise and are necessary to call them out. A large share of the initiative and enterprise thus called out might better, perhaps, have been left uncalled, since it obstructs rather than facilitates; we count it good, however, since we reason backward also. Profits are necessary to call out enterprise, we say, but we then say, enterprise called out by profits is necessary—which is not true at all. Nor are they always used advantageously.

Most of us ought not to have been quite so free in our predictions that the institutions of Soviet Russia would break down from a failure of motive. Yet some of us have gone on saying that even in the face of evidence. Not more than a month ago a past president of this association assured me again, as he had done before, that here was the source

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about motive. In it he shows how our standards of success have been warped and the need there is for social approval of different activities than command it now. A final paragraph sums up the matter: "It will be apparent, I think, that the view regarding the nature of success here maintained is decidedly a hopeful one so far as concerns the possibility of progress, and wholly opposed to the pessimistic attitude based on the supposed 'selfishness' of human nature and the inevitable predominance of the economic motive. The motive that really predominates, now as in the past, is essentially social and moral; it is the desire to be something in the minds of others, to gain respect, honor, social power of some sort. This being the case human endeavor is above all things plastic, controlled by the spirit of the age. The standard of success, and with it the whole character and tendency of competition, is a social or moral phenomenon accessible to human endeavor."

of weakness which must finally ruin all the Russian plans. There are numerous difficulties there, plenty of chances for failure; but the failure of non-commercial motives cannot honestly be said, at this late date, to be one of them. Nor is this a source of necessary alarm—any more than the technical difficulties need be—concerning any planned economy we may devise. It ought rather to be a source of wonder that a society could operate at all when profits are allowed to be earned and disposed of as we do it. The hope of making them induces dangerous adventures, more speculative than productive; and the uses to which they are put are a constant menace to general security. These conclusions only become clearer as time goes on, yet no movement to limit them or to control their uses has made headway among us.<sup>14</sup> If there had been a more widespread suspicion of this sort over some period of time there would be more reason to expect success for proposals looking toward a profitless régime. The universal confidence in profits, still unshaken in the Western World, is quite likely to hinder measurably the advance of planning.

A central group of experts charged with the duty of planning the country's economic life, but existing as a suggestive or consultative body only, without power, has been advocated by numerous persons and organizations.<sup>15</sup> It is quite impossible to visualize a genuine Gosplan with-

<sup>14</sup> This broad statement would need to be modified in the case of some quasi-public businesses. The Transportation Act dealt with the problem of railroad profits. In certain other ways we sometimes limit the uses of surplus reserves. The part played by these in the call money market during 1928 and 1929 is now well known. In October of 1929 "loans for others" reached a peak of nearly four billion dollars. These loans, of course, were induced by high call-money rates and were unaffected in any direct or effective sense by Federal Reserve discount policies. It was thus the profits of the previous prosperity period which were used to support security inflation. When this crashed so disastrously, profits were made insecure for some time to come. Evidently this is a bad way to use profits even from the point of view of profit-makers. This was recognized by the New York Clearing House Association in 1931. An amendment to the constitution now prohibits member banks from placing brokers' loans for account of non-banking interests. Other associations may follow. Perhaps the New York Association was led to take this action by the withdrawal rather than the injection of these funds into the speculative markets. For these "loans for others" were reduced from nearly four billion dollars in 1929 to one hundred sixty-two million dollars in 1931, thus contributing to disastrous deflation instead of helping to ease down immoderate inflation. Whatever the motive, however, the action of the Clearing House Association is a recognition that the use of undistributed profit-funds must be controlled. Any system of planning would have not only to hedge them about with restrictions, but to direct their uses—if, by that time, it had not been made impossible for them to be accumulated.

