

## PLANNING AND AUSTRIAN THEORY

*Hayek, Friedrich A.: The Road to Serfdom, The University of Chicago Press, Chicago & London 1972 (1944), 248 p.*

*Lavoie, Don: National Economic Planning. What is Left?, Ballinger Publishing Company, Cambridge 1985, 291 p.*

*Lavoie, Don: Rivalry and Central Planning. The Socialist Calculation Debate Reconsidered, Cambridge University Press, New York 1985, 208 p.*

*Lutz, Vera: Central Planning for the Market Economy. An Analysis of the French Theory and Experience, Longmans, Green & Co Ltd., London and Southampton 1969, 194 p.*

The classical book on Austrian theory concerning comprehensive planning is "The Road to Serfdom" by Friedrich A. Hayek. In the introduction Hayek says that he has written the book to warn against the dangers to freedom, which he had noticed when comparing his own impressions of the development of the United Kingdom and the United States to that of Germany during the time just before World War II. These dangers were hidden in the ideas and in concrete implementation of social planning. Hayek wanted to pay attention to the contradiction between the basic ideas behind the western civilization on the one hand and those of socialist thinking on the other.

Hayek starts his book by reviewing the development of the western civilization which according to him was based on economic freedom of individuals. The success of the policy of freedom also became the cause of the decline of liberalism. In his book Hayek tries to show how people's attitudes gradually turned away from the principles of old liberalism. Hayek is very critical of socialism because socialist thinkers confused the concept of liberty with the concept of power when demanding an equal distribution of wealth. Socialism in this sense is a great utopia which is impossible to combine with true liberty.

Hayek identifies socialism with collectivism or takes it as one as-

pect of collectivism. It is then possible to use the measures of collectivism in different connections and accordingly, also economic planning as a substitute for production at a profit can be connected to various ends. Hayek compares liberal and collectivistic views in relation to planning. A liberal plan means that within the most rational permanent framework various activities are conducted by different persons according to their individual plans. A collectivistic view on the other hand leads to central direction and organization of all activities according to some consciously constructed plan. Liberal development also requires state activity, but only to make competition as effective and beneficial as possible. One of the most important preliminary conditions of competition is a legal framework.

Hayek denies the inevitability of planning — the statement which has been based on certain features in the social development. According to Hayek there is nothing in social evolution which would require planning. Arguments for planning have been based on two main explanations. It has been said that technological changes have led to the impossibility of competition, which in turn leaves planning as the only choice for governments. On the other hand it has been argued that modern civilization creates problems which cannot be solved in any other way than by planning. Hayek emphasizes that the movement toward planning follows from deliberate action and, furthermore, there are no such inevitabilities in social evolution that would make planning the only possible choice.

Hayek continues his argumentation by reviewing the relationship between planning and democracy. According to him there is a contradiction between planning and the system of majority decision making of democracy, and what is more, the development of a comprehensive planning system will lead to totalitarian administrative arrangements. Power concentrates more and more in the hands of experts, and at the same time democracy relinquishes its own power and also its base of legitimacy. These thoughts of Hayek resemble partially the views represented later by Jürgen Habermas and Claus Offe and therefore

their comparison would be rather interesting.

According to Hayek collectivistic economic planning ruins the legal framework based on the principle of the Rule of Law. From this principle follows that the state should not legislate rules on an ad hoc basis. It should not only establish rules applying to general types of situations but also allow freedom to individuals in everything which depends on time and place. Planning on the other hand involves deliberate discrimination between particular needs of different people. The expansion of planning involves the limitation of individual freedom, and, moreover the concentration of planning power leads to a totalitarian state.

While the planner is forced to extend his control all the time, he is also forced to decide the relative importance of the different groups and persons. Planning requires the creation of a common view concerning the order of values and therefore the restriction of people's material freedom immediately affects their spiritual freedom as well.

Economic security is the other side of the coin in a way. According to Hayek it is not possible to guarantee the economic security of a minimum income to all in a free society. On the other hand, it is possible to guarantee the particular income people are thought to deserve. The state can also, in a limited way, take part in providing greater security for the people. This should be arranged outside the market and competition and without interfering in their functioning. The provision of economic security to one group by interfering with the market system leads, according to Hayek, to greater insecurity to others and, furthermore, it leads towards a hierarchical and restrictive, military type organization of society.

Hayek clarifies the fear of totalitarianism connected to comprehensive economic planning by explaining its relation to the concept of power. Collectivism is always elitist by nature in practice. While aiming at economic freedom it also aims at power. Political power serving one single unified plan means, according to Hayek, an absolute form of power compared to the decentralized economic power in the hands of individuals. The concentrated po-

litical power becomes absolute because it regards individual rights and values as subordinate to the ends of the society or nation. In a sense the individual becomes a means serving some higher ends.

