The Ideological Foundations of Western European Planning

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I

Before World War II had ended in Europe, leaders of the various national Resistance movements had developed what could be called a Resistance 'vision' of the postwar politico-economic future of western Europe. Resistance writers explained the easy occupation of their countries by the German foe in terms of the economic weakness and stagnation of these countries in the prewar years. The absence of private net investment during the 1930s was attributed to the timidity of short-sighted private managers who sought above all else to maintain the economic status quo, and avoided religiously any type of innovative investment and the risks of competition. Private management was accused of having supported selfish nationalistic policies which brought international conflict and eventual war. In July of 1944, leaders of various European Resistance movements, including those of Denmark, France, Holland, Italy and Norway, signed a joint declaration which supported the establishment of a new supranational federal government for Europe and which supported the abandonment of the old system of nation states. Having the

high levels of unemployment of the 1930s in mind, these men asked for a complete change in the political, social and economic structures of their countries. What the Resistance wanted was strong state action to rescue economies which had suffered for too long from inadequate investment, from inefficient production methods and from the conservatism of private enterprise. This Resistance philosophy, while rejecting the dogma of Marxist determinism, favoured the establishment of a new type of Socialism in Europe which would offer new solutions to old social and economic problems.

The Resistance did not succeed politically and prewar politicians were back in power in the 1950s. This ended the Resistance dream of a European federal union. Conservative leaders dominated the victorious Christian Democrat parties in the early 1950s. The Resistance had been politically defeated. The ' Spirit of the Resistance ' did not die. The Resistance philosophy was to inspire the establishment of new European politico-economic institutions, such as the Council of Europe formed in 1949, the European Coal and Steel Community set up by six European nations in 1952 and the European Economic Community which came into being in 1957.

The Resistance had favoured national planning to facilitate economic reconstruction and to achieve speedy economic change and growth. In France, the Resistance succeeded in creating a Ministry of National Economy which was to be responsible for the formulation and implementation of national economic plans. Communist, Socialist and centrist M.R.P. leaders in the first postwar De Gaulle government agreed that centralized planning was required to rebuild an economy weakened by past stagnation and by war damage and plagued by serious resource shortages. Not only did the French Resistance support national economic planning, but it also demanded the nationalization of large sectors of the economy. In March of 1944, the National Council of the Resistance had asked for " the return to the nation of the great

monopolies in the means of production, the sources of energy, the mineral wealth, the insurance companies and the large banks ". Although the nationalizations carried out in the period 1944 to 1946 were not as extensive as those demanded by the Resistance, the coal mines, the electricity and natural gas industries, Air France, Renault, the Bank of France, the four largest French deposit banks and thirty-two insurance companies were transformed into public enterprises.

In Great Britain, nationalization was held to be the best means to ensure that ' basic industries ' would be operated in the public interest. Transport, coal, power and steel were nationalized without the government having determined the question of whether public enterprises should operate primarily as suppliers of cheap services and materials or whether they should act on the basis of accepted commercial practices.

Nationalization in some countries was partly undertaken to facilitate the inplementation of national economic plans. It was the Resistance philosophy which inspired Jean Monnet and his successors to develop the method of French ' indicative ' planning, a method which the Wall Street Journal saw as a possible planning system which could be adopted in the United States.[2] French planning has indeed been referred to as the best example of modern capitalist planning, as being a planning system which can easily be grafted to the institutions of contemporary market-oriented economies.

Writers like A. Shonfield and J.K. Galbraith have repeatedly pointed out that contemporary market systems are no longer characterized, as they were in the nineteenth century, by near-perfect competition, short investment gestation periods and slow technological change. For these writers, rapidly changing techno-

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[1] S. LIEBERMAN, *The Growth of European Mixed Economies, 1945-1970*, Cambridge, Mass, Schenkman Publishing Co., 1977, p. 5.

[2] *Wall Street Journal*, 12 August 1975.

logy has tended to transform market structures and to increase the degree of industrial concentration. Massive initial investment requirements, investment gestation time spans that may extend over a number of years and a high degree of uncertainty about future demand and supply conditions, have established oligopolistic and monopolistic structures in economic sectors which a few decades earlier contained a multiplicity of rival firms competing on the basis of price.[3] Ever higher degrees of industrial concentration do not only indicate a continuing expansion in the size of successful firms seeking the benefits of economies of scale, but they also show the firms ' striving for larger size in order to obtain greater control over markets and in order to reduce investment risks. West Germany's market economy witnessed during the 1960s an amazing increase in the size of gigantic corporate conglomerates, the " *Grosskonzerne* ", paralleled by the disappearance of about 130,000 independent commercial and manufacturing firms and the absorption by the three large banks of 146 smaller, independent banking firms.[4] German economists wondered whether Dr. Ludwig Erhard's " social market economy " had come at that time to a premature end. According to *Der Spiegel*, about 600 individuals, representing the managerial élite of West Germany's large corporations, were in control of the West German economy in the late 1960s.[5] This publication noticed that on the average, a merger took place every thirty-three hours in the German Federal Republic during the years 1970 and 1971. In 1960, the four largest West German chemical firms controlled about 40% of the national market; in 1972, the four largest chemical firms — Hoechst, BASF, Bayer and Henkel — sold about 70% of the national output of chemical products. The four largest steel producers — Hoesch AG, Krupp, Thyssen and

[3] J. K. GALBRAITH, *The New Industrial State*, London, Hamish Hamilton, 1967; A. SHONFIELD, *Modern Capitalism*, London, New York, Oxford University Press, 1965

[4] *Der Spiegel*, 31 January 1972, p. 30.