<sup>15</sup> For instance by Mr. Gerard Swope of the General Electric Company; also by the Committee on Continuity of Business and Employment of the Chamber of Commerce of the United States. Mr. Sumner H. Slichter discusses the problem in his *Modern Economic Society* (pp. 872-886) but is under no illusions whatever as to the likely results. He does not think it worth while even to consider the possibility of institutional changes which would implement the findings of such a body; and it is perhaps true that even a moderate maintenance of prosperity would prevent such a development. There may come another time, of course, such as occurred in 1914-18 when all institutions are melted in disaster so that they may be refashioned after quite unfamiliar designs. The theoretical temper of our time would certainly favor central planning as the heart of any newly devised scheme of control. The Swope plan evidently originated in the concern of a sensitive executive for the employees of his company. It is inter-

out power; but, of course, this is not to be a Gosplan. It might lay out suggested courses; it might even timidly advise; but certainly its advice would seldom, if ever, be taken. It would be as unnatural for American businesses, which live by adventures in competition, to abdicate their privileges voluntarily, as it is to expect rival militarists to maintain peace, and for the same reasons. If an institution of this sort could not be used as a mask for competitive purposes or as a weapon to be used against more scrupulous rivals, as the Federal Trade Commission has sometimes been, it would quickly gather about itself a formidable body of enemies armed with tried theoretical objection as well as real power. The chief concern of militarists must always be to maintain the conditions of war; and the chief concern of essentially speculative businesses must always be to maintain the conditions of conflict necessary to their existence. The deadliest and most subtle enemy of speculative profit-making which could be devised would be an implemented scheme for planning production. For such a scheme would quiet conflict and inject into economic affairs an order and regularity which no large speculation could survive. Every depression period wearies us with insecurity; the majority of us seem all to be whipped at once; and what we long for temporarily is safety rather than adventure. Planning seems at first to offer this safety and so gains a good deal of unconsidered support. But when it is discovered that planning for production means planning for consumption too; that something more is involved than simple limitation to amounts which can be sold at any price producers temporarily happen to find best for themselves; that profits must be limited and their uses controlled; that what really is implied is something not unlike an integrated group of enterprises run for its consumers rather than for its owners—when all this gradually appears, there is likely to be a great changing of sides.

Strange as it may seem—directly antithetical to the interests of busi-

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esting that this typical business document should have arisen out of a particular problem and have proceeded to the consideration of general relationships only reluctantly and partially. Mr. Swope understood that if his employees were to have even a measure of his own security and confidence in the future there must be a stability, which its most enthusiastic defender would not claim for it now, in the whole structure of industry. No one business, Mr. Swope saw, could achieve it alone. There must be common action throughout entire industries. Beyond this, he made only the suggestion of "supervision" by a public body.

The Chamber of Commerce committee *Report on Continuity of Business and Employment* recommended certain long-time measures as likely to assure relief from recurrent depression. The central problem was formulated as "the establishing of a better balance between production and consumption." It is seen that this must mean the restraint of certain liberties: "A freedom of action which might have been justified in the relatively simple life of the last century cannot be tolerated today, because the unwise action of one individual may adversely affect the lives of thousands. We have left the period of extreme individualism and are living in a period in which national economy must be recognized as the controlling factor." This might be thought to be the prelude to suggestions for rigorous control. But what follows is only a suggestion for a "National Economic Council" with advisory duties. Furthermore this is not to be a governmental body but one responsible to the Chamber of Commerce.

ness and unlikely to be allowed freedom of speech, to say nothing of action—it seems altogether likely that we shall set up, and soon, such a consultative body.<sup>16</sup> When the Chamber of Commerce of the United States is brought to consent, realization cannot be far off.<sup>17</sup> It seems to me quite possible to argue that, in spite of its innocuous nature, the day on which it comes into existence will be a dangerous one for business, just as the founding day of the League of Nations was a dangerous one for nationalism. There may be a long and lingering death, but it must be regarded as inevitable. Any new economic council will be hampered on every side; it will be pressed for favors and undermined by political jobbery. It will not dare call its soul its own, nor speak its mind in any emergency. But it will be a clear recognition, one that can never be undone, that order and reason are superior to adventurous competition. It will demonstrate these day by day and year by year in the personnel of a civil service devoted to disinterested thinking rather than romantic hopes of individual gain. Let it be as poor a thing as it may, still it will be a constant reminder that once business was sick to death and that it will be again; that once the expert is applied for, his advice must be taken or refuted. Even if it does so little, and that so badly, as hardly to exist at all, it will still have had a different purpose: the achieving of order. And not improbably it will have been demonstrably wiser than the powers which will be creating the events surrounding it.<sup>18</sup>

<sup>16</sup> Mr. L. L. Lorwin distinguishes four possible types of these bodies which he calls: (1) The absolute socialist type, (2) the partial state socialist type, (3) the voluntary business type, and (4) the social-progressive type. I have not thought it necessary to follow this distinction very closely, though it is helpful as a guide to the present large output of plans, because it seems to me quite clear, for reasons I develop, that they all come to the same thing—or will not work. There is really very little choice in the long run; our industrial technique is very fully developed and it is of a certain sort and not otherwise. Any plan must contain and complete it or it will fail. We might once have had the choices suggested by such a classification. We no longer have them.

