

The Economic Club of New York

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The Honorable John Jewkes

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## The Experiences of a Planned Society

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It was, I think, Mr. Winston Churchill himself who once remarked that no good citizen ever criticizes his own government outside his own country. That rule seems to me to be a good one. And I do not tonight intend to infringe it. Fortunately, in what I have to say, there will be no need for me to do so. For the controversy regarding state economic planning now runs right across the normal political boundaries. Those who believe that the state is a more effective, juster and more farsighted agent for the production and distribution of goods and services—that is to say those who believe in the maternal state—are to be found in all parties.

In the past half century, we have been subject to one of those strange waves of opinion which from time to time arouse the emotions of large masses of people, and which seem to defy all reason and all knowledge. The contemporary engulfment of the human mind in mass irrationality—the belief that in some way the state should and could order all the economic affairs of its citizens as a good housewife orders the affairs of a happy household—has been no respecter of persons or parties. It has affected young and old, the innocent and the sophisticated, the conservative and the progressive. I am, therefore, taking up no political standpoint tonight.

The issue I am raising is, or should be, of a more technical kind. It can be put in this way: what is

the best type of economic organization for bringing about the greatest expansion of economic wealth consistent only with the maintenance of respect for the infinite and inexhaustible diversity of the personality of the individual?

I think the present is an extremely appropriate time for such a discussion. The world-wide tide of collectivism may well be on the turn. Experience in Europe has shown that the claims of a quarter of a century of propaganda in favor of central planning have not been substantiated. In Europe at least, the honeymoon is over. For whilst the planned economies lag behind, offering to those who live within them a bare and meager existence, the United States, the last great center of the free economy, has recently established unprecedented standards of living and has found it possible, from its great wealth and out of its unparalleled generosity, to pour out help to many struggling parts of the world. And in other regions, in Switzerland, in Belgium more recently in Germany, the retention or the restoration of at least some part of the free economy has brought advantages which no fair-minded observer can deny.

I do not think one should exaggerate this new trend or expect that the change in beliefs will result in very rapid action. Men give up long-cherished illusions slowly. And planned economies, like all other systems, create vested interests which are relinquished reluctantly. But I feel convinced that beliefs in Europe, at least among those who retain some regard for individual liberty, are changing. No one any longer attaches importance to the fumbings of planning statisticians, forced to demean an honorable profession by engaging in exercises of economic soothsaying. No

one can be oblivious of the fact that plans change so swiftly and are so invariably wrong that those who seek to live in the light of them are really living independently of actual events. No one can deny that the planning of imports through bulk purchase schemes leaves the consumer exposed to an entirely new range of risks that his food will not be there when he wants it. No one can doubt that planning has introduced greater insecurity in economic affairs, sometimes approaching complete chaos. Men will not forever seek economic security and prosperity by those devices which so obviously make for poverty and vicissitude.

In Europe, I sense a growing sophistication in economic matters. A hard-boiled surface on those who have been through the planning mill. But I say “in Europe” advisedly. For, oddly enough, it is in the United States that starry-eyed claims for the benisons and bounties of planning seem to command respect in some quarters; claims which would be laughed out of court elsewhere. I do not know why this should be the case. It may be that one country can never learn from the experience of another. It may be that each country must learn the hard way that the state does not and cannot possess any special knowledge, wisdom or regard for humanity which would make it the right instrument for the ordering of all economic affairs. It may be that the United States is at the beginning of what process of tireless propaganda by the intellectuals and faltering resistance by men of affairs, which in other countries, has so bedeviled public judgment. I sincerely hope this will not be the case.

But it is not, I think, superfluous to utter a warning, even in this home of free enterprise. The free

institutions of Western civilization have produced in large numbers one type of intellectual whose subtlety of thought is matched by his lack of real judgment, whose powers of exposition are as great as his potentialities for social mischief, and who, by arrogantly pressing upon us as the whole truth what are but half truths, has in other places brought the whole house tumbling about our ears. This group of intellectuals must be met, matched and mastered on their own level and in terms of their own manner of reasoning. For if there is anything certain in this very uncertain world, it is that ideas are more powerful than bombs, and that, unfortunately, those who are most fertile in their production are often least responsible in their use.

If there is in Europe a growing disenchantment with collectivist organization, if targets, plans, coordination, integration are becoming terms almost of ridicule, that may be encouraging. But it is also a warning and a danger signal. For those who have lost one set of illusions may easily become the victims of another set all the more dangerous. We can be sure that something will fill the intellectual and spiritual vacuum that is being created. It should be the aim of all men of good will, who know that there will be no peace for any of us unless the power of the state is restricted and confined, to do what they can to create a body of liberal economic doctrine and a code of liberal economic action.