[5] *Ibid.*

Salzgitter — expanded their share of national sales from 58% to almost 90% during the same period of time.

This trend toward increased monopolization was viewed with great alarm by many politicians and economists of the political Right and Left who felt that corporate giants were destroying the "Wunderwirtschaft". They seemed to echo words written by J.A. Schumpeter in the early 1940s. The very success of the 'miracle economy' was undermining its institutional foundations. Even the West German 'neo-liberal' school of economic thought recognized that it was not possible to rely on market forces alone to bring an end to the continuing concentration of industry.[6]

West German politicians and economists in the late 1960s realized that the problem before them was not simply that of choosing between a 'capitalistic' and a 'socialistic' type of economy, but that in the selection of the most advantageous pattern of long-term economic growth a very important decision had to be made. Given the trend toward an increasing yearly number of corporate mergers, a choice had to be made between leaving control of the economy to corporate monopolies or increasing the role of the state in the economy so that the latter would be able to ensure that competitive markets would survive.

In some countries of Western Europe, a 'neo-collectivistic' school of economic thought asserted that in a world of rapid technological change, increasing industrial concentration and mass advertising, market mechanisms could no longer operate in conformity with the neoclassical model. This school was best represented by the French 'structural reformers', i.e. by Jean Monnet and his disciples. The French reformists of the 1950s would have entirely agreed with J.K. Galbraith that "the neoclassical system is not a description of reality".[7] They advocated close cooperation

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[6] W. EUCKEN, *Grundsatze der Wirtschaftspolitik*, Tuebingen, J.C.B. Mohr Verlag, 1952, p. 254.

[7] J. K. GALBRAITH, *Economics and The Public Purpose*, New York, The New American Library, Inc., 1973, p. 26. Galbraith notes that technology is the most important variable

between big business and the state in order to obtain a modern and efficient '*économie concertée*', whose growth would be guided by a global economic plan. Their position on planning was that it is not only necessary for the solution of short-term demand and supply problems and for a rational approach to balance-of--payments difficulties, but, more important, that planning is the main instrument of long-range economic and social change. Planning was the *sine qua non* of adequate growth. Planning on the basis of a partnership between big business and the state would ensure optimum economic growth. The long-term growth of an economy requires structural changes, and these changes, social or economic, can seldom be achieved in time by placing exclusive reliance on the free market mechanism and on general government guidance. Planning was seen as the best way to achieve not only long-range quantitative economic targets, but also qualitative growth objectives, particularly in areas such as education, industrial modernization, regional and urban economic improvement, as well as in the broad field of "social and cultural improvement".

The great achievement of this school of thought was the type of economic planning which was developed in France from 1946 on, a planning system which brought to France rapid economic growth during most of the three postwar decades. The system generally known as French 'indicative' or 'concerted' planning inspired planning methods in a number of other western European countries because French planning, as Vera Lutz put it,

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in modern economic development and the main explanatory factor in the trend toward monopolization in these words: "With rare exceptions, the more technical the process or product, the greater the gestation period that is involved – the greater the elapse of time between the initial investment and the final emergence of a usable product. Goods being in process for a greater time, the investment in working capital is greater. Steps must be taken to ensure that initial decisions are not ruined and capital lost by events that occur before the results are achieved... Things that might go wrong and jeopardize sales and therewith the return of capital or the revenue that is needed to pay for organization must be prevented from going wrong... prices must, if possible be under control..." *Ibid.*, p. 39.

" might recommend itself to Western democracies by its freedom from the elements of political authoritarianism and economic regimentation that were associated with planning of the Soviet type, or of the sort practised in National Socialist Germany ".[8]

Not all western European countries tried to adapt to their own institutional characteristics the informative and coercive features of French planning methods. A different approach to planning developed in a number of countries in response to the influence of the economic philosophy of a German ' neo-liberal ' school, the so-called ' Freiburg School ', which since the early 1930s had advocated minimal state regulation of the economy. The concept of the ' social market economy ' was based on the teachings of the ' Freiburg School ' and an understanding of West German economic policy until at least 1966 requires an awareness of the economic philosophy of the leading member of this school, Walter Eucken.

Instead of distinguishing between ' capitalistic ' and ' socialistic ' economic systems, Eucken grouped economic systems under two different categories or ' pure forms '. According to Eucken, history reveals that economic systems are either centrally directed or are based on various types of exchange relationships. The ' exchange economy ' can take a number of ' market forms ' which can range from monopolistic domination on both sides of the market to what Anglo-Saxon economists have called ' perfect competition '.[9]

According to Eucken, observable economic systems as of a point in time are generally mixed systems in the sense that no operating economy is completely centrally administered, monopoly dominated or based entirely on competition. Furthermore, operating economies undergo a mutation of their forms over time. The form or ' economic order ' of the German economy under

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[8] V. LUTZ, *French Planning*, Washington, D.C., American Enterprise Institute for Public Policy Research, 1965, pp. 1-2.

[9] W. EUCKEN, *Grundsaetze der Wirtschaftspolitik*, supra, p. 21 ff.

Nazi rule differed substantially from the German ' economic order ' in times of the Weimar Republic and differs very much from the present ' economic order ' in West Germany. The ' economic order ' can thus change during short periods of time and it makes little sense to view an economy as ' capitalistic ' or ' socialistic '.

Unlike Karl Marx, Eucken did not believe that history moves an economy toward a certain type of ' economic order '. The German economy moved from an exchange form in the 1920s to a centrally directed form in the 1930s and back to an exchange form in the 1950s.