<sup>17</sup> Committee on Continuity of Business and Employment, Report No. 12 (Oct. 2-3, 1931). Most industrial leaders, with a few notable exceptions, favored the La Follette bill in its Senate hearings. This would, of course, set up a fairly harmless advisory body. But, in contrast to the Chamber of Commerce recommendations, it would be an organ of government.

<sup>18</sup> Hearings on the La Follette bill to establish such a national council have shown something, in spite of the reticence of business leaders, concerning attitudes. They are willing, just now, to try anything, but are not hopeful of results. Mr. Sloan, for instance, asked whether he would endorse the idea of a council, answered that, in his opinion, "we wouldn't get very far. There is too much individuality in business. I don't think we have reached the point where individual manufacturers will give up something for others." And he went on to say that the economic council idea, would in its final form result from evolution and experience. Mr. Wiggin, on the same day (Oct. 30, 1931, as reported in *The New York Times* for Oct. 31, 1931) answered Senator La Follette's question, "You think, then, that the capacity of human suffering is rather unlimited?" by saying, "I think so"! He was asked whether he thought a council could have had any effect in checking the excessive expansion of 1929 and replied, "I don't think so." "Then," said Senator La Follette, "I take it you believe that there is nothing which can be done which will be effective in saving us from these great fluctuations in business activity which we have been experiencing?" Mr. Wiggin answered: "I do not think so. A man only lives so many years, and his experience only lasts with him so many years. New generations succeed and they will make the same blunders. . . ."

These will, however, be the only ways in which the qualities of a planning body will be able to show themselves. It will be unable to act and therefore unable to eliminate uncertainties; uncertainties make prediction impossible; and planning is a process of predicting and making it come true, not merely a matter of advising voluntary groups. Mr. Slichter is quite justified in pointing out that no scheme we are likely to adopt would be able to do its work effectively. He asks for instance: "Could it prevent depressions? Could it prevent the great overdevelopment of industries? If a council had been in existence as early as 1920, could it have checked the great overdevelopment of the textile industry, the shoe industry, the coal industry, the petroleum industry, the automobile industry, and others? Could it have solved the farm problem? Could it have prevented the depression of 1930 or substantially reduced the severity of the depression? Could it have prevented our foreign trade from being injured by a general upward revision of the tariff in 1930?"<sup>19</sup> And he is certain that the answer to all these questions is "no."

The answer has to be "no" because the necessary conditions of planning are not established by any "purely advisory National Economic Council." An advisory council might guess but it could not plan; and the difference between guessing and planning is the difference between laissez faire and social control. Under the institutions of laissez faire the sole uses of such a body will be to lead us slowly, by precept and demonstration, toward a less uncertain future. It seems improbable that this will be other than a very reluctant and grudging change.<sup>20</sup>

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Human nature is human nature. Lives go on so long as business activity goes on and we are bound to have conditions of crisis once in so often. You may learn from each one how to avoid that particular difficulty the next time, but you are always going to have, once in so many years, difficulties in business, times that are prosperous and times that are not prosperous. There is no commission or any brain in the world that can prevent it."

I believe that Mr. Wiggin was right and extraordinarily honest. No commission, no brain could prevent crisis in business; which is why business is slowly being condemned and new schemes are being considered for taking over its function.

<sup>19</sup> Sumner H. Slichter, *Modern Economic Society*, p. 876.