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I shall try to make my contribution to it, I fear but a tiny contribution, tonight by laying down a few simple and rather disjointed propositions which, as it seems to me, must apply to any economic system which is to combine respect for the individual with efficiency of operation.

First, it is foolish, and a fertile source of disenchantment to expect that there ever can be a perfect and ideal economic system combining absolute justice, complete efficiency, no waste and no need for readjustment. That is true of a free economy as of any other. Some unemployment there will be (although I believe that we now have financial techniques which, sensibly and courageously used by statesmen, can prevent the evil of mass unemployment). Some waste there must be so long as consumers change their minds and technicians improve methods of production. Some inequality there ought to be if incentives are to be powerful enough to keep the system going. And, as it seems to me, some monopoly is inescapable in the nature of any economic system. I am sure the right defense of the free economy is not to deny these things, but to point out first that such weaknesses can be kept within tolerable limits, and second, that most of these evils are much intensified in a collectivist society. The neurotic pursuit of unattainable tidiness in a real workaday world can well be left to the planners.

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Second, it seems to me important constantly to stress the value of spontaneous as against conscious order in society. When one examines the different ways in which otherwise intelligent people have rationalized their belief in central planning, more often than not one finds this odd idea that unless an organization is the result of conscious control by one human mind, it cannot be a rational organization at all. In the United States, there are 160 million consumers, some 200,000 factories, some 3 million shops, and a stupendous array of other industrial and commercial equipment. How can all this be brought together to work harmoniously unless someone plans of it? So the argument runs.

Yet, in truth, some of the mightiest and most subtle organizations in the world are not conscious organizations at all, they are spontaneous organizations. Let me explain my point by an illustration. If a train is standing at the railway platform, one way of trying to make sure that the passengers spread themselves fairly evenly over the different coaches is to plan it: To have officials who interview each would-be passenger as he arrives, who ask about his prejudices as to where he likes to sit, and so on, who then work out theoretically the best possible arrangement for the passengers. The other way is to allow each passenger to make his own choice, to walk up and down the train and occupy the least crowded coach.

The first method is conscious organization, the second, spontaneous organization. And the second clearly has advantages over the first. It is more flexible, it is quicker; it is cheaper, it is more effective; it will probably give a better distribution. Each individual, by seeking his own interests, provides the best arrangement for the whole. So that when one is confronted by tens of millions of consumers, hundreds of thousands of industrial units, millions of shops, one way of trying to bring these together in some rational fashion is to have state intervention and control in every cranny and crevice of economic life. That is an attempt at conscious order; and it is bound to lead to chaos.

The other way is to rely upon the spontaneous order of the market and the price system. For spontaneous order has enormous advantages over conscious order. Conscious order must always be limited. As the size of the organization increases, the point is reached where one must expect

inefficiency at the center and paralysis at the circumference, where the fundamental choice of the planner must be made between despotism and inertia.

But spontaneous order can be indefinitely extended without losing its effectiveness. Price will control a local village market; they will equally well control a world-wide market. One can almost say, in this connection, what is so rarely a true elsewhere: the bigger the better. That's one advantage. Another, as Hayek has so well put it, is that "the spontaneous collaboration of free men often creates things which are greater than their individual minds could ever have conceived or can ever fully comprehend."

Of course, in a properly administered society, we must have both: conscious order with its proper and practicable limits; spontaneous order outside this. But a planned society must destroy spontaneous order, both in the national and international sphere, and, having nothing to put in its place, fill the gap by regimentation of consumer and producer. Let us remember that, beyond a certain immediate limit, public administration is not a substitute for private enterprise.

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My third point is, (having said as much as this), that whilst the main reliance of a rational economic society must be upon the spontaneous movements of the market and of prices, the price system will not give us everything of which we have need. I have never heard of lighthouses being built in the right places for profit. No one has yet devised a satisfactory system of charging prices for the services of a broadcasting station. No one recommends tolls on roads

or on bridges. I live in Oxford, where the serenity of one of the most noble cities in the world has been ravaged by traffic congestion. I know no way in which, as an individual, I can start to offer a price to have that serenity restored. All this means is that there are public demands, as well as private demands, and we must cater specially for them. The important thing to recognize is that these public demands are the marginal and the minority of the demands. Do not let us begin to tear off our clothes when all that is needed for comfort is the release of the bottom button of the waistcoat.

My fourth point is that I do not believe that any economic system worth the name can really get on without a measure—I think perhaps I would say a pretty strong dose—of rivalry, of competition. I must confess I find it one of the most extraordinary of current ideas that an economic system necessarily condemns itself because it is competitive. People who recognize the benefits of competition and rivalry in other forms of social activity are prepared to condemn it outright in economic affairs. And statesmen whose party may have come to power by the offer to electorate of a competing program, statesmen who have risen to power within their own party by a process of competition with their colleagues, will frequently be heard to declare that competition is wicked, degrading and un-humanitarian.