For Eucken, the most desirable type of economic order is that of the ' competitive order ', an order which is not identical to ' perfect ' or ' pure ' competition as these terms have been defined in the Anglo-American literature. Eucken's ' competitive order ' does not represent a *laissez-faire* system. It is not an anti-interventionist system which would delight Milton Friedman. Although protective tariffs, state controls over private industry, subsidies and government grants of monopolistic privileges would disappear in this system, state intervention would be warranted in order to maintain competition whenever the latter was threatened by the predatory practices of monopolizing firms or whenever the action of private firms would be inconsistent with the public interest. In Eucken's words, " the basic principle does not simply require that certain measures of economic policy should be avoided... The principle is not primarily negative. Far more essential is a positive policy which aims at bringing the market form of complete competition into being... It is here that the policy of the competitive order differs completely from the policy of *laissez-faire* which, according to its own basic principles, did not recognize the need for a positive economic policy ".[10]

[10] *Ibid.*, p. 254.

In Eucken's scheme, a major responsibility of government is the stabilization of the value of the currency. Monetary policy should be used to maintain price stability. Eucken attached great importance to monetary policy and felt that fiscal policy would be of little need as an anti-cyclical measure in the 'competitive, order' system. He did not ban, however, the use of non-monetary types of counter-cyclical policy and his disciples took the position that as long as the state ensured the stability of prices, fiscal and selective credit policies could be useful policy addenda.

The 'neo-liberals' did not strongly condemn 'planning methods' which did not go beyond being improved policy-making techniques, which did not claim to be more than an extension of national budgeting procedures. This type of 'planning' involved largely the calculations of demand and supply projections designed to inform the various actors in the economy about future market conditions.

II

How were these different views implemented in the postwar Western European economies? On the whole, the disciples of both the Resistance and the 'Freiburg School' ideologies responded in a very pragmatic way to the problems of the mixed economy. Left-wing politicians and economists generally welcomed state intervention and national economic planning as indispensable factors of adequate economic growth and modernization. Writers in this group pointed out that the state alone was able to effectuate needed structural changes, the state being the wealthiest owner of resources in the economy. The state, better than any other agency, could stabilize prices and maintain production and employment. This could be done either through direct public intervention in the private sector or through the state's investment policy in the large public sector. The public sector is quite large in most western European countries and its

expenditures may represent anywhere from 30% to 45% of gross national product. The political Right did not only approve of government interventation to oppose the monoplization of markets, but it saw in 'correct' public intervention and participation in the economy an efficient way to rescue private firms from the dangers of economic recession and a desirable means for the financing of research and manpower training.

Right and left-wing European politicians and economists appeared to be miles apart in the position they took in the course of after-banquet speeches regarding the public management of the economy. When it came to actual decision-making, this was seldom so.

Established economic ideologies would induce us to believe that conservatives generally opposed public management of the economy and national economic planning. The study of postwar western European history reveals that this conclusion is not supported by the facts. For instance, British national planning was not the brainchild of the Labour party. M. Kidron has pointed out that in Britain, "setting up the Department of Economic Affairs (1964), publication of the *National Plan* (1965), came only *after* the Conservatives had assembled the administrative machinery in the Treasury (1961 and 1962), at the National Economic Development Council (1962) and produced the first official exercise, the White Paper on Public Expenditure in 1963-4 and 1967-8".[11] It has also been noted that the French government, "no matter what shade of black has been featured on its current political banner" remained committed over the years to the principle of 'indicative planning' as a way of improving social and economic structures.[12]

Economists in both political camps in Western Europe have generally agreed that the development of the interdependent fa-

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[11] M. KIDRON, *Western Capitalism Since The War*, London, Weidenfeld and Nicolson, 1968, p. 8.

[12] *Ibid.*

ctors which determine the level of economic activity could not be left to the exclusive influence of the market mechanism. Realistically, they addressed themselves to the problems of the mixed economy and discarded the old 'Capitalism' and 'Socialism' labels. The disagreement between economists of different political views tended to centre on the extent and type of government intervention. It is however erroneous to assume that conservative politicians and economists in Western Europe remained faithful to the gospel of the 'Freiburg School' and would not tolerate public intervention in the economy beyond the use of the traditional instruments of monetary and fiscal policy, supplemented if necessary by wages and incomes policies. This phenomenon has been explained in terms of a 'marriage' between the corporate managerial élite and high public officials. Cooperation between these two groups mellowed the traditional distrust of the conservative representatives of big business in national economic planning and government regulation of economic life. Most countries in Western Europe saw in this rapprochement between big business and government a strengthening of harmonious relations between corporate and public officials which often resulted in outright collusion. Jean Blondel remarked that in Britain, " the situation is quite clear: the intermixing between outsiders and the civil servants has now reached a point where the distinction between 'administrative decision' and 'decision taken by private individuals' is more and more difficult and more useless to make ".[13] A. Shonfield has asserted that " the development of French planning in the 1950s can be viewed as an act of voluntary collusion between senior civil servants and the senior managers of big business ".[14] Because national economic planning in Western

[13] J. BLONDEL, *Voters, Parties and Leaders*, Harmondsworth, Penguin, 1965, p. 224.

[14] A. SHONFIELD, *Modern Capitalism*, supra, p. 128. M. Kidron notices that this collusion has been even greater in the case of West Germany. In *Western Capitalism Since The War*, supra, p. 9. J. K. Galbraith makes the same observation for the United States in *The New Industrial State*, supra, p. 314.