<sup>20</sup> For many years I was puzzled to know why so much opposition to any extension of government functions existed. It was only gradually and with patient inquiry that I satisfied myself. The reason was that business kept any government corrupt that touched it anywhere. This seemed to be a part of the business system, no more considered wrong by business men than ordinary buying and selling. And wise observers who had seen it going on always and everywhere had concluded that it was of the nature of government to be corrupt and inefficient and that no really important matters, such as economic functions, ought ever to be trusted to it. A longer time still was required to reach the conclusion that all these wise men were wrong about causes. And because they were wrong about this their whole thinking was askew. The trouble lay in the nature of business, and so long as business was left unchanged as to motive and method it would continue to corrupt every government it touched. But it could not be reasoned that, because business had paralyzed governmental organs, governments were inherently bad and ought never to be trusted. Revise business; arrange things so that man's capacity to corrupt the public services is seriously limited or removed, and then—only then—we shall have a chance to see whether the public interest, as over against private interests, could command effective and honest service. From what I know of human nature I believe that the world awaits a great outpouring of energy so soon as

In another place I have pointed out the analogy between the serialization of machines within a factory and the development of a continuity of process throughout industry. The one instance is that of machine linked to machine until the series is finally complete; the other instance is that of process linked to process until a strong web of dependence and contract is completely woven. The analogy can be pursued further. One of the features of recent industrial history, which found us altogether unprepared, was the astonishing capacity for production which seemed suddenly to show itself everywhere in the twenties. Its sudden unexpected appearance has led to absurd and ludicrous subterfuges; even economists have not been entirely innocent of these. I had supposed that one of the stock illustrations of economic fallacy, one which could always be depended on, would continue to be the one which illustrated the futility of making work. Numerous varieties of this old common-sense error have suddenly become respectable in recent months. We have all been asked to assent to the necessity for the stretch-out, for reducing hours of work in the day and even days in the week; we have even heard arguments against efficiency and mechanization; and whole cities and states have gone frankly into efforts for making work. Most economists have either kept silent or have contented themselves with mumbling something about long- and short-runs.

This confusion is the natural result of our lateness in bringing the science of economics even to the observational stage. If we have been watching, describing, analysing industry as we should, we must have known that the greatest economic event of the nineteenth century occurred when Frederick W. Taylor first held a stop watch on the movements of a group of shovelers in the plant of the Midvale Steel Company. And we must have understood, when *Shop Management* was published in 1903 that, perhaps a generation later, the world could be overwhelmed with goods. Taylor had already done his greatest work by then, and notice of it had been sufficiently public if there had been economic ears to hear. Instead of that, writing and teaching went on undisturbed, the subject matter becoming more and more traditional. Perhaps most ironical of all, in view of the coming surplus, was all the emphasis on laws of diminishing returns and the limited number of the seats at nature's table. The forces which were to make the future went unnoticed.

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we shall have removed the dead hand of competitive enterprise that stifles public impulses and finds use only for the less effective and less beneficial impulses of men. When industry is government and government is industry, the dual conflict deepest in our modern institutions will be abated.

This is one of the basic reasons why the prospect of a planned economy is so congenial to every other hope and belief I have. I can see in it the eventual possibility of a rewarded honesty for every man which so few have now. And this can come only from a removal of the activities of goods-making and goods-selling from the list of those activities which are treated as games and rackets with few rules, no ethics, no limitation of instruments to be used, and rewards only for results which in the nature of things must involve social harm.

The world is paying now for this dogmatic dream of the economists. And we seem not to have discovered even yet the sources of these floods of goods; we have no idea how they can be regularized and made available to consumers; we have no notions, beyond the foolish and despairing ones which we ourselves reject in ordinary times, what our policies ought to be in days of disaster. We have talked freely about the failure of business men and statesmen; it is time we accepted our share of the responsibility.

If we had had eyes to see the implications of Taylor's work we should have known that the vast expansion of production which must follow would clog all the old channels of trade, swamp the mechanisms of an artificially limited commerce, and end in a period of violent reconstruction. Some of the sufferings of the present might possibly have been avoided. We failed to understand because our eyes were blind to the technology which was revolutionizing the materials of our science. It is important that this should not continue to occur; it will not if we agree that economics is an observational, even if not yet an experimental, science, and if we hereafter agree to search out the consequences of technological change.

When Taylor reduced human working motions to defined elements, they were then of the sort that machines could perform; when machines took over these simplified tasks, one by one, there came a time in every process when the speed and rhythm of the whole was still dictated by a few, or even one, unmechanized task which men must still perform. Human failure periodically disrupted such a plant, there was blocking and choking, confusion and disorder, until a period of slackening and slowing started things going again. But when this last gap between machines had been closed, the whole process could be thought of in new and revolutionary ways. Nothing but product and costs counted any more; men as workers no longer dictated; and there was an end to confusion, and to periodic disruption. The revolution of our industry still lingers in this stage; not all our processes have discovered this final efficiency. But it will not linger there for long. The clearing away of the present debris, and the years of expansion to come will surely witness the emergence of this new technology, matured and pervasive. Shall we be unready again for the floods of still cheaper goods?