Yet, it should be axiomatic that most forms of economic competition are such that both sides gain from the competition. The simplest economic act of all, the process of voluntary exchange, cannot take place unless both sides gain. It should be obvious that many forms of competition are

simply a measure of the range of choice permitted to the consumer; that choice and competition are simply different words for the same thing. It should be clear that social competition is often the way in which the conditions of the underdog, the under-privileged, are improved. For example, if we ask which group of workers have most improved their conditions throughout the world in the past 25 years, the answer is domestic servants. That has been done not by trade unions, not by law, not by wage boards, but by competition, competition between employers for the restricted supply.

And of course, the competitive procedure is inextricably bound up with democratic government itself, for democratic government turns on free speech (the competition of ideas) and free elections (the competition of parties). Economic competition, therefore, is not jungle warfare. It is a fertile symbiosis of rivalry and cooperation which cannot possibly be reproduced in the planned state.

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I come finally to what, I think, is my most important point. Perhaps the outstanding peculiarity of modern man is his disposition, consciously and deliberately to take risks about the future. If he ever lost that quality, human society would become static and lifeless. Now this disposition prevails even though he cannot predict, even though he has only the vaguest idea of the immediate consequences of his acts. This seems to me to raise a fundamental dilemma in any economic society. Even though we cannot predict, can we, as practical men, behave with wisdom about the future? Can we reduce the risk by taking thought?

As far as economic affairs are concerned, prediction means the investment of capital. The planned economy and the free economy give two quite different answers about investment policy. The planned economy puts investment into the hands of a central body of men; the danger of this is, of course, massive and appalling mistakes of which there is already some evidence in Europe. The free economy distributes those risks; it leaves them to be taken by thousands of dispersed businessmen each relying upon his own assessment of the future of consumers' demand and of technique. Now we cannot prove that one system or the other is the better. We can watch individual cases. It will be interesting to see over the next four or five years whether the European governments have been right in their enormous expansion of the iron and steel trades. It will be interesting to watch whether your own government or the iron and steel corporations themselves were more sound about the best size for the American steel industry.

My own instinct would be to believe that state monopoly of investment is a gamble; that the prudent course is the backing of many horses both ways, which we get in the free economy. But that would be true only if we can be sure that businessmen will continue to take risks. Can we be sure of that? Or is it true, as the critics so often assert, that monopoly is the chronic disease of capitalism and that at monopoly is the dodging and not the taking of risks? There is certainly here a weak flank in the defense of the free economy which needs strengthening.

Perhaps you will forgive a word here about my personal experience. I earn my living by teaching the young, and the attitude of the young on these matters of economic organization is very

encouraging. As I see them, they are wiser than many of their elders; they are certainly wiser than many of their teachers. They are skeptical, they are not prepared to swallow pre-digested pap about planning, they are of the stuff which might well carry us out of the great age of economic mysticism.

But they often come to me with one great doubt: Can we really have a competitive system, or will businessmen create monopolies so extensively that the competitive system is a theoreticians dream? They point out that often in Great Britain these days, when the government tries to get rid of industrial controls and to restore competition; it is the businessmen who oppose the suggestion. They point out that in 1932 in the United States when, under the National Recovery Act, industries were asked what powers they wished for to get out of depression, many of them asked for price control, output control, the control of entry and of investment – the whole armory of monopoly weapons.

My answer to them is always the same: of course, in the past there have been monopolies, of course businessmen can make short-period gains for a limited group by forming monopolies. But this is by no means inevitable. And it can be made even unlikely if the business community can be brought to see that those who engage in monopoly activities are sapping and undermining the long-period virility of the market economy and thereby the case for private enterprise.

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My time is up. But I would leave you with this final thought. All the Western World believes that

there are right and proper duties for the state to perform; indisputable prerogatives that no individual can challenge: defense, the peaceful settlement of differences of opinion and interest within the community; the regulation of factions; the maintenance of honest currency; the curbing of monopoly; the support of the weak and helpless; the establishment of standards; the dissemination of knowledge.

Most of the Western World would probably agree that in all other cases where it can be shown that individuals, seeking their own legitimate interests, will be led to actions which frustrate their own purposes and those of others, the state has the right to step in. How much further should the State go? In my opinion, not one step further until we have guarantees that the state is able to perform satisfactorily those functions which, by common consent, belong to it.

And yet states have but a poor record to show so far. Only the state can maintain a healthy currency, only the state can destroy impediments to free commerce, only the state can clear the way for the fullest play for enterprise. Yet most of the troubles of the world in recent years are attributable to dishonest and inflated currencies, to restrictions on trade, to brakes on enterprise, I think that the citizens of the western world have the right to insist that the state should refrain from embarking upon new tasks and duties until we have some evidence that it is capable of performing well its old tasks and old duties.