Europe was usually the product of the concerted efforts of representatives of both big business and government, it did not meet the opposition of the political Right as it did in the United States. In America, in spite of extensive intra-business planning the business community has not yet agreed to cooperate with the state in the formulation of global economic plans and still views national economic planning in the same way tradition-minded souls evaluate the Equal Rights Amendment.

If they condemned national economic planning, members of the European Right have not opposed government investment policy for the public sector. Given the large size of the public sector, public investment in this sector has necessarily affected the rest of the economy, and planning for the public sector became equivalent to national economic planning. State *dirigisme* has often been camouflaged in this way.

The Left has generally supported national planning and increased government activity in economic life. Its arguments generally pointed out that the existing price system was a poor means of resource allocation, given the imperfection of markets. These were unable to prevent supply bottlenecks in some sectors and excess capacity in others. Economists in this group have also given much emphasis to the fact that the market mechanism was poorly suited to provide needed ' collective goods ' and that it remained a poor guide for investment decisions touching very costly investment projects involving long gestation periods, specially when the products of this investment could not be marketed in the usual fashion. They have indicated, for instance, that private corporations have not objected to the planning and financing of space exploration and research by the state.

There was another major development which facilitated the introduction of national economic planning in many countries of Western Europe. For most of these countries,the economic stagnation of the 1930s was followed by extensive war-inflicted devastation. At the same time, the war induced rapid technolo-

gical change in the United States. In the postwar period, Western Europe had to face the possibility that it would be unable to compete economically with the United States if the countries of Western Europe reverted to prewar production methods. A further threat to the economic and political survival of the countries of Western Europe took the form of Russian military power. In France, a new generation of '*hauts fonctionnaires*' and big business leaders readily perceived the implications of American and Russian economic and military might. Their apprehensions were to be best expressed in J.J. Servan-Schreiber's book '*Le Défi Américain*'.[15] These men were mostly graduates of the '*Ecole Nationale d'Aministration*' — the ENA — a new institution created in 1945 to democratize and improve the quality of the high echelons of the French civil service. Much has been written about the mentality and the views of the ENA graduates who in the 1950s and the 1960s became France's managerial élite, both in government and in big business.[16] S.S.Cohen has succinctly described these administrators in the following words: " The characteristics evoked by the popular descriptions ' technocrats ' and ' modernisers ' — distinguish the newly dominant group of French administrators. These characteristics include a disdain for ideology; a pragmatic, or technical mentality; a commitment to modernisation... The ENA graduates, now dominant in the higher civil service, are a vigorously non-ideological group. They treat ideological argument with condescending indifference, sometimes with impatience and scorn... At the centre of their system of beliefs is the conviction that social problems are susceptible of technical solutions. " [17] These

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[15] J. J. SERVAN-SCHREIBER, *Le Défi Américain*, Paris, Editions Denoël, 1967.

[16] J. MEYNAUD, *La Technocratie: Mythe ou Réalité*, Paris, Payot, 1964; also, B. GOURNEY, ' Un Groupe Dirigeant de la Société Française: Les Grands Fonctionnaires ', *Revue Française de Science Politique*, XLV, No. 2, Apr. 1964; A. PHILIP, ' France's New Elite ', *New Leader*, 22 June 1959.

[17] S. S. COHEN, *Modern Capitalist Planning: The French Model*, Berkeley, Los Angeles, University of California Press, 1969, p. 46.

technocrats favoured planning. They believed that France needed rapid economic growth and economic modernization and that the '*économie concertée*' and 'indicative planning' were the best means to achieve the interests of the State. Feeling that they represented the State, the men rejected non-technical arguments touching the problems of economic development. Writers who have seen in the pattern of economic growth of various countries of Western Europe the impact of politico-economic ideologies have generally underestimated the power of the postwar West European technocrats.

III

In the 1950s, in addition to the influence 'structural reformers' had on economic thinking, a number of politico-economic developments encouraged the governments of Western Europe to adopt policies designed to increase the rate of national economic growth. The striving for a higher rate of economic growth had a number of causes. Governments commited themselves to the maintenance of a high level of employment and consequently, to an acceleration in the rate of growth. An American 'demonstration effect' induced many countries of Western Europe to try to emulate American technological, production and consumption achievements. European governments and European industry had to face the fact that they they lagged far behind the United States in technology and productivity; economic modernization and rapid economic growth seemed to be the obvious solutions to the problem of the technological gap. The United States, largely for political reasons, supported fast growth policies in Western Europe and although Americans denounced proposals for some sort of national economic planning at home as unpatriotic and socialistic schemes, they did not reject planning for faster economic growth in Western Europe. A general desire on the part of

Western European nations to become economically and militarily more independent of U.S.-U.S.S.R. power politics also facilitated the introduction of planning machinery. All of these factors created in Western Europe a ' fast growth ' mentality and a climate propitious to global economic planning. Government leaders ceased worshipping at the altar of economic *laissez-faire*. The 1950s, in the words of M.M. Postan, " reflected the new attitude to economic growth, i.e. the belief ' that economic progress is not an autonomous historical process that happens accidentally but an evolution which can be promoted by deliberate action and planning '. This belief made new converts at the end of our period ".[18] This new economic outlook caused most Western European nations to engage in some planning in the early 1960s and to establish new planning agencies. The main purpose of these agencies was not to do away with the market mechanism, but to influence, correct and guide market forces in order to achieve more rapidly a number of economic and social goals. Ranking prominently among these was the maintenance of an adequate rate of economic growth or the increase of the existing rate. The United Kingdom took a first step toward national economic planning in 1961; Sweden established its Economic Planning Council in 1962. A Dutch Central Planning Bureau, founded after the War, started formulating five-year forecasts in 1963. In West Germany, " despite the camouflage anti-planning propaganda the first approach came early in 1963 with the publication of a *Report on Economic Trends* in 1962 and *Prospects* for 1963...".[19]

A superficial study of Western European planning systems would conclude that two distinct approaches to planning were followed in a number of countries, and that these approaches reflected the relative strength in a particular country of the eco-

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[18] M. M. POSTAN, *An Economic History of Western Europe, 1945-1964*, London Methuen and Co., Ltd., 1967, p. 29.