The changed attitudes and rhythms which follow the completion of machine series within the factory are quite like those which may take place in another area. Industry after industry may follow the half-dozen now fairly rationalized; each may use in its own plants the new technology of work-elimination; each may solve its own problems of control and coordination. But it will all end again in just such a disaster as we are struggling through now unless we take the final step of linking each to each. Unless we learn that the structure and rhythm of *laissez faire* are

inconsistent and anachronistic concomitants of such technology as soon will infuse the industrial process, confusion and disorder will prevail whenever the wilful pursuit of business privileges, as we still know them, chokes the smooth interchanging flow logically belonging to the system of industry, but never yet achieved by human management.

It is necessary to realize quite finally that everything will be changed if the linking of industry can finally be brought to completion in a "plan." It was a reluctant and half blind step which led one executive after another to complete the serialization of his machines. And even then he was sometimes astonished at the results. This new undertaking is vaster; it requires a new and complicated technology which is not yet wholly invented; and it follows not from one executive's decision, but from a thousand preliminary consents, abdications, and acceptances of responsibility. Yet to enter upon it would be to take but a single short step from where we are; the most momentous and final, but still a short one. We have traveled a long road to this threshold we now consider crossing.

The setting up of even an emasculated and ineffective central co-ordinating body in Washington will form a focus about which recognition may gradually gather. It will be an action as significant as the first observations of Taylor; and it can lead eventually to the completion and crowning of that genius' work. The major subject matter of economics during the next few years might well be a particularizing of the implications of this. For we have a century and more of development to undo. The institutions of *laissez faire* have become so much a part of the fabric of modern life that the untangling and removing of their tissues will be almost like dispensing with civilization itself. We shall all of us be made unhappy in one way or another; for things we love as well as things that are only privileges will have to go. The protective vine makes the ruined wall seem beautiful; we dislike abandoning it for something different. But we shall have to see, no doubt, a wholesale sacrifice of such things, like it as little as we may.

The first series of changes will have to do with statutes, with constitutions, and with government. The intention of eighteenth and nineteenth century law was to install and protect the principle of conflict; this, if we begin to plan, we shall be changing once for all, and it will require the laying of rough, unholy hands on many a sacred precedent, doubtless calling on an enlarged and nationalized police power for enforcement. We shall also have to give up a distinction of great consequence, and very dear to many a legalistic heart, but economically quite absurd, between private and public or quasi-public employments. There is no private business, if by that we mean one of no consequence to anyone but its proprietors; and so none exempt from compulsion to serve a planned public

interest. Furthermore we shall have to progress sufficiently far in elementary realism to recognize that only the federal area, and often not even that, is large enough to be coextensive with modern industry; and that consequently the states are wholly ineffective instruments for control. All three of these wholesale changes are required by even a limited acceptance of the planning idea.

Planning is by definition the opposite of conflict; its meaning is aligned to co-ordination, to rationality, to publicly defined and expertly approached aims; but not to private money-making ventures; and not to the guidance of a hidden hand.<sup>21</sup> It is equally true that planning in any social sense cannot leave out of its calculations any industry or group of industries and still remain planning. To do so would be to expose the scheme to the very uncertainty which is sought to be eliminated and to concentrate its advantages in the hands of the nonco-operators. It would be easy for any free industry to erect an empire if all or even many of the others were restricted. It will be required, furthermore, in any successful attempt to plan, that the agency which imposes its disinterested will on industry, must equal, in the area of its jurisdiction, the spread of the industry. Planning will necessarily become a function of the federal government; either that or the planning agency will supersede that government, which is why, of course, such a scheme will eventually be assimilated to the state, rather than possess some of its powers without its responsibilities.<sup>22</sup>

The next series of changes will have to do with industry itself. It has already been suggested that business will logically be required to disappear. This is not an overstatement for the sake of emphasis; it is literally meant. The essence of business is its free venture for profits in an unregulated economy. Planning implies guidance of capital uses; this would limit entrance into or expansion of operations. Planning also implies adjustment of production to consumption; and there is no way of accomplishing this except through a control of prices and of profit margins. It would never be sufficient to plan production for an estimated demand if that demand were likely to fail for lack of purchasing power.<sup>23</sup> The insurance

<sup>21</sup> "The laissez-faire of the nineteenth century was based upon a metaphysics of providential guidance. The planning of the twentieth century rests its case on a philosophical faith in the power of man to promote orderly economic and social change." L. L. Lorwin, *op. cit.*, p. 31.

