

TWENTIETH CENTURY ECONOMY OR PLANNED ECONOMY*

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Planning is a characteristic feature of the 20th century economy for in effect it is the structure of the modern economy itself that demands planning. Planning is not necessarily confined to the socialist economies, although in Iran, as in other countries, planning is frequently confused with socialism. To say that capitalism has copied planning from socialism is not true, for socialism whether the classical Platonic or the modern Marxist type, did not partake of planning. Planning evolved as a much needed instrument for the achievement of objectives required by the economic system, irrespective of its political features.

Planning may be defined as the organisation of human activities. Viewed in this light, planning embraces the totality of decisions made and co-ordinated for the execution of an economic policy or a project. Hence planning takes account of two factors: the target which the plan has envisaged, and the means for the achievement of the target. Though any of the different groups of activities within the society may be co-ordinated under planning, economic planning nevertheless comprises economic targets, and economic means for their achievement.

In so far as the influence of the plan in economic activities is concerned planning may be total or partial. The former is generally a feature of plans in socialist countries, while the latter is found in the capitalist

* Condensed!

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system where the collective decisions represented by the plan confront individual decisions made by numerous independent economic units. Though total plans are becoming increasingly common in modern capitalist economies, it is the degree of centralization or decentralization, intervention or laissez faire and independence or constraint that determines the extent of its voluntariness or compulsion and which depends on the capitalist system itself. For the plan may be obligatory or merely indicative, guiding and co-ordinating. The political structure of the society generally determines the extent to which the compulsive and the guiding aspects are combined. Authoritarian planning involves full control by the state of production, consumption, savings and investments and the development of industries takes place under the aegis of the State. In essence, total planning is incompatible with a democracy and hence such societies develop plans which tend to be guiding and hortative rather than authoritarian. Optimum quantities are worked out for production, consumption, savings and investment, and the relationship of each sector with the others is carefully determined, and only then are targets, based these relationships, chosen. But coercive means for the achievement of the targets are avoided—greater reliance being placed upon facilitating co-ordination between the various fields of production and the establishment of new relationships between the various sectors for the guidance of the economy towards the required targets.

Planning must involve full employment of all the productive resources of the economy. Under the classic liberal system full employment was believed to be maintained automatically through the inter-action of the pricing mechanism. But the resulting wild fluctuations meant that the economy was always subject to violent spurts of prosperity and depression. It remained for Keynes to show that full employment in the capitalist economy was the exception rather than the rule, and that the intervention of the central authority in directing and guiding the activities of the economy is necessary if conditions of full employment are to be achieved.

The present-day capitalist economy is different from the 19th century economy which nurtured *laissez faire* principles. Towards the end of the 19th century the structure of industry rapidly developed from an «atomistic» type into a «molecular» type. This reflected the combination of «atoms» of production units (firms) and consumption units (individuals and households) into «molecules» (cartels and co-operatives). This «molecular» structure developed rapidly to such an extent that it surmounted national boundaries, and, particularly in the producing sector, led to the emergence of giant trusts and cartels which effectively paralysed competition and substituted collusion and control over raw materials and markets instead. Thus monopoly and monopolistic competition replaced the original competitive system and paved the way for State intervention endeavouring to protect the interests of the consumer.

Another reason, particularly in western Europe after the Second World War, was to save industry itself from the obsolete and inefficient productive equipment which, especially in the coal and steel industries, was impeding the competitiveness of these industries and which led to the perpetuation of high-cost production with obsolescent equipment and inefficient methods.

As a result of State intervention, key industries were nationalised and increasingly greater portions of the society's total economic activity were drawn into the public sector. The State took upon itself additional responsibilities and assumed new roles as arbiter of the economic life of the nation. Thus the capitalism of the 20th century was no longer the capitalism of the 19th century. In countries like France the State was channelling up to 45% of the national income through the budget for government spending. Expenditure on such a huge scale could not rationally be undertaken without proper planning. Hence planning came to be a *sine qua non* of the implementation of modern economic policies.

Economic planning in the capitalist economy appears in various forms

depending on the specific characteristics of the society. The structure of the economic, social, administrative and political institutions is significant both in the determination of the targets of the plan as well as in the adoption of means for the achievement of the targets. Planning in underdeveloped countries is no exception and must evolve in line with the special characteristics of the economy, as will be discussed in a later article.