[19] M. KIDRON, *Western Capitalism Since The War*, supra, p. 22.

nomic philosophies of either the 'neo-collectivistic' or the 'neo liberal' schools of economic thought. The French 'structural reformers' had undoubtedly a great influence in the formulation of the interventionist type of planning adopted in France. The French five-year plans were designed to boost the rate of economic growth and to achieve predefined structural changes; a number of coercive instruments were given to French planners to facilitate the implementation of the plans. Among the various types of planning in Western Europe, French 'concerted' planning was designed to affect the process of economic growth most directly.

In Sweden and in Holland, 'planning' consisted largely of five-year forecasts and of recommendations made by planning agencies to the government. Public intervention in the economy was limited to fiscal and monetary policies, supplemented by wages and incomes policies. Firms and industries were not induced in any way to follow policies consistent with the public forecasts. In these countries, it seemed that market forces still dominated the process of economic growth. 'Neo-liberals' had apparently succeeded in minimizing state guidance of the economy.

In some market-oriented countries, there was, however, only an appearance of non-intervention by the government. Masked behind the non-existence of an official global plan, there were active goverment efforts to steer the economy along a carefully selected course. In these countries, government planning for a relatively large public sector made the absence of a national economic plan quite insignificant. The tax mechanism also offered these countries an informal means of planning. In the 1950s, it was generally believed that the West German 'economic miracle' was largely due to the free play of market forces. In reality, the West German government never abandoned the use of Keynesian fiscal policy to promote or to hinder various types of economic activity.

A falling rate of economic growth and a reduced rate of private investment induced the West German goverment to start

planning public investment for five-year periods in the early 1960s. A Council of Economic Experts was created in 1963 to analyze periodically economic trends and to make pertinent policy recommendations.

At that time, the French economy had been guided and had been affected for a whole decade by the most comprehensive and interventionist plan in Western Europe. French planning has been extensively discussed in the professional literature.[20] The French planning system had two main characteristics. In the first place, it was purely informational in nature. A principal ojective of the plan was to make more complete and more accurate information available to all the economic decision-making units in the country. The underlying idea was that better information would not only improve the quality of separate individual forecasts made by firms, and would therefore reduce the likelihood of erroneous investment decisions made by them, but that it would also result in a common view of future economic development which would promote consistency in the economic activities of firms and industries. Vera Lutz has however maintained that even though firms receive through the plan more comprehensive and more accurate market information, this will not necessarily reduce inconsistencies in their courses of action because firms may still react differently to the same information.[21] French planners, on the other hand, assert that by improving available economic information, the plan reduces uncertainties faced by firms, minimizes the possibility of future production bottlenecks, lessens the likelihood of overconservative firm

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[20] W. C. BAUM, *The French Economy And The State*, Princeton, Princeton University Press, 1958; S. S. COHEN, *Modern Capitalist Planning*, supra; J. and A. M. HACKETT, *Economic Planning in France*, Cambridge, Harvard University Press, 1965; J. S. HARLOW, *French Economic Planning*, Iowa City, University of Iowa Press, 1966; V. LUTZ, *French Planning*, supra; J. SHEAHAN, *Promotion And Control Of Industry in Postwar France*, Cambridge, Harvard University Press, 1963.

[21] V. LUTZ, *Central Planning For The Market Economy*, London, Longmanns, 1969, p. 110.

estimates of future demand and encourages therefore the expansion of private investment and overall economic growth. They have pointed out that the French planning system does not interfere with the freedoms of the market system, does not threaten the decentralized decision-making process and is consistent with the institution of private ownership.

French planning is not exclusively 'indicative'. Indicative or informational planning contributes to the acceleration of economic growth by removing bottlenecks in production and in distribution resulting from faulty estimates of future demand. Indicative planning *per se* does not however allow a selection among alternative growth paths. It cannot be used as a tool of structural change, it does not help in the guidance of the economy toward new economic and social goals.

The second main characteristic of French planning is its coercive nature. The French government was able to act directly on demand and supply with the help of a number of policy tools which allowed it to achieve desired economic changes. The government was able to accelerate growth and to achieve the modernization of a number of selective industries by means of incentives such as cheap public loans, grants, special tax reductions and accelerated depreciation allowances. The Treasury, by financing about 20% of the country's gross fixed capital investment in the 1960s, could ensure that the investment policies of the recipient firms, whether public or private, would conform to the aims of the plans. French ministries guided economic development along selected directions by providing aid for a number of purposes: scientific and technical research, regional development, restructuring of plant, export growth, etc. The government was generous with private firms trying to expand in harmony with planned objectives. 'Stability and programme contracts' allowed the government to retain some control over prices while construction permits allowed the authorities to regulate the distribution of new industrial facilities and to facilitate industrial decentralization.

Coercion was more pronounced in the public sector. During the 1960s, planning emphasis in France started shifting from the private to the public sector. While planning for the public sector became more elaborate, greater reliance was given to the market mechanism in the private sector. In a country where direct investment by the State represents about 35 % of total investment, the greater emphasis of planning for the public sector did not diminish the *dirigiste* role of the government in the entire economy.