<sup>22</sup> I mean, of course, that only government, in the widest sense, can protect and foster the arts, education, and other similar interests which compete with industry and would do so more formally under any planned division of the national income.

<sup>23</sup> The chief instruments which have been able to develop, under laissez faire, toward order and regularity, have been those "trade associations" referred to before. They serve as illustrations both of the possibilities and the limits our system offers. For, as Mr. Soule has pointed out, they lead to contraction and limitation but offer nothing in the way of enlarged ways of living. If we were to pursue the logic of this development we should have industries organized; we should have control established over production and price. So far the results would doubtless be good. But we should also have production limited to the amounts which would regularly be absorbed by con-

of adequate buying capacity would be a first and most essential task of any plan which was expected to work. To take away from business its freedom of venture and of expansion, and to limit the profits it may acquire, is to destroy it as business and to make of it something else. That something else has no name; we can only wonder what it may be like and whether all the fearsome predictions concerning it will come true. The traditional incentives, hope of money-making, and fear of money-loss, will be weakened; and a kind of civil-service loyalty and fervor will need to grow gradually into acceptance. New industries will not just happen as the automobile industry did; they will have to be foreseen, to be argued for, to seem probably desirable features of the whole economy before they can be entered upon.

This sweeping statement of the logic of planning is simply an attempt to foresee what our economic institutions will be like if we adopt the planning principle. We shall not, we never do, proceed to the changes here suggested all at once. Little by little, however, we may be driven the whole length of this road; once the first step is taken, which we seem about to take, that road will begin to suggest itself as the way to a civilized industry. For it will become more and more clear, as thinking and discussion centers on industrial and economic rather than business problems, that not very much is to be gained until the last step has been taken. What seems to be indicated now is years of gradual modification, accompanied by agonies and recriminations, without much visible gain; then, suddenly, as it was with the serialization of machines, the last link will almost imperceptibly find its place and suddenly we shall discover that we have a new world, as, some years ago, we suddenly discovered that we had unconsciously created a new industry.

These struggles and changes may seem to the future historian who

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sumers at prices dictated neither by a constant ratio to costs nor social need for the goods, but only by the industry's conception of its own best interests. This will never be good enough in any social sense to command permanent assent. Besides, the profit fund will always, after a period of expansion, find itself embodied in overbuilt enterprises whose goods cannot be sold. In spite of these obvious difficulties this is doubtless the direction of our development. Mr. F. M. Feiker of the Bureau of Foreign and Domestic Commerce, speaking on November 30 before an organization of brokers, referred to the well-known fact that his Bureau was already co-operating with 142 associations to assist them in planning. He even implied that his Department might soon suggest a plan for industry as a whole. To one whose mind is free of *laissez faire* dogma the peroration of this address must seem to furnish a curious *non sequitur* to its general implications. For, after referring to the many approaches to planning in individual industries, and saying something indefinite about a general plan, he finished in this way: "This program must conform to the fundamental American principle of individual initiative and individual achievement for individual reward. It cannot be imposed by fiat or decree. It must in the end rest upon the intelligence and ingenuity of the American business man. Economic planning by ukase is not for us." Having achieved the feat of getting the word "individual" into one sentence in three places, and having eliminated experts in favor of business men, he thus was able to point to a highly expert and carefully socialized effort of the government as after all quite harmless and ineffective.

looks backward, like the purposive journey of a seedling toward the light. The seedling could not see or feel that light; it merely obeyed its nature. If only society had a greater and more widely diffused power to comprehend and pursue the purposes of its nature we should save ourselves the great waste of energy which goes into opposing and regretting change. The difficulty with this is that society is not an organism; that it has no discoverable nature to obey; that there are no natural requirements for its development. We are not going anywhere; we are merely on the way. For this lack of the purpose, which nature kindly supplies to her lower organisms, society must substitute plans born of intellectual effort, and imposed by awkward democratic devices. This is a hard condition for human nature. We have no great gift for shaping our behavior in accordance with large aims, and no great gift either for tolerating the necessary disciplines. It has been by a series of seeming miracles that we have acquired the technique of control and the industrial basis for economic planning. The still further, perhaps greater, miracle of discipline is needed.