Hayek continues his hard critique by taking up the role of propaganda in collectivistic planning systems. Propaganda is needed because the planning authorities have to justify their decisions to people. Along with the values also the facts have to be covered by propaganda. This leads to the concept of truth which is something laid down by the authorities. The growth of reason follows from the interaction process between individuals consisting of the change of different views and different knowledge. It is a paradox of collectivism that while it evaluates reason as supreme it destroys it by its totalitarian propaganda which prevents the growth of reason.

In the next paragraph Hayek shows that the roots of Nazism in Germany are originally socialist. Among those scholars whose ideas led to Nazism Werner Sombart can be mentioned as an example. Hayek pays attention to the German idea of the state where individuals had no rights but only duties. This idea was followed by the socialist admiration of organization as the essence of socialism. Hayek continues this discussion by reviewing some English writers who had, at the time he was writing the book, the same kind of thoughts as their German counterparts had had at the beginning of the century or even earlier. They were dangerously enthusiastic to organize everything scientifically by planning. In this paragraph Hayek also analyzes the development of the state monopolies as one step towards totalitarianism.

Furthermore, Hayek criticizes totalitarian views because they do not want to accept that the production of our civilization is based on some unknown forces and not on the conscious decisions of an intelligent being. The aim to master the forces of society in the same manner as the forces of nature is doomed to fail. Hayek thinks that the centralizing tendencies of collectivism destroy the moral basis of individual virtues on which the Western civilization has been based for a very long time. This kind of development will lead to

discrimination of minorities, and, moreover the moral choice of the individual will be reduced to the periodical election of representatives instead of protecting individual values.

In the last paragraph of his book Hayek has according to his own words "gone beyond its (i.e. that of the book, author's remark) essentially critical task". In this paragraph he describes an international economic order by the means of which military conflicts between nations could be avoided. Hayek suspects the possibilities of having lasting peace if states have unfettered sovereignty in the economic sphere. The paragraph is also some kind of critique of the ideas of planning on the world scale, which would meet even greater difficulties than planning on the level of nations. The best organizational form for the international order would be some kind of federation, the authority of which should be circumscribed by the Rule of Law. These arrangements should become a safeguard against both the tyranny of the state over the individual and the tyranny of a super-state over the national communities. The idea of federation is interesting when considering the recent development in Europe.

After reviewing the latest development in Eastern Europe one is quite convinced that if taken as a prediction Hayek's views have shown their value in many respects. Connected to this it should not be so amazing that many of the writings published after "The Road to Serfdom" and dealing with comprehensive planning from the Austrian point of view are at least partly a continuation of Hayek's thoughts. On the next pages some of these approaches are reviewed paying special attention to the development of Hayek's ideas.

Don Lavoie has written two different volumes in the 1980s dealing with planning. In "National Economic Planning: What is Left?" the core of the book is to critically analyze the relationship between radical perspectives concerning the development of society and the role of planning in this process. Theoretically the book is based on the development of the Hayekian line of thought. In the second chapter the co-ordination of economic activity and

the co-ordination mechanisms in society are analyzed. Lavoie compares three different mechanisms which are tradition, market and planning. The next chapter is devoted to the analysis of knowledge, its position in the market process and its problematic and at the same time crucial position when the possibilities of economic co-ordination through planning are evaluated. The criticism of the control of economic activity through planning is formulated into two problems: a knowledge problem and a totalitarian problem. The former is based on the subjectivist nature of information in economic processes and the latter on the threat of the centralizing tendencies seen as an inevitable feature in the development of a planned society.

Almost half of the book deals with three versions of noncomprehensive views of planning based on the discussions which have taken place mainly in the United States. The most interesting of these perspectives from the European point of view is perhaps the one concentrating on aggregative data gathering. In this connection also the input-output method developed by Wassily Leontief is presented as a kind of critique to the simpler data gathering models. Leontief's input-output method is naturally interesting because it has been put into practice in France, Japan and the Soviet Union. The other two alternatives of noncomprehensive planning are called economic democracy and reindustrialization. Their basis is merely in the debates which have not reached Europe so much. At the end of his book Lavoie raises an interesting question i.e. if the Left is aiming at really radical solutions concerning the development of society, is planning a suitable solution at all?

The other volume published by Lavoie is "Rivalry and Central Planning. The Socialist Calculation Debate Reconsidered." The aim of this book is to reexamine the socialist calculation debate of the 1930s. This debate originates from Ludvig von Mises's criticism of Karl Marx's theories. Lavoie concentrates on the microeconomic aspects of central planning theory. Mises claimed that economic calculation was a problem for socialist planning if the economy was not in equilibrium. According

to Lavoie Mises's ideas have been misunderstood because it has been claimed that according to Mises socialist economy is not able to allocate resources rationally. Lavoie wants to reexamine the debate because he thinks that the debate is more important for the economic theory than is usually believed. On the basis of the debate it has only been claimed that it is not possible to solve the great controversy between capitalism and socialism by the economic theory per se.