The success of the French planning experiment was in large part due to the support the plans received from big business. As noticed by S.S. Cohen, the leaders of French big business soon realized that " the plan sought no further nationalisations; that it was not ' socialist ', but rather had a great respect for profits and the profit motive ".[22] Big business support was obtained by means of the planning methods initially developed by Jean Monnet, methods which gave large importance in the planning process to consultations between planners and representatives of the private sector. Once the Cabinet, assisted by the *Conseil Economique et Social*, and advisory body, had selected one of the preliminary growth models submitted to it by the planning authority, the *Commissariat Général du Plan*, and informed the latter about general objectives to be pursued, a general plan outline was submitted to a number of ' modernization commissions ' composed of government officials, selected representatives of business management, ' experts ', and, at least in theory, representatives of the trade unions. These committees were charged with the task of studying and discussing the problems and prospects of specific industries or aspects of overall economic growth, such as man power, finance, scientific research, productivity, urbanization, education, etc. These various studies were then synthesized by the planning authority into an overall plan. This plan was in turn evaluated by a *Conseil Supérieur du Plan*, made up by representatives

[22] S. S. Cohen, *Modern Capitalist Planning: The French Model*, supra, p. 4.

of industrial and professional organizations, trade unions and the the *Conseil Economique et Social*. The plan was then ready for discussion in Parliament and for approval by this body.

A number of countries in Western Europe tried to duplicate the French planning system. The fact that these countries were characterized by very diverse political institutions tends to indicate that political ideology had little to do with the course of economic development in these countries. An Economic Programming Bureau was established in Belgium in 1959. The Bureau, with a staff of only five economists, was made responsible for a number of tasks. It was not only required to formulate a medium-term plan of economic and social development and corresponding regional development plans, but it had also to calculate growth projections for the private sector and to act as an advisory agency for the government. In addition, it was asked to assist five expert committees which were to propose legal and organizational reforms in fields such as finance, public investment, employment and housing.

Given its inadequate staff, the Bureau had to rely on research carried out by other public and private agencies. It was not able to organize a comprehensive network of vertical and horizontal ' modernization commission ' of the French type, but a number of consulative committees were established which formalized cooperation between the Bureau and the private sector. Preliminary drafts of the plan were evaluated by the *Conseil Central de l'Economie*, a public agency which served as a forum for the discussion of economic and social problems. The Bureau also reported regularly to the *Comité National d'Expansion Economique*, a body composed of representatives of the relevant ministries, employers ', workers ', and farmers ' organizations.

Over the years, the Bureau tended to become more and more an organ of the Ministry of Economic Affairs with the consequence that other public agencies started seeing the Bureau as a means by which the Ministry was trying to extend its power,

and interministerial jealousy started restricting the Bureau's effectiveness in the attempt to coordinate public investments. Furthermore, the deterioration of Flamish-Walloon relations adversely affected the work of the Bureau by bringing politics into what should have been purely economic considerations.

In Spain, a new Plan Commissariat was established in 1962 to develop planning machinery similar to the French system. The Commissariat was charged with the responsibility of formulating medium-term development plans, and it was also to propose to the government measures necessary for the implementation of these plans. It had to coordinate the activities of the various public agencies responsible for the execution of the plans and had to report periodically to the Presidency of the Government to inform the latter on plan implementation.

The Commissariat was a branch of a Delegate Commission of Economic Affairs, a limited ministerial Committee with general political responsibility for the plans. The Delegate Commission received the power to issue directives and regulations to facilitate the implementation of an economic plan and was thus able to grant preferiental treatment to selected economic sectors and to certain private firms.

The Commissariat was assisted in its work by horizontal and vertical commissions similar to the French modernization committees.

The plans allowed government management of the economy in a number of ways. The government was given a large number of discriminatory policy instruments such as tax and customs exemptions, subsidies, licensing power and the use of selective public credit to steer the economy in conformity with the objectives of the plans. The government influenced in a major way the development of the public sector through the distribution of public credit, the terms of the these selective credits being determined by the Delegate Commission. The plans also specified annual public investment programs within the scope of the na-

tional budget; the economic role of the government was further enhanced by its ability to regulate non-budgetary public investment expenditure benefiting the state controlled enterprises belonging to the National Institute of Industry.

In other western European mixed economic systems, national economic planning and the setting of production goals were not explicitly formulated by the government largely because of political reason. In Sweden, the ruling Social Democrats never advocated nationalization or the achievement of predetermined economic targets by means of central planning. Since the 1920s, the Social Democrats had advocated a Keynesian type of state intervention to solve unemployment problems and proposed to develop public works programmes to increase employment. Their aim was not to socialize the economy. At that time, the Swedish nonsocialist parties joined behind the banner of *laissez-faire* and argued that the 'natural harmony' of the economy required a minimum of government intervention and the disappearance of trade unions. They explained the presence of unemployment as being due to the high wages demanded and obtained by the workers' unions. The Social Democrats, on the other hand, pointed out that high wages boosted mass purchasing power and strengthened therefore economic activity and employment.

The maintenance of full employment became a major aim of the Social Democrats after 1945. Although the nonsocialist parties abandoned at that time their prewar 'harmony doctrine', they still feared that the Social Democrats were attempting to introduce in Sweden a 'socialized economy'. The Social Democrats never tried to do this. To manage the economy, they used traditional fiscal and monetary policies and gave a great emphasis to labour market policies and to government control over company investment funds. Although an Economic Planning Council was established in 1962, a body which included representatives of government, industry, banking, trade, labour unions and professional groups, Swedish 'planning' continued to be what it

had been until then, an exercise in economic forecasting. These five-year forecasts constituted at best a modest type of indicative planning. They did not include any production targets, and the the government made no effort to have the private sector conform with any plan directives. The forecasts simply served the purpose of transmitting economic information. [23]

The ability of the Swedish government to influence the economy through its investment policy in the public sector was also limited because only 4% of Swedish industry is under state ownership. Central economic management in Sweden has been better represented by the manpower and the investment funds policies of the Labour Market Board.