It is perhaps no accident that planning has recently become a center of discussion in economic affairs in substitution for *laissez faire*. Changes in contemporary philosophy have prepared the way. Chance has substituted itself for the anthropomorphic interpretation of history as a causal sequence. Even the evolutionary principle has the defect, in social history, of making the present seem to have been what we were struggling for. Of course we were not trying to attain any of the institutions we have. They resulted from the chance conjunction of changes. Only the backward look, determined by the view from some contemporary hillock, gives history a meaning. We have, nevertheless, as we are just now dimly beginning to see, the possibility, in a world of discontinuous development and chance combination, of producing a new history guided quite consciously toward foreseen ends.

There is something hostile to mankind in the cold notion of a world which progresses toward unseen ends, regardless of human desires. So long as it was possible we tried to delude ourselves, in one way or another, that purpose existed and that it had a definite reference to mankind. All that comfort is torn away now; and we remain poor, inconsequent creatures exposed to chance developments which are neither kind nor unkind with reference to ourselves, but simply impersonal. It is perhaps characteristic of human nature that we should reject such a view until it became intellectually impossible to cherish our delusions further; and that we should then turn to the only alternative. If there is no order and sequence in events, if the world is indifferent to man, we still remain men. It is perhaps the most magnificent of all human gestures to accept inconsequence and to set out determinedly to bring order out of chaos. I do not regard it as settled that the world is ready, yet, for creating its future according

to a determined purpose.<sup>24</sup> But we are at the point where discussion of this possible mastering of future history is beginning to assume practical aspects; and there is undoubtedly some need for haste if change is to come peaceably. It is my view that the prospective discussion ought to be carried out with a clear view of its philosophical implications and of its institutional requirements. If we accept the principle of planning we must accept its implied destruction of the structure of a *laissez faire* industry.

It is, in other words, a logical impossibility to have a planned economy and to have businesses operating its industries, just as it is also impossible to have one within our present constitutional and statutory structure. Modifications in both, so serious as to mean destruction and rebeginning, are required. It is strange, in a way, that we should have come so long a journey to the very threshold of this new economic order with so little change as is yet visible either in our institutions or our intentions. The reason must be that in this, as in so many instances, only the last steps become conscious. We are incorrigibly averse to any estimate of the logic of our acts; and we are also, somewhat paradoxically, fonder of our systems of theory than might be expected, reluctant to expose them to the tests of reality. Consequently we begin with small unnoticed changes and end by not being able to resist vast and spectacular ones—at which time our systems of theory tumble unwept into the grave along with the outworn techniques they accompanied. When this kind of thing follows a relatively unimpeded course there is rapid industrial change such as once happened in England; when politicians, theorists, and vested interests resist too strenuously, there is a revolution on the French model. How rapidly the pressures rise to explosive proportions depends both upon the visibility of a better future and upon the hardships of the present.

There is no denying that the contemporary situation in the United States has explosive possibilities. The future is becoming visible in Russia; the present is bitterly in contrast; politicians, theorists, and vested interests seem to conspire ideally for the provocation to violence of a long-patient people. No one can pretend to know how the release of this pressure is likely to come. Perhaps our statesmen will give way or be more or less gently removed from duty; perhaps our constitutions and statutes will be revised; perhaps our vested interests will submit to control without too violent resistance. It is difficult to believe that any of these will happen; it seems just as incredible that we may have a revolution. Yet the new kind of economic machinery we have in prospect cannot function in our present economy. The contemporary situation is one in which all the choices are hard; yet one of them has to be made.

<sup>24</sup> Cf. the final chapter in Mr. John Dewey's *Philosophy and Civilization*, especially the passage on page 329 in which he attributes our backwardness in social knowledge to our failure to use our already acquired skills in the interest of a "shared abundant and secure life."