Lavoie tries to show in his study that the differences on planning between the views of Marxists, Austrians and neoclassical market socialists are based on their attitude towards economic rivalry. The study begins by a chapter dealing with Marx's socialism and his critique of rivalry. According to Lavoie Marx's view of central economic planning is implicit in his criticism of capitalism, and, what is more, his concept of central planning is quite extreme among socialists. Marxists condemned rivalry; nevertheless they understood — as Austrians — that capitalism is always in a condition of disequilibrium. Marx had the view that the anarchic capitalism was formed of elements of order and elements of chaos. He criticized the imperfect system of capitalist co-ordination which Hayek later called a spontaneous order. The means to stabilize economic activity was for Marx central planning. For him socialism meant the abolition of all market relations.

Mises's focus in his challenge was the Marxian view of central planning; in addition he emphasized the need for price information through money prices. The calculation problem emerged in moneyless central planning because the evaluation of the components of the production process is impossible without money prices. It is central to Mises's whole argument that the economy is never static but continuously changing. Human mind is not capable of consciously undertaking the whole of a complex and changing production process. The complexity of advanced technological production demands quantitative economic calculation. A calculation unit should be universal in the entire production process and it should be homogene-

ous. The socialists' aim to substitute labor time for money was doomed to fail according to Mises because the labor was heterogeneous and it was unsuitable in accounting for nonreproducible, nature-given factors of production.

Lavoie reviews then in the next chapters two responses by the market socialists to Mises's challenge. The common denominator for them is that they are mathematical solutions. The first alternative is called the equation-solving solution and the second the trial and error solution. From the Austrian point of view these solutions can be considered static in the sense that neither of them takes into account any of the complications entailed in the continuous unexpected change of the economy. The static analysis was contrary to the dynamic primary interest of Austrian economists which has always lain in the most suitable institutional environment for the market process to co-ordinate the plans of its participants in the best possible way.

The equation-solving solution was suggested by the early market socialists whereas the later representatives of market socialism took up the competitive solution to Mises's challenge. In their "trial and error" procedure the decision making about the prices was decentralized to the level of plant managers. From the Austrian point of view the market socialists did not pay enough attention to the conflict between the decentralized decision making and the idea of common ownership of the means of production. In addition they could be criticized for not paying attention to the practical institutional mechanisms by which the ideal of central planning could be achieved.

In the final chapter of his book Lavoie shows that contrary to the usual view of the calculation debate the criticism by Hayek and Robbins of the market socialism was consistent with Mises's own reactions. Hayek and Robbins pointed out that the problem of a planned economy was its ability to disperse the relevant information for the economic decision making in the absence of the process of rivalry. According to them competition required private ownership of the means of production in order to serve as a discovery procedure. Based on the misunder-

standing of the Austrian viewpoints the calculation debate never came to any resolution. Lavoie thinks that this debate should be reconsidered to understand its meaning to the economic theory and especially to the ideas concerning the possibilities of the planned economy.

The last volume in this book review is "Central planning for the market economy" authored by Vera Lutz in 1969. The subtitle "An Analysis of the French Theory and Experience" describes its content in more detail. So the volume is about the French Indicative planning. The central idea of indicative planning is that the means used in the planning process are not of coercive nature. The main aim of the planners is to anticipate the future development. Results of planning are usually in the form of forecasts. The self implementing nature is emphasized in the indicative planning according to Lutz. To use the terminology of Lavoie indicative planning is one form of noncomprehensive planning. It can be connected to the aggregative data gathering of Leontief type if compared to the division of noncomprehensive forms of planning described above according to Lavoie.

In the first part of her book Vera Lutz describes the French planning system in detail. She reviews some facts concerning the historical development of planning in France. After an overall survey dealing with the machinery and methods of planning she gives a detailed description of the exogenous instruments used in the planning process. The second part of the book deals with the record of the plans until 1965. In this empirical part the forecasts and targets are compared with the performance of the plans in reality.

The third and fourth parts of the book are perhaps the most interesting from the Austrian point of view. This part constitutes of the critique of the theory of planning for the market economy based on the French development. According to Lutz a liberal or noninterventionist planning does not exist. She continues that it is impossible for an individual plan to save market institutions and mechanisms. An essential part of competition is the competition for the forecasts of the future development. It is possible to say

that the heterogeneous views concerning the future development are an inseparable part of the market economy. All the competitive processes in the market economy are based on decentralized action. The decentralized forecasts mini-

mize errors and accordingly risks in economic activity compared to the centralized alternative of the French type. The conclusion of Lutz is typical for the Austrian economists: It is not possible to connect the philosophy of liberal-

ism to the philosophy of the planned economy. The important point is that she bases her conclusion to the analysis of a noncomprehensive form of planning.

*Kari Kuoppala*