The Board formed the apex of a pyramid of twenty-four County Labour Boards and the Stockholm City Labour Board. All of these Boards were responsible for a number of tasks whose purpose was to increase the mobility of labour and its skills in order to ensure a high level of employment. These agencies collected and distributed statistics on existing job vacancies and labour supplies, operated employment exchanges, provided vocational guidance and vocational rehabilitation, financed adult vocational training and the expenses of employees moving to new jobs. Their aim was to match the labour supply as closely as possible to demand. In this regard, the Labour Market Board had also some power in influencing the location of new industry since it was able to support or oppose the grant by the government of credit guarantees to firms.

An 'investment funds' policy has also helped the Board in its control over the level of employment. Swedish law has allowed companies to place in an investment fund 40% of their profits before tax. 46% of these funds had to be deposited in

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[23] A. LINDBECK, *Swedish Economic Policy*, Ch. 9, Berkeley, Los Angeles, University of California Press, 1974. Lindbeck notes that "the Swedish-longterm reports differ from the French ones by not pretending to be more than they really are - forecasts and numerical examples of macro relations..." p. 169.

an interest-free blocked account in the Central Bank. Funds in this blocked account could only be spent by the depositing firm under permission of the Crown or of the Labour Market Board. Through a timely release of these funds, the Board was able to influence aggregate investment activity and, therefore, the level of employment. Using the early release of these blocked funds as an incentive, the Board was also able to persuade companies to invest in various development areas. Government grants and loans have also been used to induce firms to invest in these areas; combined grants and loans could represent as much as 66% of building and equipment costs.[24]

In the Netherlands, elaborate econometric procedures and extensive consultations with government agencies and business leaders were used by the Central Planning Bureau to formulate annual and medium-term 'plans' or forecasts. These forecasts were calculated on the assumption of unchanged economic policies and their results were compared with a few basic overall economic goals indicated by the government. If the comparisons were not satisfactory, alternative forecasts assuming policy changes were then made. These forecasts were published but were not explicitly approved by the government nor were they subject to parliamentary vote. In order to achieve a number of economic objectives, such as a high level of employment, a satisfactory rate of growth, price stability and balance-of-payments equilibrium, the government relied on traditional instruments of economic management, i.e. budgetary and monetary policies, investment incentives, licensing, and also on price and wage control. A public Board of Mediators received the power to establish wage rates and to issue wage regulation; it was able to extend the provisions of collective labour-management agreements to parties not directly covered by an agreement. Prices were controlled by the Ministry of Economic Affairs. The annual Central Eco-

[24] H. G. Jones, *Planning and Productivity in Sweden*, Totowa, Rowman and Littlefield, 1976, Ch. 2.

nomic Plan and the medium-term forecasts of the Central Planning Bureau remained, however, purely informative in nature.[25]

Many observers of the much publicized West German 'economic miracle' of the 1950s and the early 1960s have naively believed that the dramatic West German economic growth was largely due to the operation of a non-interventionist and a non-planned econonomic system. Nothing could be farther from the truth. We have to distinguish between the much used anti-planning slogans coined by the West German goverment and the reality of West German non-published economic planning. R.J. Shafer noticed some years ago that although Mexico in the 1960s had not created a visible planning agency, Mexican national economic planning was more effective than that of any other Latin American country, with the possible exception of Venezuela.[26] Economists have however set aside the facade of myth and have perceived the complexity of the public management of the West German economy since the late 1940s. A. Maddison has noted that " there is a tendency to discount the role of policy in Germany and exaggerate the economic 'miracle'. This is partly because the Minister of Economics, Dr. Erhard, was wont to expound German policy in simplified terms... However, the German authorities followed a vigorous line of action in each of the three major aspects of growth policy: management of demand, maintenance of competitiveness, and fostering output potential by policies fostering high investment and foreign trade ".[27] B.M. Gross believes that " a considerable part of the 'non-planning' orientation of the Germans probably derived from an effort to make statements that would sound acceptable to American ears and

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[25] P. De Wolff, Central Economic Planning In The Netherlands, in J. T. Dunlop & N. P. Fedorenko, *Planning And Markets: Modern Trends in Various Economic Systems*, New York, McGraw-Hill Book Company, 1969, pp. 3-20.

[26] R. J. Shafer, *Mexico: Mutual Adjustment Planning*, Syracuse, Syracuse University Press, 1966.

[27] A. Maddison, *Economic Growth in the West*, New York, Twentieth Century Fund, 1964, p. 102.

contribute to the maintenance of a large in-flow of American aid ".[28]

We noticed that neither Eucken's ' competitive order ' nor Erhard's ' social market economy ' were opposed to ' correct ' state intervention. The neo-liberal creed actually supported government intervention which was ' *marktkonform* ', consistent with the market. It opposed however government intervention techniques which would limit the free functioning of a competitive market system. In spite of this philosophy, the West German government enacted many measures in the 1950s designed to control prices, regulate levels of output and influence the pattern of economic growth. Agricultural prices were fixed and these prices were maintained by government agencies which regulated the foreign trade in these commodities. Laws exempted certain economic groups and certain practices from the provisions of the Anticartel Act; they regulated public and private construction and allowed the government in many other ways to constrain the free interplay of market forces and to engage in a camouflaged *dirigisme* which was not very different from French practices.

The ' Freiburg School ' had assumed that a neutral monetary policy would ensure economic stability. The West German recession of the late part of 1966 and early 1967 constituted a challenge to this view. The government became more ' Keynesian ' when in November of 1966 Professor Karl Schiller became Minister of Economic Affairs. Schiller was a strong believer in the government's duty to manage the economy and advocated the concept of ' *globale Steuerung* ', complete guidance or management, based on cooperation — ' *konzertierte Aktion* ' — between government, business leaders and representatives of the trade unions. Schiller's interventionism became soon observable. In April 1967, a ' Special Investment Budget ' was created by the

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[28] B. M. Gross, The Non-Miracle of German Economic Growth, in H. J. Arndt, *West Germany, Politics of Non-Planning*, Syracuse, Syracuse University Press, 1966, p. xvii.

federal government to allow an increase of DM 2.5 billion in public spending. These additional expenditures were to stimulate both public and private spending. Since these expenditures were to come out of a 'Special Budget', the constitutional requirement that the main federal budget be balanced was not offended. This legalistic ruse allowed the federal government to engage in deficit finance to help industries particularly affected by the recession.

The 'Law to Promote Stability and Growth of the Economy' of May 1967 officially announced the demise of the *Soziale Marktwirtschaft*. Medium-term, counter-cyclical planning and the use of Keynesian policy instruments became the core of Professor Schiller's 'New Economics'. Price stability was no longer the principal goal of government policy. The 1967 law enshrined the objectives of price stability, full employment, external balance and economic growth. The law provided the federal government with a variety of fiscal instruments; it allowed the Ministry of Finance to borrow up to DM 5 billion in periods of recession to finance extraordinary public expenditure; it allowed the federal government to suspend or restrict the use of accelerated depreciation in times of boom; the federal government was given authoryty to change personal and corporate income taxes by as much as 10% to offset the impact of cyclical trends. The 1967 law also required the federal government to engage in medium-term fiscal planning. Federal budgets were to be planned for a five-year period and these plans were to be re-examined and rolled forward each year. These plans were to establish a projection of future expenditure and revenue in the light of the foreseen development of the economy. State and local governments were also required to prepare long-term budgets. Moreover, the federal government was required to submit each year to both houses of Parliament an economic report indicating its economic goals for the coming year, and on a bi-annual basis, a report giving account of subsidies and grants it had financed. A Council for Anti-Cy-

clical Policy was established, made up of representatives of the federal, state and local governments, as well as of representatives of the *Bundesbank*.[29]

IV

A study of the politico-economic ideologies which developed in early post World War II Western Europe may easily lead to the superficial conclusion that the significance and the patterns of public economic management and planning in the countries of Western Europe reflected the predominance of an ideology in a given country at a given time. Ideology undoubtedly influenced the type of planning used, but it certainly did not determine it. Let us notice that planning, in the sense that government tried to achieve by means of economic management the fulfilment of certain predetermined economic and social objectives, took place in all the countries under consideration, even though their political ideology greatly differed. The explicit formulation of an economic plan by government is not the *sine qua non* of national economic planning. Conventional wisdom erroneously believes that we can label economic systems which do not contain written national economic plan as ' nonsocialist ' in nature and designates as ' socialistic " all economic systems affected by a national plan. We have seen however, that the ' economic miracle ' of the market-oriented West German economy was lergely due to careful planning by the German government, planning which existed in spite of the absence of a written national plan. Economists have noticed long ago that the juxtaposition of terms such as ' Socialism ' and ' national economic planning ' or ' Capitalism ' and ' absence of a national economic plan ' is more misleading than enlightening.

In all these countries, the management and planning of the economy was transferred from the hands of political ideologists to those of technocrats generally indifferent to any politico-eco-

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[29] S. LIEBERMAN, *The Growth of European Mixed Economies, 1945-1970*, supra, pp. 207-210.

nomic ideology. The input-output and econometric experts never paid great attention to 'academic ideologies'. Even politicians were able to disregard the dictate of ideology for the sake of economic expendiency. B.M. Gross reports a very informative American example. Gross points out that for the United States, "the prevailing symbols and rituals at the level of central government have been those of 'non-planning' or even 'anti-planning'." And yet, "In 1965 President Johnson announced a new national planning system which, while concentrating upon the planning of government's expanding operations, was also intimately tied in with planned actions to affect nongovernmental operations. If he had called it a 'Planning System' alone, the semantics of his announcement might have caused raised eyebrows and a wave of alarm... in August 1965, President Johnson announced his new 'Planning-Programming-Budgeting System'..." [30]

Although planning systems in various Western European countries did differ, they all contained two common features, whether or not a formal national economic plan was published by a public agency. Planning attempted to increase the rationality of the economic decision-making process through tight cooperation between government and the various interest groups in the private sector. It also endeavoured to guide the economy along selected growth lines, either by improving economic information available to the various decision-making units in the economy, or through the use of coercive methods. Over the years, this planning role of government tended to grow. It did not matter whether government embraced a 'capitalist' or a 'socialist' political philosophy. National economic planning was probably strongest in Fourth Republic France; it was also utilized in Franco's Spain, in Christian Democrat West Germany, in Britain under both Conservative and Labor administrations and in 'socialist' Sweden.

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[30] B. M. Gross, *The Non-Miracle of German Economic Growth*, supra, pp. xiii-xv.